CPI AEROSTRUCTURES INC
Form 10QSB
May 11, 2004

CPI AEROSTRUCTURES, INC.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004	Commission File Number 1-11398

CPI AEROSTRUCTURES, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

New York	11-2520310
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

200A EXECUTIVE DRIVE, EDGEWOOD, NY 11717
(Address of Principal Executive Offices)

Telephone number (631) 586-5200
(Issuer's Telephone Number Including Area Code)

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

As of May 6, 2004, the number of shares of common stock, par value $.001 per share, outstanding was 5,350,030.

CPI AEROSTRUCTURES, INC.

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PART I: FINANCIAL INFORMATION:

ITEM 1 - CONSOLIDATED FINANCIAL STATEMENTS:

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors
CPI Aerostructures, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of CPI Aerostructures, Inc. and Subsidiary as of March 31, 2004, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2004 and 2003. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above in order for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of CPI Aerostructures, Inc. and Subsidiary as of December 31, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 30, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it is derived.

/s/ Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP
New York, New York

April 15, 2004

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CONDE

	MARCH 31, 2004 (UNAUDITED)
ASSETS	
Current assets:	
Cash	$1,411,699
Accounts receivable	1,713,076
Costs and estimated earnings in excess of billings on uncompleted contracts	18,608,793
Deferred income taxes	623,000
Prepaid expenses and other current assets	282,731

TOTAL CURRENT ASSETS	22,639,299
Property, plant and equipment, net	380,795
Other assets	179,226
TOTAL ASSETS	$23,199,320
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 2,592,162
Accrued expenses	75,609
Current capital lease obligation	7,071
Income tax payable	15,753
TOTAL CURRENT LIABILITIES	2,690,595
Capital lease obligation, net of current portion	24,110
TOTAL LIABILITIES	2,714,705
Commitments and contingencies	
Shareholders' equity:	
Common stock - $.001 par value; authorized 50,000,000 shares, issued and outstanding 5,301,770 shares	5,302
Additional paid-in capital	21,713,447
Accumulated deficit	(1,234,134)
SHAREHOLDERS' EQUITY	20,484,615
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$23,199,320

See Notes to Condensed Consolidated Financial Statements

CONDENSED

FOR THE THREE MONTHS ENDED MARCH 31,	2004 (UNAU
Revenue	$ 6,228,108
Cost of sales	4,302,014

Gross profit		1,926,094
Selling, general and administrative expenses		838,076
Income from operations		1,088,018
Other income (expense):		
Interest/other income		2,211
Interest expense		(3,417)
Gain on extinguishment of debt		---
Total other income (expense), net		(1,206)
Income from continuing operations		1,086,812
Gain on sale of assets held for sale - discontinued operations		---
Income before provision for income taxes		1,086,812
Provision for income taxes		435,000
Net income	$	651,812
Basic net income per common share:		
Income from continuing operations	$	0.12
Gain on sale of assets held for sale - discontinued operations		0.00
Earnings per common share - basic	$	0.12
Diluted net income per common share:		
Income from continuing operations	$	0.11
Gain on sale of assets held for sale - discontinued operations		0.00
Earnings per common share - diluted	$	0.11
Shares used in computing earnings per common share:		
Basic		5,301,770
Diluted		5,800,120

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONS

FOR THE THREE MONTHS ENDED MARCH 31,	20
Cash flows from operating activities:	
Net income from continuing operations	$651,8
Adjustments to reconcile net income from continuing operations to net cash used in operating activities:	
Depreciation and amortization	27,5
Warrants issued for consulting fees	---
Common stock issued for bank fees	---
Gain on extinguishment of debt	---
Deferred portion of provision for income taxes	435,0
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	34,7
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(1,158,9
Decrease in prepaid expenses and other current assets	66,5
Decrease in accounts payable and accrued expenses	(1,217,9
Decrease in income taxes payable	(171,2
Net cash used in operating activities	(1,332,3
Cash used in investing activities - purchase of property, plant and equipment	(47,8
Cash flows from financing activities:	
Net repayment of long-term debt	(2,4
Proceeds from public offering	---
Net cash (used in) provided by financing activities	(2,4
Net cash provided by (used in) continuing operations	(1,382,6
Net cash from discontinued operations	---
Net (decrease) increase in cash	(1,382,6
Cash at beginning of period	2,794,3
Cash at end of period	$1,411,6
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	$3,4
Income taxes	$171,2

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED

1. INTERIM FINANCIAL STATEMENTS:

The financial statements as of March 31, 2004 and for the three mon 2004 and 2003 are unaudited, however, in the opinion of the managem these financial statements reflect all adjustments (consisting sole adjustments) necessary to present fairly the financial position of the results of operations. The results of operations for such inter necessarily indicative of the results to be obtained for a full yea

