

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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

For the transition period from _____ to _____

Commission file number: 1-16525

CVD EQUIPMENT CORPORATION

(Exact name of registrant as specified in its charter)

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

355 South Technology Drive
Central Islip, New York 11722
(Address including zip code of registrant's Principal Executive Offices)

(631) 981-7081

(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par value \$0.01	NASDAQ Capital Market

Securities registered under Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted on its corporate Website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months/(or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$61,986,440 at June 30, 2014

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 6,169,477 shares of Common Stock, \$0.01 par value at March 13, 2015.

DOCUMENTS INCORPORATED BY REFERENCE: None.

PART I

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, this Annual Report on Form 10-K 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: competition in our existing and potential future product lines of business; our ability to obtain financing on acceptable terms if and when needed; uncertainty as to our future profitability, uncertainty as to the future profitability of acquired businesses or product lines, uncertainty as to any future expansion of the Company. Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements and the failure of such assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. 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.

Item 1. Description of Business.

The use of the words “CVD,” “we,” “us” or “our” refers to CVD Equipment Corporation, a New York corporation incorporated on October 13, 1982, and its subsidiaries, except where the context otherwise requires.

We design and manufacture custom and standard state-of-the-art equipment and process solutions used to develop and manufacture materials and coatings for research and industrial applications with the focus on *enabling tomorrow’s technologies*™. These coatings are used in numerous fields including but not limited to aerospace, medical, solar, nano and advanced electronic components. We offer a broad range of chemical vapor deposition, gas control and other equipment that is used by our customers to research, design and manufacture these materials or coatings for turbine blades, implants, semiconductors, solar cells, smart glass, carbon nanotubes, nanowires, LEDs, MEMS and other applications. Through our Application Laboratory, we provide process development support and process startup assistance. Our proprietary technology products are generally customized to meet the particular specifications of individual customers and to accelerate the commercialization of their proprietary intellectual property. We also offer standard products that are based on the expertise and know-how we have developed in designing and manufacturing our customized products.

Based on more than 32 years of experience, we use our engineering, manufacturing and process development to transform new applications into leading-edge manufacturing solutions. This enables university, research and industrial scientists at the cutting edge of technology to develop next generation aerospace, medical, solar, nano, LEDs, semiconductors and other electronic components. We also develop and manufacture research and production equipment based on our proprietary designs. We have built a significant library of design expertise, know-how and innovative solutions to assist our customers in developing these intricate processes and to accelerate their commercialization. This library of solutions, along with our vertically integrated manufacturing facilities, allows us to provide superior design, process and manufacturing solutions to our customers on a cost effective basis.

Our strategy is to target opportunities in the research and development and production equipment market, with a focus on higher-growth applications such as medical, aerospace, solar, smart glass, carbon nanotubes, nanowires, graphene, MEMS and LEDs. To expand our penetration into these growth markets, we have developed a line of proprietary standard products and custom systems. Historically, we manufactured products on a custom one-at-a-time basis to meet an individual customer's specific research requirements. Our new proprietary systems leverage the technological expertise that we have developed through designing these custom systems onto a standardized basic core. This core is easily adapted through a broad array of available add-on options to meet the diverse product and budgetary requirements of the research community. By manufacturing the basic core of these systems in higher volumes, we are able to reduce both the cost and delivery time for our systems. These systems, which we market and sell under the EasyTube® product line, are sold to researchers at universities, research laboratories, and startup companies in the United States and throughout the world.

Sales of our proprietary standard, custom systems and process solutions have been driven by the success of our installed customer base, which includes several Fortune 500 companies. Historically, revenues have grown through sales to existing customers to meet their additional capacity needs or new requirements, as well as to new customers. However, with our proprietary solutions and expanded focus on "accelerating the commercialization of tomorrow's technologies™" we have been developing a new customer base in addition to growing with our existing customers. We have generally gained new customers through word of mouth, the movement of our customer's personnel from one company to another, limited print advertising and trade show attendance. We are now also gaining new customers by their awareness of our company in the marketplace with results from our Application Laboratory, partnerships with startup companies, increased participation in trade shows and expanded internet advertising.

The core competencies we have developed in equipment and software design, as well as in systems manufacturing and process solutions, are used to engineer our finished products and to accelerate the commercialization path of our customer base. Our proprietary-real-time, software allows for rapid configuration, and provides our customers with powerful tools to understand, optimize and repeatedly control their processes. Our vertically integrated structure allows us to control the manufacturing process, from bringing raw metal and components into our manufacturing facilities to shipping out finished products. These factors significantly reduce cost, improve quality and reduce the time it takes from customer order to shipment of our products. Our Application Laboratory allows selected customers to bring up their process tools

in our Application Laboratory and to work together with our scientists and engineers to optimize process performance.

Operating Divisions

We conduct our operations through two divisions: (1) CVD/First Nano, and (2) Stainless Design Concepts (“SDC”). Each division operates on a day-to-day basis with its own operating manager while product development, sales and administration are managed at the corporate level.

CVD/First Nano supplies state-of-the-art chemical vapor deposition systems for use in the research, development and manufacturing of aerospace and medical components, semiconductors, LEDs, carbon nanotubes, nanowires, solar cells and a number of other industrial applications. We utilize our expertise in the design and manufacture of chemical vapor deposition systems to work with laboratory scientists to bring state-of-the-art processes from the research laboratory into production, as well as to provide production equipment and process solutions based on our designs. CVD/First Nano also operates our Application Laboratory where our personnel interact effectively with the scientists and engineers of our customer base. CVD/First Nano operates out of our main facility in Central Islip, New York.

Stainless Design Concepts (SDC) designs and manufactures ultra-high purity gas and chemical delivery control systems for state-of-the-art semiconductor fabrication processes, solar cells, LEDs, carbon nanotubes, nanowires, and a number of industrial applications. Our SDC products are sold on either a stand-alone basis, or together with our CVD/First Nano systems. SDC operates out of a 22,000 square foot facility fitted with Class 10 and Class 100 clean room manufacturing space located in Saugerties, New York.

Principal Products

Chemical Vapor Deposition - A process which passes a gaseous compound over a target material surface that is heated to such a degree that the compound decomposes and deposits a desired layer onto substrate material. The process is accomplished by combining appropriate gases in a reaction chamber, of the kind produced by the Company, at elevated temperatures (typically 150-1,800° Celsius). Our chemical vapor deposition systems are complete and include all necessary instrumentation, subsystems and components and include state-of-the-art process control software. We provide both standard and specifically engineered products for particular customer applications. Some of the standard systems we offer are for Silicon, Silicon-Germanium, Silicon Dioxide, Silicon Nitride, Polysilicon, Liquid Phase Epitaxial, Metalorganic Chemical Vapor Deposition, Carbon Nanotubes, Graphene Nanowires, Solar Cell research and Solar material quality control.

Our chemical vapor deposition systems are available in a variety of models that can be used in laboratory research and production. All models are offered with total system automation, a microprocessor control system by which the user can measure, predict and regulate gas flow, temperature, pressure and chemical reaction rates, thus controlling the process in order to enhance the quality of the materials produced. Our standard microprocessor control system is extremely versatile and capable of supporting the complete product line and most custom system

requirements. These chemical vapor deposition systems are typically priced between \$80,000 and \$1,500,000 but can go significantly higher.

Rapid Thermal Processing (“RTP”) - Used to heat semiconductor materials to elevated temperatures of up to 1,000° Celsius at rapid rates of up to 200° Celsius per second. Our RTP systems are offered for implant activation, oxidation, silicide formation and many other processes. We offer systems that can operate both at atmospheric or reduced pressures. Our RTP systems are priced up to \$600,000.

Annealing and Diffusion Furnaces - Used for diffusion, oxidation, implant anneal, solder reflow, solar cell manufacturing and other processes. The systems are normally operated at atmospheric and/or reduced pressure with gaseous atmospheres related to the process. An optional feature of the system allows for the heating element to be moved away from the process chamber allowing the wafers to rapidly cool or be heated in a controlled environment. Our cascade temperature control system enables more precise control of the wafers. The systems are equipped with an automatic process controller, permitting automatic process sequencing and monitoring with safety alarm provisions. Our annealing and diffusion furnace systems are priced up to \$900,000.

Ultra-high Purity Gas and Liquid Control Systems - Our standard and custom designed gas and liquid control systems, which encompass gas cylinder storage cabinets, custom gas and chemical delivery systems, gas and liquid valve manifold boxes and gas isolation boxes, provide safe storage and handling of pressurized gases and chemicals. Our system design allows for automatic or manual control from both a local and remote location. A customer order often includes multiple systems and can total up to \$1,000,000.

Quartz-ware - We provide standard and custom fabricated quartz-ware used in our equipment and other customer tools. We also provide repair and replacement of existing quartz-ware.

Markets and Marketing

Due to the highly technical nature of our products, we believe it is essential to contact customers directly through our sales personnel and through a network of domestic and international independent sales representatives and distributors specializing in the type of equipment we sell. Our primary marketing activities include direct sales contacts, participation in trade shows and our internet websites. We are also focusing our efforts on being in the top listings on many search engines in order to increase the number of “hits” to our websites.

Customers

We are continuing to work on expanding our product offerings. Many of these products are used in research and in production applications. We sell our products primarily to electronic component manufacturers, institutions involved in electronic component research (such as universities, government and industrial laboratories) and to industries such as aerospace that require specialized coatings. We have both an international and domestic customer base with hundreds of installed systems.

Revenue from a single customer in any one year can exceed 10.0% of our total sales. In fiscal year 2014 and 2013 one customer represented 50.2% and 23.7% respectively, of our annual revenues. We are not generally dependent on any single customer; however, the loss of any key customer would have to be replaced by others, and our inability to do so may have a material adverse effect on our business and financial condition.

For the twelve months ended December 31, 2014, approximately 20.2% of our revenues were generated from foreign sales compared to 27.3% for the twelve months ended December 31, 2013.

Warranties

Warranties on our equipment can range up to twenty-four months from shipment and we pass along any warranties from original manufacturers of components used in our products. We provide service and support for our installed base of equipment with in-house field service personnel. Warranty costs, including those incurred in fiscal years 2014 and 2013, have been historically insignificant and expensed as incurred.

Competition

We are subject to intense competition. We are aware of other competitors that offer a substantial number of products and services comparable to ours. Many of our competitors (including customers who may elect to manufacture systems for internal use) have financial, marketing and other resources greater than ours. To date, we believe that each of our two operating divisions has been able to compete in markets that include these competitors, primarily on the basis of technical performance, quality, delivery and price.

CVD/First Nano competes primarily with in-house design and engineering personnel at research and university laboratories with the capacity to design and build their own equipment internally. Due to budgetary and funding constraints, many of these customers are extremely price sensitive. We believe that our systems are among the most advanced available for the targeted market space.

SDC's gas management and chemical delivery control systems are among the most advanced available. We further believe that *SDC* is differentiated from our competitors through our intimate understanding of how the systems in which our products are incorporated are actually used in field applications. We have gained this understanding as a result of having designed and built complex process gas systems for *CVD/First Nano* as well as for a number of the world's leading semiconductor, solar manufacturers, research laboratories and universities.

Sources of Supply

Many of the components used in producing our products are purchased from unrelated suppliers. We have OEM status with our suppliers but we are not obligated to purchase a pre-determined

quantity. We are not dependent on a principal or major supplier and alternate suppliers are available. Subject to lead times, the components and raw materials we use in manufacturing our products are readily obtainable.

We have a fully-equipped machine shop that we use to fabricate most of our metal components in-house, including the most complex designed parts of our equipment. Our investment in CNC machines for our machine shop has increased our efficiencies while significantly reducing costs in production. Similarly, our quartz fabrication capability is sufficient to meet our quartz-ware needs.

Materials procured from the outside and/or manufactured internally undergo a rigorous quality control process to ensure that the parts meet or exceed our requirements and those of our customers. Upon final assembly, all equipment undergoes a final series of complete testing to ensure maximum product performance.

Backlog

As of December 31, 2014, our order backlog was approximately \$21.1 million compared to approximately \$3.9 million at December 31, 2013, an increase of \$17.2 million, or 438%. The increase in orders to reach our record level of bookings is being driven by our penetration into the aerospace market. In addition, our new larger facility and increased engineering and production personnel provides us with greater capabilities in order to satisfy the growing demand for our equipment. The timing for completion of the backlog varies depending on the product mix and can be as long as two years. Included in the backlog are all accepted purchase orders with the exception of those that are included in our percentage-of-completion. Order backlog is usually a reasonable management tool to indicate expected revenues and projected profits, however, it does not provide an assurance of future achievement or profits as order cancellations or delays are possible.

Intellectual Property

Our success is dependent, in part on our proprietary technology and other proprietary rights. We have historically protected our proprietary information and intellectual property such as design specifications, blueprints, technical processes and employee know-how through the use of non-disclosure agreements. In addition, where we deem appropriate, we file for patent and trademark protection of our proprietary technology and intellectual property that has the potential to be incorporated into our products and can be sold to multiple customers. We also maintain and/or assert rights in certain trademarks relating to certain of our products and product lines, and claim copyright protection for certain proprietary software and documentation.

While patent, copyright and trademark protections for our intellectual property are important to different degrees for our various products and solutions, we believe our future success in highly dynamic markets is most dependent upon the technical competence and creative skills of our personnel and our ability to accelerate the commercialization of next generation intellectual properties. We attempt to protect our trade secrets and other proprietary information through

non-disclosure agreements with our customers, suppliers, employees and consultants and other security measures.

