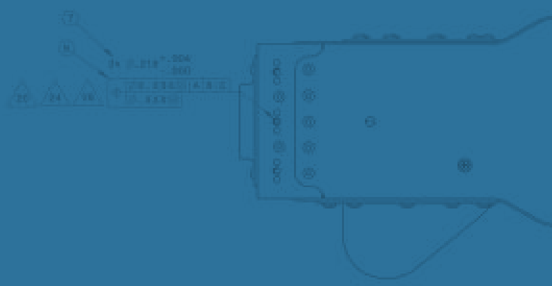
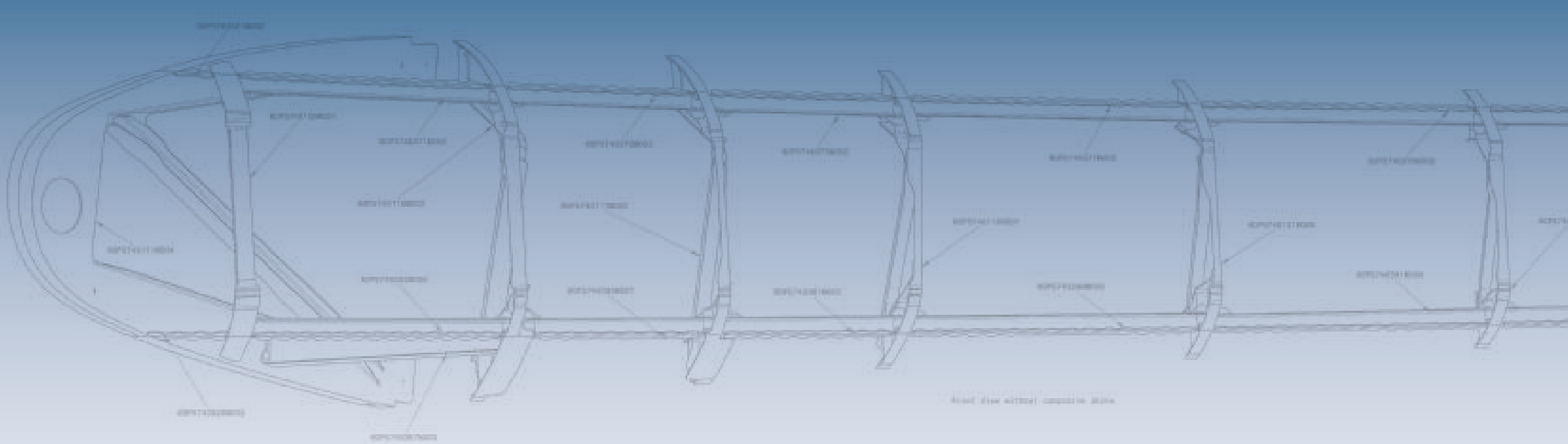
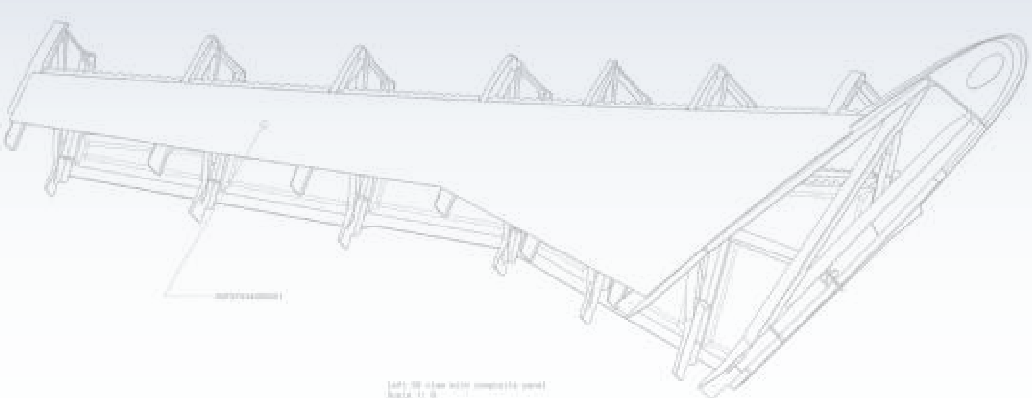
CPI AERO

