CPI AERO

2010 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

2010 was a record year in terms of new contract awards which approximated **$61.7 million** of which approximately **$8.5 million** were government prime contract awards, **$48.6 million** were government subcontract awards and **$4.6 million** were commercial subcontract awards.

Sikorsky Supplier Gold status

One of the major achievements of 2010 was being named by Sikorsky to its Supplier Gold status which was followed earlier this year with the $17.7 million S-92(R) civil helicopter order, the largest contract we have ever received from Sikorsky.

The Sikorsky Supplier Gold program is an opportunity to focus on achieving operational excellence across the organization.

We are very proud of our many accomplishments during 2010, among them record contract awards, being named "Supplier Gold" by Sikorsky Aircraft and the successful consummation of a public equity offering and expanded credit facility.

2010 Highlights

Our 2010 new contract awards were a record $61.7 million, comprised of $8.5 million of government prime contract awards, $48.6 million of government subcontract awards and $4.6 million of commercial contract awards. 2010 awards beat our previous record, set in 2008, by 12%.

At this time last year, we were working diligently to join the elite group of companies designated by Sikorsky Aircraft as "Supplier Gold." Our hard work was rewarded in November of 2010 when we were awarded "Supplier Gold" status by Sikorsky. We viewed the "Supplier Gold" program as an opportunity to focus on achieving operational excellence across the organization. We worked cooperatively with Sikorsky's supply chain personnel to identify areas that could be improved and then executed a plan to deliver best-in-class results. Moving forward, our goal is to not only sustain this superior performance level by continuing to fine tune our customer service and operations, but also to achieve even higher levels of quality and service for our customers.

In early April 2010, we sold 500,000 shares of our common stock, netting $3.5 million in proceeds, in a "registered direct" offering primarily to institutional investors. In May, we increased our revolving credit line with Sovereign Bank from an aggregate of $3,500,000 to an aggregate of $4,000,000 and extended the term from August 2011 to August 2013. The cash infusion and access to additional credit provide the financial resources that should enable us to achieve the growth objectives we are working towards.

Started 2011 on a Strong Note

2011 started on a very strong note with $30 million of new awards through March 15th, compared to $4.5 million for the same period of 2010. Since the beginning of the year, we received a $17.7 million contract from Sikorsky for work on the S-92® civil helicopter program, a $4 million order from Northrop Grumman for work on the E-2D Advanced Hawkeye aircraft, and a $7.9 million order under our C-5 TOP contract. One of the most promising developments came in March when we received a purchase order from a new customer, Bell Helicopter, for work on the AH-1Z ZULU attack helicopter. We are proud to be a part of the Bell Helicopter supplier network and look forward to expanding that relationship.

As the Bell and other awards demonstrate, CPI Aero's business has not only grown, but has also

Edward J. Fred
Chief Executive Officer and President

Eric Rosenfeld
Chairman of the Board of Directors

evolved. We have expanded our business base beyond fixed wing military programs to include helicopter and business/private jet programs. Growing our customer base remains an ongoing goal. To the credit of the 140 employees who are part of the CPI Aero organization, the work we have performed for major prime contractors has enhanced our reputation and stature which we are able to leverage to build relationships with additional prime manufacturers.

The Outlook

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 project that 2011 revenue will be in the range of $78 million to $81 million, with resulting net income in the range of $9.2 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 addition, we estimate that for 2012, revenue should be in the range of $88 million to $91 million, with resulting net income of between $11 million and $12 million.

Our guidance for 2011 and 2012 does not include orders from the $486 million of solicitations that we have bid on but were not awarded as of December 31, 2010.

As noted earlier, we strengthened our balance sheet to prepare for growth. We are also looking to expand into additional space in order to house the tooling and personnel needed to handle that growth.

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, best in class manufacturing and assembly and quality on-time delivery.

