BADGER METER INC
Form 10-Q
July 26, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2013

BADGER METER, INC.

4545 W. Brown Deer Road
Milwaukee, Wisconsin 53223
(414) 355-0400
A Wisconsin Corporation
IRS Employer Identification No. 39-0143280
Commission File No. 001-06706

Indicate by check mark 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 ý 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	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 ý
As of July 14, 2013, there were 14,369,692 shares of Common stock outstanding with a par value of $1 per share.

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Special Note Regarding Forward Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, as well as other information provided from time to time by Badger Meter, Inc. (the "Company") or its employees, may contain forward looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward looking statements. The words "anticipate," "believe," "estimate," "expect," "think," "should," "could" and "objective" or similar expressions are i to identify forward looking statements. All such forward looking statements are based on the Company's then current views and assumptions and involve risks and uncertainties. Some risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward looking statements include those described in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 that include, among other things:

- the continued shift in the Company's business from lower cost, manually read meters toward more expensive, value-added automatic meter reading (AMR) systems, advanced metering infrastructure (AMI) systems and advanced metering analytics (AMA) systems that offer more comprehensive solutions to customers' metering needs;
- the success or failure of newer Company products;
- changes in competitive pricing and bids in both the domestic and foreign marketplaces, and particularly in continued intense price competition on government bid contracts for lower cost, manually read meters;
- the actions (or lack thereof) of the Company's competitors;
- changes in the Company's relationships with its alliance partners, primarily its alliance partners that provide radio solutions, and particularly those that sell products that do or may compete with the Company's products;
- changes in the general health of the United States and foreign economies, including to some extent such things as the length and severity of global economic downturns, the ability of municipal water utility customers to authorize and finance purchases of the Company's products, the Company's ability to obtain financing, housing starts in the United States, and overall industrial activity;
- unusual weather and other natural phenomena, including related economic and other ancillary effects of any such events;
- the timing and impact of government programs to stimulate national and global economies;
- changes in the cost and/or availability of needed raw materials and parts, such as volatility in the cost of brass castings as a result of fluctuations in commodity prices, particularly for copper and scrap metal at the supplier level, foreign-sourced electronic components as a result of currency exchange fluctuations and/or lead times, and plastic resin as a result of changes in petroleum and natural gas prices;
- the Company's expanded role as a prime contractor for providing complete connectivity systems to governmental entities, which brings with it added risks, including but not limited to, the Company's responsibility for subcontractor performance, additional costs and expenses if the Company and its subcontractors fail to meet the timetable agreed to with the governmental entity, and the Company's expanded warranty and performance obligations;
- the Company's ability to successfully integrate acquired businesses or products;
- changes in foreign economic conditions, particularly currency fluctuations in the United States dollar, the Euro and the Mexican peso;
- the loss of certain single-source suppliers; and
- changes in laws and regulations, particularly laws dealing with the use of lead (which can be used in the manufacture of certain meters incorporating brass housings) and the United States Federal Communications Commission rules affecting the use and/or licensing of radio frequencies necessary for radio products.

All of these factors are beyond the Company's control to varying degrees. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward looking statements contained in this Quarterly Report on Form 10-Q and are cautioned not to place undue reliance on such forward looking statements. The forward looking statements made in this document are made only as of the date of this document and the Company assumes no obligation, and disclaims any obligation, to update any such forward looking statements to reflect subsequent events or circumstances.

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Part I – Financial Information

