
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-KSB

(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, 2005

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

For the transition period from _____ to _____

Commission file number: 1-16525

CVD EQUIPMENT CORPORATION

(Name of Small Business Issuer in Its Charter)

New York

*(State or Other Jurisdiction of
Incorporation or Organization)*

11-2621692

(I.R.S. Employer Identification No.)

1860 Smithtown Avenue

Ronkonkoma, New York 11779

(Address including zip code of registrant's Principal Executive Offices)

(631) 981-7081

(Issuer's Telephone Number, Including Area Code)

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

None

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

Common Stock, Par value \$0.01

(Title of class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter 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 ☐

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. ☒

State issuer's revenues for its most recent fiscal year. **\$11,225,316.**

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 sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: **\$ 6,464,550 at March 20, 2006.**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
3,127,800 shares of Common Stock, \$0.01 par value at March 20, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (Check one): Yes ☐ No ☒

PART I

Item 1. Description of Business.

Unless otherwise set forth herein, when we use the term 'we' or any derivation thereof, we mean CVD Equipment Corporation, a New York corporation, formed in 1982 (the "Company").

We design, develop, manufacture, market, install and service Chemical Vapor Deposition and gas control equipment for use in manufacturing semiconductors, solar cells, carbon nanotubes, nanowires and equipment for surface mounting of components onto printed circuit boards. Our products include (1) both batch and single wafer systems used for depositing, rapid thermal processing, annealing, diffusion and etching of semiconductor films, (2) gas and liquid flow control systems, (3) ultra high purity gas and chemical piping delivery systems, (4) standard and custom quartzware, (5) reflow furnaces and rework stations and (6) carbon nanotube and nanowire deposition systems. We also provide equipment consulting and refurbishing of semiconductor processing equipment. Our products are generally manufactured as standard products or customized to the particular specifications of each of our customers.

Semiconductor components are the fundamental electronic building blocks used in modern electronic equipment and systems. These components are classified as either discrete devices (such as transistors) or integrated circuits (in which a number of transistors and other elements are combined to form a more complicated electronic circuit). In an integrated circuit, these elements are formed on a small "chip" of silicon or gallium arsenide, which is then encapsulated in an epoxy, ceramic or metal package having lead wires for connection to a circuit board. Our products are used in the manufacture and mounting of these components.

We conduct our operations through three divisions, CVD, SDC and Conceptronic. Each division operates reasonably autonomously on a day-to-day basis with its own operating manager and with sales and administration being handled by corporate managers. There is an overall corporate coordination in the day-to-day administration of the business, in establishing policy and consistently applying procedures.

CVD Division

Our CVD Division designs and manufactures both standard and custom Chemical Vapor Deposition equipment for use in the semiconductor industry. In May, 2005, the Company, acquired certain assets from First Nano, Inc., including their nanotechnology process development and equipment. First Nano developed solutions for single and multiwall nanotube and nanowire synthesis and manufactured chemical vapor deposition process equipment suitable for the synthesis of a variety of carbon nanotubes, one-dimensional and nanostructures and nanomaterials. This acquisition enabled the CVD division to further expand on its leading edge technology, which is paramount in the semiconductor, optoelectronic, wireless communications, nanotechnology and solar cell arenas.

SDC Division

The Stainless Design Concepts, Ltd (“SDC”) division of the Company designs and manufactures in their Class 100 cleanroom, ultra high purity gas and chemical delivery control systems for the semiconductor industry, and also provides equipment consulting and refurbishing of semiconductor equipment. The field service group provides for contract maintenance, high purity fab and equipment installations and equipment removal.

Conceptronic Division

In December 2001, we acquired the assets of the Surface Mount Technology division of Research Inc., known as Research International (“RI”). RI was a manufacturer of Surface Mount Technology (“SMT”) reflow furnaces.

In June 2002, we purchased substantially all of the assets of Conceptronic Inc.'s Surface Mount Technology business. Conceptronic specialized in solder reflow furnaces and rework stations for the printed circuit board and chip scale package industries.

In 2002 we combined the operations of RI and Conceptronic and they are currently being reported under the Conceptronic division.

The startup of our Conceptronic division provided a base for us to generate new and enhanced standard and custom furnace products to the semiconductor, solar cell and surface mount technology markets based on our own technology and technology that was purchased as part of the acquisition of assets.

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 300-1,800 degrees Celsius). Our Chemical Vapor Deposition systems are complete and include all necessary instrumentation, subsystems and components. We provide such standard systems and also 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 and Nanowires.

Our Chemical Vapor Deposition systems are available in a variety of models that can be used in production and laboratory research. All models can be 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 range in price from \$100,000 to \$2,500,000.

Rapid Thermal Processing (“RTP”) - Used to heat semiconductor materials to elevated temperatures of 1,000 degrees Celsius at rapid rates of up to 200 degrees 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 generally range in price from \$75,000 to \$350,000.

Annealing and Diffusion Furnaces - Used for diffusion, oxidation, implant anneal, solder reflow and other processes. The systems are normally operated at atmospheric 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 generally range in price from \$75,000 to \$650,000.

Gas and Liquid Control Systems - Our standard and custom designed gas and liquid control systems encompassing (1) gas cylinder storage cabinets, (2) custom gas and chemical delivery systems, (3) gas and liquid valve manifold boxes (VMB's) and (4) gas isolation boxes (GIB's) to provide safe storage and handling of pressurized gases and chemicals. System design allows for automatic or manual control from both a local and remote location. The price range for our Gas and Liquid Control Systems are from \$20,000 to \$350,000.

Ultra High Purity Gas and Chemical Piping and Delivery Systems - We provide field installation of ultra high purity piping systems within a semiconductor plant for the distribution of gases and chemicals to the assorted process tools. As part of field service, we also offer repair service on customer equipment.

Quartzware - We provide standard and custom fabricated quartzware used in the Company's equipment and other customer tools. We also provide repair and replacement of existing quartzware.

Reflow Furnaces and Rework Stations – We provide a standard line for the printed circuit board and chip scale package industries.

Markets and Marketing

During fiscal year 2005, sales were made by a staff of six employees and twenty-five sales representatives whose activities were supported by a staff of 23 application engineers. We continue to work on expanding our product offerings.

Our web sites continue to see increased traffic. We have focused our efforts on being in the top listings on many search engines in order to increase the number of "hits" to our web sites.

Many of our products are used in research and production applications. We sell our products primarily to semiconductor manufacturers, institutions involved in electronic research such as universities, government and industrial laboratories and to electronic assembly manufacturers. We have both an international and domestic customer base in excess of 350 customers. For the twelve months ended December 31, 2005 approximately 29% of our revenues were generated from foreign exports compared to 32% for the twelve months ended December 31, 2004. Sales to a single customer in any one year can exceed 10.0% of our total sales; however, we are not dependent on any single customer. In fiscal years 2005 and 2004, respectively, one customer, a distributor, represented 11.5% and 16.7% of our total sales, respectively. No other customer represented more than 6.8% or 8.2% of our total sales in fiscal years 2005 or 2004, respectively.

Warranties

We warrant our equipment for a period of twelve to twenty four months after shipment, depending on the product, and pass along any warranties from original manufacturers of components used in our products. We provide for our own equipment servicing with in-house field service personnel. Warrantee costs, including those incurred in fiscal year 2005, have been historically insignificant.

Competition

Our Company is subject to intense competition. We are aware of other competitors that offer a substantial number of products 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 have been able to compete in markets that include these competitors, primarily on the basis of price, technical performance, quality and delivery.

Sources of Supply

We do not manufacture many components used in producing our products. They are purchased from unrelated third-party manufacturers of such equipment. We do not have any supply contracts covering these components. We are not dependent on a principal or major supplier and alternate suppliers are available. We do not use a large amount of raw or difficult to obtain materials that could cause a problem in production of our equipment.

We have our own fully equipped machine shop to fabricate in house, 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 own quartz shop is capable of meeting our quartzware needs.

Materials procured from the outside and/or manufactured internally undergo a rigorous quality control process to ensure that the parts meet or exceed the most stringent specifications. All equipment, upon final assembly, undergoes a final series of complete testing to ensure maximum product performance.

Backlog

As of December 31, 2005 our order backlog was approximately \$2,648,000 compared to approximately \$2,430,000 at December 31 2004, an increase of 9.0%. The increase can primarily be attributed to our CVD Division. This division, inclusive of its expanded product line of First Nano equipment, continues to experience a demand for new equipment. The timing for completion of the backlog varies depending on the product mix; however, there is generally a one to six month lag in the completion and shipping of backlogged product. 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

We believe that while patents are useful and will be used at times in the future, they are not always necessary to protect our intellectual property. We believe the collective value of our proprietary information such as blueprints, specifications, technical processes, cumulative employee knowledge, know-how and our experience provide us with a measure of protection for our manufacturing and design processes.

