CPI Aerostructures, Inc.

2000 Annual Report

Twenty Years of Strategic Growth

Through Acquisitions, Alliances, Joint Ventures and Expanding Markets

Contents:

Financial Highlights

Year Ended December 31

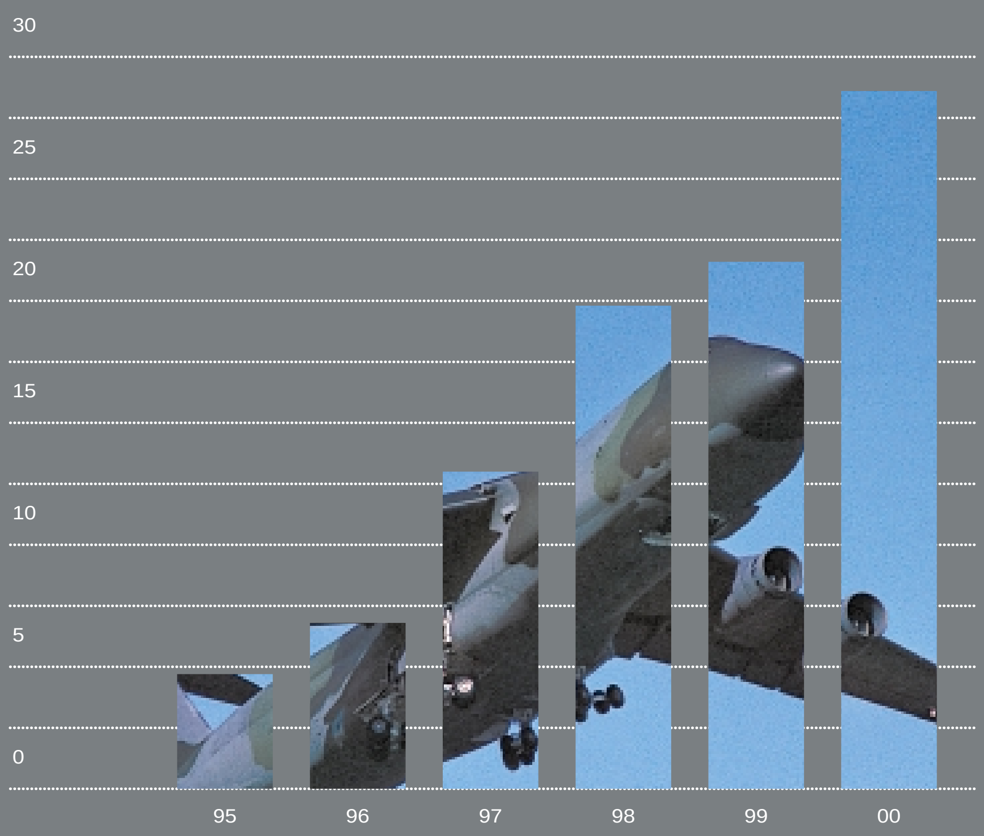
(in millions of dollars)

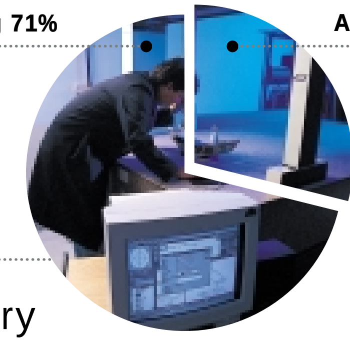
Operating Data	2000	1999	1998	1997	1996
Revenues	$28.6	$21.6	$19.8	$13.0	$ 6.8
Gross Profit	$ 7.4	$ 5.9	$ (5.0)*	$ 3.9	$ 2.6
Net Income	$ 1.9	$ .8	$ (8.6)*	$ 0.9	$ 0.5

Balance Sheet Data					
Working Capital	$ 2.0	$ 4.9	$ 4.6	$13.1	$ 10.8
Total Assets	$25.5	$22.7	$21.9	$33.1	$ 13.1
S/H Equity	$ 9.2	$ 7.2	$ 6.1	$14.6	$ 11.0

* Includes non-cash adjustment for termination of MD-90 contract.

Consolidated Revenues (in $ millions)





Celebrating Our Twentieth Anniversary

In January 2000 CPI celebrated its 20th year in business having been incorporated under the laws of the State of New York in January 1980. We are proud of the fact that the year 2000 was by far the strongest year in the history of the Company. Consolidated revenues went from $21.60 million in 1999 to 28.62 million in 2000, an increase of 32%. Net income rose substantially higher, going from $0.81 million in 1999 to $1.93 million in 2000, an increase of 138%. Earnings per share followed suit rising from $0.30 per share to $0.73 per share, an increase of 143%.

Although both the aircraft and precision matching division had excellent years, the aircraft division finished with a very strong fourth quarter, while the Kolar division did not. Year 2000 set another record for both the number of contracts awarded (185) and total contract value ($13,000,437) in the aircraft division. This has provided us with a significant backlog which virtually assures continuation of the strong growth trend. The performance of our aircraft division was also given special recognition by the U.S. Government for both on-time deliveries and

Arthur August
Chairman of the Board
and President

Edward J. Fred
Executive Vice President,
Chief Financial Officer
and Secretary

outstanding quality for the third year in a row. While the outlook for the electronics manufacturing segment of Kolar's business is cloudy at this time, we believe that the diversity we have achieved in the marketplace, while maintaining our central core business, will be of great help in smoothing out the cyclical effects of one business segment. We hope that the continued growth in the aircraft division will provide ample opportunities for Kolar to share in the government work to offset any temporary decline in the electronics marketplace.

While the recent volatile performance of the stock markets has shaken investor confidence and precipitated a high degree of caution and conservatism, I believe there is a trend to return to value stocks and that our company is such a stock, and investors who have the patience to see beyond the short term will hopefully be rewarded with increased growth and shareholder equity. We will continue to pursue all avenues that offer the promise of increasing shareholder value.

