

BIOLASE, INC  
Form SC 13D/A  
March 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

SCHEDULE 13D/A

Amendment No. 3

Under the Securities Exchange Act of 1934

Biolase, Inc.

(Name of Issuer)

Common Shares, \$0.001 par value

(Title of Class of Securities)

090911108

(CUSIP Number)

Copy to:

Robert L. Lawrence, Esq.

Kane Kessler, P.C.

1350 Avenue of the Americas, 26<sup>th</sup> Floor

New York, New York 10019

(212) 541-6222

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

March 7, 2014

(Date of Event which requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box "

NAME OF REPORTING PERSON

1

Oracle Partners, L.P.

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a)

2

(b)

SEC USE ONLY

3

SOURCE OF FUNDS\*

4

OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or

5<sup>2(e)</sup> "

CITIZENSHIP OR PLACE OF ORGANIZATION

6

Delaware

NUMBER OF SOLE VOTING POWER

SHARES 7

BENEFICIALLY 0 (See Item 5)  
SHARED VOTING POWER

OWNED BY 8

EACH 4,195,237 (See Item 5)

REPORTING SOLE DISPOSITIVE POWER

PERSON 9

WITH 0 (See Item 5)  
10 SHARED DISPOSITIVE POWER

4,195,237 (See Item 5)

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

4,195,237 (See Item 5)

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES\* ..

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

11.3%

TYPE OF REPORTING PERSON\*

**14**

PN

NAME OF REPORTING PERSON

1

Oracle Institutional Partners, L.P.

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a)

2

(b)

SEC USE ONLY

3

SOURCE OF FUNDS\*

4

OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or

5 2(e) "

CITIZENSHIP OR PLACE OF ORGANIZATION

6

DELAWARE

NUMBER OF SOLE VOTING POWER

SHARES 7

BENEFICIALLY 0 (See Item 5)  
SHARED VOTING POWER

OWNED BY 8

EACH

REPORTING 599,194 (See Item 5)  
SOLE DISPOSITIVE POWER

PERSON 9

WITH 0 (See Item 5)  
10 SHARED DISPOSITIVE POWER

599,194 (See Item 5)

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

599,194 (See Item 5)

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES\* ..

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

1.6%

TYPE OF REPORTING PERSON\*

**14**

PN

3

NAME OF REPORTING PERSON

**1**

Oracle Ten Fund Master, L.P.

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a)

**2**

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS\*

**4**

OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or

**5** <sup>2(e)</sup> "

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

Cayman Islands

**NUMBER OF**      **SOLE VOTING POWER**

**SHARES**            **7**

**BENEFICIALLY**    0 (See Item 5)  
**OWNED BY**        **SHARED VOTING POWER**

**EACH**              **8**

**REPORTING**        1,310,952 (See Item 5)  
**PERSON**            **SOLE DISPOSITIVE POWER**

**WITH**                **9**

0 (See Item 5)  
**10 SHARED DISPOSITIVE POWER**

1,310,952 (See Item 5)

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,310,952 (See Item 5)

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES\* ..

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

3.5%

TYPE OF REPORTING PERSON\*

**14**

OO



NAME OF REPORTING PERSON

1

Oracle Associates, LLC

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a)

2

(b)

SEC USE ONLY

3

SOURCE OF FUNDS\*

4

OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or

5 2(e) ..

CITIZENSHIP OR PLACE OF ORGANIZATION

6

Delaware

NUMBER OF SOLE VOTING POWER

SHARES 7

BENEFICIALLY 0 (See Item 5)  
SHARED VOTING POWER

OWNED BY 8

EACH 4,794,431 (See Item 5)

REPORTING SOLE DISPOSITIVE POWER

PERSON 9

WITH 0 (See Item 5)  
10 SHARED DISPOSITIVE POWER

4,794,431 (See Item 5)

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

4,794,431 (See Item 5)

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES\* ..

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

12.9%

TYPE OF REPORTING PERSON\*

**14**

OO

5

NAME OF REPORTING PERSON

**1**

Oracle Investment Management, Inc.

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a)

**2**

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS\*

**4**

OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or

**5** <sup>2(e)</sup> ..

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

Delaware

**NUMBER OF**      **SOLE VOTING POWER**

**SHARES**            **7**

**BENEFICIALLY**    0 (See Item 5)  
**OWNED BY**        SHARED VOTING POWER

**EACH**              **8**

**REPORTING**        1,310,952 (See Item 5)  
**PERSON**            **9**  
**WITH**                0 (See Item 5)  
**10** SHARED DISPOSITIVE POWER

1,310,952 (See Item 5)

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,310,952 (See Item 5)

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES\* ..

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

3.5%

TYPE OF REPORTING PERSON\*

**14**

CO

NAME OF REPORTING PERSON

**1**

Larry N. Feinberg

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a)

**2**

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS\*

**4**

OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or

**5** 2(e) "

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

United States

**NUMBER OF** **SOLE VOTING POWER**

**SHARES** **7**

**BENEFICIALLY** 0 (See Item 5)  
**OWNED BY** **SHARED VOTING POWER**

**8**

**EACH**

6,105,383 (See Item 5)

**REPORTING** **9** **SOLE DISPOSITIVE POWER**

**PERSON**

**WITH**

0 (See Item 5)

**10** SHARED DISPOSITIVE POWER

6,105,383 (See Item 5)

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

6,105,383 (See Item 5)

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES\* ..

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

16.4%

TYPE OF REPORTING PERSON\*

**14**

IN

7

## **Item 1. Security and Issuer.**

This Amendment No. 3 (the “Amendment”) amends the Schedule 13D originally filed with the Securities and Exchange Commission on November 22, 2013, as previously amended by Amendment No. 1, filed on December 20, 2013, and Amendment No. 2, filed on February 13, 2014 (the “Original Schedule 13D,” and collectively with the Amendment, the “Statement”) with respect to the shares of common par value \$0.001 per share (“Common Stock” or the “Shares”) of Biolase, Inc. (the “Issuer”), whose principal executive offices are located at 4 Cromwell, Irvine, CA 92618.

## **Item 4. Purpose of Transaction**

Item 4 of the Statement is hereby amended by the addition of the following:

The Reporting Persons are long-term investors and beneficial owners of approximately 16.4% of the outstanding Common Stock of the Issuer, which the Reporting Persons believe makes them the Issuer’s largest shareholder. As such, the Reporting Persons have significant concerns regarding both the operations and strategic direction of the Company, a number of which the Reporting Persons have expressed to the Issuer in the past.

There is now additional concern over a breakdown in corporate governance apparently engineered by the Chairman and CEO, Federico Pignatelli, in a blatant attempt to entrench himself and certain Board members who support him.

The Issuer announced in a press release on March 3, 2014 (the “March 3 Release”) that on, February 28, 2014, two current Board members, Dr. Alexander K. Arrow and Dr. Sam Low tendered their resignations as directors of the Company, and that two independent new directors, Mr. Jeffrey M. Nugent and Mr. Paul N. Clark, were appointed by the Board to fill the two vacancies created by Drs. Arrow’s and Low’s resignations. The Issuer publicly announced in the March 3 Release that the Board consists of six directors. Contrary to its own March 3 Release, on March 6, 2014, the Issuer filed a Current Report on Form 8-K (the “March 6 Form 8-K”) with the Securities and Exchange Commission (the “SEC”) reporting the appointments of Messrs. Clark and Nugent to the Board, but claiming the size of the Board somehow to be increased to eight members because Mr. Pignatelli claims after-the-fact not to have accepted the resignations of Drs. Arrow (who as the Issuer’s President and COO is not considered independent) and Low. However, under both the Issuer’s own Bylaws and as a matter of Delaware law, director resignations become effective immediately and are effective whether or not accepted by the Company or the Board. Since the vacancies created by Drs. Arrow’s and Low’s resignations were subsequently filled by Messrs. Clark and Nugent, as disclosed in both the March 3 Release and the March 6 Form 8-K, there were no Board vacancies remaining to which Drs. Arrow and Low could be reappointed. Any expansion of the Board from six to eight members and any reappointment of Drs. Arrow and Low require action by a majority of the Board of Directors, and subsequent disclosure of such actions in a Form 8-K filing with the SEC, neither of which, to the Reporting Persons knowledge, has occurred. Rather, what seems to have occurred is a manipulation of the Board at the behest of the Issuer’s Chairman and Chief Executive Officer, Federico Pignatelli, in a misguided effort to protect his position as Chairman and CEO.

On March 7, 2014, one of the Reporting Persons and a record stockholder of the issuer's Common Stock, Oracle Partners, L.P. ("Oracle Partners"), delivered a letter to the Issuer notifying it that Oracle Partners nominated and will seek to elect four (4) persons as nominees (the "Nominees") to the Issuer's Board of Directors at the Issuer's 2014 Annual Meeting of Stockholders (the "Annual meeting"). All of Oracle Partners' Nominees are highly qualified and have the requisite set of skills to serve as a Board member of the Issuer and would be considered independent directors. In fact, three of the four Nominees, Mr. Paul N. Clark, Mr. Jeffrey M. Nugent and Dr. Frederic H. Moll, are current independent directors who, in addition to their high qualifications, would allow for a degree of continuity on the Issuer's Board.



