CVD EQUIPMENT CORP
Form 10-Q
November 14, 2014

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 September 30, 2014

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

(Exact Name of Registrant as specified in its charter)

New York ***(State or Other Jurisdiction of Incorporation or Organization)***	**11-2621692** ***(I.R.S. Employer Identification No.)***
355 South Technology Drive **Central Islip, New York**	**11722**

(Address of principal executive offices) (Zip Code)

(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

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 (Do not check if a smaller reporting company)	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: 6,140,707 shares of Common Stock, $0.01 par value at November 7, 2014.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

Index

PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$11,396,185	$11,247,560
Accounts receivable, net	4,634,623	2,883,443
Costs and estimated earnings in excess of billings on contracts in progress	2,584,838	1,577,969
Inventories	5,213,550	4,497,349
Deferred income taxes – current	1,235,632	1,443,321
Other current assets	210,173	246,240
Total Current Assets	25,275,001	21,895,882
Property, plant and equipment, net	15,065,919	15,492,111
Construction in progress	347,242	128,171
Deferred income taxes – non-current	728,799	710,983
Restricted cash	400,000	800,000
Other assets	66,220	70,376
Intangible assets, net	57,896	44,116
Total Assets	$41,941,077	$39,141,639
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$3,937,633	$2,274,442
Current maturities of long-term debt	720,000	720,000
Billings in excess of costs and estimated earnings on contracts in progress	544,524	252,890
Deferred revenue	324,354	204,527
Total Current Liabilities	5,526,511	3,451,859
Long-term debt, net of current portion	4,025,508	4,565,508

Total Liabilities	9,552,019	8,017,367
Commitments and Contingencies	----	----
Stockholders' Equity		
Common stock - $0.01 par value – 10,000,000 shares authorized; issued and outstanding, 6,140,707 at September 30, 2014 and 6,091,707 at December 31, 2013	61,407	60,917
Additional paid-in-capital	21,999,915	21,527,375
Retained earnings	10,327,736	9,535,980
Total Stockholders' Equity	32,389,058	31,124,272
Total Liabilities and Stockholders' Equity	$41,941,077	$39,141,639

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Revenue	$8,867,158	$4,706,672	$19,359,547	$13,004,297
Cost of revenue	5,558,059	2,958,121	12,031,801	8,683,756
Gross profit	3,309,099	1,748,551	7,327,746	4,320,541
Operating expenses				
Selling and shipping	314,232	251,907	972,099	741,016
General and administrative	1,782,442	1,461,719	5,035,197	4,272,152
Bad debt expense		623,128		609,697
(Gain) on sale of building	--	--	-	(887,477)
Total operating expenses	2,096,674	2,336,754	6,007,296	4,735,388
Operating income/(loss)	1,212,425	(588,203)	1,320,450	(414,847)
Other income (expense)				
Interest income	9,265	7,298	23,940	23,368
Interest expense	(27,013)	(33,542)	(83,904)	(133,206)
Other income	2,252	490	28,463	12,865
Total other (expense)	(15,496)	(25,754)	(31,501)	(96,973)
Income/(loss) before income taxes	1,196,929	(613,957)	1,288,949	(511,820)
Income tax expense/(benefit)	339,000	(175,463)	497,193	(507,011)
Net income/(loss)	$857,929	$(438,494)	$791,756	$(4,809)
Basic income/(loss) per common share	$0.14	$(0.07)	$0.13	$0.00
Diluted income/(loss) per common share	$0.14	$(0.07)	$0.13	$0.00
Weighted average common shares outstanding basic	6,140,707	6,071,825	6,120,474	6,065,997
Net effect of potential common share issuance:				
Stock options	114,765	-	116,083	--

Weighted average common shares outstanding diluted	6,255,472	6,071,825	6,236,557	6,065,997

