

REFINITIV

DELTA REPORT

10-Q

CVV - CVD EQUIPMENT CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 949

■ CHANGES 189

■ DELETIONS 421

■ ADDITIONS 339

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 September 30, 2023

For the quarterly period ended March 31, 2024

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

For the transition period from _____ to _____

For the transition period from _____ to _____

Commission file number: 1-16525

CVD EQUIPMENT CORPORATION

(Name of Registrant in Its Charter)

New York
State or Other Jurisdiction of
Incorporation or Organization)

11-2621692
(I.R.S. Employer
Identification No.)

355 South Technology Drive
Central Islip, New York 11722
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	CVV	NASDAQ Capital Market

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☐

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

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,824,511 shares of Common Stock, \$0.01 par value at November 13, 2023 May 10, 2024.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

Index

Part I - Financial Information

Item 1 –	Condensed Consolidated Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023	3
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023	4
	Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023	5
	Condensed Consolidated Statements of Cash Flows for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2 –	Management's Discussion and Analysis of Financial Condition and Results of Operations	22 20
Item 3 –	Quantitative and Qualitative Disclosures About Market Risk	33 28
Item 4 –	Controls and Procedures	33 28
Part II - Other Information		
Item 1 –	Legal Proceedings	34 29
Item 1A-	Risk Factors	34 29
Item 2 –	Unregistered Sales of Equity Securities and Use of Proceeds	34 29
Item 3 –	Defaults Upon Senior Securities	34 29
Item 4 –	Mine Safety Disclosures	34 29
Item 5 –	Other Information	34
Item 6 –	Exhibits	35 29
Item 6 –	Exhibits	29
	Signatures	36 30
	Exhibit Index	

PART 1 – FINANCIAL INFORMATION
Item 1 – Financial Statements
CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except share amounts)
(Unaudited)

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 14,285	\$ 14,365	\$ 11,893	\$ 14,025
Accounts receivable, net	2,585	3,788		
Accounts receivable, net of allowance for credit losses			2,971	1,906
Contract assets	2,895	2,170	2,689	1,604
Inventories, net	4,290	2,538		
Inventories			4,925	4,454
Other current assets	848	797	858	852
Total current assets	24,903	23,658	23,336	22,841
Employee retention credit receivable	-	1,529		
Property, plant and equipment, net	12,207	12,596	12,089	12,166
Intangible assets, net	107	119		
Other assets	10	10	18	18
Total assets	\$ 37,227	\$ 37,912	\$ 35,443	\$ 35,025
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 1,477	\$ 1,454	\$ 1,798	\$ 1,203
Accrued expenses	1,711	2,591	1,690	1,765
Current maturities of long-term debt	80	77	83	81
Deposits from purchaser of MesoScribe assets – note 11	597	-		
Deposit from purchaser of MesoScribe assets-Note 11			597	597
Contract liabilities	4,858	4,042	6,030	4,908
Total current liabilities	8,723	8,164	10,198	8,554
Long-term debt, net of current portion	288	349	247	268
Total liabilities	9,011	8,513	10,445	8,822
Contingencies – Note 12				
Stockholders' equity:				
Common stock - \$0.01 par value – 20,000,000 shares authorized; issued and outstanding 6,820,665 at September 30, 2023 and 6,760,938 at December 31, 2022	68	67		

Common stock - \$0.01 par value – 20,000,000 shares authorized; 6,824,511 issued and outstanding at March 31, 2024 and December 31, 2023			68	68
Additional paid-in capital	28,434	27,712	28,962	28,695
Retained earnings (accumulated deficit)	(286)	1,620		
Accumulated deficit			(4,032)	(2,560)
Total stockholders' equity	28,216	29,399	24,998	26,203
Total liabilities and stockholders' equity	\$ 37,227	\$ 37,912	\$ 35,443	\$ 35,025

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(in thousands, except per share and share amounts)
(Unaudited)

	2023	2022	2023	2022		
	Three months ended		Nine months ended		2024	2023
	September 30,		September 30,		Three Months Ended	
	2023	2022	2023	2022	March 31,	
					2024	2023
Revenue	\$ 6,234	\$ 8,119	\$ 19,998	\$ 18,579	\$ 4,922	\$ 8,695
Cost of revenue	4,636	5,699	14,579	13,952	4,063	6,261
Gross profit	1,598	2,420	5,419	4,627	859	2,434
Operating expenses:						
Research and development	704	518	1,865	1,397	746	602
Selling	434	290	1,281	895	419	419
General and administrative	1,450	1,490	4,410	3,937	1,317	1,600
Loss on disposition of Tantaline	-	-	162	-		
Impairment charge	-	-	111	-		
Total operating expenses	2,588	2,298	7,829	6,229	2,482	2,621
Operating income (loss)	(990)	122	(2,410)	(1,602)		
Operating loss					(1,623)	(187)
Other income (expense):						
Interest income	173	43	400	74	157	120
Interest expense	(6)	-	(18)	(5)	(6)	(6)
Foreign exchange income (expense)	-	(107)	42	(250)		
Foreign exchange income					-	27
Other income	70	5	91	11	-	8
Total other income (expense), net	237	(59)	515	(170)		
Income (loss) before income tax	(753)	63	(1,895)	(1,772)		
Total other income, net					151	149
Loss before income taxes					(1,472)	(38)

Income tax expense	<u>-</u>	<u>-</u>	<u>11</u>	<u>1</u>	<u>-</u>	<u>2</u>
Net income (loss)	<u>\$ (753)</u>	<u>\$ 63</u>	<u>\$ (1,906)</u>	<u>\$ (1,773)</u>		
Net loss					<u>\$ (1,472)</u>	<u>\$ (40)</u>
Income (loss) per common share - basic	<u>\$ (0.11)</u>	<u>\$ 0.01</u>	<u>\$ (0.28)</u>	<u>\$ (0.26)</u>		
Income (loss) per common share - diluted	<u>\$ (0.11)</u>	<u>\$ 0.01</u>	<u>\$ (0.28)</u>	<u>\$ (0.26)</u>		
Loss per common share - basic					<u>\$ (0.22)</u>	<u>\$ (0.01)</u>
Loss per common share - diluted					<u>\$ (0.22)</u>	<u>\$ (0.01)</u>
Weighted average common shares						
Weighted average common shares outstanding:						
Basic	<u>6,789,487</u>	<u>6,736,764</u>	<u>6,787,415</u>	<u>6,730,263</u>	<u>6,809,283</u>	<u>6,773,285</u>
Diluted	<u>6,789,487</u>	<u>6,740,692</u>	<u>6,787,415</u>	<u>6,730,263</u>	<u>6,809,283</u>	<u>6,773,285</u>

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
(in thousands, except share amounts)
(Unaudited)

Three months ended **September 30, 2023** **March 31, 2024** and **2022** 2023

	Shares	Par Value	Capital	Earnings	Total	Shares	Par Value	Capital	Earnings	Total
	Common stock		Additional paid-in	Retained		Common stock		Additional paid-in	(Accumulated Deficit)	
	Shares	Par Value	Capital	Earnings	Total	Shares	Par Value	Capital	Retained	Total
Balance at July 1, 2023	6,779,063	\$ 67	\$ 28,185	\$ 467	\$ 28,719					
Balance at January 1, 2024						6,824,511	\$ 68	\$ 28,695	\$ (2,560)	\$ 26,203
Net loss						-	-	-	(1,472)	(1,472)
Stock-based compensation						-	-	267	-	267
Balance at March 31, 2024						6,824,511	\$ 68	\$ 28,962	\$ (4,032)	\$ 24,998
Balance at January 1, 2023						6,760,938	\$ 67	\$ 27,712	\$ 1,620	\$ 29,399
Balance	6,779,063	\$ 67	\$ 28,185	\$ 467	\$ 28,719	6,760,938	\$ 67	\$ 27,712	\$ 1,620	\$ 29,399
Net loss	-	-	-	(753)	(753)	-	-	-	(40)	(40)
Stock-based compensation	41,320	1	249	-	250	-	-	135	-	135
Exercise of stock options and issuance of shares	272	-	-	-	-	17,500	-	73	-	73
Balance at September 30, 2023	6,820,655	\$ 68	\$ 28,434	\$ (286)	\$ 28,216					
Balance at July 1, 2022	6,728,938	\$ 67	\$ 27,466	\$ 7	\$ 27,540					
Net income	-	-	-	63	63					
Stock-based compensation	32,000	1	118	-	119					
Balance at September 30, 2022	6,760,938	\$ 68	\$ 27,584	\$ 70	\$ 27,722					

Balance at					
March 31,	6,778,438	\$ 67	\$ 27,920	\$ 1,580	\$ 29,567
2023					
Balance	<u>6,778,438</u>	<u>\$ 67</u>	<u>\$ 27,920</u>	<u>\$ 1,580</u>	<u>\$ 29,567</u>

Nine months ended September 30, 2023 and 2022

	Common stock		Additional	Retained	
	Shares	Par Value	paid-in	Earnings	Total
			Capital		
Balance at January 1, 2023	6,760,938	\$ 67	\$ 27,712	\$ 1,620	\$ 29,399
Net loss	-	-	-	(1,906)	(1,906)
Stock-based compensation	41,320	1	646	-	647
Exercise of stock options and issuance of shares	18,397	-	76	-	76
Balance at September 30, 2023	<u>6,820,655</u>	<u>\$ 68</u>	<u>\$ 28,434</u>	<u>\$ (286)</u>	<u>\$ 28,216</u>
Balance at January 1, 2022	6,723,438	\$ 67	\$ 27,277	\$ 1,843	\$ 29,187
Net loss	-	-	-	(1,773)	(1,773)
Stock-based compensation	37,500	1	307	-	308
Balance at September 30, 2022	<u>6,760,938</u>	<u>\$ 68</u>	<u>\$ 27,584</u>	<u>\$ 70</u>	<u>\$ 27,722</u>