Accordingly, Oracle Partners has nominated four Nominees based on the Board of Directors' legal size of six (6) directors, as set forth in the March 3 Release. In the event the number of directors is increased beyond six, Oracle Partners reserves the right to nominate such number of additional persons as directors to fill any vacancies created by the increase or to fill any additional positions on the Board which the Issuer's stockholders shall vote on at the Annual Meeting. Oracle Partners also stated that it may enter into arrangements with one or more of its Nominees regarding various matters, including arrangements with respect to compensation, indemnification and expense reimbursement. Oracle Partners additionally reserved the rights, in the event any of its Nominees is unable to serve for any reason, to nominate a replacement Nominee.

On March 11, 2014, Oracle Partners issued a press release with respect to the submission of its Nomination Notice. The press release is attached to this Amendment as Exhibit 99.1 and is incorporated herein by reference.

Set forth below is certain biographical information with respect to each of the Nominees.

**Paul N. Clark**, 67, has served as a member of the Board of Directors of the Company since February 2014. Mr. Clark has been a Strategic Advisory Board member of Genstar Capital, LLC since August 2007 and was an Operating Partner from August 2007 to January 2013. Genstar Capital LLC is a middle market private equity firm that focuses on investments in selected segments of life sciences and healthcare services, industrial technology, business services and software. Prior to that, Mr. Clark was the Chief Executive Officer and President of ICOS Corporation, a biotherapeutics company, from June 1999 to January 2007, and the Chairman of the Board of Directors of ICOS from February 2000 to January 2007. From 1984 to 1998, Mr. Clark worked in various capacities for Abbott Laboratories, a health care products manufacturer, including President of the Pharmaceutical Products Division and retired from Abbott Laboratories as Executive Vice President and a board member. His previous experience included senior positions with Marion Laboratories, a pharmaceutical company, and Sandoz Pharmaceuticals (now Novartis Corporation), a pharmaceutical company. Mr. Clark currently serves as a director of Agilent Technologies, Inc. and Catalent Pharma Solutions, Inc. During the past five years Mr. Clark also served on the boards of directors of Amylin Pharmaceuticals, Inc. and Talecris Biotherapeutics Holding Corp. During the course of his career, Mr. Clark has also served on the boards of directors of other publicly-traded companies, including Abbot Laboratories and ICOS Corporation. Mr. Clark holds a B.S. in Finance from the University of Alabama and a M.B.A. from Dartmouth College.

Based upon Mr. Clark's significant experience in the pharmaceutical and biotechnology industries, including his experience serving in senior management positions with ICOS Corporation (where he served as Chief Executive Officer and President), Abbott Laboratories, Marion Laboratories and Sandoz Pharmaceuticals, and his considerable public company director experience, Oracle believes that Mr. Clark has the requisite set of skills to serve as a Board member of the Company or to lead any of the committees of the Board. In addition, Mr. Clark brings significant experience on company management and governance issues and practices that are important to the Company's corporate governance and the Board's review of strategic alternatives.



**Jeffrey M. Nugent**, 67, has served as a member of the Board of Directors of the Company since February 2014. Mr. Nugent is the Founder of Precision Dermatology, Inc., a privately held dermatology therapeutics company that was recently acquired by Valeant Pharmaceuticals International, Inc. Mr. Nugent served as its President and CEO from December 2010 until February 2013 and Senior Advisor from February 2013 until June 2013. He served as Interim President and CEO of Ascension Orthopedics, Inc., an orthopedic extremities company, from August 2008 until January 2009, and as director from January 2009 until it was acquired by Integra LifeSciences Corporation in September 2011. From May 2007 to June 2009, Mr. Nugent served as the President and CEO of Ventus Medical, Inc., a medical device company focused on the development of a treatment for obstructive sleep apnea. From January 2005 to May 2007, Mr. Nugent served as President and CEO of Insight Pharmaceuticals LLC, a manufacturer and marketer of leading non-prescription medications. From 1999 to 2002, Mr. Nugent served as President, CEO and a director of Revlon, Inc., a publicly traded beauty care company. Mr. Nugent previously held a number of senior management positions within Johnson & Johnson for 25 years in R&D, operations, marketing and finance, including serving as Worldwide President and CEO of Neutrogena Corp. from the time of its acquisition in 1994 until 1999. Mr. Nugent served on the Board of Directors of Bioform Medical, Inc., a publicly traded dermatology company, from February 2009 until its acquisition by Merz Pharmaceutical in February 2010. Mr. Nugent also serves on the boards of directors of several privately-held medical device companies.

Based upon Mr. Nugent's significant experience as a senior executive at several privately held medical device companies, his experience as the CEO of a publicly-traded company and his current services as a director of the Company, Oracle believes that Mr. Nugent has the requisite set of skills to serve as a Board member of the Company or to lead any of the committees of the Board. In addition, Mr. Nugent brings significant experience on company management and governance issues and practices that are important to the Company's corporate governance and the Board's review of strategic alternatives.

**Frederic H. Moll**, 62, has served as a member of the Company's Board of Directors since June 2013 and is a member of the Board's Compensation Committee. Dr. Moll is currently the Chairman and Chief Executive Officer of Auris Surgical Robotics, Inc., an ophthalmic robotics company. Dr. Moll co-founded Hansen Medical, Inc., a medical robotics company, in September 2002, served as its Chief Executive Officer through June 2010, and served on its board of directors through May 2012. In November 1995, Dr. Moll co-founded Intuitive Surgical, Inc., a medical device company, and served as its first Chief Executive Officer and later, its Vice President and Medical Director until September 2003. In 1989, Dr. Moll co-founded Origin Medsystems, Inc., a medical device company, which later became an operating company within Guidant Corporation, a medical device company, following its acquisition by Eli Lilly in 1992. Dr. Moll served as Medical Director of Guidant's surgical device division until November 1995. Dr. Moll holds a B.A. from the University of California, Berkeley, an M.S. from Stanford University and an M.D. from the University of Washington School of Medicine. Dr. Moll has also served on the Board of Directors of MAKO Surgical Corp., a public medical device company, since 2007. Dr. Moll also serves on several private medical device companies.

Based upon Dr. Moll's leadership experience in the medical device industry, his long career as an executive of a publicly-traded company, his medical background, and his current services as a director of the Company, Oracle believes that Mr. Moll has the requisite set of skills to serve as a Board member of the Company or to lead any of the committees of the Board. In addition, Mr. Moll brings significant experience on company management and

governance issues and practices that are important to the Company's corporate governance and the Board's review of strategic alternatives.

**Eric Varma**, M.D., 32, has been a Partner at Oracle Investment Management, Inc., one of the Reporting Persons, which is a fundamental research driven investment management company that is exclusively focused on the global healthcare and bioscience industries, since 2009. Prior to joining Oracle Investment Management, Dr. Varma worked at Leerink Swann, the Boston Consulting Group, and the Food and Drug Administration. Dr. Varma has served on the Board of Directors of Vermillion, Inc., a multivariate diagnostics company focused on gynecologic cancers and women's health, since 2013 and is the Chair of its Compensation Committee. Dr. Varma received his B.A. from the University of California Berkeley, M.D. from the Albert Einstein College of Medicine, and M.B.A. from the MIT Sloan School of Management.

Based upon Dr. Varma's experience healthcare and bioscience industries, his financial and commercial experience in the healthcare and bioscience industries and his experience on the board of another public healthcare company, Oracle believes that Dr. Varma has the requisite set of skills to serve as a Board member of the Company or to lead any of the committees of the Board.

**Item 7. Material to be Filed as Exhibits.**

99.1

Press Release of Oracle Partners, dated March 11, 2014.

After reasonable inquiry and to the best of their knowledge and belief, the undersigned certify that the information set forth in this Schedule 13D is true, complete and correct.

Dated: March 11, 2014

ORACLE PARTNERS, L.P.

By: ORACLE ASSOCIATES, LLC, its general partner

By: /s/ Larry N. Feinberg

Larry N. Feinberg, Managing Member

ORACLE INSTITUTIONAL PARTNERS, L.P.

By: ORACLE ASSOCIATES, LLC, its general partner

By: /s/ Larry N. Feinberg

Larry N. Feinberg, Managing Member

ORACLE TEN FUND MASTER, L.P.

By: ORACLE ASSOCIATES, LLC, its general partner

By: /s/ Larry N. Feinberg

Larry N. Feinberg, Managing Member

ORACLE ASSOCIATES, LLC

By: /s/ Larry N. Feinberg

Larry N. Feinberg, Managing Member

ORACLE INVESTMENT MANAGEMENT, INC.

By: /s/ Larry N. Feinberg

Larry N. Feinberg, Managing Member

/s/ Larry N. Feinberg

Larry N. Feinberg, Individually

12

uity Plan authorizes the grant of 463,334 stock options, stock appreciation rights, restricted stock, deferred stock, stock reload options, and other stock based awards of which options to purchase an aggregate of 431,002 common shares have been granted, at exercise prices ranging from \$2.53 to \$6.90 per share. As of December 13, 2002, options to purchase 2,332 additional common shares remain available for grant. 1995 Stock Option Plan The 1995 Employee Stock Option Plan authorizes the grant of 200,000 stock options and stock appreciation rights of which options to purchase an aggregate of 9,667 common shares have been granted, at exercise prices ranging from \$2.53 to \$8.46 per share. As of January 22, 2003, options to purchase 155,476 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, of which options to purchase 41,667 shares are outstanding at exercise prices ranging from \$2.59 to \$6.27 per share. No more shares may be granted under this plan. 27 Other Options In April 1998, we issued warrants to purchase 33,334

common shares to designees of Ladenburg Capital Management Inc. as compensation for certain consulting services. The remaining unexercised warrants entitle the holders to purchase 17,088 common shares at an exercise price of \$4.50 through March 2003. On December 31, 1999 and February 1, 2002, we granted to John Aneralla, the stepson of Arthur August, five year non-plan options to purchase 15,000 and 5,000 common shares, respectively, as compensation for consulting services. The exercise prices of the options are \$2.53 and \$1.65, respectively, the fair market value of our common shares on the date of grant of the options. Equity Compensation Plan Information The following table sets forth certain information at December 31, 2002 with respect to our equity compensation plans that provide for the issuance of options, warrants or rights to purchase our securities.