Sincerely yours,

Edward J. Fred
Chief Executive Officer and President

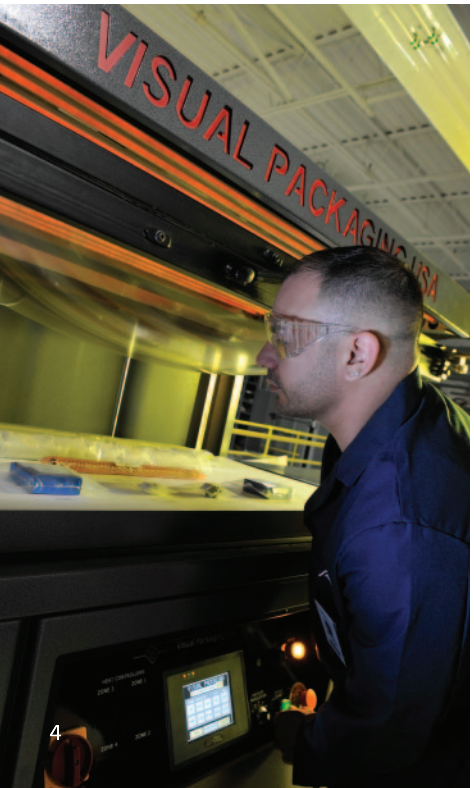
Eric Rosenfeld
Chairman of the Board of Directors

Douglas McCrosson
Chief Operating Officer

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 and the E-3 "Sentry" AWACS jet.

Government prime contracts made up



We combine small company responsiveness with large company technical capabilities.

10% of our 2010 revenue.

134

By striving to be better every day, we provide quality products and superior value to our customers and provide continued growth to our investors.

Under contract for 134 leading edge ship sets for the Gulfstream G650 business jet.

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).

We have made a firm commitment to lean manufacturing and have begun the process of transforming our company, in both our manufacturing and business processes.

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.

Our technical expertise and experience with legacy aircraft has lead to opportunities in the military market.

Total contract awards for the year were a record

$61.7 million

SELECTED FINANCIAL DATA

Statement of Operations Data:	Years Ended December 31,				
	2010	2009	2008	2007	2006
Revenue	$43,990,784	$43,906,825	$35,588,831	$27,985,476	$17,907,989
Income (loss) from operations	697,532	6,111,954	3,806,508	3,034,364	(1,908,336)
Net income (loss)	$ 529,896	$ 3,946,007	$ 2,590,613	$ 1,906,896	$ (1,265,006)
Income (loss) per common share – basic	$ 0.08	$ 0.66	$ 0.44	$ 0.34	$ (0.23)
Income (loss) per common share – diluted	$ 0.08	$ 0.64	$ 0.42	$ 0.32	$ (0.23)
Balance Sheet Data:					
Cash	$ 823,376	$ 2,224,825	$ 424,082	$ 338,391	$ 38,564
Total assets	56,457,187	52,537,131	43,351,506	36,620,572	32,160,187
Working capital	44,377,170	39,118,450	35,135,395	28,716,968	25,122,504
Short-term debt	1,485,008	2,836,592	920,668	1,103,701	392,188
Long-term debt	1,190,097	1,801,357	2,401,206	7,605	-----
Shareholders' equity	44,670,443	38,517,514	33,983,150	29,603,514	26,177,655
Total liabilities and shareholders' equity	56,457,187	52,537,131	43,351,506	36,620,572	32,160,187

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 primarily 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. The scope of work under this contract has increased to a potential value of $81 million as of December 31, 2010.
- 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 $195 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. The scope of work under this contract has a potential value of $47 million over the life of the program. Deliveries of these assemblies began in 2009 and continue through 2014.

While historically our direct U.S. Government work has typically ranged from six months to two years, our major subcontract awards for the E-2D, A-10 and G650 average a 7 year life. Except in cases where contract terms permit us to bill on a progress basis, we must incur upfront costs in producing assemblies and bill our customers upon delivery. Because of the upfront costs incurred, the timing of our billings and the nature of the percentage-of-completion method of accounting described below, there can be a significant disparity between the periods in which (a) costs are expended, (b) revenue and earnings are recorded and (c) cash is received.