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income/(loss)	$791,756	$(4,809)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Stock-based compensation expense	370,830	194,017
Gain on sale of building	--	(887,477)
Depreciation and amortization	590,385	472,545
Deferred tax expense/(benefit)	189,873	(507,011)
Bad debt provision	(84,182)	609,697
Decrease/(increase) in operating assets:		
Accounts receivable	(1,666,998)	(1,482,520)
Costs and estimated earnings in excess of billings on contracts in progress	(1,006,869)	406,422
Inventories, net	(716,201)	(356,196)
Other current assets	36,067	8,852
Increase/(decrease) in operating liabilities:		
Billings in excess of costs and estimated earnings on contracts in progress	291,634	(470,568)
Accounts payable and accrued expenses	1,663,191	104,205
Deferred revenue	119,827	(69,297)
Net cash provided by/(used in) operating activities	579,313	(1,982,140)
Cash flows from investing activities:		
Release of restricted cash	400,000	--
Capital expenditures	(396,055)	(1,813,517)
Proceeds from sale of building	--	3,619,899
Deposits	3,167	(2,667)
Net cash provided by investing activities	7,112	1,803,715
Cash flows from financing activities:		
Net proceeds from stock options exercised	102,200	29,500
Payments of long-term debt	(540,000)	(2,857,334)
Net cash used in financing activities	(437,800)	(2,827,834)
Net increase/(decrease) in cash and cash equivalents	148,625	(3,006,259)
Cash and cash equivalents at beginning of period	11,247,560	13,721,324
Cash and cash equivalents at end of period	$11,396,185	$10,715,065

Supplemental disclosure of cash flow information:		
Income taxes paid	$--	$25
Interest paid	$83,904	$99,663

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited financial statements for CVD Equipment Corporation and Subsidiaries (collectively, "the Company") 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 and nine months ended September 30, 2014 are not necessarily indicative of the results that can be expected for the year ending December 31, 2014.

The balance sheet as of December 31, 2013 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, 2013, including the accounting policies followed by the Company as set forth in Note 2 to the consolidated financial statements contained therein.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Product and service sales including those based on time and materials type contracts are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Service sales, principally representing repair, maintenance and engineering activities are recognized over the contractual period or as services are rendered.

Revenues from fixed price contracts are recognized using the percentage-of-completion method, measured on the basis of incurred costs to estimated total costs for each contract. This cost-to-cost method is used because management considers it to be the best available measure of progress on these contracts.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs.

Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, and final

contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

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

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

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This update changes the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent applications related to financial reporting of discontinued operations guidance in U.S. GAAP. This new standard is effective in the first quarter of 2015 for public organizations with calendar year ends. This ASU is not expected to have a significant impact on the Company’s financial statements.

In May 2014, The FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which changes the criteria for recognizing revenue. The standard requires an entity which recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires a five-step process for recognizing revenues including identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction prices, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact that ASU 2014-09 will have on its consolidated financial statements.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

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 money market instruments. The Company has established guidelines relative to credit ratings and maturities that seek to maintain stability and liquidity. These temporary cash investments may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. At September 30, 2014 and December 31, 2013, the cash investments that exceeded the FDIC limit amounted to $10,566,000 and $10,136,000, 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: CONTRACTS IN PROGRESS

Costs and estimated earnings in excess of billings on percentage of completion type contracts in progress are summarized as follows:

	September 30, 2014	December 31, 2013
Costs incurred on contracts in progress	$3,110,152	$1,807,628
Estimated earnings	3,376,244	1,229,038
	6,486,396	3,036,666
Billings to date	(4,446,081)	(1,711,587)
	$2,040,314	$1,325,079

Included in accompanying balance sheets under the following captions:

Costs and estimated earnings in excess of billings on contracts in progress	$2,584,838	$1,577,969
Billings in excess of costs and estimated earnings on contracts in progress	$(544,524)	$(252,890)

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

NOTE 5: INVENTORIES

Inventories consist of:

	September 30, 2014	December 31, 2013
Raw materials	$4,100,867	$4,058,350
Work-in-process	993,248	300,460
Finished goods	119,435	138,539
Totals	$5,213,550	$4,497,349

