

CPI AEROSTRUCTURES INC

Form 10-Q

May 11, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period
ended March 31, 2010

Commission File Number 1-11398

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

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

11-2520310
(IRS Employer Identification Number)

60 Heartland Blvd., Edgewood, NY
(Address of principal executive offices)

11717
(zip code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of May 10, 2010, the number of shares of common stock, par value \$.001 per share, outstanding was 6,548,756.

CPI AEROSTRUCTURES, INC

INDEX

Part I - Financial Information

Item 1 – Condensed Financial Statements

Condensed Balance Sheets as of March 31, 2010 (Unaudited) and December 31, 2009 3

Condensed Income Statements for the Three Months ended March 31, 2010 (Unaudited) and 2009 (Unaudited) 4

Condensed Statements of Cash Flows for the Three Months ended March 31, 2010 (Unaudited) and 2009(Unaudited) 5

Notes to Condensed Financial Statements (Unaudited) 6

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations 13

Item 3 – Quantitative and Qualitative Disclosures About Market Risk 19

Item 4T – Controls and Procedures 19

Part II - Other Information

Item 6 – Exhibits 20

Signatures 21

Exhibits 21

CPI AEROSTRUCTURES, INC

CONDENSED BALANCE SHEETS

Part I - Financial Information

Item 1 – Financial Statements

| | March 31, 2010 (Unaudited) | December 31, 2009 (Note 1) |
|--|----------------------------------|----------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$444,783 | \$ 2,224,825 |
| Accounts receivable, net | 2,891,148 | 5,403,932 |
| Costs and estimated earnings in excess of billings on uncompleted Contracts | 45,163,757 | 43,018,221 |
| Prepaid expenses and other current assets | 392,367 | 451,068 |
| Total current assets | 48,892,055 | 51,098,046 |
| Plant and equipment, net | 812,243 | 853,820 |
| Deferred income taxes | 574,000 | 526,000 |
| Other assets | 25,313 | 59,265 |
| Total Assets | \$50,303,611 | \$ 52,537,131 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$4,277,647 | \$ 5,859,182 |
| Accrued expenses | 127,821 | 610,448 |
| Current portion of long-term debt | 636,011 | 636,592 |
| Line of credit | 1,700,000 | 2,200,000 |
| Income tax payable | 1,759,373 | 2,368,374 |
| Deferred income taxes | 305,000 | 305,000 |
| Total current liabilities | 8,805,852 | 11,979,596 |
| Long-term debt, net of current portion | 1,642,697 | 1,801,357 |
| Other liabilities | 238,081 | 238,664 |
| Total Liabilities | 10,686,630 | 14,019,617 |
| Shareholders' Equity: | | |
| Common stock - \$.001 par value; authorized 50,000,000 shares, issued 6,137,590 and 6,122,524 shares, respectively, and | | |

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| | | |
|--|--------------|---------------|
| outstanding 6,048,756 and 6,033,690 shares, respectively | 6,138 | 6,123 |
| Additional paid-in capital | 27,608,305 | 27,369,043 |
| Retained earnings | 12,748,843 | 11,888,028 |
| Accumulated other comprehensive loss | (53,499) | (52,874) |
| Treasury stock, 88,834 shares (at cost) | (692,806) | (692,806) |
| Total Shareholders' Equity | 39,616,981 | 38,517,514 |
| Total Liabilities and Shareholders' Equity | \$50,303,611 | \$ 52,537,131 |

See Notes to Condensed Financial Statements

3

CPI AEROSTRUCTURES, INC

CONDENSED INCOME STATEMENTS

For the Three Months Ended
March 31,
2010 2009
(Unaudited)

| | | |
|---|--------------|-------------|
| Revenue | \$11,005,529 | \$9,691,236 |
| Cost of sales | 8,256,447 | 7,628,339 |
| Gross profit | 2,749,082 | 2,062,897 |
| Selling, general and administrative expenses | 1,445,267 | 1,235,976 |
| Income before provision for income taxes | 1,303,815 | 826,921 |
| Provision for income taxes | 443,000 | 281,000 |
| Net income | \$860,815 | \$545,921 |
| Income per common share – basic | \$0.14 | \$0.09 |
| Income per common share – diluted | \$0.14 | \$0.09 |
| Shares used in computing income per common share: | | |
| Basic | 6,037,373 | 5,984,860 |
| Diluted | 6,217,024 | 6,152,609 |

