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

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**Form 10-QSB**

(Mark One)

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

For the quarterly period ended June 30, 2006

☐ **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

11-2621692

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

*(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 ☐

Indicate by check mark whether issuer is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (check one)

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **3,194,800 shares of Common Stock, \$0.01 par value at August 11, 2006.**

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# CVD EQUIPMENT CORPORATION AND SUBSIDIARY

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PART 1 - FINANCIAL INFORMATION  
Item 1 - Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
Consolidated Balance Sheets

	June 30, 2006 (Unaudited)	December 31, 2005
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 574,932	\$ 265,454
Accounts receivable, net	2,317,003	1,893,665
Cost in excess of billings on uncompleted contracts	388,067	595,067
Inventories	2,611,369	2,067,255
Other current assets	98,777	49,597
Total current assets	<u>5,990,148</u>	<u>4,871,038</u>
Property, plant and equipment, net	5,004,465	5,090,536
Deferred income taxes	341,031	241,988
Other assets	724,828	610,304
Intangible assets, net	89,433	96,141
	<u>\$ 12,149,905</u>	<u>\$ 10,910,007</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 248,355	\$ 217,204
Short-term notes payable	540,000	100,000
Accounts payable	670,270	639,619
Accrued expenses	942,949	642,115
Accrued professional fees - related party	10,000	35,260
Deferred revenue	353,626	114,140
Total current liabilities	<u>2,765,200</u>	<u>1,748,338</u>
Long-term debt, net of current portion	<u>2,880,774</u>	<u>2,923,424</u>
Total liabilities	<u>5,645,974</u>	<u>4,671,762</u>
Commitments and contingencies	---	---
Stockholders' Equity		
Common stock, par value \$.01 per share, authorized 10,000,000 shares; issued and outstanding, 3,154,800 shares at June 30, 2006 and 3,127,800 shares at December 31, 2005	31,548	31,278
Additional paid-in capital	3,178,768	3,049,362
Retained earnings	3,293,615	3,157,605
	<u>6,503,931</u>	<u>6,238,245</u>
	<u>\$ 12,149,905</u>	<u>\$ 10,910,007</u>

See notes to the consolidated financial statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Revenue	\$ 3,111,132	\$ 3,008,563	\$ 6,322,605	\$ 5,406,633
Costs of Revenue	<u>2,044,806</u>	<u>1,794,337</u>	<u>4,186,182</u>	<u>3,421,064</u>
Gross profit	<u>1,066,326</u>	<u>1,214,226</u>	<u>2,136,423</u>	<u>1,985,569</u>
Operating expenses				
Selling and shipping	200,362	166,848	397,231	336,964
General and administrative	731,441	606,906	1,449,650	1,138,170
Related party - professional fees	<u>10,000</u>	<u>25,000</u>	<u>10,000</u>	<u>35,000</u>
Total operating expenses	<u>941,803</u>	<u>798,754</u>	<u>1,856,881</u>	<u>1,510,134</u>
Operating income	<u>124,523</u>	<u>415,472</u>	<u>279,542</u>	<u>475,435</u>
Other income (expense)				
Interest income	387	82	408	708
Interest expense	(58,880)	(56,495)	(115,527)	(119,038)
Other income	<u>11,285</u>	<u>10,154</u>	<u>86,754</u>	<u>14,334</u>
Total other (expense)	<u>(47,208)</u>	<u>(46,259)</u>	<u>(28,365)</u>	<u>(103,996)</u>
Income before income taxes	77,315	369,213	251,177	371,439
Income tax provision	<u>(54,252)</u>	<u>(76,035)</u>	<u>(115,167)</u>	<u>(77,168)</u>
Net income	<u>\$ 23,063</u>	<u>\$ 293,178</u>	<u>\$ 136,010</u>	<u>\$ 294,271</u>
Basic income per common share	<u>\$ 0.01</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>	<u>\$ 0.10</u>
Diluted income per common share	<u>\$ 0.01</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>	<u>\$ 0.09</u>
Weighted average common shares outstanding basic income per share	3,146,273	3,100,180	3,135,314	3,069,809
Effect of potential common share issuance:				
Stock options	<u>155,102</u>	<u>145,176</u>	<u>158,769</u>	<u>46,828</u>
Weighted average common shares outstanding diluted income per share	<u>3,301,375</u>	<u>3,245,356</u>	<u>3,294,083</u>	<u>3,116,637</u>

