



2006 ANNUAL REPORT

MAXIMIZING GROWTH POTENTIAL



ABOUT THE COMPANY

CPI Aerostructures, Inc. is engaged in the contract production of structural aircraft parts principally for the U.S. Air Force and other branches of the armed forces. In conjunction with its assembly operations, CPI provides engineering, technical and program management services. Among the key programs that CPI supplies are the C-5A Galaxy cargo jet, the T-38 Talon jet trainer, the A-10 Thunderbolt attack jet and the E-3 Sentry AWACS jet. CPI has over 26 years of experience with over 2,300 contracts completed.



We continue to see expanding opportunities, particularly in subcontracting, and are well positioned to take advantage of them.

New orders for 2006 total \$30.0 million, as compared to \$16.7 million in awards for all of 2005. This represents a 80% increase, making 2006 the third largest award year in CPI Aero's history.

We see strong growth as a subcontractor.

LETTER TO SHAREHOLDERS

Although our 2006 financial results were disappointing, we believe that CPI Aero is positioned for strong growth in 2007 and is prepared for the changing landscape related to future growth.

Last year, we announced that we had adopted a strategy to expand our activities to include operating as a subcontractor to leading aerospace prime contractors. In 2006, we began to realize the results of this strategy. We received approximately \$7 million in new awards as a subcontractor during 2006. This is more than triple the subcontract awards received in 2005. We believe that we have barely scratched the surface of the opportunities that exist for us in subcontracting.

In June 2006, we were one of eight companies recognized by Northrop Grumman Corporation's Integrated Systems sector as a 2005 Supplier of the Year for our work on the RAMICS and ALMDS programs.

Northrop Grumman developed its Supplier of the Year Award program to recognize the critical role that its suppliers play in the delivery of high-performance products that Northrop Grumman produces for U.S. and international customers. The program is an outgrowth of Northrop Grumman's strategic sourcing initiative, an effort started in summer 2003 to build stronger long-term relationships between Northrop Grumman and its suppliers.

In October 2006, we were awarded a \$4.4 million contract to provide Sikorsky Aircraft with Hover Infra Red Reduction System (HIRRS) module assemblies for use as spares on the UH-60 BLACK HAWK helicopter. This contract covers Sikorsky's anticipated spares requirements through 2007. We continue to work at enhancing our relationship with Sikorsky.

While CPI Aero's 2006 results might have been somewhat disappointing, new contract awards increased by 80% to \$30 million in 2006, the third highest year in the company's history. We are pleased



Edward J. Fred



Eric Rosenfeld

that given the general slowdown in the award process for government contracts, CPI Aero has been able to find alternative sources of revenue and continue to expand its subcontracting business in 2007.

Based on this outlook, and the in-house work currently slated for delivery in 2007, we project that revenue for 2007 will be approximately \$25 million, with a resulting net income of approximately \$2 million. These projections assume no receipt of any major awards, but simply the "normal" type of awards that we have historically bid on. The receipt of any major award or multiple successes, a return to the historic ordering pattern of the U.S. Government, or significant releases on our previously awarded contracts, or winning a large subcontract award could alter these projections significantly.

In conclusion, we would like to thank all of the members of our organization who have contributed to our successes in the past. We are grateful for the support and confidence of our shareholders, and remain committed to increasing shareholder value by positioning the company to do what we do best: providing our government and our aerospace/defense customers with value-added engineering and quality on-time delivery.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Edward J. Fred". The signature is fluid and cursive.

Edward J. Fred
Chief Executive Officer and President

A handwritten signature in black ink, appearing to read "Eric Rosenfeld". The signature is fluid and cursive.

Eric Rosenfeld
Chairman of the Board of Directors

WIDE RANGING EXPERTISE



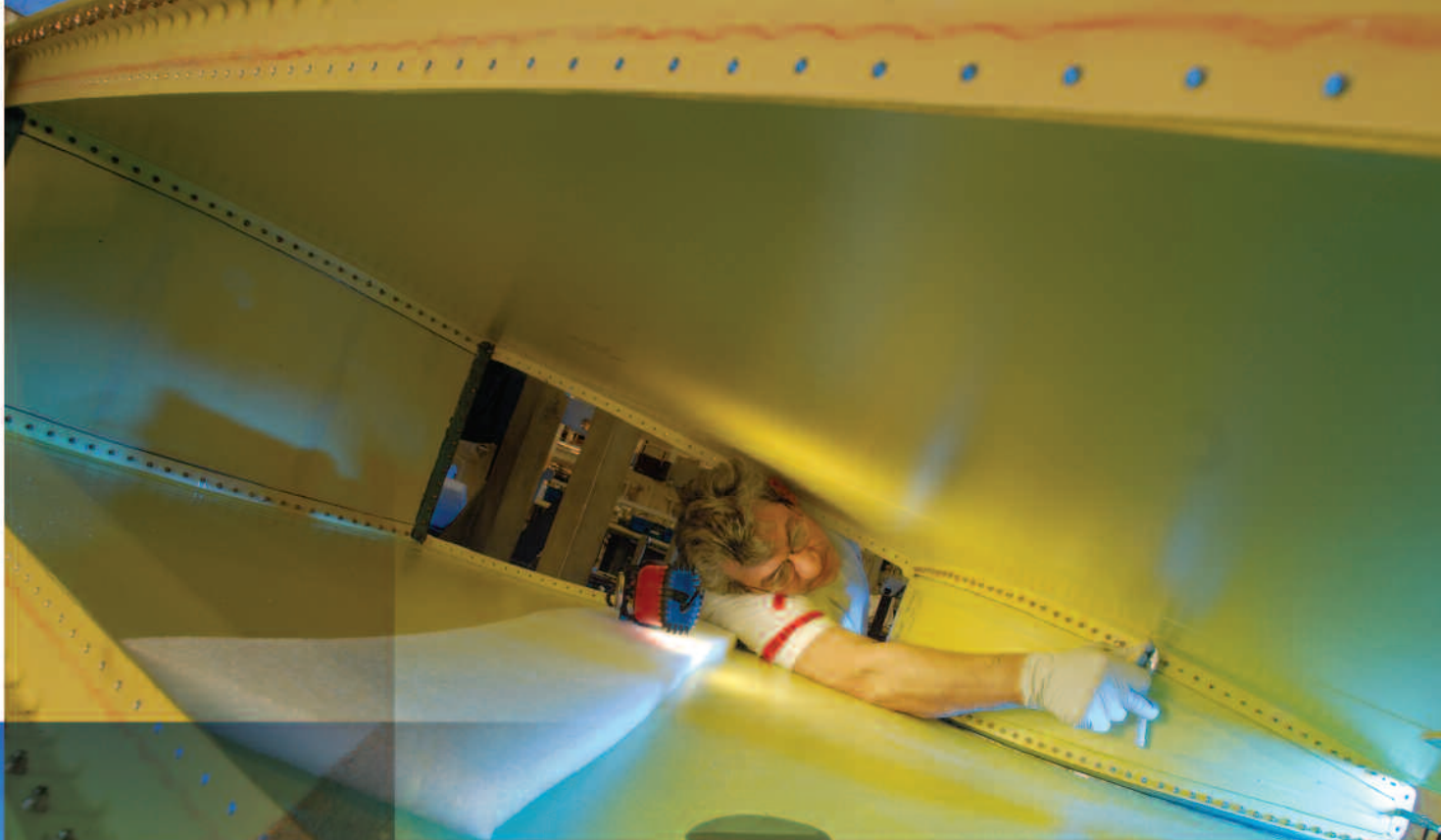
Douglas McCrosson,
our Vice President of
Operations.

