CVD EQUIPMENT CORP
Form 10-Q
May 16, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,218,205 shares of Common Stock, $0.01 par value at May 3, 2016.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

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PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$12,330,309	$13,073,331
Accounts receivable, net	3,389,954	3,091,251
Costs and estimated earnings in excess of billings on contracts in progress	4,325,998	4,635,018
Inventories, net	3,185,623	2,986,430
Restricted cash	200,000	200,000
Deferred income taxes-current	436,207	398,009
Other current assets	84,992	167,056
Total Current Assets	23,953,083	24,551,095
Property, plant and equipment, net	14,598,425	14,793,923
Construction in progress	56,946	33,306
Deferred income taxes – non-current	1,701,252	1,606,830
Other assets	81,471	86,215
Intangible assets, net	52,808	60,335
Total Assets	$40,443,985	$41,131,704
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$407,471	$308,004
Accrued expenses	3,280,877	3,445,880
Current maturities of long-term debt	475,000	580,000
Billings in excess of costs and estimated earnings on contracts in progress	29,961	--
Deferred revenue	10,198	307,683
Total Current Liabilities	4,203,506	4,641,567

Long-term debt, net of current portion	3,190,508	3,265,508
Total Liabilities	7,394,015	7,907,075
Commitments and Contingencies	--	--
Stockholders' Equity:		
Common stock-$0.01 par value-10,000,000 shares authorized; issued and outstanding 6,218,205 at March 31, 2016 and 6,198,135 at December 31, 2015	62,182	61,981
Additional paid-in-capital	23,058,106	22,895,202
Retained earnings	9,929,682	10,267,446
Total Stockholders' Equity	33,049,970	33,224,629
Total Liabilities and Stockholders' Equity	$40,443,985	$41,131,704

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 March 31, 2016	Three Months Ended March 31, 2015
Revenue	$5,003,433	$9,692,444
Cost of revenue	3,470,322	5,932,616
Gross profit	1,533,111	3,759,828
Operating expenses		
Research and development	81,875	211,890
Selling and shipping	257,791	313,817
General and administrative	1,726,100	2,027,110
Total operating expenses	2,065,766	2,552,817
Operating (loss)/income	(532,655)	1,207,011
Other income (expense)		
Interest income	6,746	6,082
Interest expense	(19,993)	(24,725)
Other income	4,448	781
Total other (expense)	(8,799)	(17,862)
(Loss)/income before income tax benefit/(expense)	(541,454)	1,189,149
Income tax benefit/(expense)	203,690	(520,927)
Net (loss)/income	$(337,764)	$668,222
Basic (loss)/income per common share	$(0.05)	$0.11
Diluted (loss)/income per common share	$(0.05)	$0.11
Weighted average common shares outstanding- basic	6,213,142	6,168,307
Net effect of potential common share issuance	---	130,887
Weighted average common shares outstanding- diluted	6,213,142	6,299,194

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net (loss)/income	$(337,764)	$668,222
Adjustments to reconcile net (loss)/income to net cash (used in) operating activities		
Stock-based compensation	163,105	195,221
Depreciation and amortization	215,460	222,562
Deferred tax expense/(benefit)	(132,620)	715,817
Provision for doubtful accounts	(996)	30,723
Changes in operating assets and liabilities		
(Increases)/decreases in operating assets:		
Accounts receivable, net	(297,706)	(1,694,231)
Cost and estimated earnings in excess of billings on contracts in progress	309,020	(952,480)
Inventories, net	(199,193)	139,590
Other current assets	85,213	123,024
Increases (decreases) in operating liabilities:		
Accounts payable and accrued expenses	(68,678)	471,283
Billings in excess of costs and estimated earnings on contracts in progress	29,961	1,174,448
Accrued loss on litigation settlement	---	(4,925,000)
Deferred revenue	(297,485)	(333,239)
Net cash (used in) operating activities:	(531,683)	(4,164,060)
Cash flows from investing activities:		
Capital expenditures	(31,339)	(122,363)
Net cash (used in) investing activities:	(31,339)	(122,363)
Cash flows from financing activities:		
Payments of long-term debt	(180,000)	(180,000)
Net cash used in financing activities:	(180,000)	(180,000)
Net (decrease) in cash and cash equivalents	(743,022)	(4,466,423)
Cash and cash equivalents at beginning of period	13,073,331	11,966,863
Cash and cash equivalents at end of period	$12,330,309	$7,500,440
Supplemental disclosure of cash flow information:		
Income taxes paid	$100,000	$100,000
Interest paid	$19,993	$24,725

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(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 footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the interim financials not misleading have been included and all such adjustments are of a normal recurring nature. The operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that can be expected for the year ending December 31, 2016.