Number of Securities to be Issued upon Weighted-Average Number of Securities Remaining Exercise of Exercise Price of Available for Future Issuance under Outstanding Options, Outstanding Options, Equity Compensation Plans (excluding Plan Category Warrants and Rights Warrants and Rights securities reflected in the first column)	Equity Compensation Plans Approved by Security Holders	Equity Compensation Plans Not Approved by Security Holders
1,197,338	\$3.49	272,808
37,088(1)	\$3.32	0-

----- (1) See "Stock Options - Other Options" description above. 28 Principal Shareholders The table and accompanying footnotes set forth certain information as of January 22, 2003, with respect to the ownership of our common shares by: o each person or group who beneficially owns more than 5% of our common shares; o each of our directors, o our chief executive officer and our other executive officers whose total compensation exceeded \$100,000 during the fiscal year ended December 31, 2002, and o 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 January 22, 2003 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. Percent of Common Shares Name and Address Shares ----- Of Beneficial Owner Beneficially Owned(1) Prior to the Offering(2) After the Offering -----

Arthur August(3)	841,518(4)	25.2%	16.1%	Edward J. Fred(3)	398,434(5)	12.4%
Walter Paulick(3)	11,667(6)	*	*	Kenneth McSweeney(3)	15,001(7)	*
Daniel Liguori(8)	333,334(9)	10.6%	*	All directors and executive 1,266,620(10) 33.7% 22.4% Officers as a group (four persons)		

----- \* Less than 1%. (1) 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. (2) There are 2,805,668 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 January 22, 2003 upon the exercise or conversion of options, warrants or convertible securities and the denominator of which is 2,805,668 (the number of common shares currently outstanding) plus the number of shares he can so acquire during such 60-day period. (3) The business address of Messrs. August, Fred, Paulick and McSweeney is c/o CPI Aerostructures, Inc., 200A Executive Drive, Edgewood, New York 11717. (4) Includes 533,334 common shares that Mr. August has the right to acquire upon exercise of options. Excludes an aggregate of 38,134 common shares and options owned by Mr. August's children, all of which shares Mr. August disclaims beneficial ownership. Includes 3,000 common shares owned by Mr. August's wife. (5) Includes 398,334 common shares that Mr. Fred has the right to acquire upon exercise of options. (6) Represents common shares that Mr. Paulick has the right to acquire upon exercise of options. (7) Includes 11,667 common shares that Mr. McSweeney has the right to acquire upon exercise of options. (8) Mr. Liguori's address is 1001 Bay Road, #210C, Vero Beach, Florida 32963. (9) Represents 333,334 common shares that Ralok, Inc. has the right to acquire by converting the promissory note it received in connection with our purchase of Kolar Machine, Inc. Mr. Liguori is the President of Ralok. We intend to repurchase the note upon consummation of this offering. (10) Includes an aggregate of 955,002 common shares that Messrs. August, Fred, Paulick and McSweeney have the right to acquire upon exercise of outstanding options. 29 Description of Our Capital Shares Our certificate of incorporation authorizes us to issue 50,000,000 common shares, par value \$.001 per share, and 5,000,000 preferred shares, par value \$.001 per share. Immediately prior to this offering, 2,805,668 common shares were issued and outstanding. Immediately after this offering, there will be 1,900,000 more



common shares outstanding. If the underwriters elect to exercise their over-allotment option, there will be an additional 285,000 shares outstanding. No preferred shares are issued and outstanding. Common Shares You will be entitled to one vote per common share held by you on all matters submitted to a vote of our shareholders. Holders of common shares have no preemptive rights and have no rights to convert their common shares into any other securities. In the event of our dissolution or liquidation or the winding-up of our business, you will be entitled to share ratably with our other common shareholders in all assets remaining after payment of all of our liabilities, and subject to any preferential payments to the holders of any preferred shares then outstanding. Although we are restricted from paying cash dividends under the terms of the agreements governing our debt, holders of common shares are entitled to receive ratably such dividends as may be declared by our board of directors out of funds legally available therefor. All of our outstanding common shares are, and when issued, the common shares offered hereby will be, fully paid and nonassessable. Preferred Shares Subject to the provisions of our certificate of incorporation and to the limitations prescribed by law, our board of directors has the authority, without further action by our shareholders, to issue up to 5,000,000 shares of our authorized but unissued preferred shares in or more series. Our board of directors has the power and authority to fix the designations, preferences, dividend, conversion, cumulative, relative, participating, optional or other rights, including voting rights, qualifications, limitations and restrictions any or all of which may be greater than the rights of our common shares. We have no present plans to issue any preferred shares. New York Law, Certificate of Incorporation and By-Law Provisions that May Have an Anti-Takeover Effect The following discussion concerns certain provisions of New York law and our certificate of incorporation and by-laws that may delay, deter or prevent a tender offer or takeover attempt that you might consider to be in your best interest, including offers or attempts that might result in a premium being paid to you over the market price of our securities. New York law. We are subject to Section 912 of the New York Business Corporation Law. In general, Section 912 prohibits a publicly held New York corporation from engaging in a business combination with an interested shareholder for a period of five years after the date of the transaction in which the person became an interested shareholder unless, prior to such date, the corporation's board of directors approved either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder. A business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the shareholder. An interested shareholder is a person who, together with affiliates and associates, owns (or within five years did own) 20% or more of the corporation's voting shares. Certificate of incorporation and bylaws. Our certificate of incorporation provides for a board of directors divided into three classes, each of which generally serves for a term of three years, with only one class of directors being elected each year. Nominations for our board of directors may be made by our board or by any shareholder entitled to vote for the election of directors. A shareholder entitled to vote for the election of directors may nominate a person or persons for election as director only if written notice of such shareholder's intent to make such nomination is given to our secretary not later than 120 days in advance of the meeting. Our certificate of incorporation and by-laws do not provide for cumulative voting rights. This means that holders of a majority of our capital shares who vote in the election of directors can elect all of the directors and, in such event, the holders of the remaining shares will not be able to elect any of our directors. New York Law provides that, unless otherwise provided in a corporation's certificate of incorporation, any action by the shareholders may be taken without a meeting, without prior notice and without a vote, upon the written consent of shareholders holding not less than the minimum number of votes that would be necessary to take action on the matter at a shareholder meeting. Our 30 certificate of incorporation provides that shareholder actions by consent require the consent of all of our shareholders. This has the effect of delaying the ability of a majority shareholder to acquire control of our board of directors. Undesignated preferred shares enable us to render more difficult or to discourage a third party's attempt to obtain control of us by means of a tender offer, proxy contest, merger, or otherwise, which protects the continuity of our management. A party may also be discouraged from making a bid for our common shares because the issuance of our preferred shares may adversely affect the rights of the holders of our common shares. For example, preferred shares that we issue may rank prior to our common shares as to dividend rights, liquidation preferences, or both, may have full or limited voting rights and may be convertible into common shares. Accordingly, the issuance by us of preferred shares may discourage or delay bids for our common shares or may otherwise adversely affect the market price of our common shares. Market for Common Equity and Related Shareholder Matters Market Information Our common shares are listed on the American Stock Exchange under the symbol CVU. The trading symbol changed from CPIA to CVU on September 5, 2000, when CPI ceased trading on The Nasdaq SmallCap Market, Inc. and began trading on the AMEX. The following tables set forth

for 2001 and 2002, the high and low sales prices of our common shares for the periods indicated, as reported by AMEX. ----- Period High Low ----- 2001 -----

Quarter Ended	High	Low	Quarter Ended	High	Low
March 31, 2001	\$3.930	\$1.800	June 30, 2001	\$3.150	\$1.650
September 30, 2001	\$1.700	\$1.150	December 31, 2001	\$2.190	\$1.200
March 31, 2002	\$1.850	\$1.400	June 30, 2002	\$8.460	\$1.450
September 30, 2002	\$7.750	\$4.080	December 31, 2002*	\$7.130	\$4.400