Our vision for CPI's future is to remain focused on our target market supplying structural parts such as skin panels, leading edges, flight control surfaces, engine components, wing tips, cowl doors, nacelle assemblies and inlet assemblies for long-lived military aircraft, most notably 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 addition to being a prime contractor supplying the United States Air Force, other branches of the armed forces and related agencies, we now have started to increase our customer base by pursuing subcontracting work from leading major aerospace prime contractors.

Because the leading major prime contractors are able to bid on larger contracts than we are, because of our small size, we believe that pursuing such opportunities will enable us to access programs that we would not otherwise be able to effectively complete. It is a large market place, one in which we excel, and where we see vastly expanding opportunities.

With the capabilities we have in-house or at our disposal, we also are tracking larger, longer-term and more complex projects. Typically, these projects require more substantial and sophisticated proposals, and award grants generally take some time. But once awarded, they add recurring, predictable revenue and allow us to enjoy efficiencies in purchasing, tooling and staffing.





OUR YEARS OF EXPERIENCE AND DEDICATION ARE WHY WE CONTINUE TO GROW, OUR CUSTOMERS RECOGNIZE THE QUALITY OF OUR WORK.



Our people have the skills, experience and dedication to make a difference.



WE HAVE PROGRAM MANAGEMENT AND TECHNICAL EXPERTISE
COMPATIBLE WITH MAJOR AEROSPACE PRIME CONTRACTORS.



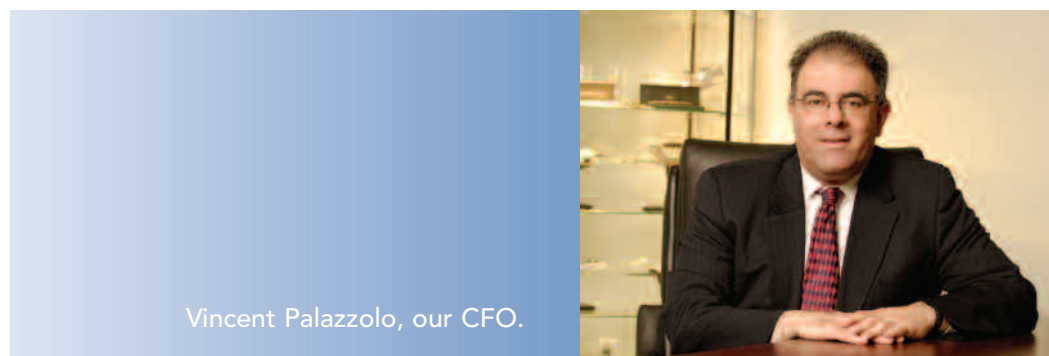
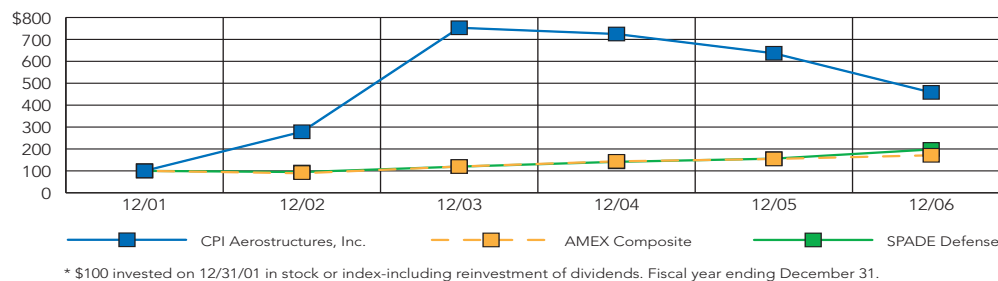
With the capabilities we have in-house or at our disposal, we also are tracking larger, longer-term and more complex projects, both as a subcontractor and as a prime contractor.



COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among CPI Aerostructures, Inc., The AMEX Composite Index And A Peer Group

The graph to the right matches the cumulative 5-year total return of holders of CPI Aerostructures, Inc.'s common stock with the cumulative total returns of the AMEX Composite index and the SPADE Defense index. The graph assumes that the value of the investment in the company's common stock and in each of the indexes (including reinvestment of dividends) was \$100 on 12/31/2001 and tracks it through 12/31/2006.



Vincent Palazzolo, our CFO.

CPI has carved out a special niche within the multi-billion dollar aerospace/defense industry as a U.S. Government military contractor. Whether for standard replacement requirements or for major modification programs, our contracts are generally for subassemblies in which a series of parts are assembled together to form a larger unit that comprises a part of a complex aerodynamic structure.

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, is what defines CPI. We have a management team and workforce with expansive experience with industry leaders, such as Grumman, Lockheed and Fairchild. With 61 employees at year-end, we also have been able to take advantage of small business set asides earmarked for companies with less than 1,000 employees, both as a prime manufacturer and as a subcontractor.