Research and Development

The university research community is at the forefront of nanotechnology research, and we are focused on providing state-of-the-art systems to this market that will help bridge the gap between pioneering research and marketable products. Our Application Laboratory, together with a number of leading universities and startup companies, with whom we partner from time to time, conducts cutting-edge research on the growth of carbon nanotubes, graphene and nanowires as well as on selected solar cell manufacturing processes and smart glass coating processes. The results of this research could have far reaching implications concerning the use and manufacture of carbon nanotubes, graphene and nanowires, solar cell and glass coatings for many markets. Our intention is that together, with these leading universities and start-up companies, we will leverage our collective expertise in this field, which will allow us to capitalize on commercial opportunities in the future. This relationship has thus far produced leading edge results, including what we believe are the tallest carbon nanotube arrays yet developed.

In 2012 we expanded our laboratory staff and began independently conducting cutting-edge research and product development for CVD Graphene. On January 9, 2014 we filed provisional patents covering the promising results we had achieved. In 2014, we incurred approximately \$1.6 million in research and development expenses of which \$878,000 was independent of external customer orders compared to 2013, when we incurred \$1.8 million of research and development expenses, \$1.0 million of which was independent of external customer orders.

Government Regulation

We are subject to a variety of federal, state and local government regulations, such as environmental, labor and export control. We believe that we have obtained all necessary permits to operate our business and that we are in material compliance with all laws and regulations applicable to us.

We are not aware of any government regulations or requirements necessary for the sale of our products, other than certain approvals or permits which may be required for us to export certain of our products to certain foreign countries.

Insurance

Some of our products are used in connection with explosive, flammable, corrosive and toxic gases. There are potential exposures to personal injury as well as property damage, particularly if operated without regard to the design limits of the systems and components. Management reviews its insurance coverage with our insurance agent on an annual basis. We believe we have the types and amounts of insurance coverage that are sufficient for our business.

Employees

At December 31, 2014, we had 190 employees, all of which were full time personnel. We had 104 people in manufacturing, 42 in engineering (including research and development and efforts related to product improvement) 7 in field service, 10 in sales and marketing and 27 in general management, maintenance and administration.

Item 1A. Risk Factors

Although there are risks associated with investing in any company, as a smaller reporting company, we are not required to list Risk Factors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Description of Property.

<u>Location</u>	<u>Size (sf)</u>	<u>Division</u>	<u>Principal use</u>	
Central Islip, NY	130,000	CVD/First Nano	Corporate; Mfg	Owned
Saugerties, NY	22,000	SDC	Admin; Mfg	Owned

Item 3. Legal Proceedings.

Effective as of January 29, 2015, CVD Equipment Corporation (the “Company”), Taiwan Glass International Corporation (“Taiwan Glass”) and Capital One, National Association (“Capital One”) entered into an agreement (the “Settlement Agreement”) pursuant to which the parties settled that certain previously disclosed action pending in the United States District Court for the Southern District of New York under Docket No. 10-CV-0573 (the “Action”).

Pursuant to the terms of the Settlement Agreement, we paid Taiwan Glass the sum of \$4,925,000, (said sum being inclusive of interest) and all claims and counterclaims asserted in the Action were settled and dismissed with prejudice. In addition, (a) Taiwan Glass executed limited releases in favor of each of the Company and Capital One concerning the claims asserted by Taiwan Glass in the Action; (b) we executed a limited release in favor of Taiwan Glass concerning the claims asserted by us against Taiwan Glass in the Action; and (c) Capital One executed a limited release in favor of Taiwan Glass concerning the claims asserted by Capital One against Taiwan Glass in the Action.

In addition, the parties caused to be filed with the Court a Stipulation of Dismissal dismissing the claims and counterclaims asserted against all parties in the Action with prejudice. Taiwan Glass agreed to notify the appropriate authorities in Taiwan that its disputes with the Company and the Company’s directors, officers, employees and agents have been amicably resolved on a business-like basis and the Complaint made by Taiwan Glass in Taiwan is hereby withdrawn.

On January 19, 2015, CVD Equipment Corporation (the “Company”) received an Arbitration Demand and Complaint which was filed with the American Arbitration Association by Development Specialists, Inc., an Illinois corporation (“DSI”), solely in its capacity as an assignee for the benefit of creditors of CM Manufacturing, Inc. f/k/a Stion Corporation (“Stion”), a Delaware corporation, (collectively the “Plaintiff”).

In its complaint, the Plaintiff claims, among other things, that the Company breached its agreement with Stion by failing to design, engineer, manufacture and timely deliver a certain custom furnace used in the manufacture of solar panels. The Plaintiff also asserts claims relating to breach of warranty, conversion, misappropriation of trade secrets and a declaration that DSI is not liable under the Company’s Proof of Claim which was previously filed in connection with Stion’s October 2013 Assignment for the Benefit of Creditors. Plaintiff seeks monetary damages of approximately \$6.9 million plus interest and attorney’s fees, and certain injunctive relief and other unspecified money damages.

The Company believes that these claims have no merit and intends to vigorously defend its interests in this matter.

On February 5, 2015, the Company interposed an Answer denying Plaintiff’s claims and raising fifteen (15) Affirmative Defenses. Additionally, on March 24, 2015, the Company served and filed a Motion to Dismiss. A decision on this motion is expected shortly. If the Company’s Motion is granted, then the case will be dismissed, otherwise a brief period for discovery will follow and the Arbitration hearing is scheduled to take place the week of August 31, 2015.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the NASDAQ Capital Market under the symbol “CVV.” The following table sets forth, for the periods indicated, the high and low closing prices of our common stock on the NASDAQ Capital Market.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2014:		
1 st Quarter.....	\$17.05	\$12.77
2 nd Quarter.....	14.85	11.31
3 rd Quarter.....	14.99	11.76
4 th Quarter.....	15.10	10.26
	<u>High</u>	<u>Low</u>
Year Ended December 31, 2013:		
1 st Quarter.....	\$12.24	\$9.89
2 nd Quarter.....	11.58	7.86
3 rd Quarter.....	14.65	8.88
4 th Quarter.....	14.61	9.66

As of March 13, 2015 there were approximately 78 holders of record and approximately 2,152 beneficial owners of our common stock, and the closing sales price of our common stock as reported on the NASDAQ Capital Market was \$13.82.

Dividend Policy

We have never paid dividends on our common stock and we do not anticipate paying dividends on common stock at the present time. We currently intend to retain earnings, if any, for use in our business. There can be no assurance that we will ever pay dividends on our common stock. Our dividend policy with respect to our common stock is within the discretion of the Board of Directors and its policy with respect to dividends in the future will depend on numerous factors, including earnings, financial requirements and general business conditions. We are also prohibited from paying dividends under the terms of our Revolving Line of Credit Agreement with HSBC Bank, USA, N.A.

Equity Compensation Plan Information Table

The following table provides information about shares of our common stock that may be issued upon the exercise of options under all of our existing compensation plans as of December 31, 2014.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(2)	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	259,730	\$ 7.12	470,893
Equity compensation plans not approved by security holders	--	N/A	--
Total	259,730	\$7.12	470,893

(1) Reflects aggregate options and restricted stock awards outstanding under our 1989 Key Employee Stock Option Plan, 2001 Stock Option Plan and 2007 Share Incentive Plan.

(2) Calculation is exclusive of the value of any unvested restricted stock awards.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6.Selected Financial Data.

Not applicable.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis in conjunction with our financial statements and related notes contained elsewhere in this report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors discussed in this report and those discussed in other documents we file with the SEC. In light of these risks, uncertainties and assumptions, readers are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements represent beliefs and assumptions only as of the date of this report. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change. Past performance does not guaranty future results.

We design and manufacture custom and standard state-of-the-art equipment and process solutions used to develop and manufacture materials and coatings for research and industrial applications with the focus on *enabling tomorrow’s technologies*[™]. These coatings are used in numerous fields including but not limited to aerospace, medical, solar, nano and advanced electronic components. We offer a broad range of chemical vapor deposition, gas control and other equipment that is used by our customers to research, design and manufacture these materials or coatings for turbine blades, implants, semiconductors, solar cells, smart glass, carbon nanotubes, nanowires, LEDs, MEMS and other applications. Through our Application Laboratory, we provide process development support, startup assistance and focus on developing higher efficiency material manufacturing for a wide variety of growth markets. We look to accelerate the introduction of nano materials into a range of products and applications to help create a demand for our equipment or which we can market through our wholly owned subsidiary, CVD Materials Corporation. Our proprietary technology products are generally customized to meet the particular specifications of individual customers and to accelerate the commercialization of their proprietary intellectual property. We also offer standard products that are based on the expertise and know-how we have developed in designing and manufacturing our customized products.

Based on more than 32 years of experience, we use our engineering, manufacturing and process development to transform new applications into leading-edge manufacturing solutions. This enables university, research and industrial scientists at the cutting edge of technology to develop next generation chemical vapor deposited products for use in solar, nano materials, LEDs, semiconductors and other applications. We also develop and manufacture research and production equipment based on our proprietary designs. We have built a significant library of design expertise, know-how and innovative solutions to assist our customers in developing these intricate processes and to accelerate their commercialization of chemically deposited materials. This library of solutions, along with our vertically integrated manufacturing facilities, allows us to provide superior design, process and manufacturing solutions to our customers on a cost effective basis.

Results of Operations
Twelve Months Ended December 31, 2014 vs Twelve Months Ended December 31, 2013

	Twelve Months Ended December 31		Change	% Change
	2014	2013		
(In thousands)				
Bookings	\$ 45,065	\$ 13,459	\$ 31,606	234.8
Ending Backlog	21,074	3,917	17,157	438.0
Revenue				
CVD (net of eliminations)	\$ 23,812	\$ 13,014	\$ 10,798	83.0
SDC (net of eliminations)	4,178	4,870	(692)	(14.2)
Total Revenue	27,990	17,884	10,106	56.5
Cost of Goods Sold	<u>16,465</u>	<u>11,174</u>	<u>5,291</u>	47.4
Gross Profit	11,525	6,710	4,815	71.8
Gross Margin	41.00%	37.52%	3.48%	
Research & Development	878	1,013	(135)	(13.3)
Selling and Shipments	1,282	1,027	255	24.8
General & Administrative	8,204	6,082	2,122	34.9
Loss on legal settlement	4,925	---	4,925	
Bad Debt expense	---	1,281	(1,281)	
(Gain) on sale of building	---	<u>(887)</u>	<u>887</u>	
Total Operating expenses	15,289	8,516	6,773	79.5
Operating loss	(3,764)	(1,806)	(1,958)	(108.4)
Other income/(expense)	<u>55</u>	<u>(151)</u>	<u>206</u>	136.4
Loss before taxes	(3,709)	(1,957)	(1,752)	(89.5)
Income tax (benefit)	<u>(1,236)</u>	<u>(1,396)</u>	<u>(160)</u>	11.5
Net (loss)	(2,473)	(561)	(1,912)	(341.8)
Net (loss) per share basic and diluted	(0.41)	(0.09)	(0.32)	

Our results of operations for all of 2013 and the first six (6) months of 2014 were significantly impacted by the relocation to our corporate headquarters. A substantial amount of time and effort was dedicated to purchasing, renovating and moving into the new facility that proved to be disruptive to our continuing operations.

Bookings/Backlog

Orders received for 2014 was higher than in any previous year. For the twelve months ended December 31, 2014 we received approximately \$45.1 million, an increase of approximately \$31.6 million or 234.1% compared to \$13.5 million in orders for the twelve months ended December 31, 2013. Orders received by the CVD/First Nano division were approximately \$43.0 million and orders received by the SDC division approximated \$2.1 million. This resulted in a backlog of approximately \$21.1 million as of December 31, 2014 compared to the backlog at December 31, 2013 of approximately \$3.9 million. Approximately \$20.8 million of the backlog is from the CVD/First Nano division and \$0.3 million is from SDC. The December 31, 2014 backlog consists of approximately \$14.9 million or 70.9% from one customer as a result of multiple orders that are still in process. Although timing for completion of the backlog varies depending on the product mix and can be as long as two years, we believe a significant portion of our current backlog will be completed within the next twelve months. Included in the backlog are all accepted purchase orders, less any amounts which have been previously billed or recognized as a component of our percentage-of-completion calculations. Management utilizes the order backlog to assist it in gauging projected revenues and profits; however it does not provide an assurance of future achievement of revenues or profits as, for example, order cancellations or delays are possible.

Revenue

We achieved near record revenue for the year ended December 31, 2014 with approximately \$28.0 million compared to approximately \$17.9 million for the year ended December 31, 2013, an increase of approximately \$10.1 million or 56.4%. Annual revenue from the CVD/First Nano division increased by approximately \$10.8 million or 83.1% to approximately \$23.8 million which represented 85.0% of our total revenue during the year ended December 31, 2014 compared to approximately \$13.0 million or 73.0% of our total revenue for the prior fiscal year. This increase is directly attributable to the increased orders that we have secured from the aerospace industry and the increased production capabilities and efficiencies that our new facility provides us as illustrated by the 56.5% increase in annual revenue with a corresponding increase of only 16% in production labor costs. Overall revenue for the three months ended December 31, 2014 was approximately \$8.6 million compared to revenue of approximately \$4.9 million for the three months ended December 31, 2013, an increase of 75.5%.

Annual revenue for the SDC division decreased to \$4.2 million in 2014 compared to approximately \$4.9 million in revenue in 2013. This decrease was a result of redirecting some of the production efforts of the SDC division to assist the CVD/First Nano division with its increased orders. The SDC division represented 15.0% and 27.5% of our total revenue during the years ended December 31, 2014 and December 31, 2013 respectively.

Gross Profit

Overall gross profit for the year ended December 31, 2014 amounted to approximately \$11.5 million, with a gross profit margin of 41.2%, compared to the gross profit of approximately \$6.7 million with a gross profit margin of 37.5%, for the year ended December 31, 2013. The

CVD/First Nano division generated a gross profit margin of 38.8% for the year ended December 31, 2014, compared to a gross profit margin of 37.8% for the year ended December 31, 2013. The increase in gross profit margin is directly attributable to the increased order levels and efficiencies of working in a larger facility and having more trained personnel.