Research and Development

We continue to concentrate our efforts on several research and development projects. We develop and customize equipment for industry and government, university and industry research laboratories around the world. Our research, design and development of equipment, which remains proprietary to us, is used to improve our existing products and develop new products for customers. The amount spent on research and development was \$500,000 and \$410,000 for the years ended December 31, 2005 and December 31, 2004, respectively.

Government Regulation

From time to time, we have been a contractor and subcontractor on government contracts. We must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government.

The Company in some export cases may be required to apply for the appropriate export license. As of December 31, 2005, there were no pending government approvals for an export license.

We know of no existing or probable governmental regulations that would have a serious effect on our business.

We have and will continue to comply with any and all environmental laws that are applicable to our business.

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. We believe that our insurance coverage is adequate. We have the following types of insurance coverage:

- Product liability
- Property and contents
- General liability
- Directors and officers
- Transportation
- Business auto
- Workers compensation
- Employee benefits liability

Employees

At December 31, 2005, we had 119 employees, 118 of which were full time personnel and 1 worked part time. We had 67 people in manufacturing, 23 in engineering (including research and development and efforts related to product improvement) 7 in field service, three in marketing and 19 in general management and administration.

Item 2. Description of Property.

We maintain our headquarters at 1860 Smithtown Avenue, Ronkonkoma, New York, where we own a 50,000 square foot manufacturing facility which we purchased in November, 2002. Our CVD and Conceptronic divisions operate out of this facility. Our SDC division operates out of a 22,000 square foot manufacturing facility situated on five acres of land which we purchased in December 1998 and is located at 1117 Kings Highway, Saugerties, New York. Both facilities are in good operating condition and are adequate to meet the Company's present and anticipated future needs.

Item 3. Legal Proceedings.

In September 1999, the Company was named in a lawsuit filed by Precisionflow Technologies, Inc., in the United States District for the Northern District of New York relating to comments allegedly made by CVD's President, Leonard Rosenbaum, concerning the intellectual property obtained in the purchase of assets of Stainless Design Corporation. We promptly filed a counterclaim for unauthorized use of our intellectual property. The plaintiff is seeking monetary damages and injunctive relief. In our counter claim, we are also seeking monetary damages and injunctive relief. All pre-trial disclosure has been completed and the case is currently pending decisions on motions and cross motions for summary judgment. No trial date has been set.

In May 2002, the Company instituted a new action against Precisionflow Technologies, Inc., in the United States District for the Northern District of New York seeking injunctive relief and monetary damages based upon copyright violations. A motion by Precisionflow Technologies, Inc. to dismiss this action has been pending since June 2002.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The principal market for our common stock which is traded under the symbol "CVV" is the American Stock Exchange. The following table sets forth, for the periods indicated, the high and low closing prices of our common stock on the American Stock Exchange.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2005:		
1 st Quarter.....	\$5.25	\$0.91
2 nd Quarter.....	6.51	2.04
3 rd Quarter.....	4.30	1.90
4 th Quarter.....	4.60	2.72

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2004		
1 st Quarter.....	\$3.00	\$1.28
2 nd Quarter.....	2.30	1.20
3 rd Quarter.....	1.41	0.75
4 th Quarter.....	1.47	0.90

As of March 15, 2006, there were approximately 83 holders of record and approximately 811 beneficial owners of our common stock. On March 20, 2006, the closing sales price of our common stock as reported on the American Stock Exchange was \$3.97.

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.

Equity Compensation Plan Information

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, 2005.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Plan Category			
Equity compensation plans approved by security holders (1)	443,200	\$ 2.39	47,750
Equity compensation plans not approved by security holders	0	0	0
Total	443,200	\$2.39	47,750

(1) Reflects aggregate options outstanding under our Non-Qualified Stock Option Plan

Recent Sales Of Unregistered Securities

None.

Issuer Purchases Of Equity Securities

None

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Except for historical information contained herein, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, as amended. These statements involve known and unknown risks 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 were based on various factors and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Important assumptions and other factors that could cause actual results to differ materially from those in the forward-looking statements, include, but are not limited to: competition in the Company's existing and potential future product lines of business; The Company's ability to obtain financing on acceptable terms if and when needed; uncertainty as to the Company's future profitability, uncertainty as to the future profitability of acquired businesses or product lines, uncertainty as to any future expansion of the Company. Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements and the failure of such assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. The Company assumes no obligation to update these forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting such forward-looking statements.

CVD Equipment Corporation designs, develops, manufactures, markets, installs and services equipment primarily for the semiconductor industry. The Company's products and services include (1) batch and single wafer systems used for depositing, rapid thermal processing, annealing, diffusion and etching of semiconductor films (2) gas and liquid flow control systems (3) ultra high purity gas and chemical piping delivery systems; (4) standard and custom quartzware, (5) reflow furnaces and rework stations for surface mounting of components onto printed circuit boards and (6) carbon nanotube and nanowire deposition systems. We also provide equipment consulting, and refurbishing of semiconductor processing equipment. The Company's products are generally manufactured as standard products, or customized to the particular specifications of its customers.

Results of Operations

Revenue for the year ended December 31, 2005 was approximately \$11,225,000 compared to approximately \$9,874,000 for the year ended December 31, 2004, representing an increase of \$1,351,000 or 13.7%. Revenue from the Conceptronic Division was approximately \$4,465,000 or 39.8% of the total revenue generated for the twelve months ended December 31, 2005 compared to \$4,820,000 or 48.8% of the total revenue generated in the twelve months ended December 31, 2004. Revenue from the CVD Division increased to approximately \$4,566,000 or 40.7% of total revenues during the year ended December 31, 2005, compared to \$2,810,000, or 28.5% of total revenues, for the year ended December 31, 2004. The continued increase in demand for customized CVD equipment and gas and chemical delivery systems which began in the latter part of 2004 coupled with the demand for equipment provided by the First Nano product line has fueled this increase. Revenue from Stainless Design Concepts ("SDC"), the Company's third division, decreased slightly for the year ended December 31, 2005, to \$2,194,000, a 2.2% reduction compared to the revenue achieved in the year ended December 31, 2004 of \$2,243,000. SDC's contribution to the overall revenue generated by the Company decreased to 19.5% in the year ended December 31, 2005 compared to 22.7% of the overall revenue generated by the Company in the year ended December 31, 2004.

Cost of revenue increased for the year ended December 31, 2005 to approximately \$7,356,000 from approximately \$6,549,000 for the year ended December 31, 2004 representing an increase of approximately \$807,000 or 12.3%. The gross profit for the current year increased to approximately \$3,870,000 from last year's \$3,325,000, an increase of approximately \$470,000 and a slight increase in gross profit margin to 34.5% from the 33.7% experienced during the prior year. The gross profit margin of the CVD division increased to 42.2% for the current year compared to 33.2% experienced in the prior year. This is a direct result of the division's ability to more readily absorb those fixed costs through greater revenues and continuous cost reductions. The gross profit margin of the Conceptronic division decreased slightly during the current period to 29.4% compared to 30.9% in 2004. The SDC division's gross profit margin decreased from 29.4% in 2004 to 19.0% for the current year. This decreased gross profit margin for the SDC division can be attributed to an increase in the costs of materials during the current year.

Selling and shipping expenses were approximately \$716,000 in the year ended December 31, 2005 compared to \$691,000 in the year ended December 31, 2004 representing an increase of 3.6%. The increase is a result of the costs associated with an increase in trade shows attended by the Company.

General and administrative expenses were approximately \$2,531,000 during the year ended December 31, 2005. This was an increase of approximately \$279,000 or 12.4% compared to approximately \$2,252,000 during the year ended December 31, 2004. This increase can be attributed to a combination of increased payroll and benefit costs, in addition to increased general insurance and utility costs.

The Company earned minimal interest income for both 2005 and 2004 as a result of the utilization of all of its available funds for operations.

The Company incurred approximately \$219,000 of interest expense in the year ended December 31, 2005, which was a slight increase of \$6,000 or 2.8% over the interest expense incurred in the year ended December 31, 2003. The primary source of this interest expense, approximately \$188,000 in the current year and approximately \$190,000 in the year ended December 31, 2004, was the interest expense on the mortgages for the two buildings the Company owns. The increase in the balance of interest expense is due to both the higher average outstanding debt as well as the higher interest rates on the company's revolving line of credit from its bank in the year ended December 31, 2005 than in the year ended December 31, 2004.

The Company has utilized all but approximately \$40,000 and \$179,000 of its federal and state net operating loss carry forwards respectively. For the twelve months ended December 31, 2005, the Company recorded income tax expense of approximately \$65,000 which related to various federal, state and local taxes. The current income tax provision was reduced by approximately \$309,000 as a result of the uses of available net operating losses.

