CVD EQUIPMENT CORP
Form 10-Q
August 14, 2018

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 June 30, 2018

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

For the transition period from ____ to _____
Commission file number: 1-16525

CVD EQUIPMENT CORPORATION

(Name of Registrant in Its Charter)

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

355 South Technology Drive

Central Islip, New York 11722

(Address of principal executive offices)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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: 6,491,649 shares of Common Stock, $0.01 par value at August 6, 2018.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

Index

PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$15,396,489	$14,210,909
Accounts receivable, net	2,722,481	2,058,617
Contract assets	5,314,216	8,397,024
Inventories	2,648,020	2,965,623
Other current assets	245,624	167,425
Total Current Assets	26,326,830	27,799,598
Property, plant and equipment, net	29,721,708	28,839,457
Deferred income taxes	1,552,298	1,609,186
Deposits	241,159	63,370
Other assets	1,779	4,477
Intangible assets, net	512,308	662,162
Total Assets	$58,356,082	$58,978,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$1,227,258	$1,174,968
Accrued expenses	2,105,933	2,738,373
Current maturities of long-term debt	654,255	647,324
Current portion acquisition related contingent payments	100,000	100,000
Contract liabilities	279,263	466,313
Deferred revenue	1,107,591	291,953
Total Current Liabilities	5,474,300	5,418,931
Long-term acquisition related contingent payments	200,000	200,000
Long-term debt, net of current portion	12,376,253	12,705,683
Total Long-Term liabilities	12,576,253	12,905,683

Total Liabilities	18,050,553	18,324,614
Commitments and Contingencies	----	----
Stockholders' Equity		
Common stock - $0.01 par value – 20,000,000 shares authorized; issued and outstanding, 6,486,189 at June 30, 2018 and 6,458,714 at December 31, 2017	64,862	64,587
Additional paid-in-capital	25,633,056	25,209,316
Retained earnings	14,607,611	15,379,733
Total Stockholders' Equity	40,305,529	40,653,636
Total Liabilities and Stockholders' Equity	$58,356,082	$58,978,250

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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenue	$6,435,278	$10,829,709	$15,589,111	$20,480,326
Cost of revenue	5,319,060	6,419,255	10,711,979	11,898,737
Gross profit	1,116,218	4,410,454	4,877,132	8,581,589
Operating expenses				
Research and development	128,117	110,965	224,923	181,300
Selling and shipping	399,249	352,909	912,724	638,325
General and administrative	1,968,465	2,115,793	4,208,530	4,214,388
Total operating expenses	2,495,831	2,579,667	5,346,177	5,034,013
Operating (loss)/income	(1,379,613)	1,830,787	(469,045)	3,547,576
Other income (expense)				
Interest income	29,314	17,478	46,274	26,053
Interest expense	(119,279)	(17,607)	(240,633)	(35,244)
Other (expense)/income	---	--		439
Total other (expense)	(89,965)	(129)	(194,359)	(8,752)
(Loss)/income before income taxes	(1,469,578)	1,830,658	(663,404)	3,538,824
Income tax (benefit)/expense	(139,052)	573,783	108,718	1,257,915
Net (loss)/income	$(1,330,526)	$1,256,875	$(772,122)	$2,280,909
Basic (loss)/income per common share	$(0.21)	$0.20	$(0.12)	$0.36
Diluted (loss)/income per common share	$(0.21)	$0.20	$(0.12)	$0.36
Weighted average common shares Outstanding-basic	6,486,067	6,370,244	6,476,712	6,309,308
Net effect of potential common share issuance:				
Stock options	---	34,517	---	33,205

Weighted average common shares Outstanding-diluted	6,486,067	6,404,761	6,476,712	6,342,513

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net (loss)/income	$(772,122)	$2,280,909
Adjustments to reconcile net (loss)/income to net cash provided by/(used in) operating activities:		
Stock-based compensation expense	424,015	435,536
Depreciation and amortization	544,158	417,730
Deferred tax expense	56,888	488,038
Provision for doubtful accounts	188	2,817
Changes in operating assets and liabilities:		
Accounts receivable, net	(664,052)	(1,247,342)
Contract assets	3,082,808	(430,568)
Inventories	317,604	184,982
Other current assets	(47,204)	(109,056)
Increases/(decreases) in operating liabilities:		
Accounts payable and accrued expenses	(611,146)	609,699
Current maturities of long term debt	6,931	
Contract liabilities	(187,051)	(2,277,718)
Deferred revenue	815,639	(20,877)
Total adjustments	3,738,778	(1,905,005)
Net cash provided by operating activities	2,966,656	375,904
Cash flows from investing activities:		
Capital expenditures	(1,273,857)	(451,387)
Deposits	(177,789)	3,245
Net cash (used in) investing activities	(1,451,646)	(448,142)
Cash flows from financing activities:		
Net proceeds from stock options exercised	---	22,120
Payments of long-term debt	(329,430)	(150,000)
Net cash (used in) financing activities	(329,430)	(127,880)
Net increase/(decrease) in cash and cash equivalents	1,185,580	(200,118)
Cash and cash equivalents at beginning of period	14,210,909	21,677,186
Cash and cash equivalents at end of period	$15,396,489	$21,477,068

Supplemental disclosure of cash flow information:		
Income taxes paid	$395,000	$401,800
Interest paid	$242,324	$35,244

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

5

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated 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 disclosures 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 six months ended June 30, 2018 are not necessarily indicative of the results that can be expected for the year ending December 31, 2018.

