

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 6-30-03

() 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)

1860 SMITHTOWN 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:

3,039,100 SHARES OF COMMON STOCK, \$.01 PAR VALUE AS OF 8-14-03

**CVD EQUIPMENT CORPORATION
NOTE TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDING
JUNE 30, 2003**

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, 2002. 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.

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 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | JUNE 30 2003 (UNAUDITED) | DECEMBER 31 2002 (AUDITED) |
|---|--------------------------------|----------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 253,756 | \$ 323,537 |
| Accounts receivable, net | 1,693,386 | 1,852,794 |
| Cost in excess of billings on uncompleted contracts | 1,143,408 | 783,646 |
| Inventories | 1,517,850 | 2,023,487 |
| Other current assets | 212,155 | 194,232 |
| Total Current Assets | 4,820,555 | 5,177,696 |
| Property, Plant and Equipment, net | 5,526,167 | 5,630,375 |
| Deferred Income Taxes | 344,074 | 344,074 |
| Other Assets | 167,569 | 138,974 |
| Intangible Assets, net | 129,685 | 136,393 |
| Total Assets | <u>\$ 10,988,050</u> | <u>\$ 11,427,512</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 1,158,034 | \$ 938,056 |
| Accrued expenses | 195,730 | 336,702 |
| Billings in excess of costs on uncompleted contracts | - | 146,387 |
| Short-term notes payable | 350,000 | 350,000 |
| Short-term borrowings | - | - |
| Current maturities of long-term debt | 182,735 | 177,124 |
| Total Current Liabilities | 1,886,499 | 1,948,269 |
| Long-term Debt, net of current portion | 3,420,990 | 3,513,783 |
| Total Liabilities | <u>5,307,489</u> | <u>5,462,052</u> |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Common stock - \$0.01 par value -10,000,000 shares authorized; 3,039,100 shares issued & outstanding | 30,391 | 30,391 |
| Additional paid-in capital | 2,902,149 | 2,902,149 |
| Retained earnings | 2,748,021 | 3,032,920 |
| Total Stockholders' Equity | 5,680,561 | 5,965,460 |
| Total Liabilities and Stockholders' Equity | <u>\$ 10,988,050</u> | <u>\$ 11,427,512</u> |

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

| | | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|----------------------------------|--|---------------------------|------------------|-------------------------|------------------|
| | | JUNE 30 | | JUNE 30 | |
| | | 2003 | 2002 | 2003 | 2002 |
| | | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) |
| Revenue | | | | | |
| Revenue on completed contracts | | \$ 1,440,743 | \$ 1,895,640 | \$ 3,971,524 | \$ 3,110,663 |
| Revenue on uncompleted contracts | | 583,711 | (254,327) | 1,680,067 | 420,569 |
| Total Revenue | | <u>2,024,454</u> | <u>1,641,313</u> | <u>5,651,591</u> | <u>3,531,232</u> |
| Costs of Revenue | | | | | |
| Cost on completed contracts | | 1,351,679 | 1,391,287 | 3,482,469 | 2,322,954 |
| Cost on uncompleted contracts | | 518,600 | (89,352) | 1,042,095 | 228,297 |
| Total Costs of Revenues | | <u>1,870,279</u> | <u>1,301,935</u> | <u>4,524,564</u> | <u>2,551,251</u> |
| Gross Profit | | <u>154,175</u> | <u>339,378</u> | <u>1,127,027</u> | <u>979,981</u> |
| Operating Expenses | | | | | |
| Selling and shipping | | 71,922 | 202,131 | 425,915 | 377,533 |
| General and administrative | | 545,915 | 527,036 | 1,126,413 | 1,021,262 |
| Total Operating Expenses | | <u>617,837</u> | <u>729,167</u> | <u>1,552,328</u> | <u>1,398,795</u> |
| Operating Income(Loss) | | <u>(463,662)</u> | <u>(389,789)</u> | <u>(425,301)</u> | <u>(418,814)</u> |
| Other Income (Expense) | | | | | |
| Interest income | | 110 | 9,716 | 234 | 19,544 |
| Interest expense | | (60,793) | (24,919) | (123,762) | (47,921) |
| Gain on sale of fixed assets | | - | - | - | 2,500 |
| Other income | | 195,954 | 5,997 | 263,930 | 22,485 |
| Total Other Income | | <u>135,271</u> | <u>(9,206)</u> | <u>140,402</u> | <u>(3,392)</u> |
| Income(Loss) Before Taxes | | (328,391) | (398,995) | (284,899) | (422,206) |
| Income Tax Benefit | | 15,170 | - | - | 9 |
| Net Income(Loss) | | <u>(313,221)</u> | <u>(398,995)</u> | <u>(284,899)</u> | <u>(422,197)</u> |
| Earnings Per Share | | | | | |
| Basic | | \$ (0.10) | \$ (0.13) | \$ (0.09) | \$ (0.14) |
| Diluted | | \$ (0.10) | \$ (0.12) | \$ (0.09) | \$ (0.13) |
| Weighted Average Shares | | | | | |
| Basic | | 3,039,100 | 3,033,827 | 3,039,100 | 3,035,703 |
| Diluted | | 3,045,557 | 3,203,502 | 3,047,350 | 3,208,799 |