----- On January 21, 2003, the closing sale price for our common shares on the AMEX was \$4.26. Dividend Policy To date, we have not paid any dividends on our common shares. Any payment of dividends in the future is within the discretion of our board of directors and will depend on our earnings, if any, our capital requirements and financial condition and other relevant factors. Our board of directors does not intend to declare any cash or other dividends in the foreseeable future, but intends instead to retain earnings, if any, for use in our business operations. In addition, our bank and other lender credit agreements provide that we may not declare or pay any dividend on our common shares so long as any amounts are owing to the lenders. 31 Transfer Agent The transfer agent for our common shares is American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219. Holders As of January 22, 2003, there were 130 holders of record of our common shares. We believe there are in excess of 2,200 beneficial owners of our common shares. 32 Underwriting Subject to the terms and conditions contained in the underwriting agreement, we have agreed to sell to each of the underwriters named below, and each of the underwriters, for which EarlyBirdCapital, Inc. is acting as representative, has severally, and not jointly, agreed to purchase on a firm commitment basis, the number of shares offered in this offering set forth below opposite their names: Name Number of Shares ----- EarlyBirdCapital, Inc. Total 1,900,000 The underwriters have qualified their obligations under the underwriting agreement to the approval of legal matters by counsel and various other conditions. Subject to these conditions, they are obligated to purchase all of the common shares offered by this prospectus (other than the common shares covered by the over-allotment option described below). The representative has advised us that it proposes to offer our securities to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at the same price, less a concession not in excess of \$\_\_\_ per share of our common shares. The representative may allow, and such dealers may realow, a concession not in excess of \$\_\_\_ per share common share to certain other dealers. After the offering, the representative may change the offering price and other selling terms. We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act. We also have agreed to pay the representative an expense allowance on a non-accountable basis equal to 3% of the gross proceeds derived from the sale of the common shares offered by this prospectus (including the sale of any of our common shares subject to the underwriters' over-allotment option), \$50,000 of which has been paid to date. We have agreed to pay all expenses in connection with qualifying our securities offered hereby for sale under the laws of such states as the underwriters may designate and the filing fees incurred in registering the offering with the National Association of Securities Dealers, Inc., or NASD. We have granted to the underwriters an option, exercisable within 45 business days from the date of this prospectus, to purchase at the offering price, less underwriting discounts and the non-accountable expense allowance, up to an aggregate of 285,000 additional common shares for the sole purpose of covering over allotments, if any. In connection with the offering, we have agreed to sell to the representative and/or its designees, for an aggregate of \$100, a warrant to purchase up to an aggregate of 190,000 common shares. The representative's warrant is exercisable initially at a price of \$\_\_\_ per share (110% of the per share offering price to investors) for a period of four years commencing one year from the date of this prospectus. The warrant may not be transferred, sold, assigned, or hypothecated during the one-year period following the date of this prospectus except to the underwriters and the selected dealers and their officers or partners. The representative's warrant grants to the holders thereof certain demand rights for a period of five years and "piggyback" rights for a period of seven years from the date of this prospectus with respect to the registration under the Securities Act of the common shares issuable upon the exercise of the warrant. Pursuant to the underwriting agreement, all of our officers and directors have agreed not to sell any common shares for at least 13 months from the date of this prospectus without the consent of EarlyBirdCapital; except that the representative has agreed that Mr. Arthur August may adopt a plan under Rule 10b5-1 of the Securities Exchange Act of 1934, pursuant to which he can sell up to 10,000 of his common shares per month commencing three months after the date of this prospectus. In addition, the underwriting agreement provides that, for a period of five years from the date of this prospectus, EarlyBirdCapital will have the right to designate one person to serve on our board of directors or to send a representative (who need not be the same

individual from meeting to meeting) to observe each meeting of our board of directors. Such designee or representative, as the case may be, shall be entitled to receive reimbursement for all reasonable costs incurred in attending such meetings, including, but not limited to, food, lodging and transportation. Upon consummation of this offering, we will enter into a five-year Merger and Acquisition Agreement with EarlyBirdCapital pursuant to which we will compensate them if we enter into any transaction (including an acquisition or merger, joint venture, strategic alliance or other arrangements) with persons introduced to us by EarlyBirdCapital. 33 In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate coverage transactions and penalty bids in accordance with Regulation M under the Exchange Act: o Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. o Over-allotment involves sales by our underwriters of our securities in excess of the number of securities our underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of our securities over-allotted by our underwriters is not greater than the number of our securities that they may purchase in the over-allotment option. In a naked short position, the number of our securities involved is greater than the number of securities in the over-allotment option. Our underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing our securities in the open market. o Syndicate covering transactions involve purchases of our securities in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of securities to close out the short position, our underwriters will consider, among other things, the price of securities available for purchase in the open market as compared to the price at which they may purchase securities through the over-allotment option. If our underwriters sell more securities than could be covered by the over-allotment option, a naked short position, the position can be closed out only by buying our securities in the open market. A naked short position is more likely to be created if our underwriters are concerned that there could be downward pressure on the price of our securities in the open market after pricing that could adversely affect investors who purchase in the offering. o Penalty bids permit our underwriters to reclaim a selling concession from a selling group member when the securities originally sold by the selling group member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our securities or preventing or retarding a decline in the market price of our securities. As a result, the price of our securities may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The American Stock Exchange or otherwise and, if commenced, may be discontinued at any time. Legal Matters The validity of the issuance of the common shares offered hereby have been passed upon for CPI Aerostructures, Inc. by Graubard Miller, Davis & Gilbert LLP has served as counsel to the underwriters in connection with this offering. Experts The financial statements for the years ended December 31, 2000 and 2001 appearing in this prospectus and registration statement have been audited by Goldstein Golub Kessler LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein. Disclosure of Commission Position on Indemnification for Securities Act Liabilities Our by-laws and certificate of incorporation include provisions permitted under New York law by which our officers and directors are to be indemnified against various liabilities. We have also entered into indemnification agreements with our executive officers. We believe that these provisions and agreements will facilitate our ability to continue to attract and retain qualified individuals to serve as our directors and officers. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. 34 Where You Can Find Additional Information We intend to furnish our shareholders with annual reports, which will include financial statements audited by our independent accountants, and other periodic reports as we may determine to furnish or as may be required by law, including Sections 13(a) and 15(d) of the Exchange Act. As permitted by the rules and regulations of the Commission, this prospectus does not contain all of the information set forth in the Registration Statement and in the exhibits and schedules thereto. For further information with respect to CPI Aerostructures, Inc. and the common shares offered hereby, reference is made to the Registration Statement and the exhibits thereto. The Registration Statement, including the exhibits and schedules thereto, may be obtained at the address noted below. We file annual and other periodic reports pursuant to the requirements of the Securities Exchange Act of 1934, as amended. Such reports and other information filed by us may be inspected and copied at the

public reference facilities of the Commission in Washington, D.C., and can be read or obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Commission maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the Commission at HTTP://WWW.SEC.GOV. 35 CPI

AEROSTRUCTURES, INC. AND SUBSIDIARY INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

----- Independent Auditor's Report F-1 Consolidated Financial Statements: Balance Sheet as of September 30, 2002 (unaudited) and December 31, 2001 F-2 Statement of Operations for the Nine Months Ended September 30, 2002 and 2001 (unaudited) and for the Years Ended December 31, 2001 and 2000 F-3 Statement of Shareholders' Deficiency for the Years Ended December 31, 2001 and 2000 F-4 Statement of Cash Flows for the Nine Months Ended September 30, 2002 and 2001 (unaudited) and for the Years Ended December 31, 2001 and 2000 F-5 Notes to Consolidated Financial Statements F-6 - F-17 36 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, 2001 and the related consolidated statements of operations, shareholders' deficiency, and cash flows for each of the two years in the period ended December 31, 2001. 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, 2001, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. /s/ Goldstein Golub Kessler GOLDSTEIN GOLUB KESSLER LLP New York, New York March 29, 2002, except for the last paragraph of Note 5, as to which the date is April 12, 2002 and Note 6(a) and the first paragraph of Note 13, as to which the date is June 22, 2002 F-1 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET ----- September 30, December 31, 2002 2001 ----- (Unaudited) ASSETS  
Current Assets: Cash \$ 121,002 \$ 180,578 Accounts receivable 2,852,597 2,168,369 Costs and estimated earnings in excess of billings on uncompleted contracts 10,214,846 6,967,385 Deferred income taxes 253,000 758,000 Prepaid expenses and other current assets 23,745 84,895 Assets held for sale - discontinued operations 280,676 3,217,984  
----- Total current assets 13,745,866 13,377,211  
Property, Plant and Equipment, net 110,340 101,260 Deferred Income Taxes, net of valuation allowance of \$2,074,000 - 172,000 Other Assets 179,226 180,226 -----  
Total Assets \$ 14,035,432 \$ 13,830,697

===== LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) Current Liabilities: Accounts payable \$ 4,985,799 \$ 4,195,530 Accrued expenses 152,692 535,054 Line of credit - 1,700,000 Debt 8,341,071 9,607,284  
Deferred income taxes - 147,000 ----- Total current liabilities 13,479,562 16,184,868 ----- Commitments and Contingencies Shareholders' Equity (Deficiency): Preferred shares - \$.001 par value; authorized 3,000,000 shares, issued and outstanding 0 and 0, respectively; Common shares - \$.001 par value; authorized 50,000,000 shares, issued and outstanding 2,735,670 and 2,657,046 shares, respectively 2,736 2,657 Additional paid-in capital 12,483,092 12,367,020 Accumulated deficit (11,929,958) (14,723,848)  
----- Shareholders' equity (deficiency) 555,870 (2,354,171) ----- Total Liabilities and Shareholders' Equity (Deficiency) \$ 14,035,432 \$ 13,830,697