See notes to the consolidated financial statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
(Unaudited)

	Six Months Ended June 30	
	2006	2005
Cash flows from operating activities		
Net income	\$ 136,010	\$ 294,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	169,319	177,684
Deferred tax benefit	(99,043)	(208,341)
Stock option expense	85,926	-
Bad debt provision	-	(393)
Changes in operating assets and liabilities:		
Accounts receivable	(423,338)	(134,767)
Cost in excess of billings on uncompleted contracts	207,000	1,073,275
Inventory	(544,114)	(213,042)
Other current assets	(49,180)	9,401
Other assets	-	(133,790)
Accounts payable	30,650	(175,399)
Accrued expenses	275,575	216,963
Customer deposits	-	(298,152)
Deferred revenue	239,486	54,489
Net cash provided by operating activities	<u>28,291</u>	<u>662,199</u>
Cash flows from investing activities:		
Capital expenditures	(191,064)	(29,216)
Net cash used in investing activities	<u>(191,064)</u>	<u>(29,216)</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	840,000	400,000
Payments of short-term borrowings	(400,000)	(1,100,000)
Proceeds from long-term debt	115,309	0
Payments of long-term debt	(126,808)	(105,118)
Net proceeds from stock options exercised	43,750	134,100
Net cash provided by (used in) financing activities	<u>472,251</u>	<u>(671,018)</u>
Net increase (decrease) in cash and cash equivalents	309,478	(38,035)
Cash and cash equivalents at beginning of period	<u>265,454</u>	<u>171,463</u>
Cash and cash equivalents at end of period	<u>\$ 574,932</u>	<u>\$ 133,428</u>

See notes to consolidated financial statements

**CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the interim financials not misleading have been included and all such adjustments are of a normal recurring nature. The operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that can be expected for the year ending December 31, 2006.

The balance sheet as of December 31, 2005 has been derived from the audited financial statements at such date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accounting policies followed by the Company are set forth in Note 2 to the Company's consolidated financial statements in the December 31, 2005 Form 10-KSB.

For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report of Form 10-KSB for the year ended December 31, 2005.

Intercompany transactions have been eliminated in consolidation.

Certain reclassifications have been made to prior period financial statements to conform to the current year presentation.

## **CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **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.

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.

#### **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.

#### **Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN") 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109, Accounting for Income Taxes, which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006 with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3: UNCOMPLETED CONTRACTS**

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

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Costs incurred on uncompleted contracts	\$ 140,552	\$ 961,735
Estimated earnings	<u>433,462</u>	<u>901,390</u>
	574,014	1,863,125
Billings to date	<u>(185,947)</u>	<u>(1,268,058)</u>
	<u>\$ 388,067</u>	<u>\$ 595,067</u>
Included in accompanying balance sheets Under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 388,067	\$ 595,067
Billings in excess of costs and estimate earnings on uncompleted contracts	<u>0</u>	<u>0</u>
	<u>\$ 388,067</u>	<u>\$ 595,067</u>

**NOTE 4: INVENTORY**

Inventories consist of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Raw materials	\$ 1,310,714	\$ 849,355
Work-in-process	1,017,871	854,115
Finished goods	<u>282,784</u>	<u>363,785</u>
	<u>\$ 2,611,369</u>	<u>\$ 2,067,255</u>

**NOTE 5: BAD DEBTS**

Accounts receivables are presented net of an allowance for doubtful accounts of \$8,597 as of June 30, 2006 and December 31, 2005. 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.



**CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6:      SHORT TERM BORROWINGS**

<u>June 30, 2006</u>	<u>December 31, 2005</u>
\$540,000	\$100,000

The Company has a line of credit with a bank permitting it to borrow on a revolving basis amounts up to \$1,250,000 until June 1, 2007. Interest is payable on any unpaid principal balance at the bank's prime rate plus  $\frac{3}{4}$  of 1%. The prime rate was 8.25% and 7.25% and the amount outstanding on the facility was \$540,000 and \$100,000 on June 30, 2006 and December 31, 2005 respectively. Borrowings are collateralized by the Company's assets.

The Company has a line of credit for equipment purchases from the same bank permitting it to borrow up to 100% of the purchase price of the equipment. The amount borrowed is immediately converted into a five year term loan at the bank's prime rate plus 1  $\frac{1}{4}$ %. As of June 30, 2006, there was approximately \$85,000 outstanding on this facility. Borrowings are collateralized by the equipment purchased.

**NOTE 7:      STOCK COMPENSATION EXPENSE**

On January 1, 2006, the Company adopted the provisions of SFAS No. 123-R "Share-Based Payment" using the modified prospective method. SFAS No. 123-R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards. Under the modified prospective method of adopting SFAS No. 123-R, the Company recognized compensation cost for all share-based payments granted after January 1, 2006, plus any awards granted to employees prior to January 1, 2006 that remain unvested at that time. Under this method of adoption, no restatement of prior periods is made.

Prior to January 1, 2006 the Company recognized the cost of employee services received in exchange for equity instruments in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued Employees" (APB 25). APB 25 required the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock over the amount the employee must pay for the stock. Compensation expense was measured under APB 25 on the date the shares were granted. Under APB 25, no compensation expense was recognized for stock options.

During the three and six months ended June 30, 2006 the Company recorded into selling and general administrative expense approximately \$33,000 and \$86,000 respectively, for the cost of employee services received in exchange for equity instruments based on the grant-date fair value of those instruments in accordance with the provisions of SFAS No. 123-R.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

During the three and six months ended June 30, 2005 had the cost of employee services received in exchange for equity instruments been recognized based on the grant-date fair value of those instruments in accordance with the provisions of SFAS No. 123-R, the Company's net income and earnings per share would have been impacted as shown in the following table.

	Three Months Ended <u>June 30, 2005</u>	Six Months Ended <u>June 30, 2005</u>
Net income, as reported	\$ 293,178	\$ 294,271
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(1,673)</u>	<u>(4,328)</u>
Pro forma net income	<u>\$ 291,505</u>	<u>\$ 289,943</u>
Earnings (loss) per share:		
Basic-as reported	<u>\$ 0.09</u>	<u>\$ 0.10</u>
Basic-pro forma	<u>\$ 0.09</u>	<u>\$ 0.09</u>
Diluted-as reported	<u>\$ 0.09</u>	<u>\$ 0.09</u>
Diluted-pro forma	<u>\$ 0.09</u>	<u>\$ 0.09</u>

The historical pro-forma impact of applying the fair value method prescribed by SFAS No. 123-R is not representative of the impact that may be expected in the future due to changes resulting from additional grants in future years and changes in assumptions such as volatility, interest rates and expected life used to estimate fair value of the grants in future years.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8: INCOME TAXES**

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

	Three Months Ended <u>June 30, 2006</u>	Six Months Ended <u>June 30, 2006</u>
Current:		
Federal	\$ 212,437	\$ 214,087
State	<u>(144)</u>	<u>123</u>
Total Current Provision	212,293	214,210
Deferred:		
Federal	(130,425)	(78,504)
State	<u>(27,616)</u>	<u>(20,539)</u>
Total Deferred (Benefit)	<u>(158,041)</u>	<u>(99,043)</u>
	<u>\$ 54,252</u>	<u>\$ 115,167</u>

All of the Company's federal and state net operating loss carry forwards of approximately \$203,000 and \$420,000 respectively, have been utilized through June 30, 2006. For the six months ended June 30, 2006, the Company recorded a current income tax expense of approximately \$214,000, which related to various federal, state and local taxes. The current income tax provision was reduced by approximately \$99,000 as a result of the use of available net operating losses.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes filed as part of this report.

