

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

CVD EQUIPMENT CORP
Form 10QSB
August 09, 2002

1

US SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-QSB

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended 6-30-02

() TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number _____2-97210-NY_____

CVD EQUIPMENT CORPORATION
(Exact name of small business issuer as specified in its charter)

NEW YORK
(State or other jurisdiction of incorporation or organization)

11-2621692
(IRS Employer Identification Number)

1881 LAKELAND AVENUE, RONKONKOMA, NY 11779
(Address of principal executive offices)

631-981-7081
(Issuers Telephone Number)

(Former name, former address, and former fiscal year, if changed since last
report)

Check whether the issuer (1) filed all reports required to be filed by
section 13 or 15 (d) of the Exchange Act during the past 12 months (or for
such shorter periods that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to
be filed by Section 12, 13 or 15 (d) of the Exchange Act after the
distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes
of common equity, as of the latest practicable date:

3,037,600 SHARES OF COMMON STOCK, \$.01 PAR VALUE AS OF 8-09-02

2

CVD EQUIPMENT CORPORATION
NOTE TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDING
JUNE 30, 2002

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

BASIS OF FINANCIAL STATEMENTS

The financial data is subject to year end audit and does not claim to be a complete presentation since note disclosure under generally accepted accounting procedures is not included. Note disclosures required under generally accepted accounting procedures are included in the Company's audited financial statements filed as part of Form 10-KSB for the year ended December 31, 2001. Form 10-QSB should be read in conjunction with these financial statements.

The results of operations for the three months are not necessarily indicative of those for the full year. In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to fairly present the financial position and the results of operation for the periods indicated.

3

MANAGEMENT'S DISCUSSION

INTRODUCTION

Statements contained in this Report on Form 10-QSB that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including without limitation, statements regarding industry trends, strategic business development, pursuit of new markets, competition, results from operations, and are subject to the safe harbor provisions created by that statute. A forward-looking statement may contain words such as "intends", "plans", "anticipates", "believes", "expect to", or words of similar import. Management cautions that forward-looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, marketing success, product development, production, technological difficulties, manufacturing costs, and changes in economic conditions in the markets the Company serves. The Company undertakes no obligation to release revisions to forward-looking statements to reflect subsequent events, changed circumstances, or the occurrence of unanticipated events.

FORWARD LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking 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

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

these forward looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward looking statements.

REVENUE RECOGNITION

CVD recognizes and identifies on its financial statements, revenue on a percent complete methodology for contracts falling under SOP 81-1 and recognizes revenues on a completed contract methodology for contracts falling under SAB 101. CVD feels this is the most accurate and consistent methodology to meet the requirements of the two regulations.

4

CVD EQUIPMENT CORPORATION BALANCE SHEETS

	JUNE 30 2002 (UNAUDITED) -----
ASSETS	
CURRENT ASSETS	
CASH AND CASH EQUIVALENTS	\$ 100,874
ACCOUNTS RECEIVABLE, NET	1,589,158
COST IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS	75,851
INVENTORY	1,709,885
OTHER CURRENT ASSETS	126,020

TOTAL CURRENT ASSETS	3,601,788
PROPERTY, PLANT AND EQUIPMENT	5,246,817
DEFERRED TAX ASSET	268,623
OTHER ASSETS	142,233
INVESTMENT	1,111,944
INTANGIBLE ASSETS, NET	103,249

TOTAL ASSETS	\$10,474,654 =====
 LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	\$ 695,750
ACCRUED EXPENSES	521,762
BILLINGS IN EXCESS OF COSTS ON UNCOMPLETED CONTRACTS	2,904
CURRENT MATURITIES OF LONG-TERM DEBT	484,054

TOTAL CURRENT LIABILITIES	1,704,470
LONG-TERM DEBT	3,396,620

TOTAL LIABILITIES	5,101,090 -----
 COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
COMMON STOCK - \$0.01 PAR VALUE -10,000,000 SHARES AUTHORIZED; 3,037,600 AND 3,032,325 SHARES ISSUED & OUTSTANDING	30,376
ADDITIONAL PAID-IN CAPITAL	2,900,664
RETAINED EARNINGS	2,442,524

