CVD EQUIPMENT CORP
Form 10-Q
November 21, 2012

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

o 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	11-2621692
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1860 Smithtown Avenue Ronkonkoma, New York	11779
(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 þ Noo

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 þ Noo

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 o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company þ

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

Yes o No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,046,970 shares of Common Stock, $0.01 par value at November 15, 2012.

Explanatory Note

In connection with the filing of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, CVD Equipment Corporation ("CVD") is relying on Release No. 68224 issued by the Securities and Exchange Commission (the "SEC"), titled "Order Under Section 17A and Section 36 of the Securities Exchange Act and Certain Rules Thereunder," which provides that filings by registrants unable to meet filing deadlines due to Hurricane Sandy and its aftermath shall be considered timely so long as the filing is made on or before November 21, 2012, and the conditions contained therein are satisfied. CVD's headquarters and its independent accountants are located in areas of New York and New Jersey, respectively, which were directly impacted by Hurricane Sandy. Accordingly CVD was unable to file this Report on November 14, 2012 due to disruptions caused by Hurricane Sandy.

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

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$16,090,188	$18,136,527
Accounts receivable, net	4,133,850	3,663,579
Costs and estimated earnings in excess of billings on uncompleted contracts	3,254,012	3,410,824
Inventories, net	2,917,681	2,232,073
Idle inventories	----	975,000
Deferred income taxes – current	140,438	189,510
Other current assets	210,916	150,803
Total Current Assets	26,747,085	28,758,316
Property, plant and equipment, net	15,344,668	7,948,957
Deferred income taxes – non-current	277,780	390,080
Restricted cash	800,000	1,000,000
Other assets	70,064	401,658
Intangible assets, net	43,702	49,967
Total Assets	$43,283,299	$38,548,978
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$932,791	$623,953
Billings in excess of costs and estimated earnings on uncompleted contracts	86,205	1,687,210
Accounts payable and accrued expenses	2,588,405	2,374,334
Accrued professional fees – related party	----	35,000
Deferred revenue	171,934	1,089,966
Total Current Liabilities	3,779,335	5,810,463
Long-term debt, net of current portion	7,622,125	2,547,842
Total Liabilities	11,401,460	8,358,305
Commitments and Contingencies	----	----
Stockholders' Equity		
	60,468	59,589

Common stock - $0.01 par value – 10,000,000 shares authorized; 6,046,845 and 5,958,785 issued and outstanding at September 30, 2012 and December 31, 2011		
Additional paid-in-capital	20,931,780	20,470,367
Retained earnings	10,889,591	9,660,717
Total Stockholders' Equity	31,881,839	30,190,673
Total Liabilities and Stockholders' Equity	$43,283,299	$38,548,978

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

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenue	$4,696,409	$8,844,094	$18,945,145	$22,557,511
Cost of revenue	2,950,170	5,669,624	11,553,787	14,226,167
Gross profit	1,746,239	3,174,470	7,391,358	8,331,344
Operating expenses				
Selling and shipping	226,131	363,197	936,930	885,446
General and administrative	1,172,278	1,423,126	3,828,504	3,944,160
Related party-professional fees	-	--	-	35,000
Loss on sale of building (Note 8)	--	--	693,818	--
Total operating expenses	1,398,409	1,786,323	5,459,252	4,864,606
Operating income	347,830	1,388,147	1,932,106	3,466,738
Other income (expense)				
Interest income	8,651	4,854	24,371	10,854
Interest expense	(59,590)	(46,557)	(148,202)	(149,212)
Other income	(3,996)	87,842	25,056	180,301
Total other (expense) income	(54,935)	46,139	(98,775)	41,943
Income before income taxes	292,895	1,434,286	1,833,331	3,508,681
Income tax expense	112,931	195,736	604,457	804,267
Net income	$179,964	$1,238,550	$1,228,874	$2,704,414
Basic income per common share	$0.03	$0.21	$0.21	$0.51
Diluted income per common share	$0.03	$0.20	$0.20	$0.49
Weighted average common shares outstanding basic	6,046,845	5,839,220	5,994,020	5,295,784
Effect of potential common share issuance:				
Stock options	154,280	274,228	164,961	247,893
Weighted average common shares outstanding diluted	6,201,125	6,113,448	6,158,981	5,543,677

