

CPI AEROSTRUCTURES INC

Form 10-K

March 26, 2009

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2008

Commission file number 1-11398

CPI AEROSTRUCTURES, INC.
(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

11-2520310
(I.R.S. Employer
Identification No.)

60 Heartland Blvd., Edgewood, New York 11717
(Address of principal executive offices)

(631) 586-5200
(Registrant's telephone number, including area code)

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

| Title of Each Class | Name of each exchange on which registered |
|--------------------------------|---|
| Common Stock, \$.001 par value | American Stock Exchange, Inc. |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(do not check if a smaller reporting company)

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

Yes No

As of June 30, 2008 (the last business day of the registrant’s most recently completed second fiscal quarter), the aggregate market value of the registrant’s common stock (based on its reported last sale price on the American Stock Exchange of \$7.77) held by non-affiliates of the registrant was \$49,459,658.

As of March 23, 2009, the registrant had 5,995,465 common shares, \$.001 par value, outstanding.

Documents Incorporated by Reference:

Part III (Items 10, 11, 12, 13 and 14) from the definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant’s fiscal year covered by this report.

CPI AEROSTRUCTURES, INC.
FORM 10-K ANNUAL REPORT-2008
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PART I

Item 1. BUSINESS

General

CPI Aerostructures, Inc. (“CPI Aero®” or the “Company”) is engaged in the contract production of structural aircraft parts principally for the U.S. Air Force and other branches of the U.S. armed forces, either as a prime contractor or as a subcontractor for other defense prime contractors. CPI Aero also acts as a subcontractor to prime aircraft contractors in the production of commercial aircraft parts. Our strategy for growth has focused on government and military sales as a prime contractor and increasingly as a subcontractor for other defense prime contractors. Due to our success as a subcontractor to defense prime contractors and growth in the commercial sector, we are also pursuing opportunities to increase our commercial subcontracting business, which we expect will become a larger component of our business in the future.

As a prime contractor supplying structural aircraft parts to the U.S. Government, we deliver skin panels, leading edges, flight control surfaces, engine components, wing tips, cowl doors, nacelle assemblies and inlet assemblies for military aircraft such as the C-5A “Galaxy” cargo jet, the T-38 “Talon” jet trainer, the C-130 “Hercules” cargo jet, the A-10 “Thunderbolt” or “Warthog” attack jet, and the E-3 “Sentry” AWACS jet. In 2008, we were awarded approximately \$9.2 million of prime contracts from the U.S. Government, compared to \$22.7 million in 2007 and \$23.0 million in 2006. Forty- nine percent and 63% of our revenue in 2008 and 2007, respectively, was generated by prime government contract sales.

As a subcontractor to leading defense prime contractors such as Northrop Grumman Corporation, Lockheed Martin Corporation (“Lockheed”), Sikorsky Aircraft Corporation (“Sikorsky”) and Vought Aircraft Industries, Inc. (“Vought”), we deliver various pods, and modular and structural assemblies for military aircraft such as the UH-60 “Black Hawk” helicopter, the MH-60S mine counter measure helicopter and the C-5A cargo jet. In 2008, we were awarded approximately \$36 million of government subcontracts from prime contractors, compared to \$9.0 million in 2007 and \$7.0 million in 2006. Thirty percent of our revenue in both 2008 and 2007, respectively, was generated by subcontracts with defense prime contractors.

We also operate as a subcontractor to prime contractors, including Sikorsky and Spirit AeroSystems, Inc. (“Spirit”), in the production of commercial aircraft parts. For Sikorsky, we deliver various kits and assemblies for the S-92 civilian helicopter. In 2008, we were awarded approximately \$10.0 million of commercial subcontracts from prime contractors. Twenty-one percent and 7% of our revenue in 2008 and 2007, respectively, was generated by commercial contract sales.

CPI Aero has over 28 years of experience as a contractor, completing over 2,500 contracts to date. Most members of our management team have held management positions at large aerospace contractors, including Northrop Grumman Corporation, Lockheed Martin Corporation and The Fairchild Corporation. Our technical team possesses extensive

technical expertise and program management and integration capabilities. Our competitive advantage lies in our ability to offer large contractor capabilities with the flexibility and responsiveness of a small company, while staying competitive in cost and delivering superior quality products. While the larger prime contractors compete for significant modification awards and subcontract components to other suppliers, they generally do not compete for awards for smaller modifications or spare and repair parts, even for planes for which they are the original manufacturer. We qualify as a “small business” in connection with U.S. government contract awards because we have less than 1,000 employees, and this allows us to compete for military awards set aside for companies with this small business status.

CPI Aero was incorporated under the laws of the State of New York in January 1980 under the name Composite Products International, Inc. CPI Aero changed its name to Consortium of Precision Industries, Inc. in April 1989 and to CPI Aerostructures, Inc. in July 1992. In January 2005, we began doing business under the name CPI Aero®, a registered trademark of the Company. Our principal office is located at 60 Heartland Blvd., Edgewood, New York 11717 and our telephone number is (631) 586-5200.

We maintain a website located at www.cpiaero.com. Our corporate filings, including our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, our proxy statements and reports filed by our officers and directors under Section 16 (a) of the Securities Exchange Act, and any amendments to those filings, are available, free of charge, on our website as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission. We do not intend for information contained in our website to be a part of this Annual Report on Form 10-K.

Significant Contracts

The ongoing maintenance of existing aircraft by the U.S. Air Force was the primary driver of our growth in both the number of contracts and the size of awards through mid-2005. Our work related to providing parts for military aircraft accounted for substantially all of our revenue for 2006 and 2007. During 2008 approximately 21% of our revenue was derived from our work as a subcontractor to major prime aerospace contractors on commercial aircraft contracts. Some of our significant military and commercial contracts are as follows:

Military Aircraft – Prime Contracts with U.S. Government

T-38 Talon. The T-38 “Talon” is a twin-engine, high-altitude, supersonic jet primarily used for pilot training that first flew in 1959. More than 1,100 were delivered to the Air Force between 1961 and 1972, when production ended. There are approximately 500 T-38’s in active service with the Air Force, which has a program designed to extend the structural life of the T-38 until 2020. In 2001, we were awarded a ten-year contract to build the structural inlets for the T-38 Propulsion Modification Program. At the time, the T-38 contract was the largest in our history, worth an estimated \$61 million over the life of the program. The length and size of this program allowed us to develop a long-term backlog and establish ourselves as a successful prime contractor for larger and longer term programs. The T-38 contract accounted for approximately 24% of our revenue for 2008.

C-5A. The C-5A “Galaxy” cargo jet is one of the largest aircraft in the world and can carry a maximum cargo load of 270,000 pounds. Lockheed delivered the first C-5A in 1970. The C-5A Galaxy carries fully equipped combat-ready military units to any point in the world on short notice and then provides field support to sustain the fighting force. The Air Force has created a comprehensive program to ensure the capabilities of its C-5A fleet until 2040. We are one of the leading suppliers of structural spare parts and assemblies for the C-5A aircraft. We assemble numerous C-5A parts, including panels, slats, spoilers and wing-tips and are the only supplier of C-5A wing-tips to the U.S. government. Like the C-5A itself, the wing-tip is a large structure and is expensive – costing up to \$750,000 for each replacement piece. Our first C-5A contract was approximately \$590,000 of structural spares and was awarded in 1995. In 2004, the Air Force awarded us a seven-year TOP contract to build an assortment of parts for the C-5A, including wing tips and panels. Since 1995, we have received releases under contracts for C-5A parts aggregating approximately \$87 million, including \$17.9 million from the TOP contract. Future releases under the TOP contract are unpredictable. C-5A contracts accounted for approximately 21% of our revenue for 2008.

Military Aircraft – Subcontracts with Prime Contractors

UH-60 “Black Hawk” Helicopter. The UH-60 “Black Hawk” helicopter is a medium-lift utility or assault helicopter built by Sikorsky. The Black Hawk was developed to meet a U.S. Army Utility Tactical Transport Aircraft System (UTTAS) requirement for a replacement for the UH-1 Iroquois helicopter in January 1972. In September 2006, we entered into a long-term agreement to supply Sikorsky with Hover Infra Red Reduction System (HIRRS) module assemblies for the Black Hawk helicopter. There are approximately 1,500 Black Hawk helicopters currently using the HIRRS configuration. The initial order for the HIRRS assemblies was valued at \$4.4 million. Through January 2008, we have received three follow on orders, increasing the total value of the requirements to \$12.5 million. We anticipate that additional requirements will be added during the term and believe that total HIRRS requirements will ultimately have a value in excess of \$20 million by the end of 2010. The UH-60 HIRRS contract accounted for approximately 12% of our revenue for 2008.

Commercial Aircraft – Subcontracts with Prime Contractors

In March 2008, Spirit awarded us a contract to provide Spirit leading edges for the Gulfstream G650 business jet, a commercial program that Spirit is supporting. This is a multi-year contract with an initial order of approximately \$3.5 million. The Spirit contract accounted for approximately 13% of our revenue for 2008.

Sales and Marketing

We obtain contracts for our products and services through the process of competitive bidding. While historically the majority of our contracts have been less than \$200,000 in size, we successfully have competed for and have been awarded significantly larger contracts. Our average sales cycle, which generally commences at the time a prospective customer issues a request for proposal and ends upon delivery of the final product to the customer, typically ranges from six months to two years for U.S. government contracts (although our T-38 contract and our C-5 contract are for periods of 10 years and 7 years, respectively), and up to 10 years for commercial contracts. Our military customers have included Defense Supply Center Richmond, Wright-Patterson Air Force Base (AFB), Warner Robins AFB, Tinker AFB, NAVICP, Hill AFB, U.S. Army Redstone Arsenal. Our commercial customers have included Sikorsky, Boeing, B.F. Goodrich (Rohr), Northrop Grumman, Lockheed, Nordam, Shinmaywa and Derco.

To complement our in-house business development team, we use third party service providers to help locate government contracts that are regularly posted by the various defense logistic agencies. The service providers screen contracts according to criteria we establish and forward matching contracts to us. We then view the relevant contracts directly on government websites and select contracts on which we will bid based on how well they fit our core competency. As of March 15, 2009, we had over \$374 million in bids outstanding, and we continue to make bids on contracts on a weekly basis. We generally bid on 40 to 50 contracts per week. Historically we have won approximately 14% of the contracts on which we have bid that have been awarded, however during 2008 we won 41% of the contracts that have been awarded. We believe that this is a result of our emphasis on bids for subcontracting work.

We qualify as a “small business” with respect to U.S. government contract awards because we have fewer than 1,000 employees. During 2008, approximately 11% of the value of our current contracts were awarded to us under this program.

The U.S. Air Force operates three Air Logistics Centers (ALC) through which it purchases all structural replacement and modification parts. Each ALC is located on a domestic Air Force base and is responsible for the repair and modification of different aircraft. Parts worn out in the normal course of operation and scrapped instead of repaired are ordered through the centralized Defense Supply Center Richmond (DSCR). We use consultants to facilitate the procurement process some of whom are on-site at each ALC and the DSCR. These consultants are important as relationship managers and typically have previous experience in aerospace procurement, engineering or management. The consultants provide us with timely feedback and keep us apprised of large contracts, both commercial and military, that might be up for bidding. We expect that our consultants’ aerospace experience will also be valuable as we continue to expand our marketing efforts in the commercial aircraft sector. We currently have ten consultants, three of whom are compensated through monthly retainer arrangements; the others are paid on a per diem basis.

The Market

The majority of our parts are sold for use by the U.S. Air Force. Accordingly, the national defense budget and procurement funding decisions drive demand for our business. The U.S. Department of Defense (DoD) budget has been increasing over the past few years. Government spending requirements for procurement, operations and maintenance for 2008 and beyond will continue to be affected by the global war on terrorism through the continued need for military missions and reconstruction efforts in Iraq and Afghanistan and the related fiscal consequences of war. We expect that DoD spending will grow with the overall level of defense spending and we expect to benefit to the extent that such spending is allocated to aircraft modification programs and spending on spare and replacement parts.