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine months ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (1,906)	\$ (1,773)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on disposition of Tantaline	162	-
Impairment charge	111	-
Stock-based compensation	647	307
Depreciation and amortization	545	538
Changes in assets and liabilities, net of effects of disposition of Tantaline:		
Accounts receivable	1,163	(1,404)
Contract assets	(725)	(614)
Inventories	(1,756)	(909)
Tax receivable	-	716
Employee retention credit receivable	1,529	-
Other current assets	(46)	(66)
Accounts payable	113	363
Accrued expenses	(729)	687
Contract liabilities	816	(173)
Net cash used in operating activities	(76)	(2,328)
Cash flows from investing activities:		
Net cash used in connection with disposition of Tantaline	(312)	-
Deposits from purchaser of MesoScribe assets	597	-
Purchases of property and equipment	(308)	(638)
Capitalized patents costs	-	(53)
Net proceeds from sale of assets	-	10
Net cash used in investing activities	(23)	(681)
Cash flows from financing activities		
Proceeds from exercise of stock options	76	-
Payments of long-term debt	(57)	(1,766)
Net cash provided by (used in) financing activities	19	(1,766)
Net decrease in cash and cash equivalents	(80)	(4,775)
Cash and cash equivalents at beginning of period	14,365	16,651
Cash and cash equivalents at end of period	\$ 14,285	\$ 11,876
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 11	\$ 1
Interest paid	\$ 18	\$ 8
Non-cash investing and financing activities:		
Loan obtained for new equipment	\$ -	\$ 432
	Three Months Ended March 31,	
	2024	2023

Cash flows from operating activities:		
Net loss	\$ (1,472)	\$ (40)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	267	135
Depreciation and amortization	153	166
Changes in assets and liabilities:		
Accounts receivable	(1,065)	1,420
Contract assets	(1,085)	(1,537)
Inventories	(471)	(262)
Other current assets	(28)	119
Accounts payable	611	(25)
Accrued expenses	(75)	(467)
Contract liabilities	1,122	(2,781)
Net cash used in operating activities	(2,043)	(3,272)
Cash flows from investing activities:		
Purchases of property and equipment	(70)	(146)
Net cash used in investing activities	(70)	(146)
Cash flows from financing activities:		
Repayments of long-term debt	(19)	(19)
Proceeds from exercise of stock options	-	73
Net cash (used in) provided by financing activities	(19)	54
Net decrease in cash and cash equivalents	(2,132)	(3,364)
Cash and cash equivalents at beginning of period	14,025	14,365
Cash and cash equivalents at end of period	\$ 11,893	\$ 11,001
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ -	\$ 8
Interest paid	\$ 6	\$ 6

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited) (Unaudited)

NOTE 1:
BASIS OF PRESENTATION

The accompanying unaudited condensed 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, 2023 March 31, 2024 are not necessarily indicative of the results that can be expected for the year ending December 31, 2023 December 31, 2024.

The condensed consolidated balance sheet as of December 31, 2022 December 31, 2023 has been derived from the audited consolidated financial statements at such date, as filed on Form 10-K with the SEC on March 27, 2023 March 28, 2024, but does not contain all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with that report.

All material intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications have been made to the prior period condensed consolidated financial statements to conform to the current period presentation. These reclassifications had no effect on net income (loss) loss.

Liquidity

At September 30, 2023 March 31, 2024, the Company had \$14.3 11.9 million in cash and cash equivalents. The Company anticipates that the existing cash and cash equivalents balance together with potential future income from operations, collections of existing accounts receivable, revenue from its existing backlog of products as of this filing date, the sale of inventory on hand, deposits and down payments against significant orders will be adequate to meet its working capital and capital equipment requirements, and its anticipated cash needs over the next 12 months from the date of issuance of the accompanying Form 10-Q. these condensed consolidated financial statements..

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

In accordance with FASB ASC Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606 - Revenue from Contracts with Customers (“ASC 606” 606”), the Company records revenue in an amount that reflects the consideration to which the Company expects to be entitled in exchange for goods or services promised to its customers. Under ASC 606, the Company follows a five-step model to: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price for the contract; (4) allocate the transaction price to the performance obligations; and (5) recognize revenue using one of the following two methods:

Over time

The Company designs, manufactures and sells custom chemical vapor deposition, thermal process equipment and other equipment through contractual agreements. These system sales require the Company to deliver functioning equipment that is generally completed within two to eighteen months from commencement of order acceptance. For systems sales that meet the criteria to recognize revenue over time, the Company recognizes revenue over time by using an input method based on costs incurred as it depicts the Company’s progress toward satisfaction of the performance obligation. For system sales that do not meet the criteria to recognize revenue over time based on the contract provisions, the Company recognize recognizes revenue based on point in time.

Under the over time method, revenue arising from fixed price contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations. Incurred costs include all direct material and labor costs and those indirect costs related to contract performance, such as supplies, tools, repairs and depreciation costs. Contract material costs are included in incurred costs when the project materials have been purchased or moved to work in process, work-in-process, and installed, as required by the project’s engineering design. Cost based input methods of revenue recognition require the Company to make estimates of costs to complete the projects. In making such estimates, significant judgment is required to evaluate assumptions related to the costs to complete the projects, including materials, labor and other system costs. If the estimated total costs on any contract are greater than the net contract revenues, the Company recognizes the entire estimated loss in the period the loss becomes known and can be reasonably estimated. There were no material impairment losses recognized on contract assets during the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023..

The timing of revenue recognition, billings and collections results in accounts receivables, unbilled receivables or contract assets and contract liabilities on our consolidated balance sheet. Under typical payment terms for our contracts accounted for over time, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under ASC 606, payments received from customers in excess of revenue recognized to-date results in a contract liability. These contract liabilities are not considered to represent a significant financing component of the contract because we believe these cash advances and deposits are generally used to meet working capital demands which can be higher in the earlier stages of a contract. Also, advanced payments and deposits provide us with some measure of assurance that the customer will perform on its obligations under the contract.

Contract assets include unbilled amounts typically resulting from system sales under contracts and represents revenue recognized that exceeds the amount billed to the customer.

Contract liabilities include advance payments and billings in excess of revenue recognized. The Company typically receives down payments upon receipt of order and progress payments as the system is manufactured.

Contract assets and contract liabilities are classified as current as these contracts in progress are expected to be substantially completed within the next twelve months.

Point in time

For non-system sales of products and services, revenue is recognized at the point in time when control of the promised products or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products or services (the transaction price). A performance obligation is a promise in a contract to transfer a distinct product or service to a customer and is the unit of account under ASC 606, "Revenue from Contracts with Customers."

For any system equipment sales where the equipment would have an alternative use or where the contract provisions of the contract preclude the use of over time revenue recognition, revenue is recognized at the point in time when control of the equipment is transferred to the customer. For the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, all system equipment sales were recorded over time by using an input method. There was one system equipment contract in 2023 where the revenue was to be recognized at the point in time when the equipment is transferred to the customer. This contract was modified during the three months ended September 30, 2023 such that the revenue under this contract will now be recognized over time using an input method based on the revised contract provisions and the fact that the equipment does not have an alternative use. Revenues for the three months ended September 30, 2023 includes \$0.8 million of revenue that was deferred as of June 30, 2023 and recognized on the date of the contract modification.

Inventories

Inventories (raw materials, work-in-process and finished goods) are valued at the lower of cost (determined on the first-in, first-out method) or net realizable value. Work-in-process and finished goods inventory reflect all accumulated production costs, which are comprised of direct production costs and overhead, and is reduced by amounts recorded in cost of sales as the related revenue is recognized. Indirect costs relating to long-term contracts, which include expenses such as general and administrative, are charged to expense as incurred and are not included in our cost of sales or work-in-process and finished goods inventory.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Obsolete inventory or inventory in excess of management's estimated usage requirement is written down to its estimated net realizable value if less than cost. The Company evaluates usage requirements by analyzing historical usage, anticipated demand, alternative uses of materials, and other qualitative factors. Unanticipated changes in demand for the Company's products may require a write down of inventory, which would be reflected in cost of sales in the period the revision is made.

Product Warranty

The Company typically provides standard warranty coverage on its systems for one year from the date of final acceptance or fifteen months from the date of shipment by providing labor and parts necessary to repair the systems during the warranty period. The Company records the estimated warranty cost when revenue is recognized on the related system. Warranty cost is included in "Cost of revenue" in the condensed consolidated statements of operations. The estimated warranty cost is based on the Company's historical cost. The Company updates its warranty estimates based on actual costs incurred.

Recent Accounting Standards

In June 2016, December 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," which requires public business entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. In addition to new disclosures associated with the rate reconciliation, the ASU requires information pertaining to taxes paid (net of refunds received) to be disaggregated for federal, state, and foreign taxes and further disaggregated for specific jurisdictions to the extent the related amounts exceed a quantitative threshold. The ASU also describes items that need to be disaggregated based on their nature, which is determined by reference to the item's fundamental or essential characteristics, such as the transaction or event that triggered the establishment of the reconciling item and the activity with which the reconciling item is associated. The ASU eliminates the historic requirement that entities disclose information concerning unrecognized tax benefits having a reasonable possibility of significantly increasing or decreasing in the 12 months following the reporting date. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. This ASU should be applied on a prospective basis; however, retrospective application is permitted. We are currently evaluating the impact that ASU 2023 – 09 may have on our consolidated financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In November 2023, the FASB issued Accounting Standard Update (“ASU”) 2016-13, Financial Instruments – Credit Losses ASU 2023-07, “Segment Reporting (Topic 326) 280): Improvements to Reportable Segments,” which require aims to improve financial reporting by requiring disclosure of incremental segment information on an annual and interim basis for all public entities to enable investors to develop more decision-useful financial analyses. Currently, Topic 280 requires that financial assets measured at amortized cost be presented at a public entity disclose certain information about its reportable segments. For example, a public entity is required to report a measure of segment profit or loss that the net amount expected CODM uses to assess segment performance and make decisions about allocating resources. Topic 280 also requires other specified segment items and amounts, such as depreciation, amortization, and depletion expense, to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the increase or decrease of expected credit losses that have taken place during the period. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. On November 15, 2019, the FASB delayed the effective date for smaller reporting companies, disclosed under certain circumstances. The amendments in this update are ASU do not change or remove those disclosure requirements and do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments. This ASU is effective for fiscal years beginning after December 15, 2022 December 15, 2023, and interim periods within those annual periods. The fiscal years beginning after December 15, 2024. Early adoption of is permitted. We are currently evaluating the impact that ASU 2016-3 as of January 1, 2023 did not 2023 – 07 may have a material impact on the Company’s our consolidated financial position, statements.