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)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net Income	$1,228,874	$2,704,414
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Stock-based compensation expense	175,746	216,506
Loss on sale of building	693,818	-
Gain on sale of other fixed assets	(3,288)	-
Depreciation and amortization	440,440	413,241
Deferred tax expense	161,372	108,370
Bad debt provision	(648)	(2,767)
(Increases)/decreases in operating assets:		
Accounts receivable	(469,622)	640,243
Costs and estimated earnings in excess of billings on uncompleted contracts	156,812	(363,319)
Inventories, net	289,392	545,079
Other current assets	(60,113)	(456,930)
Increase (decrease) in operating liabilities:		
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,601,005)	(439,540)
Accounts payable and accrued expenses	179,068	1,528,505
Deferred revenue	(918,031)	(10,041)
Net cash provided by operating activities	272,815	4,883,761
Cash flows from investing activities:		
Restricted cash	200,000	(1,000,000)
Capital expenditures	(10,124,428)	(181,303)
Proceeds from sale of building	1,582,323	-
Proceeds from sale of other fixed assets	21,500	-
Deposits	331,781	(360,000)
Net cash (used in) investing activities	(7,988,824)	(1,541,303)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	----	9,390,000
Net proceeds from stock options exercised	286,548	79,710
Proceeds from long-term debt	6,000,000	2,100,000
Payments of long-term debt	(616,878)	(2,542,828)
Net cash provided by financing activities	5,669,670	9,026,882
Net (decrease) increase in cash and cash equivalents	(2,046,339)	12,369,340
Cash and cash equivalents at beginning of period	18,136,527	6,249,090
Cash and cash equivalents at end of period	$16,090,188	$18,618,430
Supplemental disclosure of cash flow information:		

Income taxes paid	$454,725	$505,344
Interest paid	$148,202	$149,212

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for CVD Equipment Corporation and Subsidiary (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, 2012 are not necessarily indicative of the results that can be expected for the year ending December 31, 2012.

The balance sheet as of December 31, 2011 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, 2011, 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 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
September 30, 2012
(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 recognized.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board issued Accounting Standards Update No. 2012-02 “Intangibles-Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment,” which affords an entity the option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further actions. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount.

The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity’s financial statements for the most recent annual or interim period have not yet been issued. The adoption of this Accounting Standards Update, will not have a significant impact on the Company’s financial statements and related disclosures.

We believe there is no additional new accounting guidance adopted, but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

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. From time to time these temporary cash investments may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. At September 30, 2012 and December 31, 2011, the cash investments that exceeded the FDIC limit amounted to $4,387,000 and $3,860,000, 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

NOTE 4: UNCOMPLETED CONTRACTS

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

	September 30, 2012	December 31, 2011
Costs incurred on uncompleted contracts	$11,579,972	$11,253,624
Estimated earnings	10,539,240	10,120,760
	22,119,212	21,374,384
Billings to date	(18,951,405)	(19,650,770)
	$3,167,807	$1,723,614
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$3,254,012	$3,410,824
Billings in excess of costs and estimated earnings on uncompleted contracts	$(86,205)	$(1,687,210)

NOTE 5: INVENTORIES

Inventories consist of:

	September 30, 2012	December 31, 2011
Raw materials	$1,903,211	$1,986,880
Work-in-process	302,220	507,943
Finished goods	1,012,250	37,250
Totals	3,217,681	2,532,073
Less: Reserve for obsolescence	(300,000)	(300,000)
	$2,917,681	$2,232,073

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

NOTE 5: INVENTORIES (continued)

During the nine months ended September 30, 2011, the Company recorded certain inventory write-downs of $560,000.

At December 31, 2011, the Company held $975,000 of equipment returned from a terminated contract recorded as Idle Inventories, which it had not been granted permission to use or sell as a result of pending litigation, as a separate line item on the balance sheet. The Company may now sell or otherwise dispose of the goods then referred to as Idle Inventories and as of September 30, 2012, this inventory is included in Finished goods.