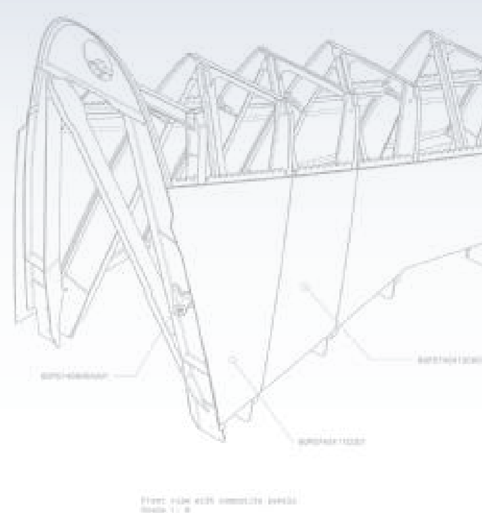
2009 ANNUAL REPORT

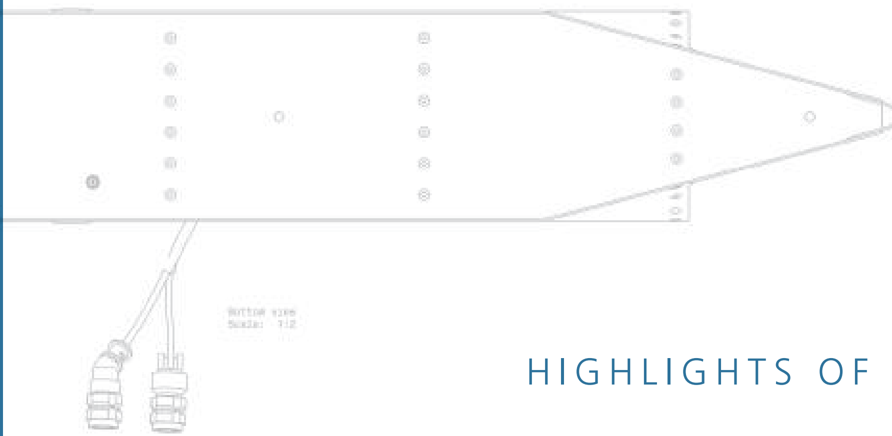


CPI Aerostructures, Inc. is engaged in the contract production of structural aircraft parts principally for the U.S. Air Force and other branches of the U.S. armed forces, either as a prime contractor or as a subcontractor for other defense prime contractors. CPI Aero also acts as a subcontractor to prime aircraft contractors in the production of commercial aircraft parts. CPI Aero has over 30 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.



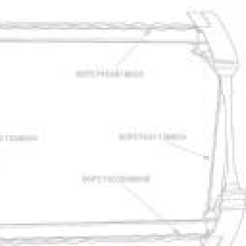


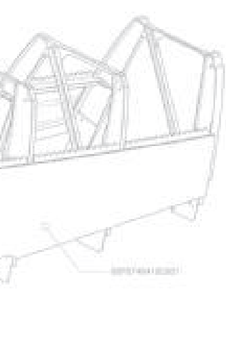




HIGHLIGHTS OF THE YEAR

- Total revenue increased 23% to a record $43,906,825
- Gross margin improved from 24% to 26%
- Work on long-term programs boosted revenue and profitability
- Improving Cash flow





NET REVENUE

(in millions of dollars)

By focusing our marketing efforts on subcontracting work, we believe that we are positioned to benefit from additional opportunities with our existing customers as well as business from new prime contractor customers.

The Company continues its strong performance and growth. For the second year in a row we reported record revenue, which last year increased 23% to $43,906,825. The increase in revenue is primarily the result of our Gulfstream G650, Boeing A-10 and Northrop Grumman E-2D programs, our three major subcontracts awarded in 2008. We also achieved a 52% improvement in net income as our gross margin increased to 26% (from 24% in 2008) and we significantly reduced selling, general and administrative expenses as a percent of revenue.

Our 2009 new contract awards totaled $23.4 million consisting of government prime contracts ($10.6 million), government subcontracts ($6.9 million) and commercial subcontracts ($5.9 million). Although this total was well below contract awards for 2008, our orders have recently increased with awards in the fourth quarter of 2009 being significantly higher than those obtained during the previous quarters of the year and awards this year through April 22, 2010 totaling $7.1 million, compared to $4.5 million in the same period last year. The 2010 awards include subcontract work for Sikorsky on aircraft platforms that are new to us and add-on work for our Boeing A-10 program which demonstrate our success in expanding the market for our production.

While we pursue new contracts directly from the government, we are not solely reliant on them. By focusing our marketing efforts on subcontracting work, we believe that we are positioned to benefit from additional opportunities with our existing customers as well as business from new prime contractor customers. We have also have expanded our business base beyond fixed wing military programs and maintain programs with helicopter and business/private jet makers. The long-term multi-million dollar contracts we received in 2008 and the shift toward subcontracting work for the world's aviation, aerospace and defense leaders have transformed the Company into a widely respected manufacturer of structural assemblies for the aerospace and defense industry.

We are proud of the many special distinctions we have received from our customers which validate our efforts to solidify our customer relationships and industry position. In 2009 Northrop Grumman acknowledged our contribution to the Rapid Airborne Mine Clearance System and its Corporate Socio-Economic Business Programs Office presented us with its "World Class Team Award" recognizing our work on the E-2D Outer Wing Panel program. For the third year in a row, we earned a place among Sikorsky Aircraft's top 100 suppliers, and we are continue to work diligently to join the elite group of companies designated by Sikorsky as "Supplier Gold."

Edward J. Fred
Chief Executive Officer and President

Eric Rosenfeld
Chairman of the Board of Directors

Based on the visibility we currently have, we project that 2010 revenue will be in the range of $48 million to $51 million, with resulting net income in the range of $4.3 million to $4.8 million. It is our expectation that our three major long-term production programs (Gulfstream G650, Boeing A-10 and Northrop Grumman E-2D) will be in full scale production and producing consistent significant revenue during 2011, and we therefore project that 2011 revenue will be in the range of $78 million to $81 million, with resulting net income in the range of $8.9 million to $9.5 million. Additionally, using 2008 as the baseline, our 2011 guidance affirms our expectations for a three-year 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%

In early April 2010 we sold 500,000 shares of our common stock at a sale price of $7.80 per share in a "registered direct" offering primarily to institutional investors. The $3.5 million net proceeds of the offering provides us with additional working capital to fund our expected growth in 2010
and 2011.