As a result of the foregoing factors, for the twelve months ended December 31, 2005, the Company earned approximately \$391,000 or \$.13 per basic and \$.12 per diluted share compared to earnings of approximately \$71,000 or \$.02 per basic and diluted share for the twelve months ended December 31, 2004. The Company earned approximately \$62,000 or \$.02 per basic and diluted share for the three months ended December 31, 2005 compared to net income of approximately \$736,000 or \$.24 per share basic and diluted for the three months ended December 31, 2004. The earnings experienced during the three months ended December 31, 2004 was primarily a result of the Company emerging from depressed market conditions causing existing and potential customers to reduce or delay their capital expenditures.

Liquidity and Capital Resources

As of December 31, 2005, we had aggregate working capital of approximately \$3,123,000 compared to aggregate working capital of \$2,878,000 at December 31, 2004 and had available cash and cash equivalents of approximately \$265,000 compared to approximately \$171,000 in cash and cash equivalents at December 31, 2004. The cash provided by operations exceeded the funds used for capital expenditures and for reducing financing activities.

Accounts receivable, net of allowance for doubtful accounts decreased by approximately \$481,000 or 20.3% at December 31, 2005 to \$1,894,000 compared to \$2,375,000 at December 31, 2004. This decrease is attributable to timing of shipments and customer payments.

Inventory as of December 31, 2005 was approximately \$2,067,000 representing an increase of approximately \$244,000 or 13.4% over the inventory balance as of December 31, 2004. The increase in inventory was comprised of an increase in raw materials of approximately \$220,000, an increase in work in process of approximately \$168,000 and a decrease in finished goods of approximately \$144,000. The build-up in work in process is indicative of the increase in orders that the Company is experiencing. Accounts payable at December 31, 2005 was approximately \$640,000 or 11.8% lower than it was at December 31, 2004. This reduced level of accounts payable at December 31, 2004 is indicative of the Company having reached inventory levels needed to sustain the Company's present level of orders.

The Company's credit line with a bank which permitted it to borrow on a revolving basis amounts up to the lesser of \$1,000,000 or 75% of accounts receivables not aged more than ninety days from invoice date, was revised in January, 2006 and again on February 28, 2006. The initial revision increased the line of credit to \$1,250,000. The second revision eliminated the borrowing base restriction. This line of credit is subject to renewal on June 1, 2006. As of December 31, 2005, the outstanding balance on this facility was \$100,000 as compared to \$850,000 at December 31, 2004..

Additionally, the bank agreed to provide the Company with an equipment line of credit of \$250,000. The Company is permitted to borrow up to 100% of the purchase price of the equipment. The amount borrowed will be immediately converted into a five year term loan at the bank's prime rate plus 1¼%.

In March, 2002, the Company received from General Electric Capital Corporation a \$2,700,000 mortgage, secured by the real property and building and improvements to finance and improve a new facility in Ronkonkoma, New York. The mortgage, which has an outstanding balance as of December 31, 2005 of \$2,220,402, is payable in equal monthly installments of \$22,285 including interest at 5.67% per annum; pursuant to an Industrial Development bond purchase agreement with the town of Islip Industrial Development Agency. The final payment is due March 2017.

In April, 1999 the Company received from Kidco Realty Corporation a \$900,000 purchase money mortgage, secured by the real property, building and improvements in Saugerties, New York. The mortgage has an outstanding balance at December 31, 2005 of \$825,068 and is payable in equal monthly installments of \$5,988 including interest at 7% per annum. The entire principal comes due in May 2009.

The Company believes that its cash and cash equivalents, cash flow from operations and available credit facilities will be sufficient to meet its working capital and investment requirements for the next twelve months. However, future growth, including potential acquisitions, may require additional funding and from time to time we may need to raise capital through additional equity or debt financing.

Significant Accounting Policies

The Company continues to recognize revenues and income using the percentage-of-completion method for custom production-type contracts while revenues from other products are recorded when such products are accepted and shipped. Profits on custom production-type contracts are recorded on the basis of the Company's 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.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed.

The liability, "Billings in excess of costs on uncompleted contracts," represents billing in excess of revenues recognized.

Off-Balance Sheet Arrangements

None

Item 7. Financial Statements and Supplementary Data.

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

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 8A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. The Company maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Company in this Annual Report on Form 10-KSB, and in other reports required to be filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission for such filings. As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2005. 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, 2005, the disclosure controls and procedures were and are effective as designed to ensure that information relating to the Company and its consolidated subsidiary would be accumulated and communicated to them, as appropriate, to allow timely disclosures regarding required disclosures.

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

Item 8B. Other Information.

None

PART III

**Item 9. Directors, Executive Officers, Promoters and Control Persons;
Compliance with Section 16(a) of the Exchange Act.**

Board of Directors and Executive Officers

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 five 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 stockholders.

<u>Name</u>	<u>Age</u>	<u>Position(s) with the Company</u>
Leonard A. Rosenbaum	60	Director, Chief Executive Officer, President
Alan H. Temple Jr.	72	Director, Chairman- Stock Option and Compensation Committee
Martin J. Teitelbaum	56	Director, Assistant Secretary
Conrad Gunther	59	Director, Chairman-Audit Committee
Bruce T. Swan	73	Director, Chairman-Nominating, Governance and Compliance Committee
Glen R. Charles	52	Chief Financial Officer, Secretary

Leonard Rosenbaum

Leonard Rosenbaum founded the Company in 1982 and has been its President, Chief Executive Officer and has served as a member of the Board of Directors since that date. From 1971 until the time of his affiliation with the Company in 1982, Mr. Rosenbaum was President, Director and principal stockholder of Nav-Tec Industries, a manufacturer of semiconductor processing equipment similar to the type of equipment presently manufactured by the Company. From 1966 to 1971, Mr. Rosenbaum was employed by a division of General Instrument, a manufacturer of semiconductor materials and equipment.

Alan H. Temple Jr.

Alan H. Temple Jr. has served as a member of the Board of Directors since 1987. Mr. Temple earned an MBA at Harvard University and has been President of Harrison Homes Inc., a building and consulting firm located in Pittsford, New York since 1977.

Martin J. Teitelbaum

Martin Teitelbaum has served as a member of the Board of Directors since 1985. Mr. Teitelbaum is an attorney, who since 1988, has conducted his own private practice, the Law Offices of Martin J. Teitelbaum. Prior to establishing his own firm, from 1977 to 1987, Mr. Teitelbaum was a partner in the law firm of Guberman and Teitelbaum. Mr. Teitelbaum became a member of the Board of Directors for the Company in 1985. He is presently the Assistant Secretary of the Company, a position Mr. Teitelbaum

has held since 1987, with the exception of the period August, 1997 until February, 1998 when he held the position of Secretary of the Company.

Conrad Gunther

Conrad Gunther has served as a member of the Board of Directors since 2000. Mr. Gunther has extensive experience in mergers and acquisitions and raising capital through both public and private means. He also has extensive experience in executive management in the banking industry as well as serving on the Board of Directors of Reliance Bancorp, Childrobics and GVC Venture Corp, all public companies. For the past five years, Mr. Gunther has been the President of E-Billsolutions, a company that provides credit card processing to Internet, mail order and telephone order merchants.

Bruce T. Swan

Bruce Swan has served as a member of the Board of Directors since September 2003. Mr. Swan has extensive banking, export and international credit experience and has been retired for more than five years. He previously 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.

Glen R. Charles

Mr. 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 provider of 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.

Code Of Ethics

The Company has adopted a Corporate Code of Conduct and Ethics that applies to its 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

The Board of Directors has an Audit Committee that consists of Conrad Gunther, Alan H. Temple Jr., Bruce T. Swan and Martin J. Teitelbaum. During the fiscal year ended December 31, 2005, the Audit Committee held four meetings. The Board of Directors has adopted and amended a written charter for the Audit Committee. Pursuant to the Audit Committee Charter, the Audit Committee is empowered to retain and terminate the services of our independent public accountants and review the independence of such public accounting firm. The Audit Committee also reviews financial statements, the scope and results of annual audits and the audit and non audit fees of the independent public accountants. Furthermore, the 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, Temple and Swan are "independent" as defined in Section 121(B) of the American Stock Exchange original listing requirements.

Under SEC rules, companies are required to disclose whether their audit committees have an “audit committee financial expert” as defined in Item 401(e) of Regulation S-B under the Securities Exchange Act of 1934 and whether that expert is “independent” as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act. The Board of Directors has determined that Conrad Gunther is an “audit committee financial expert” and is also “independent.”

