

CPI AEROSTRUCTURES INC  
Form 424B5  
June 07, 2012

**Filed pursuant to Rule 424(b)(5)**  
**Registration No. 333- 181056**

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement related to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not the solicitation of an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated June 7, 2012

## **PROSPECTUS SUPPLEMENT**

**(To Prospectus dated May 11, 2012)**

### **Shares**

#### **CPI Aerostructures, Inc.**

#### **Common Stock**

We are offering        shares of our common stock and the selling shareholders named herein are offering an additional        shares of our common stock in this offering. Our common stock is traded on the NYSE MKT under the symbol "CVU." On June 6, 2012, the last reported sale price of our common stock was \$14.13 per share.

The offering is being underwritten on a firm commitment basis. We have granted the underwriters an option to buy up to an additional        shares of common stock from it to cover over-allotments. The underwriters may exercise this option at any time and from time to time during the 30-day period from the date of this prospectus supplement.

No Exercise of Over-		Full Exercise of Over-	
Allotment		Allotment	
Per Share	Total	Per Share	Total

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Public offering price	\$	\$	\$	\$
Underwriting discounts and commissions(1)	\$	\$	\$	\$
Proceeds to us, before expenses	\$	\$	\$	\$
Proceeds to selling shareholders, before expenses	\$	\$	\$	\$

(1) In addition, we have agreed to reimburse the underwriters for certain expenses. See “Underwriting” on page S-15 of this prospectus supplement for additional information.

We will not receive any of the proceeds from the sale of shares by the selling shareholders. We will, however, receive the aggregate exercise price of \$        with respect to        shares being offered by a selling shareholder that will be acquired by him upon the exercise of options in connection with the offering.

**Investing in our securities involves a high degree of risk. See the section entitled “Risk Factors” appearing on page S-5 of this prospectus supplement and elsewhere in this prospectus supplement and the accompanying base prospectus for a discussion of information that should be considered in connection with an investment in our securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the shares of common stock to the purchasers on or about       , 2012.

The date of this prospectus supplement is       , 2012

*Sole Book-Running Manager*

**Roth Capital Partners**

*Co-Managers*

**EarlyBirdCapital, Inc. Noble Financial Capital Markets**

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information.

We are not making an offer of these securities in any state or jurisdiction where the offer is not permitted.

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 (Registration No. 333-181056) that we filed with the Securities and Exchange Commission (“SEC”) using a “shelf” registration process. Under this “shelf” registration process, we may, from time to time, sell or issue any of the combination of securities described in the accompanying prospectus in one or more offerings with a maximum aggregate offering price of up to \$20,000,000 and the selling shareholders may, from time to time, sell up to 817,617 shares of common stock. The accompanying prospectus provides you with a general description of us and the securities we may offer, some of which do not apply to this offering. Each time we sell securities, we provide a prospectus supplement that contains specific information about the terms of that offering. A prospectus supplement may also add, update or change information contained in the accompanying prospectus.

This prospectus supplement provides specific details regarding this offering of shares of common stock by us and by the selling shareholders, including the purchase price per share. To the extent there is a conflict between the information contained in this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. This prospectus supplement, the accompanying prospectus and the documents we incorporate by reference herein and therein include important information about us and our common stock, and other information you should know before investing. You should read both this prospectus supplement and the accompanying prospectus, together with the additional information described below under the heading “Where You Can Find More Information.”

You should not assume that the information appearing in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front cover of the respective documents. You should not assume that the information contained in the documents incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations, and prospects may have changed since that date.

References in this prospectus supplement to “CPI Aero®”, “we,” “us” and “our” refer to CPI Aerostructures, Inc., a New York corporation.

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## PROSPECTUS SUPPLEMENT SUMMARY

CPI Aerostructures, Inc.

### General

We are engaged in the contract production of structural aircraft parts principally for the U.S. Air Force and other branches of the U.S. armed forces, either as a prime contractor or as a subcontractor to other defense prime contractors. We also act as a subcontractor to prime aircraft manufacturers in the production of commercial aircraft parts. Our strategy for growth has been focused primarily as a subcontractor for defense prime contractors. Due to our success as a subcontractor to defense prime contractors we have pursued opportunities to increase our commercial subcontracting business.

We were incorporated under the laws of the State of New York in January 1980 under the name Composite Products International, Inc. We changed our name to Consortium of Precision Industries, Inc. in April 1989 and to CPI Aerostructures, Inc. in July 1992. In January 2005, we began doing business under the name CPI Aero®, a registered trademark of the Company. Our principal office is located at 91 Heartland Blvd., Edgewood, New York 11717 and our telephone number is (631) 586-5200.

We maintain a website at [www.cpiaero.com](http://www.cpiaero.com). Information contained on our website or accessed through our website does not constitute a part of this prospectus.