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | THREE MONTHS ENDED JUNE 30 | | SIX MONTHS ENDED JUNE 30 | |
|---|-------------------------------|---------------------|-----------------------------|---------------------|
| | 2003 (UNAUDITED) | 2002 (UNAUDITED) | 2003 (UNAUDITED) | 2002 (UNAUDITED) |
| CASH Flows from Operating Activities | | | | |
| Net Income(Loss) | \$ (313,221) | \$ (398,995) | \$ (284,899) | \$ (422,197) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 89,929 | 70,148 | 180,150 | 137,124 |
| Gain on sale of fixed assets | - | - | - | (2,500) |
| Bad debt provision | 4,669 | (3,024) | 1,358 | (5,071) |
| <i>(Increase) decrease in:</i> | | | | |
| Accounts receivable | 802,638 | (347,710) | 158,050 | (371,850) |
| Cost in excess of billings on uncompleted contracts | (195,502) | 313,704 | (359,762) | 282,171 |
| Inventory | 122,372 | (906,710) | 505,638 | (880,844) |
| Other current assets | 20,675 | (50,274) | (17,924) | (105,752) |
| Other assets | (24,704) | (46,441) | (48,799) | 170,740 |
| <i>Increase (decrease) in:</i> | | | | |
| Accounts payable | (219,535) | 486,861 | 219,981 | 542,418 |
| Accrued expenses | (301,513) | 236,675 | (140,976) | 143,531 |
| Billing in excess of costs on uncompleted contracts | - | (8,728) | (146,387) | 2,904 |
| Net cash provided by (used in) operating activities | (14,192) | (654,494) | 66,430 | (509,326) |
| Cash Flows from Investing Activities | | | | |
| Capital expenditures | (9,829) | (1,105,174) | (49,029) | (3,300,592) |
| Proceeds from sale of fixed assets | - | - | - | 2,500 |
| Net cash provided by (used in) investing activities | (9,829) | (1,105,174) | (49,029) | (3,298,092) |
| Cash Flows from Financing Activities | | | | |
| Proceeds from the exercise of options | - | 8,301 | - | 8,301 |
| Proceeds of short-term borrowings | 100,000 | - | 315,000 | - |
| Payments of short-term borrowings | (150,000) | - | (315,000) | - |
| Proceeds of long-term debt | - | - | - | 1,588,056 |
| Payments of long-term debt | (43,931) | (37,419) | (87,182) | (49,215) |
| Net cash provided by (used in) financing activities | (93,931) | (29,118) | (87,182) | 1,547,142 |
| Net increase(decrease) in cash and cash equivalents | (117,952) | (1,788,786) | (69,781) | (2,260,276) |
| Cash and cash equivalents at the beginning of the quarter | 371,708 | 1,889,660 | 323,537 | 2,361,150 |
| Cash and cash equivalents at the end of the quarter | \$ 253,756 | \$ 100,874 | \$ 253,756 | \$ 100,874 |

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2003

REVENUE

An increase in volume resulted in second quarter of 2003 revenue being \$2,024,454, a 23% increase from second quarter of 2002 revenue of \$1,641,313.

COSTS AND EXPENSES

The cost of revenue increased to \$1,870,279 in second quarter of 2003 as compared to \$1,301,935 in second quarter of 2002. Of this \$568,344 increase, approximately \$343,000 is attributed to material, \$7,000 to freight in expense, \$151,000 to salaries, \$10,000 to depreciation expense and \$17,000 to real estate taxes.

Selling and shipping expenses decreased to \$71,922 in second quarter of 2003 from \$202,131 in second quarter of 2002. Of this \$130,209 decrease, approximately \$117,000 is attributed to commissions, \$18,000 to salaries and \$10,000 to royalties, which is offset by an increase of \$7,000 to freight out expense and \$5,000 to auto expense.