The balance sheet as of December 31, 2017 has been derived from the audited consolidated financial statements at such date but does not contain 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, 2017, 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

On January 1, 2018, we adopted accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments using the modified retrospective method for all customer contracts not yet completed as of the adoption date. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted.

The adoption of ASC 606 did not have a significant impact on our Consolidated Financial Statements as of and for the three and six-month periods ended June 30, 2018 and, as a result, comparisons of revenues and operating profits performance between periods are not affected by the adoption of this ASU.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Effective January 1, 2018, the Company adopted ASC 606. For additional information on the new standard and the impact to the Company's financial results, refer to Impacts to Previously Reported Results below.

The Company designs, manufactures and sells custom chemical vapor deposition equipment through contractual agreements. These system sales require the Company to deliver functioning equipment that is generally completed within three to eighteen months from commencement of order acceptance. The Company recognizes revenue over time by using an input method based on costs incurred as it depicts the Company's progress toward satisfaction of the performance obligation. Under this method, revenue arising from fixed price contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations.

Incurred 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. Contract material costs are included in incurred costs when the project materials have been purchased or moved to work in process as required by the project's engineering design. Cost based input methods of revenue recognition require the Company to make estimates of costs to complete the projects. In making such estimates, significant judgment is required to evaluate assumptions related to the costs to complete the projects, including materials, labor and other system costs. If the estimated total costs on any contract are greater than the net contract revenues, the Company recognizes the entire estimated loss in the period the loss becomes known and can be reasonably estimated.

"Contract assets," include unbilled amounts typically resulting from sales under contracts when revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. The amount may not exceed their estimated net realizable value. Contract assets are classified as current based on our contract operating cycle.

“Contract liabilities,” include advance payments and billings in excess of revenue recognized. Contract liabilities are classified as current based on our contract operating cycle and reported on a contract-by-contract basis, net of revenue recognized, at the end of each reporting period.

For outright sales of products, revenue is recognized when control of the promised products or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those products or services (the transaction price). A performance obligation is a promise in a contract to transfer a distinct product or service to a customer and is the unit of account under ASC 606.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

Impact to Previously Reported Results

(In thousands)	As Reported	Adoption of ASC 606	As Adjusted
Costs and estimated earnings in excess of billings	$ 8,397	$ (8,397)	$ ---
Contract assets	---	8,397	8,397
Billings in excess of costs and estimated earnings	466	(466)	---
Contract liabilities	---	466	466

Research and Development

Research and development costs are expensed as incurred. Due to the highly technical nature of our projects, we use our technical staff in a dual role, and based on their contribution to the customer or research and development projects, their costs are charged accordingly to either cost of goods sold or research and development.

Recent Accounting Pronouncements

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The ASU permits companies to elect a reclassification of disproportionate tax effects in accumulated other comprehensive income (AOCI) caused by the Tax Cuts and Jobs Act of 2017 to retained earnings. The ASU also requires additional disclosures. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the effect of this ASU on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which require that financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the increase or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amendments in this update are effective for fiscal years beginning after December 15, 2019 and interim periods within those annual periods. Early adoption for fiscal years beginning after December 15, 2018 is permitted. We are currently evaluating the effect of this update on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes ASC 840, *Leases*, and creates a new topic, ASC 842, *Leases*. This update requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. The accounting for lessors does not fundamentally change except for changes to conform and align guidance to the lessee guidance as well as to the new revenue recognition guidance in ASU 2014-09. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the effect of this update on our consolidated financial statements however we do not expect ASC 842 to have a material effect on either our consolidated statement of operations or consolidated statement of cash flow.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

Recent Accounting Pronouncements (continued)

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

Cash and cash equivalents

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 savings accounts and money market instruments. Cash and cash equivalents at June 30, 2018 and December 31, 2017, exceeded the Federal Deposit Insurance Corporation (“FDIC”) limits by approximately $14,280,000 and $12,198,000, respectively.

Sales concentration

Revenue to a single customer in any one period can exceed 10% of our total sales. During the three months ended June 30, 2018 and June 30 2017, one customer represented approximately 37% and 66% respectively, of our revenues. During the six months ended June 30, 2018 and June 30, 2017 that same customer represented 43% and 68% respectively, of our revenues.

Accounts receivable

The Company sells products and services to various companies across several industries in the ordinary course of business. The Company performs ongoing credit evaluations to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience, evaluation of their credit history and review of the invoicing terms of the contract to determine the financial strength of its customers. The Company also maintains allowances for anticipated losses. The accounts receivable balances as of June 30, 2018 and June 30, 2017 includes balances from three customers that each exceed 10% of the total.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

NOTE 4: REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table represents a disaggregation of revenue from contracts for the three and six months ended June 30, 2018 and June 30, 2017:

(In thousands)	Six Months Ended		Three Months Ended	
Category	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017