On Behalf of the Board of Directors,

Arthur August,
Chairman of the Board and President

Review of Operations

An engine mount for the Lear 60 and Astra Galaxy business jets, a part manufactured by CPI under a long-term commercial contract.

Products and Markets

As a result of the significant changes in the aircraft markets during the decade of the 1990's, CPI has adjusted its market concentration to focus on the military segment. The merger mania of that era, coupled with significant downsizing and lack of new commercial aircraft coming to market has not created many opportunities to pursue business with the major aircraft suppliers. CPI was well positioned with its technical expertise, computer technology and diverse capability to retain and expand its business base with the U.S. Government.

In adjusting the Company's strategic planning to accommodate the changing market, CPI was very successful in its pursuit of the military segment of the aircraft market as evidenced by the number of contracts awarded during the year 2000. Not only was there a 43% growth in the number of new contracts awarded from the prior year, but the dollar value of these awards was almost double the value in 1999. This trend has continued into year 2001 and provided a significant backlog of undelivered orders for the aircraft division. The precision machining division also had an excellent year although the fourth quarter was not impressive due to cutbacks in orders for the electronics segment. The worldwide easing in the demand for electronic product resulted in lowering the demand for printed circuit boards. One of Kolar's major customers manufactures equipment that produces these boards and Kolar provides some of the key components for that equipment. The impact on this segment of Kolar's market is believed to be temporary and cyclical in nature. There has been stability in Kolar's other markets for materials processing equipment manufacturers, as well as for military and commercial aircraft customers.

The original concept in the acquisition of Kolar was to provide a larger base of customers with the opportunity to penetrate a broader market base. This remains as a viable strategy by creating the opportunity to market each subsidiary's unique products to customers who have been closed to new suppliers due to the fierce competition in the industry. With a broader comprehensive variety of products and manufacturing capabilities, existing customers can be approached for bidding on a wider variety of products than previously available. This concept of "One-Stop" shopping provides significant customer savings in their subcontracting process. Not only can a wider variety of precision parts be offered to such customers but, combined with CPI's assembly expertise, it is possible to offer higher level assemblies with precision parts as components. This approach will enhance CPI's ability to bid lower prices and share contract work with more than one subsidiary, thus allowing for economies in design, purchasing and administration. Each of the subsidiaries would offer a different customer base in which to implement this sales approach.

CPI Aerostructures is engaged in contract product production of structural aircraft parts and sub-assemblies for the commercial and military segments of the aircraft industry. This segment of operations consists primarily of incorporating component aircraft parts supplied by third parties into complex sub-assemblies to satisfy specific customer requirements and precision certification standards. The

Company provides engineering, technical and program management services to its customers. At present, its major customers are the various U.S. military bases. Its market is 100% in the aerospace industry.

Kolar produces medium size parts to strict just-in-time requirements for the high speed automated electronic and processing equipment industries. They are 100% commercial with a prestigious customer list that represents a diversity of industries, thus reducing their sensitivity to any one market segment. The Kolar team is capable of providing technical assistance in the early stages of development to insure that the product is made to customer specifications, with the least cost and to the most efficient schedule.

The Consolidated Company:

The combined abilities of the aircraft division with its assembly expertise and the precision machining of detail parts by Kolar allows the Company to offer a complete package of products to a wide variety of customers. This is an industrial version of "One-Stop" shopping which provides significant customer savings in the subcontracting process and creates an opportunity for additional growth.

Each of the subsidiaries of CPI is involved in the manufacture of precision parts, but each has unique products and technical capability within their present sphere of business. When combined they provide a wider variety of products and technical capabilities to be available to the entire customer base. This will allow for mutual sharing of design knowledge, prior problems solved, innovative manufacturing techniques and economies of purchasing and administrative functions. In addition, the administrative and accounting functions are integrated through a datalink network allowing for real time access to each subsidiaries' raw material and finished goods inventory, shipments, cost data, schedules and other data. As an added advantage there is no duplication of technical and management personnel. Each subsidiary has an in-place team prepared to maintain operations and customer support.

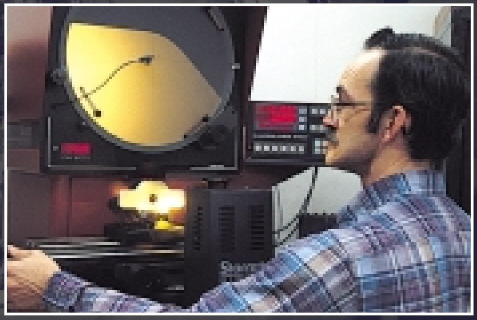
CPI Aerostructures

The aircraft segment of CPI has, over the years, adjusted to market variations in both the military and commercial sectors. Each of these markets operates independently of the other. The commercial segment is driven by economic forces that dictate the need for replacement aircraft or new products to meet a specific demand. Over the past several years the commercial aircraft manufacturers have not introduced any significant new products. They continued to produce existing designs, with some modifications, and relied on the in-place supplier base. In early 1990's CPI was able to participate in providing assemblies for newly introduced aircraft and its revenues were mainly derived from such programs. At the same time the military market was in a steady decline. In the last few years CPI was aware of a change in the political and national defense priorities that signaled an uptrend in military spending while the commercial aircraft opportunities were in a decline. The CPI military market plan has consistently been focused on replacement spares for aircraft already in the military inventory. This is a more predictable market based on the need of the military to maintain their operational readiness.