Research and Development, Selling, General and Administrative Expenses

Prior to 2012, all research and development expenses were incurred on customer orders and were classified as part of costs of goods sold. In 2012, we expanded our laboratory staff and began independently conducting cutting-edge research and product development for CVD Graphene. On January 9, 2014 we filed provisional patents. In 2014 we incurred approximately \$0.9 million of internal research and development costs compared to approximately \$1.0 million of internal research and product development expenses incurred in 2013. This decrease can be attributed to having utilized most of our laboratory and engineering staff to work on the significant increase in customer orders received in 2014.

Selling and shipping expenses were approximately \$1.3 million or 4.6% of the revenue for the year ended December 31, 2014 compared to approximately \$1.0 million or 5.7% for the year ended December 31, 2013, resulting in an increase of 24.8% or approximately \$0.3 million. The increase in absolute dollars was primarily attributable to the increase in sales personnel, commissions earned and shipping costs during 2014.

General and administrative expenses for the year ended December 31, 2014 were approximately \$8.2 million compared to approximately \$6.1 million during the year ended December 31, 2013, an increase of approximately \$2.1 million or 34.4%. This increase was primarily the result of the \$1.8 million in legal fees incurred in 2014 related to the Taiwan Glass litigation.

Effective as of January 29, 2015, the Company, Taiwan Glass International Corporation (“Taiwan Glass”) and Capital One, National Association (“Capital One”) entered into an agreement (the “Settlement Agreement”) pursuant to which the parties settled that certain previously disclosed action pending in the United States District Court for the Southern District of New York under Docket No. 10-CV-0573 (the “Action”).

Pursuant to the terms of the Settlement Agreement, we agreed to pay Taiwan Glass the sum of \$4.925 million, (said sum being inclusive of interest) and all claims and counterclaims asserted in the Action were settled and dismissed with prejudice. In addition, (a) Taiwan Glass executed limited releases in favor of each of the Company and Capital One concerning the claims asserted by Taiwan Glass in the Action; (b) we executed a limited release in favor of Taiwan Glass concerning the claims asserted by us against Taiwan Glass in the Action; and (c) Capital One executed a limited release in favor of Taiwan Glass concerning the claims asserted by Capital One against Taiwan Glass in the Action. Our payment in connection with the Settlement Agreement was made in 2015 though the expense was recognized in 2014.

In addition, the parties caused to be filed with the Court a Stipulation of Dismissal dismissing the claims and counterclaims asserted against all parties in the Action with prejudice. Taiwan Glass agreed to notify the appropriate authorities in Taiwan that its disputes with the Company and the

Company's directors, officers, employees and agents have been amicably resolved on a business-like basis and the Complaint made by Taiwan Glass in Taiwan is hereby withdrawn.

In 2013, we incurred bad debt expense of approximately \$1.3 million, primarily due to a major customer (in the solar industry) executing a General Assignment For the Benefit Of Creditors. As a result of that action, we wrote off all existing accounts receivables from that customer and some of the revenue previously recognized using percentage of completion accounting. Remaining equipment that had not been delivered to the customer, which was significant, was placed back in inventory.

During the twelve months ended December 31, 2013, we completed the sale of our facility located at 1860 Smithtown Avenue, Ronkonkoma, New York, where our former corporate headquarters was located. The selling price for the facility was approximately \$3.9 million and as a result. We incurred a long-term capital gain on the sale of approximately \$900,000.

Operating Loss/Income

As a result of the foregoing factors, we incurred an operating loss for the year ended December 31, 2014 of approximately \$3.7 million compared to an operating loss of approximately \$1.8 million of operating income for the year ended December 31, 2013. The total costs incurred in the twelve months ended December 31, 2014, as a result of the Taiwan Glass matter, was approximately \$6.7 million compared to \$233,000 for the twelve months ended December 31, 2013.

Interest Income

Interest income for the years ended December 31, 2014 and 2013 were approximately \$30,000. Our primary investing philosophy for the investment of our cash remains that of minimizing risk.

Interest Expense

We incurred approximately \$109,000 of interest expense in the year ended December 31, 2014, which was approximately \$55,000, or 34% less than the \$164,000 incurred in the year ended December 31, 2013. Our interest expense was greater in 2013 than it was in 2014, as a result of carrying the two mortgages including our former corporate headquarters through April, 2013.

Other Expense/Income

We incurred approximately \$131,000 of other expenses in 2014 compared to other income of approximately \$17,000 in 2013. This was primarily attributable to income tax refunds received from prior year's overpayments and the sale of certain fixed assets.

Income Tax Provision

For the twelve months ended December 31, 2014, we recorded an income tax benefit of approximately \$1.2 million. This is primarily the result of applying federal, state and local

income tax rates less research and development and other tax credits on a pre-tax loss of \$3.7 million as compared to an income tax benefit of approximately \$1.4 million for the twelve months ended December 31, 2013.

Net Income

As a result of the foregoing factors, for the year ended December 31, 2014, we incurred a net loss of approximately \$2.5 million as compared to a net loss of \$600,000 for the same period in 2013.

Inflation

Inflation has not materially impacted our operations.

Liquidity and Capital Resources

As of December 31, 2014, we had aggregate working capital of approximately \$16.4 million compared to aggregate working capital of approximately \$18.4 million at December 31, 2013 and had available cash and cash equivalents of approximately \$12.0 million, compared to approximately \$11.2 million, in cash and cash equivalents at December 31, 2013. The decrease in working capital of approximately \$2.0 million is primarily attributable to the \$6.7 million in settlement costs and legal fees associated with the Taiwan Glass matter, which is partially offset by the increase in accounts receivable of approximately \$3.6 million.

Accounts receivable, net of allowance for doubtful accounts, increased by approximately \$3.6 million or 124.2% at December 31, 2014 to approximately \$6.5 million compared to approximately \$2.9 million at December 31, 2013. This increase is directly correlated to the increase in revenue during the twelve months ended December 31, 2014. Accounts receivable in 2013 was negatively impacted by our decision to write off approximately \$1.3 million in accounts receivable as a result of a major customer, in the solar industry, executing a General Assignment For The Benefit Of Creditors.

Inventories as of December 31, 2014 were approximately \$4.8 million representing an increase of approximately \$300,000 or 7.7% compared to the balance of approximately \$4.5 million as of December 31, 2013. The increased revenue and related increased material costs for the twelve months ending December 31, 2014 necessitated an increase in inventory.

On August 5, 2014, we extended until August 5, 2015, under the same terms, our existing revolving credit facility with HSBC Bank, USA, N.A., ("HSBC") which was due to expire. The original loan agreement consists of a \$7 million revolving credit facility and a five (5) year term loan in the initial principal amount of \$2.1 million. The obligations under the loan agreement are secured by substantially all of our personal property. Additionally, borrowings under the term loan were initially collateralized by \$1 million of restricted cash deposits, provided that, so long as no event of default has occurred and then continuing, HSBC would release \$0.2 million of the collateral on each anniversary of the closing date. The restricted balance at December 31, 2014 was \$0.4 million. This restricted cash is a separate line item on the consolidated balance sheet.

We make monthly payments of \$35,000 plus interest on the term loan which matures on August 1, 2016. The balances as of December 31, 2014 and December 31, 2013 were approximately \$0.7 million and \$1.1 million respectively. Interest on the unpaid principal balance for the term loan, which was used to pay off the previous mortgages, accrues at a fixed rate of 3.045%. There were no borrowings outstanding on the \$7 million revolving credit facility as of both December 31, 2014 and December 31, 2013. The revolving credit facility permits us to borrow on a revolving basis until August 5, 2015. Interest on the unpaid principal balance on this facility accrues at either (i) the London Interbank offered Rate (“LIBOR”) plus 1.75% or (ii) the bank’s prime rate minus 0.50%. The credit agreement also contains certain financial covenants, all of which we were in compliance with at December 31, 2014.

In April, 2013, we completed the sale of our corporate headquarters located at 1860 Smithtown Avenue, Ronkonkoma, New York. The selling price for the facility was approximately \$3.9 million and as a result we incurred a long-term capital gain on the sale of approximately \$0.9 million.

Pursuant to the terms of an Accommodation Agreement, we entered a loan agreement (the “Loan”) with HSBC Bank USA, N.A. in the amount of \$6.0 million, the proceeds of which were used to finance a portion of the purchase price. The Loan is secured by a mortgage against the Central Islip Facility. The loan is payable in 120 consecutive equal monthly installments of principal of \$25,000 plus interest thereon and a final balloon payment of \$3.0 million. Interest accrues on the Loan, at our option, at the variable rate of (a) 1.75% above LIBOR, which we chose or (b) a rate equal to 0.5% below HSBC’s prime rate. The Loan matures on March 15, 2022.

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

We may also raise additional funds in the event we determine in the future to effect one or more acquisitions of businesses, technologies or products. In addition, we may elect to raise additional funds even before we need them if the conditions for raising capital are favorable. Any equity or equity-linked financing could be dilutive to existing shareholders.

Critical Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates. Our significant estimates include accounting for certain items such as revenues on long-term contracts recognized on the percentage-of-completion method, recognition of stock-based

compensation, assessment for impairment of our long-lived assets, and the valuation allowances for our income tax provisions.

Revenue Recognition

Product and service sales, including those based on time and materials type contracts, are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Service sales, principally representing repair, maintenance and engineering activities are recognized over the contractual period or as services are rendered.

We recognize revenues and income using the percentage-of-completion method for certain custom production-type contracts. Profits on these custom production-type contracts are recorded on the basis of our total estimated costs over the percentage of total costs incurred on individual contracts commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy. Under this method, revenues are recognized based on costs incurred to date compared with total estimated costs.

Stock-Based Compensation

We record stock-based compensation in accordance with the provisions set forth in the Financial Accounting Standard Board (“FASB”) Accounting Standards Codification (“ASC”) 718, “Stock Compensation,” using the modified prospective method. ASC 718 requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards.

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. We had no recorded long-lived asset impairment charges in the statement of operations during each of the years ended December 31, 2014 and 2013.

Off-Balance Sheet Arrangements

None.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements and supplementary data required by this item are included in this annual report beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures. We maintain a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of our Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2014. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with the management of the Company, have determined that as of December 31, 2014, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a – 15(f) of the Exchange Act). There are inherent limitations to the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time. We have assessed the effectiveness of our internal controls over financial reporting (as defined in Rule 13a -15(f) of the Exchange Act) as of December 31, 2014. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control – Integrated Framework (2013)". Management concluded that, as of December 31, 2014, our internal control over financial reporting was effective based on the criteria established by the COSO Internal Control Framework.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

Background and Experience of Directors

When considering whether directors and nominees have the experience, qualifications, attributes or skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Nominating, Governance and Compliance Committee focused primarily on each person's background and experience as reflected in the information discussed in each of the directors' individual biographies set forth immediately below. We believe that our directors provide an appropriate mix of experience and skills relevant to the size and nature of our business. As more specifically described in such person's individual biographies set forth below, our directors possess relevant and industry-specific experience and knowledge in the engineering financial and business fields, as the case may be, which we believe enhances the Board's ability to oversee, evaluate and direct our overall corporate strategy. The Nominating, Governance and Compliance Committee annually reviews and makes recommendations to the Board regarding the composition and size of the Board so that the Board consists of members with the proper expertise, skills, attributes, and personal and professional backgrounds needed by the Board, consistent with applicable regulatory requirements.

The Nominating, Governance and Compliance Committee believes that all directors, including nominees, should possess the highest personal and professional ethics, integrity, and values, and be committed to representing the long-term interests of our shareholders. The Nominating, Governance and Compliance Committee will consider criteria including the nominee's current or recent experience as a senior executive officer, whether the nominee is independent, as that term is defined in existing independence requirements of the NASDAQ Capital Market and the Securities and Exchange Commission, the business, scientific or engineering experience currently desired on the Board, geography, the nominee's industry experience, and the nominee's general ability to enhance the overall composition of the Board.

The Nominating, Governance and Compliance Committee does not have a formal policy on diversity; however, in recommending directors, the Board and the Committee consider the specific background and experience of the Board members and other personal attributes in an effort to provide a diverse mix of capabilities, contributions and viewpoints which the Board believes enables it to function effectively as the Board of Directors of a company with our size and the nature of our business.

Director Service on other Boards

None.

Legal Proceedings Involving Directors

None.

Board Leadership

The Board has no formal policy with respect to separation of the positions of Chairman and CEO or with respect to whether the Chairman should be a member of management or an independent director, and believes that these are matters that should be discussed and determined by the Board from time to time. Currently, Leonard A. Rosenbaum serves as our Chairman, President and CEO. Given the fact that Mr. Rosenbaum, in his capacity as our President and CEO is tasked with the responsibility of implementing our corporate strategy, we believe he is best suited for leading discussions, at the Board level, regarding performance relative to our corporate strategy, and these discussions account for a significant portion of the time devoted at our Board meetings.

Our Certificate of Incorporation and Bylaws provide for our Company to be managed by or under the direction of the Board of Directors. Under our Certificate of Incorporation and Bylaws, the number of directors is fixed from time to time by the Board of Directors. The Board of Directors currently consists of six members. Directors are elected for a period of one year and thereafter serve, subject to the Bylaws, until the next annual meeting at which their successors are duly elected by the shareholders.

The following table sets for the names, ages and positions with the Company of each of our directors and executive officers, as of March 13, 2015.