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 stockholders. 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, 2005, all of the filings for our officers, directors and ten percent stockholders were made on a timely basis, except for the following: (i) three reports filed by Mr. Conrad Gunther – one filed on Form 3 on July 6, 2005 to report his election to the board, the second and third reports were filed on Form 4 on July 6, 2005 and on September 20, 2005 to report three grants of options; (ii) one report filed by Mr. Leonard Rosenbaum on Form 4 on September 23, 2005 to report a grant of options; (iii) three reports filed by Mr. Bruce Swan – one on Form 3 to report his election to the board of directors, a second and third report filed on Form 4 to report two grants of options; (iv) two reports filed by Mr. Martin Teitelbaum on Form 4 to report three grants of options; and (v) one report filed by Mr. Alan J. Temple on Form 4 to report three grants of options.

Item 10. Executive Compensation.

Summary Compensation Table

The following table sets forth compensation paid for the years ending December 31, 2005, 2004 and 2003, or such shorter period as such employees were employed by us, to those persons who were either (a) the chief executive officer as of December 31, 2005 or (b) one of our four other most highly compensated executive officers or executive employees as of December 31, 2005 whose total annual salary and other compensation exceeded \$100,000 (collectively with the Chief Executive Officer, the “Named Executive Officers”).

Name and Principal Position	Year	<u>Annual Compensation</u>			<u>Long-Term Compensation</u>			
		Salary	Bonus	Other Annual Compensation	Awards	Securities Under- lying Options/ SARs	Payouts	All Other Compensation
		(\$)	(\$)	(\$)	Restricted Stock Award(s) (\$)		LTIP Payouts (\$)	(\$)
Leonard Rosenbaum <i>President and Chief Executive Officer</i>	2005	162,742	---	---	---	21,000	---	---
	2004	162,742	---	---	---	---	---	---
	2003	165,645	---	---	---	15,000	---	---

Glen Charles <i>Secretary and Chief Financial Officer</i>	2005	110,000	---	---	---	15,000	---	---
	2004	105,269	---	---	---	---	---	---
	2003	---	---	---	---	---	---	---

- (1) On September 13, 2005 Mr. Rosenbaum was granted options to purchase 21,000 shares of our common stock at \$4.10 per share
- (2) On September 23, 2003, Mr. Rosenbaum was granted options to purchase 15,000 shares of our common stock at \$1.40 per share.
- (3) On June 18, 2005, Mr. Charles was granted options to purchase 15,000 shares of our common stock at \$2.26 per share.

Option/SAR Grants in Last Fiscal Year

The following table sets forth all options granted to the Named Executive Officers during 2005.

Individual Grants						
Name	Number of Securities Underlying Options/SARS Granted	Percent of Total Options/SARS Granted to Employees in Fiscal Year	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual rates of Stock Price Appreciation For option Term (1)	
					5% (\$)	10% (\$)
L. Rosenbaum	21,000 (2)	11.9%	4.10	9/13/2012	35,000	82,000
G. Charles	15,000 (3)	8.5%	2.26	6/16/2012	14,000	32,000

(1) The potential realizable value amounts shown illustrate the values that might be realized upon exercise immediately prior to the expiration of their term using five percent and ten percent appreciation rates as required to be used in this table by the Securities and Exchange Commission, compounded annually, and are not intended to forecast future appreciation, if any, of our stock price. Additionally, these values do not take into consideration the provisions of the options providing for nontransferability or termination of the options following termination of employment. Therefore, the actual values realized may be greater or less than the potential realizable values set forth in the table.

(2) Vesting schedule is based on a time period of 36 months, with 1/36th of the options vesting monthly.

(3) Vesting schedule is based on a time period of 48 months, with 1/48th of the options vesting monthly.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year end Option/SAR Values

The following table sets forth the aggregate value as of December 31, 2005 of exercised and unexercised stock options held by the named executive officers.

Name	No. Shares Acquired On Exercise (#)	Value Realized (\$)	No. of Securities Underlying Unexercised Options/SARS At Fiscal Year End		Value of Unexercised In-The-Money Options/SARS At Fiscal Year-End (\$) (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
L. Rosenbaum	---	---	27,000	19,000	24,200	7,550
G. Charles	---	---	---	15,000	---	9,750

(1) Market value of underlying securities is based on the closing price of the common stock as reported on the American Stock Exchange on December 31, 2005 (\$2.91) minus the exercise price.

The Company is the owner of a life insurance policy on the life of Leonard Rosenbaum in the amount of \$2,000,000. The Company is the sole beneficiary of said policy.

Director Compensation

Directors of the Company are not regularly compensated for being on the Board of Directors. However, the Stock Option Committee which is comprised of all of the members of the Board of Directors with the exception of Leonard Rosenbaum, has the authority to grant stock options to members from time to time. In September, 2005 the Stock Option Committee granted non-qualified stock options to purchase 21,000 shares of the Company's common stock to each member of the board of directors. These options were issued at a grant price equal to the then current market price of \$4.10. These options became exercisable as to 33.3% of the underlying shares on December 13, 2005. The remaining 14,000 shares become exercisable as to 1,750 shares every 3 months beginning January 13, 2007. These options expire on September 13, 2012.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Transactions.

The following table sets forth, as of March 10, 2006, 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 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 10, 2006.

<u>Name and Address of Beneficial Owner</u>	<u>Amounts and Nature of Beneficial Ownership (1)</u>	<u>Percent of Class (%)</u>
Leonard A. Rosenbaum	1,327,450 (2)	42.4
Alan H. Temple Jr.	223,000 (2)	7.1
Martin J. Teitelbaum	53,000 (3)	1.7
Conrad Gunther	27,000 (2)	0.9
Bruce T. Swan	17,000 (4)	0.5
All directors and executive officers and executive employees as a group (five (5) persons)	1,647,450	52.6

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

(2) Includes 27,000 shares of our common stock underlying currently exercisable options.

(3) Includes 2,000 shares held by Mr. Teitelbaum's wife as to which beneficial ownership thereof is disclaimed by Mr. Teitelbaum and 27,000 shares of our common stock underlying currently exercisable options.

(4) Includes 7,000 shares of our common stock underlying currently exercisable options.

Item 12. Certain Relationships and Related Transactions.

The Company is the owner of a life insurance policy on the life of Leonard Rosenbaum in the amount of \$2,000,000. The Company is the sole beneficiary of this policy.

PART IV

Item 13. Exhibits.

- 3.1 Certificate of Amendment dated October 12, 1982 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Registration No. 2-97210-NY.
- 3.2 Certificate of Amendment dated April 25, 1985 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Registration No. 2-97210-NY.
- 3.3 Certificate of Amendment dated August 12, 1985 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Registration No. 2-97210-NY.
- 3.4 Bylaws of CVD Equipment Corporation, incorporated herein by reference to our Registration No. 2-97210-NY.
- 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 at public auction the inventory, tangible assets, intangible assets and intellectual property of Stainless Design Corporation incorporated herein by reference to our Form 8-K filed on December 31, 1998.
- 10.3 Purchase a 22,000 square foot facility from Kidco Realty incorporated herein by reference to our Form 8-K filed on December 31, 1998.
- 10.4 Purchase a 50,000 square foot facility from Arrow Electronics incorporated herein by reference to our Form 8-K filed on November 12, 2001.
- 10.5 Purchase substantially all of the assets of Research Inc.'s Surface Mount Technology business incorporated herein by reference to our Form 8-K filed on November 12, 2001.
- 10.6 Purchase substantially all of the assets of Conceptronic Inc.'s Surface Mount Technology business incorporated herein by reference to our Form 8-K filed on July 1, 2002.
- 14.1 Corporate Code of Conduct and Ethics.
- 21.1 Subsidiaries*
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002. *

32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002. *

* Filed herewith

Item 14. Principal Accountant Fees and Services.

The following presents fees for professional audit services rendered by Moore Stephens, P.C. for the audit of our financial statements for the years ended December 31, 2005 and December 31, 2004 and the fees for professional audit services rendered by Albrecht, Viggiano, Zureck and Company, P.C. and fees billed for other services rendered by Albrecht, Viggiano, Zureck and Company, P.C. during the year ended December 31, 2004.

Audit Fees

The aggregate fees billed by Moore Stephens, P.C. for audit work performed in the preparation and review of our annual financial statements filed with the Securities and Exchange Commission for fiscal year 2004 was \$60,000.

The aggregate fees billed by Albrecht, Viggiano, Zureck and Company, P.C. for professional services rendered with the review of financial statements included in our quarterly reports filed with the Securities and Exchange Commission for fiscal year 2004 was \$11,250.

The aggregate fees billed by Moore Stephens, P.C. for audit work performed in the preparation and review of our annual financial statements and review of financial statement included in our quarterly reports filed with the Securities and Exchange Commission for fiscal year 2005 was \$77,250.