By shifting its focus to the military marketplace CPI was well positioned to take advantage of its background and rise in military aircraft structures, the investment in computer technology and its diverse capability resulting from acquisition of Kolar. The U.S. Government has also modified its procurement procedures in the last few years relying more heavily on electronic communications methods in the bidding and contract award process. When the new government procedures came on stream, CPI was ready. In year 1999, CPI was awarded 129 contracts valued at $6.96 million dollars. In year 2000, CPI was awarded 185 contracts valued at just over $13 million dollars, the largest backlog of undelivered orders in our history. This trend has continued into the 1st quarter of 2001 and provides a measure of confidence in our marketing strategy.

Kolar

The mission of Kolar has been to provide their customers with a total manufacturing concept that includes precision machining, electromechanical assembly, project management and a full service warehouse operation tailored to timely delivery that satisfies customer quality and schedule requirements. Founded in Ithaca, New York in 1937, Kolar has grown to provide precision parts and sub-assemblies to prestigious electronic and materials processing equipment manufacturers, as well as to the military and commercial aircraft markets. While the majority of its equipment is state-of-the-art, computerized, numerically controlled machinery, it continues to manufacture selected parts on conventional machines and provides its own welding capability. One of its major accomplishments has been the development of a just-in-time delivery capability to allow its customers to minimize their inventory. Its largest customer manufactures equipment that produces electronic components. One such product is a high speed machine that mounts electronic components on printed circuit boards for which Kolar supplies detail parts and a major sub-assembly. The eventual printed circuit boards are used in cellular telephones, ATMs machines, computers and a variety of other electronic devices. This machine is manufactured to exacting standards for an international market, and Kolar is one of the top rated suppliers to this customer. During the fourth quarter of 2000, there was a worldwide easing in orders for electronic products resulting in a lowering of the demand for printed circuit boards. This impacted the electronics segment of Kolar's business. It is anticipated that this slowdown will be temporary and cyclical in nature. While Kolar has taken appropriate measures to reduce costs in the interim, the continued growth in the aircraft division will provide opportunities for Kolar to share in the government work to offset any temporary decline in the electronics segment.



In the materials processing market, Kolar's customer produces equipment used for the weighing and measuring of cartons and containers. Various industries require that their packaged products have a specific weight content. Kolar manufacturers precision parts for a variety of other major equipment manufacturers in the commercial markets which are not related to any other market segment and provides a measure of stability to their overall business base.

Quality and Performance

In each of the markets served by CPI there has been a shrinking of the supplier base to concentrate on those companies who have demonstrated a previous commitment to improved quality and performance to customer specifications. This is particularly evident in U.S. Government procurements where past performance is given a high priority in the award evaluation process.

At CPI quality and on-time delivery are considered fundamental and given the highest priority to instill customer confidence and provide the necessary ingredients for continued business growth. Keeping pace with the competitive environment requires constant training, education and management attention. CPI offers the benefits of a small business combined with the ability to manufacture parts and sub-assemblies at competitive prices, while still maintaining project management and technical expertise from the initial contract award through tool design, production, inspection and customer acceptance. A fully integrated and computerized project control system is on-line to provide job cost, inventory, accounting and payroll data for each contract. All the segments of the Company have excellent, long-term customer relationships and are qualified to the high standards required of military and commercial specifications.

The Company's commitment to quality and on-time performance has been recognized by the U.S. Government who awarded CPI its Best Value Medals for years 1998 and 1999. The Company was recently notified that it would be awarded another gold medal for its year 2000 quality and schedule performance.

In Summary

CPI Aerostructures provides the expertise to bind its operating segments together as a manufacturer of detail parts with an assembly capability. We believe that this combination provides great synergy by allowing the solicitation of contracts for higher level parts which could significantly increase our value to the customer, increase sales and reduce costs. Many complex parts require the strong program management skills sought by the customers and CPI Aerostructures has provided this for many years. The Company will continue to seek business opportunities that utilize CPI's core competency for precision parts, which provides stability to the total operation, and be alert to any changing market forces.

Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the Financial Statements and Notes thereto appearing under Item 7 of this Report.

Certain statements discussed in this Report include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements, including the timely delivery and acceptance of the Company's products, the timing of commercial and government funding approvals, and the other risks detailed from time to time in the Company's SEC reports.

General

Consistent with industry practice, CPI uses the percentage of completion method of accounting for its business. Under this method, CPI recognizes revenues as costs are incurred under its contracts, measured by the percentage of actual costs incurred to date against estimated total costs. Under CPI's commercial contracts, CPI does not receive cash payments until products are shipped. Accordingly, revenues may be recognized by CPI even though associated cash payments have not been received. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in contract performance may result in revisions to costs and income, which are recognized in the period in which revisions are determined to be required. CPI's recorded revenues may be written-off in later periods in the event CPI's cost estimates prove to be inaccurate or a contract is terminated. For Kolar, revenue is recognized when goods are shipped to customers.

Results of Operations

Year Ended December 31, 2000 as Compared to the Year Ended December 31, 1999

The Company's revenue for the year ended December 31, 2000 ("2000") was $28,622,000 compared to $21,603,000 for the year ended December 31, 1999 ("1999"), representing an increase of $7,019,000, or 32%. This increase reflects a significant increase in sales in both the aerospace and machining segments.

Gross profit for 2000 was $7,377,000 compared to $5,935,000 for 1999, representing an increase of $1,442,000. Gross profit as a percentage of revenue for 2000 was 26%, compared to 27% for 1999.

Selling, general and administrative expenses for 2000 were $4,645,000 compared to $4,018,000 for 1999, representing an increase of $627,000. This increase is primarily attributable to the increased level of sales, which was 32%. Additionally, the Company wrote off approximately $301,000 of a receivable, which may be uncollectible. Selling, general and administrative expenses as a percentage of revenue for 2000 and 1999 were 16% and 19%, respectively. Interest expense for 2000 was $1,154,000, compared to $1,117,000 for 1999, representing an increase of $37,000.