By focusing on our strengths in the arenas in which we excel, we have every reason to believe that our goal of increasing our contract awards, which form the basis of increasing revenue and profit, will continue.

Additionally, we are also now a major subcontractor to such aerospace and defense industry giants as Lockheed Martin, Vought and Northrop Grumman and Sikorsky.

STRATEGIC OPPORTUNITIES



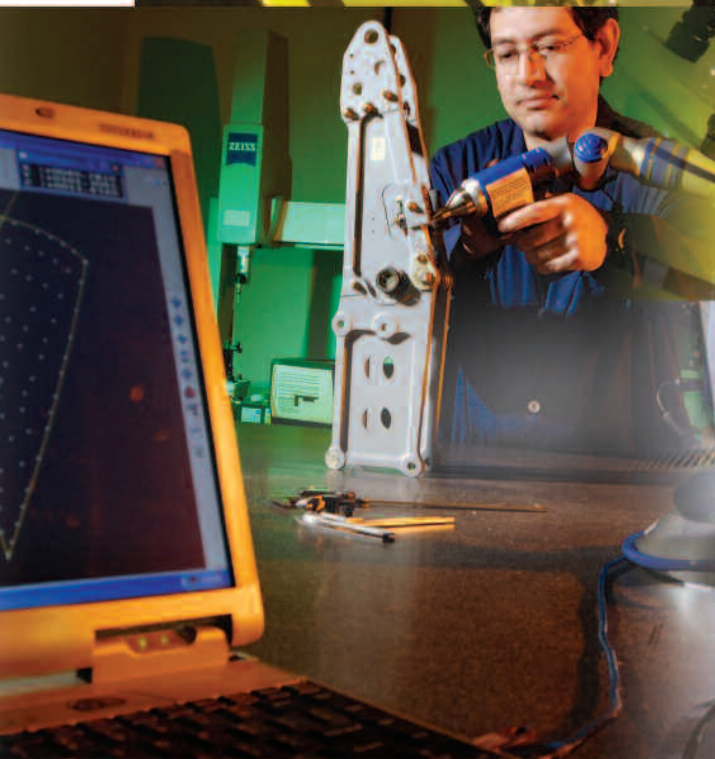
Frank Funicelli, our Senior Vice President of Business Development.

With our quality certifications, including ISO 9001:2000 and the AS9100 Aerospace Standard, our direct business with branches of the military, and our portfolio of large contractor skills, we are viewed as a prime military contractor. These skills include program management, engineering, tool design and fabrication, logistics and data management, configuration control through final assembly and test.

The government asks for requests for proposals on thousands of contracts annually, from food to computers. That is why we generally use outside consultants who are cognizant of the contracts being put out for bid, and knowledgeable of CPI's core strengths, to identify those where we have a good chance of success. We also use on-site consultants, with prior experience in procurement, at the three Air Force Air Logistics Centers and at Defense Supply Center Richmond ("DSCR"), where the purchasing and ordering of replacement and modification parts is done. The consultants notify us of large contracts that might be on the horizon so that we can prepare accordingly. Additionally, we have agreements with a number of sales representatives to market our products to a broader base of customers.

Finally, nothing is more telling about our business execution than the caliber of our customer list and the numerous commendations they have bestowed on us. In addition to serving the DSCR, noted above, we are very proud to be counted as a supplier to the Wright-Patterson Air Force Base (AFB), Warner Robins AFB, Tinker AFB, NAVICP, Hill AFB, the U.S. Army, Redstone, and major aerospace/defense companies.





Teamwork is the key to our success.

SELECTED FINANCIAL DATA

Statement of Operations Data:

	2006	2005	Years Ended December 31,		
			2004	2003	2002
Revenue	\$ 17,907,989	\$ 25,526,404	\$ 30,269,030	\$ 27,288,035	\$ 23,999,257
Income (loss) from operations	(1,908,336)	2,670,284	6,870,846	5,827,610	5,009,720
Net income (loss)	\$ (1,265,006)	\$ 1,519,433	\$ 5,076,031	\$ 8,393,278	\$ 4,444,624
Income (loss) per common share – basic	\$ (0.23)	\$ 0.28	\$ 0.94	\$ 1.72	\$ 1.63
Income per common share – diluted	\$ (0.23)	\$ 0.25	\$ 0.83	\$ 1.56	\$ 1.40

Balance Sheet Data:

Cash	\$ 38,564	\$ 877,182	\$ 1,756,350	\$ 2,794,310	\$ 91,937
Total assets	32,160,187	32,687,784	30,759,124	23,939,090	15,604,746
Working capital	25,122,504	26,029,916	24,396,402	19,319,374	1,975,574
Short term debt	392,188	87,617	83,144	7,303	8,024,160
Long term debt	—	42,188	129,276	26,311	40,192
Shareholders' equity	26,177,655	27,162,272	25,416,388	19,832,803	2,337,536
Total liabilities and shareholders' equity	32,160,187	32,687,784	30,759,124	23,939,090	15,604,746

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this annual report, 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. As 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 our Form 10-K filed with the SEC. 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 United States Air Force and other branches of the U.S. armed forces and to a lesser extent, for prime military aircraft contractors. We also provide aircraft parts to the commercial sector of the aircraft industry. Our strategy for growth includes de-emphasizing our commercial operations and concentrating on government and military sales as a prime contractor and as a subcontractor for other defense prime contractors.

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 have been driven by the uncertainties of war and market and economic trends, we have expanded our activities to include operating as a subcontractor to leading aerospace prime contractors. While the slowdown in government contract awards also has 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 will enable us to access programs that we would not otherwise be able to 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. These subcontracting opportunities have begun to materialize, and we were awarded approximately \$7.0 million of subcontracts during 2006 compared to \$2.2 million in 2005. We currently have proposals submitted to multiple prime contractors, and while we cannot predict the timing of awards, some of our outstanding proposals are so significant in size that any single award could increase our revenue and net income substantially.

After winning a contract, the length of the contract varies but is typically between six months and two years for U.S. government contracts (although our T-38 contract and our C-5 TOP contract are for periods of 10 years and 7 years, respectively), and up to 10 years for commercial contracts.