In 2006, the DoD completed the Congressionally mandated 2006 Quadrennial Defense Review (QDR). The QDR

affirmed the DoD's commitment to its extensive investments in cargo transportability and strategic lift and for maintaining and enhancing this capability by recapitalizing and modernizing its mobility platforms, including the acquisition and modernization of C-5 aircraft, one of our major programs. Notwithstanding defense budget increases and the DoD's commitment to maintaining support for aging aircraft during the two-year period through August 2006, there was a significant slowdown in government contract awards as well as releases under previously awarded contracts. Faced with the uncertainties of appropriations and timing of contract awards and releases under previously awarded contracts, which we believe were driven by the uncertainties of war, the market, change in presidential administrations and economic trends, we have expanded our activities to include operating as a subcontractor to leading aerospace prime contractors. While uncertainties in government contract awards also affected these prime contractors, because they are able to bid on and receive contract awards for different programs than we are, we believe that pursuing such opportunities has enabled us to access programs that we would not otherwise be able to access given our smaller size and resources. By increasing our customer base, we have positioned our company to take advantage of additional market opportunities and reduce the impact of the slowdown in government contract awards and releases. In 2006 and 2007 these subcontracting opportunities have begun to materialize, and in 2008 we had our best subcontracting year ever as we were awarded approximately \$36 million of government subcontracts from prime contractors, compared to \$9.0 million during 2007 and \$7.0 million in 2006.

Our success as a subcontractor to defense prime contractors, coupled with growth in the commercial sector, has provided us with opportunities to act as a subcontractor to prime contractors in the production of commercial aircraft parts. In 2008, we were awarded approximately \$10.0 million of commercial subcontracts from prime contractors.

Backlog

We produce custom assemblies pursuant to long-term contracts and customer purchase orders. Backlog consists of aggregate values under such contracts and purchase orders, excluding the portion previously included in operating revenues on the basis of percentage of completion accounting, and including estimates of future contract price escalation. Substantially all of our backlog is subject to termination at will and rescheduling, without significant penalty. Congress often appropriates funds for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance that is expected to take a number of years. Therefore, our funded backlog does not include the full value of our contracts. Our backlog as of December 31, 2007 and December 31, 2008 was as follows:

| Backlog | December 31, 2007 | December 31, 2008 |
|----------|----------------------|----------------------|
| Funded | \$29,614,866 | \$38,369,000 |
| Unfunded | 5,542,639 | 205,822,000 |
| Total | \$35,157,505 | \$244,191,000 |

Approximately 48.3% of the total amount of our backlog at December 31, 2008 was attributable to government contracts. Approximately \$35 million (91%) of the funded backlog at December 31, 2008 is expected to be recognized as revenue during 2009. Our unfunded backlog has increased significantly because of the new long-term contracts that we received from Boeing, Spirit and another major prime aerospace company during 2008. These new long-term contracts are expected to have yearly orders which will be funded in the future.

Material and Parts

We subcontract production of substantially all parts incorporated into our products to third party manufacturers under firm fixed price orders. Our decision to purchase certain components generally is based upon whether the components are available to meet required specifications at a cost and with a delivery schedule consistent with customer requirements. From time to time, we are required to purchase custom made parts from sole suppliers and manufacturers in order to meet specific customer requirements.

We obtain our raw materials from several commercial sources. Although certain items are only available from limited sources of supply, we believe that the loss of any single supplier would not have a material adverse effect on our business.

Competition

We face competition in our role as both a prime contractor to the U.S. government and as a subcontractor to military and commercial aircraft manufacturers. We compete with numerous larger, well-established prime contractors engaged in the supply of aircraft parts and assemblies to the military, including Northrop Grumman Corporation, Lockheed, Boeing, The Nordam Group and Vought. All of these competitors possess significantly larger infrastructures, greater resources and the capabilities to respond to much larger contracts. In certain instances, we also may act as a subcontractor to some of these major prime contractors. We also compete against smaller contractors such as AeroComponents, Aerospace Engineering and Support, GSE Dynamics, Honeycomb Company of America, Alton Iron Works, B&B Devices and Precision Manufacturing Solutions.

We believe that our competitive advantage lies in our ability to offer large contractor capabilities with the flexibility and responsiveness of a small company, while staying competitive in cost and delivering superior quality products. While the larger prime contractors compete for significant modification awards and subcontract components to other suppliers, they generally do not compete for awards in smaller modifications, spares and replacement parts, even for aircraft for which they are the original manufacturer. We believe we compete effectively against the smaller competitors because our smaller competitors generally do not have the expertise we have in responding to requests for proposals for government contracts.

Government Regulation

Environmental Regulation

We are subject to regulations administered by the United States Environmental Protection Agency, the Occupational Safety and Health Administration, various state agencies and county and local authorities acting in cooperation with federal and state authorities. Among other things, these regulatory bodies impose restrictions to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous chemicals and substances. The extensive regulatory framework imposes compliance burdens and risks on us. Governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose civil and criminal fines in the case of violations.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) imposes strict, joint and several liability on the present and former owners and operators of facilities that release hazardous substances into the environment. The Resource Conservation and Recovery Act of 1976 (RCRA) regulates the generation, transportation, treatment, storage and disposal of hazardous waste. In New York, the handling, storage and disposal of hazardous substances are governed by the Environmental Conservation Law, which contains the New York counterparts of CERCLA and RCRA. In addition, the Occupational Safety and Health Act, which requires employers to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, obligates employers to provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances.

Our operations require the use of a limited amount of chemicals and other materials for painting and cleaning, including solvents and thinners, which are classified under applicable laws as hazardous chemicals and substances. We have obtained a permit from the Town of Islip, New York, Building Division in order to maintain a paint booth containing flammable liquids.

Federal Aviation Administration Regulation

We are subject to regulation by the Federal Aviation Administration (FAA) under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations.

Government Contract Compliance

Our government contracts are subject to the procurement rules and regulations of the United States government. Many

of the contract terms are dictated by these rules and regulations. Specifically, cost-based pricing is determined under the Federal Acquisition Regulations (FAR), which provide guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, advertising, interest expense, and public relations are unallowable, and therefore not recoverable through sales. During and after the fulfillment of a government contract, we may be audited in respect of the direct and allocated indirect costs attributed thereto. These audits may result in adjustments to our contract costs. Additionally, we may be subject to U.S. government inquiries and investigations because of our participation in government procurement. Any inquiry or investigation can result in fines or limitations on our ability to continue to bid for government contracts and fulfill existing contracts. We believe that we are in substantial compliance with all federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits required for the operation of our business.

Insurance

We maintain a \$2 million general liability insurance policy, a \$10 million products liability insurance policy, and a \$5 million umbrella liability insurance policy. Additionally, we maintain a \$5 million director and officers' insurance policy. We believe this coverage is adequate for the types of products presently marketed because of the strict inspection standards imposed on us by our customers before they take possession of our products. Additionally, the Federal Acquisition Regulations generally provide that we will not be held liable for any loss of or damage to property of the government that occurs after the government accepts delivery of our products and that results from any defects or deficiencies in our products unless the liability results from willful misconduct or lack of good faith on the part of our managerial personnel.

Proprietary Information

None of our current assembly processes or products are protected by patents. We rely on proprietary know-how and information and employ various methods to protect the processes, concepts, ideas and documentation associated with our products. These methods, however, may not afford complete protection and there can be no assurance that others will not independently develop such processes, concepts, ideas and documentation.

CPI Aero® is a registered trademark of the Company.

Employees

As of March 23, 2009, we had 85 full-time employees. We employ temporary personnel with specialized disciplines on an as-needed basis. None of our employees is a member of a union. We believe that our relations with our employees are good.

Item 1A. RISK FACTORS

You should consider the following risks carefully in evaluating us and our business before making an investment decision. The risks described below are not the only risks we face. Additional risks may also impair our business operations. If any of the following risks occur, our business, results of operations or financial condition could be materially adversely affected. If that happens, the trading price of our common shares could decline, and you may lose all or part of your investment.

Risks related to our business

We depend on government contracts for most of our revenues.

We are a supplier, either directly or as a subcontractor, to the U.S. government and its agencies, principally the U.S. Air Force. 79% of revenue for 2008, 93% of revenue for 2007 and 93% of revenue for 2006 was derived from government contract sales. Two of our prime contracts, for the T-38 “Talon” and the C-5A, accounted for approximately 24% and 21% of our revenue for 2008 and 2007, respectively, and one of our government subcontracts, for the UH-60 “Black Hawk” helicopter, accounted for approximately 12% of our revenue for 2008. We depend on these government contracts for most of our business. If we are suspended or barred from contracting with the U.S. government, if our reputation or relationship with individual federal agencies were impaired, or if the government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our business, prospects, financial condition and operating results would be materially adversely affected.

We face risks relating to government contracts.

There are inherent risks in contracting with the U.S. government, including risks that are peculiar to the defense industry, which could have a material adverse effect on our business, prospects, financial condition and operating results. All contracts with the U.S. government contain provisions and are subject to laws and regulations that give the government rights and remedies not typically found in commercial contracts, including rights that allow the government to:

- terminate contracts for convenience in whole or in part at any time;
- reduce or modify contracts or subcontracts if its requirements or budgetary constraints change;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- adjust contract costs and fees on the basis of audits completed by its agencies;
- claim rights in products and systems produced by us;
- suspend or bar us from doing business with U.S. government; and
- control or prohibit the export of our products.

If the U.S. government terminates a contract for convenience, we may recover only our incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the government terminates a contract for default, we may not recover even those amounts, and instead may be liable for excess costs incurred by the government in procuring undelivered items and services from another source.

We have risks associated with competing in the bidding process for U.S. government contracts.

We obtain many of our U.S. government contracts through a competitive bidding process. In the bidding process, we face the following risks:

- We must bid on programs in advance of their completion, which may result in unforeseen technological difficulties or cost overruns;
- We must devote substantial time and effort to prepare bids and proposals for competitively awarded contracts that may not be awarded to us; and
- Awarded contracts may not generate sales sufficient to result in profitability.

We are subject to strict governmental regulations relating to the environment, which could result in fines and remediation expense in the event of non-compliance.

We are required to comply with extensive and frequently changing environmental regulations at the federal, state and local levels. Among other things, these regulatory bodies impose restrictions to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous substances into the environment. This extensive regulatory framework imposes significant compliance burdens and risks on us. In addition, these regulations may impose liability for the cost of removal or remediation of certain hazardous substances released on or in our facilities without regard to whether we knew of, or caused, the release of such substances. Furthermore, we are required to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances. Our operations require the use of a limited amount of chemicals and other materials for painting and cleaning that are classified under applicable laws as hazardous chemicals and substances. If we are found not to be in compliance with any of these rules, regulations or permits, we may be subject to fines, remediation expenses and the obligation to change our business practice, any of which could result in substantial costs that would adversely impact our business operations and financial condition.

We may be subject to fines and disqualification for non-compliance with Federal Aviation Administration regulations.

We are subject to regulation by the Federal Aviation Administration under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations.

If our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted.

Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services that we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontract, our failure to extend existing task orders or issue new task orders under a subcontract, or our hiring of personnel of a subcontractor. A failure by one or more of our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations as the prime contractor. Subcontractor performance deficiencies could result in a customer eliminating our ability to progress bill or terminating our contract for default. A prohibition on progress billing may have an adverse effect upon our profitability and a default termination could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. In addition, a delay in our ability to obtain components and equipment parts from our suppliers may affect our ability to meet our customers' needs and may have an adverse effect upon our profitability.