Item 1 Financial Statements

BADGER METER, INC.
Consolidated Condensed Balance Sheets

	June 30, (Unaudited) (In thousands) 2013	December 31, 2012
Assets		
Current assets:		
Cash	$2,714	$6,554
Receivables	52,702	45,584
Inventories:		
Finished goods	18,750	19,872
Work in process	10,853	13,340
Raw materials	24,011	27,785
Total inventories	53,614	60,997
Prepaid expenses and other current assets	3,500	4,343
Deferred income taxes	3,915	3,896
Total current assets	116,445	121,374
Property, plant and equipment, at cost	157,050	152,760
Less accumulated depreciation	(85,501)	(82,276)
Net property, plant and equipment	71,549	70,484
Intangible assets, at cost less accumulated amortization	61,416	58,351
Other assets	5,712	4,314
Goodwill	46,641	35,930
Total assets	$301,763	$290,453
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	$66,230	$66,730
Payables	20,308	15,551
Accrued compensation and employee benefits	6,525	9,821
Warranty and after-sale costs	695	881
Income and other taxes	2,277	1,097
Total current liabilities	96,035	94,080
Other long-term liabilities	2,690	1,086
Deferred income taxes	10,787	8,692
Accrued non-pension postretirement benefits	6,578	6,489
Other accrued employee benefits	7,813	8,859
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock	20,473	20,441
Capital in excess of par value	43,315	41,755
Reinvested earnings	160,036	155,694
Accumulated other comprehensive loss	(13,514)	(13,948)
Less: Employee benefit stock	(1,135)	(1,234)
Treasury stock, at cost	(31,315)	(31,461)
Total shareholders' equity	177,860	171,247

Total liabilities and shareholders’ equity	$301,763	$290,453

See accompanying notes to unaudited consolidated condensed financial statements.

BADGER METER, INC.
Consolidated Condensed Statements of Operations

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)				
	(Dollars in thousands except share and per share amounts)						
	2013	2012	2013	2012			
Net sales	$88,341	$81,974	$160,149	$158,207			
Cost of sales	58,495	51,773	105,266	99,142			
Gross margin	29,846	30,201	54,883	59,065			
Selling, engineering and administration	19,686	18,846	39,998	37,522			
Operating earnings	10,160	11,355	14,885	*2,575*	*118,645*	*3,014*	*123*
Total other income	*13,871*	*106,546*	*5,119*	*82,067*			
Income/(loss) before income taxes	*1,904,194*	*(288,714)*	*5,443,018*	*(1,826,124)*			
Income tax expense/(benefit)	*508,316*	*(203,310)*	*1,766,231*	*(907,372)*			
Net income/(loss)	$ *1,395,878*	$ *(85,404)*	$ *3,676,787*	$ *(918,752)*			
Basic income/(loss) per common share	$ *0.22*	$ *(0.01)*	$ *0.58*	$ *(0.15)*			
Diluted income/(loss) per common share	$ *0.22*	$ *(0.01)*	$ *0.58*	$ *(0.15)*			
Weighted average common shares Outstanding-basic	*6,378,656*	*6,323,039*	*6,314,224*	*6,269,102*			
Net effect of potential common share issuance: Stock options	*34,410*	---	*33,748*	---			
Weighted average common shares Outstanding-diluted	*6,413,066*	*6,323,039*	*6,347,972*	*6,269,102*			

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

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CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income/(loss)	$3,676,787	$(918,752)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Stock-based compensation expense	677,552	544,238
Depreciation and amortization	623,656	618,227
Deferred tax expense/(benefit)	559,123	(836,615)
Provision for doubtful accounts	3,724	39,313
Changes in operating assets and liabilities:		
Accounts receivable	(3,453,556)	(4,108,505)
Costs and estimated earnings in excess of billings on contracts in progress	(1,861,408)	1,475,190
Inventories	263,531	(64,328)
Other current assets	(195,073)	(22,669)
Increases/(decreases) in operating liabilities:		
Accounts payable and accrued expenses	665,119	(2,251,405)
Current maturities of long-term debt	---	(280,000)
Billings in excess of costs and estimated earningson contracts in progress	(5,046,437)	9,130,870
Deferred revenue	420,965	(158,031)
Total adjustments	(7,342,804)	4,086,285
Net cash (used in)/provided by operating activities	(3,666,017)	3,167,533
Cash flows from investing activities:		
Release of restricted cash	---	200,000
Capital expenditures	(618,505)	(42,670)
Deposits	(9,127)	1,550
Net cash (used in)/provided by investing activities	(627,632)	158,880
Cash flows from financing activities:		
Net proceeds from stock options exercised	22,120	462,000
Payments of long-term debt	(225,000)	(225,000)
Net cash (used in)/provided by financing activities	(202,880)	237,000
Net (decrease)/increase in cash and cash equivalents	(4,496,529)	3,563,413
Cash and cash equivalents at beginning of period	21,677,186	13,073,331
Cash and cash equivalents at end of period	$17,180,657	$16,636,744

Supplemental disclosure of cash flow information:		
Income taxes paid	$ *701,800*	$ *101,352*
Interest paid	$ *52,433*	$ *61,608*

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(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* and *nine* months ended *September 30, 2017* are *not* necessarily indicative of the results that can be expected for the year ending *December 31, 2017.*

The balance sheet as of *December 31, 2016* 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, 2016,* filed with the Securities and Exchange Commission on *March 30, 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

Revenues from 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 revenues, principally representing repair, maintenance and engineering activities are recognized over the contractual period or as services are rendered.