<u>Name</u>	<u>Age</u>	<u>Position(s) with the Company</u>
Leonard A. Rosenbaum	69	Chairman of the Board of Directors, Chief Executive Officer, President
Martin J. Teitelbaum	64	Director, General Counsel and Assistant Secretary
Conrad J. Gunther	68	Director, Chairperson-Audit Committee
Bruce T. Swan	82	Director, Chairperson-Nominating, Governance and Compliance Committee
Kelly S. Walters	44	Director, Chairperson-Finance Committee
Lawrence D. Firestone	57	Director, Chairperson-Compensation Committee
Glen R. Charles	61	Chief Financial Officer, Secretary
Steven Aragon	53	Chief Operating Officer
Karlheinz Strobl	55	Vice President of Business Development
William S. Linss	57	Vice President of Operations-CVD/First Nano Division
Kevin R. Collins	49	Vice President and General Manager-SDC Division

Leonard A. Rosenbaum

Leonard A. Rosenbaum founded the Company in 1982 and has been our President, Chief Executive Officer and has served as Chairman of the Board of Directors since that time. From 1971 until 1982, Mr. Rosenbaum was president, director and a principal stockholder of Nav-Tec Industries, a manufacturer of semiconductor processing equipment similar to the type of equipment we manufacture. From 1966 to 1971, Mr. Rosenbaum was employed by a division of General Instrument, a manufacturer of semiconductor materials and equipment.

Martin J. Teitelbaum, Esq.

Martin J. Teitelbaum has served as a member of our Board of Directors and General Counsel since 1985 and as our in-house General Counsel since May 16, 2011. Mr. Teitelbaum is an attorney, who prior to May 16, 2011, conducted his own private practice, the Law Offices of Martin J. Teitelbaum. Prior to establishing his own firm in 1988, Mr. Teitelbaum was a partner at Guberman and Teitelbaum from 1977 to 1987. In addition, Mr. Teitelbaum currently acts as our Assistant Secretary. Mr. Teitelbaum earned a B.A. in Political Science from the State University of New York at Buffalo and a Juris Doctor from Brooklyn Law School. Mr. Teitelbaum has served as our outside General Counsel for many years and his legal expertise makes him an asset to the Company's board of directors.

Conrad J. Gunther

Conrad J. Gunther has served as a member of our Board of Directors since 2000. Mr. Gunther has extensive experience in mergers and acquisitions and in raising capital through both public and private means. He has been an executive officer and director of several banks, both public and private, and has served on the boards of two other public companies. He most recently served on the board of GVC Venture Corp., a public company from June 2004 until it merged with the Halo Companies in September 2009. Since January 2008, Mr. Gunther has served as an Executive Vice President and Senior Loan Officer for Community National Bank, a Long Island, New York based commercial bank, where he is responsible for all commercial lending. Mr. Gunther qualifies to serve on our board of directors as a result of his experience and expertise in the financial community.

Bruce T. Swan

Bruce T. Swan has served as a member of our Board of Directors since September 2003. Mr. Swan who is presently retired has extensive banking, export and international credit experience. He has held the positions of Deputy Manager at Brown Brothers Harriman and Co., Assistant Treasurer at Standard Brands Incorporated, Assistant Treasurer at Monsanto Corporation, Vice President and Treasurer at AM International Inc. and President and Founder of Export Acceptance Company. Mr. Swan earned his MBA from Harvard University and is a former adjunct faculty member of New York University's Stern School of Business Administration. Mr. Swan is qualified to serve as an independent member of our board of directors because of his vast expertise and experience in the financial services industry.

Kelly S. Walters

Kelly S. Walters was appointed a member of the Board of Directors in September, 2009. Mr. Walters is a Managing Director at Schwartz Heslin Group Inc., an investment banking and management advisory firm specializing in business and strategic advisory, mergers and acquisitions, and valuation services. Prior to joining Schwartz Heslin, Mr. Walters was managing principal of Forefronts Group, a management consulting firm focused on clean technology, and advanced materials including nanotechnology. Mr. Walters began his investment banking career at Lehman Brothers in 2000 as an associate in the firm's chemicals and industrials group following four years at Lexmark International, Inc. where he was a senior corporate financial planning analyst. From 2003 to 2007, Kelly was a vice president in the chemicals industry group

of Morgan Joseph & Co. prior to joining ThinkEquity LLC as an investment banking principal covering emerging growth companies in the clean technology and nanotechnology industries until 2009. Mr. Walters earned an MA at The Patterson School of Diplomacy and International Commerce at the University of Kentucky where he also earned BA and MBA degrees in economics and finance. Kelly is a Chartered Financial Analyst (CFA), a Certified Management Accountant (CMA) and a Certified Financial Manager (CFM). Mr. Walters is qualified to serve as an independent member of our board because of his experience in the alternative energy and nanotechnology fields.

Lawrence D. Firestone

Lawrence D. Firestone was appointed a member of the Board of Directors on March 26, 2014. Mr. Firestone is currently the Chief Executive Officer and President of FirePower Technology, Inc., a provider of power supplies to the high performance computing market. Prior to FirePower Technology, from June 2012 to July 2013, Mr. Firestone was Chief Executive Officer and President of Qualstar Corporation a provider of power supplies for high performance computing, instrumentation and tape libraries - markets where large amounts of electronic data are stored and maintained. From February 2011 to May 2012, Mr. Firestone served as Chief Financial Officer of Xiotech Corporation, a supplier of enterprise storage systems. From August 2006 to August 2010, Mr. Firestone was Executive Vice President and Chief Financial Officer of Advanced Energy Industries, Inc., a provider of power conversion devices for the semiconductor and solar inverter markets. From 1999 until August 2006, Mr. Firestone served as the Senior Vice President and Chief Financial Officer at Applied Films Corporation, a supplier of thin film deposition equipment. Prior to joining Applied Films, from 1996 to 1999, Mr. Firestone served as Vice President and Chief Operating Officer of Avalanche Industries, a contract manufacturer of custom cables and harnesses. Mr. Firestone has previously served as a director on the boards of Qualstar Corporation, Amtech Systems, Inc. and Hyperspace Communications, Inc. from 2004 through 2013. Mr. Firestone received a B.S. in Business Administration with a concentration in Accounting from Slippery Rock State College in 1981. Mr. Firestone is qualified to serve as an independent member of the Board of Directors due to his extensive industry experience and financial background.

Glen R. Charles

Glen R. Charles has been the Chief Financial Officer and Secretary of the Company since January, 2004. From 2002 until he joined the Company, he was the Director of Financial Reporting for Jennifer Convertibles, Inc., the owner and licensor of the largest group of sofabed specialty retail stores in the United States. From 1994 to 2002, he was the Chief Financial Officer of Trans Global Services, Inc., a public company providing temporary technical services to the aerospace, aircraft, electronics and telecommunications markets. Mr. Charles has also had his own business in the private practice of accounting. Mr. Charles earned his B.S. in Accounting from the State University of New York at Buffalo.

Steven Aragon

Dr. Steven Aragon was appointed Chief Operating Officer by the Board of Directors on October 20, 2014. Dr. Aragon has over 25 years of thin-film process, materials, and system expertise applied to photovoltaic, optical, electronic, and magnetic device fabrication. He received his Ph.D. in Physical Chemistry from the University of California, Santa Cruz, in 1990 and his MBA from Santa Clara University in 1996. He is the holder of five process equipment design patents. Dr. Aragon was a co-founder of Optimus Energy Systems International Inc. and served as its Chief Technical Officer and Senior Vice-President – Engineering from November 2011 to October 2014. From June 2008 to October 2011, He has also served as Vice-President – Engineering at Stion Corp of San Jose, California, a maker of nanostructure-based CIGS (copper indium gallium sulphur-diselenide) thin-film photovoltaic panels and as the Vice President – Engineering at Day Star Technologies Inc. from June 2001 to June 2008.

Karlheinz Strobl

Dr. Karlheinz Strobl has been the Vice President of Business Development since October 2007. From 1997 to 2007, he was the founder and President of eele Laboratories, LLC, a technology and manufacturing solutions development company for a novel Light Engine for the video and data projection display market. Dr. Strobl holds over 14 patents and earned an MBA from Boston University, a PhD from the University of Innsbruck and an MS from both the University of Innsbruck and the University of Padova. He has also worked at the Max Plank Institute and at Los Alamos National Laboratory.

William S. Linss

William S. Linss is the Vice President, Operations for the CVD/First Nano Division of CVD. In addition to managing daily engineering and production operations, Bill is instrumental in expanding the company's technology capabilities, developing new products and positioning CVD for growth. Prior to his promotion in 2013, Bill was the Division Manager for the CVD/First Nano Division since 2005. Bill has worked in semiconductor manufacturing and chemical vapor deposition for 25 years. From 1980 through 1988 Bill worked at Standard Microsystems Corp. in Hauppauge, NY, advancing to Equipment Engineering Manager with all capital equipment responsibilities for SMC's MOS/VLSIC manufacturing. Bill was employed by CVD from 1988 through 1994, advancing through various positions as Electrical Systems Designer, Field Service Engineer and Production Manager. From 1994 through 2001 Bill served as a Software Quality Assurance (SQA) Manager with Otari Corporation, at their Long Island pro-audio R&D office; and later with AP Engines in Sacramento, CA, a Cable TV billing solutions start-up. In 2001, Bill re-joined CVD to head the newly acquired Research International Division for SMT reflow oven manufacturing, which then resulted in CVD's acquisition of the Conceptronic product line.

Kevin R. Collins

Prior to his appointment as Vice President and General Manager-SDC Division, Mr. Collins served as the General Manager of CVD's SDC Division since 1999. From 1990 to 1999 he was

employed by Stainless Design Corp. as Manager of Field Operations and Product Development Advisor. Mr. Collins attended Columbia University School of Engineering and Applied Science.

Code Of Ethics

We have adopted a Corporate Code of Conduct and Ethics that applies to our employees, senior management and Board of Directors, including the Chief Executive Officer and Chief Financial Officer. The Corporate Code of Conduct and Ethics is available on our web site, <http://www.cvdequipment.com>, by clicking on “About Us” and then clicking on “Corporate Overview.”

Audit Committee

Our Board of Directors has an Audit Committee that consists of Conrad J. Gunther, Bruce T. Swan, Kelly S. Walters and Lawrence D. Firestone. During the fiscal year ended December 31, 2014, the Audit Committee held four meetings. Pursuant to the Audit Committee Charter, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of any independent registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for us, and each such independent auditor shall report directly to the Committee. The Audit Committee also reviews with management and the independent auditors, our annual audited financial statements (including the disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”), the scope and results of annual audits and the audit and non-audit fees of the independent registered public accounting firm. Furthermore, the Audit Committee reviews the adequacy of our internal control procedures, the structure of our financial organization and the implementation of our financial and accounting policies. Messrs. Gunther, Swan, Walters and Firestone are “independent” under the requirements of the NASDAQ Stock Market.

The Board of Directors has determined that Conrad J. Gunther is an “audit committee financial expert” as that term is defined in the rules and regulations of the Securities and Exchange Commission.

Section 16(a) Beneficial Ownership Reporting Compliance

The rules of the Securities and Exchange Commission require us to disclose late filings of reports of stock ownership and changes in stock ownership by our directors, officers and ten percent shareholders. To our knowledge, based solely on our review of (a) the copies of such reports and amendments thereto furnished to us and (b) written representations that no other reports were required, during our fiscal year ended December 31, 2014, all of the filings for our officers, directors and ten percent shareholders were made on a timely basis.

Item 11. Executive Compensation.

Summary Compensation Table

The following table sets forth the compensation of our chief executive officer and chief financial officer, and our “named executive officers,” for the years ended December 31, 2014 and 2013.

<u>Name and principal position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Option Awards (\$)</u> <u>(1)</u>	<u>Stock Awards (\$)</u> <u>(1)</u>	<u>All Other Compensation</u>	<u>Total (\$)</u>
Leonard A. Rosenbaum President and Chief Executive Officer	2014	302,742	-	-	-	-	302,742
	2013	273,896	-	-	-	-	273,896
Glen R. Charles Secretary and Chief Financial Officer	2014	163,942	-	-	166,383	-	330,325
	2013	147,788	-	-	28,617	-	176,405
Karlheinz Strobl Vice President of Business Development	2014	185,096	-	61,000(2)	141,002	-	387,098
	2013	179,587	-	30,500(2)	23,998	-	234,085
Martin J. Teitelbaum General Counsel and Assistant Secretary	2014	247,633	-	-	47,600	-	295,233
	2013	235,932	-	-	39,800	-	275,732

- (1) Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown reflect the total remaining compensation on restricted stock and option awards granted prior to fiscal 2014, that have not previously been shown, as determined pursuant to ASC 718. The assumptions used to calculate the value of stock and option awards are set forth under Note 11 of the Notes to Consolidated Financial Statements. This column represents the grant date fair value of the awards as calculated in accordance with FASB ASC 718 (Stock Compensation). Pursuant to SEC rule changes effective February 28, 2010, we are required to reflect the total grant date fair values of the option grants in the year of grant, rather than the portion of this amount that was recognized for financial statement reporting purposes in a given fiscal year which was required under the prior SEC rules, resulting in a change to the amounts reported in prior Annual Reports. valued utilizing the grant date fair value in the year granted.
- (2) The amount shown is attributable to non-qualified stock options to purchase 100,000 shares of the Company’s common stock granted to Mr. Strobl on October 10, 2007 that became exercisable as to 75.0% and 87.5% of the underlying shares on October 10, 2013 and October 10, 2014 respectively. These options were issued at a grant price equal to the then current market price of \$4.62. These options expire on October 10, 2017.

Employment Agreements and Potential Payments Upon Termination or Change in Control

Effective February 18, 2011 (the “Effective Date”), we entered into an Employment Agreement with Martin J. Teitelbaum to employ Mr. Teitelbaum as our General Counsel (the “Employment Agreement”).

The Employment Agreement provides for a term of five (5) years, unless earlier terminated pursuant to the employment Agreement. Mr. Teitelbaum shall receive an initial annual base salary of \$225,000 in the first year of employment, which shall be increased on the anniversary date of each year of the Effective Date by five (5%) percent over the prior year. As additional compensation, on the Effective Date, we issued Mr. Teitelbaum 20,000 shares of our restricted common stock pursuant to our 2007 Share Incentive Plan, which shall vest annually on each anniversary of the Effective Date, provided that Mr. Teitelbaum remains employed by us on such date, at the rate of 4,000 shares per year. In addition, Mr. Teitelbaum is entitled to receive the same benefits afforded other management level employees of the Company and may, from time to time, be awarded stock options and bonuses as the Board of Directors shall in its sole discretion determine.