Critical Accounting Policies

Revenue Recognition

We recognize revenue from our contracts over the contractual period under the percentage-of-completion (POC) method of accounting. Under the POC method of accounting, revenue 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, 2010 as Compared to the Year Ended December 31, 2009

Revenue. Revenue for the year ended December 31, 2010 was $43,990,784 compared to $43,906,825 for the same period last year, representing an increase of $83,958 or 0.19%. 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 10%, 35% and 27% of our revenue in 2010, respectively.

Overall, revenue generated from prime government contracts for the year ended December 31, 2010 was $4,471,399 compared to $12,249,372 for the year ended December 31, 2009, a decrease of $7,777,973 or 64%. The decrease in revenue from prime government contracts is predominately the result of changes in estimates that were necessary on three programs. The Department of Defense ("DOD") opted to terminate the T-38 program one release earlier than expected, which caused us to revise our revenue estimate on this program. The DOD placed purchase orders for 9 of the 10 projected years of the T-38 program. By not placing an order for the final year (estimated to be 43 aircraft), the value of the contract approximated $56 million, instead of the $61 million that the Company had expected. This change in estimate results in an adjustment of approximately $4.6 million. In addition, we had two C-5 contracts where we revised our revenue estimates based on our inability to get DOD approval of a first article and the related reductions in revenue associated with the government not ordering the expected production units on these programs. The two C-5 contracts were not related to the C-5 TOP contract. The change in estimate for the two C-5 contracts approximated $2.6 million.

Revenue generated from government subcontracts for the year ended December 31, 2010 was $31,963,271 compared to $18,826,766 for the year ended December 31, 2009, an increase of $13,136,505 or 70%, primarily the result of the A-10 and E-2D programs.

Revenue generated from commercial contracts was $7,556,114 for the year ended December 31, 2010 compared to $12,830,687 for the year ended December 31, 2009, a decrease of $5,274,573 or 41%. This decrease is the result of the normal production schedule anticipated on the G650 program during testing, FAA certification and initial low rate production.

During the year ended December 31, 2010, we received approximately $61.7 million of new contract awards, which included approximately $8.5 million of government prime contract awards, approximately $48.6 million of government subcontract awards and approximately $4.6 million of commercial contract awards, compared to $23.4 million of new contract awards in 2009, which included $10.6 million of government prime contract awards, $6.9 million of government subcontract awards and $5.9 million of commercial contract awards.

As of December 31, 2010, we had approximately $486 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, 2010 was $6,112,824 compared to $11,309,617 for the year ended December 31, 2009, a decrease of $5,196,793. As a percentage of revenue, gross profit for the year ended December 31, 2010 was 13.9% compared to 25.8% for the same period last year. The reduced gross profit percentage is the result of the changes in estimates on the three programs described above.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2010 were $5,415,292 compared to $5,197,663 for the year ended December 31, 2009, an increase of $217,629, or 4.2%. This increase was primarily due to an approximately $303,000 increase in accounting and legal fees, a $142,000 increase in public fees and a $101,000 increase in salaries offset by a decrease in accrued bonus of $350,000 and a decrease in consulting fees of approximately $135,000. The increase in accounting and legal fees was the result of strategic planning work done during the fourth quarter of 2010. The increase in public fees was the result of increased investor relations activity. The increase in salaries is the result of normal salary increases. The decrease in accrued bonus is the result of lower executive officer bonus computed pursuant to the executive officer employment agreements. The decrease in consulting fees is the result of decreased computer consultant work in 2010.

Interest Expense. Interest expense for the year ended December 31, 2010 was $158,406, compared to $252,961 for 2009, a decrease of $94,555 or 37%. The decrease in interest expense is the result of a decrease in outstanding debt during 2010 as compared to 2009.

Income from operations. We had income from operations for the year ended December 31, 2010 of $697,732 compared to $6,111,954 for the year ended December 31, 2009. The decrease in operating income was predominately the result of the change in estimates on the three contracts discussed earlier.

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 year ended December 31, 2008, 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.