Our one commercial contract has an indefinite life. 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

Effective January 1, 2006, the Company adopted SFAS No. 123 R, "Share-Based Payment" for employee options, using the modified prospective transition method. SFAS 123 R revised SFAS 123 to eliminate the option to use the intrinsic value method and required the Company to expense the fair value of all employee stock-based compensation over the vesting period. Under the modified prospective transition method, the Company recognized compensation cost

for the year ended December 31, 2006, which includes (1) period compensation cost related to share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (2) compensation cost related to share-based payments granted within the period, which vested fully upon grant. In accordance with the modified prospective method, the Company has not restated prior period results

Results of Operations

Year Ended December 31, 2006 as Compared to the Year Ended December 31, 2005

Revenue. Revenue for the year ended December 31, 2006 was \$17,907,989 compared to \$25,526,404 for the same period last year, representing a decrease of \$7,618,415 or 30%. The decrease was due to fewer contract awards and releases in 2006 as compared to 2005, which resulted from the overall slowdown in the government contract award process and smaller than anticipated releases on our multiyear contracts during the 18 month period from February 2005 through August 2006.

We generate revenue primarily from government contracts and to a lesser extent from one commercial contract. Revenue from government contracts for the year ended December 31, 2006 was \$16,627,210 compared to \$24,473,234 for the year ended December 31, 2005, a decrease of \$7,846,024 or 32%.

During the year December 31, 2006, we received approximately \$30.0 million of new contract awards. Included in this amount is approximately \$7.9 million related to the C-5 TOP contract and \$7.0 million related to our work as a subcontractor for other prime contractors. Although the C-5 contract is valued at up to \$215 million over the seven-year life of the program, orders under this program, including the \$7.9 million of awards received during 2006, totaled only \$14.7 million as of December 31, 2006. As of December 31, 2006, we had over \$300 million in bids outstanding.

Although we are not actively pursuing commercial contract work, our one remaining commercial contract accounted for revenue of \$1,304,433 for the year ended December 31, 2006 compared to \$1,112,380 for the year ended December 31, 2005.

Gross profit. Gross profit for the year ended December 31, 2006 was \$1,643,638 compared to \$6,013,013 for the year ended December 31, 2005, a decrease of \$4,369,375. As a percentage of revenue, gross profit for the year ended December 31, 2006 was 9.2% compared to gross profit of 23.6% for the same period last year. The decrease in gross profit percentage was due to overtime and rework costs incurred to correct poor supplier workmanship and delays in deliveries by some of our suppliers.

Additionally, as previously reported, we had maintained our overhead levels through June 2006 in anticipation of

new awards and releases on contracts we had already been awarded. We reduced our staff by approximately 12% at the end of the second quarter of 2006 when these awards and releases did not materialize. These staff reductions, along with tighter control over other overhead costs, reduced factory overhead by approximately \$70,000 in the year ended December 31, 2006 as compared to the year ended December 31, 2005.

Selling, general and administrative expenses. Selling, general and administrative expenses year ended December 31, 2006 were \$3,551,974 compared to \$3,342,729 for the year ended December 31, 2005, an increase of \$209,245, or 6%. This increase was primarily due to recording non-cash compensation of approximately \$256,000 related to stock options as required pursuant to SFAS 123R as described in Note 9 of the Condensed Financial Statements, offset by a decrease in legal and accounting fees of approximately \$40,000.

Interest Expense. Interest expense for the year ended December 31, 2006 was \$20,326, compared to \$18,314 for 2005, an increase of \$2,012. The change is deemed immaterial.

Income (Loss) from operations. We had a loss from operations for the year ended December 31, 2006 of \$1,908,336 compared to income from operations of \$2,670,284 for the year ended December 31, 2005. The loss was a result of lower sales and lower gross margins described earlier.

Year Ended December 31, 2005 as Compared to the Year Ended December 31, 2004

Revenue. Our revenue for the year ended December 31, 2005 was \$25,526,404 compared to \$30,269,030 for 2004, representing a decrease of \$4,742,626 or 16%. This decrease was due to fewer contracts in 2005 as compared to 2004 and a less favorable product mix.

Gross profit. Gross profit for the year ended December 31, 2005 was \$6,013,013, compared to \$10,295,799 for 2004, a decrease of \$4,282,786 or 42%. Gross profit as a percentage of revenue for the year ended December 31, 2005 was 24% compared to 34% for December 31, 2004. Gross profit percentage declined for a number of reasons, including rework costs related to a first article rejection, increased factory overhead related to our move to new, larger facilities and related utility and maintenance costs, and higher indirect labor costs. The increased level of factory overhead and indirect labor have been maintained in anticipation of releases on contracts, including the C-5 TOP contract, that we already have been awarded and the receipt of any additional awards on some of our major outstanding bids. If these events are not forthcoming, we plan on reassessing this position.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2005 were \$3,342,729, compared to \$3,424,953 for 2004, a decrease of \$82,224, or 2%. This decrease reflects a decrease of approximately \$240,000 in officers' bonuses, offset by an increase in expenses related to our efforts to sell to prime contractors.

Income from operations. Income from operations for the year ended December 31, 2005 was \$2,670,284 compared to income from operations of \$6,870,846 for the year ended December 31, 2004, a decrease of \$4,200,562, or 61%. The decrease was due to the decrease in gross profit described earlier and increases in expenses related to our efforts to sell to prime contractors.

Interest Expense. Interest expense for the year ended December 31, 2005 was \$18,314, compared to \$8,109 for 2004, an increase of \$10,205, or 126%. Interest expense is considered immaterial to our operations in both 2005 and 2004.

Income from continuing operations. Income from continuing operations for the year ended December 31, 2005 was \$2,657,433 compared to income from continuing operations for the year ended December 31, 2004 of \$6,870,031, a decrease of \$4,212,598, or 61%. The decrease was due to the decrease in gross profit described earlier and increases in expenses related to our efforts to sell to prime contractors. The 2005 results include income taxes computed at an effective tax rate of 43% compared to 26% for 2004. The increase was the result of us utilizing our remaining state net operating loss carryforward at the beginning of 2005. Basic income per share for the year ended December 31, 2005 was \$0.28 on an average of 5,422,101 shares outstanding, compared to \$0.94 per share from continuing operations on an average of 5,386,595 shares outstanding for the year ended December 31, 2004.

Liquidity and Capital Resources

General

At December 31, 2006, we had working capital of \$25,122,504 compared to \$26,029,916 at December 31, 2005, a decrease of \$907,412, or 3%.