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

NOTE 3: CONCENTRATION OF CREDIT RISK

Cash and cash equivalents

The Company had cash and cash equivalents of \$14.3 11.9 million and \$14.4 14.0 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The Company invests excess cash in U.S. treasury bills, certificates of deposit or deposit accounts, all with maturities of less than three months. Cash equivalents consisting of U.S. treasury bills were \$13.4 11.1 million and \$11.7 12.1 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

NOTE 3: CONCENTRATION OF CREDIT RISK (continued)

The Company places most of its temporary cash investments in the United States with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit. The amount at risk at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was \$0.80.3 million and \$1.5 million, respectively.

The Company's cash balance at its Tantaline subsidiary based in Denmark exceeded the government guarantee limit by approximately \$

11

0.5 million at December 31, 2022.

NOTE 3: CONCENTRATION OF CREDIT RISK (continued)

Account 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 routinely assesses the financial strength of its customers, customers. In accordance with the "expected credit loss" model, the carrying amount of accounts receivable is reduced by a valuation allowance that reflects the best estimate of the amounts the Company does not expect to collect. In addition to reviewing delinquent accounts receivable, the Company consider many factors in estimating our reserve, including types of customers and their credit worthiness, experience and historical data adjusted for current conditions and reasonable supportable forecasts. The Company records an allowance for credit losses based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided based upon the collection history, current economic trends and reasonable supportable forecasts.

Accounts receivable are is presented net of an allowance for doubtful accounts credit losses of approximately \$36,000 at as of both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. The allowance is based on prior experience and management's evaluation of future economic conditions. Measurement of credit losses requires consideration of historical loss experience, including the need to adjust for changing business conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and the financial health of specific customers. Future changes to the estimated allowance for doubtful accounts could be material to our results of operations and financial condition.

At September 30, 2023 March 31, 2024, the accounts receivable balance included an amount from one customer that totaled 67.2% of total accounts receivable. As of December 31, 2023, the accounts receivable balance includes amounts from three customers that totaled represented 53.6 37.6%, 13.0% and 12.8% of total accounts receivable and at December 31, 2022, the accounts receivable balance included amounts from two customers that totaled 66% of total accounts receivable.

Sales concentration

Revenue from a single customer in any one period can exceed 10% of our total revenues. During the three months ended September 30, 2023 March 31, 2024, two customers represented exceeded 10% of revenues, representing 40.3 29.6% and 10.3% of revenues, respectively, and during the nine months ended September 30, 2023, three customers represented 16.7%, 13.9% and 11.7% of revenues, respectively. During the three months ended September 30, 2022, one customer represented 44.6 13.1% of revenues, and during the nine three months ended September 30, 2022 March 31, 2023, one customer represented three customers exceeded 10%, representing 28.6 28.3%, 15.9% and 10.6% of revenues.

NOTE 4: REVENUE RECOGNITION

The following table represents a disaggregation of revenue for the three and nine months ended September 30, 2023, March 31, 2024 and 2022 (in thousands):

				Over time	Point in time	Total
				Three months ended March 31, 2024		
	Over time	Point in time	Total			
	Three months ended September 30, 2023					
	Over time	Point in time	Total	Over time	Point in time	Total
Energy	\$ 970	\$ 136	\$ 1,106	\$ -	\$ 18	\$ 18
Aerospace	2,511	371	2,882	1,802	332	2,134
Industrial	695	739	1,434	1,259	483	1,742
Research	504	308	812	861	167	1,028
Total	\$ 4,680	\$ 1,554	\$ 6,234	\$ 3,922	\$ 1,000	\$ 4,922

Three months ended September 30, 2022			
	Over time	Point in time	Total
Energy	\$ 3,791	\$ 25	\$ 3,816
Aerospace	-	154	154
Industrial	1,653	1,153	2,806
Research	827	516	1,343
Total	\$ 6,271	\$ 1,848	\$ 8,119
Nine months ended September 30, 2023			
	Over time	Point in time	Total
Energy	\$ 4,246	\$ 189	\$ 4,435
Aerospace	2,774	1,226	4,000
Industrial	5,450	1,866	7,316
Research	2,960	1,287	4,247
Total	\$ 15,430	\$ 4,568	\$ 19,998
Nine months ended September 30, 2022			
	Over time	Point in time	Total
Energy	\$ 6,714	\$ 49	\$ 6,763
Aerospace	-	1,375	1,375
Industrial	4,099	3,197	7,296
Research	1,832	1,313	3,145
Total	\$ 12,645	\$ 5,934	\$ 18,579

NOTE 4: REVENUE RECOGNITION (continued)

	Three months ended March 31, 2023		
	Over time	Point in time	Total
Energy	\$ 2,516	\$ 14	\$ 2,530
Aerospace	264	251	515
Industrial	3,670	213	3,883
Research	1,272	495	1,767
Total	\$ 7,722	\$ 973	\$ 8,695

The energy market includes customers involved in the manufacture of silicon carbide wafers and batteries. Aerospace market includes customers that manufacture aircraft engines. Industrial end market consists of various end customers in diverse industries. Research The research market principally represents customers that are universities and other research institutions.

The Company has unrecognized contract revenue of approximately \$15.5 24.8 million at September 30, 2023 March 31, 2024, which it expects to substantially recognize as revenue within the next twelve months based on over time revenue recognition. The Company also has orders of approximately \$1.1 million for contracts that it expects to recognize with the next twelve months based on point in time revenue recognition. eighteen months.

Judgment is required to evaluate assumptions including the amount of net contract revenues and the total estimated costs to determine our progress towards contract completion and to calculate the corresponding amount of revenue to recognize.

Changes in estimates for sales of systems may occur for a variety of reasons, including but not limited to (i) build accelerations or delays, (ii) product cost forecast changes, (iii) cost related change orders or add-ons, or (iv) changes in other information used to estimate costs. Changes in estimates may have a material effect on the Company's condensed consolidated statements of operations.

NOTE 4: REVENUE RECOGNITION (continued)

Contract assets and liabilities

Contract assets and contract liabilities on input method type contracts in progress are summarized as follows as of September 30, 2023 March 31, 2024 (in thousands):

Costs incurred on contracts in progress	\$	16,762
Estimated earnings		11,756
		28,518
Billings to date		(30,163)
		(1,645)
Deferred revenue related to non-system contracts		(318)
	\$	(1,963)
Included in accompanying condensed consolidated balance sheet as of September 30, 2023 under the following captions (in thousands):		
Contract assets	\$	2,895
Contract liabilities	\$	(4,858)

NOTE 4: REVENUE RECOGNITION (continued)

Costs incurred on contracts in progress	\$	10,024
Estimated earnings		4,582
	\$	14,606
Billings to date		(17,649)
		(3,043)
Deferred revenue related to non-system contracts and a system contract to be recognized at point in time		(298)
	\$	(3,341)
Included in accompanying condensed consolidated balance sheets under the following captions (in thousands):		
Contract assets	\$	2,689
Contract liabilities	\$	6,030

Of the contract liability balances at December 31, 2022 December 31, 2023 and 2021 2022 of \$4.0 4.6 million and \$1.7 4.1 million, respectively, \$3.7 1.3 million and \$1.6 2.9 million was recognized as revenue during the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023, respectively.

NOTE 5: INVENTORIES, NET

Inventories consist of:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Raw materials	\$ 2,883	\$ 2,165	\$ 2,507	\$ 2,351
Work-in-process	580	373	1,563	1,248
Finished goods	827	-	855	855
Total	\$ 4,290	\$ 2,538	\$ 4,925	\$ 4,454

NOTE 6: LONG-TERM DEBT

In September 2022, the Company entered into a loan agreement to fund the acquisition of machinery. The loan amount of \$0.4 432,000 million, is payable in 60 equal monthly installments of \$8,352 and secured by equipment. The interest rate is 6%.

NOTE 7: EARNINGS PER SHARE

The calculation of basic and diluted weighted average common shares outstanding for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 is as follows:

	2023	2022	2023	2022	2024	2023
	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Basic weighted average common shares outstanding	6,789,487	6,736,764	6,787,415	6,730,263	6,809,283	6,773,285
Dilutive effect of options and unvested restricted stock	-	3,928	-	-		
Effect of potentially dilutive share-based awards					-	-
Diluted weighted average shares outstanding	6,789,487	6,740,692	6,787,415	6,730,263	6,809,283	6,773,285

At September 30, 2023 March 31, 2024, stock options to purchase 873,875 841,875 shares of common stock were outstanding and 349,375 395,625 were exercisable. At September 30, 2022 March 31, 2023, stock options to purchase 678,000 899,500 shares of common stock were outstanding and 290,500 252,375 were exercisable.

Except for For the three months ended September 30, 2022, all March 31, 2024 and 2023, 841,875 and 899,500 of stock options, respectively, were excluded not included in the computation of diluted earnings per share because their effect was antidilutive.

