

CVD EQUIPMENT CORP
Form 10-Q
May 10, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934.\

For the quarterly period ended March 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from ____ to ____

Commission file number: 1-16525

CVD EQUIPMENT CORPORATION

(Name of Registrant in Its Charter)

New York 11-2621692
(State or Other Jurisdiction of (I.R.S. Employer Identification
Incorporation or Organization) No.)

1860 Smithtown Avenue
Ronkonkoma, New York 11779
(Address including zip code of registrant's Principal Executive Offices)

(631) 981-7081
(Registrant's Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 4,840,175 shares of Common Stock, \$0.01 par value at May 1, 2011.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

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PART 1 – FINANCIAL INFORMATION
Item 1 – Financial Statements
CVD EQUIPMENT CORPORATION AND SUBSIDIARY
Consolidated Balance Sheets

| | March 31, 2011 (Unaudited) | December 31, 2010* |
|--|-------------------------------|-----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,626,553 | \$ 6,249,090 |
| Accounts receivable, net | 3,994,739 | 2,909,173 |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 2,732,086 | 1,658,689 |
| Inventories, net | 3,010,182 | 3,479,862 |
| Idle inventories | 1,150,000 | 1,150,000 |
| Deferred income taxes – current | 250,728 | 232,481 |
| Other current assets | 160,167 | 136,269 |
| Total Current Assets | 21,924,455 | 15,815,564 |
| Property, plant and equipment, net | 7,508,089 | 7,554,317 |
| Deferred income taxes – non-current | 758,263 | 780,288 |
| Other assets | 126,671 | 157,661 |
| Intangible assets, net | 56,238 | 58,310 |
| Total Assets | \$ 30,373,716 | \$ 24,366,140 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | \$ 272,028 | \$ 372,387 |
| Billings in excess of costs and estimated Earnings on uncompleted contracts | 6,737,192 | 2,323,691 |
| Accounts payable and accrued expenses | 2,682,327 | 1,788,930 |
| Accrued professional fees – related party | 20,000 | 125,000 |
| Deferred revenue | 499,149 | 100,373 |
| Total Current Liabilities | 10,210,696 | 4,710,381 |
| Long-term debt, net of current portion | 3,191,492 | 3,396,446 |
| Total Liabilities | 13,402,188 | 8,106,827 |
| Commitments and Contingencies | - | - |
| Stockholders' Equity | | |

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| | | |
|---|---------------|---------------|
| Common stock - \$0.01 par value – 10,000,000 shares | 48,216 | 48,193 |
| authorized; issued and outstanding, 4,821,575 at | 10,354,294 | 10,329,526 |
| March 31, 2011 and 4,819,325 at December 31, 2010 | 6,569,018 | 5,881,594 |
| Additional paid-in-capital | 16,971,528 | 16,259,313 |
| Retained earnings | | |
| Total Stockholders' Equity | \$ 30,373,716 | \$ 24,366,140 |

* Derived from audited financial statements for the year ended December 31, 2010 (see Form 10-K filed on March 07, 2011 with the Securities and Exchange Commission).

The accompanying notes are an integral part of these consolidated financial statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended | |
|--|--------------------|--------------|
| | March 31, | |
| | 2011 | 2010 |
| Revenue | \$ 6,205,700 | \$ 3,721,849 |
| Cost of revenue | 3,921,460 | 2,615,303 |
| Gross profit | 2,284,240 | 1,106,546 |
| Operating expenses | | |
| Selling and shipping | 286,519 | 211,655 |
| General and administrative | 1,100,767 | 933,183 |
| Related party – professional fees | 20,000 | 15,000 |
| Total operating expenses | 1,407,286 | 1,159,838 |
| Operating income (loss) | 876,954 | (53,292) |
| Other income (expense) | | |
| Interest income | 3,335 | 2,372 |
| Interest expense | (53,732) | (58,716) |
| Other income | 84,404 | 5,725 |
| Total other income (expense) | 34,007 | (50,619) |
| Income (loss) before income taxes | 910,961 | (103,911) |
| Income tax expense (benefit) | 223,537 | (13,482) |
| Net income (loss) | \$ 687,424 | \$ (90,429) |
| Basic income (loss) per common share | \$ 0.14 | \$ (0.02) |
| Diluted income (loss) per common share | \$ 0.14 | \$ (0.02) |
| Weighted average common shares outstanding | | |
| basic | 4,821,125 | 4,775,575 |
| Effect of potential common share issuance: | 220,650 | - |
| Weighted average common shares outstanding | 5,041,775 | 4,775,575 |