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. Due to delays in deliveries from some of our suppliers, we are presently late on two of our contracts for which progress payments are available and, as a result we have been precluded from applying for progress payments on these contracts. 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, 2006, we had a cash balance of \$38,564. During the years ended December 31, 2006, 2005 and 2004, we used cash of \$1,015,151, \$676,767 and \$560,768, respectively, to fund our operations. Because of our historical use of cash, and the expiration of a long term line of credit, beginning in June 2006, we began to reduce expenses and implement a plan to improve cash flow.

At December 31, 2006, we had costs in excess of billings on uncompleted contracts of \$28,783,708, which represents unbilled receivables of which we expect approximately 96% to be converted into cash within the next year. This amount represents \$27,653,000 of funded delivery orders, or funded backlog, to be shipped and collected by December 31, 2007. In addition, we will be filing a tax refund of approximately \$628,000 for the carryback of our net tax loss recorded during the year ended December 31, 2006.

Based on our projected cash expenses and the above described sources of cash, we expect to have positive cash flow during the year ending December 31, 2007.

JP Morgan Chase Credit Facility

In September 2003, we entered into a three year, \$5.0 million revolving credit facility with JP Morgan Chase Bank (the "Chase Facility"), secured by our assets. The facility specified interest rates that ranged between the Prime Rate and 225 basis points over LIBOR, depending on certain terms and conditions.

In October 2006, the Chase Facility was amended and restated to provide for a \$1.0 million revolving credit facility, secured by our assets. The facility specifies an interest rate equal to the greater of (a) the prime rate and (b) the federal funds rate, plus 0.5%. The Chase Facility expired on December 31, 2006 and has been extended until April 30, 2007.

Although we are currently negotiating to secure a long term credit agreement with JP Morgan Chase Bank, or with another financial institution, there is no assurance that a new line of credit can be secured on terms acceptable to us.

As of December 31, 2006, the Company had borrowed \$350,000 under the Chase Facility.

Contractual Obligations

The table below summarizes information about our contractual obligations as of December 31, 2006 and the effects these obligations are expected to have on our liquidity and cash flow in the future years.

Contractual Obligations	Payments Due By Period (\$)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Short-Term Debt	350,000	350,000	0	0	0
Capital Lease Obligations	42,188	42,188	0	0	0
Operating Leases	3,537,705	397,838	831,838	882,499	1,425,530
Employment Agreement Compensation**	1,487,450	773,150	714,300	0	0
Total Contractual Cash Obligations	5,417,343	1,563,176	1,546,138	882,499	1,425,530

**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.

BALANCE SHEET

Year ended December 31,	2006	2005
ASSETS		
Current Assets:		
Cash	\$ 38,564	\$ 877,182
Accounts receivable, net	1,422,135	1,849,796
Costs and estimated earnings in excess of billings on uncompleted contracts	28,783,708	28,389,202
Prepaid expenses and other current assets	133,618	342,165
Refundable income tax	628,470	—
Total current assets	31,006,495	31,458,345
Plant and equipment, net	855,736	962,209
Deferred income taxes	78,000	24,000
Other assets	219,956	243,230
Total Assets	\$ 32,160,187	\$ 32,687,784
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 4,758,763	\$ 4,559,181
Accrued expenses	225,040	146,521
Current portion of long-term debt	42,188	87,617
Line of credit	350,000	—
Deferred income taxes	508,000	502,000
Income taxes payable	—	133,110
Total current liabilities	5,883,991	5,428,429
Long-term debt, net of current portion	—	42,188
Other liabilities	98,541	54,895
Total Liabilities	5,982,532	5,525,512
Commitments		
Shareholders' Equity:		
Common stock - \$.001 par value; authorized 50,000,000 shares, issued 5,478,807 and 5,475,057 shares, respectively, and outstanding 5,447,792 and 5,444,042 shares, respectively	5,479	5,475
Additional paid-in capital	23,048,520	22,768,135
Retained earnings	3,444,512	4,709,518
Treasury stock, 31,015 shares of common stock (at cost)	(320,856)	(320,856)
Total Shareholders' Equity	26,177,655	27,162,272
Total Liabilities and Shareholders' Equity	\$ 32,160,187	\$ 32,687,784

See Notes to Financial Statements

STATEMENT OF OPERATIONS

Year ended December 31,	2006	2005	2004
Revenue	\$ 17,907,989	\$ 25,526,404	\$ 30,269,030
Cost of sales	16,264,351	19,513,391	19,973,231
Gross profit	1,643,638	6,013,013	10,295,799
Selling, general and administrative expenses	3,551,974	3,342,729	3,424,953
Income (loss) from operations	(1,908,336)	2,670,284	6,870,846
Interest income (expense)			
Interest income	6,656	5,463	7,294
Interest expense	(20,326)	(18,314)	(8,109)
Total other income (expense), net	(13,670)	(12,851)	(815)
Income (loss) before provision for(benefit from) income taxes	(1,922,006)	2,657,433	6,870,031
Provision for (benefit from) income taxes	(657,000)	1,138,000	1,794,000
Net income (loss)	\$ (1,265,006)	\$ 1,519,433	\$ 5,076,031
Basic net income (loss) per common share:	\$ (0.23)	\$ 0.28	\$ 0.94
Diluted net income (loss) per common share:	\$ (0.23)	\$ 0.25	\$ 0.83
Shares used in computing earnings per common share:			
Basic	5,446,711	5,422,101	5,386,595
Diluted	5,446,711	6,114,808	6,096,302

See Notes to Financial Statements

STATEMENT OF SHAREHOLDERS' EQUITY

Years ended December 31, 2006, 2005 and 2004

	Common Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit)/Retained Earnings	Treasury Stock	Shareholders' Equity
Balance at January 1, 2004	5,301,770	5,302	21,713,447	(1,885,946)	—	19,832,803
Net income	—	—	—	5,076,031	—	5,076,031
Common stock issued upon exercise of options and warrants	138,120	138	371,319	—	—	371,457
Treasury stock	—	—	—	—	\$(320,856)	(320,856)
Common stock issued as employee compensation	3,525	3	35,950	—	—	35,953
Tax benefits from stock option plans	—	—	421,000	—	—	421,000
Balance at December 31, 2004	5,443,415	5,443	22,541,716	3,190,085	(320,856)	25,416,388
Net income	—	—	—	1,519,433	—	1,519,433
Common stock issued upon exercise of options	29,667	30	153,263	—	—	153,293
Common stock issued as employee compensation	1,975	2	19,156	—	—	19,158
Tax benefits from stock option plans	—	—	54,000	—	—	54,000
Balance at December 31, 2005	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