NOTE 8: STOCK-BASED COMPENSATION EXPENSE

The Company recorded stock-based compensation for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively, that were included in the following line items in our condensed consolidated statements of operations (in thousands):

	Three months ended March 31,	
	2024	2023
Cost of revenue	\$ 38	\$ 19
Research and development	47	20
Selling	27	11
General and administrative	155	85
Total	\$ 267	\$ 135

NOTE 8: STOCK-BASED COMPENSATION EXPENSE (continued)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Cost of revenue	\$ 22	\$ 9	\$ 82	\$ 26
Research and development	47	16	113	43
Selling	30	8	72	18
General and administrative	150	86	380	220
Total	\$ 249	\$ 119	\$ 647	\$ 307

Stock-based compensation expense in three-month periods ended September 30, 2023 and 2022 included approximately \$44,783 50,000 and \$40,000, for the three months ended March 31, 2024 and 2023, respectively, related to restricted stock awards that directors are entitled elected to receive pursuant to the Director Compensation plan. Stock-based compensation expense in both nine-month periods ended September 30, 2023 and 2022 included approximately \$0.1 million related to restricted stock awards that directors are entitled to receive pursuant to the Director Compensation plan. Under this plan, each of the five independent directors is entitled to an Annual Equity Retainer in the amount of \$40,000, to be granted on the date of the Company's annual meeting of shareholders or upon appointment to the board of directors and vest quarterly over the following year. shareholders.

The following table summarizes restricted stock awards through September 30, 2023:

	Restricted Awards (in shares)	Weighted Average Exercise Price
Unvested restricted stock awards at January 1, 2023	-	\$ -
Granted	29,660	6.57
Exercised	(6,699)	6.68
Forfeited	-	-
Unvested restricted stock awards at September 30, 2023	22,961	6.53

For the nine three months ended September 30, 2023 March 31, 2024, the Company granted 254,000 5,000 stock options, vesting 25% 25% per year over four years, with a ten-year life. The Company determined the weighted average fair value of stock options granted was \$9.27 3.30 and is based upon weighted average assumptions below.

Stock price	\$ 14.02	\$ 4.75
Exercise price	\$ 14.02	\$ 4.75
Dividend yield	0 %	0 %
Expected volatility	72 %	77 %
Risk-free interest rate	3.39 %	4.12 %
Expected life (in years)	6.00	6.00

The following table summarizes stock options awards for the three months ended March 31, 2024:

	Stock Option Awards (in shares)	Weighted Average Exercise Price
Outstanding at January 1, 2024	846,875	\$ 8.20
Granted	5,000	4.75
Forfeited	(10,000)	8.01
Outstanding at March 31, 2024	841,875	8.18

The following table summarizes information about the outstanding and exercisable options at March 31, 2024 by ranges of exercise prices:

Options Outstanding					Options Exercisable		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual	Weighted Average Exercise Price	Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Intrinsic Value
\$ 4.00-7.00	462,125	7.6	\$ 4.55	\$ 144,275	194,750	\$ 4.48	\$ 68,931

\$	7.01-10.00	20,000	4.1	\$	8.07	\$	-	20,000	\$	8.07	\$	-
\$	10.01-13.00	130,000	3.4	\$	10.62	\$	-	122,500	\$	10.55	\$	-
\$	13.01-16.00	229,750	9.0	\$	14.11	\$	-	58,375	\$	14.11	\$	-

NOTE 8: STOCK-BASED COMPENSATION EXPENSE (continued)

The following table summarizes stock options awards through September 30, 2023:

	Stock Option Awards (in shares)	Weighted Average Exercise Price
Outstanding at January 1, 2023	673,000	\$ 5.70
Granted	254,000	14.02
Exercised	(20,625)	4.18
Forfeited	(32,500)	6.57
Outstanding at September 30, 2023	873,875	8.12

The following table summarizes information about the outstanding and exercisable options at September 30, 2023 by ranges of exercise prices:

Options Outstanding					Options Exercisable		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual	Weighted Average Exercise Price	Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Intrinsic Value
\$ 4.00-7.00	487,375	8.1	\$ 4.56	\$ 1,020,173	209,375	\$ 4.49	\$ 451,941
\$ 7.01-10.00	20,000	4.6	\$ 8.07	\$ -	20,000	\$ 8.07	\$ -
\$ 10.01-13.00	130,000	4.3	\$ 11.51	\$ -	120,000	\$ 10.52	\$ -
\$ 13.01-16.00	236,500	9.5	\$ 14.11	\$ -	-	-	\$ -

As of September 30, 2023 March 31, 2024, there was \$2.7 2.2 million of unrecognized compensation costs related to stock options expected to be recognized over a weighted average period of 2.9 2.0 years.

NOTE 9:INCOME TAXES

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company has provided a full valuation allowance against its net deferred tax assets. This was based on management's assessment, including the last four years of operating losses in recent years, that it is more likely than not that the net deferred tax assets may not be realized in the future. Management continues to evaluate for potential utilization of the Company's net deferred tax asset, which has been fully reserved for, on a quarterly basis, reviewing our economic models, including projections of future operating results.

NOTE 10: SEGMENT REPORTING

The Company operates through three segments: CVD Equipment, Stainless Design Concepts (“SDC”) and CVD Materials. The CVD Equipment segment manufactures and sells chemical vapor deposition, physical vapor transport and similar equipment. The SDC segment designs and manufactures ultra-high purity gas and chemical delivery control systems. The CVD Materials segment provides material coatings for aerospace, medical, electronic and other applications and is not considered a core business of the Company. See Note 11 for the disposition of the Tantaline subsidiary and planned disposition of the MesoScribe subsidiary which comprise the CVD Materials segment. The Company evaluates performance based on several factors, of which the primary financial measure is income (loss) before taxes.

The Company’s corporate administration activities are reported in the “Corporate” column. These activities primarily include expenses related to certain corporate officers and support staff, expenses related to the Company’s Board of Directors, stock option expense for options and shares of restricted stock granted to corporate administration employees and board members, certain consulting expenses, investor and shareholder relations activities, and all of the Company’s legal, auditing and professional fees.

Elimination entries included in the “Eliminations” column represent intersegment revenues and cost of revenues that are eliminated in consolidation. Intersegment sales for the three months ended March 31, 2024 and 2023 by the SDC segment to the CVD Equipment segment for the three months ended September 30, 2023 and 2022 were \$0.2 million and \$72,000, respectively, and \$0.6 million and \$0.5 million for the nine months ended September 30, 2023 and 2022, respectively. Intersegment sales by the CVD Equipment segment to the SDC segment for the three months and nine months ended September 30, 2023 were \$39,000, 15,000 and \$0.1, 129,000 million, respectively. There were no intersegment sales by the CVD Equipment segment to the SDC segment in 2022.

NOTE 10: SEGMENT REPORTING (continued)

The following table presents certain information regarding the Company's segments as of and for the three months ended September 30, 2023 and 2022 (in thousands):

2023						
	CVD Equipment	SDC	CVD Materials	Eliminations	Corporate	Consolidated
Assets	\$ 32,915	\$ 4,237	\$ 177	\$ (102)	\$ -	\$ 37,227
Revenue	\$ 4,795	\$ 1,572	\$ 90	\$ (223)	\$ -	\$ 6,234
Operating (loss) income	(323)	436	(35)	(76)	(992)	(990)
Pretax (loss) income	(262)	434	(31)	(76)	(818)	(753)
Depreciation and amortization	\$ 137	\$ 12	\$ 4	\$ -	\$ -	\$ 153
Purchase of property, plant & equipment	\$ 83	\$ -	\$ -	\$ -	\$ -	\$ 83
2022						
	CVD Equipment	SDC	CVD Materials	Eliminations	Corporate	Consolidated
Assets	\$ 22,415	\$ 8,800	\$ 2,345	\$ 42	\$ -	\$ 33,602
Revenue	\$ 5,718	\$ 1,663	\$ 809	\$ (71)	\$ -	\$ 8,119
Operating (loss) income	(32)	448	365	-	(659)	122
Pretax (loss) income	(27)	448	257	-	(615)	63
Depreciation and amortization	\$ 107	\$ 12	\$ 17	\$ -	\$ -	\$ 136
Purchase of property, plant & equipment **	\$ 610	\$ -	\$ -	\$ -	\$ -	\$ 610

** Includes \$0.4 million of purchased equipment financed with a loan.

NOTE 10: SEGMENT REPORTING (continued)

The following table presents certain information regarding the Company's segments as of and for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** (in thousands):

2023							
	<u>CVD Equipment</u>	<u>SDC</u>	<u>CVD Materials</u>	<u>Eliminations</u>	<u>Corporate</u>	<u>Consolidated</u>	
Revenue	\$ 13,774	\$ 5,679	\$ 1,099	\$ (554)	\$ -	\$ 19,998	
Operating (loss) income	(581)	1,430	(178)*	(104)	(2,977)	(2,410)	
Pretax (loss) income	(518)	1,430	(126)*	(104)	(2,577)	(1,895)	
Depreciation and amortization	\$ 404	\$ 36	\$ 105	\$ -	\$ -	\$ 545	
Purchase of property, plant & equipment	\$ 298	\$ 10	\$ -	\$ -	\$ -	\$ 308	
2024							
	<u>CVD Equipment</u>	<u>SDC</u>	<u>CVD Materials</u>	<u>Eliminations</u>	<u>Corporate</u>	<u>Consolidated</u>	
Assets	\$ 31,412	\$ 3,882	\$ 183	\$ (34)	\$ -	\$ 35,443	
Revenue	\$ 2,947	\$ 1,931	\$ 59	\$ (15)	\$ -	\$ 4,922	
Operating (loss) income	(1,405)	632	(25)	-	(825)	(1,623)	
Pretax (loss) income	(1,411)	632	(25)	-	(668)	(1,472)	
Depreciation and amortization	\$ 141	\$ 12	\$ -	\$ -	\$ -	\$ 153	
Purchase of property, plant & equipment	\$ 76	\$ -	\$ -	\$ -	\$ -	\$ 76	

2022							
	<u>CVD Equipment</u>	<u>SDC</u>	<u>CVD Materials</u>	<u>Eliminations</u>	<u>Corporate</u>	<u>Consolidated</u>	
Revenue	\$ 12,324	\$ 4,669	\$ 2,083	\$ (497)	\$ -	\$ 18,579	
Operating (loss) income	(1,391)	1,117	642	-	(1,970)	(1,602)	
Pretax (loss) income	(1,380)	1,117	394	-	(1,903)	(1,772)	
Depreciation and amortization	\$ 439	\$ 37	\$ 62	\$ -	\$ -	\$ 538	
Purchase of property, plant & equipment **	\$ 1,038	\$ 2	\$ 30	\$ -	\$ -	\$ 1,070	

* Includes loss on sale of Tantaline of \$0.2 million and an impairment charge related to MesoScribe fixed assets of \$0.1 million.