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

TOTAL STOCKHOLDERS' EQUITY	5,373,564
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$10,474,654

5

CVD EQUIPMENT CORPORATION
STATEMENTS OF OPERATIONS

	THREE MONTHS JUNE 30
	2002 (UNAUDITED)
REVENUES	
REVENUE ON COMPLETED CONTRACTS	\$ 1,895,640
REVENUE ON UNCOMPLETED CONTRACTS	(254,327)

TOTAL REVENUES	1,641,313

COSTS OF REVENUES	
COST ON COMPLETED CONTRACTS	1,391,287
COST ON UNCOMPLETED CONTRACTS	(89,352)

TOTAL COSTS OF REVENUES	1,301,935

GROSS PROFIT	339,378

OPERATING EXPENSES	
SELLING AND SHIPPING	202,131
GENERAL AND ADMINISTRATIVE	527,036

TOTAL OPERATING EXPENSES	729,167

OPERATING (LOSS) INCOME	(389,789)

OTHER INCOME (EXPENSE)	
INTEREST INCOME	9,716
INTEREST EXPENSE	(24,919)
GAIN ON SALE OF FIXED ASSETS	-
OTHER INCOME	5,997

TOTAL OTHER (LOSS) INCOME	(9,206)

(LOSS) INCOME BEFORE TAXES	(398,995)

INCOME TAX PROVISION	-

NET (LOSS) INCOME	(398,995)

EARNINGS (LOSS) PER SHARE	

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

BASIC	\$	(0.13)
DILUTED	\$	(0.12)
WEIGHTED AVERAGE SHARES		
BASIC		3,033,827
DILUTED		3,203,502

6

CVD EQUIPMENT CORPORATION
STATEMENTS OF OPERATIONS

	SIX MONTHS ENDING JUNE 30,	
	2002 (UNAUDITED)	

REVENUES		
REVENUE ON COMPLETED CONTRACTS	\$	3,110,663
REVENUE ON UNCOMPLETED CONTRACTS		420,569

TOTAL REVENUES		3,531,232

COSTS OF REVENUES		
COST ON COMPLETED CONTRACTS		2,322,954
COST ON UNCOMPLETED CONTRACTS		228,297

TOTAL COSTS OF REVENUES		2,551,251

GROSS PROFIT		979,981

OPERATING EXPENSES		
SELLING AND SHIPPING		377,533
GENERAL AND ADMINISTRATIVE		1,021,262

TOTAL OPERATING EXPENSES		1,398,795

OPERATING (LOSS) INCOME		(418,814)

OTHER INCOME (EXPENSE)		
INTEREST INCOME		19,544
INTEREST EXPENSE		(47,921)
GAIN ON SALE OF FIXED ASSETS		2,500
OTHER INCOME		22,485

TOTAL OTHER (LOSS) INCOME		(3,392)

(LOSS) INCOME BEFORE TAXES		(422,206)
INCOME TAX PROVISION		9

NET (LOSS) INCOME		(422,197)

EARNINGS (LOSS) PER SHARE		
BASIC	\$	(0.14)

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

DILUTED	\$ (0.13)
WEIGHTED AVERAGE SHARES	
BASIC	3,035,703
DILUTED	3,208,799

7

CVD EQUIPMENT CORPORATION
STATEMENT OF CASH FLOWS

	THREE MONTHS JUNE 30
	2002 (UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES	
NET (LOSS) INCOME	\$ (398,995)
Adjustments to reconcile net income to net cash provided by operating activities:	
DEFERRED TAX BENEFIT (PROVISION)	-
DEPRECIATION AND AMORTIZATION	70,148
GAIN ON SALE OF FIXED ASSETS	-
BAD DEBT PROVISION	(3,024)
(Increase) Decrease In:	
ACCOUNTS RECEIVABLES	(347,710)
COST IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS	313,704
INVENTORY	(906,710)
OTHER CURRENT ASSETS	(50,274)
OTHER ASSETS	(46,441)
Increase (Decrease) In:	
ACCOUNTS PAYABLE	486,861
ACCRUED EXPENSES	236,675
BILLINGS IN EXCESS OF COSTS ON UNCOMPLETED CONTRACTS	(8,728)

NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(654,494)

CASH FLOWS FROM INVESTING ACTIVITIES	
CAPITAL EXPENDITURES	(1,105,174)
PROCEEDS FROM SALE OF FIXED ASSETS	-

NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,105,174)

CASH FLOWS FROM FINANCING ACTIVITIES	
PROCEEDS FROM THE EXERCISE OF OPTIONS	8,301
PROCEEDS OF LONG-TERM DEBT	-
PAYMENTS OF LONG-TERM DEBT	(37,419)

NET CASH USED IN FINANCING ACTIVITIES	(29,118)

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,788,786)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE QUARTER	1,889,660

CASH AND CASH EQUIVALENTS AT THE END OF THE QUARTER	\$ 100,874
	=====

8

CVD EQUIPMENT CORPORATION STATEMENT OF CASH FLOWS

	SIX MONTHS E JUNE 30
	2002 (UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES	
NET (LOSS) INCOME	\$ (422,197)
Adjustments to reconcile net income to net cash provided by operating activities:	
DEFERRED TAX BENEFIT (PROVISION)	-
DEPRECIATION AND AMORTIZATION	137,124
GAIN ON SALE OF FIXED ASSETS	(2,500)
BAD DEBT PROVISION	(5,071)
(Increase) Decrease In:	
ACCOUNTS RECEIVABLES	(371,850)
COST IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS	282,171
INVENTORY	(880,844)
OTHER CURRENT ASSETS	(105,752)
OTHER ASSETS	170,740
Increase (Decrease) In:	
ACCOUNTS PAYABLE	542,418
ACCRUED EXPENSES	143,531
BILLINGS IN EXCESS OF COSTS ON UNCOMPLETED CONTRACTS	2,904

NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(509,326)

CASH FLOWS FROM INVESTING ACTIVITIES	
CAPITAL EXPENDITURES	(3,300,592)
PROCEEDS FROM SALE OF FIXED ASSETS	2,500

NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(3,298,092)

CASH FLOWS FROM FINANCING ACTIVITIES	
PROCEEDS FROM THE EXERCISE OF OPTIONS	8,301
PROCEEDS OF LONG-TERM DEBT	1,588,056
PAYMENTS OF LONG-TERM DEBT	(49,215)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,547,142

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,260,276)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE QUARTER	2,361,150
CASH AND CASH EQUIVALENTS AT THE END OF THE QUARTER	\$ 100,874

9

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2002

REVENUE

A decrease in volume resulted in second quarter of 2002 revenue being \$1,641,313, a 56% decrease from second quarter of 2001 revenue of \$3,733,111.

COSTS AND EXPENSES

The cost of revenue decreased to \$1,301,935 in second quarter of 2002 as compared to \$2,263,184 in second quarter of 2001. Of this \$961,249 decrease, approximately \$904,000 is attributed to material, \$12,200 to freight in and \$17,100 to manufacturing supplies..

Selling and shipping expenses decreased to \$202,131 in second quarter of 2002 from \$213,328 in second quarter of 2001. Of this \$11,197 decrease, approximately \$47,500 is attributed to commissions , \$13,000 to freight expense, which is offset by an increase of \$27,400 to salaries and \$19,000 to royalties.

General and Administrative expenses decreased to \$527,036 in second quarter of 2002 from \$616,436 in second quarter of 2001. Of this \$89,400 decrease, approximately \$18,000 is attributed to legal fees, \$132,000 to bad debt, which is offset by an increase of \$49,000 to salaries and \$5,500 to travel expense.

