

CPI AEROSTRUCTURES INC
Form DEF 14A
May 02, 2006
Table of Contents

SCHEDULE 14A

(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

| | |
|---------------------------------------|---|
| Preliminary Proxy Statement | Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| Definitive Proxy Statement | |
| Definitive Additional Materials | |
| Soliciting Material Under Rule 14a-12 | |

CPI AEROSTRUCTURES, INC,

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

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Table of Contents

CPI AEROSTRUCTURES, INC.

60 Heartland Blvd.
Edgewood, New York 11717
(631) 586-5200

Notice of Annual Meeting of Shareholders
to be held on June 13, 2006

To the Shareholders of CPI Aerostructures, Inc.:

You are cordially invited to attend the annual meeting of shareholders of CPI Aerostructures, Inc. to be held at our principal executive offices, located at 60 Heartland Blvd. Edgewood, New York 11717, on Tuesday, June 13, 2006, at 9:00 a.m., to consider and act upon the following matters:

- To elect two Class II directors to serve for the ensuing three-year period until their successors are elected and qualified; and
- To transact such other business as may properly come before the meeting and any and all postponements or adjournments thereof.

Only shareholders of record at the close of business on April 25, 2006 will be entitled to notice of, and to vote at, the meeting and any postponements or adjournments thereof.

You are urged to read the attached proxy statement, which contains information relevant to the actions to be taken at the meeting. Whether or not you expect to attend the meeting, you are earnestly requested to date, sign and return the accompanying form of proxy in the enclosed addressed, postage-prepaid envelope. Returning a proxy will not affect your right to vote in person if you attend the meeting. You may revoke your proxy if you so desire at any time before it is voted. We would greatly appreciate the prompt return of your proxy as this will assist us in preparing for the meeting.

By Order of the Board of Directors
Edward J. Fred, Secretary

Edgewood, New York
May 1, 2006

Table of Contents

CPI AEROSTRUCTURES, INC.

PROXY STATEMENT

Annual Meeting of Shareholders
to be held on June 13, 2006

This proxy statement and the accompanying form of proxy is furnished to shareholders of CPI Aerostructures, Inc. in connection with the solicitation of proxies by our board of directors for use in voting at our annual meeting of shareholders to be held at our principal executive offices, located at 60 Heartland Blvd. Edgewood, New York 11717, on Tuesday, June 13, 2006, at 9:00 a.m., and at any and all postponements or adjournments.

This proxy statement, the accompanying notice of meeting of shareholders, the proxy and the annual report to shareholders for the year ended December 31, 2005 are being mailed on or about May 1, 2006 to shareholders of record on April 25, 2006. We are bearing all costs of this solicitation.

What matters am I voting on?

You are being asked to vote on the following matters:

- to elect two Class II directors to serve for the ensuing three-year period until their successors are elected and qualified; and
- any other business that may properly come before the meeting and any and all postponements or adjournments.

Who is entitled to vote?

Holders of our common stock as of the close of business on April 25, 2006, the record date, are entitled to vote at the meeting. As of that date, we had issued and outstanding 5,447,042 shares of common stock, our only class of voting securities outstanding. Each holder of our common stock is entitled to one vote for each share held on the record date.

What is the effect of giving a proxy?

Proxies in the form enclosed are solicited by and on behalf of our board. The persons named in the proxy have been designated as proxies by our board. If you sign and return the proxy in accordance with the procedures set forth in this proxy statement, the persons designated as proxies by the board will vote your shares at the meeting as specified in your proxy.

If you sign and return your proxy in accordance with the procedures set forth in this proxy statement but you do not provide any instructions as to how your shares should be voted, your shares will be voted FOR the election of the nominees listed below under Proposal 1.

If you give your proxy, your shares also will be voted in the discretion of the proxies named on the proxy card with respect to any other matters properly brought before the meeting and any postponements or adjournments. If any other matters are properly brought before the meeting, the persons named in the proxy will vote the proxies in accordance with their best judgment.

May I change my vote after I return my proxy card?

You may revoke your proxy at any time before it is exercised by:

- delivering written notification of your revocation to our secretary;
- voting in person at the meeting; or
- delivering another proxy bearing a later date.

Please note that your attendance at the meeting will not alone serve to revoke your proxy.

Table of Contents

What is a quorum?

A quorum is the minimum number of shares required to be present at the meeting for the meeting to be properly held under our bylaws and New York law. The presence, in person or by proxy, of a majority of the votes entitled to be cast at the meeting will constitute a quorum at the meeting. A proxy submitted by a shareholder may indicate that all or a portion of the shares represented by the proxy are not being voted (“shareholder withholding”) with respect to a particular matter. Similarly, a broker may not be permitted to vote stock (“broker non-vote”) held in street name on a particular matter in the absence of instructions from the beneficial owner of the stock. The shares subject to a proxy which are not being voted on a particular matter because of either shareholder withholding or broker non-vote will not be considered shares present and entitled to vote on that matter. These shares, however, may be considered present and entitled to vote on other matters and will count for purposes of determining the presence of a quorum if the shares are being voted with respect to any matter at the meeting. If the proxy indicates that the shares are not being voted on any matter at the meeting, the shares will not be counted for purposes of determining the presence of a quorum. Abstentions are voted neither “for” nor “against” a matter, but are counted in the determination of a quorum.

How many votes are needed for the election of directors?

The election of directors requires a plurality vote of the votes cast at the meeting. “Plurality” means that the individuals who receive the largest number of votes cast “FOR” are elected as directors. Consequently, any shares not voted “FOR” a particular nominee, whether as a result of a direction of the shareholder to withhold authority, abstentions or a broker non-vote, will not be counted in the nominee’s favor.

How do I vote?

You may vote your shares in one of three ways: by mail, facsimile or in person at the meeting. The prompt return of the completed proxy card vote will assist us in preparing for the meeting. Date, sign and return the accompanying proxy in the postage-prepaid envelope enclosed for that purpose. You can specify your choices by marking the appropriate boxes on the proxy card. If you attend the meeting, you may deliver your completed proxy card in person or fill out and return a ballot that will be supplied to you. If you wish to fax your proxy, please copy both the front and back of the signed proxy and fax same to American Stock Transfer & Trust Co. at (718) 234-2287 (phone: (718) 921-8278).

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table and accompanying footnotes set forth certain information as of April 25, 2006 with respect to the ownership of our common shares by:

- each person or group who beneficially owns more than 5% of our common shares;
- each of our directors;
- our chief executive officer and our other executive officers whose total compensation exceeded \$100,000 during the year ended December 31, 2005; and
- all of our directors and executive officers as a group.