** Includes \$0.4 million of purchased equipment financed with a loan.

2023							
	<u>CVD Equipment</u>	<u>SDC</u>	<u>CVD Materials</u>	<u>Eliminations</u>	<u>Corporate</u>	<u>Consolidated</u>	
Assets	\$ 28,509	\$ 4,467	\$ 1,783	\$ 25	\$ -	\$ 34,784	
Revenue	\$ 5,845	\$ 2,312	\$ 667	\$ (129)	\$ -	\$ 8,695	
Operating (loss) income	(95)	631	81	-	(804)	(187)	
Pretax (loss) income	(93)	631	108	-	(684)	(38)	
Depreciation and amortization	\$ 131	\$ 12	\$ 23	\$ -	\$ -	\$ 166	
Purchase of property, plant & equipment	\$ 136	\$ 10	\$ -	\$ -	\$ -	\$ 146	

1918

NOTE 11: CVD MATERIALS – TANTALINE AND MESOCRIBE SUBSIDIARIES MESOCRIBE SUBSIDIARY

Tanteline Subsidiary

On May 26, 2023, the Company sold its Tanteline subsidiary located in Nordborg, Denmark in exchange for a nominal amount at closing and an earn-out provision based on any net income that Tanteline may earn during the five-year period ending December 31, 2027. The Company recorded a loss of \$0.2 million upon the sale. Any earn-out amounts will be recognized when and if any such amounts become probable of receipt.

The decision to sell Tanteline was based on the Company's ongoing strategy to focus on the equipment business consisting of the CVD Equipment and SDC segments and reduce its focus on the non-core CVD Materials business.

Including the loss on disposition of \$0.2 million, the revenues and net income of Tanteline were \$0.5 million and \$0.1 million, respectively, for the nine months ended September 30, 2023. The total assets and total liabilities of the Tanteline subsidiary were \$1.1 million and \$0.1 million as of December 31, 2022.

MesoScribe Subsidiary

On August 8, 2023, the Company entered into a Purchase and License Agreement (the "Agreement") with a third-party. Pursuant to the Agreement, the Company will sell certain proprietary assets relating to its plasma spray technology and material deposition system and grant a non-exclusive license to use certain of the Company's related intellectual property as more fully described in the Agreement, for an aggregate purchase price of \$0.9 million. The purchase price is payable in several installments and contingent upon certain performance metrics and other milestones.

The Company will continue to fulfill remaining orders for MesoScribe products through the end of 2024 at which time it plans to cease the remaining operations of MesoScribe and dispose of any remaining equipment. During the three and nine months ended September 30, 2023, the Company recorded an impairment charge of none and \$0.1 million, respectively, for certain equipment of MesoScribe based on its decision to cease the operations of MesoScribe upon fulfillment of remaining orders. There were no impairment charges recorded in 2022.

During the three months ended September 30, 2023, the Company received payments under the Agreement in the amount of \$0.6 million which has been reflected as "deposits" "deposit from purchaser" in the accompanying condensed consolidated balance sheet, sheet as of March 31, 2024 and December 31, 2023. The Company expects the transaction to be completed during the next three months in 2024 with the shipment acceptance of the equipment to by the purchaser.

The revenues and net loss of MesoScribe were \$90,000 59,000 and (\$30,000) 25,000 for the three months ended September 30, 2023 March 31, 2024. The revenue and net income were \$0.6 million and \$49,000 respectively, for the nine months ended September 30, 2023, including the impairment charge of \$0.1 million.

NOTE 11: CVD MATERIALS – TANTALINE AND MESOCRIBE SUBSIDIARIES (continued)

The total assets and total liabilities of the MesoScribe subsidiary were \$0.2 million and \$0.7 million, respectively, as of September 30, 2023 March 31, 2024 and \$0.9 0.2 million and \$0.1 0.7 million, respectively, as of December 31, 2022 December 31, 2023.

NOTE 12: RISKS AND UNCERTAINTIES

The Company currently operates in a challenging economic environment as the global economy continues to confront the remaining impacts from the pandemic, geopolitical conflicts, inflationary pressures, and adverse supply chain disruptions. The specific impacts on the Company have included:

- Significant geopolitical developments across Europe and Asia (including the war in Ukraine) have and may continue to restrict the Company's ability to procure raw materials and components such as nickel graphite and integrated circuits, as well as impact the Company's ability to sell its products into China, Russia and other Eastern European and Asian regions.
- Supply chain disruptions have led to much longer lead times to acquire raw materials for production and has led to inflationary pressures in both materials and labor. These supply chain disruptions have impacted the Company's ability to recognize revenue more timely timelier as it delays the Company's manufacturing processes.

While management has initiated actions to mitigate the potential negative impacts to its revenue and profitability, the Company is unable to predict the impact that the above uncertainties will may have on its future results of operations and cash flows.

21 19

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 Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. These statements involve known and unknown risks and uncertainties that may cause our actual results or outcomes to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on various factors and are 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:

- uncertainty as to our future profitability;
- competition in our existing and potential future product lines of business, including our PVT150 / PVT 200 PVT200 systems;
- uncertainty as to our ability to attract and retain key personnel and employees; develop new products for the high power electronics market including our plan to develop a PVT200 to grow silicon carbide crystals for 200 mm wafers;
- our ability to obtain financing on acceptable terms if and when needed;
- uncertainty as to our ability to develop new products for the high power electronics market including our plan to launch a PVT200 system to grow silicon carbide crystals for 200mm wafers attract and our plan to develop epitaxy equipment for silicon carbide wafers;
- uncertainty as to our future growth retain key personnel and profitability; employees; and
- uncertainty as to our ability to adequately obtain raw materials and components for production from foreign markets in light of geopolitical developments and due to supply chain disruptions. on commercially reasonable terms.

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. We assume 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 performance is no guaranty of future results.

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""believes", "anticipates""anticipates", "expects""expects", "estimates""estimates", "plans""plans", "intends""intends", "will" "will" and similar expressions are intended to identify forward-looking statements.

22 20

Executive Summary

We have served the advanced materials markets with chemical vapor and thermal process equipment for over 40 years. CVD designs, develops, and manufactures a broad range of chemical vapor deposition, thermal process, gas control, and other state-of-the-art equipment and process solutions used to develop and manufacture materials and coatings for industrial applications and research. To learn more about CVD's systems and offerings, visit www.cvdequipment.com, www.cvdequipment.com.

During the three months ended March 31, 2024:

- Revenue declined by \$3.8 million or 43.4% as the first quarter of 2023 benefited from a large PVT150 order.
- Gross margin declined by \$1.6 million or 64.7% due to lower gross profit margins on contracts in progress and overall lower revenues as compared to the prior period quarter.
- Total bookings for the first quarter of 2024 were approximately \$13.6 million compared to bookings of \$2.9 million in the first quarter of 2023.
- Bookings in 2024 included a \$10.0 million multisystem order from an industrial customer that will be used to deposit a silicon carbide protective coating on OEM components.
- During the first quarter of 2024, we received an order from an additional customer for our new PVT200 system that will be used to grow silicon carbide crystals for the manufacture of 200 mm wafers.
- Increased our backlog from \$18.4 million at December 31, 2023 to \$27.1 million.
- Cash balance at March 31, 2024 was \$11.9 million.

Business Update

Our core strategy is to focus on growth market applications in end-user end markets related to the “electrification of everything” everything,” aerospace and aerospace, industrial applications. The phrase “electrification of everything” refers to the shift from fossil fuels to the use of electricity to power devices, buildings, electric vehicles or EVs, (“EVs”), and many other applications. With respect to aerospace, our systems are being used by our customers to produce ceramic matrix composite materials or CMCs (“CMCs”) that could will be used in next generation gas turbine jet engines with the objective of reducing jet fuel consumption and contributing to the decarbonization of that industry.

During 2021 Our current strategy yielded multisystem orders of PVT150 equipment that was delivered to one company that manufactures silicon carbide wafers in 2023 and 2022, 2022.

In February 2024, we received the 30 initial orders an order from an additional customer for our PVT150 new PVT200 system that is used by our customer to grow silicon carbide crystals. These crystals are then further processed into silicon carbide wafers by our customer. Integrated circuits and devices based on silicon carbide have been shown to reduce energy consumption in EVs and reduce the need for additional cooling elements. We also launched our marketing campaign for the PVT150 system manufacture of 200 mm wafers. This represents our second customer for our PVT equipment. This customer plans to the broader customer market in the first quarter evaluate our equipment for potential additional purchases of 2023 as we seek PVT equipment. We have also received orders from other potential customers. OneD Battery Materials in 2023, a company that is engaged in providing battery nanomaterials.