The net income for 2000 was $1,929,000 compared to $809,000 for 1999, representing an increase of $1,120,000. Basic earnings per share was $.73 on 2,648,509 average shares outstanding compared to $0.31 on 2,648,509 average shares outstanding for fiscal 1999. Diluted earnings per share was $.70 in 2000 on 2,648,509 weighted average shares outstanding compared to $0.30 in 1999 on 2,654,273 weighted average shares outstanding compared to $0.30 in 1999 on 2,645,273 weighted average shares outstanding.

Liquidity and Capital Resources

General

A large portion of the Company's cash has been used for costs incurred on various commercial contracts that are in process. These costs are components of "Costs and estimated earnings in excess of billings on uncompleted contracts" and represents 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. CPI's continued requirement to incur significant costs, in advance of receipt of associated cash for commercial contracts has caused an increase in the gap between aggregate costs and earnings and the related billings to date.

Net cash provided by operating activities for 2000 was $1,624,000 compared to $1,458,000 for 1999. This increase in cash was primarily attributable to net income of $1,929,000 depreciation and amortization of $1,678,000, a decrease in accounts receivable of $238,000, a decrease in prepaid expense and other current assets of $7,000, an increase in accounts payable and accrued expenses of $368,532, an increase in income taxes payable of $8,440 and an increase in interest payable of $65,000, offset by an increase in costs and estimated earnings in excess of billings of $465,000, an increase in inventory of $1,775,000, a change in deferred income taxes of $390,000, and a decrease in other assets of $70,000.

Net cash used in financing activities was $1,504,000 in 2000, compared to net cash used in financing activities of $1,512,000 in 1999. The Company repaid long term debt of $2,829,000 in 2000, as compared to $1,512,000 in 1999. Net cash used in investing activities of $243,000 for 2000 and $234,000 for 1999 resulted from the Company's purchase of additional machinery and equipment.

As a result of the foregoing, the Company's cash at December 31, 2000 decreased by $124,000 from the prior year to $172,000. The Company believes it will have sufficient cash flow for 2001 to satisfy its cash requirements, subject to a successful restructuring of its existing debt, as described below.

Financing Arrangements

The Company has an agreement with The Chase Manhattan Bank and Mellon Bank providing a line of credit through June 30, 2001, which will be used for working capital and other corporate purposes as needed. The Company has available up to $2,500,000 under the line of credit, subject to limits based on amounts of accounts receivable, as defined. Interest is at the bank's prime rate (9.5% at December 31, 2000) plus 1.5%. The line of credit is secured by substantially all assets of the Company. As of December 31, 2000, there was an outstanding balance of $1,700,000 on this line of credit, which has been renewed annually since its inception in 1997.

On October 9, 1997, the Company incurred significant indebtedness in connection with the acquisition of Kolar Machine, Inc. The Company entered into a term loan agreement with The Chase Manhattan Bank and Mellon Bank in the amount of $9,400,000. This loan was payable in quarterly installments of $587,000, plus monthly interest at the Bank's published prime rate plus 1.5%, maturing December 31, 2001. This loan is collateralized by all of the assets of the Company and its subsidiary. The Company also entered into a mortgage loan agreement with The Chase Manhattan Bank in the amount of $975,000. This loan is payable in monthly installments of $9,487, including interest at 8.3%, maturing October 31, 2007. This loan is collateralized by Kolar's land and building. Additionally, the Company entered into a subordinated note agreement with Mr. Daniel Liguori, the seller of Kolar, in the amount of $4,000,000. Interest only is payable monthly at 8%, maturing December 31, 2001, payable 91 days following maturity. This note is currently convertible into 333,334 shares of CPI Common Stock.

In December 1998, the Company re-structured its term loan agreement with the Chase and Mellon banks. Under the new arrangement, the principal payment due in December 1998, was deferred and will be amortized evenly through December 31, 2001. Loan payments for 2000 were payable monthly, at the rate of $200,000 per month through December 31, 2000. Commencing January 2001, the amortization increased to $317,000 per month. Additionally, Mr. Liguori has deferred the Company's payment of interest to him for thirteen months, beginning with the December 1998 payment. This deferred interest will accrue and become payable upon maturity of the Mr. Liguori's note. Interest payments began again in January 2000.

The term loan agreement with Chase and Mellon banks requires the Company to maintain specified levels of working capital and other financial ratios. At December 31, 2000 the Company was not in compliance with certain covenants. Additionally, the Company was not in compliance with certain covenants on March 31, 2001, the next compliance measurement date. As a result, the term loan indebtedness note as been classified as a current liability in the Company's financial statements. At the present time, the Company is in the process of negotiating certain amendments to the term loan agreement as well as the note with Mr. Liguori to restructure existing debt and its covenants. The Company anticipates that it will receive a waiver of its non-compliance with the covenants. The Company also anticipates that Chase and Mellon banks will agree to amend the covenants for succeeding quarters. If the Company does not successfully restructure its existing debt and covenants, it may need to raise additional capital in order to continue its business operations.

Inflation

Inflation has historically not had a material effect on the Company's operations.

Impact of Accounting Standards Adopted by the Company

The impact of recently adopted accounting standards is discussed in Note 1 of Notes to Financial Statements.