The accompanying notes are an integral part of these consolidated financial statements

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)

| | Three Months Ended | |
|--|--------------------|--------------|
| | March 31, | |
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Net income (loss) | \$ 687,424 | \$ (90,429) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Stock-based compensation expense | 68,828 | 43,826 |
| Depreciation and amortization | 137,026 | 152,667 |
| Deferred tax benefit | 3,778 | (23,182) |
| Bad debt provision | 487 | 1,424 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,086,053) | (996,871) |
| Cost in excess of billings on uncompleted contracts | (1,073,397) | 318,407 |
| Inventories, net | 469,681 | (275,128) |
| Other current assets | (23,898) | (55,298) |
| Increase (decrease) in operating liabilities | | |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 4,413,501 | - |
| Accounts payable and accrued expenses | 788,395 | 49,843 |
| Deferred revenue | 398,776 | (98,951) |
| Net cash provided by (used in) operating activities | 4,784,548 | (973,692) |
| Cash flows from investing activities: | | |
| Capital expenditures | (57,733) | (130,510) |
| Net cash (used in) investing activities | (57,733) | (130,510) |
| Cash flows from financing activities: | | |
| Deferred offering costs | (44,038) | - |
| Payments of long-term debt | (305,314) | (90,484) |
| Net cash (used in) financing activities | (349,352) | (90,484) |
| Net increase (decrease) in cash and cash equivalents | 4,377,463 | (1,194,686) |
| Cash and cash equivalents at beginning of period | 6,249,090 | 3,119,731 |

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| | | |
|---|---------------|--------------|
| Cash and cash equivalents at end of period | \$ 10,626,553 | \$ 1,925,045 |
| Supplemental disclosure of cash flow information: | \$ 305,100 | \$ 13,338 |
| Income taxes paid | \$ 53,732 | \$ 58,716 |

The accompanying notes are an integral part of these consolidated financial statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the interim financials not misleading have been included and all such adjustments are of a normal recurring nature. The operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that can be expected for the year ending December 31, 2011.

The balance sheet as of December 31, 2010 has been derived from the audited financial statements at such date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, please refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, including the accounting policies followed by the Company as set forth in Note 2 to the consolidated financial statements in the December 31, 2010 Form 10-K.

All material intercompany transactions have been eliminated in consolidation. In addition, certain reclassifications have been made to prior period financial statements to conform to the current year presentation.

Subsequent events have been evaluated through the filing date of this Quarterly Report on Form 10-Q.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue and Income Recognition

The Company recognizes revenues using the percentage-of-completion method for custom production-type contracts while revenues from other products are recorded when such products are accepted and shipped. Profits on custom production-type contracts are recorded on the basis of the Company's estimates of the percentage-of-completion of individual contracts, commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy. Under this method, revenues are recognized based on costs incurred to date compared with total estimated costs.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The asset, "Cost and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed.

The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents amounts billed in excess of revenues earned.

NOTE 3: CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company places its cash equivalents with high credit-quality financial institutions and invests its excess cash primarily in certificates of deposit, treasury bills and money market instruments. The Company has established guidelines relative to credit ratings and maturities that seek to maintain stability and liquidity. From time to time these temporary cash investments may exceed the Federal Deposit Insurance Corporation (FDIC) limit which at March 31, 2011 and December 31, 2010 was approximately \$3,489,000 and \$4,249,000, respectively. The Company sells products and services to various companies across several industries in the ordinary course of business. The Company assesses the financial strength of its customers and maintains allowances for anticipated losses.

NOTE 4: UNCOMPLETED CONTRACTS

Costs and estimated earnings in excess of billings on uncompleted contracts are summarized as follows:

| | March 31, 2011 (Unaudited) | December 31, 2010 |
|---|-------------------------------|----------------------|
| Costs incurred on uncompleted contracts | \$ 3,463,893 | \$ 2,089,096 |
| Estimated earnings | 4,556,698 | 2,935,315 |
| | 8,020,591 | 5,024,411 |
| Billings to date | (12,025,697) | (5,689,413) |
| | (4,005,106) | (665,002) |

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

NOTE 4: UNCOMPLETED CONTRACTS (continued)

| March 31, 2011 (Unaudited) | December 31, 2010 |
|----------------------------------|----------------------|
|----------------------------------|----------------------|