CPI AEROSTRUCTURES, INC

CONDENSED STATEMENTS OF CASH FLOWS

| For the Three Months Ended March 31, | 2010 | 2009 |
|---|-------------|-------------|
| | | (Unaudited) |
| Cash flows from operating activities: | | |
| Net income | \$860,815 | \$545,921 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 81,950 | 78,967 |
| Deferred rent | (583) | 1,957 |
| Stock option expense | 140,182 | 102,734 |
| Deferred portion of provision for income taxes | (48,000) | (31,500) |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 2,512,784 | 3,354 |
| Increase in costs and estimated earnings in excess of billings on uncompleted contracts | (2,145,536) | (4,117,402) |
| Decrease in prepaid expenses and other assets | 92,653 | 371,102 |
| Increase (decrease) in accounts payable and accrued expenses | (1,964,465) | 2,434,505 |
| Decrease in income taxes payable | (609,001) | (29,000) |
| Decrease in other liabilities | (1,227) | (3,500) |
| Net cash used in operating activities | (1,080,428) | (642,862) |
| Cash used in investing activities - purchase of plant and equipment | (40,373) | (66,230) |
| Cash flows from financing activities: | | |
| Repayments of long-term debt | (159,241) | (154,057) |
| Proceeds from line of credit | ---- | 1,100,000 |
| Repayment of line of credit | (500,000) | ---- |
| Net cash provided by (used in) financing activities | (659,241) | 945,943 |
| Net increase (decrease) in cash | (1,780,042) | 236,851 |
| Cash at beginning of period | 2,224,825 | 424,082 |
| Cash at end of period | \$444,783 | \$660,933 |
| Supplemental disclosures of cash flow information: | | |
| Non-Cash Investing and Financing Activities | | |
| Settlement of other Receivables | \$60,000 | \$60,000 |
| Equipment acquired under capital lease | ---- | \$9,850 |
| Accrued expenses settled in exchange for common stock | \$99,697 | \$51,540 |
| Cash paid during the period for: | | |
| Interest | \$56,668 | \$47,436 |
| Income taxes | \$1,100,000 | \$400,000 |

See Notes to Condensed Financial Statements

5

CPI AEROSTRUCTURES, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. INTERIM FINANCIAL STATEMENTS

The condensed financial statements of CPI Aerostructures, Inc. (the “Company”) as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

The condensed balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

For comparability, certain 2009 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2010.

2. STOCK-BASED COMPENSATION

The Company accounts for compensation expense associated with stock options based on the fair value of the options on the date of issue.

The Company’s net income for the three months ended March 31, 2010 and 2009 includes approximately \$140,000 and \$103,000, respectively of non-cash compensation expense related to the Company’s stock options. The non-cash compensation expense related to all of the Company’s stock-based compensation arrangements is recorded as a component of selling, general and administrative expenses.

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 the options granted during the three month periods ended March 31, 2010 and 2009:

| | 2010 | 2009 |
|-------------------------|---------|---------|
| Risk-free interest rate | 2.7% | 1.66% |
| Expected volatility | 97% | 78% |
| Dividend yield | 0% | 0% |
| Expected option | 5 years | 5 years |

term

6

CPI AEROSTRUCTURES, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

A summary of the status of the Company's stock option plans as of March 31, 2010 and changes during the three month period ended March 31, 2010 is as follows:

| Fixed Options | Options | Weighted average Exercise Price | Weighted average contractual term (in years) | Aggregate Intrinsic Value |
|--|-----------|---------------------------------------|--|---------------------------------|
| Outstanding at beginning of period | 1,052,333 | \$6.47 | | |
| Granted | 25,000 | 6.01 | | |
| Forfeited | (80,000) | 10.01 | | |
| Outstanding and expected to vest, at end of period | 997,333 | \$6.18 | 2.90 | \$2,074,022 |
| Vested at end of period | 944,000 | \$6.14 | 2.56 | \$2,012,822 |

As of March 31, 2010, there was \$196,599 of unrecognized compensation cost related to non-vested stock option awards which will be amortized through March 2012.

During the three months ended March 31, 2010, no stock options were exercised.

3. DERIVATIVE INSTRUMENTS AND FAIR VALUE

Our use of derivative instruments has 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.