Due to fixed contract pricing, increasing contract costs exposes us to reduced profitability and the potential loss of future business.

Operating margin is adversely affected when contract costs that cannot be billed to customers are incurred. This cost growth can occur if estimates to complete increase due to technical challenges or if initial estimates used for calculating the contract price were incorrect. The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters, and the inability to recover any claims included in the estimates to complete. A significant

change in cost estimates on one or more programs could have a material effect on the company's consolidated financial position or results of operations.

We use estimates when accounting for contracts. Changes in estimates could affect our profitability and our overall financial position.

We recognize revenue from our contracts over the contractual period under the percentage-of-completion (POC) method of accounting. Under the POC method of accounting, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded as

an asset captioned “Costs and estimated earnings in excess of billings on uncompleted contracts.” Contracts where billings to date have exceeded recognized revenues are recorded as a liability captioned “Billings in excess of costs and estimated earnings on uncompleted contracts.” Changes to the original estimates may be required during the life of the contract. Estimates are reviewed monthly and the effect of any change in the estimated gross margin percentage for a contract is reflected in cost of sales in the period the change becomes known. The use of the POC method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods. As a result, there can be a significant disparity between earnings (both for accounting and taxes) as reported and actual cash received by us during any reporting period. We continually evaluate all of the issues related to the assumptions, risks and uncertainties inherent with the application of the POC method of accounting; however, one cannot be assured that our estimates will be accurate. If our estimates are not accurate or a contract is terminated, we will be forced to adjust revenue in later periods. Furthermore, even if our estimates are accurate, we may have a shortfall in our cash flow and we may need to borrow money to pay taxes until the reported earnings materialize to actual cash receipts.

If the contracts associated with our backlog were terminated, our financial condition would be adversely affected.

The maximum contract value specified under each government contract that we enter into is not necessarily indicative of the revenues that we will realize under that contract. Because we may not receive the full amount we expect under a contract, we may not accurately estimate our backlog because the actual accrual of revenues on programs included in backlog may never occur or may change. Cancellations of pending contracts or terminations or reductions of contracts in progress could have a material adverse effect on our business, prospects, financial condition or results of operations. As of December 31, 2008, our backlog was approximately \$244.2 million, of which 16% was funded and 84% was unfunded.

We may be unable to retain personnel who are key to our operations.

Our success, among other things, is dependent on our ability to attract and retain highly qualified senior officers and engineers. Competition for key personnel is intense. Our ability to attract and retain senior officers and experienced, top rate engineers is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent. The inability to hire and retain these persons may adversely affect our production operations and other aspects of our business.

The current global credit crisis could make it more difficult for us to access additional financing which is essential for funding the operations and growth of our business.

Our ability to fund our operations and contractual commitments and refinance maturing debt obligations requires access to sufficient bank credit lines. The current global economic environment has resulted in a deterioration of credit markets, making borrowing more difficult for most businesses. There is no indication when this credit crisis will abate. If in the future we are unable to obtain sufficient credit lines on terms acceptable to us, the continued development or growth of our business and our financial results may be materially adversely affected..

We are subject to the cyclical nature of the commercial aerospace industry, and any future downturn in the commercial aerospace industry or general economic conditions could adversely impact the demand for our products.

Our business may be affected by certain characteristics and trends of the commercial aerospace industry or general economic conditions that affect our customers, such as fluctuations in the aerospace industry's business cycle, varying fuel and labor costs, intense price competition and regulatory scrutiny, certain trends, including a possible decrease in aviation activity and a decrease in outsourcing by aircraft manufacturers or the failure of projected market growth to materialize or continue. In the event that these characteristics and trends adversely affect customers in the commercial aerospace industry, they may reduce the overall demand for our products.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our common stock.

Our management determined that as of December 31, 2008, our internal control over financial reporting was effective based on criteria created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") set forth in Internal Control – Integrated Framework (1992). However, if material weaknesses are identified in our internal

control over financial reporting in the future, our management will be unable to report favorably as to the effectiveness of our internal control over financial reporting and/or our disclosure controls and procedures, and we could be required to implement remedial measures. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Such remedial measures could be expensive and time consuming and could potentially cause investors to lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price and potentially subject us to litigation.

Item 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

Item 2. PROPERTIES

CPI Aerostructures' executive offices and production facilities are situated in an approximate 60,000 square foot building located at 60 Heartland Blvd., Edgewood, New York 11717. CPI Aerostructures occupies this facility under a ten-year lease that commenced in January 2005. The current monthly base rent is \$34,148, plus real estate taxes. Our base rent increases at 3% per year through 2014. We believe that our facilities are adequate for our current needs.

Item 3. LEGAL PROCEEDINGS

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

None

PART II

Item MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common shares are listed on the American Stock Exchange under the symbol CVU. The following table sets forth for 2008 and 2007, the high and low sales prices of our common shares for the periods indicated, as reported by the American Stock Exchange.

| Period | High | Low |
|----------------------------------|--------|--------|
| 2007 | | |
| Quarter Ended March 31, 2007 | \$7.25 | \$6.50 |
| Quarter Ended June 30, 2007 | \$8.35 | \$6.60 |
| Quarter Ended September 30, 2007 | \$9.10 | \$7.79 |
| Quarter Ended December 31, 2007 | \$8.73 | \$7.60 |
| 2008 | | |
| Quarter Ended March 31, 2008 | \$9.00 | \$7.53 |
| Quarter Ended June 30, 2008 | \$8.40 | \$7.30 |
| Quarter Ended September 30, 2008 | \$8.52 | \$6.50 |
| Quarter Ended December 31, 2008 | \$8.05 | \$4.62 |

On March 23, 2009, the closing sale price for our common shares on the New York Stock Exchange Alternext US was \$4.25. On March 23, 2009, there were 169 holders of record of our common shares and, we believe, over 2,200 beneficial owners of our common shares.

Dividend Policy

To date, we have not paid any dividends on our common shares. Any payment of dividends in the future is within the discretion of our board of directors and will depend on our earnings, if any, our capital requirements and financial condition and other relevant factors. Our board of directors does not intend to declare any cash or other dividends in the foreseeable future, but intends instead to retain earnings, if any, for use in our business operations.

Recent Sales of Unregistered Securities, Use of Proceeds from Registered Securities

None

Equity Compensation Plan Information

The following table sets forth certain information at December 31, 2008 with respect to our equity compensation plans that provide for the issuance of options, warrants or rights to purchase our securities.

| Plan Category | 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 under Equity Compensation Plans (excluding securities reflected in the first column) |
|--|---|---|---|
| Equity Compensation Plans Approved by Security Holders | 1,047,332 | \$6.42 | 123,452 |

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our financial data as of the dates and for the periods indicated. The data has been derived from our audited financial statements. The selected financial data should be read in conjunction with our financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| Statement of Operations Data: | Years Ended December 31, | | | | |
|--|--------------------------|---------------|---------------|---------------|---------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenue | \$ 35,588,831 | \$ 27,985,476 | \$ 17,907,989 | \$ 25,526,404 | \$ 30,269,030 |
| Cost of sales | 27,065,243 | 20,596,085 | 16,264,351 | 19,513,391 | 19,973,231 |
| Gross profit | 8,523,588 | 7,389,391 | 1,643,638 | 6,013,013 | 10,295,799 |
| Selling, general and administrative expenses | 4,717,080 | 4,355,027 | 3,551,974 | 3,342,729 | 3,424,953 |
| Income (loss) from operations | 3,806,508 | 3,034,364 | (1,908,336) | 2,670,284 | 6,870,846 |
| Other income (expense): | | | | | |
| Interest/ other income | 78,952 | 4,973 | 6,656 | 5,463 | 7,294 |
| Interest expense | (31,847) | (22,441) | (20,326) | (18,314) | (8,109) |
| Total other income (expense), net | 47,105 | (17,468) | (13,670) | (12, 851) | (815) |
| Income (loss) before taxes | 3,853,613 | 3,016,896 | (1,922,006) | 2,657,433 | 6,870,031 |
| Provision for (benefit from) income taxes | 1,263,000 | 1,110,000 | (657,000) | 1,138,000 | 1,794,000 |

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| | | | | | |
|---|--------------|--------------|----------------|--------------|--------------|
| Net income (loss) | \$ 2,590,613 | \$ 1,906,896 | \$ (1,265,006) | \$ 1,519,433 | \$ 5,076,031 |
| Income (loss) per common share – basic | \$ 0.44 | \$ 0.34 | \$ (0.23) | \$ 0.28 | \$ 0.94 |
| Income (loss) per common share – diluted | \$ 0.42 | \$ 0.32 | \$ (0.23) | \$ 0.25 | \$ 0.83 |
| Basic weighted average number of shares outstanding | 5,952,703 | 5,673,903 | 5,446,711 | 5,422,101 | 5,386,595 |

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| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Diluted weighted average number of shares outstanding | 6,203,789 | 6,028,480 | 5,446,711 | 6,114,808 | 6,096,302 |
|---|-----------|-----------|-----------|-----------|-----------|

| Balance Sheet Data: | At December 31, | | | | |
|---|-----------------|------------|------------|------------|--------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Cash | \$ 424,082 | \$ 338,391 | \$ 38,564 | \$ 877,182 | \$ 1,756,350 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 37,865,016 | 31,148,181 | 28,783,708 | 28,389,202 | 26,030,507 |
| Total current assets | 41,823,767 | 35,575,822 | 31,006,495 | 31,458,345 | 29,609,862 |
| Total assets | 43,351,506 | 36,620,572 | 32,160,187 | 32,687,784 | 30,759,124 |
| Total current liabilities | 6,688,372 | 6,858,854 | 5,883,991 | 5,428,429 | 5,213,460 |
| Working capital | 35,135,395 | 28,716,968 | 25,122,504 | 26,029,916 | 24,396,402 |
| Short-term debt | 920,668 | 1,103,701 | 392,188 | 87,617 | 83,144 |
| Long-term debt | 2,401,206 | 7,605 | ----- | 42,188 | 129,276 |
| Shareholders' equity | 33,983,150 | 29,603,514 | 26,177,655 | 27,162,272 | 25,416,388 |
| Total liabilities and shareholders' equity | 43,351,506 | 36,620,572 | 32,160,187 | 32,687,784 | 30,759,124 |

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this Form 10-K and in future filings by us with the Securities and Exchange Commission, the words or phrases "will likely result," "management expects" or "we expect," "will continue," "is anticipated," "estimated" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The risks are included in "Item 1A: Risk Factors" and "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-K. We have no obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

You should read the financial information set forth below in conjunction with our financial statements and notes thereto.

Business Operations

We are engaged in the contract production of structural aircraft parts principally for the U.S. Air Force and other branches of the U.S. armed forces, either as a prime contractor or as a subcontractor for other defense prime contractors. Our strategy for growth has focused on government and military sales as a prime contractor and increasingly as a subcontractor for leading aerospace prime contractors.

Due to our success as a subcontractor to defense prime contractors and growth in the commercial sector, we are also pursuing opportunities to increase our commercial subcontracting business.

Among our major recent awards are:

- A long-term requirements contract of approximately \$70 million from The Boeing Company for assemblies for 242 enhanced wings for the A-10 “Thunderbolt” attack jet. The initial orders under this contract were for \$13.2 million.
- An initial order of \$7.9 million as part of a \$98 million agreement by a leading global aerospace and defense company to provide structural kits for an in-production aircraft. The 8-year agreement has the potential to generate up to \$150 million in revenue over the life of the program.
- A long-term multi-million dollar contract from Spirit AeroSystems for major aerostructure assemblies for the Gulfstream G650 aircraft for which we will build fixed leading edge assemblies. We anticipate that this contract will generate significant revenue for us in the future. The initial order is valued at approximately \$3.5 million. Deliveries of these assemblies will begin in 2009 and continue through 2014.