Included in accompanying balance sheets
under the following captions:

| | | | | |
|---|----|-------------|----|-------------|
| Cost and estimated earnings in excess of billings on uncompleted contracts | \$ | 2,732,086 | \$ | 1,658,689 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | \$ | (6,737,192) | \$ | (2,323,691) |

NOTE 5: INVENTORIES

Inventories consist of:

| March 31, 2011 (Unaudited) | December 31, 2010 |
|----------------------------------|----------------------|
|----------------------------------|----------------------|

| | | | | |
|--------------------------------|----|------------|----|------------|
| Raw materials | \$ | 1,771,907 | \$ | 2,010,820 |
| Work-in-process | | 1,346,001 | | 1,388,516 |
| Finished goods | | 92,274 | | 180,526 |
| Totals | | 3,210,182 | | 3,579,862 |
| Less: Reserve for obsolescence | | (200,000) | | (100,000) |
| | \$ | 3,010,182 | \$ | 3,479,862 |

During the three months ended March 31, 2011 the Company recorded certain inventory write-downs of \$560,000. The Company did not record any inventory write-down during the three months ended March 31, 2010.

Idle inventory includes \$1,150,000 of equipment returned from a terminated contract which was valued at the lower of cost or market. (See Note 12)

NOTE 6: FAIR VALUE MEASUREMENTS

On January 1, 2009, we implemented new accounting guidance, ASC 820, Fair Value Measurements and Disclosures, on a prospective basis for our non-financial assets and liabilities that are not recognized or disclosed at fair value on a

recurring basis. The new guidance requires that we determine the fair value of financial and non-financial assets and liabilities using the fair value hierarchy and describes three levels of inputs that may be used to measure fair value as follows:

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

NOTE 6: FAIR VALUE MEASUREMENTS (continued)

Level 1 inputs which include quoted prices in active markets for identical assets or liabilities.

Level 2 inputs which include observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

The following table summarizes, for each major category of assets and liabilities, the respective fair value and the classification by level of input within the fair value hierarchy:

| Description | March 31, 2011 | | | Total | December 31, 2010 | | | Total |
|-------------------|----------------|-----------|-----------|-------------|-------------------|-----------|-----------|-------------|
| | Level (1) | Level (2) | Level (3) | | Level (1) | Level (2) | Level (3) | |
| Assets: | | | | | | | | |
| Cash equivalents | \$4,081,453 | \$--- | \$--- | \$4,081,453 | \$3,371,346 | \$--- | \$--- | \$3,371,346 |
| Total Liabilities | \$--- | \$--- | \$--- | \$--- | \$--- | \$--- | \$--- | \$--- |

NOTE 7: BAD DEBTS

Accounts receivable are presented net of an allowance for doubtful accounts of \$19,926 and \$19,439 as of March 31, 2011 and December 31, 2010, respectively. The allowance is based on prior experience and management's evaluation of the collectability of accounts receivable. Management believes the allowance is adequate. However, future estimates may change based on changes in future economic conditions.

NOTE 8: LONG-TERM DEBT

On April 22, 2008, the Company entered into a three year Modified and Restated Revolving Credit Agreement (the "Credit Agreement") with Capital One, N.A. (the "Bank") as successor to North Fork Bank, pursuant to which the Bank has agreed to make revolving loans to the Company of up to \$5 million until May 1, 2011. Interest on the unpaid principal balance on this facility accrues at either (i) the LIBOR rate plus 2.00% or (ii) the Bank's prime rate minus .25%. This agreement contains certain financial and other covenants. Borrowings are collateralized by the Company's assets.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

NOTE 8: LONG-TERM DEBT (continued)

The amount available under the Credit Agreement was \$5,000,000 as of March 31, 2011. As of March 31, 2011, the Company was in full compliance with the terms of the Credit Agreement.

On May 9, 2011, the Company and the Bank agreed to an extension of the Credit Agreement until August 1, 2011, on the same terms and conditions as previously agreed to, during which time it intends to negotiate a new agreement.

NOTE 9: STOCK-BASED COMPENSATION EXPENSE

During the three months ended March 31, 2011 and March 31, 2010, as per ASC 718, Stock Compensation, the Company recorded as part of selling and general administrative expense, approximately \$69,000 and \$44,000 respectively, for the cost of employee and director services received in exchange for equity instruments based on the grant-date fair value of those instruments.