See Notes to Financial Statements

STATEMENT OF CASH FLOWS

Year ended December 31,	2006	2005	2004
Cash flows from operating activities:			
Net income (loss)	\$ (1,265,006)	\$ 1,519,433	\$ 5,076,031
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	215,973	193,628	184,355
Other liabilities	43,646	54,895	—
Stock compensation expense	256,274	—	—
Common stock issued as employee compensation	5,065	19,158	35,953
Deferred portion of provision/(benefit) for income taxes	(48,000)	334,000	1,202,000
Tax benefit for stock options	(4,600)	54,000	421,000
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	427,661	(208,794)	106,822
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(394,506)	(2,358,695)	(8,580,620)
Decrease (increase) in prepaid expenses and other current assets	208,546	(136,888)	167,326
Increase in other assets	23,274	—	(87,278)
Increase (decrease) in accounts payable and accrued expenses	278,102	(151,614)	971,643
Increase (decrease) in income taxes payable	(133,110)	4,110	(58,000)
Increase in refundable income taxes	(628,470)		
Net cash used in operating activities	(1,015,151)	(676,767)	(560,768)
Net cash used in investing activities-			
Purchase of plant and equipment	(109,500)	(273,080)	(667,684)
Cash flows from financing activities:			
Proceeds from exercise of stock options	19,050	153,293	50,601
Proceeds from long-term debt	—	—	170,000
Payment of long-term debt	(87,617)	(82,614)	(30,109)
Proceeds from line of credit	350,000	—	—
Tax benefit for stock options	4,600	—	—
Net cash provided by financing activities	286,033	70,679	190,492
Net increase (decrease) in cash	(838,618)	(879,168)	(1,037,960)
Cash at beginning of year	877,182	1,756,350	2,794,310
Cash at end of year	\$ 38,564	\$ 877,182	\$ 1,756,350
Supplemental schedule of noncash investing and financing activity:			
Plant and equipment acquired through capital lease	\$ —	\$ —	\$ 38,915
Stock options proceeds paid through Company's stock	\$ —	\$ —	\$ 320,856
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	\$ 20,326	\$ 18,314	\$ 8,109
Cash paid for income taxes:	\$ 403,093	\$ 490,331	\$ 199,500

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. Principal Business Activity and Summary of Significant Accounting Policies:

CPI Aerostructures, Inc.'s ("CPI Aero" or the "Company") operations 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 contracts, although the Company's T-38 contract and C-5 TOP contract are for 10 years and 7 years, respectively. The Company's one commercial contract has an indefinite life.

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's 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 costs.

The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

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 experienced insignificant amounts of bad debts in such accounts.

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.

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, 2006.

The Company incurred freight and delivery costs of approximately \$123,000, \$164,000 and \$178,000, respectively, during the years ended December 31, 2006, 2005 and 2004. 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 692,707 and 727,479 were used in the calculation of diluted earnings per common share in 2005 and 2004, respectively. Incremental shares of 155,000 and 75,000 were not included in the diluted earnings per share calculations at December 31, 2005 and 2004, respectively, as their exercise price was in excess of the Company's stock 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.

Effective January 1, 2006, the Company began recording compensation expense associated with stock options in accordance Statement of Financial Accounting Standard ("SFAS") No. 123R, "Share-Based Payment." 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. (See Note 9)

In March 2006, the FASB issued SFAS No. 156 "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140" which amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the balance sheet and additional disclosures for all separately recognized servicing assets and servicing liabilities. The Company is currently evaluating the impact of adoption, which is required by January 1, 2007.

In April 2006, the FASB issued FASB Staff Position No. FIN 46 (R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No 46(R)" (FSP FIN 46(R)-6'). FSP FIN 46(R)-6 requires that the determination of the variability to be considered in applying FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"), be based on an analysis of the design of the entity. In evaluating whether an interest with a variable interest entity creates or absorbs variability, FSP FIN 46(R)-6 focuses on the role of a contract or arrangement in the design of an entity, regardless of its legal form or accounting classification. The Company adopted the guidance in FSP FIN 46 (R)-6 prospectively as of July 1, 2006 to all entities that the Company first becomes involved with and to all entities previously required to be analyzed under FIN 46R when a reconsideration event has occurred under paragraph 7 of FIN 46R. The adoption of FIN 46 (R)-6 did not have a material impact on the Company's financial statements.

In June 2006, the FASB issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet determined the impact of FIN 48 on our financial position, results of operations, cash flows or financial statement disclosures.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. The Company has not completed an analysis as to the impact of this statement on its financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 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 No. 159 will be available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur. SFAS No. 159 is effective for fiscal years after November 15, 2007. SFAS No. 159 also allows early adoption provided that the entity also adopts the requirements of SFAS No. 157. The Company does not believe the adoption of SFAS No. 159 will have a material impact, if any, on its financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires that public companies utilize a "dual approach" to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company adopted SAB 108 on December 31, 2006, and there was no impact on its financial statements.

2. Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts:

At December 31, 2006, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

	U.S.		
	Government	Commercial	Total
Costs incurred on uncompleted contracts	\$45,799,483	\$15,312,176	\$61,111,659
Estimated earnings	27,022,765	6,666,257	33,689,022
	72,822,248	21,978,433	94,800,681
Less billings to date	45,978,150	20,038,823	66,016,973
Costs and estimated earnings in excess of billings on uncompleted contracts	\$26,844,098	\$1,939,610	\$28,783,708

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At December 31, 2005, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

	U.S. Government	Commercial	Total
Costs incurred on uncompleted contracts	\$41,075,851	\$14,400,603	\$55,476,454
Estimated earnings	25,430,030	6,273,397	31,703,427
Less billings to date	66,505,881	20,674,000	87,179,881
	39,878,934	18,911,745	58,790,679
Costs and estimated earnings in excess of billings on uncompleted contracts	\$26,626,947	\$1,762,255	\$28,389,202

Unbilled costs and estimated earnings are billed in accordance with applicable contract terms. As of December 31, 2006, \$ 1,808,000 of the balances above, primarily commercial contracts, are not expected to be collected within one year. There are no amounts billed under retainage provisions.