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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

NOTE *2:* SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined. Changes in job requirements, job conditions, and estimated profitability, and final contract settlements *may* result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset, "Costs 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.

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. Because of the broad scope of this new standard, as it could impact the

Company's contract portfolio and therefore net sales and operating income as well as related business processes, the Company is continuing to perform its detailed review and evaluation of the operational impact of this new ASU including which transition approach to use and the overall effect on its current accounting policies and practices in order to identify potential differences that would result from applying the requirements of the new standard.

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

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 domestic financial institutions and invests its excess cash primarily in savings accounts 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 *September 30, 2017* and *December 31, 2016,* exceeded the Federal Deposit Insurance Corporation ("FDIC") limits by *$15.6* million and *$20.2* million respectively.

Sales concentration

Revenue to a single customer in any *one* period can exceed *10%* of our total sales. During the *three* months ended *September 30, 2017* and *September 30, 2016, one* customer represented approximately *59%* and *43%* respectively, of our revenues. During the *nine* months ended *September 30, 2017* and *September 30, 2016* that same customer represented *65%* and *40%* 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. One customer represented *23.2%,* another customer represented *14.2%* and a *third* customer represented *10.0%* of the accounts receivable balance at *September 30, 2017*.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

NOTE *4:* CONTRACTS IN PROGRESS

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

	September 30, 2017	December 31, 2016
Costs incurred on contracts in progress	$*11,557,916*	$*4,678,192*
Estimated earnings	*19,302,951*	*10,733,826*
	30,876,962	*15,412,018*
Less: Billings to date	*26,634,938*	*(18,077,839*)
Included in accompanying balance sheets under the following captions:	$*4,242,024*	$*(2,665,821*)
Costs and estimated earnings in excess of billings on contracts in progress	$*4,457,926*	$*2,596,518*
Billings in excess of costs and estimated earnings on contracts in progress	*(215,902*)	*(5,262,339*)
	$*4,242,024*	$*(2,665,821*)

NOTE *5:* INVENTORIES

Inventories are stated at the lower of cost or net realizable value computed on a *first*-in, *first*-out basis and consist of the following:

	September 30, 2017	December 31, 2016
Raw materials	$*2,762,009*	$*3,062,830*
Work-in-process	*234,023*	*159,482*

Finished goods	*26,977*	*64,227*
Totals	$*3,023,009*	$*3,286,539*

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CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

NOTE *6:* ACCOUNTS RECEIVABLE

Accounts receivable are presented net of an allowance for doubtful accounts of approximately *$6,000* and *$2,000* as of *September 30, 2017* and *December 31, 2016,* respectively. The allowance is based on prior experience and management's evaluation of the collectability of accounts receivable. Management believes the allowance is adequate. However, future estimates *may* change based on changes in future economic conditions.

NOTE *7:* DEBT

The Company has a revolving credit facility with HSBC Bank, USA, N.A. ("HSBC") providing up to *$7* million, although the Company has never utilized this facility. This credit facility remains available until *September 1, 2018.* The credit facility also contains certain financial covenants, all of which the Company was in compliance with at *September 30, 2017* and *December 31, 2016.*

The Company has a loan agreement with HSBC which is secured by a mortgage against its 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 upon maturity in *March 2022.* Interest accrues on the loan, at the Company's option, at the variable rate of LIBOR plus *1.75%* which was *2.99%* and *2.52%* at *September 30, 2017* and *December 31, 2016,* respectively. The principal balances on the mortgage at *September 30, 2017* and *December 31, 2016* were approximately *$3.0* and *$3.3* million, respectively.