NOTE 6: ACCOUNTS RECEIVABLE

Accounts receivable are presented net of an allowance for doubtful accounts of $23,315 and $107,496 as of September 30, 2014 and December 31, 2013, 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 7: LONG-TERM DEBT

On August 5, 2014, the Company extended until August 5, 2015, under the same terms, it's existing revolving credit facility with HSBC Bank, USA, N.A. ("HSBC"), which was due to expire. The original loan agreement with HSBC was entered into on August 5, 2011, and provided the Company with credit up to $9.1 million. The loan agreement consists of a $7 million revolving credit facility and a five (5) year term loan in the initial principal amount of $2.1 million. The obligations under the loan agreement are secured by substantially all of the Company's personal property. Additionally, borrowings under the term loan were initially collateralized by $1 million of restricted cash deposits, provided that, so long as no event of default has occurred and then continuing, HSBC would release $200,000 of the collateral on each anniversary of the closing date. The restricted balance at September 30, 2014 was $400,000. This restricted cash is a separate line item on the consolidated balance sheet. The Company makes monthly principal payments of $35,000 plus interest on the term loan which matures on August 1, 2016. The balances as of September 30, 2014 and December 31, 2013 were $805,000 and $1,120,000 respectively. Interest on the unpaid $805,000 principal balance for the term loan, which was used to pay off the previous mortgages, accrues at a fixed rate of 3.045%. There were no borrowings outstanding on the $7 million revolving credit facility as of both September 30, 2014 and December 31, 2013. The revolving credit facility permits the Company to borrow on a revolving basis until August 5, 2015. Interest on the unpaid principal balance on this facility accrues at either (i) the London Interbank offered Rate (“LIBOR”) plus 1.75% or (ii) the bank’s prime rate minus 0.50%. The credit agreement also contains certain financial covenants, all of which the Company was in compliance with at September 30, 2014.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

NOTE 7: LONG-TERM DEBT (continued)

In March 2012, the Company entered into a mortgage loan agreement with HSBC Bank, USA, N.A., for the initial principal amount of $6,000,000 (the "Loan"), through the Town of Islip Industrial Development Agency. The Loan is secured by a mortgage against the property and building located at 355 South Technology Drive, Central Islip, New York. Interest presently accrues on the Loan, at our option, at the variable rate of LIBOR plus 1.75% which was 1.9036% and 1.9166% at September 30, 2014 and December 31, 2013 respectively. The balance on the mortgage at September 30, 2014 was approximately $3,941,000. The Company makes monthly principal payments of $25,000 plus interest on the Loan which matures on March 15, 2022.

NOTE 8: STOCK-BASED COMPENSATION EXPENSE

During the three and nine months ended September 30, 2014 and September 30, 2013, the Company recorded compensation expense as part of selling and general administrative expense, of approximately $117,000 and $371,000 and $73,000 and $194,000 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 9: INCOME TAXES

The provision for income taxes includes the following:

	Nine Months Ended September 30,	
	2014	2013
Current:		

Federal	$281,748	$----
State	25,572	----
Total Current Provision	307,320	----
Deferred:		
Federal	$(191,472)	$(498,382)
State	381,345	(8,629)
Total deferred	189,873	(507,011)
Income tax expense/(benefit)	$497,193	$(507,011)

10

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

NOTE 9: INCOME TAXES (continued)

In March 2014, New York State eliminated the state income tax for qualified manufacturing companies such as CVD. Due to this change in tax law, the Company was required to write off state-level deferred tax assets which would have been used to offset future taxes payable to New York State. Though this change led to the loss of benefits we had recorded for previous operating losses, it will reduce total income tax expense for future periods, as essentially all of our operations are in New York State,

Tax Rate Reconciliation

The reconciliation between the Company’s effective tax rate on income from continuing operations and the statutory rate is as follows:

	Nine Months Ended September 30,					
	2014			2013		
Income tax expense/(benefit) at federal statutory rate [34%]	$	438,244		$	(174,018	)
State and local income tax benefit net of federal tax benefit		--			(30,709	)
Change in capitalized inventory (Section 263A)		3,159			(5,760	)
Change in vacation accrual		(23,913	)		(26,137	)
Change in other accruals		(4,023	)		10,023	
Difference between tax and book depreciation		(91,385	)		140,516	
Change in capital loss carryforward		--			(224,137	)
Stock-based compensation		(97,041	)		(10,825	)
Research and development credits		(109,193	)		(185,964	)
Impact of New York State taxation change		381,345			--	
Income tax expense/(benefit)	$	497,193		$	(507,011	)

NOTE 10: EARNINGS PER SHARE

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 159,730 shares of common stock were outstanding and 134,730 were exercisable during the three and nine months ended September 30, 2014. Stock options to purchase 199,380 shares were outstanding and 161,880 were exercisable during the three and nine months ended September 30, 2013. At September 30, 2014, all outstanding options were included in the diluted earnings per share calculation because the average market price was higher than the exercise price. However, none of the outstanding options were included in the earnings per share calculation at September 30, 2013, as their effect would have been anti-dilutive.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

NOTE 10: EARNINGS PER SHARE (continued)

The potentially dilutive common shares from warrants and options are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of 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 11: LEGAL PROCEEDINGS

On January 26, 2010, the Company commenced an action against Taiwan Glass Industrial Corp. (“Taiwan Glass”) in the United States District Court for the Southern District of New York. By that action, the Company sought monetary damages ($5,816,000) against Taiwan Glass for breach of contract. 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. On April 12, 2012, Taiwan Glass filed a motion seeking partial summary judgment in the amount of $3,564,000 (representing the portion of the purchase price that it had previously paid to the Company). By Memorandum and Order dated November 7, 2012, the Court denied the Taiwan Glass Motion in its entirety. On July 15, 2014 Taiwan Glass filed another motion seeking partial summary judgment in the amount of $3,564,000. By Opinion and Order dated November 13, 2014, the Court granted Taiwan Glass's motion for partial summary judgment and ordered the entry of judgment in favor of Taiwan Glass against the Company in the amount of $3,564,000 plus interest and dismissed the Company's breach of contract claim against Taiwan Glass. The Court has scheduled a conference for November 21, 2014. The Company is considering its options, including the appeal of the judgment.

NOTE 12: SEGMENT REPORTING

The Company operates through two (2) segments, CVD and SDC. The CVD division, which operates out of Central Islip, New York, 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. The respective accounting policies of CVD and SDC 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

NOTE 12: SEGMENT REPORTING (continued)

Three Months

Ended September 30,

2014	CVD	SDC	Eliminations *	Consolidated
Revenue	$ 7,693,131	$ 1,810,328	$ (636,301)	$ 8,867,158
Pretax income	807,397	389,532		1,196,929
2013				
Revenue	$ 3,368,613	$ 1,425,304	$ (87,245)	$ 4,706,672
Pretax (loss)/income	(854,063)	240,106		(613,957)

Nine Months

Ended September 30,

2014	CVD	SDC	Eliminations *	Consolidated
Revenue	$16,339,298	$4,137,957	$(1,117,708)	$19,359,547
Pretax income	410,301	878,648		1,288,949
2013				
Revenue	$9,824,980	$3,473,665	$(294,348)	$13,004,297
Pretax (loss)/income	(979,148)	467,328		(511,820)