Consolidated Balance Sheet

December 31, 2000	
Assets	
Current Assets:	
Cash and cash equivalents	$ 172,184
Accounts receivable	2,107,555
Costs and estimated earnings in excess of billings on uncompleted contracts	4,403,779
Inventory	4,984,682
Deferred income taxes, net of valuation allowance of $1,146,000	1,214,000
Prepaid expenses and other current assets	114,333
Total current assets	12,996,533
Property, Plant and Equipment, net	6,142,330
Goodwill	6,066,258
Other Assets	308,579
Total Assets	$25,513,700
Liabilities and Shareholders' Equity	
Current Liabilities:	
Accounts payable	$ 2,663,300
Income taxes payable	34,000
Accrued expenses	560,444
Line of credit	1,700,000
Current portion of long-term debt	6,043,239
Interest payable	10,720
Total current liabilities	11,011,703
Long-term Debt	4,460,003
Interest Payable	374,400
Deferred Income Taxes	431,000
Total Liabilities	16,277,106
Commitments and Contingencies	
Shareholders' Equity:	
Common stock — $.001 par value; authorized 50,000,000 shares, issued and outstanding 2,648,509 shares	2,649
Additional paid-in capital	12,319,674
Accumulated deficit	(3,085,729)
Shareholders' Equity	9,236,594
Total Liabilities and Shareholders' Equity	$25,513,700

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Year ended December 31,	2000	1999
Revenue	$28,621,681	$21,603,284
Cost of sales	21,245,108	15,668,154
Gross profit	7,376,573	5,935,130
Selling, general and administrative expenses	4,644,747	4,018,232
Income from operations	2,731,826	1,916,898
Other (income) expense:		
Interest income	(422)	(667)
Interest expense	1,154,418	1,116,661
Other (income) expense, net	24,624	(311,013)
Total other expenses, net	1,178,620	804,981
Income before provision (benefit) for income taxes	1,553,206	1,111,917
Provision (benefit) for income taxes	(376,000)	303,000
Net income	$ 1,929,206	$ 808,917
Earnings per common share — basic	$ .73	$ .31
Earnings per common share — diluted	$ .70	$ .30
Shares used in computing earnings per common share:		
Basic	2,648,509	2,648,509
Diluted	2,763,888	2,654,273

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

Years ended December 31, 1999 and 2000

	Common Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
Balance at January 1, 1999	2,648,509	$2,649	$11,931,522	$(5,823,852)	$ 6,110,319
Net income	—	—	—	808,917	808,917
Amortization of fair value of warrants issued in conjunction with consulting agreement	—	—	274,502	—	274,502
Balance at December 31, 1999	2,648,509	2,649	12,206,024	(5,014,935)	7,193,738
Net income	—	—	—	1,929,206	1,929,206
Amortization of fair value of warrants issued in conjunction with consulting agreement	—	—	113,650	—	113,650
Balance at December 31, 2000	2,648,509	$2,649	$12,319,674	$(3,085,729)	$9,236,594

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Year ended December 31,	2000	1999
Cash flows from operating activities:		
Net income	$ 1,929,206	$ 808,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,564,084	1,704,030
Warrants issued for consulting fees	113,650	274,502
Loss on disposal of fixed assets	481	—
Deferred portion of provision (benefit) for income taxes	(390,000)	266,000
Bad debts	301,377	—
Changes in operating assets and liabilities:		
Increase in accounts receivable	(63,442)	(656,283)
Decrease in income tax refund receivable	29,597	486,403
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(465,250)	(832,605)
Increase in inventory	(1,774,751)	(771,516)
Decrease (increase) in prepaid expenses and other current assets	6,851	(19,183)
Increase in other assets	(70,259)	(379,740)
Increase in accounts payable and accrued expenses	368,532	231,959
Increase in income taxes payable	8,440	25,560
Increase in interest payable	65,120	320,000
Net cash provided by operating activities	1,623,636	1,458,044
Cash flows from investing activities:		
Purchase of property, plant and equipment	(252,193)	(245,438)
Proceeds from sale of fixed assets	9,100	11,183
Net cash used in investing activities	(243,093)	(234,255)
Cash flows from financing activities:		
Proceeds from line of credit	1,325,000	200,000
Proceeds from officers' note	—	130,000
Repayment of long-term debt	(2,829,057)	(1,512,387)
Repayment of officers' note	—	(130,000)
Repayment of line of credit	—	(200,000)
Net cash used in financing activities	(1,504,057)	(1,512,387)
Net decrease in cash	(123,514)	(288,598)
Cash and cash equivalents at beginning of year	295,698	584,296
Cash and cash equivalents at end of year	$172,184	$ 295,698
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 1,115,965	$ 795,365
Income taxes	$ 12,645	$ 11,197
Supplemental schedule of noncash financing activity:		
Financing obligation incurred in connection with the acquisition of equipment	$ 1,772,098	$ 505,274

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

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

The Company consists of CPI Aerostructures, Inc. (“CPI”) and its wholly owned subsidiary, Kolar, Inc. (“Kolar”), collectively, the “Company.”

CPI’s operations consist of the design and production of complex aerospace structural subassemblies under U.S. government and commercial contracts. The length of the Company’s contracts varies but is typically between one and two years for U.S. government contracts and up to 10 years for commercial contracts.

Kolar’s principal business is the precision computer numerical control machining of metal products on a contract-order basis. The Company operates in and distributes from New York State.

CPI’s revenue is recognized based on the percentage of completion method of accounting for long-term 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. In accordance with industry practice, costs and estimated earnings in excess of billings on uncompleted contracts, included in the accompanying consolidated balance sheet, contain amounts relating to contracts and programs with long production cycles, a portion of which will not be realized within one year. CPI’s recorded revenue may be adjusted in later periods in the event that CPI’s cost estimates prove to be inaccurate or a contract is terminated.

Kolar’s revenue is recognized when goods are shipped to customers.

Inventory is stated at the lower of cost (first-in, first-out method) or market.

The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

The Company believes it is not exposed to any significant credit risk on cash.

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Depreciation and amortization of property, plant and equipment is provided for by the straight-line method over the estimated useful lives of the respective assets or the life of the lease, for leasehold improvements.

At each balance sheet date, the Company evaluates the period of amortization of intangible assets. The factors used in evaluating the period of amortization include: (i) current operating results, (ii) projected future operating results, and (iii) any other material factors that affect continuity of the business.

The Company has incurred approximately $549,000 of costs of obtaining debt, and has deferred such costs. These costs will be amortized over the life of the debt. The unamortized portion of these deferred financing costs, approximately $130,000 at December 31, 2000, is included in other assets.