CPI AEROSTRUCTURES, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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 contract with the cumulative change in the hedged item. No material ineffectiveness was recognized in the quarter ended March 31, 2010. As of March 31, 2010 and December 31, 2009, we had a net deferred loss associated with cash flow hedges of approximately \$81,000 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 March 31, 2010 and December 31, 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

| | March 31, 2010 | |
|--|-------------------|-------------|
| | Carrying Amount | Fair Value |
| Debt | | |
| Short-term borrowings and long-term debt | \$3,978,708 | \$3,978,708 |
| | | |
| | December 31, 2009 | |
| | Carrying Amount | Fair Value |
| Debt | | |
| Short-term borrowings and long-term debt | \$4,637,949 | \$4,637,949 |

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

CPI AEROSTRUCTURES, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents the fair values of those financial assets and liabilities measured on a recurring basis as of March 31, 2010 and December 31, 2009:

| | | Fair Value Measurements March 31, 2010 | | | |
|-------------------------|-----------|---|-----------------------------|--------------------------|--|
| | | Quoted Prices in Active Markets for | | | |
| | | Identical | Significant Other | Significant Unobservable | |
| Description | Total | assets (Level 1) | Observable Inputs (Level 2) | Inputs (Level 3) | |
| Interest Rate Swap, net | \$ 81,059 | -- | \$ 81,059 | -- | |
| Total | \$ 81,059 | -- | \$ 81,059 | -- | |

| | | Fair Value Measurements December 31, 2009 | | | |
|-------------------------|----------|---|-----------------------------|------------------|--------------|
| | | Quoted Prices in Active Markets for | | | |
| | | Identical | Significant Other | Significant | |
| Description | Total | assets (Level 1) | Observable Inputs (Level 2) | Inputs (Level 3) | Unobservable |
| 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 March 31, 2010 and December 31, 2009, \$81,059 and \$80,113, respectively, was included in Other Liabilities related to the fair value of the Company's interest rate swap, and \$53,499 and \$52,874, respectively, net of tax of \$27,560 and \$27,239, was included in Other Comprehensive Income and Accumulated Other Comprehensive Loss.

The change in unrealized gain (loss) from the Company's interest rate swap of (\$625) and \$7,109 is included in other comprehensive income for the three months ended March 31, 2010 and 2009 respectively. Other comprehensive income was \$860,190 and \$553,030, for the three months ended March 31, 2010 and 2009, respectively.

CPI AEROSTRUCTURES, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

4. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs and estimated earnings in excess of billings on uncompleted contracts consist of:

| | March 31, 2010 | | |
|---|----------------|--------------|---------------|
| | U.S | | |
| | Government | Commercial | Total |
| Costs incurred on uncompleted contracts | \$93,767,285 | \$30,321,245 | \$124,088,530 |
| Estimated earnings | 51,142,576 | 15,159,466 | 66,302,042 |
| Sub-total | 144,909,861 | 45,480,711 | 190,390,572 |
| Less billings to date | 114,973,236 | 30,253,579 | 145,226,815 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$29,936,625 | \$15,227,132 | \$45,163,757 |

| | December 31, 2009 | | |
|---|-------------------|--------------|---------------|
| | 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 |
| Sub-total | 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 |

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 quarter ended March 31, 2010, 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 \$1,000,000, 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.

CPI AEROSTRUCTURES, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

5. INCOME PER COMMON SHARE

Basic income per common share is computed using the weighted average number of shares outstanding. Diluted income per common share for the three month period ended March 31, 2010 and 2009 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 179,651 were used in the calculation of diluted income per common share in the three month period ended March 31, 2010. Incremental shares of 478,333 were not included in the diluted earnings per share calculations for the three month period ended March 31, 2010, as their exercise price was in excess of the Company's average stock price for the respective period and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation, as they would be anti-dilutive. Incremental shares of 167,749 were used in the calculation of diluted income per common share in the three month period ended March 31, 2009. Incremental shares of 802,333 were not included in the diluted earnings per share calculations for the three month period ended March 31, 2009 as their exercise price was in excess of the Company's average stock price for the period and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation, as they would be anti-dilutive.

6. LINE OF CREDIT

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 \$2.5 million to an aggregate of \$3.5 million 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 March 31, 2010, the Company was in compliance with all of the financial covenants contained in the credit agreement. As of March 31, 2010, the Company had \$1.7 million outstanding under the Sovereign Revolving Facility.

7. LONG-TERM DEBT

On October 22, 2008, the Company obtained a \$3.0 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 award. 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 the long-term contract. The Sovereign Term Facility bears interest at LIBOR (2.73% at March 31, 2010) plus 2.5% and is secured by all of the assets of the Company.

Concurrent with entering into the Sovereign Term Facility, Sovereign Bank amended the terms of the Sovereign Revolving Facility extending the term until August 2010 and amending the covenants, as defined, commencing in the fourth quarter of 2008.

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. 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.