Both technologies are essential for the support of the EV market. These systems should provide us with standard product offering to continue to support the EV focused market as well as energy storage, power conversion and power transmission. We have been engaged in discussions with several potential customers. There were no PVT150 system orders received plan to expand our product offerings in the first nine months power electronics market to build off the introduction of 2023. The uncertainty as the PVT150 and PVT200 systems. We are also evaluating our ability to provide other equipment used in the receipt and timing manufacturing process of orders for our PVT product line contributes to the overall quarter to quarter fluctuation in such orders, silicon carbide wafers.

During 2022, we completed the production of a PowderCoat 1100 system also received an order from an aerospace company for a production chemical vapor infiltration (CVI) system that will be used to manufacture CMCs for gas turbine jet engines. In 2023, we received an order from the same aerospace company for an additional three CVI systems.

In February 2024, we received a multisystem order from an industrial customer for approximately \$10 million that grows will be used for depositing a silicon nanowires onto powders used carbide protective coating on OEM components.

We have generally gained new customers through our industry reputation, as well as limited print advertising and trade show attendance. We have increased the number of trade shows and industry conferences. In addition, we added to our sales and marketing team in silicon-graphite anodes that has the objective of increasing EV battery performance while lowering cost. 2022 and expanded our sales team in early 2023.

During 2022 and 2023, we received orders from a major aerospace company for the production of chemical vapor infiltration systems to be used to manufacture CMCs. In prior years, we had sold tow-coating systems to manufacture CMCs to another major jet engine manufacturer and have an installed base of such systems at that customer.

During the nine three months ended September 30, 2023 March 31, 2024, new order bookings approximated \$19.9 million \$13.6 million, representing a decrease an increase of approximately \$4.1 million or 17.1% \$10.7 million as compared to bookings of \$24.0 million \$2.9 million in the nine three months ended September 30, 2022 March 31, 2023. CVD Equipment segment's orders in the first nine months of 2023 reflected demand in two of our three strategic markets. Aerospace orders were approximately \$10.6 million consisting of multiple systems orders that expect to ship over the next 12 months. Order bookings in 2023 included a battery nanomaterial production system of approximately \$1.8 million that is expected to be completed in 2023.

Our backlog decreased increased from \$17.8 million \$18.4 million at December 31, 2022 December 31, 2023 to \$16.6 million \$27.1 million at September 30, 2023 March 31, 2024 as orders revenues were less than revenues in excess of orders by approximately \$0.1 million \$8.7 million. In addition, the backlog was reduced by \$0.5 million related to the sale of Tantaline and \$0.6 million related to the planned wind down of MesoScribe.

Historically, our orders have fluctuated based on end user market conditions, adoption of our new products and acceptance of our products and our customers' ability to raise capital financing. products. The order rate as well as other factors in our manufacturing process ultimately impacts the timing of revenue recognition, whether accounted for over time or at a point in time. In addition, any system revenue that will be recognized based on point in time will result in fluctuations as revenue is recognized at the point in time when control of the promised products or services is transferred to our customers.

Accordingly, orders received from customers and the corresponding revenue recognized may fluctuate from quarter to quarter. The sales cycle for our equipment is typically six months, but can range up to twelve to eighteen months, depending on the application and product stage of the equipment. The order cycle to manufacture and test a system also will vary from six to eighteen months for our CVD Equipment segment and two to twelve months for our SDC segment, depending on system complexity and magnitude of the system.

24 22

Results of Operations

Three Months Ended **September 30, 2023** **March 31, 2024** and **2022 2023**

The following table presents revenue and expense line items reported in our condensed consolidated statements of operations for the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **2022 2023** and the period-over-period dollar and percentage changes for those line items (in thousands, except percentages).

	Three months ended September 30				March 31			
	2023	2022	Change	Percent	2024	2023	Change	Percent
Revenue	\$ 6,234	\$ 8,119	\$ (1,885)	(23.2)%	\$ 4,922	\$ 8,695	\$ (3,773)	(43)%
Cost of revenue	4,636	5,699	(1,063)	(18.7)%	4,063	6,261	(2,198)	(35)%
Gross profit	1,598	2,420	(822)	(34.0)%	859	2,434	(1,575)	(65)%
Gross profit percentage	25.6 %	29.8 %			17.5 %	28.0 %		
Operating expenses:								
Research and development	704	518	186	35.9 %	746	602	144	24 %
Selling	434	290	144	49.7 %	419	419	-	0 %
General and administrative	1,450	1,490	(40)	(2.7)%	1,317	1,600	(283)	(18)%
Total operating expenses	2,588	2,298	290	12.6 %	2,482	2,621	(139)	(5)%
Operating income (loss)	(990)	122	(1,112)	*				
Operating loss					(1,623)	(187)	(1,438)	(769)%
Other income (expense):								
Interest income	173	43	130	*	157	120	37	31 %
Interest expense	(6)	-	(6)	*	(6)	(6)	-	-
Foreign exchange income (expense)	-	(107)	107	*				
Foreign exchange income					-	27	(27)	*
Other income	70	5	65	*	-	8	(8)	*
Total other income (expense), net	237	(59)	296	*				
Income (loss) before income taxes	(753)	63	(816)	*				
Total other income, net					151	149	2	1 %

Loss before income taxes					(1,472)	(38)	(1,434)	*
Income tax expense	-	-	-	*	-	2	2	*
Net income (loss)	<u>\$ (753)</u>	<u>\$ 63</u>	<u>\$ (816)</u>	*				
* Not meaningful								
Revenue (net of intersegment sales)								
Net loss					<u>\$ (1,472)</u>	<u>\$ (40)</u>	<u>\$ (1,432)</u>	*
Revenue								
CVD Equipment	\$ 4,756	\$ 5,718	\$ (962)	(16.8)%	\$ 2,947	\$ 5,845	\$ (2,898)	(50)%
SDC	1,388	1,592	(204)	(12.8)%	1,931	2,312	(381)	(16)%
CVD Materials	<u>90</u>	<u>809</u>	<u>(719)</u>	(88.9)%	59	667	(608)	(91)%
Intersegment sales elimination					(15)	(129)	114	*
Total	<u>\$ 6,234</u>	<u>\$ 8,119</u>	<u>\$ (1,885)</u>	(23.2)%	<u>\$ 4,922</u>	<u>\$ 8,695</u>	<u>\$ (3,773)</u>	(43)%
* Not meaningful								

25 23

Revenue

Our revenue for the three months ended September 30, 2023 March 31, 2024 was \$6.2 million \$4.9 million compared to \$8.1 million \$8.7 million for the three months ended September 30, 2022 March 31, 2023, a decrease of 23.2% 43%.

The decrease in our revenue versus the prior year period was primarily attributable to lower revenue of \$1.0 million \$2.9 million from the CVD Equipment segment, related to lower equipment revenue, a \$0.2 million \$0.3 million decrease in revenue from our SDC segment and a \$0.7 million \$0.6 million decrease from the CVD Materials segment. segment due to the disposition of Tantaline in May 2023 and the wind down of MesoScribe's operations. The decrease in CVD Equipment revenue in the period was principally the result of lower the recognition of revenue associated with our PVT150 system systems in the prior period as compared to no such revenue in the current period. Revenue related to PVT150 systems sold to one customer for the three months ended March 31, 2023 represented 28.3% of our total revenues at and 42.2% of CVD Equipment partially offset segment revenues. Revenue from one aerospace customer for the three months ended March 31, 2024 represented 29.6% of our total revenues and 49.5% of CVD Equipment segment revenues.

The revenue contributed by an increase in aerospace revenues in the CVD Equipment segment and lower revenues in for the CVD Materials segment due three months ended March 31, 2024 of \$2.9 million represented 60% of overall revenue as compared to the sale \$5.8 million or 67% of our Tantaline subsidiary and the wind down of our MesoScribe subsidiary. One customer represented 40.3% of our overall revenue for the three months ended September 30, 2023 and this customer is expected March 31, 2023. The decrease in revenues of \$2.9 million or 50% resulted principally due to continue to represent a significant portion of our revenue through June 30, 2024, contract for PVT150 systems which was completed in 2023.

There were certain customer contracts in 2023 where The revenue contributed by the revenue was to be recognized at the point in time when the equipment is transferred to the customer based on contract terms. These contracts were modified during the three months ended September 30, 2023 such that the revenue under these contracts is now being recognized over time using the input method. Company and CVD Equipment SDC segment revenues for the three months ended September 30, 2023 include \$0.8 million March 31, 2024 of \$1.9 million represented 40% of overall revenue that as compared to \$2.2 million or 25% of overall revenue for the three months ended March 31, 2023. Revenue for our SDC segment decreased by \$0.3 million or 12% due to lower orders of SDC's gas and chemical delivery system products as compared to the prior period.

The revenue contributed by the CVD Materials segment for the three months ended March 31, 2024 of \$59,000 represented 1% of our overall revenue as compared to \$0.7 million or 8% of overall revenue for the three months ended March 31, 2023. The decrease of \$0.6 million was deferred as principally due to the disposition of June 30, 2023 Tantaline in May 2023 and recognized on the date wind down of the contract modification. MesoScribe's operations.

Our order backlog at September 30, 2023 March 31, 2024 was approximately \$16.6 million \$27.1 million as compared to \$17.8 million at December 31, 2022 December 31, 2023 of \$18.4 million. Our backlog at September 30, 2023 March 31, 2024 consists of \$15.5 million approximately \$24.8 million related to remaining performance obligations of contracts in progress and not yet started and \$1.1 million represents non-system that will be recognized over time with the balance of approximately \$2.3 million representing other orders received from customers. Historically, our revenues and orders have fluctuated based on changes in order rate as well as other factors in our manufacturing process that impacts impact the timing of revenue recognition. In addition, any system revenue that will be recognized based on point in time will result in fluctuations in revenue recognized at the point in time when control of the promised products or services is transferred to our customers. Accordingly, orders received from customers and revenue recognized may fluctuate from quarter to quarter.