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

### **Results of Operations**

Revenue for the three month period ended June 30, 2006 was \$3,111,132 compared to \$3,008,563 for the three month period ended June 30, 2005, representing a marginal increase of 3.4%.

Revenue for the six months ended June 30, 2006 was approximately \$6,323,000 representing an increase of approximately \$916,000 or 16.9% over the \$5,407,000 of revenue for the six months ended June 30, 2005. The primary reasons for this increase were the increased demand for customized CVD systems along with the demand for equipment provided by the First Nano product line.

The Company generated a gross profit of approximately \$1,066,000 and a gross profit margin of 34.3% for the three months ended June 30, 2006 compared to a gross profit of approximately \$1,214,000 and a gross profit margin of 40.4% for the three months ended June 30, 2005. The reduction in both gross profit and gross profit margin is attributable to the increased labor costs during the current three month period. These higher costs are a result of the increased personnel needed to develop and expand the sales of the First Nano equipment line as well as rising employee benefit, insurance and energy costs.

The Company's gross profit increased 7.6% to approximately \$2,136,000 during the current six month period compared to \$1,986,000 in gross profit for the six month period during the prior year. The gross profit margin decreased to 33.8% for the six months ended June 30, 2006 compared to 36.7% for the six months ended June 30, 2005. The reduction in gross profit margin is attributable to the increased labor costs during the current six month period. These higher costs are a result of the increased personnel needed to develop and expand the sales of the First Nano equipment line as well as rising employee benefit, insurance and energy costs.

Selling and shipping expenses for the three months ended June 30, 2006 and 2005 were \$200,362 and \$166,848 respectively, representing a 20.1% increase. The increase is primarily due to greater commissions earned as a result of projects being completed and shipped during the current three month period.

Selling and shipping expenses for the six months ended June 30, 2006 were approximately \$397,000 compared to \$337,000 for the corresponding period one year ago, representing an increase of 17.8%. This increase is due to an increase in commissions earned and increased costs of trade shows attended by the Company.

The Company incurred approximately \$741,000 of general and administrative expenses during the quarter ended June 30, 2006, representing an increase of 17.2% or approximately \$109,000 compared to the approximately \$632,000 of general and administrative expenses incurred in the quarter ended June 30, 2005. This increase is a result of a combination of increased personnel as well as various increases in employee benefit costs, insurance, professional fees and energy costs. Additionally, as a result of the Company adopting the provisions of SFAS No. 123-R "Share-Based Payment" approximately \$33,000 of stock compensation costs were recognized in the current quarter which were not recognized last year.

General and administrative expenses for the six months ended June 30, 2006 were approximately \$1,460,000 compared to \$1,173,000 for the six months ended June 30, 2005 representing a 24.5% increase as a result of a combination of increased personnel as well as various increases in employee benefit costs, insurance, professional fees and energy costs. Additionally, as a result of the Company adopting the provisions of SFAS No. 123-R "Share-Based Payment" approximately \$86,000 of stock compensation costs were recognized in the current six month period which were not recognized last year.

Interest expense for the three months ended June 30, 2006 increased by 4.2% to \$58,880 compared to \$56,495 during the three months ended June 30, 2005. This is a result of higher interest rates on the Company's revolving line of credit from its bank during the current three month period.

Interest expense for the six months ended June 30, 2006 decreased by \$3,511 compared to the \$119,038 expensed during the six months ended June 30, 2005. This is a result of reduced levels of borrowing by the Company during the current six month period.

Other income during the six months ended June 30, 2006 was approximately \$87,000 compared to approximately \$14,000 for the corresponding period one year ago. This increase is the result of the Company receiving \$70,000 for equipment sold to a former customer that filed a voluntary petition for relief under Chapter 11, in the United States Bankruptcy Court in February 2004. The Company had previously written off all accounts receivables from this customer.

For the six months ended June 30, 2006, the Company recorded income tax expense of approximately \$115,000 which related to various federal, state and local taxes. The current income tax provision was reduced by approximately \$99,000 as a result of the use of available net operating losses.