NOTE 6: FAIR VALUE MEASUREMENTS

We determine the fair value of financial and non-financial assets and liabilities using the fair value hierarchy, and the three levels of inputs that may be used to measure fair value are as follows:

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:

	September 30, 2012				December 31, 2011			
Description	Level (1)	Level (2)	Level (3)	Total	Level (1)	Level (2)	Level (3)	Total
Assets:								
Cash equivalents	$4,386,861	$---	$---	$4,386,861	$5,394,434	$---	$---	$5,394,434
Total Liabilities	$---	$---	$---	$---	$---	$---	$---	$---

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

NOTE 7: BAD DEBTS

Accounts receivable are presented net of an allowance for doubtful accounts of $25,240 and $25,888 as of September 30, 2012 and December 31, 2011, 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: REAL ESTATE TRANSACTIONS

Having determined that larger operating facilities would be required to facilitate the growth of the Company's operations and that the most efficient means to facilitate this growth would be to locate all Long Island operations in a single facility, on March 15, 2012, we closed title on the purchase of a 120,000 square foot facility located at 355 South Technology Drive, Central Islip, New York. After obtaining our new facility, we sold our facility located at 979 Marconi Avenue, Ronkonkoma, New York where our Application Laboratory had been located; this transaction closed on April 26, 2012 for a selling price of approximately $1,659,000. We incurred a capital loss of approximately $694,000 on this transaction. On May 31, 2012, we entered into a Contract of Sale to sell our headquarters located at 1860 Smithtown Avenue, Ronkonkoma, New York, and began the final phase in completing the relocation process. The sale price for the Smithtown Avenue facility is $3,875,000 (exclusive of closing costs) and as of September 30, 2012, the book value (net of depreciation) on this facility is approximately $2,800,000. The closing on the sale of the Smithtown Avenue facility is expected to occur on or about December 31, 2012.

NOTE 9: LONG-TERM DEBT

On August 5, 2011, the Company entered into a $9.1 million credit agreement with HSBC Bank, USA, N.A. ("HSBC"), secured by substantially all of the Company's personal property, to replace its $5.0 million revolving credit agreement and $2.1 million of existing mortgages previously held by Capital One Bank, N.A., which was previously secured by substantially all of the Company's personal property. This new agreement consists of a $7 million revolving credit facility and a $2.1 million five (5) year term loan. The revolving credit facility permits the Company to borrow on a revolving basis until August 5, 2014. Interest on the unpaid principal balance on this facility accrues at either (i) the London Interbank Offered Rate ("LIBOR") plus 1.75% or (ii) HSBC's prime rate minus 0.50%. Interest on the unpaid principal balance for the term loan, used to pay off the previous mortgages, accrues at a fixed rate of 3.045%. Borrowings under this term loan were additionally collateralized by $1 million of restricted cash deposits, provided that, so long as no event of default occurred and continues, HSBC will release $200,000 of the collateral on each anniversary of the closing date. On August 5, 2012, HSBC released $200,000 of the collateral thereby reducing the restricted cash to $800,000. This restricted cash is reported on a separate line item on the balance sheet. The credit agreement also contains certain financial covenants with which the Company was in compliance at September 30, 2012.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

NOTE 9: LONG-TERM DEBT (continued)

Effective as of March 15, 2012, we closed on the purchase of a 120,000 square foot facility located at 355 South Technology Drive, Central Islip, New York (the “Central Islip facility”) through the Town of Islip Industrial Development Agency (Note 8). The purchase price for the Property was $7,200,000 exclusive of closing costs. Pursuant to the terms of an Accommodation Agreement, we entered into a loan agreement with HSBC Bank, in the amount of $6,000,000 (the “Loan”), the proceeds of which were used to finance a portion of the purchase price on the Central Islip facility. The Loan is secured by the mortgage against the Central Islip facility. Interest presently accrues on the Loan, at our option, at the variable rate of LIBOR plus 1.75%. This rate was 1.97375% on September 30, 2012. The loan matures on March 15, 2022.

NOTE 10: EQUITY ISSUANCES

On May 27, 2011, the Company completed a public offering of 967,950 shares of common stock at $10.50 per share. The net proceeds of $9,391,967 are being used for general corporate purposes, including working capital.

During the three and nine months ended September 30, 2012 and September 30, 2011, the Company recorded as part of selling and general administrative expense, approximately $58,000 and $176,000 and $73,000 and $217,000 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. This expense was recorded based upon the guidance of ASC 718, “Compensation–Stock Compensation.”