### Overview of Our Business

As a subcontractor to leading defense prime contractors such as Northrop Grumman Corporation (“NGC”), The Boeing Company (“Boeing”), Lockheed Martin Corporation (“Lockheed”), Sikorsky Aircraft Corporation (“Sikorsky”) and Bell Helicopter, we deliver various pods and modular and structural assemblies for military aircraft such as the E-2D “Hawkeye” surveillance aircraft, UH-60 “Black Hawk” helicopter, the A-10 “Thunderbolt” attack jet, the MH-60S mine counter measure helicopter and the C-5A “Galaxy” cargo jet. Seventy seven percent (77%), 73% and 43% of our revenue in 2011, 2010 and 2009, respectively, was generated by subcontracts with defense prime contractors.

We also operate as a subcontractor to prime contractors, including Sikorsky and Spirit AeroSystems, Inc. (“Spirit”), in the production of commercial aircraft parts. For Spirit we deliver leading edges for the G650 executive jet. For

Sikorsky, we deliver various kits and assemblies for the S-92 civilian helicopter. Fourteen percent (14%), 17% and 29% of our revenue in 2011, 2010 and 2009, respectively, was generated by commercial contract sales.

Additionally, we perform as a prime contractor supplying structural aircraft parts to the U.S. Government. In this role, we have delivered skin panels, leading edges, flight control surfaces, engine components, wing tips, cowl doors, nacelle assemblies and inlet assemblies for military aircraft such as the C-5A cargo jet, the T-38 “Talon” jet trainer, the C-130 “Hercules” cargo jet, the A-10 attack jet, and the E-3 “Sentry” AWACS jet. Nine percent (9%), 10% and 28% of our revenue in 2011, 2010 and 2009, respectively, was generated by prime government contract sales.

We have over 30 years of experience as a contractor, completing over 2,500 contracts to date. Most members of our management team have held management positions at large aerospace contractors, including NGC, Lockheed and The Fairchild Corporation. Our technical team possesses extensive technical expertise and program management and integration capabilities. Our competitive advantage lies in our ability to offer large contractor capabilities with the flexibility and responsiveness of a small company, while staying competitive in cost and delivering superior quality products. While the larger prime contractors compete for significant modification awards and subcontract components to other suppliers, they generally do not compete for awards for smaller modifications or spare and repair parts, even for planes for which they are the original manufacturer. We qualify as a “small business” in connection with U.S. government contract awards because we have less than 1,000 employees, and this allows us to compete for military awards set aside for companies with this small business status.

## Significant Contracts

Some of our significant contracts are as follows:

### *Military Aircraft – Subcontracts with Prime Contractors*

E-2D “Hawkeye”. The NGC E-2 Hawkeye is an all-weather, aircraft carrier-based tactical Airborne Early Warning (AEW) aircraft. The twin turboprop aircraft was designed and developed in the 1950s by Grumman for the United States Navy as a replacement for the E-1 Tracer. The United States Navy aircraft has been progressively updated with the latest variant, the E-2D, first flying in 2007. In 2008, we received an initial \$7.9-million order from NGC to provide structural kits for the E-2D. We value the long-term agreement at approximately \$98 million over an eight-year period, with the potential to be in excess of \$195 million over the life of the aircraft program. The cumulative orders we have received on this program through January 2012 exceed \$34 million.

A-10 “Thunderbolt”. The A-10 Thunderbolt II is a single-seat, twin-engine, straight-wing jet aircraft developed by Fairchild-Republic for the United States Air Force to provide close air support of ground forces by attacking tanks, armored vehicles, and other ground targets with a limited air interdiction capability. It is the first U.S. Air Force aircraft designed exclusively for close air support. The A-10’s official name comes from the Republic P-47 Thunderbolt of World War II, a fighter that was particularly effective at close air support. The A-10 is more commonly known by its nickname “Warthog” or simply “Hog”. In 2008, we received an initial order of \$3.2 million from the Boeing Integrated Defense Systems unit of The Boeing Company (“Boeing”) in support of its \$2 billion award to produce up to 242 enhanced wings for the A-10. The cumulative orders we have received on this program through January 2012 exceed \$47 million.

*Commercial Aircraft – Subcontracts with Prime Contractors*

Gulfstream G650. In March 2008, Spirit awarded us a contract to provide Spirit with leading edges for the Gulfstream G650 business jet, a commercial program that Spirit is supporting. During 2009, we renegotiated the unit pricing for add-on work, engineering changes and tooling charges with Spirit for this multi-year contract. As a result of this renegotiation, we estimate the value of this contract to be approximately \$46.9 million. In addition, the tooling portion of this contract of approximately \$5.6 million was paid in four installments through July 2011. The cumulative orders we have received on this program through January 2012 exceed \$41 million.