A person is deemed to be the beneficial owner of securities that can be acquired by the person within 60 days from the record date upon the exercise of warrants or options. Accordingly, common shares issuable upon exercise of options and warrants that are currently exercisable or exercisable within 60 days of April 25, 2006 have been included in the table with respect to the beneficial ownership of the person owning the options or warrants, but not with respect to any other persons.

| Name and Address of Beneficial Owner ⁽¹⁾ | Shares Beneficially Owned ⁽²⁾ | Percent of Class ⁽³⁾ |
|---|---|---------------------------------|
| Edward J. Fred | 403,434 ⁽⁴⁾ | 6.9% |
| Arthur August | 604,419 ⁽⁵⁾ | 10.4% |
| Vincent Palazzolo | 50,000 ⁽⁶⁾ | * |
| Walter Paulick | 45,000 ⁽⁷⁾ | * |
| Kenneth McSweeney | 48,334 ⁽⁸⁾ | * |
| A. C. Providenti | 100,000 ⁽⁹⁾ | 1.8% |
| Eric Rosenfeld | 1,014,334 ⁽¹⁰⁾ | 18.3% |
| c/o Crescendo Partners 10 East 53 rd Street, 36 th floor New York, NY 10022 | | |
| Rutabaga Capital Management 64 Broad Street, 3 rd Floor Boston, MA 02109 | 580,300 ⁽¹¹⁾ | 10.7% |
| Midwood Capital Management, LLC One Washington Mall, 8 th Floor Boston, MA 02108 | 541,549 ⁽¹²⁾ | 9.9% |
| All directors and executive officers as a group (seven persons) | 2,265,521 ⁽¹³⁾ | 34.6% |

*Less than 1%.

⁽¹⁾Unless otherwise noted, the business address of each of the following persons is c/o CPI Aerostructures, Inc., 60 Heartland Blvd., Edgewood, New York 11717.

⁽²⁾Unless otherwise noted, we believe that all persons named in the table have sole voting and investment power with respect to all common shares beneficially owned by them, subject to community property laws, where applicable.

⁽³⁾There are 5,447,042 shares currently issued and outstanding. Each person beneficially owns a percentage of our outstanding common shares equal to a fraction, the numerator of which is the number of common

shares held by such person plus the number of common shares that he can acquire within 60 days of April 25, 2006 upon the exercise or conversion of options, warrants or convertible securities and the denominator of which is 5,447,042 (the number of common shares currently outstanding) plus the number of shares he can so acquire during such 60-day period.

(4)Includes 398,334 common shares that Mr. Fred has the right to acquire upon exercise of options.

(5)Includes (a) 385,000 common shares that Mr. August has the right to acquire upon exercise of options and (b) 3,000

3

Table of Contents

common shares owned by Mr. August's wife. Excludes an aggregate of 3,034 common shares owned by Mr. August's adult children, all of which shares Mr. August disclaims beneficial ownership.

(6)Represents common shares that Mr. Palazzolo has the right to acquire upon exercise of options.

(7)Represents common shares that Mr. Paulick has the right to acquire upon exercise of options.

(8)Includes 35,000 common shares that Mr. McSweeney has the right to acquire upon exercise of options.

(9)Represents common shares that Mr. Providenti has the right to acquire upon exercise of options.

(10)Represents (a) 46,000 common shares beneficially owned as joint tenants by Mr. Rosenfeld and his wife, (b) 883,334 shares held by Crescendo Partners II, L.P. Series L ("Crescendo Partners II") and (c) 85,000 common shares that Mr. Rosenfeld has the right to acquire upon exercise of options. Mr. Rosenfeld is the senior managing member of the sole general partner of Crescendo Partners II. Mr. Rosenfeld disclaims beneficial ownership of the shares held by Crescendo Partners II, except to the extent of his pecuniary interest therein.

(11)The information with respect to Rutabaga Capital Management is derived from a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2006.

(12)Represents (a) 240,984 common shares held by Midwood Capital Partners, L.P. ("LP") and (b) 300,565 common shares held by Midwood Capital Partners QP, L.P. ("QP" and together with LP, the "Funds"). Midwood Capital Management LLC ("Capital") is the sole general partner of the Funds and, as such, has the sole authority to vote and dispose of all of the common shares held by the Funds. David E. Cohen and Ross D. DeMont are the managers of Capital and as such, have shared authority to vote and dispose of all of the common shares held by the Funds. The foregoing information was derived from an Amendment to Schedule 13G filed with the Securities and Exchange Commission on April 14, 2006.

(13)Includes an aggregate of 1,098,334 common shares that Messrs. Fred, August, Palazzolo, Paulick, McSweeney, Providenti and Rosenfeld have the right to acquire upon exercise of outstanding options.

PROPOSAL 1:

ELECTION OF DIRECTORS

Our board of directors is divided into three classes with only one class of directors being elected in each year and each class serving a three-year term. The term of office of the first class of directors (Class I), consisting of Kenneth McSweeney and A.C. Providenti, will expire at our annual meeting in 2008. The term of office of the second class of directors (Class II), consisting of Walter Paulick and Eric Rosenfeld, will expire at this year's annual meeting. The term of office of the third class of directors (Class III), consisting of Arthur August and Edward J. Fred, will expire at our annual meeting in 2007.

Unless authority is withheld, the proxies solicited by our board of directors will be voted "FOR" the election of Messrs. Paulick and Rosenfeld. Our management has no reason to believe that Messrs. Paulick and Rosenfeld will not be candidates or will be unable to serve. However, if either should become unable or unwilling to serve as a director, the

proxy will be voted for the election of another person as shall be designated by the board of directors.

4

Table of Contents

Information About Directors, Nominees and Executive Officers

Our directors and executive officers are as follows:

| Name | Age | Position |
|--|-----|---|
| Eric Rosenfeld ⁽¹⁾⁽²⁾⁽⁴⁾ | 48 | Chairman of the Board of Directors (non-executive) |
| Edward J. Fred ⁽¹⁾ | 47 | Chief Executive Officer, President and Director |
| Arthur August ⁽¹⁾ | 71 | Chairman Emeritus and Director |
| Vincent Palazzolo | 42 | Chief Financial Officer |
| Walter Paulick ⁽²⁾⁽³⁾⁽⁴⁾ | 59 | Director |
| Kenneth McSweeney ⁽²⁾⁽³⁾⁽⁴⁾ | 74 | Director |
| A. C. Providenti ⁽³⁾ | 68 | Director |
| <u>Key Employee</u> Frank Funicelli | 63 | Senior Vice President, Business Development |

(1) Member of strategic planning committee.