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

NOTE 11: INCOME TAXES

The provision for income taxes includes the following:

	Nine Months Ended September 30,	
	2012	2011
Current:		
Federal	$398,510	$615,876
State	44,575	80,021
Total Current Provision	443,085	695,897
Deferred:		
Federal	$139,141	$151,239
State	22,231	(42,869)
Total deferred	161,372	108,370
Income tax expense	$604,457	$804,267

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.

NOTE 12: EARNINGS PER SHARE

As per the Accounting Standards Classification section 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 204,580 shares of common stock were outstanding and 154,580 were exercisable during the three and nine months ended September 30, 2012. Stock options to purchase 380,050 shares were outstanding and 314,050 were exercisable during the three and nine months ended September 30, 2011. At September 30, 2012 and September 30, 2011, all outstanding options were included in the diluted earnings per share calculation because the average market price was higher than the exercise price.

The dilutive potential common shares from warrants and options are 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

NOTE 13: 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 seeks 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. The Company is vigorously pursuing its claims against Taiwan Glass.

NOTE 14: SEGMENT REPORTING

The Company operates through (2) segments, CVD and SDC. 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. The Conceptronic division of the Company is no longer considered a segment and has been merged into the CVD division as a result of decreasing revenues coupled with the growth of CVD and SDC. 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.

Three Months
Ended September 30,

2012	CVD	SDC	Eliminations *	Consolidated
Revenue	$4,024,555	$881,127	$ (209,273)	$ 4,696,409
Pretax income	195,198	97,697		292,895
2011				
Revenue	$7,669,449	$1,394,654	$ (220,009)	$ 8,844,094
Pretax income	1,272,190	162,096		1,434,286

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

NOTE 14: SEGMENT REPORTING (continued)

Nine Months
Ended September 30,

2012	CVD	SDC	Eliminations *	Consolidated
Revenue	$ 16,746,884	$ 3,332,020	$ (1,133,759)	$ 18,945,145
Pretax income	1,417,711	415,620		1,833,331
2011				
Revenue	$ 19,863,690	$ 4,080,332	$ (1,386,511)	$ 22,557,511
Pretax income	2,982,628	526,053		3,508,681

*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. Past performance is no guaranty of future results.

Results of Operations

Three and Nine Months Ended September 30, 2012 vs. Three and Nine Months Ended September 30, 2011

Revenue

Revenue for the three months ended September 30, 2012 was approximately $4,696,000 compared to approximately $8,844,000 for the three months ended September 30, 2011, a decrease of 46.9%. Revenue for the nine months ended September 30, 2012 was approximately $18,945,000 compared to approximately $22,558,000 for the nine months ended September 30, 2011, a decrease of 16.0%. We attribute this decrease in revenue to management's focus on our efforts to complete the relocation to our new facility in Central Islip, New York.

Gross Profit

During the three and nine months ended September 30, 2012, we generated gross profits of approximately $1,746,000 and $7,391,000, respectively, resulting in gross profit margins of 37.2% and 39.0%, respectively. This is compared to the three and nine months ended September 30, 2011, where we generated gross profits of approximately $3,174,000 and $8,331,000, respectively, resulting in gross profit margins of 35.9% and 36.9%, respectively. The increase in gross profit margin is primarily attributable to our continuing successful efforts in engineering and production to achieve greater efficiencies in the use of our labor costs and the utilization of volume purchase discounts on materials ordered.

Selling, General and Administrative Expenses

Selling and shipping expenses for the three and nine months ended September 30, 2012 were approximately $226,000 and $937,000, respectively, or 4.8% and 4.9% of our revenue as compared to $363,000 and $885,000, respectively, or 4.1% and 3.9% of our revenue for the three and nine months ended September 30, 2011. The decrease in costs for the three months ended September 30, 2012 can be attributed to certain selling and shipping expenses such as commissions and freight which vary from period to period due to the timing of the shipments of systems. The increase in costs during the nine months ending September 30, 2012 is a result of the aforementioned factors as well as the hiring of additional personnel and attending more trade shows during the current nine month period compared to the prior nine month period.