3. Accounts Receivable:

Accounts receivable consists of trade receivables as follows:

	2006	2005
Billed receivables	\$ 1,182,700	\$ 1,517,669
Unbilled receivables on completed contracts	239,435	332,127
	\$ 1,422,135	\$ 1,849,796

4. Plant and Equipment:

Property, plant and equipment, at cost, consists of the following:

December 31,	2006	2005	Estimated Useful Life
Machinery and equipment	\$ 570,062	544,074	5 to 10 years
Computer equipment	731,304	653,013	5 years
Furniture and fixtures	145,179	144,581	7 years
Automobiles and trucks	23,488	23,488	5 years
Leasehold improvements	613,935	609,312	10 years
Less accumulated depreciation and amortization	2,083,968	1,974,468	
	1,228,232	1,012,259	
	\$ 855,736	\$ 962,209	

Depreciation and amortization expense for the years ended December 31, 2006, 2005 and 2004 was \$215,973, \$193,628 and \$184,355, respectively.

5. Related Party Transactions:

In October 2000, the Company adopted a Greit Plan for the purpose of offering senior management a deferred compensation death benefit plan (the "Plan") that provides a tax-free benefit and which is tax-neutral to the Company. Pursuant to the Plan, the Company made a noninterest-bearing loan to an employee in the amount of \$150,000, which was used to purchase the Plan. The Plan has since been terminated. The surrender value has been returned to the employee who has placed the proceeds from the surrender value in an annuity, which will mature to \$150,000. Simultaneously, the employee purchased an insurance policy in the amount of \$150,000, of which the Company is the sole beneficiary. The loan to the employee will be repaid to the Company upon the maturity date of the annuity or upon the death of the employee, whichever occurs first.

6. Line of Credit

In September 2003, the Company entered into a three year, \$5.0 million revolving credit facility with JP Morgan Chase Bank (the "Chase Facility"), secured by the assets of the Company. The facility specified interest rates that ranged between the Prime Rate and 225 basis points over LIBOR, depending on certain terms and conditions.

In October 2006, the Chase Facility was amended and restated to provide for a \$1.0 million revolving credit facility, secured by the assets of the Company. The facility specifies an interest rate equal to the greater of (a) the prime rate and (b) the federal funds rate, plus 0.5% (6.0% at December 31, 2006). The facility expired on December 31, 2006 and has been extended through April 30, 2007.

As of December 31, 2006, the Company had borrowed \$350,000 under the Chase Facility.

7. Commitments

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

Year ending December 31	
2007	\$ 773,150
2008	348,000
	\$ 1,121,150

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,	
2007	\$ 397,838
2008	409,772
2009	422,066
2010	434,728
2011	447,771
Thereafter	1,425,530
	\$ 3,537,705

Rent expense for the years ended December 31, 2006, 2005 and 2004 was \$430,050, \$436,248 and \$313,167, respectively.

8. Income Taxes:

The provision for income taxes consists of the following:

Year ended December 31,	2006	2005	2004
Current:			
Federal	\$ (628,000)	\$ 734,000	\$ 572,000
State and local		70,000	\$ 20,000
Deferred:			
Federal	(29,000)	334,000	1,202,000
	\$ (657,000)	\$ 1,138,000	\$ 1,794,000

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

December 31,	2006	2005	2004
Taxes computed at the federal statutory rate	\$ (597,000)	\$ 904,000	\$ 2,336,000
State income taxes	(78,000)	70,000	20,000
Permanent differences	18,000	136,000	38,000
Utilization of net operating loss carryforward		28,000	(600,000)
	\$ (657,000)	\$ 1,138,000	\$ 1,794,000

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

	2006	2005
State net operating loss carryforwards	\$ 78,000	—
Temporary differences	\$ (508,000)	\$ (478,000)
	\$ (430,000)	\$ (478,000)

At December 31, 2006 and 2005, the temporary differences results from depreciation and difference in revenue recognized between book and taxes.

During 2004, the Company reversed approximately \$850,000 of valuation allowance, which was reducing the deferred tax asset related to the Company's net operating loss carryforwards to an amount that the Company deemed more likely than not to be realized. The Company has no valuation allowance at December 31, 2006.

The Company recognized, for income tax purposes, a tax benefit of \$4,600 and \$54,000 and \$421,000 for the years ended December 31, 2006, 2005 and 2004, respectively, for compensation expense related to its stock option plan for which no 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, "Share-Based Payment." 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.

As a result of the adoption of SFAS No. 123R, the Company's net loss for the year ended December 31, 2006, includes approximately \$256,000 of compensation expense and related reductions in income tax expense of \$4,600. 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 April 1992, the Company adopted the 1992 Stock Option Plan (the "1992 Plan"). The 1992 Plan, for which 83,334 common shares are reserved for issuance, 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 may not be exercised more than five years from the date of issuance. No more options may be granted under the 1992 Plan.

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, 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, 666 options available for grant under the 1998 Plan, and 373,025 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 nine month period ended September 30, 2006 and 2005:

	2006	2005	2004
Risk-free interest rate	4.2%	3.9%	4.0%
Expected volatility	61%	32%	35%
Dividend yield	0%	0%	0%
Expected option term-in years	5	5	5

The risk free interest rate for the years ended December 31, 2006, 2005 and 2004 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, 2005 and 2004 is based on the average of the volatility over the most recent

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

two year period. The expected volatility computation for the year ended December 31, 2006 is based on the average of the volatility over the most recent three 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.

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, 2004	1,114,752	\$3.84		
Granted during period	130,000	10.44		
Exercised	(120,000)	2.78		
Forfeited/Expired	(50,000)	8.75		
Outstanding and vested at December 31, 2004	1,074,752	\$4.53	6.39	
Granted during period	80,000	10.01		
Exercised	(24,667)	5.88		
Forfeited/Expired	—			
Outstanding and vested at December 31, 2005	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	\$3,309,435
Vested at December 31, 2006	1,215,418	\$5.14	4.44	\$3,308,985

The weighted-average fair value of each option granted during the years ended December 31, 2006, 2005 and 2004, estimated as of the grant date using the Black-Scholes option valuation model was \$2.78, \$3.49 and \$5.69, respectively.