===== See

Notes to Consolidated Financial Statements F-2 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Nine Months For the Year Ended			
	September 30,	Ended December 31,	2002 2001 2001 2000	
	(Unaudited)			
Revenue	\$17,988,748	\$10,631,958	\$ 15,024,027	\$8,261,351
Cost of sales	12,549,892	7,015,993	10,955,264	5,676,229
Gross profit	5,438,856	3,615,965	4,068,763	2,585,122
Selling, general and administrative expenses	1,800,639	1,145,607	1,479,421	1,421,758
Income from operations	3,638,213	2,470,358	2,589,342	1,163,364
Other (income) expense: Interest income	(3,642)	9,223	(2,431)	-
Interest expense	318,965	126,707	155,825	106,157
Other (income) expense, net	-	-	4,051	233,428
Total other expenses, net	315,323	135,930	157,445	339,585
Income from continuing operations before benefit for income taxes	3,322,890	2,334,428	2,431,897	823,779
(Provision for) benefit from income taxes	(529,000)	934,000	-	(126,000)
Income before operations of discontinued segment	2,793,890	1,400,428	2,431,897	949,779
Income (loss) from operations of discontinued segment	-	(1,571,481)	(3,647,200)	979,427
Loss on disposal of assets - discontinued segment	-	-	-	(10,422,816)
Net income (loss)	\$ 2,793,890	\$ (171,053)	\$(11,638,119)	\$1,929,206
=====				
Basic net income (loss) per common share: Income before discontinued operations	\$ 1.03	\$ .53	\$ .92	\$ .36
Income (loss) from operations of discontinued segment	-	(.59)	(1.37)	.37
Loss on disposal of assets - discontinued segment	-	-	-	(3.94)
Earnings (loss) per common share - basic	\$ 1.03	\$ (.06)	\$ (4.39)	\$ .73
=====				
Diluted net income per common share: Income before discontinued operations	\$ .89	-	\$ .34	-
Income from operations of discontinued segment	.36	-	-	-
Earnings per common share - diluted	\$ .89	-	\$ .70	-
=====				
Shares used in computing earnings per common share: Basic	2,700,785	2,652,355	2,653,538	2,648,509
Diluted	3,136,626	2,652,355	-	2,763,888
=====				

See Notes to Consolidated Financial Statements F-3 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY/DEFICIENCY

	Years ended December 31, 2000 and 2001			
	Additional	Total		
Common Paid-in	Accumulated	Shareholders'	Shares	Amount
Capital	Deficit	Deficiency		
-----				
	Balance at	January		
1, 2000	2,648,509	\$2,649	\$12,206,024	\$ (5,014,935)
				\$ 7,193,738
Net income	-	-	-	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
Net loss	-	-	-	(11,638,119)
Amortization of fair value of warrants issued in conjunction with consulting agreement	8,537	8	47,346	- 47,354
-----				
	Balance at			
December 31, 2001	2,657,046	2,657	12,367,020	(14,723,848)
				(2,354,171)
(unaudited) Net income	2,793,890			

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2,793,890 Common stock issued for bank debt 50,000 50 26,217 26,267 Common stock issued for exercise Of stock options and warrants 28,624 29 84,073 84,102 Warrants issued for consulting Services 5,782 5,782

----- Balance at  
September 30, 2002 2,735,670 \$2,736 \$12,483,092 \$(11,929,958) \$ 555,870

=====

See Notes to Consolidated Financial Statements F-4 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS

-----

----- For the Nine  
Months For the Year Ended September 30, Ended December 31, 2002 2001 2001 2000

----- (Unaudited)

(Audited) Cash flows from operating activities: Net income before operations of discontinued segment \$ 2,793,890 \$ 1,400,428 \$ 2,431,897 \$ 949,779 Adjustments to reconcile net income before operations of discontinued segment to net cash provided by (used in) operating activities: Depreciation and amortization 30,931 26,362 35,653 30,194 Warrants issued for consulting fees 5,782 47,346 47,354 113,650 Loss on disposal of fixed assets - 6,158 6,157 - Deferred portion of provision (benefit) for income taxes 530,000 - 92,000 (879,000) Bad debts - - 301,377 Changes in operating assets and liabilities: Increase in accounts receivable (684,228) (326,206) (1,336,061) (410,591) Decrease in income tax refund receivable - - - 29,597 Increase in costs and estimated earnings in excess of billings on uncompleted contracts (3,247,461) (2,260,561) (2,563,606) (465,250) (Increase) decrease in prepaid expenses and other current assets 61,150 9,969 (63,816) 761,672 (Increase) decrease in other assets 1,000 (1,000) (1,000) (70,259) Increase in accounts payable and accrued expenses 407,907 180,090 1,028,720 144,878 Decrease in income taxes payable - (34,000) (33,000) (13,383)

----- Net cash  
provided by (used in) operating activities (74,762) (951,414) (355,702) 492,664

----- Cash flows from  
investing activities: Purchase of property, plant and equipment (40,011) (14,507) (19,307) (70,838) Proceeds from sale of fixed assets - 1,800 1,800 -

----- Net cash used in  
investing activities (40,011) (12,707) (17,507) (70,838)

----- Cash flows from  
financing activities: Proceeds from line of credit - - - 1,325,000 Net repayment of long-term debt (2,966,213) (1,274,018) (895,958) (1,056,959) Proceeds from exercise of stock options 84,102 - - -

----- Net cash  
provided by (used in) financing activities (2,882,111) (1,274,018) (895,958) 268,041

----- Net cash from  
continuing operations (2,996,884) (2,238,139) (1,269,167) 689,867 Net cash provided by (used in) discontinued operations 2,937,308 2,386,569 1,386,766 (814,534)

----- Net increase  
(decrease) in cash (59,576) 148,430 117,599 (124,667) Cash at beginning of period 180,578 62,979 62,979 187,646

----- Cash at end of  
period \$ 121,002 \$ 211,409 \$ 180,578 \$ 62,979

=====

Supplemental disclosures of cash flow information: Cash paid during the period for: Interest \$ 167,015 \$ 589,762

=====

Income taxes \$ 13,355 \$ 36,050

=====

Supplemental schedule of noncash financing activity: Financing obligation incurred in connection with the acquisition of equipment \$ - \$ 143,908

=====

See Notes to Consolidated Financial Statements F-5 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES  
TO CONSOLIDATED FINANCIAL STATEMENTS

----- 1. PRINCIPAL The Company consists of CPI Aerostructures, Inc. ("CPI") and BUSINESS its wholly owned subsidiary, Kolar, Inc. ("Kolar"), ACTIVITY AND collectively, the "Company." SUMMARY OF SIGNIFICANT CPI's operations consist of the design and production of ACCOUNTING design and production of complex aerospace structural POLICIES: 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 was the precision computer numerical control machining of metal products on a contract-order basis. 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 was recognized when goods were shipped to customers. 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. 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. 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 ("APB") 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. F-6 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

----- 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 were used in the calculation of diluted earnings per common share in 2000. In 2001, diluted earnings per share is not presented as the result is antidilutive. In July 2001, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 addresses financial accounting and reporting for business combinations. This statement requires the purchase method of accounting to be used for all business combinations, and prohibits the pooling-of-interests method of accounting. This statement is effective for all business combinations initiated after June 30, 2001 and supersedes APB No. 16, Business Combinations, as well as No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon their acquisition. This statement requires goodwill to be periodically reviewed for impairment rather than amortized, beginning on January 1, 2002. SFAS No. 142 supersedes APB No. 17, Intangible Assets. The Company believes that SFAS No. 142 will not be applicable to its future financial statements because all goodwill has been entirely written down in conjunction with the sale of Kolar's assets (see Note 5). In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and amends the accounting and reporting provisions of APB No. 30, Reporting the Results of Operations, Reporting the Effect of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and

Transactions, for the disposal of a segment of a business. The provisions of SFAS No. 144 will be effective for fiscal years beginning after December 15, 2001. Pursuant to the effective dates and transitions stated in SFAS No. 144, the Company is currently evaluating the implications of its adoption, and anticipates adopting the provisions for its fiscal year beginning January 1, 2002. F-7 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -----

The financial statements as of September 30, 2002 and for the nine months ended September 30, 2002 and 2001 are unaudited; however, in the opinion of the management of the Company, these financial statements reflect all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position of the Company and the results of operations for such interim periods and are not necessarily indicative of the results to be obtained for a full year. 2. COSTS AND Costs and estimated earnings in excess of billings on ESTIMATED uncompleted contracts consist of: EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS September 30, 2002 December 31, 2001

----- (unaudited) U.S. U.S.

Government Commercial Total Government Commercial Total

----- Costs incurred on uncompleted contracts \$18,413,197 \$13,017,710 \$31,430,907 \$7,359,234 \$12,485,185 \$19,844,419 Estimated earnings 7,810,645 5,947,898 13,758,543 2,040,413 6,728,158 8,768,571  
----- 26,223,842 18,965,608  
45,189,450 9,399,647 19,213,343 28,612,990 Less billings to date 18,063,324 16,911,280 34,974,604 5,425,681  
16,219,924 21,645,605 -----  
Costs and estimated earnings in excess of billings on uncompleted contracts \$ 8,160,518 \$ 2,054,328 \$10,214,846  
\$3,973,966 \$ 2,993,419 \$ 6,967,385

===== Unbilled costs and estimated earnings are billed in accordance with applicable contract terms. As of December 31, 2001 and September 30, 2002, approximately \$1,203,000 and \$1,137,000 (unaudited) of the balances above are not expected to be collected within one year, respectively. 3. PROPERTY Property, plant and equipment, at cost, consists of the PLANT AND following: EQUIPMENT: Estimated December 31, 2001 Useful Life

----- Machinery and equipment \$304,306 5 to 10 years Computer equipment 134,019 9 years Furniture and fixtures 19,504 7 years Automobiles and trucks 23,488 5 years Leasehold improvements 71,591 3 years ----- 552,908 Less accumulated depreciation and amortization 451,648 ----- \$101,260