The consolidated balance sheet as of December 31, 2015 has been derived from the audited consolidated 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, 2015, 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 and Income 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Income Recognition (continuation)

Revenues from fixed price contracts are recognized on 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.

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.

The asset, "Cost 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.

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 May 2014, The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 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. Publicly-traded companies were initially required to adopt the ASU No. 2014-09 for reporting periods beginning after December 15, 2016; however, the FASB, in August 2015, then issued Accounting Standards Update (“ASU”) No. 2015-14 to defer the mandatory effective date of ASU 2014-09 for all entities by one year. Currently, companies may choose among different transition alternatives. Management is currently evaluating the impact that ASU 2014-09 will have on the Company’s consolidated financial statements and have not yet determined which method of adoption will be selected.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(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 and cash equivalents with high credit-quality domestic financial institutions and invests its excess cash primarily in savings accounts, treasury bills and money market instruments. The Company performs periodic evaluations of the relative credit standing of all such institutions as it seeks to maintain stability and liquidity. Cash and cash investments at March 31, 2016 and December 31, 2015, exceeded the Federal Deposit Insurance Corporation (“FDIC”) limit, by $10,942,000 and $11,966,000, respectively. 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

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:

	March 31, 2016	December 31, 2015
Costs incurred on contract in progress	$7,801,867	$7,695,281
Estimated earnings	7,262,926	7,635,114
	15,064,793	15,330,395
Billings to date	(10,768,756)	(10,695,377)
	$4,296,037	$4,635,018
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on contracts in progress	$4,325,998	$4,635,018
Billings in excess of costs and estimated earnings on contracts in progress	$(29,661)	---
	$4,296,037	$4,635,018

NOTE 5: INVENTORIES, NET

Inventories consist of:

March 31, 2016	December 31, 2015

Raw materials	$2,888,676	$2,718,328
Work-in-process	205,720	174,698
Finished goods	91,227	93,404
Totals	$3,185,623	$2,986,430

NOTE 6: ACCOUNTS RECEIVABLE, NET

Accounts receivable are presented net of an allowance for doubtful accounts of $17,667 and $18,663 as of March 31, 2016 and December 31, 2015, 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

NOTE 7: LONG-TERM DEBT

The Company has a revolving credit facility with HSBC Bank, USA, N.A. providing up to $7 million, although the Company has never utilized this facility. This credit facility remains available until September 1, 2018. The balances as of March 31, 2016 and December 31, 2015, on a term loan that was initially entered into in August, 2011 for $2.1 million, are $175,000 and $280,000 respectively. Interest on the unpaid $175,000 principal balance on this term loan 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 facility also contains certain financial covenants which the Company was in compliance with as of March 31, 2016 and December 31, 2015.

Pursuant to the terms of an Accommodation Agreement, we entered into a loan agreement with HSBC in the amount of $6,000,000, the proceeds of which were used to finance apportion of the purchase price of our headquarters. The Loan is secured by a mortgage against our Central Islip facility. The loan is payable in 120 consecutive equal monthly installments of principal of $25,000 plus interest thereon and a final balloon payment of $3.0 million. Interest accrues on the Loan, at our option, at the variable rate of LIBOR plus 1.75% which was 2.1740% and 1.9455% at March 31, 2016 and December 31, 2015 respectively. The balances on the mortgage at March 31, 2016 and December 31, 2015 were $3,490,508 and $3,565,508 respectively.