We incurred approximately $1,172,000 and $3,829,000 of general and administrative expenses for the three and nine months ended September 30, 2012 compared to approximately $1,423,000 and $3,979,000 for the three and nine months ended September 30, 2011, a decrease of 17.6% and 3.8% respectively. This decrease is primarily a result of reduced legal fees during the current periods.

During the nine months ended September 30, 2012, we completed the sale of our facility located at 979 Marconi Avenue, Ronkonkoma, New York, where our Application Laboratory was located. The selling price for the facility was approximately $1,659,000 and as a result, we incurred a long-term capital loss on the sale of approximately $694,000. This capital loss had an adverse effect of $.12 per share on our pre-tax earnings for the nine months ended September 30, 2012.

On May 31, 2012, we entered into a Contract of Sale to sell our headquarters located at 1860 Smithtown Avenue, Ronkonkoma, New York, and began the final phase in completing the relocation process. The sale price for the Smithtown Avenue facility is $3,875,000 (exclusive of closing costs) and as of September 30, 2012, the book value (net of depreciation) on this facility is approximately $2,800,000. The closing on the sale of the Smithtown Avenue facility is expected to occur on or about December 31, 2012.

Operating Income

As a result of the foregoing factors, operating income was approximately $348,000 for the three months ended September 30, 2012 compared to operating income of $1,388,000 for the three months ended September 30, 2011, a decrease of 74.9%. Operating income for the nine months ended September 30, 2012 was $1,932,000 compared to operating income of approximately $3,467,000 for the nine months ended September 30, 2011, a decrease of 44.3%. If the loss on the sale of the Marconi Avenue facility had been excluded from the nine months ended September 30, 2012, the operating income would have been $2,626,000, resulting in a decrease of 24.3%.

Interest Expense, Net

Interest income for the three and nine months ended September 30, 2012 was approximately $9,000 and $24,000, respectively, compared to approximately $5,000 and $11,000 for the three and nine months ended September 30, 2011. Interest expense for the three and nine months ended September 30, 2012 was approximately $60,000 and $148,000 compared to approximately $47,000 and $149,000 for the three and nine months ended September 30, 2011. The primary source of this interest expense is on debt associated with the buildings owned by our Company.

Income Taxes

For the nine months ended September 30, 2012, we recorded approximately $443,000 of current income tax expense and $161,000 of deferred tax expense. For the nine months ended September 30, 2011, we recorded a current income tax expense of approximately $696,000 and $108,000 of deferred tax expense.

Net Income

For the foregoing reasons, we reported net income of approximately $180,000 and $1,229,000 for the three and nine months ended September 30, 2012 compared to net income of approximately $1,239,000 and $2,704,000 for the three and nine month periods ended September 30, 2011. Inflation has not materially impacted the operations of our Company.

Liquidity and Capital Resources

As of September 30, 2012, we had aggregate working capital of approximately $22,968,000 compared to $22,948,000 of working capital at December 31, 2011, an increase of $20,000 and cash and cash equivalents of $16,090,000, compared to $18,137,000 at December 31, 2011, a decrease of $2,047,000. Working capital remained approximately the same. The decrease in cash and cash equivalents can be primarily attributable to the costs associated with the acquisition and renovations of our new facility in Central Islip, New York.

Accounts receivable, net, as of September 30, 2012 was $4,134,000 compared to $3,664,000 as of December 31, 2011. This increase is primarily attributable to the timing of shipments and customer payments.

As of September 30, 2012, our backlog was approximately $8,692,000, a decrease of $7,506,000, or 46.3%, compared to $16,198,000 at December 31, 2011. During the nine months ended September 30, 2012, we received approximately $11,439,000 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.

On August 5, 2011, the Company entered into a $9.1 million credit agreement with HSBC Bank, USA, N.A. secured by substantially all of the Company's personal property. The agreement consists of a $7 million revolving credit loan and a $2.1 million five (5) year term loan. The revolving credit facility permits the Company to borrow on a revolving basis until August 5, 2014. Interest on the unpaid principal balance on this facility accrues at either (i) the LIBOR Rate plus 1.75% or (ii) the bank's prime rate minus 0.50%. The term loan was used to pay off the mortgages previously held by Capital One Bank, NA. Interest on the unpaid principal balance accrues at a fixed rate of 3.045%. Borrowings under this term loan were collateralized by $1 million, provided that, so long as no event of default has occurred and is then continuing, the bank will release $200,000 of the collateral on each anniversary of the closing date. On August 5, 2012, HSBC released $200,000 of the collateral, thereby reducing the restricted cash to $800,000. The credit agreement also contains certain financial covenants. As of September 30, 2012, the Company was in compliance with the agreement.