Revenue contributed by the CVD Equipment segment for the three months ended September 30, 2023 of \$4.8 million represented 76.3% of overall revenue as compared to \$5.7 million or 70.4% of overall revenue for the three months ended September 30, 2022. The decrease in revenues of \$1.0 million or 16.8% resulted principally from less PVT150 system revenues in the current quarter as compared to the prior year quarter that was offset by an increase in aerospace revenues.

Revenue contributed by the SDC segment for the three months ended September 30, 2023 of \$1.4 million represented 22.3% of overall revenue as compared to \$1.6 million or 19.6% ended September 30, 2022. Revenue for our SDC segment decreased \$0.2 million or 12.8% due to lower bookings as compared to the prior year. The demand and related bookings for SDC's products are subject to fluctuation depending on changes in market demand.

Revenue contributed by the CVD Materials segment for the three months ended September 30, 2023 of \$90,000 represented 1.4% of our overall revenue as compared to \$0.8 million or 9.7% of overall revenue for the three months ended September 30, 2022. The decline was principally due to the sale of our Tantaline subsidiary in May 2023 and the wind down of MesoScribe's operations.

Gross Profit

Gross profit for the three months ended September 30, 2023 March 31, 2024 was \$1.6 million \$0.9 million, with a gross profit margin of 25.6% 17.5%, compared to a gross profit of \$2.4 million and a gross profit margin of 29.8% 28.0% for the three months ended September 30, 2022 March 31, 2023. The decrease in gross profit of \$0.8 million \$1.6 million was primarily due to changes in contract mix, increases in certain component costs and higher compensation costs and the result of lower gross profit due margins on contracts in progress during the current period as compared to the sale first quarter of our Tantaline subsidiary and 2023 which benefited from contracts with higher gross margins. In addition, lower CVD Equipment segment revenues reduced the wind down of MesoScribe's operations. Company's ability to spread its fixed costs.

Research and Development

For the three months ended September 30, 2023 March 31, 2024, research and development expenses were \$0.7 million, or 11.3% 15.2% of revenue as compared to \$0.5 million \$0.6 million, or 6.4% 6.9% for the three months ended September 30, 2022 March 31, 2023. The increase in 2023 2024 was the result of increased personnel and employee related costs less amounts charged to develop new products for key growth markets partially cost of goods sold as a result of lower revenues offset by a decrease reductions in bonus expenses, personnel costs.

General engineering support and expenses related to the development of more standardized products and value-added development of existing products are reflected as part of research and development expense. General engineering support and expenses are charged to costs of goods sold when work is performed directly on a customer order.

Selling

Selling expenses were \$0.4 million or 7.0% 8.5% of the revenue for the three months ended September 30, 2023 March 31, 2024 as compared to \$0.3 million \$0.4 million or 3.6% 4.8% for the three months ended September 30, 2022 March 31, 2023. The increase Increase in 2023 was primarily the result of increased marketing costs were offset by lower personnel and employee-related costs and an increase in trade shows as well as other marketing expenses to support increased marketing efforts. New personnel included a director of marketing and a sales director dedicated to the silicon carbide market, costs.

General and Administrative

General and administrative expenses for the three months ended September 30, 2023 March 31, 2024 were \$1.5 million \$1.3 million or 23.3% 26.8% of revenue compared to \$1.5 million \$1.6 million or 18.4% of revenue for the three months ended September 30, 2022 March 31, 2023, a decrease of \$0.3 million. Increase The decrease in professional fees were offset by expenses was principally due to lower compensation costs. In addition, the prior period included personnel costs of \$0.2 million due to a severance charge reduction of \$0.1 million, bonus accruals.

Other Income, (Expense), Net

Other income, (expense), net was \$0.2 million \$151,000 for the three months ended September 30, 2023 March 31, 2024 as compared to other income, (expense), net of (\$59,000) \$149,000 for the three months ended September 30, 2022 March 31, 2023. The change was Other income consists principally due to an increase in of interest income due to higher interest rates and increased earned on amounts invested in U.S. treasury bills, additional amounts received for employee retention credits and a reduction in the foreign exchange loss, securities.

Income Taxes

Our provision for income taxes consists solely We continue to evaluate the potential utilization of state income taxes. Our our deferred tax asset, which has been fully reserved, reserved for, on a quarterly basis, by reviewing our economic models, including projections of future operating results.

Nine Months Ended September 30, 2023 versus September 30, 2022

The following table presents revenue and expense line items reported in our condensed consolidated statements of operations for the nine months ended September 30, 2023 and 2022 and the period-over-period dollar and percentage changes for those line items (in thousands, except percentages).

	Nine months ended September 30			
	2023	2022	Change	Percent
Revenue	\$ 19,998	\$ 18,579	\$ 1,419	7.6 %
Cost of revenue	14,579	13,952	627	4.5 %
Gross profit	5,419	4,627	792	17.1 %
Gross profit percentage	27.1 %	24.9 %		
Operating expenses:				
Research and development	1,865	1,397	468	33.5 %
Selling	1,281	895	386	43.1 %
General and administrative	4,410	3,937	473	12.0 %
Loss on disposition of Tantaline	162	-	162	*
Impairment charge	111	-	111	*
Total operating expenses	7,829	6,229	1,600	25.7 %
Operating loss	(2,410)	(1,602)	(808)	(50.4)%
Other income (expense):				
Interest income	400	74	326	*
Interest expense	(18)	(5)	(13)	*
Foreign exchange income (expense)	42	(250)	292	*
Other income	91	11	80	*
Total other income (expense), net	515	(170)	685	*
Loss before income taxes	(1,895)	(1,772)	(123)	(6.9)%
Income tax expense	11	1	10	*
Net loss	\$ (1,906)	\$ (1,773)	\$ (133)	(7.5)%
* Not meaningful				
Revenue (net of intersegment sales)				
CVD Equipment	\$ 13,670	\$ 12,324	\$ 1,346	10.9 %
SDC	5,229	4,172	1,057	25.3 %
CVD Materials	1,099	2,083	(984)	(47.2)%
Total	\$ 19,998	\$ 18,579	\$ 1,419	7.6 %

Revenue

Our revenue for the nine months ended September 30, 2023 was \$20.0 million compared to \$18.6 million for the nine months ended September 30, 2022, an increase of 7.6%.

The increase in revenue versus the prior year period was primarily attributable to increased revenue of \$1.3 million from the CVD Equipment segment related to equipment sales and spare parts, a \$1.1 million increase in revenue from our SDC segment and a \$1.0 million decrease from the CVD Materials segment. The increase in revenue in the period was principally the result higher aerospace revenues in the CVD Equipment segment, higher revenues in our SDC segment due to increased orders, and lower revenues in the CVD Materials segment due to the sale of the Tantaline subsidiary and the wind down of our MesoScribe subsidiary.

Revenue contributed by the CVD Equipment segment for the nine months ended September 30, 2023 of \$13.7 million represented 68.4% of overall revenue as compared to \$12.3 million or 66.3% of overall revenue for the nine months ended September 30, 2022. The increase in revenues of \$1.3 million or 10.9% represents increase in equipment orders in our aerospace, industrial and research markets offset by lower PVT150 system revenues.

Revenue related to PVT150 systems sold to one customer represented 15.9% of our total revenues and 23.1% of CVD Equipment segment revenues during the nine months ended September 30, 2023. We recognized revenue on this contract as we construct the equipment for our customer.

Revenue contributed by the SDC segment for the nine months ended September 30, 2023 of \$5.2 million represented 26.1% of overall revenue as compared to \$4.2 million or 22.5% of overall revenue for the nine months ended September 30, 2022. Revenue for our SDC segment increased \$1.1 million or 25.3% due to increased orders and strong demand for the SDC's gas and chemical delivery system products as compared to the prior year. The demand and related bookings for SDC's products are subject to fluctuation depending on market demand.

Revenue contributed by the CVD Materials segment for the nine months ended September 30, 2023 of \$1.1 million represented 5.5% of our overall revenue as compared to \$2.1 million or 11.2% of overall revenue for the nine months ended September 30, 2022. The decrease in revenue was principally due to the sale of Tantaline in May 2023 and the wind down of our MesoScribe subsidiary.

Gross Profit

Gross profit for the nine months ended September 30, 2023 was \$5.4 million, with a gross profit margin of 27.1%, compared to a gross profit of \$4.6 million and a gross profit margin of 24.9% for the nine months ended September 30, 2022. The increase in gross profit of \$0.8 million was primarily the result of leveraging fixed costs on higher sales levels and an improved contract mix offset by certain component cost increases and higher compensation costs and lower gross profit due to the sale of our Tantaline subsidiary and the wind down of MesoScribe's operations.

Research and Development

For the nine months ended September 30, 2023, research and development expenses were \$1.9 million, or 9.3% of revenue as compared to \$1.4 million, or 7.5% for the nine months ended September 30, 2022. The increase in 2023 was the result of increased personnel and employee-related costs to develop new products for key growth markets offset by lower bonus expense.

General engineering support and expenses related to the development of more standardized products and value-added development of existing products are reflected as part of research and development expense. General engineering support and expenses are charged to costs of goods sold when work is performed directly on a customer order.

Selling

Selling expenses were \$1.3 million or 6.4% of the revenue for the nine months ended September 30, 2023 as compared to \$0.9 million or 4.8% for the nine months ended September 30, 2022. The increase in 2023 was the result of increased personnel and employee-related costs and an increase in trade shows and other marketing expenses to support increased marketing efforts.

General and Administrative

General and administrative expenses for the nine months ended September 30, 2023 were \$4.4 million or 22.1% of revenue compared to \$3.9 million or 21.2% of revenue for the nine months ended September 30, 2022, an increase of \$0.5 million. The increase in expenses was principally due to increases in personnel and employee-related costs of \$0.5 million to support the growth of our business, higher professional fees of \$0.3 million partially offset by lower consulting expenses of \$0.1 million. In addition, the prior period included a severance charge of \$0.1 million.