NOTE 10: INCOME TAXES

The income tax (benefit) provision for income taxes includes the following:

| | Three Months Ended March 31, | |
|----------------------------------|------------------------------|--------------|
| | 2011 | 2010 |
| Current: | | |
| Federal | \$ 194,886 | \$ 1,500 |
| State | 24,873 | 8,200 |
| Total Current Provision | 219,759 | 9,700 |
| Deferred: | | |
| Federal | \$ 18,297 | \$ (18,767) |
| State | (14,519) | (4,415) |
| Total deferred expense (benefit) | 3,778 | (23,182) |
| Income tax expense (benefit) | \$ 223,537 | \$ (13,482) |

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed. Adjustments for differences between our tax provisions and tax returns are recorded when identified, which is generally in the third or fourth quarter of our subsequent year.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

NOTE 11: EARNINGS PER SHARE

As per ASC 260, basic earnings per share are computed by dividing net earnings available to common shareholders (the numerator) by the weighted average number of common shares (the denominator) for the period presented. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Stock options to purchase 405,550 shares of common stock were outstanding and 332,550 were exercisable during the three months ended March 31, 2011. Stock options to purchase 442,550 shares were outstanding and 342,640 were exercisable during the three months ended March 31, 2010. During the three months ended March 31, 2010, potentially dilutive shares of 63,807 were not included in the computation of diluted earnings per share because their effects would have been antidilutive. These securities may be dilutive to the earnings per share calculation in the future.

The dilutive potential common shares on warrants and options is calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all warrants and options are used to repurchase common stock at market value. The amount of shares remaining after the proceeds are exhausted represents the potential dilutive effect of the securities.

Note 12: LEGAL PROCEEDINGS

On January 26, 2010, the Company commenced an action against Taiwan Glass Industrial Corp. ("Taiwan Glass") and Mizuho Corporate Bank ("Mizuho") in the United States District Court for the Southern District of New York. By that action, the Company seeks monetary damages (\$5,816,000) against Taiwan Glass for breach of contract and against Mizuho for failing to pay the second installment on a letter of credit issued by Mizuho. The action as against Mizuho has been subsequently dismissed.

The Company believes that Taiwan Glass has no legal basis for unilaterally refusing to accept and pay for equipment specially manufactured for them and shipped to them by the Company. Taiwan Glass has interposed an answer and counterclaims denying these allegations and is seeking unspecified monetary damages. The Company is vigorously pursuing its claims against Taiwan Glass and defending against the counterclaims interposed by Taiwan Glass.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

Note 12: LEGAL PROCEEDINGS (continued)

As of March 31, 2011, Taiwan Glass has not yet granted permission to allow the Company to use or sell most of the returned equipment (\$1,150,000) due to the pending litigation. Management has reclassified the returned equipment as Idle Inventories, net as of March 31, 2011. The Idle Inventories has been assigned a carrying value using the lower of cost or market.

Note 13 SEGMENT REPORTING

The Company operates through (3) segments, CVD, SDC and Conceptronic. The CVD division is utilized for silicon, silicon germanium, silicon carbide and gallium arsenide processes. SDC is the Company's ultra-high purity manufacturing division in Saugerties, New York. Conceptronic is a manufacturer of Surface Mount Technology equipment. The respective accounting policies of CVD, SDC and Conceptronic are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates performance based on several factors, of which the primary financial measure is income or (loss) before taxes.

| 2011 | CVD | SDC | Conceptronic | Eliminations * | Consolidated |
|----------------------|--------------|--------------|--------------|-------------------|--------------|
| Revenue | \$ 5,505,110 | \$ 1,033,147 | \$ 206,665 | \$ (539,222) | \$ 6,205,700 |
| Pretax income (loss) | 1,095,446 | 59,155 | (243,640) | | 910,961 |
| 2010 | | | | | |
| Revenue | \$ 2,451,448 | \$ 1,398,358 | \$ 209,509 | \$ (337,466) | \$ 3,721,849 |
| Pretax (loss) income | (318,735) | 173,927 | 40,897 | | (103,911) |

*All elimination entries represent intersegment revenues eliminated in consolidation for external financial reporting.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Except for historical information contained herein, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, as amended. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Important assumptions and other factors that could cause actual results to differ materially from those in the forward-looking statements, include but are not limited to: competition in the Company's existing and potential future product lines of business; the Company's ability to obtain financing on acceptable terms if and when needed; uncertainty as to the Company's future profitability, uncertainty as to the future profitability of acquired businesses or product lines, uncertainty as to any future expansion of the Company. Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements and the failure of such assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. The Company assumes no obligation to update these forward looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Results of Operations

Three Months Ended March 31, 2011 vs. Three Months Ended March 31, 2010

Revenue

Revenue for the three month period ended March 31, 2011 was approximately \$6,206,000 as compared to \$3,722,000 for the three month period ended March 31, 2010, an increase of 66.7%. During the current quarter we continued to convert into increased revenue, the higher level of orders received beginning with the second half of 2010.