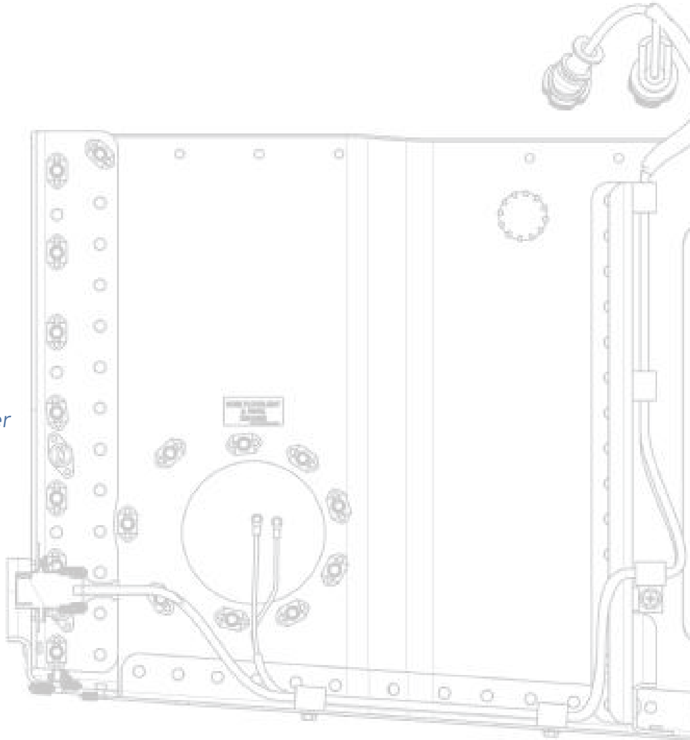
CPI Aero's future has never been brighter and we look forward to continued success in years to come. We would like to thank all of the members of our organization who have contributed to our accomplishments. We are grateful for the support and confidence of our shareholders, and remain committed to increasing shareholder value by positioning the Company to do what we do best; providing our aerospace/defense customers with value-added engineering and quality on-time delivery.

Sincerely yours,

Edward J. Fred
Chief Executive Officer and President

Eric Rosenfeld
Chairman of the Board of Directors

Douglas McCrosson
Chief Operating Officer



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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 and the E-3 "Sentry" AWACS jet.

RELIABLE QUALITY

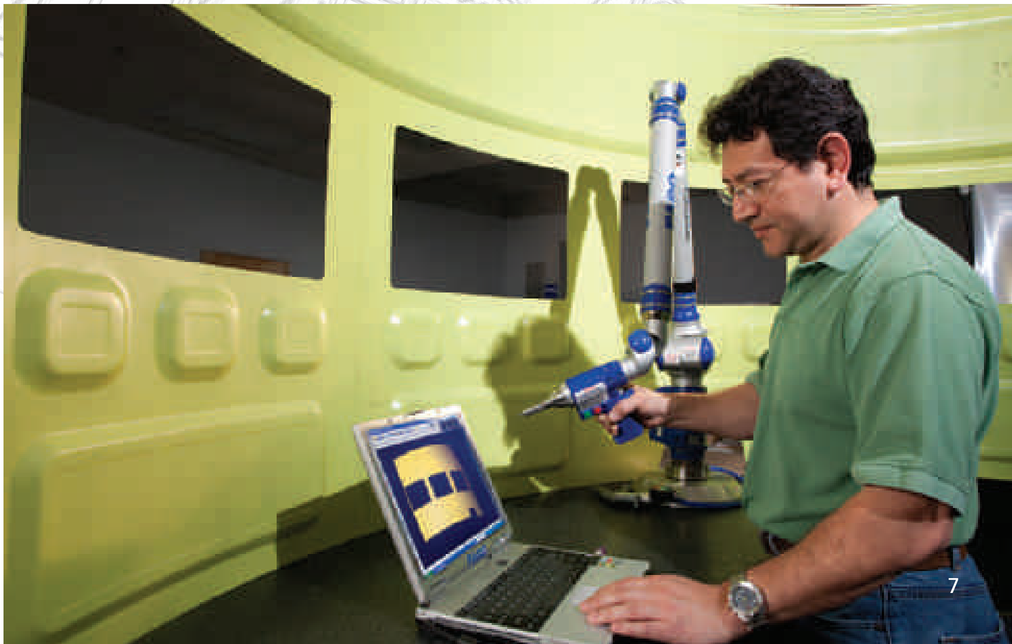
PRECISION CRAFTSMEN

Our three major long-term production programs (Gulfstream G650, Boeing A-10 and Northrop Grumman E-2D) will be in full scale production and producing consistent, significant revenue by 2011.

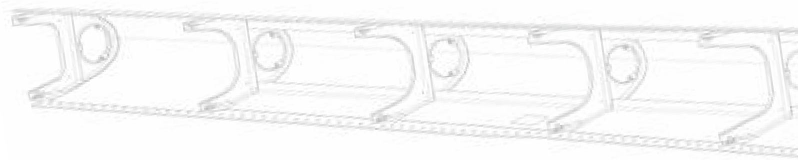
As a **subcontractor to leading defense prime contractors** such as Northrop Grumman Corporation, The Boeing Company, Lockheed Martin Corporation and Sikorsky Aircraft Corporation, we deliver various pods, and modular and structural assemblies for **military aircraft** such as E-2D "Hawkeye" surveillance plane, the A-10 "Thunderbolt" or "Warthog" attack jet, the UH-60 "Blackhawk" helicopter, the MH-60S mine counter measure helicopter and the C5 cargo jet.

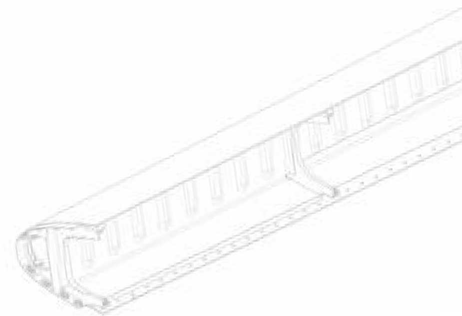
We also operate as a **subcontractor to aerospace and defense companies**, including Sikorsky and Spirit AeroSystems, Inc. in the production of **assemblies for commercial aircraft**. For Sikorsky, we deliver various kits and assemblies for the S-92 civilian helicopter. We are providing Spirit AeroSystems 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).