*Military Aircraft – Prime Contracts with U.S. Government*

C-5A “Galaxy”. The C-5A Galaxy cargo jet is one of the largest aircraft in the world and can carry a maximum cargo load of 270,000 pounds. Lockheed delivered the first C-5A in 1970. The C-5A Galaxy carries fully equipped combat-ready military units to any point in the world on short notice and then provides field support to sustain the fighting force. The Air Force has created a comprehensive program to ensure the capabilities of its C-5A fleet until 2040. We are one of the leading suppliers of structural spare parts and assemblies for the C-5A aircraft. We assemble numerous C-5A parts, including panels, slats, spoilers and wing-tips and are the only supplier of C-5A wing-tips to the U.S. government. Like the C-5A itself, the wing-tip is a large structure and is expensive – costing up to \$750,000 for each replacement piece. Our first C-5A contract was approximately \$590,000 of structural spares and was awarded in 1995. In 2004, the Air Force awarded us a seven-year TOP contract to build an assortment of parts for the C-5A, including wing tips and panels. The ordering period for the C-5 TOP contract ended in May of 2011. Since 1995, we have received releases under contracts for C-5A parts aggregating approximately \$103 million, including \$45.5 million from the TOP contract.

*Marketing and New Business*



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From the beginning of the current fiscal year through May 4, 2012, we received approximately \$32.2 million of new contract awards, which included approximately \$0.2 million of government prime contract awards, approximately \$31.4 million of government subcontract awards and approximately \$0.6 million of commercial subcontract awards, compared to a total of \$46.8 million of new contract awards, of all types, in the same period last year.

Included in new contract awards are:

· \$12.7 million purchase order from Boeing for assemblies on the A-10 aircraft.

\$10.7 million order from Goodrich Corporation for the supply of structural aerospace assemblies. In addition, we will have, for the first time in our history, design authority for design modifications to the structure it is manufacturing.

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We have approximately \$952 million in formalized bids outstanding as of May 4, 2012 and continue to make bids on contracts on a weekly basis. Unawarded solicitations include two bids totaling approximately \$647 million to an international aerospace company for work on the Boeing 787. While we cannot predict the probability of obtaining or the timing of awards, some of these outstanding proposals are significant in amount.

While historically our direct U.S. Government work has typically ranged from six months to two years, our major subcontract awards for the E-2D, A-10 and G650 average a seven year life. Except in cases where contract terms permit us to bill on a progress basis, we must incur upfront costs in producing assemblies, amortize the costs and bill our customers upon delivery. Because of the upfront costs incurred, the timing of our billings and the nature of the percentage-of-completion (“POC”) method of accounting described below, there can be a significant disparity between the periods in which (a) costs are expended, (b) revenue and earnings are recorded and (c) cash is received.

## The Offering

Common stock  
offered by us(1) shares

Common stock  
offered by the  
selling shares  
shareholders

Common stock to  
be outstanding  
after this shares  
offering(1)(2)

Underwriters' We have granted the underwriters an option to buy up to an additional shares of common  
over-allotment stock to cover over-allotments. The underwriters may exercise this option at any time and from  
option time to time during the 30-day period from the date of this prospectus supplement.

Use of proceeds We intend to use the net proceeds from the sale of common stock by us in this offering to fund  
working capital and for other general corporate purposes. In addition, under the terms of our credit  
facility with Sovereign Bank, we are required to use at least 25% of the net proceeds from the  
offering to pay down our revolving loan from the bank, although we may elect to pay down more.  
Any amount by which the loan is paid down will immediately become available to be re-borrowed.  
We will not receive any of the proceeds from the sale of shares by the selling shareholders. We  
will, however, receive the aggregate exercise price of \$ with respect to shares being  
offered by certain of the selling shareholders that will be acquired by them upon the exercise of  
options in connection with the offering. We intend to use such funds in the same manner as  
described above, except that we will not be obligated to use at least 25% of the aggregate exercise  
price to pay down our revolving loan from Sovereign Bank. See the section entitled "Use of  
Proceeds" on page S-7.

NYSE MKT  
symbol CVU

Risk Factors See the section entitled "Risk Factors" beginning on page S-5 for a discussion of factors you should  
consider carefully before deciding to invest in our common stock.

(1) Assumes no exercise by the underwriters of their over-allotment option.

(2)

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Based on 7,007,719 shares of common stock outstanding as of June 6, 2012. Excludes 680,517 shares of common stock subject to outstanding options as more fully described in the section entitled "Description of Common Stock."

Unless we specifically state otherwise, all information in this prospectus supplement assumes no exercise by the underwriters of their over-allotment option, is based on the number of shares of common stock outstanding as of June 6, 2012 and excludes 680,517 shares of common stock subject to outstanding options.