NOTE *8:* STOCK-BASED COMPENSATION EXPENSE

During the *three* and *nine* months ended *September 30, 2017* and *September 30, 2016,* the Company recorded compensation expense as part of general administrative expense, of *$242,000* and *$198,000* and *$678,000* and *$544,000* 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

NOTE *9*: INCOME TAXES

The provision for income taxes includes the following:

	Nine Months Ended September 30, 2017	2016
Current:		
Federal	$*1,195,528*	$*(71,070*)
State	*11,580*	*314*
Total Current income tax provision/(benefit)	*1,207,108*	*(70,756*)
Deferred:		
Federal	$*559,123*	$*(836,616*)
State	----	---
Total deferred income tax provision/(benefit)	*559,123*	*(836,616*)
Income tax expense/(benefit)	$*1,766,231*	$*(907,372*)

Tax Rate Reconciliation

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

	Nine Months Ended September 30, 2017	2016
Income tax benefit at federal statutory rate [34%]	$*2,075,004*	$*(620,882*)
Change in other accruals	*90,781*	*(216,640*)

Difference between tax and book depreciation	(201,847)	50,213
Stock-based compensation	(197,707)	(48,993)
Provision for tax return true up	----	(71,070)
Income tax expense	$1,766,231	$(907,372)

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

NOTE *10*: EARNINGS PER SHARE

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 *381,930* shares of common stock were outstanding and *196,930* were exercisable during the *three* and *nine* months ended *September 30, 2017.* Stock options to purchase *159,730* shares were outstanding and *79,730* were exercisable during the *three* and *nine* months ended *September 30, 2016.* For the *three* and *nine* months ended *September 30, 2017,* options to purchase *34,410* and *33,748* shares were included in the diluted earnings per share calculation respectively. The balance of stock options outstanding at *September 30, 2017* were *not* included as their effect would have been anti-dilutive. For the *three* and *nine* months ended *September 30, 2016, none* of the outstanding options were included in the earnings per share calculation as their effect would have been antidilutive.

The potentially dilutive common shares from warrants and options are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all warrants and options are used to repurchase common stock at market value. The amount of shares remaining after the proceeds are exhausted represents the potential dilutive effect of the securities.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

NOTE *11*: SEGMENT REPORTING

The Company operates through *two* (*2*) segments, CVD and SDC. The CVD division, which operates out of Central Islip, New York, 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 respective accounting policies of CVD and SDC are the same as those described in the summary of significant accounting policies (see Note *2*). The Company evaluates performance based on several factors, of which the primary financial measure is income or (loss) before taxes.

Three Months

Ended *September 30,*

	CVD	SDC	Eliminations *	Consolidated
2017				
Assets	$*41,615,403*	$*5,977,491*	$*(1,789,511*)	$*45,803,383*
Revenue	$*8,862,726*	$*2,548,612*	$*(579,609*)	$*10,831,729*
Pretax income	*1,055,683*	*848,511*		*1,904,194*
2016				
Assets	$*46,147,895*	$*4,316,826*	$*(2,960,808*)	$*47,503,913*
Revenue	$*4,253,544*	$*846,696*	$*(216,729*)	$*4,883,511*
Pretax income	*(180,638*)	*(108,076*)		*(288,714*)
December 31, 2016				
Assets	$*43,300,131*	$*4,558,111*	$*(2,253,550*)	$*45,604,692*

Nine Months

Ended *September 30,*

	CVD	SDC	Eliminations *	Consolidated
2017				
Revenue	$*26,847,732*	$*6,360,762*	$*(1,896,439*)	$*31,312,055*
Pretax income	*3,403,907*	*2,039,111*		*5,443,018*
2016				
Revenue	$*11,589,421*	$*2,352,384*	$*(311,079*)	$*13,630,726*
Pretax (loss)	*(1,544,278*)	*(281,846*)		*(1,826,124*)

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

Note *12:* SUBSEQUENT EVENTS

On *October 24, 2017,* CVD Equipment Corporation (the “Company”) entered into an Agreement of Purchase and Sale (the “Agreement”) to purchase a building and real property located at *555* North Research Place, Central Islip, New York *11722* (the “Premises”) from Creative Bath Products, Inc. The purchase price for the Premises is *$13,850,000.00,* exclusive of closing costs (the “Purchase Price”). Upon execution of the Agreement, the Company deposited the sum of *$500,000* into escrow as an initial down payment against the Purchase Price, with the remaining balance of *$13,350,000.00* to be paid at the closing. The acquisition of the Premises and the consummation of the transactions contemplated by the Agreement are contingent upon, among other things, the Company obtaining a commitment from an Institutional Lender (as defined in the Agreement) to make a *first* mortgage loan to the Company of *$10,387,500.00* on such terms and conditions as are specified in the Agreement. The anticipated closing date of the acquisition of the Premises and the transactions contemplated by the Agreement is on or about *January 22, 2018,* or such earlier date as the Company *may* direct upon *three* (*3*) days written notice and is subject to the satisfaction by the parties of customary closing conditions as described in the Agreement.