(2) Member of compensation committee.

(3) Member of audit committee.

(4) Member of nominating committee.

5

Table of Contents

Eric Rosenfeld has been the non-executive chairman of our board of directors since January 2005 and a director and chairman of our strategic planning committee since April 2003. Mr. Rosenfeld has been the president and chief executive officer of Crescendo Partners, L.P., a New York-based investment firm, since its formation in November 1998. Prior to forming Crescendo Partners, Mr. Rosenfeld had been managing director at CIBC Oppenheimer and its predecessor company Oppenheimer & Co., Inc. for fourteen years. He was also chairman of the board of Spar Aerospace Limited, a company that provides repair and overhaul services for aircraft and helicopters used by governments and commercial airlines, from May 1999 through November 2001, until its sale to L-3 Communications. Since April 2004, Mr. Rosenfeld also has been chairman, president and chief executive officer of Arpeggio Acquisition Corporation, a company that has entered into a merger agreement with Hill International, Inc., a construction management firm. He is also a director of Sierra Systems Group, Inc., a Toronto Stock Exchange-listed information technology, management consulting and systems integration firm based in Canada; a director of Emergis Inc., a Toronto Stock Exchange-listed company that enables the electronic processing of transactions in the finance

and healthcare industries, the chairman of Computer Horizons Corp., a Nasdaq-listed company that provides information technology services to corporations. He was also a director of Geac Computer Corporation Limited, which was a Toronto Stock Exchange and Nasdaq-listed company until its acquisition by Golden Gate Capital in March 2006. Mr. Rosenfeld recently served as a director of AD OPT Technologies Inc., which was a Toronto Stock Exchange-listed company until it was acquired by Kronos Inc. in November 2004. Mr. Rosenfeld recently served as a director and head of the special committee of Pivotal Corporation, a Canadian based customer relations management software company that was sold to chinadotcom in February 2004. Mr. Rosenfeld is a regular guest lecturer at Columbia Business School and he is a member of the faculty at the Directors College. He has served on numerous panels at Queen's University Business Law School Symposia, McGill Law School and the World Presidents' Organization. He also has been a regular guest host on CNBC. Mr. Rosenfeld received an M.B.A. from Harvard University and an A.B. degree in economics from Brown University.

Edward J. Fred has been an officer since February 1995 and a member of our board of directors since January 1999. He was our controller from February 1995 to April 1998, when he was appointed chief financial officer, a position he held until June 2003 and then from January 2004 to May 2004. He was executive vice president from May 2000 until December 2001 and was appointed to the position of president in January 2002 and to the position of chief executive officer in January 2003. For approximately ten years prior to joining our company, Mr. Fred served in various positions for the international division of Grumman, where he last held the position of controller. Mr. Fred holds a Bachelor of Business Administration in Accounting from Dowling College and an Executive MBA from Hofstra University.

Arthur August, one of our founders, has been our chairman emeritus since January 2005 and a director since January 1980. From January 1980 until December 2004, he was chairman of the board of directors and was our president until December 2001 and our chief executive officer until December 2002. From 1956 to 1979, Mr. August was employed by Northrop Grumman Corporation where he last held the position of deputy director. Mr. August holds a certificate in Aeronautical Design from the Academy of Aeronautics, a Bachelor of Science degree in Industrial Management from C. W. Post College, a Masters degree in Engineering from New York University and is a graduate of the Program for Management Development at the Harvard Graduate School of Business.

Vincent Palazzolo has been our chief financial officer since May 2004. From December 2003 to May 2004, he was employed by J. H. Cohn LLP as an audit partner. From 1988 through November 2003, Mr. Palazzolo was employed by Goldstein Golub Kessler LLP ("GGK"), where he was an audit partner from September 1999 through November 2003. While employed by GGK, from September 1999 to November 2003, Mr. Palazzolo also served as a managing director of American Express Tax and Business Services, Inc. Mr. Palazzolo holds a Bachelor of Business Administration in Accounting from Hofstra University is a certified public accountant and is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

6

Table of Contents

Walter Paulick has been a director since April 1992 and chairman of our nominating committee since March 2004. Mr. Paulick is currently a self-employed development consultant. From 1982 to November 1992, Mr. Paulick was a vice president of Parr Development Company, Inc., a real estate development company. From 1980 to 1982, Mr. Paulick was employed by Key Bank, where he last held the position of vice president. From 1971 to 1980, Mr. Paulick was a vice president of National Westminster U.S.A. Mr. Paulick holds an associate degree in Applied Science from Suffolk Community College and Bachelor of Business Administration from Dowling College.

Kenneth McSweeney has been a director since February 1998 and chairman of our compensation committee since April 2003. Mr. McSweeney has been an independent consultant to the aerospace industry since January 1995. From 1961 to 1995, Mr. McSweeney served in various management positions for Northrop Grumman Corporation, most recently as the vice president of its Aerostructures Division and a director of business development for the Mideast and gulf coast region. Mr. McSweeney has extensive experience in aerostructures and logistics support products and is a licensed professional engineer in New York State. He holds Bachelor and Master of Science degrees in Electrical Engineering from the Polytechnic Institute of Brooklyn and a Masters degree in Business Management from CW Post College. He also completed the Executive Development Program at the Cornell School of Business and Public Administration.

A. C. Providenti has been a director and chairman of our audit committee since February 2003. Since 1984, Mr. Providenti has served as president of A.C. Providenti & Associates, Ltd., a consulting and strategic advisory firm. From 1977 to 1984, Mr. Providenti served as senior vice president for finance and administration and as an executive committee member for Northville Industries Corp., a multinational petroleum storage, trading and distribution company. Mr. Providenti holds a Bachelor's degree in Accounting from St. Francis College and a Masters of Business Administration from Fordham University.

Frank Funicelli has been with us since March 1988, serving as our Director of Operations from 1988 to 1995, our vice president of operations from 1995 to 2002, and our vice president of business development from 2002 to December 2003 and became our senior vice president, business development in January 2004. From 1977 to 1988, was employed by Fairchild Republic Company where he served as Chief Industrial Engineer, Manufacturing Engineering Manager and Director of Program Planning and Control. From 1966 to 1977, he was with Grumman Aerospace where he served as Industrial Engineer, Manager of Manufacturing Planning and Control and Program Planning and Resource Control Manager. Mr. Funicelli holds a Bachelor of Science degree in Industrial Engineering from Pratt Institute and a Master of Science in Management Engineering from C.W. Post College.