On June 24, 1999, the shareholders of the Company voted to enact a one-for- three reverse stock split. All earnings per share calculations, number of shares and equity transactions have been restated to reflect the reverse stock split.

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.

In accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, Accounting for Stock-Based Compensation, the Company has elected to apply APB Opinion No. 25 and related interpretations in accounting for its stock options issued to employees and, accordingly, does not recognize additional compensation cost as required by SFAS No. 123. The Company, however, has provided the pro forma disclosures as if the Company had adopted the cost recognition requirements.

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 115,379 and 5,764 were used in the calculation of diluted earnings per common share in 2000 and 1999, respectively. The convertible securities attributable to the note payable — seller (see Note 5) have been excluded from the fully diluted computation as their effect would be antidilutive.

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

At December 31, 2000, costs and estimated earnings in excess of billings on uncompleted contracts consist of:

	U.S. Government	Commercial	Total
Costs incurred on uncompleted contracts	$2,920,896	$11,718,432	$14,639,328
Estimated earnings	909,009	6,227,850	7,136,859
	3,829,905	17,946,282	21,776,187
Less billings to date	2,156,866	15,215,542	17,372,408
Costs and estimated earnings in excess of billings on uncompleted contracts	$1,673,039	$ 2,730,740	$ 4,403,779

Unbilled costs and estimated earnings are billed in accordance with applicable contract terms. As of December 31, 2000, approximately $1,521,000 of the balances above are not expected to be collected within one year.

3. Inventory:

Inventory consists of the following:

Raw materials	$1,665,275
Work-in-progress	672,979
Finished goods	2,646,428
	$4,984,682

4. Property, Plant and Equipment:

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

December 31, 2000		Estimated Useful Life
Land	$ 412,200	
Machinery and equipment	7,351,049	5 to 10 year
Building	1,050,1323	9 years
Furniture and fixtures	65,585	7 years
Automobiles and trucks	89,498	5 years
Leasehold improvements	66,791	3 years
	9,035,255	
Less accumulated depreciation and amortization	2,892,925	
	$ 6,142,330	

An aggregate of approximately $2,277,000 has been acquired under capital lease. As of December 31, 2000, the Company recorded approximately $160,000 of depreciation expense on this equipment.

5. Long-Term Debt:

Long-term debt consists of the following:

Note payable — bank (a)	$ 3,797,500
Note payable — bank (b)	850,328
Note payable — seller (c)	4,000,000
Other (d)	$ 1,855,414
	10,503,242
Less current maturities	6,043,239
	$ 4,460,003

(a) The note, as amended in December 1998, is payable to a commercial bank in monthly installments of $317,000 from January 2001 through December 2001, plus monthly interest at the bank's published prime rate (9.50% at December 31, 2000) plus 1.5%. This note and the line of credit disclosed in Note 8 are collateralized by substantially all of the assets of the Company.

(b) The note is payable to a commercial bank in monthly installments of $9,487, including interest at 8.3%, maturing October 31, 2007. This note is collateralized by Kolar's land and building.

(c) In 1997, the Company acquired substantially all of the assets of Kolar Machine, Inc. The acquisition was partially financed through a $4,000,000 note payable to Mr. Daniel Liguori, the seller ("Seller") of Kolar Machine, Inc. The note payable to the Seller bears interest at 8% per annum. The Seller has deferred the Company's payment of interest on this note during 1999, and the accrued interest through December 1999 will be payable upon maturity of the Seller's note. Monthly interest payments began again in January 2000. This note matures April 1, 2002. The note payable — Seller is convertible into 333,334 shares of the Company's common stock at any time prior to the maturity of the note.

(d) The Company leases equipment and automobiles under capital leases which expire at various dates through January 2006. The leases require monthly payments of principal and interest, imputed at interest rates ranging from 7.75% to 16.2%.

The note payable — bank (a) requires the Company to maintain specified levels of working capital and other financial ratios, as defined. At December 31, 2000 the Company was not in compliance with certain covenants. Additionally, the Company was not in compliance with certain covenants on March 31, 2001, the next compliance measurement date. As a result, the note payable — bank (a) has been classified as a current liability. In addition, as a result of cross-collateralization clauses in note payable — bank (b) and other (d), all amounts due to the bank, $1,818,906 in the aggregate, that would otherwise be included in noncurrent liabilities is presented as current at December 31, 2000. The Company and the bank are in the process of amending the covenants.

Maturities of long-term debt are as follows:

Year ending December 31,	
2001	$ 6,043,239
2002	4,152,776
2003	148,681
2004	144,267
2005	14,279
	$10,503,242

At December 31, 2000, the carrying value of the Company's long-term debt approximated its estimated fair value based upon current borrowing rates for similar issues.

6. Commitments:

The Company leases a warehouse under a noncancelable operating lease expiring in August 2002.

The aggregate future minimum rental commitment under this lease is as follows:

Year ending December 31,	
2001	$51,720
2002	34,480
	$86,200

Total rental expense for the years ended December 31, 2000 and 1999 amounted to $236,598 and $176,121, respectively. The Company is required to pay additional expenses, as defined.

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

Year ending December 31,	
2001	$ 639,000
2002	130,200
2003	44,100
	$ 813,300

These agreements provide for additional bonus payments that are calculated, as defined.