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

NOTE 13: SUBSEQUENT EVENTS

On January 26, 2010, the Company commenced an action against Taiwan Glass Industrial Corp. (“Taiwan Glass”) in the United States District Court for the Southern District of New York. By that action, the Company sought monetary damages ($5,816,000) against Taiwan Glass for breach of contract. 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. On April 12, 2012, Taiwan Glass filed a motion seeking partial summary judgment in the amount of $3,564,000 (representing the portion of the purchase price that it had previously paid to the Company). By Memorandum and Order dated November 7, 2012, the Court denied the Taiwan Glass Motion in its entirety. On July 15, 2014 Taiwan Glass filed another motion seeking partial summary judgment in the amount of $3,564,000. By Opinion and Order dated November 13, 2014, the Court granted Taiwan Glass’s motion for partial summary judgment and ordered the entry of judgment in favor of Taiwan Glass against the Company in the amount of $3,564,000 plus interest and dismissed the Company's breach of contract claim against Taiwan Glass. The Court has scheduled a conference for November 21, 2014. The Company is considering its options, including the appeal of the judgment. These financial statements for the three and nine months ended September 30, 2014 do not reflect the impact of the summary judgment and the Company has not made any accruals towards the payment of this amount.

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. Past performance does not guaranty future results.

Results of Operations

Three Months Ended September 30, 2014 vs. Three Months Ended September 30, 2013

	Three Months Ended		Change	% Change
	September 30, 2014	September 30, 2013		
(In thousands)				
Bookings	$ 6,400	$ 5,300	$ 1,100	20.8
Ending Backlog	12,058	3,990	8,068	202.2
Revenue				
CVD (net of eliminations)	$ 7,690	$ 3,360	$ 4,330	128.9
SDC (net of eliminations)	1,177	1,347	(170)	(12.6)
Total Revenue	8,867	4,707	4,160	88.4
Cost of Goods Sold	5,558	2,958	2,600	87.9
Gross Profit	3,309	1,749	1,560	89.2
Gross Margin	37.3 %	37.2 %	0.1 %	
Selling and Shipments	314	252	62	24.6
General & Administrative	1,782	1,461	321	22.0
Bad Debt	---	623	(623)	(100.0)
Total Operating Expenses	2,096	2,336	(240)	(10.3)
Operating Income	1,213	(587	$154,363	

Total	**$154,363**	**$154,363**

* For the reporting period, the transaction volume for warrants was minimal.

Note 7: Market, credit and other risks

In the normal course of business, the fund trades financial instruments and enters into financial transactions where risk of potential loss exists due to changes in the market (market risk) or failure of the contracting party to the transaction to perform (credit risk). The fund may be exposed to additional credit risk that an institution or other entity with which the fund has unsettled or open transactions will default.

Note 8: New accounting pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011–04 *“Fair Value Measurements and Disclosures (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS”*. ASU 2011–04 amends FASB Topic 820 *“Fair Value Measurement”* and seeks to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. ASU 2011–04 is effective for fiscal years and interim periods beginning after December 15, 2011. The application of ASU 2011–04 will not have a material impact on the fund’s financial statements.

In December 2011, the FASB issued ASU No. 2011–11 *“Disclosures about Offsetting Assets and Liabilities”*. The update creates new disclosure requirements requiring entities to disclose both gross and net information for derivatives and other financial instruments that are either offset in the Statement of assets and liabilities or subject to an enforceable master netting arrangement or similar agreement. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. Putnam Management is currently evaluating the application of ASU 2011–11 and its impact, if any, on the fund’s financial statements.

42

The Putnam family of funds

The following is a list of Putnam’s open-end mutual funds offered to the public. *Investors should carefully consider the investment objective, risks, charges, and expenses of a fund before investing. For a prospectus, or a summary prospectus if available, containing this and other information for any Putnam fund or product, call your financial advisor at 1-800-225-1581 and ask for a prospectus. Please read the prospectus carefully before investing.*

Growth

Growth Opportunities Fund

International Growth Fund

Multi-Cap Growth Fund

Small Cap Growth Fund

Voyager Fund

Blend

Asia Pacific Equity Fund

Capital Opportunities Fund

Capital Spectrum Fund

Emerging Markets Equity Fund

Equity Spectrum Fund

Europe Equity Fund

Global Equity Fund

International Capital Opportunities Fund

International Equity Fund

Investors Fund

Multi-Cap Core Fund

Income

American Government Income Fund

Diversified Income Trust

Floating Rate Income Fund

Global Income Trust

High Yield Advantage Fund

High Yield Trust

Income Fund

Money Market Fund*

Short Duration Income Fund

U.S. Government Income Trust

Tax-free income

AMT-Free Municipal Fund

Tax Exempt Income Fund

Tax Exempt Money Market Fund*

Tax-Free High Yield Fund

State tax-free income funds:

Research Fund

Value

Convertible Securities Fund

Equity Income Fund

George Putnam Balanced Fund

The Putnam Fund for Growth and Income

International Value Fund

Multi-Cap Value Fund

Small Cap Value Fund

Arizona, California, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, and Pennsylvania.

Absolute Return

Absolute Return 100 Fund

Absolute Return 300 Fund

Absolute Return 500 Fund

Absolute Return 700 Fund

* **An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.**

Global Sector

Global Consumer Fund

Global Energy Fund

Global Financials Fund

Global Health Care Fund

Global Industrials Fund

Global Natural Resources Fund

Global Sector Fund

Global Technology Fund

Global Telecommunications Fund

Global Utilities Fund

Asset Allocation

Putnam Global Asset Allocation Funds — portfolios with allocations to stocks, bonds, and money market instruments that are adjusted dynamically within specified ranges as market conditions change.

Dynamic Asset Allocation Balanced Fund

Prior to November 30, 2011, this fund was known as Putnam Asset Allocation: Balanced Portfolio.

Dynamic Asset Allocation Conservative Fund

Putnam RetirementReady Funds — portfolios with automatically adjusting allocations to stocks, bonds, and money market instruments, becoming more conservative over time.

RetirementReady 2055 Fund

RetirementReady 2050 Fund

RetirementReady 2045 Fund

RetirementReady 2040 Fund

RetirementReady 2035 Fund

RetirementReady 2030 Fund

RetirementReady 2025 Fund

RetirementReady 2020 Fund

RetirementReady 2015 Fund

Putnam Retirement Income Lifestyle Funds — portfolios with managed allocations to stocks, bonds, and money market investments to generate retirement income.

Retirement Income Fund Lifestyle 1

Prior to June 16, 2011, this fund was known as Putnam RetirementReady Maturity Fund.

Prior to November 30, 2011, this fund was known as

Putnam Asset Allocation: Conservative Portfolio.

Dynamic Asset Allocation Growth Fund

Prior to November 30, 2011, this fund was known as

Putnam Asset Allocation: Growth Portfolio.

Dynamic Risk Allocation Fund

Retirement Income Fund Lifestyle 2

Retirement Income Fund Lifestyle 3

Prior to June 16, 2011, this fund was known as

Putnam Income Strategies Fund.

A short-term trading fee of 1% may apply to redemptions or exchanges from certain funds within the time period specified in the fund's prospectus.

Check your account balances and the most recent month-end performance in the Individual Investors section at putnam.com.

44

Fund information

Founded 75 years ago, Putnam Investments was built around the concept that a balance between risk and reward is the hallmark of a well-rounded financial program. We manage over 100 funds across income, value, blend, growth, asset allocation, absolute return, and global sector categories.

Investment Manager
Putnam Investment
Management, LLC
One Post Office Square
Boston, MA 02109

Investment Sub-Manager
Putnam Investments Limited
57–59 St James's Street
London, England SW1A 1LD

Marketing Services
Putnam Retail Management
One Post Office Square
Boston, MA 02109

Custodian
State Street Bank
and Trust Company

Legal Counsel
Ropes & Gray LLP

Paul L. Joskow
Elizabeth T. Kennan
Kenneth R. Leibler
Robert E. Patterson
George Putnam, III
Robert L. Reynolds
W. Thomas Stephens

Officers

Robert L. Reynolds
President

Jonathan S. Horwitz
Executive Vice President, Principal Executive Officer, Treasurer and Compliance Liaison