The Company has elected to apply Accounting Principles Board ("APB" 25, Accounting for Stock Issued to Employees, and related interpret accounting for its stock options issued to employees (intrinsic val adopted the disclosure-only provisions of Statement of Financial Ac Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation Company elected to recognize compensation cost based on the fair va options granted at the grant date as prescribed by SFAS No. 123, th net income and income per common share would have been as follows:

Three months ended March 31,	2
Net income - as reported	$651,
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	89,
Net income - pro forma	$562,
Basic income per share - as reported	$0
BASIC INCOME PER SHARE - PRO FORMA	$0
Diluted income per share - as reported	$0
DILUTED INCOME PER SHARE - PRO FORMA	$0

NOTES TO CONDENSED CONSOLIDATED FINANCIAL

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

Costs and estimated earnings in excess of billings on uncompleted c

	March 31, 2	
	U.S. Government	Commercia
Costs incurred on uncompleted contracts	$25,097,415	$13,189,1
Estimated earnings	13,698,627	6,106,5
	38,796,042	19,295,6
Less billings to date	22,229,328	17,253,5
COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS	$16,566,714	$2,042,0

	December 31,	
	U.S. Government	Commercia
Costs incurred on uncompleted contracts	$22,466,590	$13,184,9
Estimated earnings	11,783,814	6,111,7
	34,250,404	19,296,7
Less billings to date	18,866,180	17,231,0
COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS	$15,384,224	$ 2,065,6

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3.	EARNINGS PER COMMON SHARE:	Basic earnings per common share are 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 498,350 and 462,750 were used in the calculation of diluted earnings per common share in the first three months of 2004 and 2003, respectively.
4.	PUBLIC OFFERING AND CREDIT FACILITY:	In September 2003, the Company entered into a three year, $5.0 million revolving credit facility with JP Morgan Chase Bank, secured by the assets of the Company. The facility specifies interest rates that range between the Prime Rate and 225 basis points over LIBOR, depending on certain terms and conditions. As of March 31, 2004, the Company has not borrowed any funds pursuant to this facility. In February 2003, the Company consummated a public offering of 2,300,000 shares of common stock, which provided the Company with net proceeds of $7,759,000. Approximately $2,433,000 of the net proceeds was used to repay bank loans, $2,700,000 was used to repay the Note Payable - Seller, which had a carrying value plus accrued interest of approximately $5,131,000. Accordingly, the Company recorded a gain of approximately $2,431,000 on the extinguishment of the debt. The remaining net proceeds of approximately $2,626,000 are being used to fund continuing operations.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

FORWARD LOOKING STATEMENTS

The statements discussed in this Report include forward looking statements that involve risks and uncertainties, including the timely delivery and acceptance of the Company's products and the other risks detailed from time to time in the Company's reports filed with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

We recognize revenue from our contracts over the contractual period under the percentage-of-completion (POC) method of accounting. Under the POC method of accounting, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded as an asset captioned "Costs and estimated earnings in excess of billings on uncompleted contracts." Contracts where billings to date have exceeded recognized revenues are recorded as a liability captioned "Billings in excess of costs and estimated earnings on uncompleted contracts." Changes to the original estimates may be required during the life of the contract. Estimates are reviewed monthly and the effect of any change in the estimated gross margin percentage for a contract is reflected in cost of sales in the period the change becomes known. The use of the POC method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods. As a result, there can be a significant disparity between earnings (both for accounting and taxes) as reported and actual cash received by us during any reporting period. We continually evaluate all of the issues related to the assumptions, risks and uncertainties inherent with the application of the POC method of accounting, however we cannot assure you that our estimates will be accurate. If our estimates are not accurate or a contract is terminated, we will be forced to adjust revenue in later periods. Furthermore, even if our estimates are accurate, we may have a shortfall in our cash flow and we may need to borrow money to pay taxes until the reported earnings materialize to actual cash receipts.

MATERIAL CHANGES IN RESULTS OF OPERATIONS

The Company's revenue for the three months ended March 31, 2004 was $6,228,108 compared to $6,007,447 for the same period last year, representing an increase of $220,661 or 4%.

Gross profit for the three months ended March 31, 2004 decreased by $239,807 or 11 %, compared with the same period last year. As a percentage of revenue, gross profit for the three months ended March 31, 2004 was 31% compared to 36% for the same period last year, due primarily to a less favorable product mix.

Selling, general, and administrative expenses for the three months ended March 31, 2004 were $838,076 compared to $722,919 for the three months ended March 31, 2003, an increase of $115,157, or 16%. The increase was due to additional professional fees and salaries during the quarter.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The resulting income from operations for the three months ended March 31, 2004 was $1,088,018, a 25% decrease from $1,442,982 reported in the same period last year.