Audit- Related Fees

Audit related fees consisted principally of assistance in connection with the interpretation of comment letters we received from the SEC regarding our annual statement for fiscal year 2002 and quarterly statements for March 31, 2003, June 30, 2003 and September 30, 2003. The aggregate fees billed by Albrecht, Viggiano, Zureck and Company, P.C. for such services were \$5,900 in 2004. The Company did not incur any audit-related fees in 2005.

Tax Fees

Tax fees consisted primarily of tax preparation of the 2003 and 2004 annual tax returns in addition to work performed with regard to the New York State tax audit for the fiscal years ended 2000-2002. The aggregate fees billed by Albrecht, Viggiano, Zureck and Company, P.C. for such services were \$5,025 in 2004. The aggregate fees billed by Moore Stephens P.C. for such services were \$10,215 in 2005.

All Other Fees

None

Audit Committee Approval

The engagement of the Company's independent auditors 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 auditors.

SIGNATURES

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

CVD EQUIPMENT CORPORATION

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

Pursuant to the requirements of 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, 2006
<u>/s/ Alan H. Temple Jr.</u> Alan H. Temple Jr.	Director	March 31, 2006
<u>/s/ Martin J. Teitelbaum</u> Martin J. Teitelbaum	Director and Assistant Secretary	March 31, 2006
<u>/s/ Conrad Gunther</u> Conrad Gunther	Director	March 31, 2006
<u>/s/ Bruce T. Swan</u> Bruce T. Swan	Director	March 31, 2006
<u>/s/ Glen R. Charles</u> Glen R. Charles	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 31, 2006

EXHIBIT INDEX

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 - 14.1 Corporate Code of Conduct and Ethics.
 - 21.1 Subsidiaries*
 - 31.3 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *
 - 31.4 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *
 - 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002. *
 - 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002. *
- * Filed herewith

SUBSIDIARIES

CVD Materials Corporation, a New York corporation, is a wholly owned subsidiary of CVD Equipment Corporation.

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

I, Leonard A. Rosenbaum, the principal executive officer of CVD Equipment Corporation, certify that:

1. I have reviewed this annual report on Form 10-KSB 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, 2006

/s/ Leonard A. Rosenbaum

President, Chief Executive Office and Director

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

I, Glen R. Charles, the principal financial officer of CVD Equipment Corporation certify that:

1. I have reviewed this annual report on Form 10-KSB 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, 2006

/s/ Glen R. Charles

Chief Financial Officer

**Certification of Principal Executive Officer
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 Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the annual report on Form 10-KSB for the period ending December 31, 2005 of CVD Equipment Corporation (the "Form 10-KSB") 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-KSB fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: March 31, 2006 /s/ Leonard A. Rosenbaum
Leonard A. Rosenbaum
Chief Executive Officer
(Principal Executive Officer)

**Certification of Principal Financial Officer
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 Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the annual report on Form 10-KSB for the period ending December 31, 2005 of CVD Equipment Corporation (the "Form 10-KSB") 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-KSB fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: March 31, 2006

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
CVD Equipment Corporation
Ronkonkoma, New York

We have audited the accompanying consolidated balance sheets of CVD Equipment Corporation and Subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2005. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Subsidiary as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31 2005, in conformity with accounting principles generally accepted in the United States of America.

MOORE STEPHENS, P.C.
Certified Public Accountants.

Cranford, New Jersey
March 9, 2006

CVD EQUIPMENT CORPORATION AND SUBSIDIARY**Consolidated Balance Sheets**

December 31, 2005 and 2004

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 265,454	\$ 171,463
Accounts receivable, net	1,893,665	2,375,257
Cost and estimated earnings in excess of billings on uncompleted contracts	595,067	1,110,362
Inventories	2,067,255	1,823,453
Other current assets	49,597	110,743
Total Current Assets	4,871,038	5,591,278
Property, plant and equipment, net	5,090,536	5,153,017
Deferred income taxes	241,988	300,743
Other assets	610,304	398,587
Intangible assets, net	96,141	109,558
Total Assets	<u>\$ 10,910,007</u>	<u>\$ 11,553,183</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$ 217,204	\$ 213,394
Short-term notes payable	100,000	850,000
Accounts payable	639,619	725,706
Accrued expenses	642,115	584,443
Accrued professional fees - related party	35,260	41,626
Customer deposits	0	298,152
Deferred revenue	114,140	-
Total Current Liabilities	1,748,338	2,713,321
Long-term Debt, net of current portion	2,923,424	3,140,628
Commitments and Contingencies	-	-
Total Liabilities	<u>\$ 4,671,762</u>	<u>\$ 5,853,949</u>
Stockholders' Equity:		
Common stock - \$0.01 par value -10,000,000 shares authorized; issued & outstanding, 3,127,800 shares at December 31, 2005 and 3,039,100 shares at December 31, 2004	31,278	30,391
Additional paid-in capital	3,049,362	2,902,149
Retained earnings	3,157,605	2,766,694
Total Stockholders' Equity	<u>6,238,245</u>	<u>5,699,234</u>
Total Liabilities and Stockholders' Equity	<u>\$ 10,910,007</u>	<u>\$ 11,553,183</u>

See Notes to Consolidated Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY**Consolidated Statements of Operations**

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenue	\$ 11,225,316	\$ 9,873,592
Costs of revenue	<u>7,355,679</u>	<u>6,548,946</u>
Gross profit	<u>3,869,637</u>	<u>3,324,646</u>
Operating expenses		
Selling and shipping	716,377	691,281
General and administrative	2,495,432	2,225,250
Related party - professional fees	<u>35,260</u>	<u>26,464</u>
Total operating expenses	3,247,069	2,942,995
Operating income	<u>622,568</u>	<u>381,651</u>
Other income (expense)		
Interest income	763	752
Interest expense	(219,255)	(212,547)
Other income	51,405	26,001
Total other (expense), net	<u>(167,087)</u>	<u>(185,794)</u>
Income before income tax (expense)	455,481	195,857
Income tax (expense)	<u>(64,570)</u>	<u>(125,133)</u>
Net income	<u><u>390,911</u></u>	<u><u>70,724</u></u>
Basic income per common share	\$ 0.13	\$ 0.02
Diluted income per common share	\$ 0.12	\$ 0.02
Weighted average common shares outstanding basic income per share	3,097,698	3,039,100
Weighted average common shares outstanding diluted income per share	3,220,097	3,053,494

See Notes to Consolidated Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity
Years ended December 31, 2005 and 2004

	<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>Shareholder's</u>
			<u>Capital</u>		<u>Equity</u>
Balance - December 31, 2003	3,039,100	\$ 30,391	\$ 2,902,149	\$ 2,695,970	\$ 5,628,510
Net income				70,724	70,724
Balance - December 31, 2004	3,039,100	\$ 30,391	\$ 2,902,149	\$ 2,766,694	\$ 5,699,234
Exercise of stock options	88,700	887	147,213		148,100
Net Income				390,911	390,911
Balance - December 31, 2005	<u>3,127,800</u>	<u>\$ 31,278</u>	<u>\$ 3,049,362</u>	<u>\$ 3,157,605</u>	<u>\$ 6,238,245</u>

See Notes to Consolidated Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net income	\$ 390,911	\$ 70,724
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	350,143	356,884
Deferred tax provision	58,755	139,619
Bad debt provision	(15,131)	4,430
Changes in operating assets and liabilities		
Accounts receivable	496,723	(559,942)
Cost in excess of billings on uncompleted contracts	515,295	(534,628)
Inventory	(243,802)	(397,602)
Other current assets	61,146	(36,496)
Accounts payable	(86,087)	205,181
Accrued expenses	165,445	158,655
Customer Deposits	(298,152)	277,557
Billing in excess of costs on uncompleted contracts	0	(174,068)
Net cash provided by (used in) operating activities	<u>1,395,246</u>	<u>(489,686)</u>
Cash flows from investing activities:		
Capital expenditures	(485,961)	(350,580)
Net cash used in investing activities	<u>(485,961)</u>	<u>(350,580)</u>
Cash flows from financing activities		
Proceeds of short-term borrowings	685,000	1,425,000
Payments of short-term borrowings	(1,435,000)	(575,000)
Proceeds of long-term debt	0	26,460
Payments of long-term debt	(213,394)	(186,221)
Net proceeds from stock options exercised	148,100	-
Net cash (used in) provided by financing activities	<u>(815,294)</u>	<u>690,239</u>
Net increase (decrease) in cash and cash equivalents	93,991	(150,027)
Cash and cash equivalents at beginning of year	<u>171,463</u>	<u>321,490</u>
Cash and cash equivalents at end of year	<u>\$ 265,454</u>	<u>\$ 171,463</u>

See Notes to Consolidated Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

Note 1 – Business Description

CVD Equipment Corporation and Subsidiary (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 the world.