Steven D. Krichmar
Vice President and Principal Financial Officer

Janet C. Smith

Mark C. Trenchard
Vice President and BSA Compliance Officer

Robert T. Burns
Vice President and Chief Legal Officer

James P. Pappas
Vice President

Judith Cohen
Vice President, Clerk and Assistant Treasurer

Michael Higgins
Vice President, Senior Associate Treasurer and Assistant Clerk

Nancy E. Florek
Vice President, Assistant Clerk, Assistant Treasurer and Proxy Manager

Call 1-800-225-1581 Monday through Friday between 8:00 a.m. and 8:00 p.m. Eastern Time, or visit putnam.com anytime for up-to-date information about the fund's NAV.

Item 2. Code of Ethics:

Not Applicable

Item 3. Audit Committee Financial Expert:

Not Applicable

Item 4. Principal Accountant Fees and Services:

Not Applicable

Item 5. Audit Committee

Not Applicable

Item 6. Schedule of Investments:

The registrant's schedule of investments in unaffiliated issuers is included in the report to shareholders in Item 1 above.

Item 7. Disclosure of Proxy Voting Policies and Procedures For Closed-End Management Investment Companies:

Not applicable

Item 8. Portfolio Managers of Closed-End Management Investment Companies

(a) Not applicable

(b) There have been no changes to the list of the registrant's identified portfolio managers included in the registrant's report on Form N-CSR for the most recent completed fiscal year.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers:

Registrant Purchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs**
November 1 – November 30, 2011	—	—	—	5,747,266
December 1 – December 31, 2011	—	—	—	5,747,266
January 1 – January 31, 2012	—	—	—	5,747,266
February 1 – February 28, 2012	—	—	—	5,747,266
March 1 – March 31, 2012	—	—	—	5,747,266
April 1 – April 30, 2012	—	—	—	5,747,266

* In October 2005, the Board of Trustees of the Putnam Funds initiated the closed-end fund share repurchase program, which, as subsequently amended, authorized the repurchase of up to 10% of the fund's outstanding common shares over the two-years ending October 5, 2007. The Trustees subsequently renewed the program on five occasions, to permit the repurchase of an additional 10% of the fund's outstanding common shares over each of the twelve-month periods beginning on October 8, 2007, October 8, 2008 ,October 8, 2009,.October 8, 2010 and October 8, 2011. The October 8, 2008 - October 7, 2009 program, which was announced in September 2008, allowed repurchases up to a total of 5,728,836 shares of the fund. The October 8, 2009 - October 7, 2010 program, which was announced in September 2009, allows repurchases up to a total of 5,728,836 shares of the fund. The October 8, 2010 - October 7, 2011 program, which was announced in September 2010, allows repurchases up to a total of 5,735,496 shares of the fund. The October 8, 2011 - October 7, 2012 program, which was announced in September 2011, allows repurchases up to a total of 5,747,266 shares of the fund.

** Information prior to October 7, 2011 is based on the total number of shares eligible for repurchase under the program, as amended through September 2010. Information from October 8, 2011 forward is based on the total number of shares eligible for repurchase under the program, as amended through September 2011.

Item 10. Submission of Matters to a Vote of Security Holders:

Not applicable

Item 11. Controls and Procedures:

(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the registrant in this report is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) Changes in internal control over financial reporting: Not applicable

Item 12. Exhibits:

(a)(1) Not applicable

(a)(2) Separate certifications for the principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are filed herewith.

(b) The certifications required by Rule 30a-2(b) under the Investment Company Act of 1940, as amended, are filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Putnam Managed Municipal Income Trust

By (Signature and Title):

/s/Janet C. Smith
Janet C. Smith
Principal Accounting Officer

Date: June 28, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title):

/s/Jonathan S. Horwitz
Jonathan S. Horwitz
Principal Executive Officer

Date: June 28, 2012

By (Signature and Title):

/s/Steven D. Krichmar
Steven D. Krichmar
Principal Financial Officer

Date: June 28, 2012