7. Income Taxes:

The provision (benefit) for income taxes consists of the following:

Year ended December 31,	2000	1999
Current:		
Federal	$ 4,000	$ 4,000
State and local	10,000	33,000
	14,000	37,000
Deferred:		
Federal	(351,000)	231,000
State and local	(39,000)	35,000
	(390,000)	266,000
	$(376,000)	$303,000

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

December 31,	2000	1999
Taxes computed at the federal statutory rate	$ 528,000	$ 378,000
State income taxes, including deferred, net of federal benefit	7,000	25,000
Other, including officers' life insurance and various permanent differences	59,000	8,000
Utilization of net operating loss carryforward	(970,000)	(108,000)
	$(376,000)	$ 303,000

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

	Current	Noncurrent
Long-term contracts	$ (158,000)	$(431,000)
Property, plant and equipment	—	—
Inventory	72,000	—
Net operating loss carryforwards	2,446,000	—
Valuation allowance	(1,146,000)	—
	$ 1,214,000	$(431,000)

As of December 31, 2000, the Company had net operating loss carryforwards of approximately $6,183,000 for federal income tax purposes expiring in 2013.

8. Line of Credit:

The Company has an aggregate $2,500,000 line of credit agreement, expiring June 30, 2001, with The Chase Manhattan Bank and Mellon Bank for working capital and other corporate purposes as needed. Borrowings are subject to limits based on amounts of accounts receivable, as defined. Interest is at the banks' prime rate (9.50% at December 31, 2000) plus 1.5%. The line of credit and the note payable described in Note 5(a) are collateralized by substantially all of the assets of the Company.

9. Employee Stock Option Plans:

In April 1992, the Company adopted the 1992 Stock Option Plan (the "1992 Plan"). The 1992 Plan, for which 83,334 common shares are reserved for issuance, provides for the issuance of either incentive stock options or nonqualified stock options to employees, consultants or others who provide services to the Company. The initial options granted to employees and directors with three or more years of service became exercisable as to one-third of the shares each year beginning on September 16, 1992. The initial options granted to those with less than three years of service became exercisable as to one-third of the shares each year beginning on September 16, 1993. The options may not be exercised more than five years from the date of issuance. In 1995, the option price for all outstanding employees' and director's stock options was lowered to $9.00.

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 Stock Option 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 non-qualified 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 2000 Stock Option Plan (the "2000 Plan"). The 2000 Plan, as amended, reserved 700,000 common shares for issuance. The 2000 Plan provides for the issuance of either incentive stock options or nonqualified stock options to employees, consultants or others who provide services to the Company. The options' exercise price is equal to the closing price of the Company's shares on the day of issuance, except for incentive stock options granted to the Company's president, which are exercisable at 110% of the closing price of the Company's shares on the date of issuance.

The Company has 5,112 options available for future grant under the 1992 Plan, 21,667 options available for grant under the 1995 Plan, 12,332 options available for grant under the 1998 Plan, and 475,000 options available for grant under the 2000 Plan.

If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net income and earnings per share would have been adjusted to the pro forma amounts indicated in the table below:

	As Reported		Pro Forma	
	2000	1999	2000	1999
Net income	$1,929,206	$808,917	$1,832,000	$596,000
Earnings per share:				
Basic	$ .73	$ .31	$ .69	$ .23
Diluted	$ .70	$ .30	$ .66	$ .22

A summary of the status of the Company's four stock option plans as of December 31, 2000 and 1999 and changes during those years is as follows:

	2000		1999	
Fixed Options	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	515,313	$4.27	327,468	$5.97
Granted during year	408,000	2.67	269,000	2.64
Exercised	—	—	—	—
Forfeited	29,001	4.11	81,155	5.72
Outstanding at end of year	894,312	$3.54	515,313	$4.27

The following table summarizes information about stock options outstanding and exercisable at December 31, 2000:

Range of Exercise Price	Weighted Number Outstanding and Exercisable	Average Remaining Contractual Life	Weighted-Average Exercise Price
$2.53 — $9.00	894,312	3.65 years	$3.54

The Company's assumptions used to calculate the fair values of options issued were (i) risk-free interest rate of 5.25%, (ii) expected life of five years, (iii) expected volatility of 174.71%, and (iv) expected dividends of zero.

10. Warrants and Options:

In January 1996, the Company issued stock options to purchase 6,167 shares at $3.18 per share to a director.

In March 1996, the Company issued 100,000 warrants to Barber and Bronson, Inc. as partial compensation for acting as the Company's Placement Agent for its private placement of equity. These warrants entitle the Placement Agent to purchase 100,000 shares of common stock at an exercise price of $3 during the five-year period commencing June 19, 1996. In 1997, 10,000 of these warrants were exercised.

In September 1996, the Company issued options to purchase 3,334 shares of common stock to two directors at an exercise price of $6.00 per share of common stock. These options expire in 2001.

In February 1997, the Company issued options to purchase 3,334 shares of common stock to two directors at an exercise price of $6.18 per share of common stock. These options expire in 2002.

In January 1998, the Company issued options to purchase 25,000 shares of common stock to a consultant, who was also a director, at an exercise price of $7.50 per share of common stock. In February 1998, the Company issued options to purchase 3,334 shares of common stock to two directors at an exercise price of $6.93 per share of common stock. These options expire in 2003.

In March 1998, the Company issued 33,334 warrants to Gaines Berland, Inc. as compensation for acting as the Company's investment banker pursuant to a consulting agreement. These warrants entitle the investment banker to purchase 33,334 shares of common stock at an exercise price of $7.50 during the five-year period commencing April 1, 1998.

This agreement was terminated in 1999. In 1999, the Company recorded a charge to operations of $198,734 to write off the unamortized portion of warrants issued under this agreement.

In May 1999, the Company issued 100,000 warrants to Catalyst Financial Corp. as partial compensation in the amount of $227,300 for acting as the Company's investment banker pursuant to a consulting agreement. These warrants entitle the investment banker to purchase 100,000 shares of common stock at an exercise price of $1.875 during the five-year period commencing May 4, 1999. In December 1999, the Company issued options to purchase 15,000 shares of common stock to a consultant at the exercise price of $2.53 per share of common stock. Also in December 1999, the Company issued options to purchase 10,000 shares of common stock to two directors at an exercise price of $2.53 per share of common stock.