Independence of Directors

Our common stock is listed on the American Stock Exchange. As a result, we follow the rules of the American Stock Exchange in determining whether a director is independent. The board of directors also consults with our counsel to ensure that the board's determinations are consistent with those rules and all relevant securities and other laws and regulations regarding the independence of directors. Consistent with these considerations, the board of directors affirmatively has determined that Kenneth McSweeney, Walter Paulick, A.C. Providenti and Eric Rosenfeld will be independent directors of our company for the ensuing year. The other remaining directors are not independent because they are currently employed by us.

Code of Ethics

In March 2004, our board of directors adopted a written code of ethics that applies to our directors, officers and employees. A copy of our code of ethics was filed as exhibit 14 to our Annual Report on Form 10-KSB for the year ended December 31, 2003. Requests for copies of our code of ethics should be sent in writing to CPI Aerostructures, Inc., 60 Heartland Blvd., Edgewood, New York 11717, Attention: Corporate Secretary.

7

Table of Contents

Board of Directors Meetings and Committees

Our board of directors held four meetings in 2005 and acted by unanimous written consent on two occasions. All directors attended the 2005 annual shareholder meeting. Although we do not have any formal policy regarding director attendance at annual shareholder meetings, we attempt to schedule our annual meetings so that all of our directors can attend. In addition, we expect our directors to attend all board and committee meetings and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. No member of our board of directors attended fewer than 75% of the total number of meetings of the board and committees thereof upon which he served during 2005. We have standing compensation, audit, nominating and strategic planning committees.

Strategic Planning Committee Information

Our strategic planning committee is currently comprised of Eric Rosenfeld (chairman), Arthur August and Edward J. Fred. The main role of the strategic planning committee is to evaluate and analyze strategic options for the company, including potential merger or acquisition partners. The strategic planning committee held two meetings during 2005.

Nominating Committee Information and Report

General

In March 2004, the board of directors established a nominating committee comprised of Messrs. Paulick (chairman), McSweeney and Rosenfeld, each an independent director under the American Stock Exchange listing standards. The nominating committee is responsible for overseeing the selection of persons to be nominated to serve on our board of directors. The nominating committee considers persons identified by its members, management, shareholders, investment bankers and others.

In June 2004, the board of directors adopted a written charter and established guidelines for selecting nominees and a method by which shareholders may propose to the nominating committee candidates for selection as nominees for directors. The nominating committee charter and guidelines were filed as an exhibit to our Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004.

Guidelines for Selecting Director Nominees

The guidelines for selecting nominees generally provide that persons to be nominated should be actively engaged in business endeavors, have an understanding of financial statements, corporate budgeting and capital structure, be familiar with the requirements of a publicly traded company, be familiar with industries relevant to our business endeavors, be willing to devote significant time to the oversight duties of the board of directors of a public company, and be able to promote a diversity of views based on the person's education, experience and professional employment. The nominating committee evaluates each individual in the context of the board as a whole, with the objective of recommending a group of persons that can best implement our business plan, perpetuate our business and represent shareholder interests. The nominating committee may require certain skills or attributes, such as financial or accounting experience, to meet specific board needs that arise from time to time. The nominating committee does not distinguish among nominees recommended by shareholders and other persons.

Procedure for Shareholders to Recommend Director Candidates

Shareholders and others who wish to recommend candidates to the nominating committee for consideration as directors must submit their written recommendations to the nominating committee and include all of the information described in the section "Shareholder Proposals and Recommendations".

Table of Contents

The nominating committee recommended to the board to nominate Walter Paulick and Eric Rosenfeld as directors for re-election as the two Class II directors. The nominating committee did not receive proposals from any shareholders or others for suggested director candidates.

Meetings and Attendance

The nominating committee held one meeting during 2005.

Audit Committee Information and Report

General

Our audit committee is currently comprised of Messrs. Providenti (chairman), McSweeney and Paulick. All of the members of the audit committee are “independent directors” and are “financially literate” as defined under the American Stock Exchange listing standards. The current Amex listing standards define an “independent director” generally as a person, other than an officer of the company, who does not have a relationship with the company that would interfere with the director’s exercise of independent judgment. The Amex’s listing standards define “financially literate” as being able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement.

Financial Expert on Audit Committee

The board of directors believes that the audit committee has at least one “audit committee financial expert” (as defined in Regulation 228.401(h) of Regulation S-K) serving on its audit committee, such “audit committee financial expert” being A.C. Providenti. The board of directors also believes that Mr. Providenti would be considered an “independent” director under Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act of 1934.

Meetings and Attendance

During the year ended December 31, 2005, the audit committee held six meetings.

Principal Accountant Fees

| | 2005 | 2004 |
|-------------------------------|------------|------------|
| Audit Fees ⁽¹⁾ | \$ 144,000 | \$ 125,000 |
| Audit Related Fees | — | — |
| Tax Fees ⁽²⁾ | 24,922 | 20,600 |
| All Other Fees ⁽³⁾ | 9,926 | 31,500 |
| Total | \$ 178,848 | \$ 177,100 |

⁽¹⁾Represents the aggregate fees billed for professional services rendered by our principal accountants for the audits of our annual financial statements for the years ended December 31, 2005 and December 31, 2004 and review of financial statements included in our quarterly reports on Form 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or

engagements for those periods.

⁽²⁾Represents the aggregate fees billed for professional services rendered by our principal accountants for the preparation of our federal and state income tax returns for the years ended December 31, 2005 and 2004.

⁽³⁾Represents the aggregate fees billed for other professional services rendered by our principal accountants, including the audit of our 401(K) profit sharing plan and out-of-pocket expenses.

Audit Committee Pre-Approval Policies and Procedures

In accordance with Section 10A(i) of the Securities Exchange Act of 1934, before we engage our independent accountants to render audit or non-audit services, the engagement is approved by our audit committee. Our audit committee approved all of the fees referred to in the sections entitled “Audit Fees,” “Audit-Related Fees,” “Tax Fees” and “All Other Fees” above.