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 subsidiary. 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 one inactive subsidiary, CVD Materials Corporation as of December 31, 2005 and 2004. 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. Estimates are used when accounting for certain items such as long-term contracts, allowance for doubtful accounts, depreciation and amortization, taxes and warranties.

Revenue and Income Recognition

The Company recognizes revenues and income using the percentage-of-completion method for custom production-type contracts while revenues from other products are recorded when such products are accepted and shipped. Profits on custom production-type contracts are recorded on the basis of the Company's estimates of the percentage-of-completion of 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed.

The liability, "Billings in excess of costs on uncompleted contracts," represents amounts billed in excess of revenues earned.

Inventories

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

Reclassifications

Certain items have been reclassified in the 2004 financial statements to conform to the 2005 presentation. These reclassifications have no effect on the net income previously reported.

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 the current enacted tax rates. Deferred tax expense (benefit) is the result of changes in the deferred tax assets and liabilities. A valuation allowance is not considered necessary by management since it is more likely than not that the deferred tax asset will be realized. An allowance may be necessary in the future based on changes in economic conditions.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged against operations as incurred. The cost of certain labor and overhead which is expected to benefit future periods has been capitalized and amortized. Depreciation and amortization are computed by the straight-line method for financial statement purposes over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Buildings	39 years
Building improvements	39 years
Machinery and equipment	8 years
Capitalized labor and overhead	3 years

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	<u>Estimated Useful Life</u>
Furniture and fixtures	8 years
Computer equipment	5 years
Transportation equipment	3 years

Long-Lived Asset Impairment

Pursuant to Financial Accounting Standards Board Statement No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed of," impairment of long-lived assets, including intangibles related to such assets, is recognized whenever events or changes in circumstances indicate that the carrying amount of the asset, or related groups of assets, may not be fully recoverable from estimated future cash flows and the fair value of the related assets is less than their carrying value. Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets" (FAS 144) clarified when a long-lived asset held for sale should be classified as such. It also clarifies previous guidance under FAS 121. The Company, based on current circumstances, does not believe any indicators of impairment are present.

Software Capitalization

The Company follows Statement of Position 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use. 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 \$252,483 and \$269,596 for the years ended December 31, 2005 and 2004 respectively and are included in Other Assets. All software is amortized straight-line over its useful life of three years. Amortization expense related to software totaled \$47,446 and \$40,299 for the years ended December 31, 2005 and 2004, respectively.

Intangible Assets

The cost of intangible assets is being amortized on a straight-line basis over their useful lives ranging from 5 to 15 years. Amortization expense recorded by the Company in 2005 and 2004 totaled \$13,416 and \$13,419 respectively.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Bad Debts

Accounts receivables are presented net of an allowance for doubtful accounts of \$8,597 and \$23,728 as of December 31, 2005 and 2004, respectively. The allowance is based on prior experience and management's evaluation of the collectibility of accounts receivable. Management believes the allowance is adequate. However, future estimates may change based on changes in economic conditions.

Product Warranty

The Company records warranty costs as incurred and does not provide for possible future costs. Management estimates such costs not to be material based on prior experience. However, it is reasonably possible that this estimate may change in the future.

Advertising Costs

The company expenses advertising and trade show costs which are not expected to benefit future periods. These expenses which are included in selling and shipping expenses were \$53,492 and \$25,822 in 2005 and 2004, respectively. The Company capitalizes certain advertising costs included in Other Assets, totaling \$63,849 to develop a web site and to print brochures expected to be used in the future. Capitalized advertising costs are amortized straight-line over three years. Amortization expense related to advertising costs totaled \$390 in 2004 and has been fully amortized as of December 31, 2004.

Interest Capitalization

The Company follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. The amount is included in building improvements. During the years ended December 31, 2005 and 2004, the Company did not capitalize any interest.

Income Per Share

Basic net income per common share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during each period. Diluted income per share for 2005 and 2004 reflects the dilutive effect of the assumed exercise of options.

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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
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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 safety 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. Generally, the Company does not require collateral or other security to support customer receivables. See Note 14 for concentration details.

Fair value of Financial Instruments

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued expenses, approximate fair value due to the relatively short maturity of these instruments. The fair value of securities available-for-sale is estimated based on quoted market prices. The carrying value of long-term debt approximates fair value based on borrowing rates currently available for loans with similar terms and maturities.

Stock-Based Compensation

The Company accounts for stock-based employee compensation under Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees”, and related interpretations. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation” and SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure”, which was released in December 2002 as an amendment of SFAS No. 123. No stock-based employee compensation cost is reflected in net income (loss), as all options granted under the plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant.

Shipping and Handling

It is the Company’s policy to include freight in total sales. The amount included in sales was \$33,540 and \$18,304 for the years ended December 31, 2005 and 2004, respectively. Included in selling and shipping is \$87,844 and \$58,629 for shipping and handling costs for 2005 and 2004, respectively.

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Recently Issued Accounting Standards

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS NO. 151"), "Inventory Costs-an amendment to ARB No.43," effective for inventory costs incurred during fiscal years beginning after June 15, 2005. This statement provides guidance to clarify the accounting for abnormal amounts of idle facility expense, freight handling costs, and wasted material (spoilage), among other production costs. Provisions of ARB No. 43 stated that under some circumstances, items such as idle facility expense, excessive spoilage and other costs may be so abnormal as to require treatment as current period charges. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal." In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Adoption of the Statement is not expected to have a material impact on the financial statements of the Company.

In November 2004, the FASB issued SFAS No. 152 "Accounting for Real Estate Time-Sharing Transactions-An amendment of SFAS NO. 66 and 67." This Statement amends SFAS No. 66, "Accounting for Sales of Real Estate," to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," to state the guidance for (a) incidental costs and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to guidance in SOP 04-2, effective for financial statements with fiscal years beginning after June 15, 2005. Adoption of this Statement is not expected to have a material impact on the financial statements of the Company.

In November 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets-an amendment to APB No. 29," effective for nonmonetary asset exchanges occurring in fiscal years beginning after June 15, 2005. This Statement amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Adoption of this Statement is not expected to have a material impact on the financial statements of the Company.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123R (SFAS 123R), Share-Based Payment. Under previous practice, the reporting entity could account for share-based payment under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and disclose share-based compensation as if accounted for under the provisions of Statement of Financial Accounting Standard No. 123 (SFAS No. 123), Accounting for Stock-Based Compensation. Under the provisions of

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
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SFAS No. 123R, a public entity is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

The Company expects to adopt SFAS No. 123R effective with the beginning of the quarter ended March 31, 2006. As of December 31, 2005, there was approximately \$380,000 of total unrecognized compensation cost related to nonvested stock-based compensation arrangements granted. That cost is expected to be recognized over a weighted-average period of 2.85 years.

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS NO. 154"), SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires that the cumulative effect of voluntarily changing to a new accounting principle be applied retrospectively to prior period financial statements. Prior to the effective date of SFAS 154, the cumulative effect of voluntarily changing to a new accounting principle was included in the operating results of the period in which such change was adopted. SFAS 154 is effective for fiscal years beginning after December 15, 2005. The Company expects that the adoption of SFAS 154 will not have a significant impact on its financial statements.

Note 3 – Supplemental Cash Flow Information

During 2005, options to purchase 176,500 common shares were issued to certain employees and members of the board of directors. The option price for all options granted in 2005 was equal to or greater than the fair market value per share on the date the option was granted and no compensation cost was recognized.