Gross Profit

We generated gross profits of approximately \$2,284,000, resulting in a gross profit margin of 36.8%, for the three months ended March 31, 2011 as compared to gross profits of approximately \$1,107,000 and a gross profit margin of 29.7%, for the three months ended March 31, 2010. The increase in gross profit is primarily attributable to the successful efforts in engineering and production to achieve greater efficiencies in labor and the utilization of volume purchase discounts on materials ordered.

Selling, General and Administrative Expenses

Selling and shipping expenses for the three months ended March 31, 2011 and 2010 were approximately \$287,000 and \$212,000, respectively, representing an increase of 35.4% compared to the prior period. This increase can be primarily attributed to greater commissions earned as a result of the completion and shipment of several systems during the current period as well as the allocation of certain costs to sales.

We incurred approximately \$1,121,000 of general and administrative expenses during the three months ended March 31, 2011, compared to approximately \$948,000 incurred during the three months ended March 31, 2010, representing an increase of 18.2%. This increase is primarily attributable to increased personnel to support our higher revenue volume in 2011.

Operating Income

As a result of the foregoing factors, operating income was approximately \$877,000 for the three months ended March 31, 2011 compared to an operating loss of approximately (\$53,000) for the three months ended March 31, 2010. The increase in operating income in 2011 versus the same period in 2010 is directly attributable to the increased revenue with increased gross margins during the current three month period.

Interest Expense, Net

Interest income for the three months ended March 31, 2011 was approximately \$3,000 compared to approximately \$2,000 for the three months ended March 31, 2010. This increase is a result of an increase in available cash. Interest expense for the three months ended March 31, 2011 was approximately \$54,000 compared to approximately \$59,000 for the three months ended March 31, 2010. The primary sources of this interest expense are the mortgages on the three buildings that we own.

Income Taxes

For the three months ended March 31, 2011, we recorded approximately \$220,000 of current income tax expense and \$4,000 of deferred tax expense. For the three months ended March 31, 2010 we recorded current income tax expense of approximately \$10,000 that was offset by the realization of deferred tax benefits of \$23,000.

Net Income

We reported net income of approximately \$687,000 for the three months ended March 31, 2011, compared to a net loss of approximately \$90,000 for the three month period ended March 31, 2010.

Liquidity and Capital Resources

As of March 31, 2011, we had aggregate working capital of approximately \$11,714,000 and cash and cash equivalents of \$10,627,000, compared to \$11,105,000 and \$6,249,000 at December 31, 2010, an increase of \$609,000 and \$4,378,000, respectively. The increase in cash and cash equivalents was primarily the result of receiving advance payments on several larger orders from customers. Working capital increased as a result of this increase in cash and cash equivalents partially offset by the increase in billings in excess of costs and estimated earnings on uncompleted contracts.

Accounts receivable, net, as of March 31, 2011 was \$3,995,000 compared to \$2,909,000 as of December 31, 2010. This increase is primarily attributable to the timing of shipments and customer payments.

As of March 31, 2011, our backlog was approximately \$21,369,000, an increase of \$11,425,000, or 114.9%, compared to \$9,944,000 at December 31, 2010. During the three months ended March 31, 2011, we received approximately \$16,600,000 in new orders. Timing for completion of the backlog varies depending on the product mix and can be as long as two years. Included in the backlog are all accepted purchase orders with the exception of those that are included in percentage-of-completion. Order backlog is usually a reasonable management tool to indicate expected revenues and projected profits; however, it does not provide an assurance of future achievement of revenues or profits as order cancellations or delays are possible.

We believe we have an ample amount of cash, positive operating cash-flow and available credit facilities at March 31, 2011, to meet our working capital and investment requirements for the next twelve months; however (i) based on the current quotation levels, we may need to insure our ability to continue supporting the high order levels we have been experiencing and (ii) in order to minimize segment or customer risk, we may need to raise capital to support the expansion of product offerings, personnel, equipment and facilities.