On *October 31, 2017 (*the “Closing Date”), CVD MesoScribe Technologies Corporation, a New York corporation (“Buyer”) and newly formed and wholly-owned indirect subsidiary of CVD Equipment Corporation (the “Company”) and MesoScribe Technologies, Inc., a Delaware corporation (“Seller”) entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”). Pursuant to the Asset Purchase Agreement, among other things, Buyer acquired (the “Acquisition”) substantially all of the operating assets and business of the Seller (excluding cash, accounts receivable and other specified excluded assets), as more particularly described in the Asset Purchase Agreement.

Pursuant to the Asset Purchase Agreement, the purchase price for the assets acquired in the Acquisition was *$800,000,* of which *$500,000* was paid on the Closing Date and *$300,000 may* be paid to Seller as additional contingent consideration based upon the achievement of certain revenue thresholds and other criteria set forth in the Asset Purchase Agreement with respect to each of the *two* (*2*) consecutive *twelve* (*12*) month measurement periods following the Closing Date.

The Asset Purchase Agreement contains usual and customary representations, warranties and covenants of the parties, as well as indemnification provisions.

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 with 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 **September 30, 2017 vs. Three Months Ended September 30, 2016**

	Three Months Ended September 30, 2017	September 30, 2016	Change	% Change
(In thousands)				
Revenue				
CVD (net of eliminations)	$8,833	$ 4,254	$4,579	107.6
SDC (net of eliminations)	1,999	630	1,369	217.3
Total Revenue	10,832	4,884	5,948	121.8
Cost of Goods Sold	6,229	3,192	3,037	95.1
Gross Profit	4,603	1,691	2,912	172.2
Gross Margin	42.5 %	34.6 %		
Research and development	158	150	8	5.3
Selling and shipments	345	261	84	32.2
General and administrative	2,209	1,675	534	31.9
Total operating expenses	2,712	2,086	626	30.0
Operating income/(loss)	1,890	(395)	2,285	578.5
Other income	14	106	(92)	(86.8)
Income/(loss) before taxes	1,904	(289)	2,193	758.8
Income tax expense/(benefit)	508	(204)	712	349.0
Net income/(loss)	1,396	(85)	1,481	1,742.4

Revenue

Our revenue for the three months ended September 30, 2017 was $10.8 million compared to $4.9 million for the three months ended September 30, 2016, resulting in an increase of $5.9 million or 121.8%, which was primarily attributable to the work performed on the increase in orders received over the past 15 months. One customer in the aerospace industry represented approximately 59% and 43% of our revenue for the three months ended September 30, 2017 and September 30, 2016, respectively. We are continuing to receive additional follow-on business from that customer as well as receiving additional orders and opportunities with new and other current customers. The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. If any of our significant customers do not place orders, or they substantially reduce, delay or cancel orders, we may not be able to replace the business in a timely manner or at all, which could have a material adverse effect on our results of operations and financial condition. The SDC division increased their revenue from third party customers to $2.0 million for the three months ended September 30, 2017, an increase of 217.3% compared to revenue of $630,000 for the three months ended September 30, 2016. The increase is primarily attributable to a significant order from one customer that comprised approximately 57% of the three month total.

Gross Profit

We generated a gross profit of $4.6 million with a gross profit margin of 42.5% for the three months ended September 30, 2017 compared to a gross profit of $1.7 million and a gross profit margin of 34.6% for the three months ended September 30, 2016. The increased gross profit and gross margin was the result of both greater overall revenue and the product mix of orders being worked on.

Research and Development, Selling, General and Administrative Expenses

Internal research and development expenses for the three months ended September 30, 2017 amounted to $158,000 compared to $150,000 for the three months ended September 30, 2016, as we increased the level of investment in research and development for our products.