Interest expense for the three months ended March 31, 2004 was $3,417, compared to $139,666 for the three months ended March 31, 2003, a decrease of $136,249, or 98%. The decrease was primarily due to bank fees associated with the early extinguishment of approximately $2,433,000 of the Company's bank debt in February 2003.

Included in other income for the three months ended March 31, 2003 is a gain on extinguishment of debt of $2,431,233.

Income from continuing operations for the three months ended March 31, 2004 was $1,086,812 compared to $3,737,203 for the three months ended March 31, 2003. The decrease was primarily due to a gain on the extinguishment of debt of $2,431,233, which was realized in conjunction with the public offering of 2.3 million shares of the Company's common stock in February 2003.

During the three months ended March 31, 2003, the Company realized a one time gain on the disposal of assets held for sale-discontinued operation of $253,332.

The Company recorded a provision for income taxes of $435,000 for the three months ended March 31, 2004. For the same period last year, the Company was able to partially realize the benefit of its net operating loss carryforward for losses occurred in previous years, resulting in a reversal of $1,823,000 of the previously established valuation allowance and no provision for taxes for the three months ended March 31, 2003. As a result, net income for the three months ended March 31, 2004 was $651,812, or $0.12 per share, compared to $3,990,535, or $1.04 per share, for the same period last year. Diluted income per share for the three months ended March 31, 2004 was $0.11, calculated utilizing 5,800,120 diluted average shares outstanding for the period, compared to diluted income per share of $0.93, calculated utilizing 4,311,529 diluted average shares outstanding for the same period last year.

MATERIAL CHANGES IN FINANCIAL CONDITION

At March 31, 2004, the Company had working capital of $19,948,704 compared to $19,319,374 at December 31, 2003, an increase of $629,330.

A large portion of the Company's cash is used in paying for materials and processing costs associated with contracts that are in process and which do not provide for progress payments. These costs are components of "Costs and estimated earnings in excess of billings on uncompleted contracts" on the Company's balance sheet and represent the aggregate costs and related earnings for uncompleted contracts for which the customer has not yet been billed. These costs and earnings are recovered upon shipment of products and presentation of billings in accordance with contract terms.

Net cash used in operating activities for the three months ended March 31, 2004 was $1,332,316, compared to net cash used in operating activities of $829,291 for the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

The Company currently finances its operations through a combination of existing resources and cash provided by operations. Liquidity and capital resources were significantly improved as a result of the consummation of the Company's public offering in February 2003, which provided the Company with approximately $7,759,000 of net proceeds, approximately $2,626,000 of which have been and will be used to fund continuing operations.

ITEM2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In September 2003, the Company entered into a three year, $5.0 million revolving credit facility with JPMorgan Chase Bank, secured by the assets of the Company. The facility specifies interest rates that range between the Prime Rate and 225 basis points over LIBOR, depending on certain terms and conditions. As of March 31, 2004, the Company has not borrowed any funds pursuant to this facility.

The Company believes that its current liquidity and capital resources are sufficient to meet its needs for the foreseeable future.

CONTRACTUAL OBLIGATIONS

The table below summarizes information about our contractual obligations as of March 31, 2004 and the effects these obligations are expected to have on our liquidity and cash flow in the future years.

	PAYMENTS DUE BY PERIOD ($)			
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-
Short-Term Debt	-0-	-0-	-0-	
Capital Lease Obligations	31,181	7,071	16,856	
Operating Leases	-0-	-0-	-0-	
Employment Agreement Compensation *	1,336,300	673,800	662,500	
Total Contractual Cash Obligations	1,367,481	680,871	679,356	

* The employment agreements provide for bonus payments that are excluded from these amounts.

ITEM 3 - CONTROLS AND PROCEDURES

An evaluation of the effectiveness of the Company's disclosure controls and procedures was made as of March 31, 2004 under the supervision and with the participation of the Company's management, including the Company's chief executive officer and acting chief financial officer (the Company's executive officer and principal financial officer). Based on that evaluation, he concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. During the most recently completed fiscal quarter, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibit 31 Section 302 Certification by CEO and acting CFO
Exhibit 32 Section 906 Certification by CEO and acting CFO

b) During the three months ended March 31, 2004, a Current Report on Form 8-K, dated March 30, 2004, was filed by the Company with the Securities and Exchange Commission on March 31, 2004, reporting events under Items 7 and 12.

SIGNATURES

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

CPI AEROSTRUCTURES, INC.

Dated: May 6, 2004 By /s/ Arthur August

Arthur August
Chairman of the Board

Dated: May 6, 2004 By: /s/ Edward J. Fred

Edward J. Fred
Chief Executive Officer, President, acting Chief Financial Officer (Principal Executive, Accounting and Financial Officer), Secretary and Director