In the event that we do not maintain an office in Nassau or Suffolk Counties for Teitelbaum to work out of, Mr. Teitelbaum shall have the option of (a) relocating to the new location or (b) receiving a lump-sum payment equal to eighty percent (80%) of his current salary for the balance of the Term, together with any accrued vacation time. In the event of a termination pursuant to the preceding sentence, all options and restricted stock held by or issued in the name of Mr. Teitelbaum shall immediately become fully vested and unrestricted. We shall have the right to terminate the Employment Agreement upon not less than ninety (90) days prior written notice to Mr. Teitelbaum, provided that upon such early termination, we shall pay Mr. Teitelbaum, in a lump sum, an amount equal to 80% of his current Base Salary for the remainder of the Term, together with any accrued vacation time, and all options and restricted stock held by or issued in the name of Mr. Teitelbaum shall immediately become fully vested and unrestricted.

Outstanding Equity Awards at December 31, 2014

The following table sets forth the outstanding equity awards held by our named executive officers as of December 31, 2014.

Name	OPTION AWARDS				STOCK AWARDS			
	Number of Securities Underlying Options Exercisable (#)	Number of Securities Options Unexercisable (#)	Exercise Price (\$)	Option Expiration Date	Number of shares or units of stock that have not Vested (#)	Market Value of shares or units of stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of unearned shares or units that have not vested (#)	Equity Incentive Plan Awards: Market or payout value of unearned shares or units that have not vested (\$)
Leonard A Rosenbaum	24,000	-	3.65	12/12/2017	-	-	-	-
Glen R. Charles	-	-	-	-	-	-	12,019(2)	172,953
Karlheinz Strobl	87,500	12,500 (1)	4.62	10/10/2017	-	-	10,416(3)	149,886
Martin J. Teitelbaum	- 5,310 1,400	- - -	- 4.25 7.90	12/12/2017 1/15/2020 1/15/2021	8,000 - -	115,120 - -	- - -	- - -

- (1) Options vest as to 12,500 shares on October 10 each year consecutively through 2015.
- (2) Restricted stock units vest as to 2,404 shares; 2,804 shares, 3,205 shares and 3,606 shares respectively each on November 15, 2015 through November 15, 2018.
- (3) Restricted stock units vest as to 2,003 shares; 2,404 shares; 2,804 shares and 3,205 shares respectively each on November 15, 2015 through November 15, 2018.

2014 Director Compensation

The following table sets forth a summary of the compensation we paid to our non-employee directors in 2014.

Name	Fees Earned or Paid in Cash	Option Awards (1)	Restricted Stock Awards (1)	Total
Conrad J. Gunther	19,000	-	24,310	43,310
Bruce T. Swan	16,000	-	24,310	40,310
Kelly S. Walters	16,000	-	24,310	40,310
Lawrence D. Firestone	12,000	-	18,213	30,213

- (1) Amounts shown do not necessarily reflect compensation actually received by the named director. Instead, the amounts shown are the compensation costs recognized by CVD in fiscal 2014 for awards as determined pursuant to ASC 718. The assumptions used to calculate the value of option awards are set forth under Note 12 of the Notes to Consolidated Financial Statements.

- (2) Lawrence D. Firestone was appointed to the Board of Directors on March 26, 2014.

At a meeting of the Stock Option and Compensation Committee on November 19, 2008, a director compensation plan was adopted applicable to all nonemployee directors, providing for annual compensation in the sum of approximately forty thousand dollars (\$40,000) to be payable to each director in a combination of cash, restricted stock grant and stock options.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth, as of March 15, 2015, information regarding the beneficial ownership of our common stock by (a) each person who is known to us to be the owner of more than five percent (5%) of our common stock, (b) each of our directors, (c) each of the named executive officers, and (d) all directors and executive officers and executive employees as a group. For purposes of the table, a person or group of persons is deemed to have beneficial ownership of any shares that such person has the right to acquire within 60 days of March 15, 2015.

<u>Name and Address of Beneficial Owner(1)</u>	<u>Amounts and Nature of Beneficial Ownership (2)</u>	<u>Percent of Class (%)</u>
Leonard A. Rosenbaum	821,870 (3)	13.3
Martin J. Teitelbaum	84,046 (4)	1.4
Conrad J. Gunther	55,488 (5)	*
Bruce T. Swan	16,010 (6)	*
Kelly S. Walters	6,300 (7)	*
Lawrence D. Firestone	3,100 (6)	*
Glen R. Charles	14,106 (8)	*
Karlheinz Strobl	100,326 (9)	1.6
William S. Linss	3,409 (10)	*
Kevin R. Collins	60,856 (11)	1.0
Steven Aragon	0 (12)	*
All directors and executive officers and executive employees as a group (eleven (11) persons)	1,165,511	18.9

*Less than 1% of the outstanding common stock or less than 1% of the voting power

(1) The address of Messrs. Rosenbaum, Teitelbaum, Gunther, Swan, Walters, Firestone, Charles, Strobl, Linss, Collins and Aragon is c/o CVD Equipment Corporation, 355 South Technology Drive, Central Islip, New York 11722.

(2) All of such shares are owned directly with sole voting and investment power, unless otherwise noted below.

(3) Includes options to purchase 24,000 shares of our common stock.

- (4) Includes 2,000 shares held by Mr. Teitelbaum's wife as to which beneficial ownership thereof is disclaimed by Mr. Teitelbaum, and options to purchase 6,710 shares of our common stock. Does not include 8,000 shares of unvested restricted common stock.
- (5) Includes options to purchase 18,110 shares of our common stock. Does not include 1,350 shares of unvested restricted common stock.
- (6) Does not include 1,350 shares of unvested restricted common stock.
- (7) Includes options to purchase 2,800 shares of our common stock. Does not include 1,350 shares of unvested restricted common stock.
- (8) Does not include 12,019 units of unvested restricted common stock.
- (9) Includes options to purchase 87,500 shares of our common stock. Does not include unvested options to purchase 12,500 shares of our common stock. Does not include 10,416 units of unvested restricted common stock.
- (10) Does not include 20,833 units of unvested restricted common stock.
- (11) Does not include 12,019 units of unvested restricted common stock.
- (12) Does not include unvested options to purchase 100,000 shares of our common stock.

See Item 5, Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities under the heading "Equity Compensation Plan Information" for information regarding our securities authorized for issuance under equity compensation plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Related Person Transactions

We maintain bank accounts and deposit cash in Community National Bank. Conrad Gunther, a director of the Company, is an Executive Vice President and Senior Loan Officer at Community National Bank. We do not pay any fees to Mr. Gunther or Community National Bank in connection with this investment vehicle.

Director Independence

The current members of our Board of Directors are Leonard A. Rosenbaum, Martin J. Teitelbaum, Conrad J. Gunther, Bruce T. Swan, Kelly S. Walters and Lawrence D. Firestone. Messrs. Gunther, Swan, Walters and Firestone have been determined to be “independent” as defined under Rule 4200 of the Nasdaq Stock Market.

Item 14. Principal Accountant Fees and Services.

The following presents fees for professional audit services rendered by MSPC, Certified Public Accountants and Advisors, A Professional Corporation (“MSPC”), for the audit of our financial statements for the years ended December 31, 2014 and December 31, 2013.

	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>
Audit Fees	\$130,500	\$120,000
Audit-Related Fees (1)	10,000	9,600
Tax Fees	--	--
All Other Fees	--	--
Total Fees	\$140,500	\$129,600

Audit-Related Fees

Audit-related fees consisted of the audit of the Company’s Defined Contribution Plan 401(k) for the years 2014 and 2013 by MSPC.

Tax Fees

Tax fees in 2014 consisted of the tax preparation of the 2013 tax returns by Baker, Tilley, Virchow Krause, LLP, formerly Holtz, Rubenstein Reminick LLP. The aggregate fees billed in 2014 were \$22,600. The aggregate fees billed in 2013 were \$18,000.

All Other Fees

We did not incur any other fees in 2014 or 2013.

Audit Committee Approval

The engagement of the Company’s independent registered public accounting firm is pre-approved by the Company’s Audit Committee. The Audit Committee pre-approves all fees billed and all services rendered by the Company’s independent registered public accounting firm.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- 3.1 Certificate of Incorporation dated October 12, 1982 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.2 Certificate of Amendment dated April 25, 1985 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.3 Certificate of Amendment dated August 12, 1985 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.4 Bylaws of CVD Equipment Corporation, incorporated herein by reference to Exhibit 3.2 to our Form S-1 filed on July 3, 2007.
- 10.1 Form of Non-Qualified Stock Option Agreement with certain directors, officers and employees of CVD Equipment Corporation incorporated herein by reference to our Registration Statement on Form S-8 No. 33-30501, filed August 15, 1989.*
- 10.2 Purchase Agreement relating to a 22,000 square foot facility from Kidco Realty incorporated herein by reference to our Form 8-K filed on December 31, 1998.
- 10.3 CVD Equipment Corporation 2001 Stock Option Plan incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.*
- 10.4 Form of Non-Qualified Stock Option Agreement incorporated herein by reference to Exhibit 3.1 to our Form 10-KSB filed on March 26, 2007.*
- 10.5 1989 Key Employee Stock Option Plan incorporated herein by reference to Amendment No. 1 to our Form S-1 filed on August 7, 2007.
- 10.6 CVD Equipment Corporation 2007 Share Incentive Plan incorporated herein by reference to our Schedule 14A filed November 5, 2007.
- 10.7 Lease Agreement, dated February 9, 2012, by and between FAE Holdings 411519R, LLC and the Company incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.
- 10.8 Assignment Agreement, dated February 9, 2012, by and between FAE Holdings 411519R, LLC and the Company incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.
- 10.9 Qualified Exchange Accommodation Agreement, dated February 9, 2012, by and between FAE Holdings 411519R, LLC and the Company incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.

- 10.10 Joint and Several Hazardous Material Guaranty and Indemnification Agreement, dated March 15, 2012, by and between FAE Holdings 411519R, LLC and the Company incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.
- 10.11 Assignment of Leases and Rents, dated March 15, 2012, by and among FAE Holdings 411519R, LLC, the Town of Islip Industrial Development Agency and HSBC Bank USA, National Association incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.
- 10.12 Amended and Restated Fee and Leasehold Mortgage, dated March 15, 2012, by and among FAE Holdings 411519R, LLC, the Town of Islip Industrial Development Agency and HSBC Bank USA, National Association incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.
- 10.13 Amended and Restated Note, dated March 15, 2012, by and among FAE Holdings 411519R, LLC, the Town of Islip Industrial Development Agency and HSBC Bank USA, National Association incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.
- 10.14 Note and Mortgage Assumption Agreement, dated March 15, 2012, by and among FAE Holdings 411519R, LLC, the Town of Islip Industrial Development Agency and HSBC Bank USA, National Association incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.
- 10.15 Guaranty of Payment, dated March 15, 2012, by the Company incorporated by reference from the Company's Report on Form 10-Q filed with the Commission on May 15, 2012.
- 10.16 Employment Agreement effective February 18, 2011 between CVD Equipment Corporation and Martin J. Teitelbaum incorporated by reference from our Report on Form 10-Q filed with the Commission on May 11, 2011.
- 10.17 Credit Agreement dated August 5, 2011, by and between CVD Equipment Corporation and HSBC Bank, USA, National Association incorporated by reference to our Report on form 10-Q filed on November 14, 2011.
- 10.18 Contract of Sale, dated May 31, 2012, between CVD Equipment Corporation and Glomel LLC incorporated by reference to our Report on Form 10-Q filed on August 14, 2012.
- 21.1 List of Subsidiaries.
- 23.1 Consent of MSPC, Certified Public Accountants and Advisors, A Professional Corporation (S-1).

- 23.2 Consent of MSPC, Certified Public Accountants and Advisors, A Professional Corporation (S-8).
- 23.3 Consent of MSPC, Certified Public Accountants and Advisors, A Professional Corporation (S-8).
- 23.4 Consent of MSPC, Certified Public Accountants and Advisors, A Professional Corporation (S-3).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Principal Executive Officer.
- 32.2 Section 1350 Certification of Principal Financial Officer.

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

* Management contract or compensatory plan or arrangement required

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934 , as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: March 31, 2015
CVD EQUIPMENT CORPORATION

By: /s/ Leonard A. Rosenbaum
Name: Leonard A. Rosenbaum
Title: President and Chief Executive Officer

By: /s/ Glen R. Charles
Name: Glen R. Charles
Title: Chief Financial Officer and Secretary
Principal Financial and Accounting Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated below.

<u>NAME</u>	<u>POSITION</u>	<u>DATE</u>
<u>/s/ Leonard A Rosenbaum</u> Leonard A. Rosenbaum	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2015
<u>/s/ Martin J. Teitelbaum</u> Martin J. Teitelbaum	Director, General Counsel and Assistant Secretary	March 31, 2015
<u>/s/ Conrad J. Gunther</u> Conrad J. Gunther	Director	March 31, 2015
<u>/s/ Bruce T. Swan</u> Bruce T. Swan	Director	March 31, 2015
<u>/s/ Kelly S. Walters</u> Kelly S. Walters	Director	March 31, 2015
<u>/s/ Lawrence D. Firestone</u> Lawrence D. Firestone	Director	March 31, 2015

SUBSIDIARIES

CVD Materials Corporation, a New York corporation, is a wholly owned subsidiary of CVD Equipment Corporation which provides marketing for our Application Laboratory.