In February, we announced the filing of a Form S-3 Registration Statement with the U.S. Securities and Exchange Commission, commonly known as a “shelf registration.” This enables us, at our option, to conduct registered offerings of up to \$20 million of our common stock, preferred stock, debt securities, warrants to purchase these securities, unit offerings or any combination of such securities in multiple transactions over a period of up to three years.

Under the applicable rules of the SEC, our ability to offer securities under our shelf registration is presently limited in value during any consecutive twelve month period to one-third of our “public float” (which are shares held by non-affiliates of the Company). By way of example, there were approximately 2,900,000 shares of our common stock in the public float on May 5, 2011 and the closing price of our common stock on the NASDAQ Capital Market was \$10. This would equate to a public float valued at \$29 million. If we had offered shares of our common stock for sale on May 6, 2011 under the shelf registration, such offering would be limited in value to one-third of \$29 million or approximately \$9.67 million. At \$10 per share, this equates to a maximum offering of 967,000 shares. These limitations would be calculated at the time of the offering and may fluctuate up or down during the life of our shelf registration. We may be subject to further limitations on our ability to offer securities under the applicable rules of the NASDAQ Stock market.

If we choose to sell our securities under the shelf registration, it will be at a price and on such terms as we deem favorable to the Company and our shareholders and for the purpose of financing both short and long term growth opportunities.

Specific terms of any future offering under this registration statement will be established at the time of any such offering and will be described in a prospectus supplement that we would at such time file with the SEC.

Off-Balance Sheet Arrangements.

We have no off-balance sheet arrangements at this time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of our Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Report").

Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with our management, have determined that as of the end of the period covered by the Report on Form 10-Q, the disclosure controls and procedures were and are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosures.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Limitations on the Effectiveness of Controls

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

CVD EQUIPMENT CORPORATION

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

On January 26, 2010, the Company commenced an action against Taiwan Glass Industrial Corp. (“Taiwan Glass”) and Mizuho Corporate Bank (“Mizuho”) in the United States District Court for the Southern District of New York. By that action, the Company seeks monetary damages (\$5,816,000) against Taiwan Glass for breach of contract and against Mizuho for failing to pay the second installment on a letter of credit issued by Mizuho. The action as against Mizuho has been subsequently dismissed.

The Company believes that Taiwan Glass has no legal basis for unilaterally refusing to accept and pay for equipment specially manufactured for them and shipped to them by the Company. Taiwan Glass has interposed an answer and counterclaims denying these allegations and is seeking unspecified monetary damages. The Company is vigorously pursuing its claims against Taiwan Glass and defending against the counterclaims interposed by Taiwan Glass.

As of March 31, 2011, Taiwan Glass has not yet granted permission to allow the Company to use or sell most of the returned equipment (\$1,150,000) due to the pending litigation. Management has reclassified the returned equipment as Idle Inventories, net as of March 31, 2011. The Idle Inventories has been assigned a carrying value using the lower of cost or market.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

None

Item 5. Other Information.

None.

Item 6. Exhibits and Reports Filed on Form 8-K

(a) Exhibits filed with this report:

10.1 Employment agreement dated February 11, 2011 between Martin J. Teitelbaum and the Company

10.2 Modification agreement of Line of Credit dated May 9, 2011 between Capital One, N.A. and the Company

10.3 Amended and Restated Revolving Line of Credit Promissory Note dated May 9 2011 between Capital One, N.A. and the Company

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Certification of Chief Executive Officer pursuant to U.S.C. Section 1350

32.2 Certification of Chief Financial Officer pursuant to U.S.C. Section 1350

(b) Reports on Form 8-K

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 10th day of May 2011.

C V D E Q U I P M E N T
C O R P O R A T I O N

By: /s/ Leonard A.
Rosenbaum

Leonard A. Rosenbaum
Chief Executive Officer
(Principal Executive
Officer)

By: /s/ Glen R. Charles

Glen R. Charles
Chief Financial Officer
(Principal Financial and
Accounting Officer)

EXHIBIT INDEX

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| 32.1 | Certification of Chief Executive Officer pursuant to U.S.C. Section 1350* |
| 32.2 | Certification of Chief Financial Officer pursuant to U.S.C. Section 1350* |

* Filed herewith