CPI AERO

2008 ANNUAL REPORT

PROVEN, RELIABLE & STRONG

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 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. CPI Aero has over 28 years of experience as a contractor, completing over 2,500 contracts to date. 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.

HIGHLIGHTS OF THE YEAR

- Awarded a record $55.4 million in new contracts.
- Total revenue increased 27% for the year.
- Awarded approximately $46.2 million of subcontracts from prime contractors.

In 2008 we were awarded a record $55.4 million in new contracts, including several long-term multi-million dollar awards, making 2008 the greatest award year ever.

LETTER TO SHAREHOLDERS

As expected, 2008 was the best revenue year in our history. With revenue increasing 27% to $35,588,831 and net income increasing 36% to $2,590,613 compared to 2007, CPI Aero not only grew its top and bottom line, but paved the way for continued growth in the coming years, by building a vibrant and sustainable subcontracting business with defense and commercial prime contractors. We feel most encouraged because this success was achieved during one of the most severe economic environments in recent memory.

In 2008 we were awarded a record $55.4 million in new contracts, including several long-term multi-million dollar awards, making 2008 the greatest award year ever. We are now working as a subcontractor to some of the world's most prestigious aerospace and defense, as well as commercial, aircraft companies, including The Boeing Company, Northrop Grumman, Sikorsky Aircraft and Spirit AeroSystems. We are supplying requirements for critical defense programs including the BLACK HAWK and Sea Hawk helicopters, the A-10 attack jet, the B-1 bomber and the C-5 cargo jet as well as civilian aircraft programs including the S-92 helicopter and the Gulfstream G650.

Among our major 2008 award wins were:

- A long-term requirements contract of approximately $70 million from The Boeing Company for various assemblies for 242 enhanced wings for the A-10 Thunderbolt attack jet. 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 Northrop Grumman to provide structural kits for E-2D surveillance aircraft. This 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 the Gulfstream G650 business jet for which we are building fixed leading edge assemblies. We received an initial $3.5 million order in mid-2008 and anticipate that this contract will generate recurring revenue for us over the next five years.
- We also received a number of multi-million orders from Sikorsky Aircraft for programs representing repeat business with this customer. For the UH-60 BLACK HAWK Helicopter we are producing the Hover Infra Red Reduction System module assemblies, and for the S-92 Helicopter we are producing forward emergency exit kits. Both of these programs have the potential for follow on orders.

Financial Strength

Based upon our expected growth over the next several years, we needed to shore up our balance sheet and borrowing capacity. Despite the current credit crunch, we have a good partner in our lender Sovereign Bank. On October 22, 2008, we obtained a $3 million, five-year term loan from Sovereign and used $2.5 million to repay outstanding balances under our revolver. These borrowings were incurred to fund the initial tooling costs related to our contract with Spirit. The remaining $500,000 of the term loan went toward additional tooling for this contract. Concurrent with entering into the term facility, Sovereign extended the duration of our revolver until August of 2010.

Special Distinctions

In February 2009, we were acknowledged by Northrop Grumman for our contribution to the Rapid Airborne Mine Clearance System team. We along with other team members were proud to learn that the laser-imaging, helicopter-borne gun system designed to destroy mines at sea, exceeded expectations the first time it fired at underwater targets.

Edward J. Fred
Chief Executive Officer and President

Eric Rosenfeld
Chairman of the Board of Directors

In just two year's time, we earned a place among Sikorsky Aircraft's top 100 suppliers, and we are working diligently in 2009 to join the elite group of companies designated by Sikorsky as Supplier Gold.

We are very proud that in July 2008 CPI Aero was added to the Russell Microcap® Index. This was a significant achievement for CPI Aero, as it is an outgrowth of our dramatic turnaround in our business. Russell indexes are widely used by investment managers and institutional investors for index funds and as benchmarks for both passive and active investment strategies. Due to the merger of AMEX and NYSE, CPI Aero is now trading on the NYSE Amex.

New Opportunities

We continue to bid on new programs both from our existing customers and new prospects including other helicopter and business/private jet makers. Unawarded solicitations remain at an exceptionally high level totaling a maximum realizable value of approximately $374 million, up from year-end 2007's $220 million, despite the large amount of awards received during 2008. Many of these bids are for new prime manufacturers, including other helicopter and business private jet companies who are beginning to recognize CPI Aero as a premier small business supplier of aircraft structures. We are now receiving invitations to bid on new contracts and programs for these primes thanks to the quality of our assemblies and to our very impressive list of customers which has elevated our reputation in our industry.

Guidance

With the first quarter behind us, we are reaffirming our 2009 guidance which calls for revenue to be in the range of $42 million to $45 million, with resulting net income in the range of $3.9 million to $4.3 million.

Longer term, the multi-year contracts which layer over the next eight to ten years give us greater forecasting ability, enable us to do our purchasing more efficiently, plan our labor requirements more accurately, and overall give us greater operating leverage due to higher volumes. Using 2008 as the baseline, for the three-year period ending in 2011, we expect to achieve a compound annual growth rate for revenue in the range of 30% to 35%, with a resulting compound annual growth rate for net income in the range of 50% to 60%.

Conclusion

CPI Aero's future has never been brighter and we look forward to continuing growth for years to come. We would like to thank all of the members of our organization who have contributed to our successes. 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 aerospace/defense and commercial customers and government with value-added products and quality on-time delivery.

Sincerely yours,

Edward J. Fred
Chief Executive Officer and President

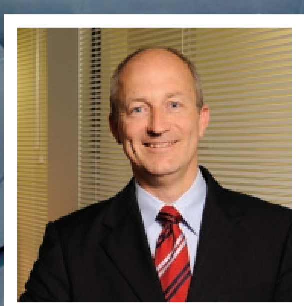
Eric Rosenfeld
Chairman of the Board of Directors


CPI AERO

PROVEN EXPERTISE IN AIRCRAFT PARTS MANUFACTURING

CPI Aero 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.