FAE Holdings 411519R, LLC, a New York limited liability company, is a wholly owned subsidiary of CVD Equipment Corporation whose sole asset is its interest in the real estate and building housing our corporate headquarters.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (No. 333-144336) on Form S-1, pertaining to the 2007 public offering, of CVD Equipment Corporation and Subsidiaries of our report dated March 31, 2015 relating to our audit of the consolidated financial statements, which appear in the Annual Report on Form 10-K of CVD Equipment Corporation for the year ended December 31, 2014.

/s/ **MSPC**
Certified Public Accountants and Advisors,
A Professional Corporation

Cranford, New Jersey
March 31, 2015

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 333-138903) on Form S-8, pertaining to the 2001 Stock Option Plan of CVD Equipment Corporation and Subsidiaries of our report dated March 31, 2015 relating to our audit of the consolidated financial statements, which appear in the Annual Report on Form 10-K of CVD Equipment Corporation for the year ended December 31, 2014.

/s/ MSPC
Certified Public Accountants and Advisors,
A Professional Corporation

New York, New York
March 31, 2015

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 333-153186) on Form S-8, pertaining to the 2007 Share Incentive Plan of CVD Equipment Corporation and Subsidiaries of our report dated March 31, 2015 relating to our audit of the consolidated financial statements, which appear in the Annual Report on Form 10-K of CVD Equipment Corporation for the year ended December 31, 2014.

/s/ **MSPC**
Certified Public Accountants and Advisors,
A Professional Corporation

New York, New York
March 31, 2015

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 333-172252) on Form S-3, pertaining to the 2011 public offering of CVD Equipment Corporation and Subsidiaries of our report dated March 31, 2015 relating to our audit of the consolidated financial statements, which appear in the Annual Report on Form 10-K of CVD Equipment Corporation for the year ended December 31, 2014.

/s/ **MSPC**
Certified Public Accountants and Advisors,
A Professional Corporation

New York, New York
March 31, 2015

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

I, Leonard A. Rosenbaum, certify that:

1. I have reviewed this annual report on Form 10-K 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 control over financial reporting, or caused such internal control 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 registrant's 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 data; 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: March 31, 2015

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

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

I, Glen R. Charles, certify that:

1. I have reviewed this annual report on Form 10-K 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 control over financial reporting, or caused such internal control 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 registrant's 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 data; 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: March 31, 2015

/s/ Glen R. Charles
Chief Financial Officer

**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, Leonard A. Rosenbaum, 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 annual report on Form 10-K for the period ending December 31, 2014 of CVD Equipment Corporation (the “Form 10-K”) 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-K fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: March 31, 2015

/s/ Leonard A. Rosenbaum
Leonard A. Rosenbaum
Chief Executive Officer
(Principal Executive Officer)

**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, Glen R. Charles, 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 annual report on Form 10-K for the period ending December 31, 2014 of CVD Equipment Corporation (the “Form 10-K”) 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-K fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: March 31, 2015

/s/ Glen R. Charles
Glen R. Charles
Chief Financial Officer
(Principal Financial Officer)

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
CVD Equipment Corporation and Subsidiary
Central Islip, New York

We have audited the accompanying consolidated balance sheets of CVD Equipment Corporation and Subsidiaries as of December 31, 2014 and 2013, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the two years in the two-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CVD Equipment Corporation and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ **MSpC**
Certified Public Accountants and Advisors,
A Professional Corporation

New York, New York
March 31, 2015

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31,

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 11,966,863	\$ 11,247,560
Accounts receivable, net	6,463,050	2,883,443
Costs and estimated earnings in excess of billings on contracts in progress	2,498,662	1,577,969
Inventories, net	4,842,059	4,497,349
Deferred income taxes	2,887,960	1,443,321
Other current assets	<u>194,756</u>	<u>246,240</u>
Total Current Assets	28,853,350	21,895,882
Property, plant and equipment, net	15,025,283	15,492,111
Construction in progress	389,276	128,171
Deferred income taxes	750,133	710,983
Restricted Cash	400,000	800,000
Other assets	82,559	70,376
Intangible assets, net	<u>55,871</u>	<u>44,116</u>
Total Assets	\$ <u>45,556,472</u>	\$ <u>39,141,639</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 1,682,838	\$ 468,072
Accrued expenses	3,297,052	1,806,370
Current maturities of long-term debt	720,000	720,000
Billings in excess of costs and estimated earnings on contracts in progress	1,328,508	252,890
Deferred revenue	488,691	204,527
Accrued loss on litigation settlement	<u>4,925,000</u>	<u>---</u>
Total Current Liabilities	12,442,089	3,451,859
Long-term debt, net of current portion	3,845,508	<u>4,565,508</u>
Total Liabilities	16,287,597	8,017,367
Commitments and Contingencies (Note 16)	-	-
Stockholders' Equity:		
Common stock - \$0.01 par value - 10,000,000 shares authorized: issued and outstanding, 6,162,027 shares at December 31, 2014 and 6,091,707 shares at December 31, 2013	61,620	60,917
Additional paid-in capital	22,144,805	21,527,375
Retained earnings	<u>7,062,450</u>	<u>9,535,980</u>
Total Stockholders' Equity	29,268,875	31,124,272
Total Liabilities and Stockholders' Equity	\$ <u>45,556,472</u>	\$ <u>39,141,639</u>

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended December 31,

	<u>2014</u>	<u>2013</u>
Revenue	\$ 27,990,463	\$ 17,883,927
Cost of revenue	<u>16,465,084</u>	<u>11,173,893</u>
Gross profit	<u>11,525,379</u>	<u>6,710,034</u>
Operating expenses		
Research and development	877,788	1,013,157
Selling and shipping	1,282,101	1,027,296
General and administrative	8,204,514	6,081,783
Loss on litigation settlement	4,925,000	---
Bad debt expense	---	1,281,352
(Gain) on sale of buildings	<u>---</u>	<u>(887,477)</u>
Total operating expenses	15,289,403	8,516,111
Operating (loss)	(3,764,024)	(1,806,077)
Other income (expense):		
Interest income	33,159	29,931
Interest expense	(109,418)	(163,738)
Other income/(expense)	<u>130,813</u>	<u>(16,846)</u>
Total other income/(expense) net	54,554	(150,653)
(Loss) before income tax expense		(1,956,730)
	(3,709,470)	
Income tax (benefit)	<u>(1,235,940)</u>	<u>(1,396,407)</u>
Net (loss)	\$ <u>(2,473,530)</u>	\$ <u>(560,323)</u>
Basic (loss) per common share	\$ (0.40)	\$ (0.09)
Diluted (loss) per common share	\$ (0.40)	\$ (0.09)
Weighted average common shares		
Outstanding-basic	6,129,831	6,071,375
Weighted average common shares		
Outstanding-diluted	6,129,831	6,071,375

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Stockholders'</u>
			<u>Capital</u>		<u>Equity</u>
Balance – January 1, 2013	6,046,970	\$ 60,470	\$20,990,891	\$10,096,303	\$31,147,664
Exercise of stock options	16,650	167	75,569		75,736
Stock-based compensation	28,087	280	460,915		461,195
Net (loss)				<u>(560,323)</u>	<u>(560,323)</u>
Balance – December 31, 2013	6,091,707	60,917	21,527,375	9,535,980	31,124,272
Exercise of stock options	28,000	280	101,920		102,200
Stock-based compensation	42,320	423	515,510		515,933
Net (loss)				<u>(2,473,530)</u>	<u>(2,473,530)</u>
Balance – December 31, 2014	<u>6,162,027</u>	<u>\$ 61,620</u>	<u>\$ 22,144,805</u>	<u>\$7,062,450</u>	<u>\$29,268,875</u>

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net (loss)	\$ (2,473,530)	\$ (560,323)
Adjustments to reconcile net (loss) to net cash used in operating activities		
Stock-based compensation	515,933	461,195
(Gain) on sale of buildings	-	(887,477)
(Gain)/loss on sale of other fixed assets	(8,000)	16,575
Depreciation and amortization	797,928	646,422
Deferred income tax benefit	(1,483,789)	(1,396,407)
Provision for doubtful accounts	(58,007)	75,071
(Increase)/decrease in operating assets		
Accounts receivable	(3,521,600)	1,556,610
Cost in excess of billings on contracts in progress	(920,693)	1,152,135
Inventories, net	(344,709)	(1,754,444)
Other current assets	51,484	(53,801)
(Decrease)/increase in operating liabilities		
Accounts payable	1,214,766	(419,986)
Accrued expenses	1,490,682	450,982
Billings in excess of costs and estimated earnings on contracts in progress	1,075,618	(223,015)
Accrued loss on litigation settlement	4,925,000	-
Deferred revenue	<u>284,164</u>	<u>(130,877)</u>
Total adjustments	<u>4,018,777</u>	<u>(507,017)</u>
Net cash provided by/(used in) operating activities	<u>1,545,247</u>	<u>(1,067,340)</u>
Cash flows from investing activities:		
Restricted cash	400,000	-
Capital expenditures	(617,761)	(2,071,557)
Proceeds from sale of building	-	3,619,899
Proceeds from sale of other fixed assets	8,000	-
Deposits	<u>1,617</u>	<u>6,833</u>
Net cash (used in)/provided by investing activities	<u>(208,144)</u>	<u>1,555,175</u>
Cash flows from financing activities		
Net proceeds from stock options exercised	102,200	75,735
Payments of long-term debt	<u>(720,000)</u>	<u>(3,037,334)</u>
Net cash (used in) financing activities	<u>(617,800)</u>	<u>(2,961,599)</u>
Net increase/(decrease) in cash and cash equivalents	719,303	(2,473,764)
Cash and cash equivalents at beginning of year	<u>11,247,560</u>	<u>13,721,324</u>
Cash and cash equivalents at end of year	\$ <u>11,966,863</u>	\$ <u>11,247,560</u>
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ -	\$ 25
Interest paid	\$ 109,418	\$ 163,738

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 1 – Business Description

CVD Equipment Corporation and its subsidiaries (the “Company”), a New York corporation, was organized and commenced operations in October 1982. Its principal business activities include the manufacturing of chemical vapor deposition equipment, customized gas control systems, the manufacturing of process equipment suitable for the synthesis of a variety of one-dimensional nanostructures and nanomaterials and a line of furnaces, all of which are used primarily to produce semiconductors and other electronic components. The Company engages in business throughout the United States and internationally.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of CVD Equipment Corporation and its wholly owned subsidiaries. In December 1998, a subsidiary, Stainless Design Concepts, Ltd., was formed as a New York Corporation. In April 1999, this subsidiary was merged into CVD Equipment Corporation. The Company has two wholly owned subsidiaries: CVD Materials Corporation, which provides marketing for our Application Laboratory and FAE Holdings 411519R, LLC, a real estate holding company whose sole asset is its interest in the real estate and building housing our corporate headquarters. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

The Company’s significant estimates are the accounting for certain items such as revenues on long-term contracts recognized on the percentage-of-completion method, depreciation and amortization, valuation allowances for deferred tax assets, impairment considerations of long-lived assets and stock-based compensation.

Revenue Recognition

Product and service sales, including those based on time and materials type contracts, are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

assured. Service sales, principally representing repair, maintenance and engineering activities are recognized over the contractual period or as services are rendered.

Revenues from fixed price contracts are recognized on the percentage of completion method, measured on the basis of incurred costs to estimated total costs for each contract. This “cost to cost” method is used because management considers it to be the best available measure of progress on these contracts.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset “Costs and estimated earnings in excess of billings on contracts in progress” represents gross revenues recognized in excess of amounts billed.

The liability “Billing in excess of costs and estimated earnings on contracts in progress” represents gross amounts billed in excess of revenues recognized.

Inventories

Inventories are valued at the lower of cost (determined on the first-in, first-out method) or market.

Income Taxes

Deferred tax assets and liabilities are determined based on the estimated future tax effects of temporary differences between the financial statements and tax bases of assets and liabilities, as measured by using the future enacted tax rates. Deferred tax expense (benefit) is the result of changes in the deferred tax assets and liabilities. The Company records a valuation allowance against deferred tax assets when it is more likely than not that future tax benefits will not be utilized based on a lack of sufficient positive evidence.

Investment tax credits are accounted for by the flow-through method, reducing income taxes currently payable and the provision for income taxes in the period the assets giving rise to such credits are placed in service. To the extent such credits are not currently utilized on the

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Company's tax return, deferred tax assets, subject to considerations about the need for a valuation allowance, are recognized for the carryforward amount.

The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The accounting guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods. The Company does not believe it has any uncertain tax positions through the year ending December 31, 2014 which would have a material impact on the Company's consolidated financial statements.

The Company and its subsidiaries file combined income tax returns in the U.S. Federal and New York State jurisdiction. In addition, the parent company files standalone tax returns in California, Michigan, Minnesota, New Hampshire and Wisconsin. The Company is no longer subject to U.S. federal and state income tax examinations for tax periods before 2011.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits, if any, in its income tax provision. The Company had no interest and penalties accrued at December 31, 2014 and 2013.

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 the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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. The Company had no recorded impairment charges in the consolidated statement of operations during each of the years ended December 31, 2014 and 2013.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Construction in Progress

Construction in progress consists of amounts expended for renovating the new facility which was purchased on March 15, 2012. Expenditures for maintenance and repairs are charged to operations as incurred; additions, renewals and betterments are capitalized.

Computer Software

The Company follows ASC 350-40, "Internal Use Software." This standard requires certain direct development costs associated with internal-use software to be capitalized including external direct costs of material and services and payroll costs for employees devoting time to the software projects. These costs totaled \$25,185 and \$10,890 for the years ended December 31, 2014 and 2013, respectively, and are included in Other Assets. All computer software is amortized using the straight-line method over its estimated useful life of three to five years. Amortization expense related to computer software totaled \$11,386 and \$7,433 for the years ended December 31, 2014 and 2013, respectively.

Intangible Assets

The cost of intangible assets is being amortized on a straight-line basis over their estimated useful lives ranging from 5 to 20 years. Amortization expense recorded by the Company in 2014 and 2013 totaled \$20,007 and \$6,964, respectively.