===== F-8 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

----- Depreciation and amortization expense for the years ended December 31, 2001 and 2000 was \$35,653 and \$30,194, respectively. 4. RELATED PARTY In October 2000, the Company adopted a Greit Plan for the TRANSACTIONS: purpose of offering senior management a deferred compensation death benefit plan (the "Plan") that provides a tax-free benefit and which is tax-neutral to the Company. Pursuant to the Plan, the Company made a noninterest-bearing loan to an employee in the amount of \$150,000, which was used to purchase the Plan. This Plan has since been terminated and the surrender value has been returned to the employee who has placed the proceeds from the surrender value in an annuity, which will mature to \$150,000. The employee also assigned to the Company 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 to \$150,000, and is included in other assets at December 31, 2001. Accordingly, the loan to the employee will be repaid upon the maturity date of the annuity or upon the death of the employee, whichever occurs first. 5. DISCONTINUED On January 22, 2002, the Company announced a decision made OPERATIONS: by the board of directors as of December 31, 2001 to close the Kolar facilities located in Ithaca, New York, and liquidate Kolar's assets through a public auction of its machinery and equipment and a private sale of its real estate. On February 21, 2002, Kolar sold a substantial portion of its machinery and equipment at an auction conducted by Daley-Hodkin Corporation at Kolar's main facility in Ithaca, New York. In connection with the discontinuance of Kolar's operations, the Company incurred a one-time charge of \$10,422,816 related to the write-off of Kolar's assets, net of expected proceeds, and an accrual for estimated losses during the phase-out period. Proceeds from actual and future sales of machinery, equipment and real property are estimated to be



approximately \$3,970,000. The disposition of Kolar's operations represents a disposal of a business segment under APB No. 30. Accordingly, results of the operation have been classified as discontinued, and prior periods have been restated. For business segment reporting purposes, Kolar's business results were previously classified as the "Machining" segment. Net sales and income (loss) from the discontinued operations are as follows: For the nine months ended September 30, 2002 2001 ----- Net sales \$ --- \$6,840,056  
===== Pretax loss from discontinued operations \$ --- \$2,505,481 Income tax benefit --- 934,000 ----- Net loss from discontinued operations \$ --- \$1,571,481

===== F-9 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

----- For the three months ended September 30, 2002 2001 ----- Net sales \$ --- \$2,624,512

===== Pretax loss from discontinued operations \$ --- \$ 779,997 Income tax benefit --- 534,000 ----- Net loss from discontinued operations \$ --- \$ 245,997

===== Assets of the discontinued operations are as follows: September 30, 2002 ----- Property, plant and equipment, net \$ 280,676 ===== Year ended December 31, 2001 2000 ----- Net sales \$8,291,690 \$20,360,330  
===== Pretax income (loss) from discontinued operations \$(3,647,200) \$ 729,427 Pretax loss on disposal of business segment (10,422,816) - Income tax benefit - 250,000 ----- Net income (loss) from discontinued operations \$(14,070,016) \$ 979,427

===== Assets of the discontinued operations were as follows: Year ended December 31, 2001 ----- Current assets \$ 610,492 Property, plant and equipment, net 2,607,492 ----- Total assets of discontinued operations \$ 3,217,984

===== Proceeds from the auction sale were approximately \$1,350,000 for the machinery and equipment owned by Kolar. These proceeds have been applied to the reduction of certain bank debt having a principal amount of \$2,260,000 outstanding immediately prior to the auction. After giving effect to the applications of the proceeds to the bank debt, the remaining outstanding principal of the bank debt is \$910,000. F-10 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -----

6. DEBT: Debt consists of the following: September 30, December 31, 2002 2001 (unaudited)

----- Note payable - bank (a) \$2,431,571 \$2,438,500 Note payable - bank (b) 259,077 805,320 Note payable - seller (c) 624,484 Note payable - seller (d) 4,898,035 4,691,202 Capitalized lease obligations payable (e) 127,904 1,672,262 ----- \$8,341,071 \$9,607,284

===== (a) The note, as amended in June 2002, is payable to a commercial bank in monthly installments from \$50,000 to \$100,000 through May 30, 2003, and the remaining unpaid balance at June 30, 2003, plus monthly interest at the bank's published prime rate (4.75% at September 30, 2002) plus 3.5%. This note is collateralized by substantially all of the assets of the Company. Approximately \$1,249,000 of this loan was repaid upon the sale of certain assets at auction. The note requires the Company to maintain specified levels of working capital and other financial ratios, as defined. The line of credit of \$1,700,000 previously listed separately on the balance sheet is now incorporated into this note. In April 2002, the Company issued 50,000 common shares valued at \$78,950, the fair market value on the date of issue, to the bank in consideration for the bank amending and extending this note. The value of the shares will be charged to interest expense over the remaining period of the note. (b) The note is payable to a commercial bank in monthly installments of \$9,847, including interest at 8.3%. This note is collateralized by Kolar's land and buildings. The Company sold certain of the underlying land and buildings during 2002 at an aggregate selling price of approximately \$555,000. The Company estimates that the sale of the remaining land and buildings will yield proceeds sufficient to repay the note in full. (c) The note is payable to a commercial bank in monthly installments of \$20,000 through May 30, 2003, and the

remaining unpaid balance at June 30, 2003, plus monthly interest at the bank's published prime rate (4.75% at September 30, 2002) plus 3.5%. This note is collateralized by substantially all of the assets of the Company and was previously included in the capitalized lease obligations payable of the Company. (d) 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 the seller ("Seller") of Kolar Machine Inc. The note payable to the Seller bears interest at 8% per annum. The note matures on September 30, 2003. Until then, it will continue to accrue interest, which will be paid at maturity together with the principal amount, pursuant to the terms of the subordination agreement between the bank lenders and the Seller. The Seller is presently prohibited from receiving current payments of interest on its note. 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. The note is subordinated to the notes payable - bank. (e) The Company leases equipment under a capital lease which expires October 24, 2003. The lease requires a monthly payment of \$10,227.02, including interest at 9.35%. As of September 30, 2002, proceeds of approximately \$674,000 were received upon the sale of certain leased equipment, which amount was remitted to the owners of the equipment. F-11 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

----- 7. LINE OF CREDIT: The Company has an aggregate \$1,700,000 line of credit agreement, expiring June 30, 2002, with JP Morgan Chase 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 (4.75% at December 31, 2001) plus 3.5%. The line of credit is collateralized by substantially all of the assets of the Company. 8. COMMITMENTS: The Company has employment agreements with four employees. The aggregate future commitment under these agreements is as follows: Year ending December 31, 2002 \$ 765,200 2003 495,100 2004 468,280  
----- \$1,728,580

===== These agreements provide for additional bonus payments that are calculated as defined. 9. INCOME TAXES: The benefit for income taxes consists of the following: Year ended December 31, 2000 ----- Current: Federal \$ 4,000 State and local 10,000 ----- 14,000  
----- Deferred: Federal (101,000) State and local (39,000)  
----- (140,000) -----

\$(126,000) ===== F-12 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

----- 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, 2001 2000 ----- Taxes (benefit) computed at the federal statutory rate \$(3,957,000) \$ 280,000 State income taxes, including deferred, net of federal benefit - 7,000 Other, including officers' life insurance and various permanent differences - 59,000 Utilization of net operating loss carryforward - (472,000) Valuation allowance 3,957,000 - ----- \$ - 0 - \$(126,000) =====

The components of deferred income tax assets and liability at December 31, 2001 are as follows: Current Noncurrent

----- Assets: Federal and state net operating loss carryforwards \$ 758,000 \$ 2,246,000 Valuation allowance - (2,074,000) ----- \$ 758,000 \$ 172,000 ===== Liability - long-term

contracts \$ 147,000 \$ - 0 - ===== As of December 31, 2001, the Company had net operating loss carryforwards of approximately \$8,035,000 and \$5,672,000 for federal and state income tax purposes, respectively, expiring through 2021. 10. EMPLOYEE STOCK In April 1992, the Company adopted the 1992 Stock Option OPTION PLANS: 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 F-13

CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

----- employees' and directors' 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 nonqualified stock options to employees, consultants or others who provide services to the Company. The options' exercise price is equal to the closing price of the Company's shares on the day of issuance, except for incentive stock options granted to the Company's president, which are exercisable at 110% of the closing price of the Company's shares on the date of issuance. In 2000, the Company adopted the 2000 Stock Option Plan (the "2000 Plan"). The 2000 Plan, as amended, reserved 830,000 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 6,779 options available for future grant under the 1992 Plan, 40,640 options available for grant under the 1995 Plan, 12,332 options available for grant under the 1998 Plan, and 250,000 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 (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated in the table below: As Reported Pro Forma 2001 2000 2001 2000

----- Net income (loss)  
 \$(11,638,119) \$1,929,206 \$(11,937,395) \$1,832,000

Earnings (loss) per share: Basic \$ (4.39) \$ .73 \$ (4.50) \$ .69 Diluted \$ (4.39) \$ .70 \$ (4.50) \$ .66

F-14 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

----- A summary of the status of the Company's four stock option plans as of December 31, 2001 and 2000 and changes during those years is as follows:  
 Year ended December 31, 2001 2000 -----

Weighted-	Weighted-	average	average	Exercise	Exercise	Fixed	Options	Options	Price	Options	Price
----- Outstanding at beginning of year											
894,312	\$3.54	515,313	\$4.27	Granted during year	225,000	1.29	408,000	2.67	Exercised	- - -	Forfeited 20,640 4.95
29,001	4.11	----- Outstanding at end of year									
1,098,672	\$3.06	894,312	\$3.54								

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:  
 Weighted Weighted- Number Average Weighted- Outstanding Remaining average Range of and Contractual Exercise  
 Exercise Price Exercisable Life Price -----  
 \$1.20 - \$8.46 1,098,672 4.99 years \$3.06

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. 11.  
 WARRANTS In February 1997, the Company issued options to purchase AND OPTIONS: 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. (now

known as Ladenburg Capital Management 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

**F-15 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** ----- 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 2001, 8,537 of these warrants were exercised. 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. In February 2002, the Company issued 5,000 options to a consultant as compensation related to a consulting agreement. The options are exercisable at \$1.65 per share through February 2007. The options are value at \$7,845 based on the Company's assumptions as follows: (i) risk-free interest rate of 5.25%, (ii) expected life of five years, (iii) expected volatility of 170.84%, and (iv) expected dividends of zero.