Vincent Palazzolo
Chief Financial Officer

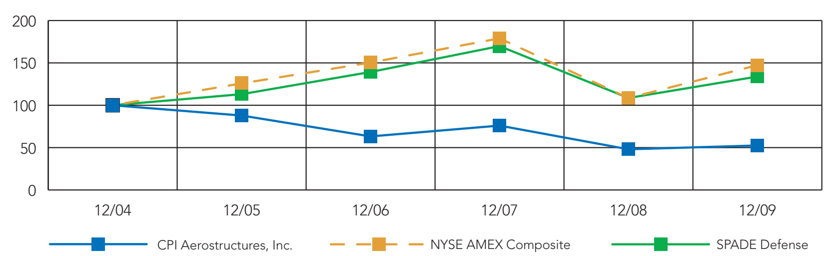




CPI Aero has approximately three decades experience manufacturing critical and complex aircraft structures. Our executive management team has a diverse background of aerospace management experience from all levels of the aerospace supply chain – from large corporations such as Northrop Grumman, to smaller 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.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

The following graph compares the cumulative 5-year total return provided shareholders on CPI Aerostructures, Inc.'s com-mon stock relative to the cumulative total returns of the NYSE Amex Composite index and the The SPADE Defense index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on 12/31/2004 and its relative performance is tracked through 12/31/2009.



	12/04	12/05	12/06	12/07	12/08	12/09
CPI Aerostructures, Inc.	100.00	87.86	63.23	75.98	48.03	52.49
NYSE Amex Composite	100.00	125.80	150.40	178.95	108.56	147.27
The SPADE Defense	100.00	113.08	139.28	169.80	108.60	133.87

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

DEPENDABLE DELIVERY

SELECTED FINANCIAL DATA

Statement of Operations Data:	Years Ended December 31,				
	2009	2008	2007	2006	2005
Revenue	$ 43,906,825	$ 35,588,831	$ 27,985,476	$ 17,907,989	$ 25,526,404
Income (loss) from operations	6,111,954	3,806,508	3,034,364	(1,908,336)	2,670,284
Net income (loss)	$3,946,007	$2,590,613	$1,906,896	$(1,265,006)	$1,519,433
Income (loss) per common share – basic	$0.66	$0.44	$0.34	$(0.23)	$0.28
Income (loss) per common share – diluted	$0.64	$0.42	$0.32	$(0.23)	$0.25

Balance Sheet Data:					
Cash	$2,224,825	$424,082	$338,391	$38,564	$877,182
Total assets	52,537,131	43,351,506	36,620,572	32,160,187	32,687,784
Working capital	39,118,450	35,135,395	28,716,968	25,122,504	26,029,916
Short-term debt	2,836,592	920,668	1,103,701	392,188	87,617
Long-term debt	1,801,357	2,401,206	7,605	-----	42,188
Shareholders' equity	38,517,514	33,983,150	29,603,514	26,177,655	27,162,272
Total liabilities and shareholders' equity	52,537,131	43,351,506	36,620,572	32,160,187	32,687,784

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 significant contracts 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 from NGC 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 began 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 the financial statements 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.

Results of Operations

Year Ended December 31, 2009 as Compared to the Year Ended December 31, 2008

Revenue. Revenue for the year ended December 31, 2009 was $43,906,825 compared to $35,588,831 for the same period last year, representing an increase of $8,317,994 or 23%. The increase in revenue is primarily the result of work performed on our three major subcontract awards won in 2008. The Gulfstream G650 program, Boeing A-10 program and NGC E-2D program accounted for 21.4%, 17.7% and 6.3% of our revenue in 2009, respectively.

Overall, revenue generated from prime government contracts for the year ended December 31, 2009 was $12,249,372 compared to $17,412,962 for the year ended December 31, 2008, a decrease of $5,163,590 or 30%. Revenue generated from government subcontracts for the year ended December 31, 2009 was $18,826,766 compared to $10,766,994 for the year ended December 31, 2008, an increase of $8,059,772 or 75%, primarily the result of the A-10 and E-2D programs. Revenue generated from commercial contracts was $12,830,687 for the year ended December 31, 2009 compared to $7,408,875 for the year ended December 31, 2008, an increase of $5,421,812 or 73%, primarily a result of the G650 program.

During the year ended December 31, 2009, we received approximately $23.4 million of new contract awards, which included approximately $10.6 million of government prime contract awards, approximately $6.9 million of government subcontract awards and approximately $5.9 million of commercial subcontract awards, compared to $55.4 million of new contract awards in 2008, which included $9.2 million of government prime contract awards, $36.2 million of government subcontract awards and $10.0 million of commercial contract awards.

As of December 31, 2009, we had approximately $270 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 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, 2009 was $11,309,617 compared to $8,523,588 for the year ended December 31, 2008, an increase of $2,786,029. As a percentage of revenue, gross profit for the year ended December 31, 2009 was 25.8% compared to 24.0% for the same period last year. The increase in gross margin percentage was the result of better margins obtained on our new long-term programs as these programs mature and as we have renegotiated pricing on program changes and add on orders.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2009 were $5,197,663 compared to $4,717,080 for the year ended December 31, 2008, an increase of $480,583, or 10.2%. This increase was primarily due to an approximately $835,000 increase in salaries, the result of changing the classification of certain employees from factory overhead in 2008 to selling, general and administrative expenses in 2009 offset by a decrease in consulting fees of approximately $219,000 and a decrease in public company fees of approximately $115,000.

Interest Expense. Interest expense for the year ended December 31, 2009 was $252,961, compared to $31,847 for 2008, an increase of $221,114 or 694%. 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 from operations. We had income from operations for the year ended December 31, 2009 of $6,111,954 compared to $3,806,508 for the year ended December 31, 2008. The increase in income was a result of higher revenue and gross margin as described previously.