Interest expense increased by \$8,482 from \$16,437 in second quarter of 2001 to \$24,919 in second quarter of 2002, because the company's average outstanding debt increased, as a result of the mortgage on the new building purchased on 3/7/02.

Gain on sale of fixed asset decreased by \$37,666 in second quarter of 2002 from second quarter of 2001, because the company had previously sold some fixed assets in 2001.

10

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2002

REVENUE

A decrease in volume resulted in six months of 2002 revenue being \$3,531,232, a 51% decrease from six months of 2001 revenue of \$7,207,927.

COSTS AND EXPENSES

The cost of revenue decreased to \$2,551,251 in six months of 2002 as compared to \$4,455,865 in six months of 2001. Of this \$1,904,614 decrease, approximately \$1,848,000 is attributed to material, \$22,500 to freight in, \$49,800 to manufacturing supplies, which is offset by an increase in salaries of \$52,500.

Selling and shipping expenses decreased to \$377,533 in six months of 2002

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

from \$399,451 in six months of 2001. Of this \$21,918 decrease, approximately \$80,000 is attributed to commissions, \$30,000 to freight expense, which is offset by an increase of \$36,000 to salaries, \$35,000 to royalties, \$10,000 to travel expense and \$5,000 to advertising.

General and Administrative expenses decreased to \$1,021,262 in six months of 2002 from \$1,113,709 in six months of 2001. Of this \$92,447 decrease, approximately \$42,000 is attributed to legal fees, \$166,000 to bad debt, which is offset by an increase of \$94,000 to salaries, \$13,900 to building rent and \$7,700 to travel expense.

Interest expense increased by \$14,166 from \$33,755 in six months of 2001 to \$47,921 in six months of 2002, because the company's average outstanding debt increased, as a result of the mortgage on the new building purchased on 3/7/02

Gain on sale of fixed asset decreased by \$35,166 in six months of 2002 from six months of 2001, because the company had sold some fixed assets in 2001.

LIQUIDITY AND CAPITAL RESOURCES

By the end of the second quarter of 2002, the Company's cash position decreased to \$100,874 from \$2,361,150 at the beginning of the year. The decrease in cash is largely attributed to the cash layout for the new building, which \$345,000 was for the building acquisition, \$757,000 for the building's renovations, \$856,000 was for the purchase of Conceptronic Inc's assets of their Surface Mount Technology (SMT) business, \$89,138 for the new building's mortgage and \$58,300 for commissions.

However, as part of the building acquisition and the associated mortgage transaction, an escrow account was established. This escrow account was set up to fund the building renovation. This escrow account is not accessible by CVD Equipment Corporation, until the building renovations are complete, the mortgagee inspects the new facility and a new certificate of occupancy is issued. The initial escrow amount was \$1,106,250 on March 7, 2002. Interest on this escrow to the end of the second quarter was \$5,694. Hence, the escrow balance at the end of the second quarter was \$1,111,944.

11

At the end of the second quarter of 2002, the Company's account receivable position increased to \$1,589,158 from \$1,212,237 at the beginning of the year. This increase was attributable to timing of customer payments and billings and a accounts receivable position of \$353,000 as part of the Conceptronic acquisition.

At the close of the second quarter of 2002, the Company's backlog increased to \$1,740,939 from approximately \$1,389,004 at the beginning of the year. This increase is attributed to a increase in order levels.

The Company believes that its cash and cash equivalents, cash flow from operations and available credit facilities will be sufficient to meet its working capital and investment requirements for the next twelve months. However, future growth, including potential acquisitions, may require additional funding, and from time to time the Company may need to raise capital through additional equity or debt financing.

12

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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 9th day of August 2002.

CVD EQUIPMENT CORPORATION

By: /s/ Leonard A. Rosenbaum
Leonard A. Rosenbaum
President and Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Leonard A. Rosenbaum President, Chief Executive Officer and Director
Leonard A. Rosenbaum

/s/ Mitchell Drucker Chief Financial Officer
Mitchell Drucker