9

Table of Contents

Audit Committee Report

According to our audit committee’s written charter, which was adopted on March 30, 2000, as amended and restated on March 26, 2003, our audit committee’s responsibilities include, among other things:

- reviewing and discussing with management and the independent auditor the annual audited financial statements, and recommend to the board whether the audited financial statements should be included in our Form 10-K;
- discussing with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of our financial statements;
- discussing with management and the independent auditor the effect on our financial statements of (i) regulatory and accounting initiatives and (ii) off-balance sheet structures;
- discussing with management major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies;
- reviewing disclosures made to the audit committee by our chief executive officer and chief financial officer during their certification process for our Form 10-Ks and Form 10-Qs about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in our internal controls;
- verifying the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law;
- reviewing and approving all related-party transactions;
- inquiring and discussing with management our compliance with applicable laws and regulations;
- pre-approving all audit services and permitted non-audit services to be performed by our independent auditor, including the fees and terms of the services to be performed;
- appointing or replacing the independent auditor;
- determining the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding

- financial reporting) for the purpose of preparing or issuing an audit report or related work; and
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or reports which raise material issues regarding our financial statements or accounting policies.

Management has reviewed the audited financial statements in the company's annual report on Form 10-K with the audit committee, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant accounting judgments and estimates, and the clarity of disclosures in the financial statements. In addressing the quality of management's accounting judgments, members of the audit committee asked for management's representations and reviewed certifications prepared by the chief executive officer and chief financial officer that the unaudited quarterly and audited consolidated financial statements of the company fairly present, in all material respects, the financial condition and results of operations of the company.

In performing all of these functions, the audit committee acts only in an oversight capacity. The committee reviews the company's annual reports and generally reviews its quarterly reports prior to filing with the Securities and Exchange Commission. In its oversight role, the audit committee relies on the work and assurances of the company's management, which has the responsibility for financial

10

Table of Contents

statements and reports, and of the independent registered public accounting firm, who, in their report, express an opinion on the conformity of the company's annual financial statements to generally accepted accounting principles. The audit committee has met and held discussions with management and the company's independent registered public accounting firm. Management represented to the audit committee that the company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the audit committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The audit committee discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The company's independent registered public accounting firm also provided the audit committee with the written disclosures required by independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and the audit committee discussed with the independent registered public accounting firm and management the auditor's independence, including with regard to fees for services rendered during the fiscal year and for all other professional services rendered by the company's independent registered public accounting firm. In reliance on these reviews and discussions and the report of the independent registered public accounting firm, the audit committee recommended to the board of directors, and the has board approved, that the audited consolidated financial statements be included in the company's annual report on Form 10-K for the fiscal year ended December 31, 2005, for filing with the Securities and Exchange Commission.

Members of the Audit Committee:

A.C. Providenti (chairman)
Walter Paulick
Kenneth McSweeney

Notwithstanding anything to the contrary set forth in our previous filings under the Securities Act or the Exchange Act that might incorporate future filings we make thereunder, the sections set forth above under the caption entitled "Audit Committee Information and Report" and below under the captions entitled "Compensation Committee Information and Report on Executive Compensation" and "Stock Price Performance Graph" will not be incorporated by reference in any

of those prior filings or any future filings by us.

Compensation Committee Information and Report on Executive Compensation

General

Our compensation committee is currently comprised of Messrs. McSweeney (chairman), Paulick and Rosenfeld, each an independent director under the American Stock Exchange listing standards. The compensation committee held two meetings during 2005.

Compensation Committee Report on Executive Compensation

This report is made by the compensation committee, which currently consists of three non-employee directors. The responsibilities of the compensation committee include:

- establishing the general compensation policy for the company's executive officers, including the chief executive officer;
- administering the company's 1992 Employee Stock Option Plan, 1995 Stock Option Plan, 1998 Performance Equity Plan and Performance Equity Plan 2000; and
- in administering each of these plans, determining who participates in the plans, establishing performance goals, if any, and determining specific grants and bonuses to the participants.

The compensation committee's executive compensation policies are generally designed to provide competitive levels of compensation that integrate pay with the company's annual performance and long-term business objectives, reward above average corporate performance, recognize individual initiative and achievements, and assist the company in attracting and retaining qualified executives.

11

Table of Contents

Salaries are generally determined based on the compensation committee's assessment of the value of each executive's contribution to the company, the results of recent past fiscal years in light of prevailing business conditions, the company's goals for the ensuing fiscal year and, to a lesser extent, prevailing levels at companies considered to be comparable to, and competitors of, the company.

The company's option plans were adopted by the company's shareholders and generally provide for grants of stock options, stock appreciation rights, restricted stock awards and other stock based awards to the company's officers, directors, key employees and consultants. The company may make grants to such individuals upon their employment or at subsequent dates based on recommendations made by the company's senior management to the compensation committee. No options were granted to any company employees during the year ended December 31, 2005.

Compensation of Chief Executive Officer and Chief Financial Officer

In February 2005, the company entered into amended and restated employment agreements with each of Edward Fred, the company's chief executive officer, and Vincent Palazzolo, the company's chief financial officer. The amended agreements were the result of the decision of the company's board of directors to redesign the bonus structure for the company's senior executive officers to be based on the company's growth in revenues and earnings instead of a straight

percentage of the company's net income.

Chief Executive Officer. In addition to incorporating the company's revised executive bonus structure, which was implemented beginning with the year ended December 31, 2005, Mr. Fred's amended employment agreement extended his employment term for two additional years from December 31, 2005 until December 31, 2007. A 6% salary increase has been implemented in each of 2006 and 2007. For the year ended December 31, 2004, Mr. Fred received an annual bonus equal to 4% of the company's consolidated net income, which was the bonus calculation in Mr. Fred's prior agreement. For the year ended December 31, 2005 and the years ending December 31, 2006 and 2007, Mr. Fred is eligible to receive an annual bonus based on changes in the company's revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") from the prior year. 25% of the bonus amount is determined by revenues and 75% by EBITDA. To the extent that a 10% annual increase in revenues and EBITDA from the prior year is achieved, Mr. Fred is entitled to a target annual bonus equal to 65% of his annual base salary. Should the revenue and/or EBITDA levels fall short of or exceed a 10% increase from the prior year, Mr. Fred's bonus will decrease or increase by predetermined percentages. If there is more than a 15% annual decrease in EBITDA or revenues, no EBITDA bonus or revenue bonus will be paid. If there is an annual increase of 100% or more in EBITDA or revenues, Mr. Fred's EBITDA bonus or revenue bonus will be 75% more than the target annual bonus. Both bonuses will be adjusted pro rata if EBITDA and/or revenues fall in between two designated percentages. The first \$140,000 of bonus, if any, will be paid in cash and the balance will be paid half in cash and half in shares of the company's common stock. The shares of common stock will be valued at the average of the last sale prices of the common stock for five consecutive trading days ending two trading days before issuance. Based on this revised bonus structure, Mr. Fred did not receive a bonus for the year ended December 31, 2005.