As of December 31, 2006 there was \$90,562 of unrecognized compensation cost related to non-vested stock option awards which will be amortized through December 2008.

The net income for the years December 31, 2005 and 2004 does not include any compensation charges related to options granted to employees. The following table illustrates the pro forma effect on net loss and loss per share assuming the Company had applied the fair value recognition provisions of SFAS 123 instead of the intrinsic value method under APB No. 25 to stock-based employee compensation for the years ended December 31, 2005 and 2004:

Year ended December 31,	2005	2004
Net income - as reported	\$1,519,433	\$5,076,031
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	483,205	476,865
Net income - pro forma	\$1,036,228	\$4,599,166
Basic income per share - as reported	\$0.28	\$0.94
Basic income per share - pro forma	\$0.19	\$0.85
Diluted income per share - as reported	\$0.25	\$0.83
Diluted income per share - pro forma	\$0.17	\$0.75

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. The warrants are exercisable, in whole or in part, at \$4.40 per share from February 2004 through February 2008. At December 31, 2006 and 2005, warrants to purchase 195,000 shares remain outstanding.

The fair value of the warrants on the date of issuance was \$775,000.

11. Employee Benefit Plan

On September 11, 1996, CPI'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 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 2006, 2005 and 2004 amounted to \$65,823, \$91,318 and \$108,706, respectively.

12. Major Customer

93% of the sales in 2006, 96% of the sales in 2005 and 99% of sales in 2004 were to the U.S. government. 85% and 78% of accounts receivable at December 31, 2006 and 2005, respectively, were from the U.S. government.

15. Summary of Quarterly Information (Unaudited)

The following table sets forth certain unaudited quarterly statement of operations data from the eight quarters ended December 31, 2006. This information is unaudited, but in the opinion of management, it has been prepared substantially on the same basis as the audited financial statements appearing elsewhere in this report, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below. The quarterly data should be read in conjunction with the current audited statements and notes thereto. The total of the quarterly EPS data may not be indicative of full year results.

2006	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Revenue	\$5,030,193	\$2,457,016	\$4,412,931	\$6,007,849
Income (loss) from Operations	116,894	(2,038,334)	(12,577)	21,758
Net Income/(Loss)	68,894	(1,333,334)	(12,577)	12,011
Basic earnings (loss) per share	0.01	(0.24)	0.00	0.00
Diluted earnings(loss) per share	0.01	(0.24)	0.00	0.00
2005	March 31,	June 30,	September 30,	December 31,
Revenue	\$6,245,102	\$6,313,432	\$6,452,246	\$6,515,624
Income from Operations	936,606	867,817	879,847	(13,984)
Net Income/(Loss)	578,656	509,193	548,498	(116,914)
Basic earnings (loss) per share	0.11	0.09	0.10	(0.02)
Diluted earnings(loss) per share	0.09	0.08	0.09	(0.01)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

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, 2006 and 2005, and the related statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. 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 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, 2006 and 2005, and its results of operations and cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, the Company changed its method of accounting for stock-based compensation upon adoption of Statement of Financial Accounting Standards No. 123(R), "Share-based Payment".

Handwritten signature of J. H. Cohn in black ink, followed by the letters "LLP".

J.H. Cohn LLP
Jericho, New York
March 30, 2007

MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Information

Our common shares are listed on the American Stock Exchange under the symbol CVU. The following table sets forth for 2006 and 2005, the high and low sales prices of our common shares for the periods indicated, as reported by the American Stock Exchange.

Period	High	Low
2005		
Quarter Ended March 31, 2005	\$11.66	\$9.55
Quarter Ended June 30, 2005	\$10.14	\$8.80
Quarter Ended September 30, 2005	\$10.35	\$8.90
Quarter Ended December 31, 2005	\$10.10	\$9.14
2006		
Quarter Ended March 31, 2006	\$10.35	\$7.95
Quarter Ended June 30, 2006	\$ 8.17	\$7.12
Quarter Ended September 30, 2006	\$ 7.25	\$4.35
Quarter Ended December 31, 2006	\$ 7.25	\$4.50

On March 20, 2007, the closing sale price for our common shares on the American Stock Exchange was \$6.60. On March 20, 2007, there were 141 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.

Corporate Information

Officers

Edward J. Fred
President and
Chief Executive Officer

Vincent Palazzolo
Chief Financial Officer

Frank Funicelli
Sr. Vice President,
Business Development

Douglas McCrosson
Vice President,
Operations

Board of Directors



Eric Rosenfeld
Chairman



Edward J. Fred
President and
Chief Executive Officer



Harvey Bazaar
President and CEO
BKF Capital Group, Inc.



Kenneth McSweeney
Principal
K.F. McSweeney, Unlimited



Walter Paulick
President
W.R. Paulick and
Associates, Inc.

Corporate Headquarters
CPI Aero
60 Heartland Boulevard
Edgewood, NY 11717
Tel: (631) 586-5200
Fax: (631) 586-5814
www.cpiaero.com

Transfer Agent
Communications regarding
change of address, transfer of
stock ownership, or lost stock
certificates should be directed to:
American Stock Transfer
59 Maiden Lane
New York, NY 10038

Common Stock
CPI Aerostructures' common stock
trades on The American Stock Exchange
under the symbol CVU.

Counsel
Graubard Miller
405 Lexington Avenue
19th Floor
New York, NY 10036

Independent Auditors
J.H. Cohn LLP
100 Jericho Quadrangle
Jericho, NY 11753

Investor Relations
The Equity Group Inc.
800 Third Avenue — 36th Floor
New York, NY 10022
(212) 371-8660

Stockholder Contact and Form 10-K
Stockholders are encouraged to contact
the Company with questions or requests for
information. A copy of the Company's
Annual Report on Form 10-K for the year
ended December 31, 2006, as filed with the
Securities and Exchange Commission, will
be sent to stockholders free of charge upon
written request. Inquiries should be
directed to:

Chief Financial Officer
CPI Aero
60 Heartland Boulevard
Edgewood, NY 11717
(631) 586-5200
or contact the Company at its website,
www.cpiaero.com

CPI AEROSTRUCTURES, INC.

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