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## RISK FACTORS

*Before you make a decision to invest in our common stock, you should consider carefully the risks described below, together with other information in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein as set forth in our SEC filings, including our annual report on Form 10-K for the year ended December 31, 2011 and our quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2012. If any of the following events actually occur, our business, operating results, prospects or financial condition could be materially and adversely affected. This could cause the trading price of our common stock to decline and you may lose all or part of your investment. The risks described below are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also significantly impair our business operations and could result in a complete loss of your investment.*

***Our management will have broad discretion over the use of the net proceeds from this offering. You may not agree with how we use the proceeds and the proceeds may not be invested successfully.***

Our management will have broad discretion as to the use of the net proceeds from any offering by us and could use them for purposes other than those contemplated at the time of this offering. Under the terms of our credit facility with Sovereign Bank, we are required to use 25% of the net proceeds from the offering to pay down a portion of our revolving loan from the bank. Such amounts will immediately become available to be re-borrowed. Accordingly, you will be relying on the judgment of our management with regard to the use of these net proceeds, and you will not have the opportunity as part of your investment decision to assess whether the proceeds are being used appropriately. It is possible that the proceeds will be invested in a way that does not yield a favorable, or any, return for our company.

***We may issue additional shares of capital stock in the future, which would increase the number of shares eligible for future resale in the public market and may result in dilution to our shareholders.***

As of June 6, 2012, we had 7,007,719 shares of common stock subject to outstanding options, as more fully described in the section entitled “Description of Common Stock.” In addition, we are not restricted from issuing additional shares of our common stock or securities convertible into or exchangeable for our common stock, except as described in the section entitled “Underwriting.” Because we may need to raise additional capital in the future to continue to expand our business, among other things, we may conduct additional equity offerings. To the extent our outstanding options are exercised or we conduct additional equity offerings, additional shares of our common stock will be issued, which will increase the number of shares eligible for resale in the public market and may result in dilution to our shareholders. Sales of substantial numbers of such shares in the public market could adversely affect the market price of such shares.

***We have never declared or paid cash dividends on our capital stock and we do not anticipate paying cash dividends in the foreseeable future.***

Our business requires significant funding. We currently plan to invest all available funds and future earnings in the development and growth of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future. In addition, under the terms of our credit facility with Sovereign Bank, we are restricted from paying cash dividends. As a result, capital appreciation, if any, of our common stock will be our shareholders' sole source of potential gain for the foreseeable future.

***We are able to issue shares of preferred stock with greater rights than our common stock.***

Our certificate of incorporation authorize our board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from our shareholders. Any preferred stock that is issued may rank ahead of our common stock in terms of dividends, liquidation rights or voting rights. If we issue preferred stock, it may adversely affect the market price of our common stock.

***Anti-takeover provisions in our organizational documents and in New York law could delay a change in management and limit our share price or otherwise make a change in our management more difficult.***

Certain provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us even if such a change in control would increase the value of our common stock and could prevent or hinder attempts by our shareholders to replace or remove our current board of directors or management.

We have a number of provisions in place that will hinder takeover attempts and could reduce the market value of our common stock or prevent sale at a premium. These provisions include:

- the authorization of undesignated preferred stock, which makes it possible for the board of directors to issue preferred stock with voting or other rights or preferences in a manner that could delay or prevent a transaction or a change in control;

- a provision providing that shareholders may act by written consent without a meeting only if such written consent is signed by all shareholders;

a provision that specifies that special meetings of our shareholders can be called only by our board of directors or our chairman of the board, if one has been elected, or our president;

- the division of our board of directors into three classes, only one of which is elected annually; and
- advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings.

In addition, because we are incorporated in New York, we are governed by the provisions of Section 912 of the New York Business Corporation Law, which generally prohibits a New York corporation from engaging in any of a broad range of business combinations with an “interested” shareholder for a period of five years following the date on which the shareholder became an “interested” shareholder. See the section entitled “Description of Capital Stock—Provisions of New York Law and Our Charter and Bylaws” in the accompanying base prospectus.