Business Outlook

Our expectations for 2011 are as follows:

- Revenue in the range of $78-$81 million, a 77%-84% increase over 2010, 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 25%-27%;
- Net income in the range of $9.2-$9.5 million.

Liquidity and Capital Resources

General. At December 31, 2010, we had working capital of $44,377,170 compared to $39,118,450 at December 31, 2009, an increase of $5,258,720, or 13%.

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 increased by approximately $4,146,945 during the year ended December 31, 2010. 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 contract 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.

Additionally, at December 31, 2010, our cash balance was $823,376 compared to $2,224,825 at December 31, 2009, a decrease of $1,401,449. Our accounts receivable balance at December 31, 2010 increased to $6,152,544 from $5,403,932 at December 31, 2009 and $2,479,335 at September 30, 2010. During 2010 a large portion of our cash has been used to get the E-2D and A-10 programs up to their production levels.

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.

On May 26, 2010, the Company and Sovereign Bank entered into a third amendment to the Sovereign Revolving Facility increasing the existing revolving credit facility under the Credit Agreement from an aggregate of $3.5 million to an aggregate of $4.0 million and extending the term of the revolving credit facility from August 2011 to August 2013. In addition, the interest rate on borrowings under the revolving credit facility was decreased to (i) the greater of 3.75% or 3.25% in excess of the LIBOR Rate or (ii) the greater of 3.75% or 0.50% in excess of Sovereign Bank's prime rate, as elected by the Company in accordance with the Credit Agreement. 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 (2.758% as of December 31, 2010) 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.

As of December 31, 2010, because of the change in estimate on three prime government contracts which resulted in approximately $7.2 million adjustment to revenue in the fourth quarter of 2010, the Company was not in compliance with the financial covenants contained in the credit agreement. Sovereign Bank has waived these covenants as of December 31, 2010. In addition, the bank has amended the computation for the Debt Service Coverage Ratio beginning in the first quarter of 2011 so that the change in estimate adjustment doesn't result in a covenant violation in future quarters. As of December 31, 2010, the Company had $800,000 outstanding under the Sovereign Revolving 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, 2010 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	$1,750,000	$ 600,000	$1,150,000	$ —	$—
Capital Lease Obligations	125,105	85,005	40,100	—	—
Operating Leases	1,873,301	447,770	936,241	489,290	—
Employment Agreement Compensation**	2,076,300	1,229,000	847,300	—	—
Interest Rate Swap Agreement	45,404	—	45,404	—	—
Total Contractual Cash Obligations	$5,870,110	$2,361,775	$3,019,045	$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,	2010	2009
ASSETS		
Current Assets:		
Cash	$ 823,376	$ 2,224,825
Accounts receivable, net	6,152,544	5,403,932
Costs and estimated earnings in excess of billings on uncompleted contracts	47,165,166	43,018,221
Prepaid expenses and other current assets	606,369	451,068
Total current assets	**54,747,455**	**51,098,046**
Property and equipment, net	881,915	853,820
Deferred income taxes	668,000	526,000
Other assets	159,817	59,265
Total Assets	**$56,457,187**	**$52,537,131**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 8,267,330	$ 5,859,182
Accrued expenses	301,941	610,448
Current portion of long-term debt	685,008	636,592
Line of credit	800,000	2,200,000
Deferred income taxes	182,000	305,000
Income taxes payable	134,006	2,368,374
Total current liabilities	**10,370,285**	**11,979,596**
Long-term debt, net of current portion	1,190,097	1,801,357
Other liabilities	226,362	238,664
Total Liabilities	**11,786,744**	**14,019,617**
Commitments		
Shareholders' Equity:		
Common stock - $.001 par value; authorized 50,000,000 shares, issued 6,911,570 and 6,122,524 shares, respectively, and outstanding 6,789,736 and 6,033,690 shares, respectively	6,912	6,123
Additional paid-in capital	33,272,237	27,369,043
Retained earnings	12,417,924	11,888,028
Accumulated other comprehensive loss	(45,404)	(52,874)
Treasury stock, 121,834 and 88,834 shares, respectively of common stock (at cost)	(981,226)	(692,806)
Total Shareholders' Equity	**44,670,443**	**38,517,514**
Total Liabilities and Shareholders' Equity	**$56,457,187**	**$52,537,131**