11

CPI AEROSTRUCTURES, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

The maturities of the Sovereign Term Facility are as follows:

| | |
|--|-------------|
| Nine months ending December 31, 2010 | \$450,000 |
| Year ending December 31, 2011 | 600,000 |
| 2012 | 600,000 |
| 2013 | 550,000 |
| | \$2,200,000 |

8. MAJOR CUSTOMERS

During the three months ended March 31, 2010 and 2009, 21% and 30%, respectively, of revenue was directly from the U.S. government. During the three months ended March 31, 2010, the Company's three largest commercial customers accounted for 35%, 17% and 13% of revenue, respectively. In addition, during the three months ended March 31, 2009, the Company's two largest Commercial customers accounted for 35% and 17% of revenue, respectively

9. SUBSEQUENT EVENTS

On April 1, 2010, the Company issued options to purchase 55,000 of the Company's common shares to the independent members of our Board of Directors, pursuant to their normal compensation arrangement. The options issued have an exercise price of \$8.00 per share (the fair market value of the Company's common stock on that date), are immediately exercisable and expire on March 31, 2015.

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. A portion of the net proceeds, \$1.7 million, was used to repay the Company's line of credit with Sovereign Bank.

CPI AEROSTRUCTURES, INC

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Company’s Condensed Financial Statements and notes thereto contained in this report.

Forward Looking Statements

When used in this Form 10-Q and in future filings by us with the Securities and Exchange Commission, the words or phrases “will likely result,” “management expects” or “we expect,” “will continue,” “is anticipated,” “estimated” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The risks are included in Item 1A - Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2009 and Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q. 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.

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.

New Business

During the three months ended March 31, 2010, we received approximately \$5.5 million of new contract awards, which included approximately \$3.0 million of government prime contract awards, approximately \$1.4 million of government subcontract awards and approximately \$1.1 million of commercial subcontract awards, compared to a total of \$4.3 million of new contract awards, of all types, in the same period last year, a 28% increase.

We have approximately \$297 million in formalized bids outstanding, as of March 31, 2010 and continue to make bids on contracts on a weekly basis. While we cannot predict the probability of obtaining or the timing of awards, some of these outstanding proposals are significant in amount.

CPI AEROSTRUCTURES, INC

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

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 tax purposes) 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 fund our work in process or to pay taxes until the reported earnings materialize as actual cash receipts.

CPI AEROSTRUCTURES, INC

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Revenue

Revenue for the three months ended March 31, 2010 was \$11,005,529 compared to \$9,691,236 for the same period last year, representing an increase of \$1,314,293 or 13.6%. The increase in revenue is primarily the result of work performed for The Boeing Company on the A-10 attack jet and for Sikorsky on the penguin missile launcher, offset by a decrease in work on the Gulfstream G650 executive jet, an expected result of normal scheduling of the long-term production program.

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 three months ended March 31, 2010 was \$2,281,265 compared to \$2,867,343 for the three months ended March 31, 2009, a decrease of \$586,078 or 26%. Revenue generated from government subcontracts for the three months ended March 31, 2010 was \$6,855,972 compared to \$2,152,782 for the three months ended March 31, 2009, an increase of \$4,703,190 or 69%. Revenue generated from commercial contracts was \$1,868,293 for the three months ended March 31, 2010 compared to \$4,671,111 for the three months ended March 31, 2009 a decrease of \$2,802,818 or 60%.

Gross Profit

Gross profit for the three months ended March 31, 2010 was \$2,749,082 compared to \$2,062,897 for the three months ended March 31, 2009, an increase of \$686,185. As a percentage of revenue, gross profit for the three months ended March 31, 2010 was 25% compared to 21% for the same period last year. The lower gross profit percentage in the first quarter of 2009 resulted from our incurrence of excess costs in the early stages of some of our new programs, primarily because of customer changes to engineering and design. We were required to incur excess labor in order to comply with these changes, and to maintain the required delivery. In addition, there were revisions in the estimated gross profits on older contracts in the three months ended March 31, 2009. Gross margin percentage for the full year 2009 was 25.8% which is comparable to the gross margin percentage in the three months ended March 31, 2010 and within the range of our expected gross margin percentage.

We expect our profit margin percentage to be the range of 24%-26% for the remainder of 2010.

CPI AEROSTRUCTURES, INC

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2010 were \$1,445,267 compared to \$1,235,976 for the three months ended March 31, 2009, an increase of \$209,291, or 17%. The increase is primarily due to a \$90,000 increase in salaries and payroll taxes, a \$50,000 increase in public fees and an \$18,000 increase in accounting and legal fees.