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.

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.

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 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.

Business Outlook

Our expectations for 2010 are as follows:

- Revenue in the range of $48-$51 million, a 9%-16% increase over 2009, primarily due to the continued increase in work on our three major long-term programs (A-10, E-2D and G650);
- Gross margin percentage in the range of 24%-26%, comparable to our 2009 gross margin percentage;
- Net income in the range of $4.3-$4.8 million, a 10%-23% increase over 2009, primarily due to the expected increased revenue described above.

Our future results of operations and other forward looking statements contained in this annual report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, involve risks and uncertainties which could cause actual results to differ materially from our expectations. See "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements" of our Form 10-K filed with the SEC. The statements in the "Business Outlook" section and other forward-looking statements of this annual report are subject to revision during the course of the year in our quarterly earnings releases and SEC filings and at other times.

Liquidity and Capital Resources

General. At December 31, 2009, we had working capital of $39,118,450 compared to $35,135,395 at December 31, 2008, an increase of $3,983,055, or 11.3%.

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. 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.

Our costs and estimated earnings in excess of billings, net of billings in excess of costs and estimated earnings, increased by approximately $5,153,000 during the year ended December 31, 2009. The net increase in costs and estimated earnings in excess of billings on uncompleted contracts was primarily due to higher levels of procurement and production related to work on new contract awards and advances made to expedite delivery of tooling required for our new long-term contracts with Boeing, Spirit and NGC. In order to perform on new programs we may be required to expend up-front costs, that may have to be amortized over a portion of production units. In the case of significant program delays and/or program cancellations, we could be required to bear impairment charges which may be material, for costs that are not recoverable. Such charges and the loss of up-front costs could have a material impact on our liquidity. Our costs and estimated earnings in excess of billings, net of billings in excess of costs and estimated earnings, increased during the year, however when compared to the balances at September 30, 2009 the balance declined by $220,000 as we have been able to begin billing certain of our long-term contracts.

Additionally, at December 31, 2009, our cash balance was $2,224,825 compared to $424,082 at December 31, 2008, an increase of $1,800,743 and our accounts receivable balance at December 31, 2009 increased to $5,403,932 from $2,975,012 at December 31, 2008 and $4,996,501 at September 30, 2009.

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. On July 7, 2009, the Company and Sovereign Bank amended the terms of the Sovereign Revolving Facility, increasing the existing revolving credit facility under the Credit Agreement from an aggregate of $2,500,000 to an aggregate of $3,500,000 and extending the term of the revolving credit facility from August 2010 to August 2011. In addition, the interest rate of borrowings under the revolving credit facility was amended to (i) the greater of 4.0% or 3.5% in excess of the LIBOR rate or (ii) the greater of 4.0% or 0.75% in excess of Sovereign Bank's prime rate, as elected by the Company in accordance with the Credit Agreement. The Credit Agreement was further amended to increase the commitment fee from 0.25% to 0.50% per annum on the average daily unused portion of the revolving credit commitment commencing September 30, 2009, and to permit the Company's sale of a certain single customer accounts receivable.

As of December 31, 2009, the Company was in compliance with all of the financial covenants contained in the credit agreement. As of December 31, 2009, the Company had $2,200,000 outstanding 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 (2.735% as of December 31, 2009) 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.

We believe that our existing resources, together with the availability under our credit facility, will be sufficient to meet our current working capital needs for at least the next 12 months. Contractual Obligations. The table below summarizes information about our contractual obligations as of December 31, 2009 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	$2,350,000	$600,000	$1,200,000	$550,000	—
Capital Lease Obligations	87,949	36,592	51,357	—	—
Operating Leases	2,308,029	434,728	908,972	964,329	—
Employment Agreement Compensation**	3,218,000	1,142,000	2,076,000	—	—
Interest Rate Swap Agreement	52,874	—	52,874	—	—
Total Contractual Cash Obligations	$8,016,852	$2,213,320	$4,289,203	$1,514,329	$—

**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,	2009	2008
ASSETS		
Current Assets:		
Cash	$2,224,825	$424,082
Accounts receivable, net	5,403,932	2,975,012
Costs and estimated earnings in excess of billings on uncompleted contracts	43,018,221	37,865,016
Prepaid expenses and other current assets	451,068	559,657
Total current assets	**51,098,046**	**41,823,767**
Property and equipment, net	853,820	1,002,974
Deferred income taxes	526,000	345,500
Other assets	59,265	179,265
Total Assets	**$52,537,131**	**$43,351,506**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$5,859,182	$3,303,426
Accrued expenses	610,448	1,081,278
Current portion of long-term debt	636,592	620,668
Line of credit	2,200,000	300,000
Deferred income taxes	305,000	476,000
Income taxes payable	2,368,374	907,000
Total current liabilities	**11,979,596**	**6,688,372**
Long-term debt, net of current portion	1,801,357	2,401,206
Other liabilities	238,664	278,778
Total Liabilities	**14,019,617**	**9,368,356**
Commitments		
Shareholders' Equity:		
Common stock - $.001 par value; authorized 50,000,000 shares, issued 6,122,524 and 6,046,273 shares, respectively, and outstanding 6,033,690 and 5,982,739 shares, respectively	6,123	6,046
Additional paid-in capital	27,369,043	26,660,606
Retained earnings	11,888,028	7,942,021
Accumulated other comprehensive loss	(52,874)	(84,517)
Treasury stock, 88,834 and 63,534 shares, respectively of common stock (at cost)	(692,806)	(541,006)
Total Shareholders' Equity	**38,517,514**	**33,983,150**
Total Liabilities and Shareholders' Equity	**$52,537,131**	**$43,351,506**