STATEMENTS OF INCOME

Year ended December 31,	2010	2009	2008
Revenue	$43,990,784	$43,906,825	$35,588,831
Cost of sales	37,877,960	32,597,208	27,065,243
Gross profit	6,112,824	11,309,617	8,523,588
Selling, general and administrative expenses	5,415,292	5,197,663	4,717,080
Income from operations	697,532	6,111,954	3,806,508
Interest income (expense):			
Interest/other income	3,770	2,014	78,952
Interest expense	(158,406)	(252,961)	(31,847)
Total other income (expense), net	(154,636)	(250,947)	47,105
Income before provision for income taxes	542,896	5,861,007	3,853,613
Provision for income taxes	13,000	1,915,000	1,263,000
Net income	$ 529,896	$ 3,946,007	$ 2,590,613
Basic net income per common share:	$ 0.08	$ 0.66	$ 0.44
Diluted net income per common share:	$ 0.08	$ 0.64	$ 0.42
Shares used in computing earnings per common share:			
Basic	6,489,942	5,994,326	5,952,703
Diluted	6,736,501	6,156,628	6,203,789

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2010, 2009 and 2008

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2008	5,816,457	$5,816	$24,787,296	$ 5,351,408	$(541,006)	$ —	$29,603,514
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
Net Income	—	—	—	529,896	—	—	529,896
Change in unrealized loss from interest rate swap	—	—	—	—	—	7,470	7,470
Comprehensive income	—	—	—	—	—	—	537,366
Common stock issued in share offering	500,000	500	3,529,041	—	—	—	3,529,541
Common stock issued upon exercise of options and warrants	272,000	272	1,389,678	—	—	—	1,389,950
Common stock issued as employee compensation	17,046	17	126,846	—	—	—	126,863
Stock compensation expense	—	—	553,629	—	—	—	553,629
Tax benefit from stock option plans	—	—	304,000	—	—	—	304,000
Treasury stock acquired	—	—	—	—	(288,420)	—	(288,420)
Balance at December 31, 2010	6,911,570	$6,912	$33,272,237	$12,417,924	$(981,226)	$(45,404)	$44,670,443

STATEMENTS OF CASH FLOWS

Year ended December 31,	2010	2009	2008
Cash flows from operating activities:			
Net income	$ 529,896	$ 3,946,007	$ 2,590,613
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	386,394	338,995	287,412
Deferred rent	(4,832)	7,830	20,122
Stock-based compensation expense	553,629	483,707	495,046
Common stock issued as employee compensation	27,168	21,468	18,260
Deferred portion of provision for income taxes	(265,000)	(367,800)	(206,961)
Tax benefit for stock options	(304,000)	—	(278,000)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(878,612)	(2,428,920)	369,363
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(4,146,945)	(5,153,205)	(6,716,835)
Decrease (increase) in prepaid expenses and other current assets	(125,853)	168,589	(65,252)
Decrease in other assets	—	60,000	17,416
(Decrease) increase in accounts payable and accrued expenses	2,199,337	2,136,464	(338,902)
(Decrease) increase in income taxes payable	(1,930,368)	1,461,374	448,000
Decrease in refundable income taxes	—	—	528,470
Net cash provided by (used in) operating activities	(3,959,186)	674,509	(2,831,248)
Cash flows from investing activities:			
Purchase of property and equipment	(300,803)	(142,661)	(493,667)
Net cash used in investing activities	(300,803)	(142,661)	(493,667)
Cash flows from financing activities:			
Proceeds from exercise of stock options and warrants	1,101,529	—	999,687
Proceeds from sale of common stock	3,529,541	—	—
Payment of line of credit	(2,200,000)	(800,000)	(2,500,000)
Proceeds from line of credit	800,000	2,700,000	1,700,000
Payment of long-term debt	(676,530)	(631,105)	(67,081)
Proceeds from long-term debt	—	—	3,000,000
Tax benefit for stock options	304,000	—	278,000
Net cash provided by financing activities	2,858,540	1,268,895	3,410,606
Net increase (decrease) in cash	(1,401,449)	1,800,743	85,691
Cash at beginning of year	2,224,825	424,082	338,391
Cash at end of year	$ 823,376	$ 2,224,825	$ 424,082
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	$ 113,686	$ 47,180	$ 77,650
Settlement of other receivables	$ 60,000	$ 60,000	—
Accrued expenses settled in exchange for common stock	$ 99,696	$ 51,540	$ 82,547
Stock options proceeds paid with Company's stock	$ 288,420	$ 151,800	—
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	$ 158,406	$ 265,761	$ 19,262
Cash paid for income taxes	$ 2,276,367	$ 808,627	$ 765,000