The lengths of our contracts vary but are typically between nine months and two years for U.S. government contracts (although our T-38 contract and our C-5 TOP contract are for periods of ten years and seven years, respectively), and up to ten years for commercial contracts. Except in cases where contract terms permit us to bill on a progress basis, we must incur upfront costs in producing assemblies and bill our customers upon delivery. Because of the upfront costs incurred, the timing of our billings and the nature of the percentage-of-completion method of accounting described below, there can be a significant disparity between the periods in which (a) costs are expended, (b) revenue and earnings are recorded and (c) cash is received.

Critical Accounting Policies

Revenue Recognition

We recognize revenue from our contracts over the contractual period under the percentage-of-completion (POC) method of accounting. Under the POC method of accounting, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded as an asset captioned “Costs and estimated earnings in excess of billings on uncompleted contracts.” Contracts where billings to date have exceeded recognized revenues are recorded as a liability captioned “Billings in excess of costs and estimated earnings on uncompleted contracts.” Changes to the original estimates may be required during the life of the contract. Estimates are reviewed monthly and the effect of any change in the estimated gross margin percentage for a contract is reflected in cost of sales in the period the change becomes known. The use of the POC method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods. As a result, there can be a significant disparity between earnings (both for accounting and taxes) as reported and actual cash received by us during any reporting period. We continually evaluate all of the

issues related to the assumptions, risks and uncertainties inherent with the application of the POC method of accounting; however, we cannot assure you that our estimates will be accurate. If our estimates are not accurate or a contract is terminated, we will be forced to adjust revenue in later periods. Furthermore, even if our estimates are accurate, we may have a shortfall in our cash flow and we may need to borrow money to pay taxes until the reported earnings materialize to actual cash receipts.

Stock-Based Compensation

We account for compensation expense associated with stock options in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment."

Results of Operations

Year Ended December 31, 2008 as Compared to the Year Ended December 31, 2007

Revenue. Revenue for the year ended December 31, 2008 was \$35,588,831 compared to \$27,985,476 for the same period last year, representing an increase of \$7,603,355 or 27%. The increase in revenue is primarily the result of our efforts to increase our military and commercial subcontract business. We generate revenue primarily from government contracts for which we act as a prime contractor or as a subcontractor and, to a lesser extent, from commercial contracts. Revenue generated from prime government contracts for the year ended December 31, 2008 was \$17,412,962 compared to \$17,519,198 for the year ended December 31, 2007, a decrease of \$106,236 or 0.6%. Revenue generated from government subcontracts for the year ended December 31, 2008 was \$10,766,994 compared to \$8,563,465 for the year ended December 31, 2007, an increase of \$2,203,529 or 26%. Revenue generated from commercial contracts was \$7,408,875 for the year ended December 31, 2008 compared to \$1,902,813 for the year ended December 31, 2007, an increase of \$5,506,062 or 289%.

During the year ended December 31, 2008, we received approximately \$55.4 million of new contract awards, which included approximately \$9.2 million of government prime contract awards, approximately \$36.2 million of government subcontract awards and approximately \$10.0 million of commercial subcontract awards, compared to \$37.7 million of new contract awards in 2007, which included \$22.7 million of government prime contract awards, \$9.0 million of government subcontract awards and \$6.0 million of commercial contract awards.

As of December 31, 2008, we had approximately \$374 million in bids outstanding. We continue to make bids on contracts on a weekly basis.

As the above results show, the Company has had success in our efforts to increase our military and commercial subcontract business and as a result we expect to continue to focus our marketing efforts in this area for the foreseeable future.

Gross profit. Gross profit for the year ended December 31, 2008 was \$8,523,588 compared to \$7,389,391 for the year ended December 31, 2007, an increase of \$1,134,197. As a percentage of revenue, gross profit for the year ended December 31, 2008 was 24.0% compared to 26.4% for the same period last year.

The decrease in gross margin percentage was anticipated by management and was due to the impact of starting of new long term contracts and our shift to more subcontracting business which is more price competitive. We expect that

our gross margin percentage will stay in the range of 23%-25% for the foreseeable future.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2008 were \$4,717,080 compared to \$4,355,027 for the year ended December 31, 2007, an increase of \$362,053, or 8.3%. This increase was primarily due to a \$100,000 increase in non-cash fees for stock options issued as compensation to our board of directors, a result of the higher valuation, on the same number of options issued, based on the Black-Sholes option pricing model, a \$78,000 increase in public fees, which included fees paid for investor relations, fees for printing our reports and SEC filings, transfer agent fees and other expenses associated with being a public company, a \$50,000 increase in miscellaneous charges taken by our commercial customers because we are doing more subcontracting work and an \$88,000 increase in accounting and legal fees, which includes increased fees for Sarbanes-Oxley compliance.

Interest Expense. Interest expense for the year ended December 31, 2008 was \$31,847, compared to \$22,441 for 2007, an increase of \$9,406 or 41%. Interest expense is increased due to the company entering into a new term loan with Sovereign Bank in October 2008, for the purpose of funding tooling on new commercial contracts.

Income (Loss) from operations. We had income from operations for the year ended December 31, 2008 of \$3,806,508 compared to \$3,034,364 for the year ended December 31, 2007. The increase in income was a result of higher sales.

Year Ended December 31, 2007 as Compared to the Year Ended December 31, 2006

Revenue. Revenue for the year ended December 31, 2007 was \$27,985,476 compared to \$17,907,989 for the same period last year, representing an increase of \$10,077,487 or 56%.

We generate revenue primarily from government contracts for which we act as a prime contractor or as a subcontractor and, to a lesser extent, from commercial contracts. Revenue generated from prime government contracts for the year ended December 31, 2007 was \$17,519,198 compared to \$14,938,524 for the year ended December 31, 2006, an increase of \$2,580,674 or 17%. Revenue generated from government subcontracts for the year ended December 31, 2007 was \$8,563,465 compared to \$1,688,686 for the year ended December 31, 2006, an increase of \$6,874,779 or 407%. The increase in government contract revenue is predominantly the result of our efforts to increase our subcontracting business, which accounted for 30% of our total revenue in 2007 compared to 18% in 2006. Revenue generated from commercial contracts was \$1,902,813 for the year ended December 31, 2007 compared to \$1,280,779 for the year ended December 31, 2006, an increase of \$622,034 or 49%. This increase resulted from our efforts to increase our commercial subcontracting business due to our success as a subcontractor to defense prime contractors and growth in the commercial sector.

During the year ended December 31, 2007, we received approximately \$37.7 million of new contract awards, which included approximately \$22.7 million of government prime contract awards, approximately \$9.0 million of government subcontract awards and approximately \$6.0 million of commercial subcontract awards, compared to \$30.0 million of new contract awards in 2006, which included \$23.0 million of government prime contract awards, \$7.0 million of government subcontract awards and no commercial contract awards. Included in the 2006 government prime contract award amount is a \$5.0 million release on our C-5 TOP contract compared to a \$1.5 million C-5 TOP release in 2007.

As of December 31, 2007, we had approximately \$220 million in bids outstanding. We continue to make bids on contracts on a weekly basis.

Gross profit. Gross profit for the year ended December 31, 2007 was \$7,389,391 compared to \$1,643,638 for the year ended December 31, 2006, an increase of \$5,745,753. As a percentage of revenue, gross profit for the year ended December 31, 2007 was 26.4% compared to 9.2% for the same period last year. The increased gross profit percentage was a result of several factors. As revenue has increased, our overhead application rate has improved, resulting in improved gross profit. Additionally, through a combination of on-site observation and additional consulting and engineering assistance that we have provided to our suppliers, we have worked at improving our suppliers' efficiency, on-time performance and quality, which, in turn, has helped to improve our profitability. Notwithstanding these improvements, the increase in gross profit percentage was lower than we expected because we incurred costs to reconfigure the physical layout of our facility to accommodate the increased activity that we anticipate from the new contracts that we have been awarded recently. While this initiative reduced net income, we expect that it will enhance our ability to increase net income in future years.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2007 were \$4,355,027 compared to \$3,551,974 for the year ended December 31, 2006, an increase of \$803,053, or 22.6%. This increase was primarily due to:

- a \$327,000 increase in consulting fees related to bids and proposals, predominantly the result of new bidding activity on subcontract work;
- a \$72,000 increase in public company fees, which includes fees paid for investor relations, fees for printing our reports and SEC filings, transfer agent fees and other expenses associated with being a public company;
 - a \$415,000 increase in accrued bonus earned by three of our officers; and
 - a \$54,000 increase in expenses relating to relocating one of our employees.

This increase was offset by a decrease in salaries of \$86,000, resulting from having one less Vice President on staff for the majority of 2007.

Interest Expense. Interest expense for the year ended December 31, 2007 was \$22,441, compared to \$20,326 for 2006, an increase of \$2,115 or 10%. Interest expense is considered immaterial to our operations in both 2007 and 2006.

Income (Loss) from operations. We had income from operations for the year ended December 31, 2007 of \$3,034,364 compared to a loss from operations of 1,908,336 for the year ended December 31, 2006. The income was a result of higher sales and higher gross margins described earlier.

Liquidity and Capital Resources

General. At December 31, 2008, we had working capital of \$35,135,395 compared to \$28,716,968 at December 31, 2007, an increase of \$6,418,427, or 22%.

Cash Flow. A large portion of our cash is used to pay for materials and processing costs associated with contracts that are in process and which do not provide for progress payments. Contracts that permit us to bill on a progress basis must be classified as “on time” for us to apply for progress payments. In February 2007, we agreed to pay \$75,000 to have the late delivery orders on the C-5 TOP contract classified as “on time.” Accordingly, beginning in February 2007, we have been able to apply for progress payments under this program. Costs for which we are not able to bill on a progress basis are components of “Costs and estimated earnings in excess of billings on uncompleted contracts” on our balance sheet and represent the aggregate costs and related earnings for uncompleted contracts for which the customer has not yet been billed. These costs and earnings are recovered upon shipment of products and presentation of billings in accordance with contract terms.

Because the POC method of accounting requires us to use estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods, there can be a significant disparity between earnings (both for accounting and tax purposes) as reported and actual cash that we receive during any reporting period. Accordingly, it is possible that we may have a shortfall in our cash flow and may need to borrow money until the reported earnings materialize into actual cash receipts.

At December 31, 2008, our cash balance of \$424,082 compared to \$338,391 at December 31, 2007. In addition, at December 31, 2008, accounts receivable of \$2,975,012 and costs in excess of billings on uncompleted contracts were \$37,865,016, which represents unbilled receivables of approximately \$32,000,000, which we expect to converted into cash within the next operating cycle.

JP Morgan Chase Credit Facility. In September 2003, we entered into a three year, revolving credit facility with JP Morgan Chase Bank (the “Chase Facility”), secured by our assets. In August 2006, we borrowed \$350,000 under the Chase Facility. The Chase Facility was amended and restated in October 2006, further amended in May 2007 and expired on June 30, 2007. All borrowings under this facility were repaid in May 2007.

Sovereign Bank Credit Facilities In August 2007, we entered into a new two-year, \$2.5 million revolving credit facility with Sovereign Bank (the "Sovereign Revolving Facility"), secured by all of our assets. The Sovereign Revolving Facility specifies an interest rate equal to the lower of LIBOR plus 2% or Sovereign Bank's prime rate (3.3% as of December 31, 2008). The Sovereign Revolving Facility contains financial covenants related to interest coverage, net income and capital expenditures, as defined in the credit agreement. As of December 31, 2008, we were in compliance with all of the financial covenants contained in the credit agreement. As of December 31, 2008, we had borrowed \$300,000 under the Sovereign Revolving Facility.