STATEMENTS OF INCOME

Year ended December 31,	2009	2008	2007
Revenue	$43,906,825	$35,588,831	$27,985,476
Cost of sales	32,597,208	27,065,243	20,596,085
Gross profit	11,309,617	8,523,588	7,389,391
Selling, general and administrative expenses	5,197,663	4,717,080	4,355,027
Income from operations	6,111,954	3,806,508	3,034,364
Interest income (expense)			
Interest/other income	2,014	78,952	4,973
Interest expense	(252,961)	(31,847)	(22,441)
Total other income (expense), net	(250,947)	47,105	(17,468)
Income before provision for income taxes	5,861,007	3,853,613	3,016,896
Provision for income taxes	1,915,000	1,263,000	1,110,000
Net income	$3,946,007	$2,590,613	$1,906,896
Basic net income per common share:	$0.66	$0.44	$0.34
Diluted net income per common share:	$0.64	$0.42	$0.32
Shares used in computing earnings per common share:			
Basic	5,994,326	5,952,703	5,673,903
Diluted	6,156,628	6,203,789	6,028,480

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2009, 2008 and 2007

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2007	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 acquired	—	—	—	—	(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
Net Income	—	—	—	3,946,007	—	—	3,946,007
Change in unrealized loss from interest rate swap	—	—	—	—	—	31,643	31,643
Comprehensive income	—	—	—	—	—	—	3,977,650
Common stock issued upon exercise of options and warrants	60,000	60	151,740	—	—	—	151,800
Common stock issued as employee compensation	16,251	17	72,990	—	—	—	73,007
Stock compensation expense	—	—	483,707	—	—	—	483,707
Treasury stock acquired	—	—	—	—	(151,800)	—	(151,800)
Balance at December 31, 2009	6,122,524	$6,123	$27,369,043	$11,888,028	$(692,806)	$(52,874)	$38,517,514

STATEMENTS OF CASH FLOWS

Year ended December 31,	2009	2008	2007
Cash flows from operating activities:			
Net income	$ 3,946,007	$ 2,590,613	$1,906,896
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	338,995	287,412	235,227
Deferred rent	7,830	20,122	32,058
Stock-based compensation expense	483,707	495,046	382,600
Common stock issued as employee compensation	21,468	18,260	22,763
Deferred portion of provision for income taxes	(367,800)	(206,961)	(49,000)
Tax benefit for stock options	—	(278,000)	(495,000)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(2,428,920)	369,363	(1,922,240)
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(5,153,205)	(6,716,835)	(2,364,473)
Decrease (increase) in prepaid expenses and other current assets	168,589	(65,252)	412,214
Decrease in other assets	60,000	17,416	23,275
(Decrease) increase in accounts payable and accrued expenses	2,136,464	(338,902)	(177,651)
Increase in income taxes payable	1,461,374	448,000	459,000
Decrease in refundable income taxes	—	528,470	100,000
Net cash provided by (used in) operating activities	674,509	(2,831,248)	(1,434,331)
Cash flows from investing activities:			
Purchase of property and equipment	(142,661)	(493,667)	(98 560)
Net cash used in investing activities	(142,661)	(493,667)	(98,560)
Cash flows from financing activities:			
Proceeds from exercise of stock options and warrants	—	999,687	618,600
Payment of line of credit	(800,000)	(2,500,000)	—
Proceeds from line of credit	2,700,000	1,700,000	750,000
Payment of long-term debt	(631,105)	(67,081)	(30,882)
Proceeds from long-term debt	—	3,000,000	—
Tax benefit for stock options	—	278,000	495,000
Net cash provided by financing activities	1,268,895	3,410,606	1,832,718
Net increase in cash	1,800,743	85,691	299,827
Cash at beginning of year	424,082	338,391	38,564
Cash at end of year	$ 2,224,825	$ 424,082	$ 338,391
Supplemental schedule of noncash investing and financing activities:			
Deferred tax benefit of interest rate swap liability	$(16,300)	$ 43,539	—
Equipment acquired under capital lease	$47,180	$ 77,650	—
Settlement of other receivables	$60,000	—	—
Accrued expenses settled in exchange for common stock	$51,540	$ 82,547	----
Stock options proceeds paid with Company's stock	$ 151,800	—	$ 220,150
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	$ 265,761	$ 19,262	$ 22,441
Cash paid for income taxes	$ 808,627	$ 765,000	$ 102,400

NOTES TO FINANCIAL STATEMENTS

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.

Revenue Recognition

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.

Government Contracts

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.

Cash

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, 2009 and 2008, 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, 2009, the Company had approximately $2,100,000 of uninsured balances. The Company limits its credit risk by selecting financial institutions considered to be highly creditworthy.

Receivable

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, 2009 and 2008.

Property and Equipment

Depreciation and amortization of property 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.

Rent

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.

Use of Estimates

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.

Long Lived Assets

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.

Short-Term Debt

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 tha n the stated value at December 31, 2009.

Derivatives

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 record these derivative financial instruments on the balance sheet at fair value. 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.

Any ineffective portion of the gain or loss on the derivative instrument for a cash flow 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.

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 2009. As of December 31, 2009 and 2008, we had a net deferred loss associated with cash flow hedges of approximately $80,000 and $128,000, respectively, 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, 2009 and 2008, 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.

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt	$4,637,949	$4,637,949	$3,321,874	$3,321,874

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

The following tables presents the fair values of those financial assets and liabilities measured on a recurring basis as of December 31, 2009 and 2008:

	Fair Value Measurements 2008			
Description	Total	Quoted in Active Markets for Identical assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swap, net	$80,113	—	$80,113	—
Total	$80,113	—	$80,113	—

	Fair Value Measurements 2009			
Description	Total	Quoted 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, 2009 and 2008, $80,113 and $128,056, respectively, was included in Other Liabilities related to the fair value of the Company's interest rate swap, and $52,874 and $84,517, respectively, net of tax of $27,239 and $43,539, respectively, was included in Accumulated Other Comprehensive Loss.