General and Administrative expenses increased to \$545,915 in second quarter of 2003 from \$527,036 in second quarter of 2002. Of this \$18,879 increase, approximately \$45,000 to salaries, which is offset by a decrease of \$14,000 to legal fees and \$9,000 to employee relocation expense.

Interest expense increased by \$35,874 from \$24,919 in second quarter 2002 to \$60,793 in second quarter of 2003, because the company's average outstanding debt increased, as a result of the mortgage on the new building purchased in March 2002.

Other income increased by \$189,957 from \$5,997 in second quarter of 2002 to \$195,954 in second quarter of 2003. Of this increase, \$150,000 is attributed to an insurance reimbursement for legal fees and \$41,000 is attributed to collection of accounts receivable exceeding the \$369,000 booked as part of the purchase of the assets.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2003

REVENUE

An increase in volume resulted in six months of 2003 revenue being \$5,651,591, a 60% increase from six months of 2002 revenue of \$3,531,232.

COSTS AND EXPENSES

The cost of revenue increased to \$4,524,564 in six months of 2003 as compared to \$2,551,251 in six months of 2002. Of this \$1,973,313 increase, approximately \$1,414,000 is attributed to material, \$16,000 to freight in, \$335,000 to salaries, \$28,000 to depreciation, \$28,000 to utilities and \$35,000 to real estate taxes.

Selling and shipping expenses increased to \$425,915 in six months of 2003 from \$377,533 in six months of 2002. Of this \$48,382 increase, approximately \$38,000 is attributed to commissions and \$38,000 to freight out expense, which is offset by a decrease of \$12,000 to salaries and \$14,000 to royalties.

General and Administrative expenses increased to \$1,126,413 in six months of 2003 from \$1,021,262 in six months of 2002. Of this \$105,151 increase, approximately \$135,000 to salaries, which is offset by a decrease of \$22,000 to legal fees and \$7,000 to consulting fees.

Interest expense increased by \$75,841 from \$47,921 in six months of 2002 to \$123,762 in six months of 2003, because the company's average outstanding debt increased, as a result of the mortgage on the new building purchased in March 2002.

Other income increased by \$241,445 from 22,485 in six months of 2002 to \$263,930 in six months of 2003. Of this increase, \$150,000 is attributed to an insurance reimbursement for legal fees and \$104,000 is attributed to collection of accounts receivable exceeding the \$369,000 booked as part of the purchase of the assets.

LIQUIDITY AND CAPITAL RESOURCES

By the end of the second quarter of 2003, the Company's cash position decreased to \$253,756 from \$323,537 at the beginning of the year. The decrease in cash is mainly attributed to the daily operating activities.

At the end of the second quarter of 2003, the Company's account receivable position decreased to \$1,693,386 from \$1,852,794 at the beginning of the year. This decrease was attributable to timing of customer payments and billings.

At the close of the second quarter of 2003, the Company's backlog decreased to approximately \$1,876,855. This represents the amount of orders not billed or taken as part of percentage of completion. This backlog has decreased from approximately \$3,816,877 at the beginning of the year. This decrease is mainly attributed to a decrease in new orders and to shipments delayed from the fourth quarter of 2002 to the first quarter of 2003. This delay resulted from the reduction in productivity of the CVD and Conceptronic divisions due to their relocation to the new facility in the fourth quarter of 2002. The \$1,876,855 backlog is actively being worked on.

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.

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 14th day of August 2003.

CVD EQUIPMENT CORPORATION

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

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.

| | |
|---|---|
| <u>/s/ Leonard A. Rosenbaum</u> Leonard A. Rosenbaum | President, Chief Executive Officer and Director |
|---|---|

| | |
|---|---------------------------------------|
| <u>/s/ Sharon Canese</u> Sharon Canese | Chief Financial Officer and Secretary |
|---|---------------------------------------|

**Certifications Pursuant to Rule 13A-14 or 15D-14 of the Securities exchange
act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Leonard A. Rosenbaum, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CVD Equipment Corporation;
2. Based upon my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.
3. Based upon my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b. Any Fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: August 14, 2003

/s/ Leonard A. Rosenbaum

President, Chief Executive Officer and Director

**Certifications Pursuant to Rule 13A-14 or 15D-14 of the Securities exchange
act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sharon Canese, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CVD Equipment Corporation;
2. Based upon my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.
3. Based upon my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b. Any Fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: August 14, 2003

/s/ Sharon Canese

Chief Financial Officer and Secretary