On October 22, 2008, we obtained a \$3 million term loan from Sovereign Bank to be amortized over five years (the “Sovereign Term Facility”). Prior to entering into the term loan we had borrowed \$2.5 million under the Sovereign Revolving Facility to fund the initial tooling costs related to the previously mentioned long-term contract with Spirit. We used the proceeds from the Sovereign Term Facility to repay the borrowings under the Sovereign Revolving Facility and to pay for additional tooling related to the Spirit contract. The Sovereign Term Facility bears interest at the lower of LIBOR plus 2.5% or Sovereign Bank’s prime rate (3.3% as of December 31, 2008) and is secured by all of our assets.

Concurrent with entering into the Sovereign Term Facility, Sovereign Bank amended the terms of the Sovereign Revolving Facility extending the term until August 2010 and amending the covenants, as defined, commencing in the fourth quarter of 2009.

The terms and conditions of the Sovereign Revolving Facility are applicable to the Sovereign Term Facility.

Additionally, the Company and Sovereign Bank entered into a five year interest rate swap agreement, in the notional amount of \$3 million. Under the interest rate swap, the Company pays an amount to Sovereign Bank representing interest on the notional amount at a rate of 5.8% and receives an amount from Sovereign representing interest on the notional amount at a rate equal to the one-month LIBOR plus 2.5%. The effect of this interest rate swap will be the Company paying a fixed interest rate of 5.8% over the term of the Sovereign Term Facility.

Contractual Obligations. The table below summarizes information about our contractual obligations as of December 31, 2008 and the effects these obligations are expected to have on our liquidity and cash flow in the future years.

| | Total | Payments Due By Period (\$) | | | |
|-------------------------------------|-------------|-----------------------------|-------------|-------------|---------------|
| | | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Contractual Obligations | | | | | |
| Debt | \$2,950,000 | \$600,000 | \$1,200,000 | \$1,150,000 | - |
| Capital Lease Obligations | 71,873 | 20,668 | 38,093 | 13,112 | - |
| Operating Leases | 2,730,095 | 422,066 | 882,498 | 936,241 | 489,290 |
| Employment Agreement Compensation** | 1,571,300 | 924,300 | 647,000 | - | - |
| Interest Rate Swap Agreement | 128,056 | - | - | 128,056 | - |
| Total Contractual Cash Obligations | \$7,451,324 | \$1,967,034 | \$2,767,591 | \$2,227,409 | \$489,290 |

**The employment agreements provide for bonus payments that are excluded from these amounts.

Inflation. Inflation historically has not had a material effect on our operations.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risks, which include changes in interest rates and changes to the credit markets. We attempt to minimize these risks by using interest rate swap agreements and through maintaining counter-party credit limits. These hedging activities provide only limited protection against interest rate and credit risks. Factors that could influence the effectiveness of our programs include volatility of the interest rate and liquidity of the credit markets. All interest rate swap contracts that we enter into are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated interest rate. We do not enter into such contracts for speculative purposes. We manage our credit risks by diversifying our investments, maintaining a strong balance sheet and having multiple sources of capital.

Interest rate Swap Agreement.

As of December 31, 2008, the fair value of our interest rate swap agreement recorded in other non-current liabilities in our balance sheet was \$128,056, which represented the estimated amount that would be payable upon unwinding the interest rate swap agreement based on market conditions at the time. Changes in the fair value of the interest rate swap agreement are reflected as an adjustment to current and non-current liabilities with an offsetting adjustment to the other comprehensive income (loss) as such hedges are deemed fully effective.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) Financial Statements

This information appears following Item 15 of this Report and is incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management has established disclosure controls and procedures designed to ensure that information it is required to disclose in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission rules and forms. Such disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information the Company is required to disclose in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management to allow timely decisions regarding required disclosure.

Based on an evaluation of the Company's disclosure controls and procedures as of December 31, 2008 made by management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) were effective as of December 31, 2008.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Internal control over financial reporting is a process designed 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. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only with proper authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate

because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 based on criteria for effective control over financial reporting described in Internal Control — Integrated Framework (1992) created by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2008.

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

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended December 31, 2008 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

See Item 14.

Item 11. EXECUTIVE COMPENSATION

See Item 14.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

See Item 14.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

See Item 14.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Items 10, 11, 12, 13 and 14 will be contained in our definitive proxy statement for our 2009 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year covered by this report pursuant to Regulation 14A under the Exchange Act, and incorporated herein by reference.

PART IV

| Item 15. E x h i b i t Number | EXHIBITS AND FINANCIAL STATEMENT SCHEDULES Name of Exhibit | No. in Document |
|-------------------------------------|--|-----------------|
| 1.1 | Form of Underwriting Agreement between EarlyBirdCapital, Inc. and the Company, dated February 12, 2003. (7) | 1.1 |
| 3.1 | Certificate of Incorporation of the Company, as amended. (1) | 3.1 |
| 3.1(a) | Certificate of Amendment of Certificate of Incorporation filed on July 14, 1998. (3) | 3.1(a) |
| 3.2 | Amended and Restated By-Laws of the Company. (11) | 3.2 |
| 4.1 | Form of Warrant issued to designees of EarlyBirdCapital, Inc., dated February 19, 2003. (7) | 4.7 |
| 10.1 | 1992 Stock Option Plan. (1) | 10.3 |
| 10.2 | 1995 Employee Stock Option Plan. (2) | 10.4 |
| 10.3 | Form of military contract. (1) | 10.7 |
| 10.4 | 1998 Performance Equity Plan. (3) | 10.28 |
| 10.5 | Performance Equity Plan 2000. (4) | 10.29 |
| 10.5.1 | Amendment to Performance Equity Plan 2000 (9) | 10.6.1 |
| *10.6 | Stock Option Agreement, dated August 14, 2001, between Edward J. Fred and the Company. (5) | 10.35 |
| *10.7 | Stock Option Agreement between the Company and Edward J. Fred, dated June 18, 2002. (6) | 10.56 |
| 10.8 | Form of Merger & Acquisition Agreement, between EarlyBirdCapital, Inc. and the Company. (7) | 10.26 |
| 10.9 | Registration Rights Agreement between the Company and Chemical Investments dated February 26, 2002, as assigned to Crescendo Partners, II. (7) | 10.27 |
| 10.9.1 | Schedule of Omitted Document in the form of Exhibit 10.9, including material detail in which such document differs from Exhibit 10.9. (7) | 10.27.1 |
| *10.10 | Stock Option agreement between Vincent Palazzolo and the Company, dated as of May 17, 2004 (8) | 10.22 |
| *10.11 | Amended and Restated Employment Agreement between Vincent Palazzolo and the Company, dated as of December 1, 2006. (8) | 10.23 |

| | | |
|---------|--|-------|
| *10.12 | Stock Option Agreement between the Company and Vincent Palazzolo, dated December 1, 2006 (9) | 10.24 |
| *10.13 | Amended and Restated Employment Agreement between Edward J. Fred and the Company, dated July 18, 2007. (10) | 10.23 |
| 10.14 | Credit Agreement between CPI Aerostructures, Inc., and Sovereign Bank, dated as of August 13, 2007 (12) | 10.23 |
| 10.15 | Commercial Security Agreement, dated August 13, 2007, between CPI Aerostructures, Inc., Grantor, and Sovereign Bank, Lender (12) | 10.24 |
| **10.16 | First Amendment to Credit Agreement, dated as of October 22, 2008, by and between CPI Aerostructures, Inc. and Sovereign Bank | |
| **10.17 | ISDA 2002 Master Agreement and Schedule, dated as of October 22, 2008, between Sovereign Bank and CPI Aerostructures, Inc. | |
| 14 | Code of Business Conduct and Ethics (13) | 14 |
| **21 | Subsidiaries of the Registrant. | |
| **23.1 | Consent of J.H. Cohn LLP | |
| **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 Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |

*Management compensation contract or arrangement.

**Filed herewith.

- (1) Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-49270) declared effective on September 16, 1992 and incorporated herein by reference.
- (2) Filed as an exhibit to the Company's Annual Report on Form 10-KSB for year ended December 31, 1995 and incorporated herein by reference.
- (3) Filed as an exhibit to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1998 and incorporated herein by reference.
- (4) Filed as an exhibit to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000 and incorporated herein by reference.
- (5) Filed as an exhibit to Schedule 13D filed on behalf of Edward J. Fred on October 19, 2001 and incorporated herein by reference.
- (6) Filed as an exhibit to Schedule 13D filed on behalf of Edward J. Fred on July 12, 2002 and incorporated herein by reference.
- (7) Filed as an exhibit to the Company's Registration Statement on Form SB-2 (No. 333-101902) declared effective on February 12, 2003 and incorporated herein by reference.

- (8) Filed as an exhibit to the Company's Current Report on Form 8-K dated May 24, 2004 and incorporated herein by reference.
- (9) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 1, 2006 and incorporated herein by reference.
- (10) Filed as an exhibit to the Company's Current Report on Form 8-K dated July 20, 2007 and incorporated herein by reference.
- (11) Filed as an exhibit to the Company's Current Report on Form 8-K dated November 13, 2007 and incorporated herein by reference.
- (12) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 and incorporated herein by reference.
- (13) Filed as an exhibit to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003 and incorporated herein by reference.

CPI AEROSTRUCTURES, INC.
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| Statements of Operations for the Years Ended December 31, 2008, 2007 and 2006 | F-3 |
| Statements of Shareholders' Equity for the Years Ended December 31, 2008, 2007 and 2006 | F-4 |
| Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006 | F-5 |
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
CPI Aerostructures, Inc.

We have audited the accompanying balance sheets of CPI Aerostructures, Inc. as of December 31, 2008 and 2007 and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CPI Aerostructures, Inc. as of December 31, 2008 and 2007, and its results of operations and cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/J.H. Cohn LLP

Jericho, New York
March 24, 2009

CPI AEROSTRUCTURES, INC.

BALANCE SHEETS

| | December 31, 2008 | December 31, 2007 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 424,082 | \$ 338,391 |
| Accounts receivable, net | 2,975,012 | 3,344,375 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 37,865,016 | 31,148,181 |
| Prepaid expenses and other current assets | 559,657 | 216,405 |
| Refundable income tax | --- | 528,470 |
| | | 35, |
| Total current assets | 41,823,767 | 575,822 |
| Plant and equipment, net | 1,002,974 | 719,069 |
| Deferred income taxes | 345,500 | 129,000 |
| Other assets | 179,265 | 196,681 |
| Total Assets | \$ 43,351,506 | \$ 36,620,572 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 3,303,426 | \$ 4,234,370 |
| Accrued expenses | 1,081,278 | 571,783 |
| Current portion of long-term debt | 620,668 | 3,701 |
| Line of credit | 300,000 | 1,100,000 |
| Deferred income taxes | 476,000 | 490,000 |
| Income taxes payable | 907,000 | 459,000 |
| Total current liabilities | 6,688,372 | 6,858,854 |
| Long-term debt, net of current portion | 2,401,206 | 7,605 |
| Deferred income taxes | --- | 20,000 |
| Other liabilities | 278,778 | 130,599 |
| Total Liabilities | 9,368,356 | 7,017,058 |
| Commitments | | |
| Shareholders' Equity: | | |
| Common stock - \$.001 par value; authorized 50,000,000 shares, issued 6,046,273 and 5,816,457 shares, respectively, and outstanding 5,982,739 and 5,752,923 shares, respectively | 6,046 | 5,816 |
| Additional paid-in capital | 26,660,606 | 24,787,296 |
| Retained earnings | 7,942,021 | 5,351,408 |
| Accumulated other comprehensive loss | (84,517) | --- |

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| | | |
|--|---------------|---------------|
| Treasury stock, 63,534 shares of common stock (at cost) | (541,006) | (541,006) |
| Total Shareholders' Equity | 33,983,150 | 29,603,514 |
| Total Liabilities and Shareholders' Equity | \$ 43,351,506 | \$ 36,620,572 |

See Notes to Financial Statements
F-2

CPI AEROSTRUCTURES, INC.