Freight and Delivery Costs

The Company incurred freight and delivery costs of approximately $72,000, $159,000, $144,000, respectively, during the years ended December 31, 2009, 2008 and 2007. These costs are included in cost of sales.

Earnings Per Share

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 162,302 were used in the calculation of diluted earnings per common share in 2009. Incremental shares of 603,333 were not included in the diluted earnings per share calculations at December 31, 2009, 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 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.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No.168, The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No.162 (the "Codification") The Codification reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The Codification supersedes all existing U.S. accounting standards; all other accounting literature not included in the Codification (other than Securities and Exchange Commission guidance for publicly-traded companies) is considered non-authoritative. The Codification is effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed how the Company refers to U.S. GAAP accounting standards but did not impact the Company's results of operations, financial position or liquidity.

In June 2009, the FASB issued new guidance for accounting for subsequent events. The new guidance, which is now part of Accounting Standards Codification ("ASC") 855, incorporates the subsequent events guidance contained in the auditing standards literature into authoritative accounting literature. It also requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. ASC 855 is effective for all interim and annual periods ending after September 15, 2009. We adopted ASC 855 upon its issuance and it had no material impact on our financial statements.

In March 2008, the FASB issued new guidance on the disclosure of derivative instruments and hedging activities. The new guidance is now a part of ASC 815, Derivatives and Hedging Activities. This statement requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. The Company adopted ASC 815 on January 1, 2009.

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

At December 31, 2009, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

	U.S. Government	Commercial	Total
Costs incurred on uncompleted contracts	$86,564,289	$29,253,639	$115,817,928
Estimated earnings	49,753,060	14,358,779	64,111,839
	136,317,349	43,612,418	179,929,767
Less billings to date	107,742,619	29,168,927	136,911,546
Costs and estimated earnings in excess of billings on uncompleted contracts	$28,574,730	$14,443,491	$43,018,221

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

Unbilled costs and estimated earnings a re billed in accordance with applicable contract terms. As of December 31, 2009, approximately $3,000,000 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, 2009, 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 $6,100,000, 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 uncompleted 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:

	2009	2008
Billed receivables	$5,390,762	$2,884,592
Unbilled receivables on completed contracts	22,150	99,400
Less: allowance for doubtful accounts	(8,980)	(8,980)
	$5,403,932	$2,975,012

4. PROPERTY AND EQUIPMENT:

Plant and equipment, at cost, consists of the following

December 31,	2009	2008	Estimated Useful Life
Machinery and equipment	$635,475	$588,298	5 to 10 years
Computer equipment	1,233,602	1,124,645	5 years
Furniture and fixtures	201,943	186,886	7 years
Automobiles and trucks	13,162	13,162	5 years
Leasehold improvements	834,373	815,723	10 years
	2,918,555	2,728,714	
Less accumulated depreciation and amortization	2,064,735	1,725,740	
	$853,820	$1,002,974	

Depreciation and amortization expense for the years ended December 31, 2009, 2008 and 2007 was $338,995, $287,412 and $235,227, respectively.

During the years ended December 31, 2009 and 2008, the Company acquired $47,180 and $77,650, respectively, of property and equipment under capitalized leases.

5. LINE OF CREDIT:

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. On July 7, 2009, the Company and Sovereign Bank amended the terms of the Sovereign Revolving Facility, increasing the existing revolving credit facility under the Credit Agreement from an aggregate of $2,500,000 to an aggregate of $3,500,000 and extending the term of the revolving credit facility from August 2010 to August 2011. In addition, the interest rate of borrowings under the revolving credit facility was amended to (i) the greater of 4.0% or 3.5% in excess of the LIBOR rate or (ii) the greater of 4.0% or 0.75% in excess of Sovereign Bank's prime rate, as elected by the Company in accordance with the Credit Agreement. The Credit Agreement was further amended to increase the commitment fee from 0.25% to 0.50% per annum on the average daily unused portion of the revolving credit commitment commencing September 30, 2009, and to permit the Company's sale of a certain single customer accounts receivable.

As of December 31, 2009, the Company was in compliance with all of the financial covenants contained in the credit agreement. As of December 31, 2009, the Company had $2,200,000 outstanding under the Sovereign Revolving Facility, bearing interest at 4.0% per annum.

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 (2.735% as of December 31, 2009) 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 fixed 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,	
2010	$600,000
2011	600,000
2012	600,000
2013	550,000
	$2,350,000

Also included in long-term debt are capital leases of $87,949 at December 31, 2009, net of a current portion of $36,592.

7. COMMITMENTS:

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

Year ending December 31,	
2010	$ 1,142,000
2011	1,229,000
2012	847,000
	$3,218,000

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,	
2010	434,728
2011	447,770
2012	461,203
2013	475,038
2014	489,290
	$2,308,029

Rent expense for the years ended December 31, 2009, 2008 and 2007 was $430,066, $430,061 and $430,056, respectively.