Loss on disposition of Tantaline

This item represents the net loss on the sale of our Tantaline subsidiary including professional fees.

Impairment Charge

This item represents the loss on the impairment of certain assets of MesoScribe based on the decision to wind down its operations.

Other Income (Expense), Net

Other income, net was \$0.5 million for the nine months ended September 30, 2023 as compared to other (expense), net of (\$0.2 million) for the nine months ended September 30, 2022. The change was principally due to an increase in interest income due to higher interest rates and increased amounts invested in U.S. treasury bills, additional amounts received for employee retention credits and a reduction in the foreign exchange loss.

Income Taxes

Our provision for income taxes consists solely of state income taxes. Our deferred tax asset has been fully reserved.

Liquidity and Capital Resources

As of September 30, 2023 March 31, 2024, aggregate working capital was \$16.2 million \$13.1 million as compared to aggregate working capital of \$15.5 million \$14.3 million at December 31, 2022 December 31, 2023. Cash and cash equivalents at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were \$14.3 million \$11.9 million and \$14.4 million \$14.0 million, respectively.

Net cash used in operating activities for the nine three months ended September 30, 2023 March 31, 2024 was \$0.1 million \$2.0 million. This decrease was principally due to a the net loss of \$1.9 million \$1.5 million, increases increase in contract assets of \$0.7 million \$1.1 million, increase in accounts receivable of \$1.1 million, increase in inventories of \$1.8 million \$0.5 million, decrease in accrued expenses of \$0.7 million (primarily due to payment of 2022 bonus) offset by a decrease in accounts receivable of \$1.2 million, collection of employee retention credit receivable of \$1.5 million, an increase in contract liabilities of \$0.8 million \$1.1 million and non-cash items of \$1.5 million \$0.4 million. The increase in inventory was related to the production of PVT150 systems in anticipation of potential future orders.

Capital expenditures Net cash used in investing activities for the nine three months ended September 30, 2023 were \$0.3 million March 31, 2024 consisted of capital expenditures of \$70,000 related to purchases of manufacturing equipment, building improvements and building improvements. The disposition of Tantaline resulted in a cash outflow of \$0.3 million based on the terms of the agreement. We received \$0.6 million of deposits from the purchaser of certain MesoScribe equipment as described below, software.

Cash flows from Net cash used in financing activities for the nine months ended September 30, 2023 included \$0.1 million of proceeds from the exercise of employee stock options.

On August 4, 2023, we entered into a Purchase and License Agreement (the "Agreement") with the third-party. Pursuant to the Agreement, we will sell certain proprietary assets relating to its plasma spray technology and material deposition system and grant a non-exclusive license to use certain of our related intellectual property as more fully described in the Agreement, for an aggregate purchase price of \$0.9 million. The purchase price is payable in several installments and contingent upon certain performance metrics and other milestones.

During the three months ended September 30, 2023, we received payments under the Agreement in the amount March 31, 2024 consisted of \$0.6 million which is reflected as deposits from purchaser in the accompanying condensed consolidated balance sheet as repayments of September 30, 2023. We expect the transaction to be completed during the next three months with the shipment of the an equipment to the purchaser.

We expect to continue to fulfill remaining backorders for MesoScribe products through the end of 2024 at which time it plans to cease the remaining operations of MesoScribe and dispose of any remaining equipment. loan.

We believe that our cash and cash equivalent positions and our projected cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months from .from the filing of these condensed consolidated financial statements included in this Form 10-Q. We will continue to assess our operations and take actions anticipated to maintain our operating cash to support the working capital needs.

Critical Accounting Policies and Estimates

Use This discussion and analysis of Estimates

The preparation of the Company's financial condition and results of operations is based on the Company's consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles generally accepted in the United States of America, or U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In accordance with U.S. GAAP, the Company bases its estimates on historical experience and on various other assumptions the Company believes are reasonable under the circumstances. Actual results could differ from those estimates. Our critical estimates include accounting for certain items such as revenues on long-term contracts recognized on the input method, and the recoverable value of our long-lived assets, under different assumptions or conditions.

We consider an accounting estimate to be critical if: (1) the following accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

We believe that of our significant accounting policies, which are described in the notes to be critical because of their complexity and the high consolidated financial statements, the following accounting policies involve a greater degree of judgment involved in maintaining them. judgments, estimates and assumptions and are considered critical accounting estimates.

Revenue Recognition

We design, manufacture, and sell custom chemical vapor deposition equipment through contractual agreements. These system sales require us to deliver functioning equipment that is generally completed within two to eighteen months from commencement of order acceptance. For systems sales that meet the criteria to recognize revenue over time, we We recognize revenue over time by using an input method based on costs incurred as it depicts our progress toward satisfaction of the performance obligation. Under this method, revenue arising from fixed price contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations. For system sales that to not meet the criteria to recognize revenue over time based on the contract provisions, we recognize revenue based on point in time.

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

We have been engaged in the production and delivery of goods on a continual basis under contractual arrangements for many years. Historically, we have demonstrated an ability to accurately estimate total revenues and total expenses relating to our long-term contracts. However, there are There exist many inherent risks and uncertainties in estimating revenues, expenses and progress toward completion, particularly on larger or longer-term contracts. If we do not estimate the total sales, related costs, and progress toward completion on such contracts, the estimated gross margins may be significantly impacted, or losses may need to be recognized in future periods. Any such resulting changes in margins or contract losses could be material to our results of operations and financial condition.

Inventory Valuation

Inventories (raw materials, work-in-process and finished goods) are valued at the lower of cost (determined on the first-in, first-out method) or net realizable value. Obsolete inventory or inventory in excess of management's estimated usage requirement is written down to its estimated net realizable value if less than cost. The Company evaluates usage requirements by analyzing historical usage, anticipated demand, alternative uses of materials, and other qualitative factors. Unanticipated changes in demand for the Company's products may require a write down of inventory, which would be reflected in cost of sales in the period the revision is made. Any such charge could be material to our results of operations and financial condition.

Long-Lived Assets

Long-lived assets consist primarily of property, plant and equipment. Long-lived assets are reviewed for impairment whenever events or circumstances indicate their carrying value may not be recoverable. When such events or circumstances arise, an estimate of the future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if impairment exists pursuant to the requirements of ASC 360-10-35, "Impairment or Disposal of Long-Lived Assets." If the asset is determined to be impaired, the impairment loss is measured on the excess of its carrying value over its fair value. Assets to be disposed of are reported at the lower of their carrying value or net realizable value. In the future, if we determine that our long-lived assets are impaired, we would be required to recognize a charge in our financial statements at the time of such determination. Any such charge could be material to our results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures.

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) and 13d-15(e) under the Exchange Act of 1934, as amended, (the "Exchange Act")). As required by Rule 13a-15(b) under the Exchange Act, our management, 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 our 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, our Chief Executive Officer and Chief Financial Officer, along with others in our management, have determined that as of the end of the period covered by this Quarterly Report on Form 10-Q the disclosure controls and procedures were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive and financial officers, 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.

None.

Item 1A. Risk Factors.

There have been no other material changes to the risk factors disclosed in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 27, 2023.

There have been no other material changes to the risk factors disclosed in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 28, 2024.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

None.

Item 3. Defaults Upon Senior Securities.

None.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Not applicable.

Item 5. Other Information.

None.

None.

Item 6. Exhibits

31.1* [Certification of Emmanuel Lakios, Chief Executive Officer, dated November 14, 2023 May 13, 2024](#)

31.2* [Certification of Richard Catalano, Chief Financial Officer, dated November 14, 2023 May 13, 2024](#)

32.1* [Certification of Emmanuel Lakios, Chief Executive Officer, dated November 14, 2023 May 13, 2024, 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 Richard Catalano, Chief Financial Officer, dated November 14, 2023 May 13, 2024, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101.1** Inline XBRL Instance.

101.SCH** Inline XBRL Taxonomy Extension Schema.

101.CAL** Inline XBRL Taxonomy Extension Calculation.

101.DEF** Inline XBRL Taxonomy Extension Definition.

101.LAB** Inline XBRL Taxonomy Extension Labels.

101.PRE** Inline XBRL Taxonomy Extension Presentation.

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* 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 14th day of November 2023, May 2024.

CVD EQUIPMENT CORPORATION

By: /s/ Emmanuel Lakios

Emmanuel Lakios
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Richard Catalano

Richard Catalano
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

36 30

Exhibit 31.1

Certifications of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Emmanuel Lakios, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CVD Equipment Corporation;
2. Based upon my knowledge, this 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 report;
3. Based upon my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 14, 2023 May 13, 2024

/s/ Emmanuel Lakios

President and Chief Executive Officer

Exhibit 31.2

**Certifications of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Richard Catalano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CVD Equipment Corporation;
2. Based upon my knowledge, this 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 report;
3. Based upon my knowledge, the financial statements, and other financial information included in this 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 report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Dated: November 14, 2023

Dated: May 13, 2024

/s/ Richard Catalano

Richard Catalano

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification of Principal Executive Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I, Emmanuel Lakios, President and Chief Executive Officer of CVD Equipment Corporation, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the quarterly report on Form 10-Q for the period ending **September 30, 2023** **March 31, 2024** of CVD Equipment Corporation (the "Form 10-Q") fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: **November 14, 2023** **May 13, 2024**

/s/ Emmanuel Lakios

Emmanuel Lakios
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

Certification of Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I, Richard Catalano, Chief Financial Officer of CVD Equipment Corporation, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the quarterly report on Form 10-Q for the period ending **September 30, 2023** **March 31, 2024** of CVD Equipment Corporation (the "Form 10-Q") fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: **November 14, 2023** **May 13, 2024**

/s/ Richard Catalano

Richard Catalano
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All rights reserved. Patents Pending.