Research & Development

Research and development costs are expensed as incurred. With our efforts having been utilized exclusively on customer orders, it has historically been included as part of cost of revenue in the consolidated statements of operations. In 2012 we expanded our laboratory staff and began conducting research and development independently. In 2014 we incurred approximately \$1,555,000 of research and development expenses of which \$878,000 were independent of external customer orders compared to 2013, when we incurred approximately \$1,837,000 of research and development expenses of which approximately \$1,013,000 were independent of external customer orders.

Accounts Receivable

Accounts receivable is presented net of an allowance for doubtful accounts of \$24,165 and \$107,496 as of December 31, 2014 and 2013, respectively. The allowance is based on historical experience and management's evaluation of the collectability of accounts receivable. Management believes the allowance is adequate. However, future estimates may fluctuate based

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

on changes in economic and customer conditions. The Company doesn't require collateral from its customers.

Product Warranty

The Company records warranty costs as incurred and does not provide for possible future costs. Management estimates such costs are immaterial, based on historical experience. However, it is reasonably possible that this estimate may differ in future periods.

Earnings Per Share

Basic net earnings per common share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during each period. When applicable, diluted earnings per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be adjusted upon exercise of common stock options and warrants.

Potential common shares issued are calculated using the treasury stock method, which recognizes the use of proceeds that could be obtained upon the exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common stock at the average market price of the common stock during the period.

Cash and Cash Equivalents

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. The Company places its cash equivalents with high credit-quality financial institutions and invests its excess cash primarily in money market instruments. The Company has established guidelines relative to credit ratings and maturities that seek to maintain stability and liquidity. The Company sells products and services to various companies across several industries in the ordinary course of business. The Company routinely assesses the financial strength of its customers and maintains allowances for anticipated losses based upon historical experience.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Fair value of Financial Instruments

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and customer deposits approximate fair

Note 2 - Summary of Significant Accounting Policies (continued)

value due to the relatively short-term maturity of these instruments. The carrying value of long-term debt approximates fair value based on prevailing borrowing rates currently available for loans with similar terms and maturities.

Stock-Based Compensation

The Company records stock-based compensation in accordance with the provisions set forth in ASC 718, "Stock Compensation" using the modified prospective method. ASC 718 requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards.

Shipping and Handling

It is the Company's policy to include freight charges billed to customers in total revenue. The amount included in revenue was \$34,534 and \$71,179 for the years ended December 31, 2014 and 2013, respectively. Included in selling and shipping expense is \$23,358, and \$49,232 for shipping and handling costs for each of the years ended 2014 and 2013, respectively.

Recently Adopted Accounting Pronouncement

In July 2013, the FASB issued Accounting Standards Update ("ASU") 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this Update permit the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the US Treasury rate and the London Interbank Offered Rate ("LIBOR"). The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. This ASU is not expected to have a significant impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Tax Credit Carryforward Exists. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 3 – Contracts in Progress

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

	<u>2014</u>	<u>2013</u>
Costs incurred on contracts in progress	\$ 4,250,299	\$ 1,807,628
Estimated earnings	<u>4,541,377</u>	<u>1,229,038</u>
	8,791,677	3,036,666
Billings to date	<u>(7,621,523)</u>	<u>(1,711,587)</u>
	\$ <u>1,170,154</u>	\$ <u>1,325,079</u>
	<u>2014</u>	<u>2013</u>
Included in accompanying balance sheets		
Under the following captions:		
Costs and estimated earnings in excess		
of billings on contracts in progress	\$ <u>2,498,662</u>	\$ <u>1,577,969</u>
Billings in excess of costs and estimated		
earnings on contracts in progress	\$ <u>(1,328,508)</u>	\$ <u>(252,890)</u>

Note 4 - Inventories

Inventories consist of:

	<u>2014</u>	<u>2013</u>
Raw materials	\$ 4,307,913	\$ 4,058,350
Work-in-process	419,731	300,460
Finished goods	<u>114,415</u>	<u>138,539</u>
Totals	\$ <u>4,842,059</u>	\$ <u>4,497,349</u>

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 5 – Property, Plant and Equipment

Major classes of property, plant and equipment consist of the following:

	<u>2014</u>		<u>2013</u>
Land	\$ 2,220,000	\$	2,220,000
Buildings	6,631,039		6,631,039
Building improvements	5,577,248		5,417,620
Machinery and equipment	2,333,129		2,329,299
Furniture and fixtures	712,549		703,999
Computer equipment	636,819		576,111
Transportation equipment	65,994		65,994
Lab equipment	<u>1,564,082</u>		<u>1,560,251</u>
Totals at cost	<u>19,740,860</u>		<u>19,504,313</u>
Less: Accumulated depreciation and amortization	<u>(4,715,577)</u>		<u>(4,012,202)</u>
	\$ <u>15,025,283</u>	\$	<u>15,492,111</u>
Depreciation and amortization expense (1)	\$ <u>797,928</u>	\$	<u>646,422</u>

(1) Includes amortization expense of \$20,007 and \$20,434 for the years ending December 31, 2014 and 2013, respectively. Such amortization expense relates to other capitalized and intangible assets.

Note 6 – Intangible Assets**2014**

<u>Intangible Assets</u>	<u>Weighted Average Amortization Period</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>
Patents & Copyrights	17	\$ 77,357	\$ 33,153	\$44,204
Intellectual Property	15	100,000	88,333	11,667
Licensing Agreement	5	10,000	10,000	0
Certifications	3	58,722	58,722	0
Other	5	<u>21,492</u>	<u>21,492</u>	<u>0</u>
Totals		<u>\$267,571</u>	<u>\$211,700</u>	<u>\$55,871</u>

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 6 – Intangible Assets (continued)**2013**

<u>Intangible Assets</u>	<u>Weighted Average Amortization Period</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>
Patents & Copyrights	17	\$57,818	\$30,369	\$27,449
Intellectual Property	15	100,000	83,333	16,667
Licensing Agreement	5	10,000	10,000	0
Certifications	3	58,722	58,722	0
Other	5	<u>21,492</u>	<u>21,492</u>	<u>0</u>
Totals		<u>\$248,032</u>	<u>\$203,916</u>	<u>\$44,116</u>

The estimated amortization expense related to intangible assets for each of the five succeeding fiscal years and thereafter as of December 31, 2014 is as follows:

<u>Year Ended</u>	
2015	\$ 8,084
2016	8,018
2017	4,580
2018	2,915
2019	2,869
Thereafter	<u>29,405</u>
Total	<u>\$ 55,871</u>

Note 7 – Financing Arrangements

On August 5, 2014, the Company extended until August 5, 2015, under the same terms, its existing revolving credit facility with HSBC Bank, USA, N.A. (“HSBC”), which was due to expire. The original loan agreement with HSBC was entered into on August 5, 2011, and provided the Company with credit up to \$9.1 million. This loan agreement consists of a \$7 million revolving credit facility and a five (5) year term loan in the initial principal amount of \$2.1 million. The obligations under the loan agreement are secured by substantially all of the Company’s personal property. Additionally, borrowings under the term loan were initially collateralized by \$1 million of restricted cash deposits, provided that, so long as no event of default has occurred and then continuing, HSBC would release \$200,000 of the collateral on each anniversary of the closing date. The restricted balance at December 31, 2014 was \$400,000. This restricted cash is a separate line item on the consolidated balance sheet. The Company makes monthly principal payments of \$35,000 plus interest on the term loan which matures on August 1, 2016. The balances as of December 31, 2014 and December 31, 2013 were \$700,000 and \$1,120,000 respectively. Interest on the unpaid \$700,000 principal balance on this facility

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
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Note 7 – Financing Arrangements (continued)

accrues at either (i) the London Interbank Offered Rate (“LIBOR”) plus 1.75% or (ii) the bank’s prime rate minus 0.50%. The credit agreement also contains certain financial covenants. As of December 31, 2014, we were compliance with the terms of the covenants.

In March 2012, the Company entered into a mortgage loan agreement with HSBC for the initial principal amount of \$6,000,000 (the “Loan”), through the town of Islip Industrial Development Agency. The Loan is secured by a mortgage against the property and building located at 355 South Technology Drive, Central Islip, New York. Interest presently accrues on the Loan, at our option, at the variable rate of LIBOR plus 1.75% which was 1.9108% and 1.9166% at December 31, 2014 and 2013 respectively. The balance on the mortgage at December 31, 2014 was \$3,865,508. The Company makes monthly principal payments of \$25,000 plus interest on the Loan which matures on March 15, 2022.

Note 8 – Long-term Debt

Long-term debt as of December 31 consists of the following:

	<u>2014</u>	<u>2013</u>
HSBC		
\$2,100,000 5 year term loan payable in monthly installments of \$35,000 plus interest on the unpaid principal balance which accrues at a fixed rate of 3.045%. This term loan was secured by \$1 million, provided that, so long as no event of default occurred and is then continuing, HSBC would release \$200,000 of the collateral on each anniversary of the closing date. As of December 31, 2014, HSBC had released \$600,000, to reduce the collateral to \$400,000.	\$700,000	\$1,120,000
HSBC		
\$6,000,000 Mortgage payable secured by real property Buildings and improvements at 355 South Technology Drive, Central Islip, NY payable in monthly principle installments of \$25,000 plus interest. Interest presently accrues at our option, at the variable rate of LIBOR plus 1.75% or HSBC’s prime rate minus 0.50% The loan matures on March 1, 2022.	<u>3,865,508</u>	<u>4,165,508</u>
Totals	<u>4,565,508</u>	<u>5,285,508</u>
Less: Current maturities	720,000	720,000
Long-term debt	\$ <u>3,845,508</u>	<u>\$4,565,508</u>

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
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Future maturities of long-term debt as of December 31, 2014 are as follows:

2015	\$ 720,000
2016	580,000
2016	300,000
2018	300,000
2019	300,000
Thereafter	<u>2,365,508</u>
	<u>\$4,565,508</u>

Note 9 – Earnings per Share

The calculation of basic and diluted weighted average common shares outstanding is as follows:

	<u>2014</u>	<u>2013</u>
Weighted average common shares outstanding		
basic earnings per share	6,129,831	6,071,375
Effect of potential common share issuance:		
Stock options	=	---
Weighted average common shares outstanding		
Diluted earnings per share	<u>6,129,831</u>	<u>6,071,375</u>

Stock options to purchase 259,730 shares of common stock were outstanding and 147,230 were exercisable at December 31, 2014. At December 31, 2014 and 2013 none of the outstanding options were included in the earnings per share calculation as their effect would have been anti-dilutive.

Note 10 – Income Taxes

At December 31, 2014, the Company had approximately \$27,000 in capital loss carryforwards, \$2,808,000 in net operating loss carryforwards, and \$696,000 of federal research and development tax credits.

If not utilized, a portion of the capital loss carryover will expire in 2015, the investment tax credits expire from 2015 through 2029 and the research and development tax credits expire from 2029-2034. Based on the available objective evidence, including the Company's history of taxable income and the character of that income, management believes it is more likely than not that these components of the Company's deferred tax assets will be fully utilized. The Company

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 10 – Income Taxes (continued)

has provided for a partial valuation allowance against its total net deferred tax assets at December 31, 2014 and December 31, 2013 of approximately \$475,000 attributable to these components.

The (benefit) expense for income taxes includes the following:

	2014	2013
Current:		
Federal	\$ 240,591	\$ ----
State	<u>7,258</u>	<u>----</u>
Total current tax provision	247,849	----
Deferred:		
Federal	(1,865,134)	(1,230,271)
State	<u>381,345</u>	<u>(166,136)</u>
Total deferred tax provision	<u>(1,483,789)</u>	<u>(1,396,407)</u>
Income tax benefit	\$ <u>(1,235,940)</u>	\$ <u>(1,396,407)</u>

The tax effects of temporary differences giving rise to significant portions of the net deferred taxes are as follows:

	<u>2014</u>	<u>2013</u>
Allowance for doubtful accounts	\$ 16,826	\$ 45,148
Inventory capitalization	23,185	36,591
Depreciation and amortization	(371,669)	(385,907)
Investment tax credits	475,000	600,000
Research & development tax credits	696,865	683,495
Compensation costs	375,080	239,876
Vacation accrual	242,099	274,307
Accrued loss on legal settlement	1,674,500	
Net operating loss carryforward	954,580	
Capital loss carryforward	<u>26,627</u>	<u>1,135,794</u>
Gross deferred tax asset	4,113,093	2,629,304
Less valuation allowance	<u>(475,000)</u>	<u>(475,000)</u>
Net deferred tax asset	\$ 3,638,093	\$ 2,154,304
Net current deferred tax asset	2,887,960	1,443,321
Net long-term deferred tax asset	<u>750,133</u>	<u>710,983</u>
Net deferred tax asset	\$ <u>3,638,093</u>	\$ <u>2,154,304</u>

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
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December 31, 2014 and 2013

Note 10 – Income Taxes (continued)

The reconciliation of the federal statutory income tax rate to our effective tax rate is as follows:

	<u>2014</u>	<u>2013</u>
Expected provision at federal statutory tax rate (34%)	\$ (1,261,218)	\$ (665,288)
State taxes, net of federal benefit	7,258	(109,650)
Stock-based compensation expense	(307,737)	(217,648)
Deferred gain on sale of building	--	(301,742)
Capital loss carryforward	--	190,517
Net operating loss carryforward	(37,327)	--
Federal research & development credit	(181,782)	(248,444)
Other permanent differences	<u>163,521</u>	<u>(44,152)</u>
Impact of New York State taxation change	<u>381,345</u>	
Income tax benefit	\$ <u>(1,235,940)</u>	\$ <u>(1,396,407)</u>

NOTE 11 – Stockholders' equity1989 Non-Qualified Stock Option Plan

On June 15, 1989, the Company instituted a non-qualified stock option plan (the "Plan"). In connection therewith, 700,000 shares of the Company's common stock were reserved for issuance pursuant to options that may be granted under the Plan through June 30, 2009. All options granted vest over a four-year period and expire between five to seven years after the date of grant. This 1989 Non-Qualified Stock Option Plan expired in June 2009.