Selling and shipping expenses for the three months ended September 30, 2017 was $345,000 compared to $261,000 for the three months ended September 30, 2016 which represented an increase of 32.2% which was primarily a result of additional personnel costs related to CVD Materials, including its recently established CVD Tantaline ApS subsidiary, during the current period.

We incurred approximately $2.2 million of general and administrative expenses or 20.4% of our revenue for the three months ended September 30, 2017 compared to approximately $1.7 million or 34.7% of our revenue during the three months ended September 30, 2016. This increase of 31.9% was primarily a result of additional personnel and occupancy costs related to CVD Materials, including its recently established CVD Tantaline ApS subsidiary, during the current period.

Operating income/(loss)

As a result of the increased revenues and higher gross margins, we achieved income from operations of $1.9 million for the three months ended September 30, 2017 compared to having incurred a loss from operations of $395,000 for the three months ended September 30, 2016.

Other income

During the three months ended September 30, 2017 our interest income exceeded our interest expense by $14,000. During the three months ended September 30, 2016, we received a payment from our insurance company on a property damage claim the exceeded the repair costs by $119,000, which was partially offset by our interest expense exceeding our interest income.

Income Taxes

We incurred an income tax expense of $508,000 for the three months ended September 30, 2017. For the three months ended September 30, 2016, we did not incur any current income tax expense and recorded $204,000 of deferred tax benefits primarily due to the tax loss that we incurred during the period.

Net income/(loss)

We reported net income of approximately $1.4 million or $0.22 per share basic and diluted for the three months ended September 30, 2017 compared to a net loss of $85,000 or ($0.01) per share basic and diluted for the three months ended September 30, 2016

<u>Nine Months Ended September 30, 2017 vs. Nine Months Ended September 30, 2016</u>

	September 30, 2017	September 30, 2016	Change	% Change
(In thousands)				
Revenue				
CVD (net of eliminations)	$ 26,741	$ 11,584	$15,157	130.8
SDC (net of eliminations)	4,571	2,047	2,524	123.3
Total Revenue	31,312	13,631	17,681	129.7
Cost of Goods Sold	18,128	9,912	8,216	82.9
Gross Profit	13,184	3,719	9,465	95.5
Gross Margin	42.1 %	27.3 %		
Research and development	339	305	34	11.1
Selling and shipping	984	806	178	22.1
General and administrative	6,423	5,145	1,276	24.8
Gain on settlement	---	(629)	629	
Total operating expenses	7,746	5,627	2,117	37.6
Operating income/(loss)	5,438	(1,908)	7,346	385.0
Other income	5	82	(77)	(93.9)
Income/(loss) before taxes	5,443	(1,826)	7,269	398.1
Income tax expense/(benefit)	1,766	(908)	2,674	294.5
Net income/(loss)	3,677	(918)	4,595	500.5

Revenue

Our revenue for the nine months ended September 30, 2017, totaled $31.3 million, an increase of $17.7 million or 129.7% compared to $13.6 million for the nine months ended September 30, 2016. This increase was primarily attributable to the work performed on the increase in orders received over the past 15 months. Our largest customer represented approximately 65% and 40% of our revenue for the nine months ended September 30, 2017 and September 30, 2016, respectively.

We are continuing to receive additional follow-on business from that customer as well as receiving additional orders and opportunities with new and other current customers. The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. If any of our significant customers do not place orders, or they substantially reduce, delay or cancel orders, we may not be able to replace the business in a timely manner or at all, which could have a material adverse effect on our results of operations and financial condition.

Revenue from the SDC division for the nine months ended September 30, 2017 reached $4.6 million compared to $2.0 million for the nine months ended September 30, 2016 an increase of 123.3%. One customer accounted for approximately 29% of the total.

Gross Profit

During the nine months ended September 30, 2017, we generated a gross profit of $13.2 million resulting in a gross profit margin of 42.1% as compared to the nine months ended September 30, 2016 when our gross profit was $3.7 million with a gross profit margin of 27.3%**.** The increase in gross profit and gross margin was the result of a combination of greater overall revenue and product mix of orders being worked on.