STATEMENTS OF OPERATIONS

| Year ended December 31, | 2008 | 2007 | 2006 |
|--|---------------|---------------|----------------|
| Revenue | \$ 35,588,831 | \$ 27,985,476 | \$ 17,907,989 |
| Cost of sales | 27,065,243 | 20,596,085 | 16,264,351 |
| Gross profit | 8,523,588 | 7,389,391 | 1,643,638 |
| Selling, general and administrative expenses | 4,717,080 | 4,355,027 | 3,551,974 |
| Income (loss) from operations | 3,806,508 | 3,034,364 | (1,908,336) |
| Interest income (expense) | | | |
| Interest/other income | 78,952 | 4,973 | 6,656 |
| Interest expense | (31,847) | (22,441) | (20,326) |
| Total other income (expense), net | 47,105 | (17,468) | (13,670) |
| Income (loss) before provision for (benefit from) income taxes | 3,853,613 | 3,016,896 | (1,922,006) |
| Provision for (benefit from) income taxes | 1,263,000 | 1,110,000 | (657,000) |
| Net income (loss) | \$ 2,590,613 | \$ 1,906,896 | \$ (1,265,006) |
| Basic net income (loss) per common share: | \$ 0.44 | \$ 0.34 | \$ (0.23) |
| Diluted net income (loss) per common share: | \$ 0.42 | \$ 0.32 | \$ (0.23) |
| Shares used in computing earnings per common share: | | | |
| Basic | 5,952,703 | 5,673,903 | 5,446,711 |
| Diluted | 6,203,789 | 6,028,480 | 5,446,711 |

See Notes to Financial Statements
F-3

CPI AEROSTRUCTURES, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

| | Common Shares | Stock Amount | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Comprehensive Loss | Other | Total Shareholders' Equity |
|---|------------------|-----------------|----------------------------------|----------------------|-------------------|--------------------------------------|-------|----------------------------------|
| Balance at January 1, 2006 | 5,475,057 | \$5,475 | \$22,768,135 | \$4,709,518 | \$(320,856) | ---- | | \$27,162,272 |
| Net loss | -- | -- | -- | (1,265,006) | -- | ---- | | (1,265,006) |
| Common stock issued upon exercise of options | 3,000 | 3 | 19,047 | ---- | ---- | ---- | | 19,050 |
| Common stock issued as employee compensation | 750 | 1 | 5,064 | ---- | ---- | ---- | | 5,065 |
| Stock compensation expense | ---- | ---- | 256,274 | ---- | ---- | ---- | | 256,274 |
| Balance at December 31, 2006 | 5,478,807 | \$5,479 | \$23,048,520 | \$3,444,512 | \$(320,856) | ---- | | 26,177,655 |
| Net income | ---- | ---- | ---- | 1,906,896 | ---- | ---- | | 1,906,896 |
| Common stock issued upon exercise of options | 335,000 | 335 | 838,415 | ---- | ---- | ---- | | 838,750 |
| Common stock issued as employee compensation | 2,650 | 2 | 22,761 | ---- | ---- | ---- | | 22,763 |
| Stock compensation expense | ---- | ---- | 382,600 | ---- | ---- | ---- | | 382,600 |
| Treasury stock | ---- | ---- | ---- | ---- | (220,150) | ---- | | (220,150) |
| Tax benefit from stock option plans | ---- | ---- | 495,000 | ---- | ---- | ---- | | 495,000 |
| Balance at December 31, 2007 | 5,816,457 | \$5,816 | \$24,787,296 | \$5,351,408 | \$(541,006) | \$---- | | 29,603,514 |
| Comprehensive income: | | | | | | | | |
| Net Income | ---- | ---- | ---- | 2,590,613 | ---- | ---- | | 2,590,613 |
| Change in unrealized loss from interest rate swap | ---- | ---- | ---- | ---- | ---- | (84,517) | | (84,517) |
| Comprehensive income | ---- | ---- | ---- | ---- | ---- | ---- | | 2,506,096 |
| Common stock issued upon exercise of options and warrants | 216,250 | 216 | 999,471 | ---- | ---- | ---- | | 999,687 |
| Common stock issued as employee compensation | 13,566 | 14 | 100,793 | ---- | ---- | ---- | | 100,807 |
| | ---- | ---- | 495,046 | ---- | ---- | ---- | | 495,046 |

| Stock compensation expense | | | | | | | |
|-------------------------------------|-----------|---------|--------------|-------------|-------------|----------|------------|
| Tax benefit from stock option plans | ---- | ---- | 278,000 | ---- | ---- | ---- | 278,000 |
| Balance at December 31, 2008 | 6,046,273 | \$6,046 | \$26,660,606 | \$7,942,021 | \$(541,006) | (84,517) | 33,983,150 |

See Notes to Financial Statements
F-4

CPI AEROSTRUCTURES, INC.

STATEMENTS OF CASH FLOWS

| Year ended December 31, | 2008 | 2007 | 2006 |
|--|--------------|--------------|----------------|
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 2,590,613 | \$ 1,906,896 | \$ (1,265,006) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | |
| Depreciation and amortization | 287,412 | 235,227 | 215,973 |
| Deferred rent | 20,122 | 32,058 | 43,646 |
| Stock-based compensation expense | 495,046 | 382,600 | 256,274 |
| Common stock issued as employee compensation | 18,260 | 22,763 | 5,065 |
| Deferred portion of provision (benefit) for income taxes | (206,961) | (49,000) | (48,000) |
| Tax benefit for stock options | (278,000) | (495,000) | (4,600) |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | 369,363 | (1,922,240) | 427,661 |
| Increase in costs and estimated earnings in excess of billings on uncompleted contracts | (6,716,835) | (2,364,473) | (394,506) |
| Decrease (increase) in prepaid expenses and other current assets | (65,252) | 412,214 | 208,546 |
| Decrease in other assets | 17,416 | 23,275 | 23,274 |
| (Decrease) increase in accounts payable and accrued expenses | (338,902) | (177,651) | 278,102 |
| Increase (decrease) in income taxes payable | 448,000 | 459,000 | (133,110) |
| Decrease (increase) in refundable income taxes | 528,470 | 100,000 | (628,470) |
| Net cash used in operating activities | (2,831,248) | (1,434,331) | (1,015,151) |
| Cash flows from investing activities: | | | |
| Purchase of plant and equipment | (493,667) | (98,560) | (109,500) |
| Net cash used in investing activities | (493,667) | (98,560) | (109,500) |
| Cash flows from financing activities: | | | |
| Proceeds from exercise of stock options and warrants | 999,687 | 618,600 | 19,050 |
| Payment of line of credit | (2,500,000) | ---- | ---- |
| Proceeds from line of credit | 1,700,000 | 750,000 | 350,000 |
| Payment of long-term debt | (67,081) | (30,882) | (87,617) |
| Proceeds from long-term debt | 3,000,000 | ---- | ---- |
| Tax benefit for stock options | 278,000 | 495,000 | 4,600 |
| Net cash provided by financing activities | 3,410,606 | 1,832,718 | 286,033 |
| Net increase (decrease) in cash | 85,691 | 299,827 | (838,618) |
| Cash at beginning of year | 338,391 | 38,564 | 877,182 |
| Cash at end of year | \$ 424,082 | \$ 338,391 | \$ 38,564 |
| Supplemental schedule of noncash investing and financing activities: | | | |
| Deferred tax benefit of interest rate swap liability | \$ 43,539 | \$ --- | \$ --- |
| Equipment acquired under capital lease | \$ 77,650 | \$ ---- | \$ ---- |
| Accrued expenses settled in exchange for common stock | \$ 82,547 | \$ ---- | \$ ---- |

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| | | | | | | |
|--|----|---------|----|---------|----|---------|
| Stock options proceeds paid with Company's stock | \$ | ---- | \$ | 220,150 | \$ | ---- |
| Supplemental schedule of cash flow information: | | | | | | |
| Cash paid during the year for interest | \$ | 19,262 | \$ | 22,441 | \$ | 20,326 |
| Cash paid for income taxes | \$ | 765,000 | \$ | 102,400 | \$ | 403,093 |

See Notes to Financial Statements

F-5

CPI AEROSTRUCTURES, INC.

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The operations of CPI Aerostructures, Inc. (“CPI Aero” or the “Company”) consist of the design and production of complex aerospace structural subassemblies under U.S. government and commercial contracts. The length of the Company’s contracts varies but is typically between six months and two years for U.S. government prime contracts, although the Company’s T-38 contract and C-5 TOP contract are for 10 years and 7 years, respectively. The Company’s commercial and government subcontracting contracts also vary in length, but can be for up to 10 years.

The Company’s revenue is recognized based on the percentage of completion method of accounting for its contracts measured by the percentage of total costs incurred to date to estimated total costs at completion for each contract. Contract costs include all direct material, labor costs, tooling and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative costs are charged to expense as incurred. Estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Changes in job performance may result in revisions to costs and income and are recognized in the period in which revisions are determined to be required. The percentage of completion method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods and, as a result, there can be a significant disparity between earnings (both for accounting and taxes) as reported and actual cash received by the Company during any reporting period. In accordance with industry practice, costs and estimated earnings in excess of billings on uncompleted contracts, included in the accompanying balance sheets, contain amounts relating to contracts and programs with long production cycles, a portion of which will not be realized within one year. The Company’s recorded revenue may be adjusted in later periods in the event that the Company’s cost estimates prove to be inaccurate or a contract is terminated.

The Company’s government contracts are subject to the procurement rules and regulations of the United States government. Many of the contract terms are dictated by these rules and regulations. Specifically, cost-based pricing is determined under the Federal Acquisition Regulations (“FAR”), which provide guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. government contracts. For example, costs such as those related to charitable contributions, advertising, interest expense, and public relations are unallowable, and therefore not recoverable through sales. During and after the fulfillment of a government contract, the Company may be audited in respect of the direct and allocated indirect costs attributable thereto. These audits may result in adjustments to the Company’s contract cost, and/or revenue.

When contractual terms allow, the Company invoices its customers on a progress basis.

The Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2008 and 2007, there are no cash equivalents.

CPI AEROSTRUCTURES, INC.

The Company maintains its cash in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation. From time to time, the Company's balances may exceed these limits. At December 31, 2008, the Company's uninsured balances total approximately \$345,000. The Company limits its credit risk by selecting financial institutions considered to be highly creditworthy.

Accounts receivable are reported at their outstanding unpaid principal balances. The Company writes off accounts when they are deemed to be uncollectible. The Company has recorded an approximate \$10,000 allowance for doubtful accounts at December 31, 2008 and 2007.

Depreciation and amortization of plant and equipment is provided by the straight-line method over the estimated useful lives of the respective assets or the life of the lease, for leasehold improvements.

We recognize rent expense on a straight-line basis over the expected lease term. Within the provisions of certain leases there are escalations in payments over the lease term. The effects of the escalations have been reflected in rent expense on a straight-line basis over the expected lease term.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates.

The Company reviews its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. As a result of its review, the Company does not believe that any such change has occurred. If such changes in circumstance are present, a loss is recognized to the extent the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and amounts expected to be realized upon its eventual disposition.

The fair value of the Company's short-term debt is estimated based on the current rates offered to the Company for debt of similar terms and maturities. Using this method, the fair value of the Company's short-term debt was not significantly different than the stated value at December 31, 2008.

Our use of derivative instruments has primarily been to hedge interest rates. These derivative contracts are entered into with financial institutions. We do not use derivative instruments for trading purposes and we have procedures in place to monitor and control their use.