11. Employee Benefit Plans:

On September 11, 1996, CPI's board of directors instituted a defined contribution plan under Section 401(k) of the Internal Revenue Code (the "Code"). On October 1, 1998, the Company amended and standardized both the CPI and Kolar plans 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 2000 and 1999 amounted to $184,373 and $119,627, respectively.

12. Contingencies:

From time to time, the Company is subject to routine litigation incidental to its business. The Company believes that the settlement of any pending legal proceedings will not have a material adverse effect on the Company's financial condition.

13. Segment Information:

The Company's operations are classified into two business segments: production of complex aerospace structural subassemblies ("Aerospace") and computer numerical control machining of metal products ("Machining").

Summarized financial information by business segment for 2000 and 1999 is as follows:

December 31,	2000	1999
Net sales:		
Aerospace	$ 8,261,351	$ 6,079,936
Machining	20,360,330	15,523,348
	$28,621,681	$21,603,284
Operating income:		
Aerospace	$ 1,163,364	$ 474,212
Machining	1,568,462	1,442,686
	$ 2,731,826	$ 1,916,898

December 31,	2000	1999
Total assets:		
Aerospace	$ 6,838,934	$ 5,814,906
Machining	18,674,766	16,880,805
	$25,513,700	$22,695,711
Depreciation and amortization:		
Aerospace	$ 30,193	$ 39,913
Machining	888,208	718,433
	$ 918,401	$ 758,346
Capital expenditures:		
Aerospace	$ 70,837	$ 23,488
Machining	1,953,454	727,224
	$ 2,024,291	$ 750,712

14. Major Customers:

Approximately 58% and 55% of the Company's sales in 2000 and 1999, respectively, were to Universal Instruments Inc. ("Universal").

Approximately 22% of the Company's sales in both 2000 and 1999 were to the U.S. government.

At December 31, 2000, approximately 70% of accounts receivable were due from Universal and the U.S. government (35% Universal and 35% for the U.S. government).

Independent Auditor's Report

To the Board of Directors
CPI Aerostructures, Inc.

We have audited the accompanying consolidated balance sheet of CPI Aerostructures, Inc. and Subsidiary as of December 31, 2000 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2000. 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 auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CPI Aerostructures, Inc. and Subsidiary as of December 31, 2000, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP
New York, New York
February 8, 2001, except for the last paragraph of Note 5 as to which the date is March 31, 2001

Market for Common Equity and Related Shareholder Matters

Market Information

The Company's Common Stock is listed on the American Stock Exchange ("Amex"), under the symbol CVU. The stock symbol changed from CPIA to CVU on September 5, 2000, when CPI ceased trading on The Nasdaq SmallCap Market, Inc. ("NASDAQ") and began trading on the Amex.

The following tables set forth for the last two fiscal years, the high and low last sales prices of CPI's Common Stock for the periods indicated, as reported by the Nasdaq (through September 4, 2000) and by the Amex (from September 5, 2000 through December 31, 2000). These prices represent inter-dealer quotations, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

Period	High	Low
1999		
Quarter Ended March 31, 1999	$3.656	$2.063
Quarter Ended June 30, 1999	$2.344	$1.281
Quarter Ended September 30, 1999	$1.183	$ 1.25
Quarter Ended December 31, 1999	$3.094	$1.094
2000		
Quarter Ended March 31, 2000	$3.875	$2.750
Quarter Ended June 30, 2000	$3.266	$2.125
Quarter Ended September 30, 2000	$3.750	$2.031
Quarter Ended December 31, 2000	$3.875	$2.625

On April 9, 2001, the closing sale price for the Company's Common Stock on the Amex was $1.95.

Holders

On April 10, 2001, there were 131 holders of record of the Company's Common Stock. The Company reasonably believes that there are in excess of 1,900 beneficial holders of its Common Stock.

Dividend Policy

To date, the Company has not paid any dividends on its Common Stock. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend on the Company's earnings, if any, its capital requirements and financial condition and other relevant factors. The Board of Directors does not intend to declare any cash or other dividends in the foreseeable future, but instead intends to retain earnings, if any, for use in the Company's business operations.

In addition, the Company's Credit Agreement with its several lenders provides that the Company may not declare or pay any dividend on its Common Stock so long as any amounts are owing to the several lenders. See "Management's Discussion and Analysis — Financing Arrangements."

Recent Sales of Unregistered Securities, Use of Proceeds from Registered Securities.

Corporate Information

Officers

Arthur August
Chairman of the Board
President and Chief Executive Officer

Edward J. Fred
Executive Vice President,
Chief Financial Officer and Secretary

Frank Funicelli
Vice President of Operations

Board of Directors

Arthur August
Chairman of the Board
President and Chief Executive Officer

Edward J. Fred
Executive Vice President,
Chief Financial Officer and Secretary

Walter Paulick
President
W.R. Paulick and Associates, Inc.
Financial Consulting Firm

Kenneth McSweeney
Principal
K.F. McSweeney, Unlimited

Corporate Headquarters

CPI Aerostructures, Inc.
200A Executive Drive
Edgewood, NY 11717
Tel: (631) 586-5200
Fax: (631) 586-5814
www.cpiaero.com

Transfer Agent

Communications regarding change of address, transfer of stock ownership, or lost stock certificates should be directed to:

American Stock Transfer
59 Maiden Lane
New York, NY 10038

Common Stock

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

Independent Auditors

Goldstein Golub Kessler LLP
1185 Avenue of the Americas
New York, NY 10036

Stockholder Contact and Form 10-KSB

Stockholders are encouraged to contact the Company with questions or requests for information. A copy of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000, 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 Aerostructures, Inc.
200A Executive Drive
Edgewood, NY 11717
(631) 586-5200
or contact the Company at its website, www.cpiaero.com

Design: RWI (rwidesign.com)

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