NOTE 8: STOCK-BASED COMPENSATION EXPENSE

During the three months ended March 31, 2016 and March 31, 2015, the Company recorded as part of selling and general administrative expense, approximately $163,000 and $195,000 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 SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

NOTE 9: INCOME TAXES

The provision for income taxes includes the following:

	Three Months Ended March 31, 2016	2015
Current:		
Federal	$(71,070)	$309,122
State	---	7,146
Total current provision	---	316,268
Deferred:		
Federal	$(132,620)	$204,659
State	----	----
Total deferred provision	(132,620)	204,659
Income tax (benefit)/expense	$(203,690)	$520,927

Tax Rate Reconciliation

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

	Three Months Ended March 31, 2016	2015
Income tax benefit at federal statutory rate [34%]	$0	$404,311
Change in capitalized inventory (Section 263A)	(8,782)	--
Change in vacation accrual	(21,656)	--
Change in other accruals	980	12,654

Difference between tax and book depreciation	(26,586)	(16,298)
Stock-based compensation	(55,642)	(9,689)
Research & development credits	(20,934)	(276,329)
Domestic production activities deduction	0	(37,145)
Net operating loss	--	443,423
Provision for 2014 tax return true up	(71,070)	--
Income tax (benefit)/expense	$(203,690)	$520,927

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CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

NOTE 10: EARNINGS PER SHARE

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

Stock options to purchase 259,730 shares of common stock were outstanding and 159,730 were exercisable during the three months ended March 31, 2016. Stock options to purchase 259,730 shares were outstanding and 147,230 were exercisable during the three months ended March 31, 2015. At March 31, 2016, none of the outstanding options were included in the earnings per share calculation as their effect would have been anti-dilutive. At March 31, 2015 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 on warrants and options is calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all warrants and options are used to repurchase common stock at market value. The amount of shares remaining after the proceeds are exhausted represents the potential dilutive effect of the securities.

NOTE 11: SEGMENT REPORTING

The Company operates through two (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 Company evaluates performance based on several factors, of which the primary financial measure is income or (loss) before taxes.

Three Months Ended March 31,

2016	CVD	SDC	Eliminations *	Consolidated
Revenue	$4,092,781	$923,979	$ (13,327)	$ 5,003,433
Pretax (loss)/income	(605,594)	64,151		(541,443)
2015				
Revenue	$8,578,372	$1,404,057	$ (289,985)	$ 9,692,444
Pretax income	789,087	400,062		1,189,149

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

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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 results are no guaranty of future performance. You should not place undue reliance on any forward-looking statements, which speak only as of the dates they are made. When used in this Report, the words "believes," "anticipates," "expects," "estimates," "plans," "intends," "will" and similar expressions are intended to identify forward-looking statements.

Results of Operations

Three Months Ended March 31, 2016 vs. Three Months Ended March 31, 2015

(in thousands, except per share amounts)

	Three Months Ended		Change	% Change
	March 31, 2016	March 31 2015		
(In thousands)				
Bookings	$2,270	$5,181	$(2,911)	(56.2)
Ending Backlog	3,388	16,562	(13,174)	(79.5)
Revenue				
CVD (net of eliminations)	$4,090	$8,571	$(4,481)	(52.3)
SDC (net of eliminations)	914	1,122	(208)	(18.5)
Total Revenue	5,004	9,693	(4,689)	(48.4)
Cost of Goods Sold	3,470	5,933	(2,463)	(41.5)
Gross Profit	1,534	3,760	(2,226)	(59.2)
Gross Margin	30.7 %	38.8 %		
Research and development	82	212	(130)	(61.3)
Selling and shipping	258	314	(56)	(17.8)
General and administrative	1,726	2,027	(301)	(14.8)
Total Operating Expenses	2,066	2,553	(487)	(19.1)
Operating (loss)/income	(533)	1,207	(1,740)	(144.2)
Other (expense)/income	(9)	(18)	9	(50.0)
(Loss)/income before taxes	(542)	1,189	(1,731)	(145.6)
Income tax (benefit)/expense	(204)	521	(725)	(139.2)
Net (loss)/income	(338)	668	(1,006)	(150.6)
Net (loss)/income per share Basic and diluted	(0.05)	0.11		

Orders/Order Backlog

Orders received for the three months ended March 31, 2016 were $2.3 million compared to $5.2 million in orders received for the three months ended March 31, 2015 resulting in an ending backlog of $3.4 million as of March 31, 2016 compared to $16.6 million as of March 31, 2015. $0.4 million or 11.8% of the backlog at March 31, 2016 remains from our largest customer as compared to $9.7 million or 58.4% from that same customer as of March 31, 2015.

Included in the backlog are all accepted purchase orders, less any amounts which have been previously billed or recognized as a component of our percentage-of-completion calculations. Management utilizes the order backlog to assist it in gauging projected revenues and profits; however, it does not provide an assurance of future achievement of revenues or profits as, for example, order cancellations or delays are possible.