	<u>2005</u>	<u>2004</u>
Cash paid during the year for:		
Income taxes, net of refunds	\$ 4,509	\$ 3,256
Interest	212,547	222,580

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Note 4 – Uncompleted Contracts

Costs, estimated earnings, and billings on uncompleted contracts are summarized as follows:

	<u>2005</u>	<u>2004</u>
Costs incurred on uncompleted contracts	\$ 961,735	\$1,142,057
Estimated earnings	<u>901,390</u>	<u>1,084,166</u>
	1,863,125	2,226,223
Billings to date	<u>(1,268,058)</u>	<u>(1,115,861)</u>
	<u>\$ 595,067</u>	<u>\$1,110,362</u>
Included in accompanying balance sheets		
Under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 595,067	\$1,110,362
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>---</u>	<u>---</u>
	<u>\$ 595,067</u>	<u>\$1,110,362</u>

Note 5 - Inventory

	<u>2005</u>	December 31, <u>2004</u>
Raw materials	\$ 849,355	\$ 628,934
Work-in-process	854,115	686,325
Finished goods	<u>363,785</u>	<u>508,194</u>
	<u>\$ 2,067,255</u>	<u>\$ 1,823,453</u>

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 – Property, Plant and Equipment

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

	<u>2005</u>	<u>2004</u>
Land	\$ 760,000	\$ 760,000
Buildings	2,815,839	2,815,839
Building improvements	1,394,976	1,378,552
Machinery and equipment	1,347,807	1,246,470
Capitalized labor and overhead	216,602	216,602
Furniture and fixtures	226,022	224,542
Computer equipment	221,635	201,377
Transportation equipment	74,709	74,709
Demo equipment	42,776	---
Lab equipment	42,121	---
Totals at Cost	7,142,452	6,918,091
Accumulated depreciation and amortization	<u>(2,051,951)</u>	<u>(1,765,074)</u>
	<u>\$ 5,090,536</u>	<u>\$ 5,153,017</u>
Depreciation and amortization expense	<u>\$ 287,404</u>	<u>\$ 294,901</u>

Note 7 – Intangible Assets

Intangible assets are summarized as follows:

December 31, 2005

<u>Intangible Asset</u>	<u>Weighted Average Amortization Period</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net of Accumulated Amortization</u>
Licensing Agreement	5	10,000	10,000	0
Patents & Copyrights	14	32,019	14,472	17,547
Intellectual Property	15	100,000	30,002	69,998
Other	5	21,492	12,895	8,597
Totals	13	163,511	67,369	96,142

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December 31, 2004

<u>Intangible Asset</u>	<u>Weighted Average Amortization Period</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net of Accumulated Amortization</u>
Licensing Agreement	5	10,000	10,000	0
Patents & Copyrights	14	32,019	12,021	19,998
Intellectual Property	15	100,000	23,335	76,665
Other	5	21,492	8,597	12,895
Totals	13	163,511	53,953	109,558

The estimated amortization expense related to intangible assets for each of the five succeeding fiscal years and thereafter as of December 31, 2005 is as follows:

Year Ended December 31,	
2006	\$ 13,417
2007	13,418
2008	9,119
2009	7,619
2010	7,619
Thereafter	<u>44,950</u>
Total	<u>\$ 96,142</u>

Note 8 – Financing Arrangements

The Company has a line of credit with a bank which allows the Company to borrow up to \$1,250,000 until June 1, 2006. Interest is payable on any unpaid principal balance at the bank's prime rate plus $\frac{3}{4}$ of 1%. The balances outstanding on this facility as of December 31, 2005 and 2004 were \$100,000 and \$850,000, respectively. The prime rate was 7.25% and 5.25% at December 31, 2005 and 2004 respectively. The weighted average interest rate on the Company's short-term borrowings for 2005 and 2004 was 6.19% and 5.46% respectively. (See Note 19)

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 9 – Long-term Debt

Long-term debt consists of the following:

	<u>2005</u>	<u>2004</u>
KIDCO REALTY CORP.		
\$900,000 purchase money mortgage secured by real property, building and improvements in Saugerties, New York; payable in equal monthly installments of \$5,988 including interest at 7% per annum; entire principal comes due in May 2009.	\$ 825,068	\$ 838,645
GENERAL ELECTRIC CAPITAL CORPORATION		
\$2,700,000 mortgage payable secured by real property, building and improvements in Ronkonkoma, New York; payable in equal monthly installments of \$22,285, including interest at 5.67% per annum; pursuant to an installment sale agreement with the Town of Islip Industrial Development Agency; final payment due March 2017.	2,220,402	2,357,668
NORTH FORK BANK		
Sixty month installment note; payable in monthly installments of \$4,922, including interest at 7.74% per annum; final payment due October 2007; collateralized by equipment costing \$244,239.	90,900	140,087
KEY EQUIPMENT FINANCE		
Twenty-four month installment note, payable In monthly installments of \$1,123, including Interest at 1.9% per annum; final payment due May 2006, collateralized by software costing \$26,460.	<u>4,258</u>	<u>17,622</u>
	3,140,628	3,354,022
Less: Current maturities	<u>217,204</u>	<u>213,394</u>
	<u>\$ 2,923,424</u>	<u>\$ 3,140,628</u>

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
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Future maturities of long-term debt as follows:

Year ended December 31, 2006	\$ 217,204
Year ended December 31, 2007	207,088
Year ended December 31, 2008	179,394
Year ended December 31, 2009	950,276
Year ended December 31, 2010	184,146
Thereafter	<u>1,404,530</u>
	<u>\$ 3,140,628</u>

Note 10 – Income per Share

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

	<u>2005</u>	<u>2004</u>
Weighted average common shares outstanding		
basic income per share	3,097,698	3,039,100
Effect of potential common share issuance:		
Stock options	<u>122,400</u>	<u>14,394</u>
Weighted average common shares outstanding		
Diluted income per share	<u>3,220,097</u>	<u>3,053,494</u>

Outstanding options to purchase 136,000 and 305,900 shares at December 31, 2005 and December 31, 2004, respectively, were not included in the earnings per share calculation, because the exercise price was higher than the market price.

Note 11 – Income Taxes

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

	<u>2005</u>	<u>2004</u>
Current:		
Federal	\$ ----	\$ ----
State	<u>5,815</u>	<u>(14,486)</u>
Total Current Provision (Benefit)	5,815	(14,486)
Deferred:		
Federal	81,305	85,638
State	<u>(22,550)</u>	<u>53,981</u>
Total Deferred Provision	<u>58,755</u>	<u>139,619</u>
	<u>\$ 64,570</u>	<u>\$ 125,133</u>

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
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The Company has New York State investment tax credit carryforwards of approximately \$263,000 that may be offset against future state tax liabilities through the year 2019 and other state tax credits totaling approximately \$325,000 which may be carried forward indefinitely. The Company accounts for investment tax credits primarily by the flow-through method.

As of December 31, 2005, the Company had federal and state net operating loss (NOL's) carryforwards totaling approximately \$40,000 and \$179,000, respectively. These NOL's were incurred in the 2003 tax year and may be used to offset taxable income in future periods through 2023. Current federal and state income tax expenses are net of tax benefits from net operating loss carry forwards of approximately \$230,000 and \$40,000 respectively.

The difference between the provision for income taxes at the Company's effective income tax rate and the federal statutory rate of 34% is as follows:

	<u>2005</u>	<u>2004</u>
Statutory rate	34%	34%
State taxes, net of federal benefits	5%	7%
Benefit of federal and state net operating loss carryforwards	(23%)	--
Investment and other tax credits	<u>(2%)</u>	<u>23%</u>
Totals	<u>14%</u>	<u>64%</u>

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

	<u>2005</u>	<u>2004</u>
Allowance for doubtful accounts	\$ 3,377	\$ 9,320
Inventory capitalization	76,330	67,353
Deferred revenue	(354,066)	(425,860)
Net operating loss	26,790	222,555
Depreciation and amortization	(225,141)	(190,376)
Investment and other tax credits	588,908	579,213
Vacation Accrual	118,130	28,963
Other	<u>7,660</u>	<u>9,575</u>
Net deferred tax asset	<u>\$ 241,988</u>	<u>\$ 300,743</u>

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Management believes the net deferred tax asset will more likely than not be realized. In assessing the likelihood of realization, management considers estimates of future taxable income. However, it is at least reasonably possible that management's estimate of future realization may change in the near term.

Note 12 - Stock Option Plans

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 are reserved for issuance pursuant to options that may be granted under the Plan through June 30, 2009. On June 3, 1996, the Company issued 84,000 options which expire ten years from the date of grant. None of these options were exercisable until June 3, 1999. The option price was less than the fair market value per share on the date the 1996 options were granted. On April 15, 1998, 140,000 options were granted to employees under this plan. Options granted in 1998 vest straight-line over a four-year period following the date of grant and expire five years after the date of grant. On July 16, 1999, 52,500 options were granted to employees under this Plan. Options granted in 1999 vest incrementally over four-year periods following the date of grant and expire seven years after the date of grant. On February 2, 2000, 242,000 options were granted to employees under this plan. On May 7, 2000 and August 8, 2000, a total of 80,000 options were granted to employees. On October 26, 2000, 3,500 options were granted to employees. All options vest over a four-year period. All options granted in 2000 expire seven years after the date of grant. The option price for options granted in 1999 and 2000 is an amount per share of not less than the fair market value per share on the date the option is granted. On April 1, 2003, the Company granted 12,500 options to employees under this plan which expire April 1, 2008, and on September 23, 2003 granted 75,000 options to directors which expire on September 23, 2010. On June 17, 2005 and August 4, 2005, 56,500 and 15,000 options were granted to employees under this plan, which expire on June 16, 2012 and August 3, 2012. All of these options vest equally over a four-year period. On September 13, 2005 105,000 options were granted to directors which vest over three years and expire on September 12, 2012.