Research and Development, Selling and General and Administrative Expenses

Internal research and development expenses for the nine months ended September 30, 2017 were $339,000 compared to $305,000 for the nine months ended September 30, 2016 as we begin to ramp our efforts of independently conducted research and development activities.

Selling and shipping expenses for the nine months ended September 30, 2017 and 2016 were $984,000 and $806,000, respectively, an increase of 22.1%, which was a result of the additional personnel costs associated with the start-up activity in CVD Materials.

General and administrative expenses totaled $6.4 million and $5.1 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of $1.3 million or 24.8%. The increase is primarily attributable to the additional personnel and occupancy costs associated with the start-up activity in CVD Materials including its recently established CVD Tantaline ApS subsidiary.

Gain on Settlement

The Company has included in its financial statements for the nine months ended September 30, 2016, the results of a negotiated reduction to legal fees and expenses previously accrued in connection with the settlement of the Taiwan Glass litigation. The final negotiated sum was $1.1 million, resulting in a reduction of the amount that was previously billed and accrued and a gain on the statement of operations of $629,000 during the period.

Operating Income/(loss)

As a result of the increased revenues and higher gross margin, for the nine months ended September 30, 2017, we achieved operating income of $5.4 million compared to a loss from operations of $1.9 million for the nine months ended September 30, 2016.

Other Income

During the nine months ended September 30, 2017 our interest income exceeded our interest expense by $5,000. During the nine months ended September 30, 2016, we received a payment from our insurance company on a property damage claim the exceeded the repair costs by $119,000, which was partially offset by our interest expense exceeding our interest income.

Income Taxes

For the nine months ended September 30, 2017 we incurred current income tax expense of $1,207,000 and deferred income tax expense of $559,000 for an effective tax rate of 32.4% compared to the nine months ended September 30, 2016, when we did not incur any current income tax expense, received a refund of $71,000 as a result of an overpayment on the 2015 federal corporate tax return and recorded $837,000 of deferred tax benefits primarily due to the tax loss we incurred for the current period.

Net Income/(loss)

We reported net income of $3.7 million or $0.58 per share basic and diluted for the nine months ended September 30, 2017 compared to a net loss of $0.9 million or ($0.15) per share basic and diluted for the nine months ended September 30, 2016.

Inflation

Inflation has not materially impacted the operations of our Company.

Liquidity and Capital Resources

As of September 30, 2017 we had working capital of $24.8 million compared to $19.9 million at December 31, 2016, an increase of $4.9 million primarily as a result of an increase in accounts receivables and a reduction in the billing in excess of costs and estimated earnings on contracts in progress. This was partially offset by a decrease in cash and cash equivalents. As of September 30, 2017 our cash and cash equivalents were $17.2 million, compared to $21.7 million at December 31, 2015, a decrease of $4.5 million. This decrease was primarily the result of costs incurred and paid on orders currently being worked on that we have previously been paid.

Accounts receivable, net, as of September 30, 2017 and December 31, 2016 were $4.1 million and $0.6 million respectively. One customer represented 23.2%, another customer represented 14.2% and a third customer represented 10.0% of the accounts receivable balance at September 30, 2017.

At September 30, 2017, the number of full time employees increased to 204 employees compared to 173 at December 31, 2016.

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 funds in the event we determine in the future to effect one or more acquisitions of businesses, technologies or products. In addition, we may elect to raise additional funds even before we need them if the conditions for raising capital are favorable. 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 Procedures

We maintain a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of our Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q (the “Report”).

Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with our management, have determined that as of the end of the period covered by the Report on Form 10-Q, the disclosure controls and procedures were and are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosures.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Limitations on the Effectiveness of Controls

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

CVD EQUIPMENT CORPORATION

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

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

31.1*	Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated November 14, 2017.
31.2*	Certification of Glen R. Charles, Chief Financial Officer, dated November 14, 2017.
32.1*	Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated November 14, 2017, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	

Certification of Glen R. Charles, Chief Financial Officer, dated November 14, 2017, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

101.INS** XBRL Instance.

101.SCH** XBRL Taxonomy Extension Schema.

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition.

101.LAB** XBRL Taxonomy Extension Labels.

101.PRE** XBRL Taxonomy Extension Presentation.

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 or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 14th day of November 2017.

CVD EQUIPMENT CORPORATION

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

EXHIBIT INDEX

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