Chief Financial Officer. In addition to incorporating the company's revised executive bonus structure, Mr. Palazzolo's amended employment agreement reflects a 5% salary increase, which was implemented in August 2005. For the year ended December 31, 2004, Mr. Palazzolo received an annual bonus equal to 1% of the company's consolidated net income, which was the bonus calculation in Mr. Palazzolo's prior agreement. For the year ended December 31, 2005 and the year ending December 31, 2006, Mr. Palazzolo is eligible to receive an annual bonus based on changes in the company's revenues and EBITDA from the prior year. Mr. Palazzolo's bonus structure is identical to Mr. Fred's except that to the extent that a 10% annual increase in revenues and EBITDA from the prior year is achieved, Mr. Palazzolo will be entitled to a target annual bonus equal to 45% of his annual base salary (as opposed to Mr. Fred's 65%). Another difference from Mr. Fred's bonus structure is that the first \$75,000 of Mr. Palazzolo's bonus (instead of \$140,000 for Mr. Fred) will be paid in cash and the balance will be paid half in cash and half in shares of the Company's common stock. Based on this revised bonus structure, Mr. Palazzolo did not receive a bonus for the year ended December 31, 2005.

12

Table of Contents

Members of the Compensation Committee:

Kenneth McSweeney (chairman)

Walter Paulick

Eric Rosenfeld

Compensation Committee Interlocks and Insider Participation

No officers who are directors participated in deliberations regarding executive officer compensation and there are no "interlocks" with respect to any director who serves or for any part of 2005 served as a member of the compensation

committee.

Board of Directors Compensation

Each of our non-employee directors receives an annual cash fee of \$10,000 (payable quarterly) and 10,000 options on April 1st of each year. A.C. Providenti, the chairman of our audit committee, receives an additional annual cash fee of \$20,000 (payable quarterly). He also receives additional options on April 1st of each year for serving as audit committee chairman, which was increased from 15,000 options to 20,000 options for 2006 and 2007. The chairman of the strategic planning committee receives an additional annual cash fee of \$10,000 payable quarterly. The chairman of the board receives an additional annual cash fee of \$40,000 (payable quarterly) and an additional 25,000 options on January 1st of each year. Our directors will continue to be reimbursed for the reasonable expenses they incur in attending meetings.

EXECUTIVE COMPENSATION

The following table sets forth all compensation awarded to, earned by, or paid for all services rendered to us during the fiscal years ended December 31, 2005, 2004 and 2003, by our chief executive officer and our other executive officers whose total compensation exceeded \$100,000 during the year ended December 31, 2005 (“Named Executive Officers”).

Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation | | Long-Term |
|--|------|---------------------|------------|--|
| | | Salary | Bonus | Compensation Securities Underlying Options/SARs(#) |
| Edward J. Fred | 2005 | \$ 250,706 | -0- | -0- |
| Chief Executive Officer and President | 2004 | \$ 243,908 | \$ 203,041 | -0- |
| | 2003 | \$ 228,242 | \$ 174,800 | -0- |
| Vincent Palazzolo | 2005 | \$ 172,351 | -0- | -0- |
| Chief Financial Officer ⁽¹⁾ | 2004 | \$ 110,485 | \$ 31,725 | 50,000 |
| | 2003 | -0- | -0- | -0- |

⁽¹⁾Mr. Palazzolo became employed as our chief financial officer on May 17, 2004 at an annual base salary of \$175,000.

Option Grants in 2005

We did not grant any options to employees in the fiscal year ended December 31, 2005.

13

Table of Contents

Aggregated Option Exercises and Fiscal Year End Option Values

| Name | Shares | Value Realized (\$) | Number of Securities | Value of Unexercised In-The-Money Options At December 31, 2005(\$) |
|-------------------|--------------------------------|---------------------------|--|--|
| | Acquired On Exercise (#) | | Underlying Unexercised Options at December 31, 2005 Exercisable/Unexercisable | |
| Edward J. Fred | -0- | -0- | 398,334/0 | \$ 2,645,286/0 |
| Vincent Palazzolo | -0- | -0- | 50,000/0 | \$ 0/0 |

⁽¹⁾These values are based on the difference between the closing sale price of our common stock on December 31, 2005 of \$9.94 and the exercise price of the options.

Compensation Arrangements for Executive Officers

Edward J. Fred

In February 2005, we entered into an amended and restated employment agreement with Edward J. Fred, which provides for Mr. Fred to serve as our President and Chief Executive Officer until December 31, 2007. Mr. Fred's annual base salary was \$252,000 for 2005 and increased to \$267,120 on January 1, 2006 and will increase to \$283,150 on January 1, 2007. In addition, Mr. Fred is eligible to receive an annual bonus, calculated based on changes in our revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") from the prior year. 25% of the bonus amount is determined by revenues and 75% by EBITDA. To the extent that a 10% annual increase in revenues and EBITDA from the prior year is achieved, Mr. Fred is entitled to a target annual bonus equal to 65% of his annual base salary. Should the revenue and/or EBITDA levels fall short of or exceed a 10% increase from the prior year, Mr. Fred's bonus will decrease or increase by predetermined percentages. If there is more than a 15% annual decrease in EBITDA or revenues, no EBITDA bonus or revenue bonus will be paid. If there is an annual increase of 100% or more in EBITDA or revenues, Mr. Fred's EBITDA bonus or revenue bonus will be 75% more than the target annual bonus. Both bonuses will be adjusted pro rata if EBITDA and/or revenues fall in between two designated percentages. The first \$140,000 of bonus will be paid in cash and the balance will be paid half in cash and half in shares of our common stock. The shares of common stock will be valued at the average of the last sale prices of the common stock for five consecutive trading days ending two trading days before issuance. For the year ended December 31, 2005, Mr. Fred did not receive a bonus. Pursuant to the terms of Mr. Fred's employment agreement, if a change of control (as such term is defined in the agreement) occurs prior to a termination by us without "cause" or by Mr. Fred for "good reason" (as such terms are defined in the agreement), we must pay him a lump sum equal to three times the total compensation (including salary and bonus) earned by him during the last full calendar year of his employment. Mr. Fred also has agreed not to compete with us during the term of his employment and for two years thereafter.