As a result of the foregoing factors, for the three and six months ended June 30, 2006, the Company earned approximately \$23,000 and \$136,000 respectively, compared to net income of approximately \$293,000 and \$294,000 respectively, for the same periods, one year ago. The decrease in earnings is a result of a combination of increased personnel as well as various increases in employee benefit costs, insurance, professional fees and energy costs. Additionally, as a result of the Company adopting the provisions of SFAS No. 123-R "Share-Based Payment" approximately \$86,000 of stock compensation costs were recognized in the current six month period which were not recognized last year.

### **Liquidity and Capital Resources**

As of June 30, 2006, the Company had an aggregate working capital of approximately \$3,225,000 compared to \$3,123,000 at December 31, 2005 an increase of \$102,000.

Accounts receivable, net of allowances, as of June 30, 2006 was \$2,317,003 compared to \$1,893,665 as of December 31, 2005. This increase is attributable to timing of shipments and customer payments.

As of June 30, 2006 the Company's backlog was approximately \$2,785,000, an increase of \$137,000 or 5.2% compared to \$2,648,000 at December 31, 2005. 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.

The Company has a revolving line of credit with a bank permitting it to borrow on a revolving basis amounts up to \$1,250,000 until June 1, 2007. Interest is payable on any unpaid principal balance at the bank's prime rate plus  $\frac{3}{4}$  of 1%. As of June 30, 2006, \$540,000 was outstanding on this facility. Borrowings are collateralized by the Company's assets.

The Company also has an equipment line of credit of \$250,000 with that same bank. The Company is permitted to borrow up to 100% of the purchase price of the equipment. The amount borrowed is immediately converted into a five year term loan at the bank's prime rate plus  $1\frac{1}{4}\%$ . As of June 30, 2006, there was approximately \$85,000 outstanding on this facility. Borrowings are collateralized by the equipment purchased.

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

### **Item 3. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15, as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to insure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

#### **Changes in Internal Controls**

There were no significant changes in the Company's internal controls over financial reporting that occurred during the six months ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

#### **Limitations on the Effectiveness of Controls**

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

# **CVD EQUIPMENT CORPORATION**

## **PART II**

### **OTHER INFORMATION**

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities

None.

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

None

Item 5. Other Information.

None.

Item 6. Exhibits and Reports Filed on Form 8-K

(a) Exhibits filed with this report:

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Certification of Chief Executive Officer pursuant to U.S.C. Section 1350

32.2 Certification of Chief Financial Officer pursuant to U.S.C. Section 1350

(b) Reports on Form 8-K

None



## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 14<sup>th</sup> day of August 2006.

### CVD EQUIPMENT CORPORATION

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

By: /s/ Glen R. Charles  
Glen R. Charles  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

## EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification of Chief Executive Officer *
31.2	Certification of Chief Financial Officer *
32.1	Certification of Chief Executive Officer pursuant to U.S.C. Section 1350 *
32.2	Certification of Chief Financial Officer pursuant to U.S.C. Section 1350 *

\* Filed herewith

**Certifications 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 quarterly report on Form 10-QSB of CVD Equipment Corporation;
2. Based on 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 on 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)) 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. 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
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 14, 2006

/s/ Leonard A. Rosenbaum

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President, Chief Executive Officer and Director

**Certifications 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 quarterly report on Form 10-QSB of CVD Equipment Corporation;
2. Based on 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 on 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) 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. 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
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 14, 2006

/s/ Glen R. Charles

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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 quarterly report on Form 10-QSB for the period ending June 30, 2006 of CVD Equipment Corporation (the "Form 10-QSB") 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-QSB fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: August 14, 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 quarterly report on Form 10-QSB for the period ending June 30, 2006 of CVD Equipment Corporation (the "Form 10-QSB") 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-QSB fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: August 14, 2006     /s/ Glen R. Charles  
Glen R. Charles  
Chief Financial Officer  
(Principal Financial Officer)