8. INCOME TAXES

The provision for income taxes consists of the following:

Years ended December 31,	2009	2008	2007
Current:			
Federal	$2,282,800	$1,513,500	$1,159,000
Deferred:			
Federal	(367,800)	(250,500)	(49,000)
	$1,915,000	$1,263,000	$1,110,000

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:

Years ended December 31,	2009	2008	2007
Taxes computed at the federal statutory rate	$1,993,000	$1,310,000	$1,026,000
Permanent differences	(78,000)	(47,000)	84,000
Provision for Income Taxes	$1,915,000	$1,263,000	$1,110,000

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

Deferred Tax Assets:	2009	2008
Property and equipment	$37,000	$5,000
Stock options	462,000	297,000
Interest rate swap	27,000	43,500
Deferred Tax Assets-non current	526,000	345,500
Deferred Tax Liabilities:		
Revenue recognition	305,000	476,000
Deferred Tax Liabilities-current	305,000	476,000
Net Deferred Tax Assets (Liabilities)	$221,000	$(130,500)

The Company recognized, for income tax purposes, a tax benefit of zero, $278,000 and $495,000 for the years ended December 31, 2009, 2008 and 2007, 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:

The Company accounts for compensation expense associated with Stock Options based on the fair value of the options on the date of grant.

The Company used the modified transition 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 the fair value method.

The Company's net income for the years ended December 31, 2009, 2008 and 2007, include approximately $484,000, $495,000 and $383,000 of compensation expense, respectively. The Company recorded reductions in income tax payable of approximately, zero, $278,000 and $495,000 for the years ended December 31, 2009, 2008 and 2007, respectively, as a result of the tax benefit upon exercise of options. The compensation expense related to the Company's stock-based compensation arrangements is recorded as a component of selling, general and administrative expenses. Cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized from options exercised (excess tax benefits) is classified as cash inflows from financing activities and cash inflows 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.

In 2009, the Company adopted the Performance Equity Plan 2009 (the "2009 Plan"). The 2009 Plan reserved 500,000 common shares for issuance. The 2009 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 any person possessing more than 10% of the total combined voting power of all classes of Company stock, which are exercisable at 110% of the closing price of the Company's shares on the date of issuance. As of December 31, 2009, no options have been issued from the 2009 Plan.

The Company has 39,167 options available for grant under the 2000 Plan and 500,000 options available for grant under the 2009 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, 2009, 2008 and 2007:

	2009	2008	2007
Risk-free interest rate	1.66%	3.5%	4.9%
Expected volatility	95.8%	77%	68%
Dividend yield	0%	0%	0%
Expected option term-in years	5	5	5

The risk free interest rate for the years ended December 31, 2009, 2008 and 2007 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, 2009, 2008 and 2007 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, 2007	1,240,418	$5.17	4.38	
Granted during period	105,000	7.27		
Exercised	(335,000)	2.5		
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	3.91	
Granted during period	125,000	6.38		
Exercised	(60,000)	2.53		
Forfeited/Expired	(60,000)	9.38		
Outstanding and expected to				
vest at December 31, 2009	1,052,333	$6.47	2.88	$921,250
Vested at December 31, 2009	999,000	$6.45	2.55	$921,250

The weighted-average fair value of each option granted during the years ended December 31, 2009, 2008 and 2007, estimated as of the grant date using the Black-Scholes option valuation model was $4.87, $5.30 and $4.41, 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, 2009, 2008 and 2007, there was $33,005, $104,769 and $175,868, 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, 2009, no stock options were exercised for cash and 60,000 options were exercised in a cashless transaction, pursuant to provisions of the stock option plans. The Company received 25,300 shares of its common stock in exchange for the 60,000 shares issued in the exercise. The 25,300 shares that the Company received were valued at $151,800, the fair market value of the shares on the date of exercise, and were added to treasury stock

During the year ended December 31, 2009, the Company earned no tax benefit from the exercise of stock options.

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 2009, 2008 and 2007 amounted to $152,750, $122,670 and $93,698, respectively.

12. MAJOR CUSTOMER:

Twenty eight percent (28%) of revenue in 2009, 49% of revenue in 2008 and 63% of revenue in 2007 were directly to the U.S. government. Fifteen percent (15%) and 42% of accounts receivable at December 31, 2009 and 2008, respectively, were from the U. S. government. In addition, in 2009, 21%, 18%, 17% and 11% of our revenue were to our four largest Commercial customers, respectively. In 2008, 16% and 13% of our revenue were to our two largest commercial customers, respectively.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events after the balance sheet date and through the date of filing of the financial statements for appropriate accounting and disclosures.

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, 2009 and 2008, and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. 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, 2009 and 2008, and its related statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

J. H. Cohn LLP

Jericho, New York
March 23, 2010

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

Market Information

Our common shares are listed on the NYSE Amex under the symbol CVU. The following table sets forth for 2009 and 2008, the high and low sales prices of our common shares for the periods indicated, as reported by the NYSE Amex.

Period	High	Low
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
2009		
Quarter Ended March 31, 2009	$6.75	$3.52
Quarter Ended June 30, 2009	$8.30	$6.25
Quarter Ended September 30, 2009	$8.18	$5.85
Quarter Ended December 31, 2009	$7.40	$5.80

On March 19, 2010, the closing sale price for our common shares on the NYSE AMEX was $7.85. On March 19, 2010, there were 183 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

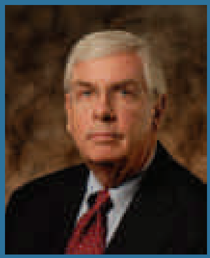
Vincent Palazzolo
Chief Financial Officer

Douglas McCrosson
Chief Operating Officer

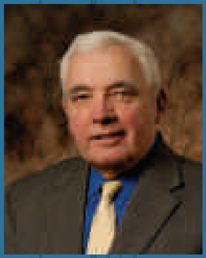
Board of Directors

Eric Rosenfeld
Chairman

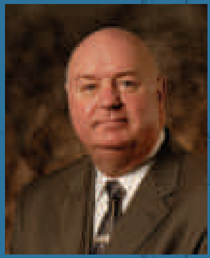
Edward J. Fred
President and
Chief Executive Officer



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 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, 2009, 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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