We account for these derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as amended by SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and hedging Activities" ("SFAS 149"). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in the results of operations. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For derivative instruments that are designated and qualify as a net investment hedge, the effective portion of the gain or loss on the

CPI AEROSTRUCTURES, INC.

derivative instrument is reported in the foreign currency translation component of other comprehensive income (loss). Any ineffective portion of the gain or loss on the derivative instrument for a cash flow hedge or net investment hedge is recorded in the results of operations immediately. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the results of operations immediately. See below for a discussion of our use of derivative instruments, management of credit risk inherent in derivative instruments and fair value information.

Derivative Instruments

In October 2008, the Company entered into an interest rate swap with the objective of reducing our exposure to cash flow volatility arising from interest rate fluctuations associated with certain debt. The notional amount, maturity date, and currency of these contracts match those of the underlying debt. The Company has designated this interest rate swap contract as a cash flow hedge. The Company measures ineffectiveness by comparing the cumulative change in the forward contract with the cumulative change in the hedged item. No material ineffectiveness was recognized in 2008. As of December 31, 2008, we had a net deferred loss associated with cash flow hedges of approximately \$128,000, due to the interest rate swap which has been included in Other Liabilities.

As a result of the use of derivative instruments, the Company is exposed to risk that the counterparties may fail to meet their contractual obligations. Recent adverse developments in the global financial and credit markets could negatively impact the creditworthiness of our counterparties and cause one or more of our counterparties to fail to perform as expected. To mitigate the counterparty credit risk, we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. To date, all counterparties have performed in accordance with their contractual obligations.

Fair Value

At December 31, 2008 and 2007, the fair values of cash, accounts receivable, accounts payable and accrued expenses approximated their carrying values because of the short-term nature of these instruments.

| | 2008 | |
|--|-----------------|-------------|
| | Carrying Amount | Fair Value |
| Debt | | |
| Short-term borrowings and long-term debt | \$3,321,874 | \$3,321,874 |

We estimated the fair value of debt using market quotes and calculations based on market rates.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a framework for measuring fair value in accounting principles generally accepted in The United States of America and expands disclosures about fair value measurements. The Company adopted the provisions of SFAS 157 effective January 1, 2008.

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The following table presents the fair values of those financial assets and liabilities measured on a recurring basis as of December 31, 2008:

| Description | Total | Fair Value Measurements | | |
|-------------------------------|------------|---|--|--|
| | | Quoted Prices in Active Markets for Identical assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Interest Rate Swap, liability | \$128,056 | -- | \$ 128,056 | -- |
| Total | \$ 128,056 | -- | \$ 128,056 | -- |

The fair value of the Company's interest rate swap was determined by comparing the fixed rate set at the inception of the transaction to the "replacement swap rate," which represents the market rate for an offsetting interest rate swap with the same notional amounts and final maturity date. The market value is then determined by calculating the present value interest differential between the contractual swap and the replacement swap.

As of December 31, 2008, \$128,056 was included in Other Liabilities related to the fair value of the Company's interest rate swap, and \$84,517, net of tax of \$43,539, was included in Other Comprehensive Income and Accumulated Other Comprehensive Loss.

The Company incurred freight and delivery costs of approximately \$159,000, \$144,000 and \$123,000, respectively, during the years ended December 31, 2008, 2007 and 2006. These costs are included in cost of sales.

Basic earnings per common share is computed using the weighted-average number of shares outstanding. Diluted earnings per common share is computed using the weighted-average number of shares outstanding adjusted for the incremental shares attributed to outstanding options and warrants to purchase common stock. Incremental shares of 251,086 were used in the calculation of diluted earnings per common share in 2008. Incremental shares of 400,000 were not included in the diluted earnings per share calculations at December 31, 2008, as their exercise price was in excess of the Company's quoted market price and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation. Incremental shares of 354,377 were used in the calculation of diluted earnings per common share in 2007. Incremental shares of 320,000 were not included in the diluted earnings per share calculations at December 31, 2007, as their exercise price was in excess of the Company's quoted market price and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation. No incremental shares were included in the diluted earnings per share calculation for December 31, 2006 as the Company recorded a net loss and the effect would be anti-dilutive.

The Company records compensation expense associated with stock options in accordance with Statement of Financial Accounting Standard ("SFAS") No. 123R, "Share-Based Payment" ("SFAS No. 123R").

In June 2006, the Financial Accounting Standards Board ("FASB") issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation

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of SFAS No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes. Currently, the accounting for uncertainty in income taxes is subject to significant and varied interpretations that have resulted in diverse and inconsistent accounting practices and measurements. Addressing such diversity, FIN 48 prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing and measuring changes in such tax positions for financial statement purposes. The Company adopted the provision of FIN 48 effective January 1, 2007. The adoption of FIN 48 had no impact on our financial position, results of operations, cash flows or financial statement disclosures, nor did the Company have any related interest or penalties.

In February 2007, the FASB issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159). SFAS 159 provides a “Fair Value Option” under which a company may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. SFAS 159 will be available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur. SFAS 159 is effective for fiscal years beginning after November 15, 2007. SFAS 159 also allows early adoption provided that the entity also adopts the requirements of SFAS 157. The Company adopted the provisions of SFAS 159 effective January 1, 2008. The adoption of SFAS 159 had no impact on our financial position, results of operations, cash flows or financial statement disclosures.

In December 2007, the FASB issued SFAS No. 141 (R), “Business Combinations” (“SFAS 141 (R)”) (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008), and SFAS No. 160, “Non-Controlling Interests in Consolidated Financial Statements” (“SFAS 160”) (effective for annual periods beginning December 15, 2008). These new rules are products of a joint project between the FASB and the International Accounting Standards Board and continue the movement toward the greater use of fair values in financial reporting. SFAS 141 (R) will significantly change how future business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity.

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2. COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS

At December 31, 2008, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

| | U.S. | | |
|---|---------------|---------------|---------------|
| | Government | Commercial | Total |
| Costs incurred on uncompleted contracts | \$ 66,604,669 | \$ 21,555,809 | \$ 88,160,478 |
| Estimated earnings | 42,788,296 | 9,595,396 | 52,383,692 |
| | 109,392,965 | 31,151,205 | 140,544,170 |
| Less billings to date | 78,849,843 | 23,829,311 | 102,679,154 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$ 30,543,122 | \$ 7,321,894 | \$ 37,865,016 |

At December 31, 2007, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

| | U.S. | | |
|---|---------------|---------------|---------------|
| | Government | Commercial | Total |
| Costs incurred on uncompleted contracts | \$ 57,487,194 | \$ 16,632,515 | \$ 74,119,709 |
| Estimated earnings | 36,465,753 | 7,248,714 | 43,714,467 |
| | 93,952,947 | 23,881,229 | 117,834,176 |
| Less billings to date | 64,782,716 | 21,903,279 | 86,685,995 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$ 29,170,231 | \$ 1,977,950 | \$ 31,148,181 |

Unbilled costs and estimated earnings are billed in accordance with applicable contract terms. As of December 31, 2008, approximately \$6,000,000 of the balances above are not expected to be collected within one year. There are no amounts billed under retainage provisions.

Revisions in the estimated gross profits on contracts and contract amounts are made in the period in which the circumstances requiring the revisions occur. During the year ended December 31, 2008, the effect of such revisions in total estimated contract profits resulted in a decrease to the total gross profit to be earned on the contract of approximately \$2,500,000, from that which would have been reported had the revised estimate been used as the basis of recognition of contract profits in prior years.

Although management believes it has established adequate procedures for estimating costs to complete on open contracts, it is at least reasonably possible that additional significant costs could occur on contracts prior to completion.

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3. ACCOUNTS RECEIVABLE

Accounts receivable consists of trade receivables as follows:

| | 2008 | 2007 |
|---|-------------|-------------|
| Billed receivables | \$2,884,592 | \$3,338,207 |
| Unbilled receivables on completed contracts | 99,400 | 15,148 |
| Less: allowance for doubtful accounts | (8,980) | (8,980) |
| | \$2,975,012 | \$3,344,375 |

4. PLANT AND EQUIPMENT:

Plant and equipment, at cost, consists of the following

| December 31, | 2008 | 2007 | Estimated Useful Life |
|--|-------------|-----------|-----------------------|
| Machinery and equipment | \$588,298 | 571,647 | 5 to 10 years |
| Computer equipment | 1,124,645 | 797,938 | 5 years |
| Furniture and fixtures | 186,886 | 152,885 | 7 years |
| Automobiles and trucks | 13,162 | 13,161 | 5 years |
| Leasehold improvements | 815,723 | 621,829 | 10 years |
| | 2,728,714 | 2,157,460 | |
| Less accumulated depreciation and amortization | 1,725,740 | 1,438,391 | |
| | \$1,002,974 | \$719,069 | |

Depreciation and amortization expense for the years ended December 31, 2008, 2007 and 2006 was \$287,412, \$235,227 and \$215,973, respectively.

During the year ended December 31, 2008 the Company acquired \$77,650 of plant and equipment under capitalized leases.

5. LINE OF CREDIT:

In September 2003, the Company entered into a three-year, revolving credit facility with JP Morgan Chase Bank (the "Chase Facility"), secured by the Company's assets. In August 2006, the Company borrowed \$350,000 under the Chase Facility. The Chase Facility was amended and restated in October 2006, further amended in May 2007 and expired on June 30, 2007. All borrowings under this facility were repaid in May 2007.

In August 2007, the Company entered into a two-year, \$2.5 million revolving credit facility with Sovereign Bank (the "Sovereign Revolving Facility"), secured by all of the Company's assets. The Sovereign Revolving Facility specifies an interest rate equal to the lower of LIBOR plus 2% or Sovereign Bank's prime rate (3.3% as of December 31, 2008). The Sovereign Revolving Facility contains financial covenants related to interest coverage, net income and capital expenditures, as defined in the credit agreement. As of December 31, 2008, the Company was in compliance with all

of the financial

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covenants contained in the credit agreement. As of December 31, 2008, the Company had borrowed \$300,000 against the Sovereign Revolving Facility.

Concurrent with entering into the Sovereign Term Facility (See Note 6), Sovereign Bank amended the terms of the Sovereign Revolving Facility extending the term until August 2010 and amending the covenants, as defined, commencing in the fourth quarter of 2009.

6. LONG-TERM DEBT

On October 22, 2008, the Company obtained a \$3 million term loan from Sovereign Bank to be amortized over five years (the "Sovereign Term Facility"). Prior to entering into the term loan the Company had borrowed \$2.5 million under the Sovereign Revolving Facility to fund the initial tooling costs related to a long-term contract. The Company used the proceeds from the Sovereign Term Facility to repay the borrowings under the Sovereign Revolving Facility and to pay for additional tooling related to a long-term contract. The Sovereign Term Facility bears interest at the lower of LIBOR plus 2.5% or Sovereign Bank's prime rate (3.3% as of December 31, 2008) and is secured by all of our assets.

The terms and conditions of the Sovereign Revolving Facility are applicable to the Sovereign Term Facility.

Additionally, the Company and Sovereign Bank entered into a five year interest rate swap agreement, in the notional amount of \$3 million. Under the interest rate swap, the Company pays an amount to Sovereign Bank representing interest on the notional amount at a rate of 5.8% and receives an amount from Sovereign representing interest on the notional amount at a rate equal to the one-month LIBOR plus 2.5%. The effect of this interest rate swap will be the Company paying a fixed interest rate of 5.8% over the term of the Sovereign Term Facility. The value of debt exchanged for a fixe rate of interest reduces according to the repayment schedule of the notes.

The maturities of the Sovereign Term Facility are as follows:

| Year ending December 31, | |
|--------------------------|-------------|
| 2009 | \$600,000 |
| 2010 | 600,000 |
| 2011 | 600,000 |
| 2012 | 600,000 |
| 2013 | 550,000 |
| | \$2,950,000 |

Also included in long-term debt are capital leases of \$71,874 at December 31, 2008, net of a current portion of \$20,668.