## NOTE ON FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus and incorporated by reference herein are forward-looking statements that relate to possible future events, our future performance and our future operations. In some cases, you can identify these forward-looking statements by the use of words such as “may,” “will,” “should,” “anticipates,” “believes,” “expects,” “plans,” “future,” “intends,” “could,” “estimate,” “predict,” “potential,” “continue,” or the negative of these terms or similar expressions. These statements are only our predictions. We cannot guarantee future results, levels of activities, performance or achievements. Our actual results could differ materially from these forward-looking statements for many reasons, including as a result of those risks described from time to time in our SEC filings and those risks identified under sections entitled “Risk Factors” in any prospectus supplement. Important factors, among others, that may affect our actual results include:

- changes in the expense and revenue estimates used in our percentage-of-completion method of accounting;
- any suspension of or prohibition on our contracting with the Federal government;
- changes in Federal funding that affect our projects;
- changes in priorities in the Federal government due to military transformation and planning and/or the nature of war-related activity;
- the ability of the Federal government to terminate contracts, in whole or in part, without prior notice, for convenience;
- the time and expense of the Federal government’s competitive bidding process;
- environmental regulation at the Federal, state and local levels;
- regulation by the Federal Aviation Administration under the provisions of the Federal Aviation Act of 1958, as amended;
- reliance on subcontractors to perform a portion of the services that we must provide to our customers;
- increased costs on our fixed price contracts;



- differences between contract value and revenue received with respect to our backlog;
- our ability to attract and retain highly qualified senior officers and engineers;
- our ability to obtain sufficient credit lines;
- the cyclical nature of the commercial aerospace industry; and
- the unpredictable nature of new programs and new technologies.

We are under no duty to update or revise any of the forward-looking statements or risk factors to conform them to actual results or to changes in our expectations.

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## USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be \$       million (or \$       million assuming the over-allotment option is exercised in full), after deducting underwriting discounts and commissions and an aggregate of \$       in estimated offering expenses payable by us for this offering. We intend to use the net proceeds from the sale of common stock by us in this offering to fund working capital and for other general corporate purposes. In addition, under the terms of our credit facility with Sovereign Bank, we are required to use at least 25% of the net proceeds from the offering to pay down our revolving loan from the bank, although we may elect to pay down more. Any amount by which the loan is paid down will immediately become available to be re-borrowed.

The credit facility provides for a revolving loan of up to \$18.0 million that matures on August 31, 2014 and bears interest 2.75% in excess of the LIBOR rate or the bank's prime rate, as selected by us in accordance with the terms of the facility. As of June 6, 2012, the balance of the revolving loan was \$17.6 million. The credit facility also provides for a \$3.0 million term loan, or term loan "A," that matures on November 1, 2013 and a \$4.5 million term, or term loan "B," that matures on March 9, 2017. Each of the term loans amortizes over approximately five years. We entered into swap arrangements with the bank with respect to each term loan, as a result of which term loan A bears interest at 5.8% and term loan B bears interest at 4.11%. As of June 6, 2012, the balance of term loan A was \$850,000 and the balance of term loan B was \$4.36 million.

Pending use of the net proceeds of this offering, we intend to invest the net proceeds in accordance with our investment policy guidelines, which currently provide for investment of funds in cash equivalents, money market funds and U.S. government obligations.

We will not receive any of the proceeds from the sale of shares by the selling shareholders. We will, however, receive the aggregate exercise price of \$       with respect to       shares being offered by a selling shareholder that will be acquired by him upon the exercise of options in connection with the offering. We intend to use such funds in the same manner as described above, except that we will not be obligated to use at least 25% of the aggregate exercise price to pay down our revolving loan from Sovereign Bank.

## CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2012 on an actual basis and on an as adjusted basis after giving effect to the sale by us of the       shares of common stock offered hereby at an offering price of \$       and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

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You should read this table together with our financial statements and the related notes thereto, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the other financial information, incorporated by reference in this prospectus supplement or the accompanying prospectus from our SEC filings, including our annual report on Form 10-K for the year ended December 31, 2011 and our quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2012.

	As of March 31, 2012	
	Actual (Audited)	As Adjusted (Unaudited)
Shareholders’ equity:		
Common stock, \$.001 par value: authorized 50,000,000 shares, issued 7,007,719 and      shares, respectively, and outstanding 7,007,719 and shares, respectively	\$7,008	\$
Additional paid-in capital	35,058,081	
Retained earnings	21,754,172	21,754,172
Accumulated other comprehensive loss	(47,050 )	(47,050 )
Total shareholders’ equity	\$56,772,211	\$

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## SELLING SHAREHOLDERS

The following table sets forth the named of the selling shareholders, the number of shares beneficially owned by them prior to this offering, the number of shares that the selling shareholders are offering pursuant to this prospectus and the number of shares and percentage of outstanding shares of common stock to be beneficially owned by them after this offering, assuming that the shares of our common stock offered by the selling shareholders, in the aggregate, have been sold.

The percentage of common stock owned after the offering by each selling shareholder was calculated based on 7,007,719 shares of our common stock outstanding as of June 6, 2012.