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

The operations of CPI Aerostructures, Inc. ("CPI Aero" or the "Company") consist of the production of complex aerospace structural assemblies principally for the U.S. Air Force and other branches of the U.S. armed forces, wither as a prime contractor or as a subcontractor to other defense prime contractors. The Company also acts as a subcontractor to prime aerospace manufactures in the production of commercial aircraft parts. The length of the Company's contracts varies between six months and ten 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 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. As of December 31, 2010, the Company had approximately $113,000 of uninsured balances. The Company limits its credit risk by selecting financial institutions considered to be highly credit worthy.

Accounts 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, 2010 and 2009.

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 than the stated value at December 31, 2010 and 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 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 2010. As of December 31, 2010 and 2009, we had a net deferred loss associated with cash flow hedges of approximately $69,000 and $80,000, 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, 2010 and 2009, 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.

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt	$2,675,105	$2,675,105	$4,637,949	$4,637,949

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, 2010 and 2009:

	Fair Value Measurements 2010			
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	$68,794	—	$68,794	—
Total	$68,794	—	$68,794	—

	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	$80,113	—	$80,113	—
Total	$80,113	—	$80,113	—

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, 2010 and 2009, $68,794 and $80,113, respectively, was included in Other Liabilities related to the fair value of the Company's interest rate swap, and $45,404 and $52,874, respectively, net of tax of $23,390 and $27,239, respectively, was included in Accumulated Other Comprehensive Loss.

Freight and Delivery Costs

The Company incurred freight and delivery costs of approximately $75,000, $72,000, $159,000, respectively, during the years ended December 31, 2010, 2009 and 2008. 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 246,559 were used in the calculation of diluted earnings per common share in 2010. Incremental shares of 75,000 were not included in the diluted earnings per share calculations at December 31, 2010, 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 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.

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, 200.

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

At December 31, 2010, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

	U.S. Government	Commercial	Total
Costs incurred on uncompleted contracts	$120,072,649	$33,521,525	$153,594,174
Estimated earnings	51,712,912	17,647,006	69,359,918
	171,785,561	51,168,531	222,954,092
Less billings to date	138,885,635	36,903,291	175,788,926
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 32,899,926	$14,265,240	$ 47,165,166

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

Unbilled costs and estimated earnings are billed in accordance with applicable contract terms. As of December 31, 2010, approximately $1,500,000 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, 2010 and 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 $10,200,000 and $6,100,000, respectively, 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:

	2010	2009
Billed receivables	$6,161,524	$5,390,762
Unbilled receivables on completed contracts	—	22,150
Less: allowance for doubtful accounts	(8,980)	(8,980)
	$6,152,544	$5,403,932

4. PROPERTY AND EQUIPMENT:

Plant and equipment, at cost, consists of the following

December 31,	2010	2009	Estimated Useful Life
Machinery and equipment	$ 665,834	$ 635,475	5 to 10 years
Computer equipment	1,571,377	1,233,602	5 years
Furniture and fixtures	218,804	201,943	7 years
Automobiles and trucks	13,162	13,162	5 years
Leasehold improvements	863,871	834,373	10 years
	3,333,048	2,918,555	
Less accumulated depreciation and amortization	2,451,133	2,064,735	
	$ 881,915	$ 853,820	

Depreciation and amortization expense for the years ended December 31, 2010, 2009 and 2008 was $386,394, $338,995 and $287,412, respectively.