As a prime contractor 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-5 "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.



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

Douglas McCrosson,
Senior Vice President of Operations

RELIABLE SUPPLIER TO INDUSTRY LEADERS

As a subcontractor to leading defense prime contractors such as Northrop Grumman Corporation, Lockheed Martin Corporation, Sikorsky Aircraft Corporation and Vought Aircraft Industries, Inc., 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 C5 cargo jet.

We also operate as a subcontractor to aerospace and defense companies, including Sikorsky and Spirit AeroSystems, Inc. in the production of assemblies for commercial aircraft. For Sikorsky, we deliver various kits and assemblies for the S-92 civilian helicopter. We are providing Spirit AeroSystems with leading edges for the wing of the new Gulfstream G650 business jet. Founded in 1980, CPI Aero is a U.S. small business. We are a publicly traded corporation listed on the NYSE Amex (ticker CVU).

Our technical team possesses extensive technical expertise and program management and integration capabilities.

STRONG AEROSPACE BACKGROUND

CPI Aero has approximately three decades experience manufacturing critical and complex aircraft structures. Our executive management team has a diverse background of aerospace management experience from all levels of the aerospace supply chain – from large corporations such as Northrop Grumman, to smaller Tier 1 and Tier 2 suppliers. 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 products. CPI Aero is located in central Long Island, New York in a 75,000 square foot facility.

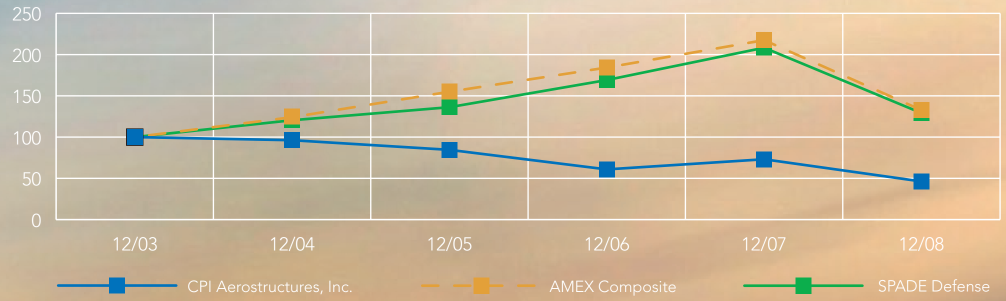
With our quality certifications, including ISO 9001:2000 and the AS9100 Aerospace Standard, our direct business with branches of the military, and our portfolio of large contractor skills, we are viewed as a prime military contractor.

Vincent Palazzolo
Chief Financial Officer

The graph below 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 12/31/2003 and tracks it through 12/31/2008.

	12/03	12/04	12/05	12/06	12/07	12/08
CPI Aerostructures, Inc.	100.00	96.22	84.54	60.84	73.11	46.22
AMEX Composite	100.00	124.13	155.00	184.30	217.52	132.72
SPADE Defense	100.00	120.42	136.23	169.15	208.32	129.13

The stock price performance included in this graph is not necessarily indicative of future stock price performance.



SELECTED FINANCIAL DATA

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
Income (loss) from operations	3,806,508	3,034,364	(1,908,336)	2,670,284	6,870,846
Net income (loss)	$2,590,613	$1,906,896	$(1,265,006)	$1,519,433	$5,076,031
IIncome (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

Balance Sheet Data:					
Cash	$424,082	$338,391	$38,564	$877,182	$1,756,350
Total assets	43,351,506	36,620,572	32,160,187	32,687,784	30,759,124
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

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. 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 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.

	Payments Due By Period ($)				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
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.

BALANCE SHEETS

Year ended December 31,	2008	2007
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
Total current assets	**41,823,767**	**35,575,822**
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)	----
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**

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

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	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
Stock compensation expense	—	—	495,046	—	—	—	495,046
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

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	—	—
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

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.

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 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 contact 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 generally accepted accounting principles and expands disclosures about fair value measurements. The Company adopted the provisions of SFAS 157 effective January 1, 2008.

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

		Fair Value Measurements		
Description	Total	Quoted Prices in Active Markets for Identical assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swap, net	$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 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.

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.

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 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

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)
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 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, 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	
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 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.

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.

J.H. Cohn LLP

Jericho, New York
March 24, 2009

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND 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.

CORPORATE INFORMATION

Officers

Edward J. Fred
President and
Chief Executive Officer

Vincent Palazzolo
Chief Financial Officer

Douglas McCrosson
Senior Vice President,
Operations

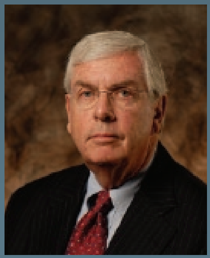
Gregg Aramanda
Vice President,
Business Development

Robert Muller
Vice President,
Program Management

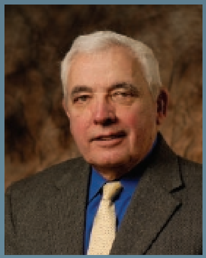
Board of Directors

Eric Rosenfeld
Chairman

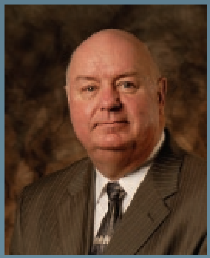
Edward J. Fred
President and
Chief Executive Officer



Harvey Bazaar
Director



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 NYSE Amex 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, 2008, 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

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