**12. EMPLOYEE** On September 11, 1996, CPI's board of directors instituted a **BENEFIT PLANS**: 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 2001 and 2000 amounted to \$88,412 and \$184,373, respectively.

**13. CONTINGENCIES**: Kolar is currently in the process of liquidating all of its assets through an auction of its fixed assets and the private sale of its real estate. The proceeds of this liquidation will be used to reduce Kolar's liabilities on certain bank debt. The bank debt and Kolar's obligations to its previous owner are secured by liens on the assets and real estate to be sold and are guaranteed by the Company. Various creditors have made claims against Kolar. There can be no assurance that satisfactory payment terms will be made with any of Kolar's creditors or with the banks regarding the balance of portions of the debt, which is currently due no later than June 30, 2003. 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.

**F-16 CPI AEROSTRUCTURES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** ----- **14. MAJOR**

Approximately 92% and 76% of the Company's consolidated net **CUSTOMERS**: sales in 2001 and 2000 were to the U.S. government. Sales to a significant commercial customer accounted for approximately 24% of the Company's consolidated net sales for the year ended December 31, 2000. At December 31, 2001, approximately 77% of accounts receivable was due from the U.S. government.

**F-17** -----

No dealer, salesperson or any other person is authorized to give any information or make any representations in connection with this offering other than those contained in this prospectus **CPI AEROSTRUCTURES, INC.** and, if given or made, the information or representations must not be relied upon as having been authorized by us. This ----- prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the 1,900,000 Common Shares securities offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which ----- the offer or solicitation is not authorized or is unlawful. The delivery **PROSPECTUS** of this prospectus will not, under any circumstances, create any implication ----- that the information is correct as of any time subsequent to the date of this prospectus.

----- **TABLE OF CONTENTS** Page Summary.....3 Risk Factors.....7 Use of Proceeds.....12 Capitalization.....13 Management's Discussion and Analysis of Financial Condition and Results of Operations.....14 Business.....18 Management.....24 Principal Shareholders.....29 February \_\_, 2003 Description of Our Capital Shares.....30 Underwriting.....33 Legal Matters.....34 EarlyBirdCapital, Inc. Experts.....34 Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....34 Where You Can Find Additional Information.....35 Index to

Financial Statements...36 ----- Part II Information Not Required in Prospectus ITEM 24.

Indemnification of Directors and Officers Sections 721 through 726, inclusive, of the Business Corporation Law of New York ("BCL") authorizes New York corporations to indemnify their officers and directors under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their being or having been officers or directors and to purchase and maintain insurance for indemnification of such officers and directors. Section 402(b) of the BCL permits a corporation, by so providing in its certificate of incorporation, to eliminate or limit directors' personal liability to the corporation or its shareholders for damages arising out of certain alleged breaches of their duties as directors. The BCL, however, provides that no such limitation of liability may affect a director's liability with respect to any of the following: (1) acts or omissions made in bad faith or which involved intentional misconduct or a knowing violation of law; (2) any transaction from which the director derived a financial profit or other advantage to which he was not legally entitled; (3) the declaration of dividends or other distributions or purchase or redemption of shares in violation of the BCL; or (4) the distribution of assets to shareholders after dissolution of the corporation without paying or adequately providing for all known liabilities of the corporation or making loans to directors in violation of the BCL. The Registrant's Certificate of Incorporation, as amended, provides that the personal liability of the directors of the Registrant is eliminated to the fullest extent permitted by Section 402(b) of the BCL. In addition, the Amended and Restated By-laws of the Registrant provide in substance that, each director and officer shall be indemnified by the Registrant against reasonable expenses, including attorney's fees, and any liabilities that he or she may incur in connection with any action to which he or she may be made a party by reason of his or her being or having been a director or officer of the Registrant. The indemnification provided by the Registrant's By-laws is not deemed exclusive of or in any way to limit any other rights which any person seeking indemnification may be entitled. The Registrant also has directors' and officers' liability insurance. In addition, the Registrant has entered into Indemnification Agreements with each of its executive officers and directors which provide that the Registrant will indemnify and advance expenses to such officer or director to the fullest extent permitted by law and provides the procedure for entitlement of indemnification. ITEM 25. Other Expenses of Issuance and Distribution The estimated expenses actually paid and payable by us in connection with the distribution of the securities being registered are as follows: SEC Registration and Filing Fee..... \$ 996.92 NASD Filing Fee..... 1,583.61 American Stock Exchange Additional Listing Fee..... 22,500.00 Legal Fees and Expenses..... 200,000.00 Accounting Fees and Expenses..... 50,000.00 Financial Printing and Engraving..... 20,000.00 Transfer Agent and Registrar Fees..... 3,500.00 Nonaccountable Expense Allowance..... 256,500.00 Miscellaneous..... 123,919.47 ----- TOTAL..... \$679,000.00

ITEM 26. Recent Sales of Unregistered Securities CPI Aerostructures, Inc. made the following sales of unregistered securities during the past three years: -----

Description of If Option, Underwriting or Warrant or Other Discounts to Convertible Market Price Exemption from Security, Terms Afforded to Registration of Exercise or Date of Sale Title of Security Number Sold Purchasers Claimed Conversion	Consideration Received and
05/18/00 Options to purchase 115,000 Options granted to 4(2) Immediately common shares employees - no exercisable until other consideration 12/31/04 at an received by Company exercise price of until exercise \$2.79 per share	05/31/00
Options to purchase 350,000 Options granted to 4(2) Immediately common shares employees - no exercisable until other consideration 5/31/10 at an received by Company exercise price of until exercise \$2.59 per share	04/18/01 Common Shares 25,000
Option granted to 4(2) Fully exercisable employee - pursuant upon the date of to the Performance grant Equity Plan 2000; no cash consideration received by us	05/31/01 Common Shares 8,537 Common Shares 4(2) N/A issued to consultant upon the exercise of options; no cash consideration received by us as a result of cashless exercise provision
Option granted to 4(2) Fully exercisable employee pursuant upon the date of to the Performance grant Equity Plan 2000; no cash consideration received by us	08/14/01 Common Shares 200,000

ii

----- Consideration Received and Description of If Option, Underwriting or Warrant or Other Discounts to

Convertible Market Price Exemption from Security, Terms Afforded to Registration of Exercise or Date of Sale Title of Security Number Sold Purchasers Claimed Conversion -----

----- 2/1/02-6/18/02 Common Shares 300,000 Options granted to 4(2) Fully exercisable employees and upon the date of directors pursuant grant for five or to the Performance ten years at Equity Plan 2000 exercise prices and 1998 Stock ranging from Option Plan; no \$1.65 to \$6.35 cash consideration received by us ----- 2/1/02 Common Shares 5,000 Non-Plan Option 4(2) Fully exercisable issued to upon the date of consultant to grant until purchase common February 1, 2007 shares; no cash consideration received by us ----- 4/18/02 Common Shares 50,000 Common Shares 4(2) N/A issued to bank in consideration of extending due date of loan; no cash consideration received by us ----- 5/21/02 Common Shares 20,833 Common Shares 4(2) N/A issued to employees upon the exercise of options; \$84,102 cash consideration received by us ----- 6/03/02 Common Shares 2,653 Common Shares 4(2) N/A issued to consultants upon the cashless exercise of warrants; no cash consideration received by us ----- 6/24/02 Common Shares 4,137 Common Shares 4(2) N/A issued to consultants upon the cashless exercise of warrants; no cash consideration received by us -----

----- iii -----

----- Consideration Received and Description of If Option, Underwriting or Warrant or Other Discounts to Convertible Market Price Exemption from Security, Terms Afforded to Registration of Exercise or Date of Sale Title of Security Number Sold Purchasers Claimed Conversion -----

----- 8/16/02 Common Shares 20,000 Common Shares 4(2) N/A issued to bank in consideration of services; no cash consideration received by us ----- 09/09/02 Common Shares 1,000 Common Shares 4(2) N/A issued to employee upon the exercise of options; \$2,870 cash consideration received by us ----- 11/11/02 Common Shares 30,000 Common Shares 4(2) N/A issued to employee upon the exercise of options; \$93,900 cash consideration received by us ----- 1/23/03 Common Shares 20,000 Common Shares 4(2) N/A issued to bank in consideration of services; no cash consideration received by us -----