2001 Non-Qualified Stock Option Plan

In November 2006, the Company registered a non-qualified stock option plan that the shareholders had approved in July 2001, covering key employees, officers, directors and other persons that may be considered as service providers to the Company. Options were awarded by the Board of Directors or by a committee appointed by the Board. Under the plan, an aggregate of 300,000 shares of Company common stock, \$.01 par value, were reserved for issuance or transfer upon the exercise of options which are granted. Unless otherwise provided in the option agreement, options granted under the plan would vest over a four year period commencing one year from the anniversary date of the grant. There were no options granted in 2012. In 2011, 14,000 options were granted to outside directors at an exercise price of \$7.90, which vested as to 25% on each of January 15, April 15, July 15 and October 15 of 2011. These options expire ten years after the date of grant. The stock option plan terminated on July 22, 2011.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – Stockholders’ equity (continued)2007 Share Incentive Plan

On December 12, 2007, shareholders approved the Company’s 2007 Share Incentive Plan (“Incentive Plan”), in connection therewith, 750,000 shares of the Company’s common stock are reserved for issuance pursuant to options or restricted stock that may be granted under the Share Incentive Plan through December 12, 2017. In 2013, 28,087 shares of stock were granted and issued to directors and key employees. In 2014, 42,320 shares of stock were granted and issued to directors and key employees. Also in 2014 options were granted to a key employee for 100,000 shares of the Company’s common stock.

The purchase price of the common stock under each option plan shall be determined by the Committee, provided, however, that such purchase price shall not be less than the fair market value of the shares on the date such option is granted. The stock options generally expire seven to ten years after the date of grant. The Company recorded stock-based compensation of \$515,933 and \$461,195 for the years ended December 31, 2014 and 2013, respectively.

A summary of the stock option activity related to the 1989 and 2001 Stock Option Plans and the 2007 Share Incentive Plan for the period from January 1, 2013 through December 31, 2014 is as follows:

1989 Non-Qualified Stock Option Plan

	Beginning Balance <u>Outstanding</u>	Granted During <u>Period</u>	Exercised During <u>Period</u>	Canceled During <u>Period</u>	Ending Balance <u>Outstanding</u>	<u>Exercisable</u>
Year ended December 31, 2013						
Number of shares	41,900	-0-	6,650	0	35,250	35,250
Weighted average exercise price Per share	\$4.82	-0-	-0-	-0-	\$4.62	\$4.62
Year ended December 31, 2014						
Number of shares	35,250	-0-	-0-	-0-	35,250	35,250
Weighted average exercise price Per share	\$4.62	-0-	-0-	-0-	\$4.62	\$4.62

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 11 – Stockholders’ equity (continued)2001 Non-Qualified Stock Option Plan

	Beginning Balance <u>Outstanding</u>	Granted During <u>Period</u>	Exercised During <u>Period</u>	Canceled During <u>Period</u>	Ending Balance <u>Outstanding</u>	<u>Exercisable</u>
Year ended December 31, 2013						
Number of shares	162,480	-0-	10,000	-0-	152,480	127,480
Weighted average exercise price Per share	\$4.35	-0-	-0-	-0-	\$4.40	\$4.35
Year ended December 31, 2014						
Number of shares	152,480	-0-	28,000	-0-	124,480	111,980
Weighted average exercise price Per share	\$4.35	-0-	-0-	-0-	\$4.57	\$4.56

2007 Share Incentive Plan

	Beginning Balance <u>Outstanding</u>	Granted During <u>Period</u>	Exercised During <u>Period</u>	Canceled During <u>Period</u>	Ending Balance <u>Outstanding</u>	<u>Exercisable</u>
Year ended December 31, 2013						
Number of shares	200	-0-	-0-	200	-0-	-0-
Weighted average exercise price Per share	\$11.51					
Year ended December 31, 2014						
Number of shares	-0-	100,000	-0-	-0-	100,000	-0-
Weighted average exercise price Per share					\$11.17	

The Company has 259,730 of outstanding stock options under the three Plans at December 31, 2014.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
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NOTE 11 – Stockholders’ equity (continued)

The following table summarizes information about the outstanding and exercisable options at December 31, 2014.

Exercise Price Range	Options Outstanding			Intrinsic Value	Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercise Price	Intrinsic Value
\$3.00-3.99	34,000	2.95	\$3.65	\$365,160	34,000	\$3.65	\$365,160
\$4.00-4.49	15,930	5.04	\$4.25	\$161,530	15,930	\$4.25	\$161,530
\$4.50-4.99	100,000	2.78	\$4.62	\$977,000	75,000	\$4.62	\$854,875
\$5.00-7.99	9,800	6.04	\$7.90	\$63,602	9,800	\$7.90	\$63,602
\$8.00-12.00	100,000	9.80	\$11.17	\$322,000	0	\$11.17	\$0

The intrinsic value of the 28,000 options exercised during the year ended December 31, 2014 was \$310,520. The intrinsic value of the 16,650 options exercised during the year ended December 31, 2013 was \$90,988.

Restricted Stock Awards

The following table summarizes restricted stock awards for the year ended December 31, 2014:

	Shares of <u>Restricted Stock</u>	Weighted Average Grant Date Fair <u>Value</u>
Unvested outstanding at January 1, 2013	16,000	\$10.97
Granted	7,800	\$10.16
Vested	(11,800)	\$10.43
Forfeited/Cancelled	-	
Unvested outstanding at December 31, 2013	12,000	\$10.97
Granted	6,400	\$14.24
Vested	(10,400)	\$12.98
Forfeited/Cancelled	-	
Unvested outstanding at December 31, 2014	8,000	\$10.97

The total fair value of shares of restricted stock awards vested for the years ended December 31, 2014 and 2013 was approximately \$135,000 and \$123,000 respectively

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – Stockholders’ equity (continued)

The fair value of the outstanding restricted stock awards will be recorded as stock compensation expense over the vesting period. As of December 31, 2014 there was \$88,000 of unrecognized compensation costs related to restricted stock awards, which is to be recognized over a period of 1.35 years.

Restricted Stock Units

The following table summarizes restricted stock units for the year ended December 31, 2014:

	Shares of Restricted <u>Stock Units</u>	Weighted Average Grant Date Fair <u>Value</u>
Unvested outstanding at January 1, 2013	30,575	\$8.29
Granted	133,955	\$11.66
Vested	(20,287)	\$9.38
Forfeited/Cancelled	-	
Unvested outstanding at December 31, 2013	144,243	\$11.26
Granted	-	
Vested	(37,925)	\$10.09
Forfeited/Cancelled	(2,500)	\$10.71
Unvested outstanding at December 31, 2014	103,319	\$11.71

The total fair value of vested restricted stock units was \$383,000 and \$190,000 respectively for the years ended December 31, 2014 and 2013.

The fair value of the outstanding restricted stock units will be recorded as stock compensation expense over the vesting period. As of December 31, 2014, there was \$1,210,000 of total unrecognized compensation costs related to restricted stock units, which is expected to be recognized over a weighted-average period of 2.19 years.

During the years ended December 31, 2013 and 2012, the Company recorded into selling and general administrative expense approximately \$462,000 and \$235,000 for the cost of employee and director services received in exchange for equity instruments based on the grant-date fair value of those instruments in accordance with the provisions of ASC 718.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
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December 31, 2014 and 2013

NOTE 12 – Defined Contribution Plan

On August 1, 1998, the Company adopted a 401(k) Plan for the benefit of all eligible employees. All employees as of the effective date of the 401(k) Plan became eligible. An employee who became employed after August 1, 1998 would become a participant after three months of continuous service.

Participants may elect to contribute from their compensation any amount up to the maximum deferral allowed by the Internal Revenue Code. Employer contributions are optional. During the years ended December 31, 2014 and 2013, the Company incurred administrative costs totaling \$2,800 and \$2,380, respectively. No discretionary employer contribution has been made for 2014 and 2013.

Note 13 – Significant Risks and Uncertainties

Cash and Cash Equivalents

The Company places most of its temporary cash investments with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit. The amount at risk at December 31, 2014 and at December 31, 2013 was \$10,216,263 and \$9,834,765, respectively.

Sales Concentrations

Revenue to a single customer in any one year can exceed 10.0% of our total sales. One customer represented 50.2% and 23.7% respectively, of our annual revenues in fiscal years 2014 and 2013. We are not dependent on any single customer, and the loss of any key customer would have to be replaced by others, as we have previously, or our inability to do so may have a material adverse effect on our business and financial condition.

Export sales to unaffiliated customers represented approximately 20.2% and 27.3% of sales for the years ended December 31, 2014 and 2013, respectively. Export sales in both 2014 and 2013 were primarily to customers in Europe and Asia. All contracts are denominated in U.S. dollars. The Company does not enter into any foreign exchange contracts.

Note 14 – Related Party Transactions

The Company maintains bank accounts and deposits cash in Community National Bank. Conrad Gunther, a director of the Company, is a Senior Vice President and Senior Loan Officer at any fees to Mr. Gunther or Community National Bank in connection with this investment vehicle.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 15 – Segment Reporting

The Company adopted ASC 280, “Segment Reporting.” The Company operates through (2) segments, CVD and SDC. The CVD division is utilized for silicon, silicon germanium, silicon carbide and gallium arsenide processes. SDC is the Company’s ultra-high purity manufacturing division in Saugerties, New York. The accounting policies of CVD and SDC are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates performance based on several factors, of which the primary financial measure is earnings before taxes.

The following table presents certain information regarding the Company’s segments as of December 31, 2014 and for the year then ended:

	<u>CVD</u>	<u>SDC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets	\$ 44,953,847	\$ 4,733,926	\$ (4,131,301)	\$ 45,556,472
Revenue	\$ 23,831,036	\$ 5,580,212	\$ (1,420,785)	\$ 27,990,463
Interest Expense	100,829	8,589		109,418
Depreciation and Amortization	728,995	68,933		797,928
Capital expenditures	571,240	46,521		617,761
Pretax (loss)/earnings	(4,877,892)	1,168,422		(3,709,470)

The following table presents certain information regarding the Company’s segments as of December 31, 2013 and for the year then ended:

	<u>CVD</u>	<u>SDC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets	\$ 39,783,689	\$ 6,334,352	\$ (6,976,402)	\$ 39,141,639
Revenue	\$ 13,136,083	\$ 5,155,641	\$ (407,797)	\$ 17,883,927
Interest Expense	162,914	824		163,738
Depreciation and amortization	571,046	75,376		646,422
Capital expenditures	1,954,621	116,936		2,071,557
Pretax (loss)/earnings	(2,697,114)	740,384		(1,956,730)

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
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Note 16 - Commitments and Contingencies

Legal Proceedings

Effective as of January 29, 2015, CVD Equipment Corporation (the “Company”), Taiwan Glass International Corporation (“Taiwan Glass”) and Capital One, National Association (“Capital One”) entered into an agreement (the “Settlement Agreement”) pursuant to which the parties settled that certain previously disclosed action pending in the United States District Court for the Southern District of New York under Docket No. 10-CV-0573 (the “Action”).

Pursuant to the terms of the Settlement Agreement, we paid Taiwan Glass the sum of \$4,925,000, (said sum being inclusive of interest) and all claims and counterclaims asserted in the Action were settled and dismissed with prejudice. In addition, (a) Taiwan Glass executed limited releases in favor of each of the Company and Capital One concerning the claims asserted by Taiwan Glass in the Action; (b) we executed a limited release in favor of Taiwan Glass concerning the claims asserted by us against Taiwan Glass in the Action; and (c) Capital One executed a limited release in favor of Taiwan Glass concerning the claims asserted by Capital One against Taiwan Glass in the Action.

In addition, the parties caused to be filed with the Court a Stipulation of Dismissal dismissing the claims and counterclaims asserted against all parties in the Action with prejudice. Taiwan Glass agreed to notify the appropriate authorities in Taiwan that its disputes with the Company and the Company’s directors, officers, employees and agents have been amicably resolved on a business-like basis and the Complaint made by Taiwan Glass in Taiwan is hereby withdrawn.

On January 19, 2015, CVD Equipment Corporation (the “Company”) received an Arbitration Demand and Complaint which was filed with the American Arbitration Association by Development Specialists, Inc., an Illinois corporation (“DSI”), solely in its capacity as an assignee for the benefit of creditors of CM Manufacturing, Inc. f/k/a Stion Corporation (“Stion”), a Delaware corporation, (collectively the “Plaintiff”).

In its complaint, the Plaintiff claims, among other things, that the Company breached its agreement with Stion by failing to design, engineer, manufacture and timely deliver a certain custom furnace used in the manufacture of solar panels. The Plaintiff also asserts claims relating to breach of warranty, conversion, misappropriation of trade secrets and a declaration that DSI is not liable under the Company’s Proof of Claim which was previously filed in connection with Stion’s October 2013 Assignment for the Benefit of Creditors. Plaintiff seeks monetary damages of approximately \$6.9 million plus interest and attorney’s fees, certain injunctive relief and other unspecified money damages.

CVD EQUIPMENT CORPORATION AND SUBSIDIARIES
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Note 16 - Commitments and Contingencies (continued)

The Company believes that these claims have no merit and intends to vigorously defend its interests in this matter.

On February 5, 2015, the Company interposed an Answer denying Plaintiff's claims and raising (15) Affirmative Defenses. Additionally, on March 24, 2015, the Company served and filed a Motion to Dismiss. A decision on this motion is expected shortly. If the Company's Motion is granted, then the case will be dismissed, otherwise a brief period for discovery will follow and the Arbitration hearing is scheduled to take place the week of August 31, 2015.