Name of Selling Shareholder	Number of Shares of Common Stock Owned Prior to the Offering*	Number of Shares of Common Stock Offered in the Offering**	Number of Shares of Common Stock Owned After the Offering**	Percentage of Common Stock Owned After the Offering
Harvey J. Bazaar(1)	137,689			
Edward J. Fred(2)	371,339			
Douglas McCrosson(3)	78,209			
Kenneth McSweeney(4)	79,949			
Vincent Palazzolo(5)	91,995			
Walter Paulick(6)	66,319			

\* Except as otherwise indicated by footnote, each selling shareholder has sole voting and dispositive power with respect to all of the shares of common stock beneficially owned by such selling shareholder.

\*\* The selling shareholders are not offering any shares pursuant to the underwriters' over-allotment option.

Mr. Bazaar is a member of our board of directors. The number of shares of common stock beneficially owned by (1) Mr. Bazaar prior to the offering includes 112,689 shares that Mr. Bazaar has the right to acquire upon exercise of options.

(2) Mr. Fred is our chief executive officer and president and a member of our board of directors. The number of shares of common stock beneficially owned by Mr. Fred prior to the offering includes 100,000 shares that Mr. Fred has

the right to acquire upon exercise of options and 162,864 shares pledged as security in a margin account.

Mr. McCrosson is our chief operating officer. The number of shares of common stock beneficially owned by Mr. (3) McCrosson prior to the offering includes 75,000 shares that Mr. McCrosson has the right to acquire upon exercise of options. Mr. McCrosson is offering by this prospectus of the shares subject to options.

Mr. McSweeney is a member of our board of directors. The number of shares of common stock beneficially owned (4) by Mr. McSweeney prior to the offering includes 45,640 shares that Mr. McSweeney has the right to acquire upon exercise of options.

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Mr. Palazzolo is our chief financial officer. The number of shares of common stock beneficially owned by Mr. (5)Palazzolo prior to the offering includes 75,000 shares that Mr. Palazzolo has the right to acquire upon exercise of options.

Mr. Paulick is a member of our board of directors. The number of shares of common stock beneficially owned by (6)Mr. Paulick prior to the offering includes 45,640 shares that Mr. Paulick has the right to acquire upon exercise of options.

#### DESCRIPTION OF COMMON STOCK

Upon consummation of the offering,                      shares of common stock will be outstanding. An additional 680,517 shares of common stock are subject to outstanding options as of June 6, 2012. The options were issued by us to employees, non-employee directors and consultants of ours at exercise prices ranging from \$5.50 to \$15.27 per share with a weighted average exercise price of \$8.65 per share and a weighted average remaining contractual life of 2.74 years.

For a description of our common stock, please see “Description of Capital Stock” in the accompanying prospectus.

## MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES FOR

### NON-U.S. HOLDERS

The following discussion describes material U.S. federal income tax consequences to Non-U.S. Holders (as defined below) relating to the purchase, ownership and disposition of our common stock. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations promulgated under the Code (the “Regulations”), and administrative rulings and judicial decisions, in each case as of the date hereof. These authorities are subject to differing interpretations and may be changed, perhaps retroactively, resulting in U.S. federal income tax consequences materially different from those summarized below.

This summary assumes that our common stock is and will be held as a capital asset. This summary does not address the tax considerations arising under the U.S. federal estate and gift tax laws or the laws of any foreign, state or local jurisdiction. In addition, this summary does not purport to address all tax considerations that may be applicable to a particular holder’s circumstances or to holders that may be subject to special tax rules, including, without limitation, holders subject to the alternative minimum tax, banks, insurance companies or other financial institutions, tax-exempt organizations, dealers, brokers or traders in securities, currencies or commodities, holders that elect to use a mark-to-market method of accounting for their securities holdings, controlled foreign corporations, passive foreign investment companies, U.S. persons, former U.S. citizens or long-term residents, real estate investment trusts, regulated investment companies, partnerships or other pass-through entities for U.S. federal income tax purposes or investors therein, holders holding our common stock as a position in a hedging transaction, “straddle,” “conversion transaction,” other “synthetic security” or integrated transaction, or other risk-reduction transaction, holders deemed to sell our common stock under the constructive sale provisions of the Code, current or former holders, directly, indirectly or constructively, of five percent or more of our common stock or holders who acquired our common stock through the exercise of employee stock options or otherwise as compensation.

For purposes of this discussion, the term “U.S. Holder” means a beneficial owner of common stock that is, for U.S. federal income tax purposes:

- (i) an individual who is a citizen or resident of the United States;
- (ii) a corporation, including any entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- (iv) a trust, if its administration is subject to the primary supervision of a U.S. court and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if it has a valid election in effect under applicable Regulations to be treated as a U.S. person.

For purposes of this discussion, the term “Non-U.S. Holder” means a beneficial owner of common stock (other than a partnership or other pass-through entity for U.S. federal income tax purposes) that is not a U.S. Holder.