So that we may expand our engineering, manufacturing, administration and Application Laboratory to further support the increase in our existing product sales and the development and sales of new products, on March 16, 2012, effective as of March 15, 2012, we closed on the purchase of a 120,000 square foot facility located in Central Islip, New York 11722 (the "Property") through the Town of Islip Industrial Development Agency, (the "Islip IDA"). This building will replace our two Ronkonkoma facilities which total 63,275 square feet. The transaction was structured pursuant to Section 1031 of the Internal Revenue Code, as amended, as a reverse tax deferred exchange. In order to avail ourselves of certain real estate and sales tax abatements, the purchase took the form of an assignment and lease purchase agreement with fee title continuing to be vested in the Islip IDA. The property was purchased from SJA Industries, LLC. The purchase price for the Property was $7,200,000, exclusive of closing costs.

Pursuant to the terms of an Accommodation Agreement, we entered into a loan agreement with HSBC Bank, USA, N.A. in the amount of $6,000,000, (the "Loan"), the proceeds of which were used to finance a portion of the purchase price of the Central Islip facility. The Loan is secured by the mortgage against that facility. Interest accrues on the Loan, at our option, at the variable rate of LIBOR plus 1.75% or HSBC's prime rate minus 0.50%. The Loan matures on March 15, 2022.

On April 26, 2012, we closed on the sale of our facility located at 979 Marconi Avenue, Ronkonkoma, New York 11779 which housed our Application Laboratory to K.A.V. Realty Associates, LLC. The selling price for the Premises was $1,659,375, exclusive of closing costs.

On May 31, 2012, we entered into a Contract of Sale to sell our headquarters located at 1860 Smithtown Avenue, Ronkonkoma, New York, and began the final phase in completing the relocation process. The sale price for the Smithtown Avenue facility is $3,875,000 (exclusive of closing costs) and as of June 30, 2012, the book value (net of depreciation) on this facility is approximately $2,800,000. The closing on the sale of the Smithtown Avenue facility is expected to occur on or about December 31, 2012.

We may also raise additional funds in the event we determine in the future to effect one or more acquisitions of businesses, technologies or products. In addition, we may elect to raise additional funds even before we need them if the conditions for raising capital are favorable. On February 14, 2011, we filed a shelf registration statement on Form S-3 with the United States Securities and Exchange Commission ("SEC") to register shares of our common stock and other securities for sale, giving us the opportunity to pursue possible future fundraising of up to $20 million (the "Registration Amount") when needed or otherwise considered appropriate at prices and on terms to be determined at the time of any such offerings. This shelf registration was declared effective by the SEC on February 28, 2011. In May 2011, we sold securities under the shelf registration statement having an aggregate value of $10,163,475.

We believe we have a sufficient amount of cash, positive operating cash-flow and available credit facilities at September 30, 2012, to meet our working capital and investment requirements for the next twelve months.

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") 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.

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. The Company is vigorously pursuing its claims against Taiwan Glass.

Item 1A. Risk Factors

Not Applicable.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

The exhibits below are hereby furnished to the SEC as part of this report:

31.1	Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated November 21, 2012.
31.2	Certification of Glen R. Charles, Chief Financial Officer, dated November 21, 2012.
32.1	Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated November 21, 2012, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Glen R. Charles, Chief Financial Officer, dated November 21, 2012 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance.
101.SCH**	XBRL Taxonomy Extension Schema.
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition.
101.LAB**	XBRL Taxonomy Extension Labels.
101.PRE**	XBRL Taxonomy Extension Presentation.

**Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise not subject to liability under these sections.

SIGNATURES

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 21st day of November 2012.

CVD EQUIPMENT CORPORATION

By:	/s/ Leonard A. Rosenbaum Leonard A. Rosenbaum Chief Executive Officer, President and Chairman (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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* Filed herewith

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