Income Before Provision for Income Taxes

Income before provision for income taxes for the three months ended March 31, 2010 was \$1,303,815 compared to \$826,921 for the same period last year, an increase of \$476,894, which was primarily the result of higher revenue and gross margin described earlier.

Provision for Income Taxes

Provision for income taxes was \$443,000 for the three months ended March 31, 2010, or 34% of pre-tax income, compared to \$281,000 or 34% of pre-tax income for the three months ended March 31, 2009.

CPI AEROSTRUCTURES, INC

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Net Income

Basic net income for the three months ended March 31, 2010 was \$860,815, or \$0.14 per basic share, compared to basic net income of \$545,921, or \$0.09 per basic share, for the same period last year. Diluted income per share for the three months ended March 31, 2010 was \$0.14 calculated utilizing 6,217,024 average shares outstanding. Diluted income per share for the three months ended March 31, 2009 was \$0.09, calculated utilizing 6,152,609 average shares outstanding.

Liquidity and Capital Resources

General

At March 31, 2010, we had working capital of \$40,086,203 compared to \$39,118,450 at December 31, 2009, an increase of \$967,753, or 2.5%.

Cash Flow

A large portion of our cash is used to pay for materials and processing costs associated with contracts that are in process and which do not provide for progress payments. Contracts that permit us to bill on a progress basis must be classified as “on time” for us to apply for progress payments. 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 sheets 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 revenue, costs and profits and in assigning the amounts to accounting periods, there can be a significant disparity between earnings (both for accounting and tax purposes) as reported and actual cash that we receive during any reporting period. Accordingly, it is possible that we may have a shortfall in our cash flow and may need to borrow money until the reported earnings materialize into actual cash receipts.

At March 31, 2010, we had a cash balance of \$444,783 compared to \$2,224,825 at December 31, 2009. During the three months ended March 31, 2010, we used cash to pay taxes (\$1,100,000) and to reduce accounts payable and accrued expenses by approximately \$2.1 million. During the three months ended March 31, 2010 we paid \$500,000 of our line of credit with Sovereign Bank.

Stock Offering

On April 6, 2010, we 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 payable by us, were approximately \$3.5 million.

The net proceeds from the sale of common stock in the offering are available to fund working capital and for other general corporate purposes and were used to pay off our revolving credit facility with Sovereign Bank.

CPI AEROSTRUCTURES, INC

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Credit Facilities

Line of Credit

In August 2007, we entered into a two-year, \$2,500,000 revolving credit facility with Sovereign Bank (the “Sovereign Revolving Facility”), secured by all of our assets. The Sovereign Revolving Facility specifies an interest rate equal to the lower of LIBOR plus 2% or Sovereign Bank’s prime rate. The Sovereign Revolving Facility contains financial covenants related to interest coverage, net income and capital expenditures, as defined in the credit agreement. As of March 31, 2010, we were in compliance with all of the financial covenants contained in the credit agreement.

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 effective rate as of March 31, 2010 was 4.00%. 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 certain accounts receivable. As of March 31, 2010, we had \$1,700,000 outstanding under the Sovereign Revolving Facility.

On April 6, 2010, we used \$1,700,000 of the net proceeds of our stock offering to fully repay our revolving credit facility.

Term Loan

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 LIBOR plus 2.5% and is secured by all of our assets.

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

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

Additionally, the Company and Sovereign Bank entered into a five year interest rate swap agreement, in the notional amount of \$3.0 million. Under the interest rate swap, the Company pays an amount to Sovereign Bank representing interest on the notional amount 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.

CPI AEROSTRUCTURES, INC

Item 3 – Quantitative and Qualitative Disclosure About Market Risk

Not Applicable

Item 4T – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based on an evaluation of the Company's disclosure controls and procedures as of March 31, 2010 made by management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) were effective as of March 31, 2010.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended March 31, 2010 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

CPI AEROSTRUCTURES, INC

Part II: Other Information

Item 1 – Legal Proceedings

None.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Reserved

None

Item 5 – Other Information

None.

Item 6 – Exhibits

ExhibitSection 302 Certification by Chief Executive Officer

31.1

ExhibitSection 302 Certification by Chief Financial Officer

31.2

ExhibitSection 906 Certification by Chief Executive Officer and Chief Financial Officer

32

20

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CPI AEROSTRUCTURES, INC.

Dated: May 11, 2010

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

Dated May 11, 2010

By: /s/ Vincent Palazzolo
Vincent Palazzolo
Chief Financial Officer (Principle
Accounting Officer)