----- ITEM 27. Exhibits Exhibit Number Name of Exhibit No. in Document ----- \*1.1 Form of Underwriting Agreement N/A 3.1 Certificate of Incorporation of the Company, as amended. (1) 3.1 3.1(a) Certificate of Amendment of Certificate of Incorporation filed on July 14, 1998. (2) 3.1(a) 3.2 Amended and Restated By-Laws of the Company. (1) 3.2 \*\*\*4.7 Form of Warrant issued to Representative N/A \*5.1 Opinion of Graubard Miller N/A 10.1 1992 Stock Option Plan. (1) 10.3 10.2 1995 Employee Stock Option Plan. (3) 10.4 10.3 Form of military contract. (1) 10.7 10.4 Asset Purchase Agreement, dated September 9, 1997 by and among Kolar Machine, Inc., a 10.19 New York corporation, Daniel Liguori, the Company and Kolar, Inc., a Delaware corporation and wholly-owned subsidiary of the Company. (5) iv Exhibit Number Name of Exhibit No. in Document ----- 10.5 1998 Performance Equity Plan. (2) 10.28 10.6 Performance Equity Plan 2000. (4) 10.29 10.7 Stock Option Agreement, dated August 14, 2001, between Edward J. Fred and the Company. 10.35 (5) 10.8 Stock Option Agreement, dated August 14, 2001, between Arthur August and the Company. 10.36 (6) 10.9 Employment Agreement, dated August 14, 2001, between Edward J. Fred and the Company. 10.37 (7) 10.10 Employment Agreement, dated August 14, 2001, between Arthur August and the Company. (7) 10.38 10.11 Peaceful Possession Agreement, by and among Kolar, Inc., JP Morgan Chase Bank f/k/a/ 10.38 the Chase Manhattan Bank and JP Morgan Leasing, Inc., dated January 24, 2002 (without schedule). (8) 10.12 Auction Sale Agreement, among Daley-Hodkin Corporation, Kolar, Inc., JP Morgan Chase 10.40 and JP Morgan Leasing, Inc., dated January 10, 2002. (8) 10.13 Amended and Restated Credit Agreement, among the Borrowers, the Lenders and JP Morgan, 10.43 dated June 25, 2002. (9) 10.14 Form of Replacement Term Note, between Kolar and JP Morgan, dated June 25, 2002. (9) 10.44 10.15 Tranche C Intercreditor and Subordination Agreement, among the Lenders, the Borrowers 10.45 and JP Morgan, dated June 25, 2002. (9) 10.16 Tranche C Term Note, among the Borrowers and JP Morgan, dated June 25, 2002. (9) 10.46 10.17 Amendment to Intercreditor and

Subordination Agreement, among the Subordinated Lenders 10.47 (as therein defined), the Borrowers and JP Morgan, dated June 25, 2002. (9) 10.18 Amendment to Guarantee and Collateral Agreement among the Borrowers and JP Morgan, 10.48 dated June 25, 2002. (9) 10.19 Tranche C Mortgage, Fixture Filing and Assignment of Leases and Rents, between Kolar 10.49 and JPMorgan, dated June 25, 2002. (9) 10.20 Amendment to Security Agreement, between the Borrowers and Ralok, dated June 25, 2002. 10.50 (9) 10.21 Amended and Restated Seller Note, between the Borrowers and Ralok, dated June 25, 10.51 2002. (9) 10.22 CPI Seller Guaranty Amendment, among CPI and Ralok, dated June 25, 2002. (9) 10.52 10.23 Seller Mortgage Subordination Agreement, between Ralok and JPMorgan, dated June 25, 10.53 2002. (9) v Exhibit Number Name of Exhibit No. in Document -----

----- 10.24 Mortgage Modification Agreement, between Kolar and JPMorgan, dated June 25, 2002. (9) 10.54 \*\*\*10.25 Agreement among Ralok, Inc., the Company and Green & Selfler, as Escrow Agent, dated 10.25 November 26, 2002, regarding right to purchase note. \*\*\*10.26 Form of Merger & Acquisition Agreement, between the Representative and the Company. 10.26 \*\*\*10.27 Registration Rights Agreement, between the Registrant and GECapital CFE, Inc. dated 10.27 February 26, 2002. \*\*\*10.27.1 Schedule of Omitted Document in the form of Exhibit 10.27.1 10.27, including material detail in N/A which such document differs from Exhibit 10.27. \*\*\*10.28 Letter Agreement Amending Employment Agreement, between Edward J. Fred and the Company, 10.28 dated December 12, 2002. \*10.29 Letter Agreement Amending Employment Agreement, between Edward J. Fred and the Company, N/A dated January 1, 2003. \*10.30 Letter Agreement Amending Employment Agreement, between Arthur August and the Company, N/A dated January 1, 2003. \*\*\*21.1 Subsidiaries of the Registrant. N/A \*\*23.1 Consent of Graubard Miller (included as part of its opinion). N/A \*23.2 Consent of Goldstein Golub Kessler LLP. N/A \*\*\*24.1 Power of Attorney (included on signature page). N/A \*99.1 Consent of Person to Become Director. N/A

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for the securities offered in the registration statement, and that the offering of the securities at that time as the initial bona fide offering of those securities. Insofar as indemnification for liabilities arising under Securities Act may be permitted to directors, officers and controlling persons of Registrant pursuant to the provisions of its Articles of Incorporation, its By-Laws, or otherwise, Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against liabilities (other than the payment by Registrant for expenses incurred or paid by an officer, director or controlling person of Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

vii SIGNATURES Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Form SB-2/A and authorized this registration statement to be signed on its behalf by the undersigned, hereunto duly authorized, in Edgewood, New York on January 22, 2003. CPI AEROSTRUCTURES, INC. By /s/ Arthur August -----  
 Arthur August Chairman of the Board (Principal Executive Officer) Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated. /s/ Arthur August Chairman of the Board January 22, 2003 ----- (Principal Executive Officer)  
 Arthur August /s/ Edward J. Fred Chief Executive Officer, January 22, 2003 ----- President, Chief Financial Officer and Secretary (Principal Accounting Officer) and Director \* Director January 22, 2003 ----- Walter Paulick \* Director January 22, 2003 ----- Kenneth McSweeney \*By: /s/ Edward J. Fred ----- Edward J. Fred, as Attorney in Fact

viii Table of Exhibits Exhibit Number Name of Exhibit No. in Document ----- \*1.1 Form of Underwriting Agreement N/A 3.1 Certificate of Incorporation of the Company, as amended. (1) 3.1 3.1(a) Certificate of Amendment of Certificate of Incorporation filed on July 14, 1998. (2) 3.1(a) 3.2 Amended and Restated By-Laws of the Company. (1) 3.2 \*\*\*4.7 Form of Warrant issued to Representative N/A \*5.1 Opinion of Graubard Miller N/A 10.1 1992 Stock Option Plan. (1) 10.3 10.2 1995 Employee Stock Option Plan. (3) 10.4 10.3 Form of military contract. (1) 10.7 10.4 Asset Purchase Agreement, dated September 9, 1997 by and among Kolar Machine, Inc., a 10.19 New York corporation, Daniel Liguori, the Company and Kolar, Inc., a Delaware corporation and wholly-owned subsidiary of the Company. (5) 10.5 1998 Performance Equity Plan. (2) 10.28 10.6 Performance Equity Plan 2000. (4) 10.29 10.7 Stock Option Agreement, dated August 14, 2001, between Edward J. Fred and the Company. 10.35 (5) 10.8 Stock Option Agreement, dated August 14, 2001, between Arthur August and the Company. 10.36 (6) 10.9 Employment Agreement, dated August 14, 2001, between Edward J. Fred and the Company. 10.37 (7) 10.10 Employment Agreement, dated August 14, 2001, between Arthur August and the Company. (7) 10.38 10.11 Peaceful Possession Agreement, by and among Kolar, Inc., JP Morgan Chase Bank f/k/a/ 10.38 the Chase Manhattan Bank and JP Morgan Leasing, Inc., dated January 24, 2002 (without schedule). (8) 10.12 Auction Sale Agreement, among Daley-Hodkin Corporation, Kolar, Inc., JP Morgan Chase 10.40 and JP Morgan Leasing, Inc., dated January 10, 2002. (8) 10.13 Amended and Restated Credit Agreement, among the Borrowers, the Lenders and JP Morgan, 10.43 dated June 25, 2002. (9) i Exhibit Number Name of Exhibit No. in Document ----- 10.14 Form of Replacement Term Note, between Kolar and JP Morgan, dated June 25, 2002. (9) 10.44 10.15 Tranche C Intercreditor and Subordination Agreement, among the Lenders, the Borrowers 10.45 and JP Morgan, dated June 25, 2002. (9) 10.16 Tranche C Term Note, among the Borrowers and JP Morgan, dated June 25, 2002. (9) 10.46 10.17 Amendment to Intercreditor and Subordination Agreement, among the Subordinated Lenders 10.47 (as therein defined), the Borrowers and JP Morgan, dated June 25, 2002. (9) 10.18 Amendment to Guarantee and Collateral Agreement among the Borrowers and JP Morgan, 10.48 dated June 25, 2002. (9) 10.19 Tranche C Mortgage, Fixture Filing and Assignment of Leases and Rents, between Kolar 10.49 and JPMorgan, dated June 25, 2002. (9) 10.20 Amendment to Security Agreement, between the Borrowers and Ralok, dated June 25, 2002. 10.50 (9) 10.21 Amended and Restated Seller Note, between the Borrowers and Ralok, dated June 25, 10.51 2002. (9) 10.22 CPI Seller Guaranty Amendment, among CPI and Ralok, dated June 25, 2002. (9) 10.52 10.23 Seller Mortgage Subordination Agreement, between Ralok and JPMorgan, dated June 25, 10.53 2002. (9) 10.24 Mortgage Modification Agreement, between Kolar and JPMorgan, dated June 25, 2002. (9) 10.54 \*\*\*10.25 Agreement among Ralok, Inc., the Company and



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