In July 2001, the shareholders approved a non-qualified stock option plan covering key employees, officers, directors and other persons that may be considered as service providers to the Company. Options will be 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, are 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 shall become exercisable in 25% installments commencing one year from the anniversary date of the grant.

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The purchase price of the common stock under each option shall be no lower than the average bid price per share, calculated on a monthly basis, that the common stock (as reported by AMEX) traded during the calendar year immediately preceding the year in which the option is granted. The stock options generally expire five years after the date of grant. The stock option plan shall terminate on July 22, 2011. No options have been granted under the July 2001 plan.

A summary of stock option activity related to the Company's Plan is as follows:

	Beginning Balance Outstanding	Granted During Period	Exercised During Period	Canceled During Period	Ending Balance Outstanding	Exercisable
Year ended December 31, 2004						
Number of shares	365,400	-0-	-0-	10,000	355,400	296,650
Weighted average exercise price						
Per share	\$ 1.69	-0-	\$ -0-	\$ 1.75	\$ 1.69	\$ 1.68
Year ended December 31, 2005						
Number of shares	355,400	176,500	88,700	-0-	443,200	276,700
Weighted average exercise price						
per share	\$ 1.69	\$ 3.42	\$ 1.67	\$ -0-	\$ 2.39	\$ 2.03

The following table summarizes information about the options at December 31, 2005.

Exercise Price Range	Number Outstanding	Options Outstanding		Number Exercisable	Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Weighted Average Exercise Price	
\$0.13 - \$1.00	40,000	0.55 years	\$ 1.00	40,000	\$ 1.00	
\$1.25 - \$1.50	75,000	4.74 years	\$ 1.40	50,000	\$ 1.40	
\$1.51 - \$1.75	90,700	1.09 years	\$ 1.75	90,700	\$ 1.75	
\$2.00 - \$2.75	101,500	4.29 years	\$ 2.14	45,000	\$ 2.00	
\$3.00 - \$3.25	18,500	5.69 years	\$ 3.11	3,500	\$ 3.25	
\$3.75 - \$4.00	12,500	2.25 years	\$ 3.88	12,500	\$ 3.88	
\$4.00 - \$4.25	105,000	6.70 years	\$ 4.10	35,000	\$ 4.10	

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The Company accounts for the stock option plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees, and related interpretations." The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to its stock-based employee compensation: See Note 2.

There were no options granted in 2004. The weighted average grant date fair value of options granted during 2005 was \$3.42.

	<u>2005</u>	<u>2004</u>
Net income as reported	\$ 390,911	\$ 70,724
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	-0-	-0-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>\$ (92,284)</u>	<u>\$ (71,978)</u>
Pro-forma net income (loss)	<u>\$ 298,627</u>	<u>\$ (1,254)</u>
Income per share:	<u>2005</u>	<u>2004</u>
Basic-as reported	<u>\$.13</u>	<u>\$.02</u>
Basic-pro forma	<u>\$.10</u>	<u>\$.00</u>
Diluted –as reported	<u>\$.12</u>	<u>\$.02</u>
Diluted –pro forma	<u>\$.09</u>	<u>\$.00</u>

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The fair value used in the pro forma data was estimated by using the Black-Scholes option-pricing model which took into account as of the grant date, the exercise price and the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the expected term of the option. The following is the average of the data used for the following items.

<u>Year Ended</u>	<u>Risk-Free Interest Rate</u>	<u>Expected Life</u>	<u>Expected Volatility</u>	<u>Expected Dividends</u>
December 31, 2005	2.5%	5.7 Years	126.54%	None

Note 13 – 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, 2005 and 2004 the Company incurred administrative costs totaling \$1,805 and \$2,530 respectively. No employer contribution has been made for 2005 and 2004.

Note 14 – Concentration of Credit Risk

Cash

The Company places most of its temporary cash investments with one financial institution. Balances normally exceed the Federal Deposit Insurance Corporation limit. The amount at risk at December 31, 2005 was approximately \$165,000. The Company has not experienced any loss to date as a result of this policy.

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Significant Customers

The Company's sales encompass markets wherein the demands of any one customer may vary greatly due to changes in technology. In 2005, one customer from the Conceptronic division represented approximately 12% of the Company's total revenue for the year and 22% of the Company's total billed and unbilled receivables at December 31, 2005. One other customer from the CVD division represented approximately 15% of the total billed and unbilled receivables at December 31, 2005. In 2004, one customer from the Conceptronic division represented approximately 17% of the Company's total revenue and 16% of the Company's total billed and unbilled receivables at December 31, 2004. Two other customers, one each from the CVD and SDC divisions, represented approximately 11% and 23% of total billed and unbilled receivables at December 31, 2004.

Export Sales

Export sales to unaffiliated customers represented approximately 29% and 32% of sales for the years ended December 31, 2005 and 2004, respectively. Export sales in 2005 and 2004 were primarily to customers in Asia. All contracts are denominated in U.S. dollars. The Company does not enter into any foreign exchange contracts.

Note 15 – Related Party Transactions

The general counsel for the Company is also a director. The Company incurred legal fees for his professional services of approximately \$35,000 and \$26,000 for the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005 and 2004, the Company owed the general counsel approximately \$35,000 and \$41,000 respectively.

Note 16 – Other Income

Other income for the year ended December 31, 2005 was approximately \$51,000 which represented miscellaneous sources of revenue earned by the company including sale of scrap metal and parking space rental.

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Note 17 – Segment Reporting

The Company adopted SFAS 131, “Disclosures about Segments of an Enterprise and Related Information.” The Company operates through (3) segments, CVD, SDC and Conceptronic. 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. Conceptronic is a manufacturer of Surface Mount Technology equipment. The accounting policies of CVD, SDC and Conceptronic 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 at December 31, 2005 and for the year then ended:

	<u>CVD</u>	<u>SDC</u>	<u>Conceptronic</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets	<u>\$ 9,736,996</u>	<u>\$ 2,060,657</u>	<u>\$ 2,741,119</u>	<u>\$ (3,628,765)</u>	<u>\$ 10,910,007</u>
Revenue	\$ 4,589,205	\$ 3,033,751	\$ 4,611,452	\$ (1,009,092)	\$ 11,225,316
Interest Income	522	241	-0-		763
Interest Expense	77,056	65,213	76,986		219,255
Depreciation and amortization	201,481	124,195	24,467		350,143
Capital expenditures	476,371	9,590	-0-		488,961
Pretax (loss) earnings	640,331	(165,301)	(19,549)		455,481

The following table presents certain information regarding the Company’s segments at December 31, 2004 and for the year then ended:

	<u>CVD</u>	<u>SDC</u>	<u>Conceptronic</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets	<u>\$10,026,553</u>	<u>\$ 2,604,804</u>	<u>\$ 2,878,597</u>	<u>\$ (3,956,771)</u>	<u>\$ 11,553,183</u>
Revenue	\$ 2,885,410	\$ 2,843,293	\$ 4,948,170	\$ (803,281)	\$ 9,873,592
Interest Income	-0-	752	-0-		752
Interest Expense	76,678	59,190	76,679		212,547
Depreciation and amortization	201,958	130,876	24,050		356,884
Capital expenditures	36,721	8,150	3,015		47,886
Pretax earnings (loss)	(38,052)	140,380	93,529		195,857

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Note 18 - Commitments and Contingencies

Legal Proceedings

On September 24, 1999 the Company was named in a lawsuit. The nature of this legal proceeding focused on the intellectual property obtained during the purchase of assets of Stainless Design Corporation. On November 10, 1999, the Company responded with a counterclaim. It is legal counsels' belief that the lawsuit against the Company is without merit. The Company considers its potential exposure to be negligible and/or covered by insurance. Presently, cross-motions for summary judgment are pending before the court.

In May 2002, the Company instituted a new action against Precisionflow Technologies, Inc., in the United States District for the Northern District of New York also seeking injunctive relief and monetary damages based upon additional copyright violations. A motion by Precisionflow Technologies, Inc. to dismiss this action has been pending since June 2002.

Note 19 – Subsequent Events

The Company's credit line with a bank which permitted it to borrow on a revolving basis amounts up to the lesser of \$1,000,000 or 75% of accounts receivables not aged more than ninety days from invoice date, was revised in January, 2006 and again on February 28, 2006. The initial revision increased the line of credit to \$1,250,000. The second revision eliminated the borrowing base restriction. This line of credit is subject to renewal on June 1, 2006.

Additionally, the bank agreed to provide the Company with an equipment line of credit of \$250,000. The Company is permitted to borrow up to 100% of the purchase price of the equipment. The amount borrowed will be immediately converted into a five year term loan at the bank's prime rate plus 1¼%.