The timing of the receipt of an order is subject to various factors, many of which are not in our control. As a result, our order levels from period to period, tend to be uneven. Order levels attained in the three month period ended March 31, 2016 are not necessarily indicative of order levels that will be attained in future periods.

Revenue

Revenue for the three month period ended March 31, 2016 was $5.0 million compared to $9.7 million for the three month period ended March 31, 2015, a decrease of $4.7 million or 48.5%. The same customer represented 58.8% and 54.6% of our revenue for the three months ended March 31, 2016 and 2015 respectively. Now that we have nearly completed the successful execution of the large aerospace pilot production contract, we are focused on booking the follow-on business with that customer as well as on opportunities with new and other current customers.

Revenue from the SDC division for the three months ended March 31, 2016 decreased by 18.2% to $0.9 million compared to $1.1 million for the three months ended March 31, 2015.

Gross Profit

We generated a gross profit of $1.5 million, resulting in a gross profit margin of 30.7%, for the three months ended March 31, 2016 as compared to gross profits of $3.8 million and a gross profit margin of 38.8%, for the three months ended March 31, 2015. The decreased gross margin we are now experiencing is primarily attributable to the lower revenues.

Research and Development, Selling and General and Administrative Expenses

Research and development expenses totaled $82,000 for the three months ended March 31, 2016 compared to $212,000 for the three months ended March 31, 2015. Due to attrition in our laboratory staff, we have temporarily reduced our independently conducted research and product development for CVD products. However, we continue to conduct research on customer related product development which we include in our costs of goods sold.

Selling and shipping expenses for the three months ended March 31, 2016 and 2015 were $258,000 and $314,000 million, respectively. This decrease is primarily attributable to reduced personnel costs during the current period.

We incurred $1,726,000 of general and administrative expenses during the three months ended March 31, 2016, compared to $2,027,000 for the three months ended March 31, 2015, representing a decrease of 14.8%. This decrease is primarily attributable to a decrease in legal costs during the current period.

Operating (Loss)/Income

As a result of the reduced revenues, we incurred a loss from operations of $533,000 for the three months ended March 31, 2016 compared to income from operations of $1.2 million for the three months ended March 31, 2015.

Income Taxes

For the three months ended March 31, 2016, we did not incur any current income tax expense, received a refund of $71,000 as a result of an overpayment on the 2014 federal corporate tax return and recorded $133,000 of deferred tax benefits, compared to the three months ended March 31, 2015, when we incurred $316,000 of current income tax expense and utilized $205,000 in deferred tax benefits.

Net (loss)/income

We reported a net loss of $338,000 for the three months ended March 31, 2016 compared to net income of $668,000 for the three months ended March 31, 2015.

Liquidity and Capital Resources

As of March 31, 2016, we had working capital of $19.7 million compared to $19.9 million at December 31, 2015, a decrease of $0.2 million, and cash and cash equivalents of $12.3 million, compared to $13.1 million at December 31, 2015, a decrease of $0.8 million. The decrease in cash and cash equivalents was primarily a result of the timing of both shipments and customer payments on outstanding balances.

Accounts receivable, net, as of March 31, 2016 was approximately $3.4 million compared to $3.1 million as of December 31, 2015. This increase is principally due to the timing of customer shipments and customer payments on outstanding balances.

At March 31, 2016, the number of full time employees decreased to 186 employees compared to 192 at December 31, 2015.

We believe that our cash and cash equivalents position and cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months.

We may also raise additional capital 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 capital even before we need them if the conditions for raising capital are favorable. Any equity or equity-linked financing could be dilutive to existing shareholders.

***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 Procedure*s

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 this 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.

None.

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

31.1*	Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated May 16, 2016
31.2*	Certification of Glen R. Charles, Chief Financial Officer, dated May 16, 2016
32.1*	Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated May 16, 2016, 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 May 16, 2016, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.1**	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.

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be filed or part of a registration statement of 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 Exchange Act of 1934, as amended, and otherwise are 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 16th day of May 2016.

CVD EQUIPMENT CORPORATION

By:	/s/ Leonard A. Rosenbaum Leonard A. Rosenbaum Chief Executive Officer (Principal Executive Officer)
By:	/s/ Glen R. Charles Glen R. Charles Glen R. Charles (Principal Financial and Accounting Officer)

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