Arthur August

Under the terms of Mr. August's employment agreement, as amended, effective January 2005, he became our chairman emeritus and will serve in that position until December 31, 2006 and receive an annual base salary of \$60,000. For the year ended December 31, 2004, Mr. August received an annual bonus equal to 2% of our consolidated net income. Mr. August was not entitled to receive any bonus for the year ended December 31, 2005 and is not entitled to receive a bonus for the year ending December 31, 2006. Mr. August is required to devote only such time to our business as he, in his sole discretion, deems necessary. Pursuant to the terms of Mr. August's employment agreement, if a change of control (as such term is defined in the agreement) occurs prior to a termination by us without "cause" or by Mr. August for "good reason" (as such terms are defined in the agreement), we must pay him a lump sum equal to three times the total compensation (including salary and bonus) earned by him during the last full calendar year of his employment. Mr. August has agreed not to compete with us during the term of his employment and for five years thereafter. As consideration for his agreement not to compete with us for an extended period of time, we agreed to pay Mr. August

\$300,000 in five, equal annual installments of \$60,000 commencing on January 1, 2007.

14

Table of Contents

Vincent Palazzolo

In February 2005, we entered into an amended and restated employment agreement with Vincent Palazzolo, which provides for Mr. Palazzolo to serve as our Chief Financial Officer until December 31, 2006. Mr. Palazzolo's annual base salary was \$175,000 until July 31, 2005 and then increased to \$183,750 on August 1, 2005. In addition, Mr. Palazzolo is eligible to receive an annual bonus, calculated based on changes in our revenues and EBITDA from the prior year. 25% of the bonus amount is determined by revenues and 75% by EBITDA. To the extent that a 10% annual increase in revenues and EBITDA from the prior year is achieved, Mr. Palazzolo will be entitled to a target annual bonus equal to 45% of his annual base salary. Should the revenue and/or EBITDA levels fall short of or exceed a 10% increase from the prior year, Mr. Palazzolo's bonus will decrease or increase by predetermined percentages. If there is more than a 15% annual decrease in EBITDA or revenues, no EBITDA bonus or revenue bonus will be paid. If there is an annual increase of 100% or more in EBITDA or revenues, Mr. Palazzolo's EBITDA bonus or revenue bonus will be 75% more than the target annual bonus. Both bonuses will be adjusted pro rata if EBITDA and/or revenues fall in between two designated percentages. The first \$75,000 of bonus will be paid in cash and the balance will be paid half in cash and half in shares of our common stock. The shares of common stock will be valued at the average of the last sale prices of the common stock for five consecutive trading days ending two trading days before issuance. For the year ended December 31, 2005, Mr. Palazzolo did not receive a bonus. Pursuant to the terms of Mr. Palazzolo's employment agreement, if a change of control (as such term is defined in the agreement) occurs prior to a termination by us without "cause" or by Mr. Palazzolo for "good reason" (as such terms are defined in the agreement), Mr. Palazzolo may elect to receive a lump sum equal to \$50,000 within 10 days of such election in lieu of his compensation and benefits under the employment agreement. Mr. Palazzolo also has agreed not to compete with us during the term of his employment and for two years thereafter.

Employee Benefit Plans

In October 2000, we adopted the Greit Plan for the purpose of offering senior management a deferred compensation death benefit plan that would provide a tax-free benefit for senior management and which would be tax-neutral to us. Pursuant to the plan, we made a non-interest bearing loan to Arthur August in the amount of \$150,000, which Mr. August used to purchase a Greit Plan. This plan has since been terminated and the surrender value of the Greit Plan has been returned to Mr. August. Mr. August has placed the proceeds from the surrender value in an annuity in our name, which will appreciate to at least \$150,000 by September 2011 in order to repay the loan made to him. Mr. August also assigned to us an insurance policy on his life in the amount of \$150,000 and agreed to maintain it until the date upon which the annuity matures. Accordingly, the loan to Mr. August will be repaid upon the maturity date of the annuity or upon the death of Mr. August, whichever occurs first.

Stock Option Plans

Performance Equity Plan 2000

The Performance Equity Plan 2000 authorizes the grant of 1,230,000 stock options, stock appreciation rights, restricted stock, deferred stock, stock reload options, and other stock based awards. As of December 31, 2005, options to purchase an aggregate of 860,000 common shares had been granted under this plan, of which 750,750 options

remain outstanding at exercise prices ranging from \$1.20 to \$10.24 per share. As of April 25, 2006, options to purchase 313,025 common shares remain available for grant.

1998 Performance Equity Plan

The 1998 Performance Equity Plan authorizes the grant of 463,334 stock options, stock appreciation rights, restricted stock, deferred stock, stock reload options, and other stock based awards. As of December 31, 2005, options to purchase an aggregate of 546,002 common shares had been granted, of which 208,334 remain outstanding at exercise prices ranging from \$2.53 to \$11.31 per share. As of April 25, 2006, options to purchase 666 common shares remain available for grant.

15

Table of Contents

1995 Stock Option Plan

The 1995 Employee Stock Option Plan authorizes the grant of 200,000 stock options and stock appreciation rights. As of December 31, 2005, options to purchase an aggregate of 419,000 common shares had been granted, of which 155,001 remain outstanding at exercise prices ranging from \$6.27 to \$10.48 per share. As of April 25, 2006, options to purchase 285 additional common shares remain available for grant.

1992 Employee Stock Option Plan

The 1992 Employee Stock Option Plan authorized the grant of 83,334 options, all of which have been granted and 41,002 shares remain outstanding at exercise prices ranging from \$2.59 to \$6.27 per share. No more shares may be granted under this plan.

Other Options and Warrants

On February 19, 2003, we issued to EarlyBirdCapital, Inc. (and its designees) five-year warrants to purchase an aggregate of 200,000 common shares as compensation for acting as underwriter for our February 2003 public offering. The exercise price of the warrants is \$4.40 per share. As of December 31, 2005, warrants to purchase 5,000 common shares had been exercised.

Equity Compensation Plan Information

The following table sets forth certain information at December 31, 2005 with respect to our equity compensation plans that provide for the issuance of options, warrants or rights to purchase our securities.

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options, | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans |
|---------------|---|---|--|
|---------------|---|---|--|

| | Warrants and Rights | | (excluding securities reflected in the first column) | |
|---|---------------------|----|--|---------|
| Equity Compensation Plans Approved by Security Holders | 1,155,087 | \$ | 4.89 | 373,976 |
| Equity Compensation Plans Not Approved by Security Holders ⁽¹⁾ | 195,000 | \$ | 4.40 | -0- |

⁽¹⁾See "Other Options and Warrants" for a description of these plans.