7. COMMITMENTS:

The Company has employment agreements with five employees. The aggregate future commitment under these agreements is as follows:

| Year ending December 31, | |
|--------------------------|-------------|
| 2009 | \$ 924,300 |
| 2010 | 587,000 |
| Thereafter | __60,000 |
| | \$1,571,300 |

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These agreements provide for additional bonus payments that are calculated as defined.

The Company leases an office and warehouse facility under a non-cancelable operating lease which expires in December 2014. The aggregate future commitment under this agreement is as follows:

| Year ending December 31, | |
|--------------------------|-------------|
| 2009 | 422,066 |
| 2010 | 434,728 |
| 2011 | 447,770 |
| 2012 | 461,203 |
| 2013 | 475,038 |
| Thereafter | 489,290 |
| | \$2,730,095 |

Rent expense for the years ended December 31, 2008, 2007 and 2006 was \$430,061, \$430,056 and \$430,050, respectively.

8. INCOME TAXES

The provision for (benefit from) income taxes consists of the following:

| Years ended December 31, | 2008 | 2007 | 2006 |
|--------------------------|--------------|--------------|--------------|
| Current: | | | |
| Federal | \$ 1,513,500 | \$ 1,159,000 | \$ (628,000) |
| Deferred: | | | |
| Federal | (250,500) | (49,000) | (29,000) |
| | \$ 1,263,000 | \$ 1,110,000 | \$ (657,000) |

The difference between the income tax provision (benefit) computed at the federal statutory rate and the actual tax provision (benefit) is accounted for as follows:

| December 31, | 2008 | 2007 | 2006 |
|--------------------------------------|--------------|--------------|--------------|
| Taxes computed at the federal | | | |
| statutory rate | \$ 1,310,000 | \$ 1,026,000 | \$ (597,000) |
| State income taxes | ----- | ----- | (78,000) |
| Permanent differences | (47,000) | 84,000 | 18,000 |
| Temporary differences | \$ 1,263,000 | \$ 1,110,000 | \$ (657,000) |

The components of deferred income tax assets and liabilities are as follows:

| | 2008 | 2007 |
|------------------------|----------|-------------|
| Property and Equipment | \$ 5,000 | \$ (20,000) |

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| | | |
|---------------------|--------------|--------------|
| Revenue Recognition | (476,000) | (490,000) |
| Stock options | 297,000 | 129,000 |
| Interest rate swap | 43,500 | ---- |
| | \$ (130,500) | \$ (381,000) |

The Company recognized, for income tax purposes, a tax benefit of \$278,000 and \$495,000 and \$4,600 for the years ended December 31, 2008, 2007 and 2006, respectively, for compensation expense related to its stock option plan for which no

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corresponding charge to operations has been recorded. Such amounts have been added to additional paid-in capital in those years.

9. EMPLOYEE STOCK OPTION PLANS:

Effective January 1, 2006, the Company began recording compensation expense associated with stock options in accordance SFAS No. 123R. Prior to January 1, 2006, the Company accounted for stock-based compensation related to stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25; therefore, the Company measured compensation expense for its stock option plans using the intrinsic value method, that is, as the excess, if any, of the fair market value of the Company's stock at the grant date over the amount required to be paid to acquire the stock, and provided the disclosures required by SFAS No. 123 and 148.

The Company has adopted the modified prospective transition method provided under SFAS No. 123R, and as a result, has not retroactively adjusted results from prior period. Under this transition method, compensation expense associated with stock options recognized in fiscal year 2006 includes: (1) expense related to the remaining unvested portion of all stock option awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (2) expense related to all stock option awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. The modified transition method includes a simplified method to establish the beginning balance of the additional paid-in-capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R.

As a result of the adoption of SFAS No. 123R, the Company's net income (loss) for the years ended December 31, 2008, 2007 and 2006, includes approximately \$495,000, \$383,000 and \$256,000 of compensation expense, respectively and related reductions in income tax payable of approximately \$278,000, \$495,000 and \$4,600, respectively. The compensation expense related to the Company's stock-based compensation arrangements is recorded as a component of selling, general and administrative expenses. Prior to the Company's adoption of SFAS 123R, the Company presented tax benefits resulting from the exercise of stock options as cash flows from operating activities on the Company's statement of cash flows. SFAS 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized from options exercised (excess tax benefits) be classified as cash inflows from financing activities and cash outflows from operating activities.

In 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan"), as amended, for which 200,000 common shares are reserved for issuance. The 1995 Plan provides for the issuance of either incentive stock options or nonqualified stock options to employees, consultants or others who provide services to the Company. The options' exercise price is equal to the closing price of the Company's shares on the day of issuance, except for incentive stock options granted to the Company's president, which are exercisable at 110% of the closing price of the Company's shares on the date of issuance.

In 1998, the Company adopted the 1998 Performance Equity Plan (the "1998 Plan"). The 1998 Plan, as amended, reserved 463,334 common shares for issuance. The 1998 Plan provides for the issuance of either incentive stock options or nonqualified stock options to employees, consultants or others who provide services to the Company. The options' exercise price is equal to the closing price of the Company's shares on the day of issuance, except for incentive stock options granted to the Company's president,

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which are exercisable at 110% of the closing price of the Company's shares on the date of issuance.

In 2000, the Company adopted the Performance Equity Plan 2000 (the "2000 Plan"). The 2000 Plan, as amended, reserved 1,230,000 common shares for issuance. The 2000 Plan provides for the issuance of either incentive stock options or nonqualified stock options to employees, consultants or others who provide services to the Company. The options' exercise price is equal to the closing price of the Company's shares on the day of issuance, except for incentive stock options granted to the Company's president, which are exercisable at 110% of the closing price of the Company's shares on the date of issuance.

The Company has 285 options available for grant under the 1995 Plan, 14,000 options available for grant under the 1998 Plan, and 109,167 options available for grant under the 2000 Plan.

The estimated fair value of each option award granted was determined on the date of grant using the Black-Scholes option valuation model. The following weighted average assumptions were used for option grants during the years ended December 31, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|-------------------------------|------|------|------|
| Risk-free interest rate | 3.5% | 4.9% | 4.2% |
| Expected volatility | 77% | 68% | 61% |
| Dividend yield | 0% | 0% | 0% |
| Expected option term-in years | 5 | 5 | 5 |

The risk free interest rate for the years ended December 31, 2008, 2007 and 2006 is based on the 5 year U.S. Treasury note rate on the day of grant. The expected volatility computation for the years ended December 31, 2008, 2007 and 2006 is based on the average of the volatility over the most recent four year period, which represents the Company's estimate of expected volatility over the expected option term. The Company has never paid a dividend, and is not expected to pay a dividend in the foreseeable future, therefore the dividend yield is assumed to be zero. The Company assumes zero forfeitures of options as the historical forfeiture rate is below 1%.

A summary of the status of the Company's stock option plans is as follows:

| Fixed Options | Options | Weighted average Exercise Price | Weighted average remaining contractual term (in years) | Aggregate Intrinsic Value |
|-----------------------|-----------|---------------------------------|--|---------------------------|
| Outstanding | | | | |
| At January 1, 2006 | 1,130,085 | \$5.14 | 5.36 | |
| Granted during period | 113,333 | 8.12 | | |
| Exercised | (3,000) | 6.35 | | |
| Forfeited/Expired | ----- | | | |
| Outstanding | | | | |

| | | | |
|----------------------|-----------|--------|------|
| at December 31, 2006 | 1,240,418 | \$5.17 | 4.38 |
|----------------------|-----------|--------|------|

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| | | | | |
|-----------------------|-----------|--------|------|-----------|
| Granted during period | 105,000 | 7.27 | | |
| Exercised | (335,000) | 2.50 | | |
| Forfeited/Expired | ----- | | | |
| Outstanding | | | | |
| at December 31, 2007 | 1,010,418 | \$6.28 | 3.91 | |
| Granted during period | 80,000 | 8.33 | | |
| Exercised | (21,250) | 6.67 | | |
| Forfeited/Expired | (21,835) | 6.59 | | |
| Outstanding | | | | |
| at December 31, 2008 | 1,047,333 | \$6.42 | 3.21 | \$986,800 |
| Vested | | | | |
| at December 31, 2008 | 1,022,333 | \$6.39 | 3.07 | \$986,800 |

The weighted-average fair value of each option granted during the years ended December 31, 2008, 2007 and 2006, estimated as of the grant date using the Black-Scholes option valuation model was \$5.30, \$4.41 and \$2.78, respectively.

The Company's stock options granted to non-employee directors vest immediately upon grant and have a maximum contractual term of five years. Stock options granted to employees vest over three years and have a maximum contractual term of ten years. The expected option term is calculated utilizing historical data of option exercises.

As of December 31, 2008, 2007 and 2006, there was \$104,769, \$175,868 and \$90,562, respectively, of unrecognized compensation cost related to non-vested stock option awards which will be amortized through December 2010, the requisite service period.

During the year ended December 31, 2008, 21,250 stock options were exercised for cash resulting in proceeds to the Company of \$141,688.

During the year ended December 31, 2008, the Company earned a tax benefit of approximately \$11,000 resulting from the exercise of stock options. This amount has been credited to additional paid-in capital and applied to the current tax liability.

10. WARRANTS AND OPTIONS:

In February 2003, the Company issued to an underwriter (and its designees) warrants to purchase an aggregate of 200,000 shares of the Company's common stock as compensation related to the Company's public offering.

In February 2008, 195,000 of the warrants to purchase shares, all that remained outstanding, were exercised, resulting in net proceeds to the company of \$858,000. During the year ended December 31, 2008, the Company earned a tax benefit of approximately \$267,000 resulting from the exercise of these warrants. This amount has been credited to additional paid-in capital and applied to the current tax liability.

11. EMPLOYEE BENEFIT PLAN:

On September 11, 1996, The Company's board of directors instituted a defined contribution plan under Section 401(k) of the Internal Revenue Code (the "Code"). On October 1, 1998, the Company amended and standardized its plan as required by the Code. Pursuant to the amended plan, qualified employees may contribute a percentage of their pretax eligible compensation to the Plan and the Company will match a percentage

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of each employee's contribution. Additionally, the Company has a profit-sharing plan covering all eligible employees. Contributions by the Company are at the discretion of management. The amount of contributions recorded by the Company in 2008, 2007 and 2006 amounted to \$122,670, \$93,698 and \$65,823, respectively.

12. MAJOR CUSTOMER:

Forty-nine percent (49%) of sales in 2008, 63% of sales in 2007 and 75% of sales in 2006 were directly to the U.S. government. Forty-two percent (42%) and 79% of accounts receivable at December 31, 2008 and 2007 respectively, were from the U. S. government. In addition, 24% and 31% of sales in 2008 and 2007, respectively, were to one company.

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SIGNATURES

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

Dated: March 24, 2009 CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Edward J. Fred
Edward J. Fred
Chief Executive Officer, President and
Director

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

| Signature | Title | Date |
|--|--|----------------|
| /s/ Eric Rosenfeld Eric Rosenfeld | Chairman of the Board of Directors | March 24, 2009 |
| /s/ Edward J. Fred Edward J. Fred | Chief Executive Officer and President | March 24, 2009 |
| /s/ Vincent Palazzolo Vincent Palazzolo | Chief Financial Officer and Secretary | March 24, 2009 |
| /s/ Walter Paulick Walter Paulick | Director | March 24, 2009 |
| /s/ Kenneth McSweeney Kenneth McSweeney | Director | March 24, 2009 |
| /s/ Harvey Bazaar Harvey Bazaar | Director | March 24, 2009 |