If a partnership (or other pass-through entity for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner or other owner generally will depend upon the status of the partner (or other owner) and the activities of the entity. If you are a partner (or other owner) of a pass-through entity that is considering purchasing common stock, you should consult your tax advisor regarding the tax consequences relating to the purchase, ownership and disposition of our common stock.

**Dividends.** We currently do not pay dividends on our common stock and do not intend to pay dividends on our common stock in the foreseeable future. Dividends paid to you, if any, generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with your conduct of a trade or business within the United States and, if required by an applicable tax treaty, are attributable to your U.S. permanent establishment, are not subject to the withholding tax, but instead are subject to U.S. federal income tax on a net income basis in the same manner as if you were a U.S. Holder. Special certification and disclosure requirements, including the completion of Internal Revenue Service (“IRS”) Form W-8ECI (or any successor form), must be satisfied for effectively connected income to be exempt from withholding. If you are a foreign corporation, any such effectively connected dividends received by you may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.



If you wish to claim the benefit of an applicable treaty with respect to the withholding tax on dividends, you will be required to complete IRS Form W-8BEN (or any successor form) and certify under penalties of perjury that you are not a U.S. person and that you are entitled to the benefits of the applicable treaty. Special certification and other requirements apply to certain Non-U.S. Holders that are entities rather than individuals. If you are eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

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**Sale or Exchange of Common Stock.** Except as disclosed under “FATCA” below, you generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of shares of our common stock unless:

the gain is effectively connected with your conduct of a trade or business in the United States, and if required by an applicable tax treaty, is attributable to your U.S. permanent establishment;

you are an individual and are present in the United States for 183 days or more in the taxable year of the sale or other disposition, and certain other conditions are met; or

we are or have been a “U.S. real property holding corporation” for U.S. federal income tax purposes.

If you are an individual and are described in the first bullet above, you will be subject to tax on the net gain derived from the sale or other disposition under regular graduated U.S. federal income tax rates in the same manner as if you were a U.S. Holder. If you are an individual and are described in the second bullet above, you will be subject to a flat 30% tax on the gain derived from the sale or other disposition, which may be offset by U.S.-source capital losses (even though you are not considered a resident of the United States). If you are a foreign corporation and are described in the first bullet above, you will be subject to tax on your gain under regular graduated U.S. federal income tax rates in the same manner as if you were a U.S. Holder and, in addition, may be subject to the branch profits tax on your effectively connected earnings and profits at a rate of 30%, or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not and do not anticipate becoming a “U.S. real property holding corporation” for U.S. federal income tax purposes.

**Information Reporting and Backup Withholding.** Under certain circumstances, the Regulations require information reporting and backup withholding on certain payments on common stock.

U.S. backup withholding tax (currently at a rate of 28%) is imposed on certain payments to persons that fail to furnish the information required under the U.S. information reporting requirements. Dividends on common stock paid to a Non-U.S. Holder will generally be exempt from backup withholding, provided the Non-U.S. Holder meets applicable certification requirements, including providing a correct and properly executed IRS Form W-8BEN (or any successor form) or otherwise establishing an exemption. We must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to that holder and the U.S. federal withholding tax withheld with respect to those dividends, regardless of whether withholding is reduced or eliminated by an applicable tax treaty.

Under the Regulations, payments of proceeds from the sale of our common stock effected through a foreign office of a broker generally are not subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. federal income tax purposes, a foreign person 50% or more of whose gross income is effectively connected with a U.S. trade or business for a specified three-year period, or a foreign partnership with significant U.S. ownership or that is engaged in a U.S. trade or business, then information reporting (but not backup withholding) will be required, unless the broker has in its records documentary evidence that the beneficial owner of the payment is a Non-U.S. Holder or is otherwise entitled to an exemption (and the broker has no knowledge or reason to know to the contrary), and other applicable certification requirements are met. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a U.S. person. Information reporting and backup withholding generally will apply to payments of proceeds from the sale of our common stock effected through a U.S. office of any U.S. or foreign broker, unless the beneficial owner, under penalties of perjury, certifies, among other things, its status as a Non-U.S. Holder or otherwise establishes an exemption.

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Backup withholding does not represent an additional income tax. Any amounts withheld from a payment to a holder under the backup withholding rules will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information or returns are timely furnished by the holder to the IRS.

**FATCA.** Recent legislation generally imposes withholding at a rate of 30% on payments to certain foreign entities (including financial intermediaries), including dividends on and the gross proceeds from dispositions of U.S. common stock, unless various U.S. information reporting and due diligence requirements that are different from, and in addition to, the beneficial owner certification requirements described above have been satisfied (generally relating to ownership by U.S. persons of interests in or accounts with those entities). Recently released proposed Regulations defer this withholding obligation until January 1, 2014 for payments of dividends on U.S. common stock and until January 1, 2015 for gross proceeds from dispositions of U.S. common stock. Non-U.S. Holders should consult their tax advisors regarding the possible implications of this legislation on their investment in our common stock.