During the years ended December 31, 2010 and 2009, the Company acquired $113,686 and $47,180, respectively, of property and equipment under notes payable and capital 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.

On May 26, 2010, the Company and Sovereign Bank entered into a third amendment to the Sovereign Revolving Facility increasing the existing revolving credit facility under the Credit Agreement from an aggregate of $3.5 million to an aggregate of $4.0 million and extending the term of the revolving credit facility from August 2011 to August 2013. In addition, the interest rate on borrowings under the revolving credit facility was decreased to (i) the greater of 3.75% or 3.25% in excess of the LIBOR Rate or (ii) the greater of 3.75% or 0.50% in excess of Sovereign Bank's prime rate, as elected by the Company in accordance with the Credit Agreement.

As of December 31, 2010, the Company was not in compliance with the financial covenants contained in the credit agreement. The bank has waived these covenants as of December 31, 2010. As of December 31, 2010, the Company had $800,000 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 (2.758% as of December 31, 2010) 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 long-term debt are as follows:

Year ending December 31,	
2011	$ 685,008
2012	636,423
2013	553,674
	$1,875,105

Also included in long-term debt are capital leases and notes payable of $125,105 at December 31, 2010, including a current portion of $85,008.

7. COMMITMENTS:

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

Year ending December 31,	
2011	$1,229,000
2012	847,000
	$2,076,300

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,	
2011	$ 447,770
2012	461,203
2013	475,038
2014	489,290
	$1,873,301

Rent expense for the years ended December 31, 2010, 2009 and 2008 was $443,071, $430,066 and $430,061, respectively.

8. INCOME TAXES

The provision for income taxes consists of the following:

Years ended December 31,	2010	2009	2008
Current:			
Federal	$ 435,000	$2,282,800	$1,513,500
Prior year overaccrual	(157,000)	—	—
Deferred:			
Federal	(265,000)	(367,800)	(250,500)
	$ 13,000	$1,915,000	$1,263,000

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,	2010	2009	2008
Taxes computed at the federal statutory rate	$ 237,000	$1,993,000	$1,310,000
Prior year overaccrual	(157,000)	—	—
Permanent differences	(67,000)	(78,000)	(47,000)
Provision for Income Taxes	$ 13,000	$1,915,000	$1,263,000

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

Deferred Tax Assets:	2010	2009
Property and equipment	$ 49,000	$ 37,000
Stock options	596,000	462,000
Interest rate swap	23,000	27,000
Deferred Tax Assets-non current	668,000	526,000
Deferred Tax Liabilities:		
Revenue recognition	182,000	305,000
Deferred Tax Liabilities-current	182,000	305,000
Net Deferred Tax Assets (Liabilities)	$486,000	$221,000

The Company recognized, for income tax purposes, a tax benefit of $304,000, zero and $278,000 for the years ended December 31, 2010, 2009 and 2008, 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.

The Company did not account for the domestic production activity deduction when preparing the 2009 tax accrual. The Company did take the domestic production activity deduction when preparing its 2009 federal income tax return, which resulted in an overaccrual of approximately $157,000.

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, 2010, 2009 and 2008, include approximately $554,000, $484,000 and $495,000 of compensation expense, respectively. The Company recorded reductions in income tax payable of approximately, $304,000, zero and $278,000 for the years ended December 31, 2010, 2009 and 2008, 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.