16

Table of Contents

Stock Price Performance Graph

The following graph compares the performance of CPI Aerostructures, Inc. for the five-year period ended December 31, 2005 with the performance of the Amex Market Value (U.S.) Index and the average performance of companies comprising the SPADETM Defense Index, which for this year numbered 59 companies involved in the defense, homeland security and space industries. The graph plots the growth in value of an initial investment of \$100 in each of our common stock, the Amex Market Value (U.S.) Index and the SPADE Defense Index over the indicated time periods, and assuming reinvestment of all dividends, if any, paid on the securities. We have not paid any cash dividends and, therefore, the cumulative total return calculation for us is based solely upon stock price appreciation and not upon reinvestment of cash dividends. The stock price performance shown on the graph is not necessarily indicative of future price performance.

| | Cumulative Total Return | | | | | |
|--------------------------|-------------------------|----------|----------|----------|----------|----------|
| | 12/31/00 | 12/31/01 | 12/31/02 | 12/31/03 | 12/31/04 | 12/31/05 |
| CPI AEROSTRUCTURES, INC. | 100.00 | 56.18 | 156.44 | 423.11 | 407.11 | 357.69 |
| AMEX MARKET VALUE (U.S.) | 100.00 | 88.73 | 75.76 | 108.19 | 128.37 | 142.31 |
| SPADE DEFENSE | 100.00 | 86.70 | 81.67 | 104.55 | 125.66 | 136.94 |

17

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers, directors and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. These reporting persons also are required by regulation to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on the review of the copies

of these forms furnished to us and representations that no other reports were required during the year ended December 31, 2005, all filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with.

INDEPENDENT AUDITOR

A representative of J.H. Cohn LLP, our auditors for the year ended December 31, 2005, is expected to be present at the meeting. The representative will have the opportunity to make a statement and will be available to respond to appropriate questions from shareholders. The board of directors has selected the independent registered public accounting firm of J.H. Cohn LLP as our auditors for the year ending December 31, 2006.

SOLICITATION OF PROXIES

The solicitation of proxies in the enclosed form is made on behalf of our board of directors and we are bearing the cost of this solicitation. In addition to the use of the mails, proxies may be solicited personally or by telephone using the services of directors, officers and regular employees at nominal cost. Banks, brokerage firms and other custodians, nominees and fiduciaries will be reimbursed by us for expenses incurred in sending proxy material to beneficial owners of our common stock. Additional solicitation of proxies may be made by an independent proxy solicitation firm or other entity possessing the facilities to engage in such solicitation. If any independent entity is used for such solicitation, we will be required to pay them reasonable fees and reimburse expenses incurred by them in rendering solicitation services.

2007 ANNUAL MEETING SHAREHOLDER PROPOSALS AND NOMINATIONS

In order for any shareholder proposal or nominations to be presented at the annual meeting of shareholders to be held in 2007 or to be eligible for inclusion in our proxy statement for such meeting, we must receive it at our principal executive offices by January 2, 2007. Each proposal should include the exact language of the proposal, a brief description of the matter and the reasons for the proposal, the name and address of the shareholder making the proposal and the disclosure of that shareholder's number of shares of common stock owned, length of ownership of the shares, representation that the shareholder will continue to own the shares through the shareholder meeting, intention to appear in person or by proxy at the shareholder meeting and material interest, if any, in the matter being proposed.

Shareholders who wish to recommend to the nominating committee a candidate for election to the board of directors should send their letters to CPI Aerostructures, Inc., 60 Heartland Boulevard, Edgewood, New York 11717, Attention: Nominating Committee. The corporate secretary will promptly forward all such letters to the members of the nominating committee. Shareholders must follow certain procedures to recommend to the nominating committee candidates for election as directors. In general, in order to provide sufficient time to enable the nominating committee to evaluate candidates recommended by shareholders in connection with selecting candidates for nomination in connection with our annual meeting of shareholders, the corporate secretary must receive the shareholder's recommendation no later than thirty days after the end of our fiscal year.

The recommendation must contain the following information about the candidate:

- Name and age;
- Current business and residence addresses and telephone numbers, as well as residence addresses for the past 20 years;

Table of Contents

- Principal occupation or employment and employment history (name and address of employer and job title) for the past 20 years (or such shorter period as the candidate has been in the workforce);
- Educational background;
- Permission for the company to conduct a background investigation, including the right to obtain education, employment and credit information;
- The number of shares of common stock of the company beneficially owned by the candidate;
- The information that would be required to be disclosed by the company about the candidate under the rules of the SEC in a proxy statement soliciting proxies for the election of such candidate as a director (which currently includes information required by Items 401, 404 and 405 of Regulation S-K); and
- A signed consent of the nominee to serve as a director of the company, if elected.

OTHER SHAREHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

The board of directors provides a process for shareholders and interested parties to send communications to the board. Shareholders and interested parties may communicate with the board of directors, any committee chairperson or the non-management directors as a group by writing to the board or committee chairperson in care of CPI Aerostructures, Inc., 60 Heartland Blvd., Edgewood, New York 11717. Each communication will be forwarded, depending on the subject matter, to the board, the appropriate committee chairperson or all non-management directors.

DISCRETIONARY VOTING OF PROXIES

Pursuant to Rule 14a-4 promulgated by the Securities and Exchange Commission, shareholders are advised that our management will be permitted to exercise discretionary voting authority under proxies it solicits and obtains for the 2007 annual meeting of shareholders with respect to any proposal presented by a shareholder at such meeting, without any discussion of the proposal in our proxy statement for such meeting, unless we receive notice of such proposal at our principal office in Edgewood, New York, not later than March 17, 2007.

INCORPORATION BY REFERENCE

This proxy statement incorporates by reference certain information included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, including our audited financial statements and supplementary data, management's discussion and analysis of financial condition and results of operations and our quantitative and qualitative disclosures about market risk.

OTHER MATTERS

The board of directors knows of no matter that will be presented for consideration at the meeting other than the matters referred to in this proxy statement. Should any other matter properly come before the meeting, it is the intention of the persons named in the accompanying proxy to vote the proxy in accordance with their best judgment.

By Order of the Board of Directors
Edward J. Fred, Secretary

Edgewood, New York
May 1, 2006