The Company has 445,000 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, 2010, 2009 and 2008:

	2010	2009	2008
Risk-free interest rate	2.55%	1.66%	3.5%
Expected volatility	97.0%	95.8%	77%
Dividend yield	0%	0%	0%
Expected option term-in years	5	5	5

The risk free interest rate for the years ended December 31, 2010, 2009 and 2008 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, 2010, 2009 and 2008 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, 2008	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				
at December 31, 2009	1,052,333	$ 6.47	2.88	
Granted during period	80,000	7.38		
Exercised	(272,000)	5.11		
Forfeited/Expired	(80,000)	10.01		
Outstanding and expected to vest at December 31, 2010	780,333	$ 6.68	2.92	$5,761,477
Vested at December 31, 2010	750,333	$ 6.68	2.63	$5,376,110

The weighted-average fair value of each option granted during the years ended December 31, 2010, 2009 and 2008, estimated as of the grant date using the Black-Scholes option valuation model was $5.47, $4.87 and $5.30, 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, 2010, 2009 and 2008, there was $108,435, $228,186 and $104,769, respectively, of unrecognized compensation cost related to non-vested stock option awards which will be amortized through March, 2012, the requisite service period.

During the year ended December 31, 2010, 147,000 stock options were exercised for cash resulting in cash proceeds to the Company of $1,069,200. In addition, 125,000 options were exercised, pursuant to provisions of the stock option plan, for a combination of cash and shares. The Company received $35,330 cash and 33,000 shares of its common stock in exchange for the 125,000 shares issued in the exercise. The 33,000 shares that the Company received were valued at $288,420, the fair market value of the shares on the date of exercise, and were added to treasury stock.

During the year ended December 31, 2010, the Company earned a tax benefit of $304,000 from the exercise of stock options. The intrinsic value of stock options exercised during the year ended December 31, 2010 was approximately $1,936,000.

The fair value of all options vested during the year ended December 31, 2010 was approximately $563,000.

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 2010, 2009 and 2008 amounted to $173,186, $152,750 and $122,670, respectively.

12. MAJOR CUSTOMER:

10% of revenue in 2010, 28% of revenue in 2009 and 49% of
10% of revenue in 2010, 28% of revenue in 2009 and 49% of
revenue in 2008 were directly to the U.S. government. 2% and 15% of accounts receivable at December 31, 2010 and 2009, respectively, were from the U. S. government.

In addition, in 2010, 35%, 27%, 12% and 10% of our revenue were to our four largest Commercial customers, respectively. In 2009, 21%, 18%, 17% and 11% of our revenue were to our four largest Commercial customers, respectively. 48%, 28% and 15% of accounts receivable at December 31, 2010 were from our three largest commercial customers. 43%, 17% and 9% of accounts receivable at December 31, 2009 were from our three largest commercial customers.

16% and 40% of Cost and Estimated Earnings in Excess of Billings on Uncompleted Contracts at December 31, 2010 and 2009, respectively, were from the U.S. government.

28%, 22% 19% and 10% of Cost and Estimated Earnings in Excess of Billings on Uncompleted Contracts at December 31, 2010 were from our four largest commercial customers. 26% and 19% of Cost and Estimated Earnings in Excess of Billings on Uncompleted Contracts at December 31, 2009 were from our two largest commercial customers.

13. EQUITY

On April 6, 2010, the Company sold 500,000 shares of common stock at a sale price of $7.80 per share, upon the closing of a "registered direct" offering primarily to institutional investors. The gross proceeds of the offering were $3.9 million and net proceeds, after deducting the placement agent's fee and estimated offering expenses, were approximately $3.5 million.

CPI Aerostructures, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheets of CPI Aerostructures, Inc. as of December 31, 2010 and 2009, and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010. 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, 2010 and 2009, and its related statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America

J.H. Cohn LLP

Jericho, New York
March 14, 2011

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 2010 and 2009, the high and low sales prices of our common shares for the periods indicated, as reported by the NYSE Amex.

Period	High	Low
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
2010		
Quarter Ended March 31, 2010	$ 8.66	$5.99
Quarter Ended June 30, 2010	$ 9.85	$8.00
Quarter Ended September 30, 2010	$11.03	$9.20
Quarter Ended December 31, 2010	$14.15	$9.79

On March 1, 2011, the closing sale price for our common shares on the NYSE AMEX was $14.67. On March 1, 2011, there were 178 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
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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, 2010, 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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60 Heartland Blvd.
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