**Additional Tax on Investment Income.** For taxable years beginning after December 31, 2012, certain persons, including certain individuals, estates and trusts that do not qualify as "nonresident aliens" within the meaning of Section 1411 of the Code and whose income exceeds certain thresholds, will be required to pay a 3.8% Medicare surtax on "net investment income" including, among other things, dividends and net gain from the disposition of property (other than property held in a trade or business). The term "nonresident alien" is not defined in Section 1411 or elsewhere in the Code, and it is unclear whether the term refers only to nonresident alien individuals or whether the term also includes foreign estates and trusts. Accordingly, Non-U.S. Holders are urged to consult their tax advisors regarding the effect, if any, of the additional tax on investment income on their ownership and disposition of our common stock.

## UNDERWRITING

We and the selling shareholders have entered into an underwriting agreement with Roth Capital Partners, LLC, or Roth Capital, EarlyBirdCapital, Inc., or EarlyBirdCapital and Noble Financial Capital Markets, or Noble Financial with respect to the shares in this offering. We refer to Roth Capital, EarlyBirdCapital and Noble Financial together as the underwriters. Under the terms and subject to the conditions contained in the underwriting agreement, we and the selling shareholders have agreed to sell to the underwriters, and the underwriters have agreed to purchase from them, \_\_\_\_\_ shares of our common stock.

Under the terms and subject to the conditions contained in the underwriting agreement, we and the selling shareholders have agreed to sell to the underwriters named below, and each underwriter severally has agreed to purchase, the respective number of shares of common stock set forth opposite its name below:

Underwriter	Number of Shares
Roth Capital Partners, LLC	
EarlyBirdCapital, Inc.	
Noble Financial Capital Markets	

Total

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The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

The underwriters propose to offer the common stock directly to the public at the price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of \$ \_\_\_\_\_ per share. After the offering, these figures may be changed by the underwriters.

We have granted the underwriters an option to buy up to an additional \_\_\_\_\_ shares of common stock from it to cover over-allotments. The underwriters may exercise this option at any time and from time to time during the 30-day period from the date of this prospectus supplement. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting discounts and commissions are equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters in this offering assuming both no exercise and full exercise of the over-allotment option:

	No Exercise of Over-Allotment	Full Exercise of Over-Allotment
<i>Paid by us:</i>		
Per share	<b>\$Recent trading in our stock has been limited, so investors may not be able to sell as much stock as they want at prevailing market prices.</b>	

The merger between Global and Halozyme was concluded on March 11, 2004. On March 12, 2004, our common stock began trading. Since then, trading volume has been limited with an average daily volume of 25,000 shares. By contrast, we are registering 29,508,664 shares which represents a substantial portion of our current outstanding shares. If limited trading in our stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices.

**Short selling common stock by selling security holders may drive down the market price of our stock.**

Any selling security holders who holds warrants may sell shares of our common stock on the market before exercising the warrant. The stock is usually offered at or below market since the warrant holders receive stock at a discount to market. Once the sale is completed the holders exercise a like dollar amount of shares. If the stock sale lowered the market price, upon exercise, the holders would receive a greater number of shares than they would have absent the short sale. This pattern may result in a reduction of our common stock's market

price.

**Our common stock is deemed to be penny stock by the Securities and Exchange Commission, which subjects its sale to certain rules and limitations.**

Shares of our common stock are penny stocks as defined in the Securities Exchange Act of 1934, as amended (the Exchange Act), which are traded in the over-the-counter market on the over-the-counter bulletin board. As a result, investors may find it more difficult to dispose of or obtain accurate quotations as to the price of the shares of the common stock being registered hereby. In addition, the penny stock rules adopted by the Securities and Exchange Commission under the Exchange Act subject the sale of the shares of our common stock to certain regulations which impose sales practice requirements on broker/dealers. For example, brokers/dealers selling such securities must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in such securities. Included in these documents are the following:

the bid and offer price quotes in and for the penny stock, and the number of shares to which the quoted prices apply;

the brokerage firm's compensation for the trade; and

the compensation received by the brokerage firm's sales person for the trade.

In addition, the brokerage firm must send the investor:

a monthly account statement that gives an estimate of the value of each penny stock in the investor's account and

a written statement of the investor's financial situation and investment goals.

Legal remedies, which may be available to you as an investor in penny stocks, are as follows:

if penny stock is sold to you in violation of your rights listed above, or other federal or state securities laws, you may be able to cancel your purchase and get your money back;

if the stocks are sold in a fraudulent manner, you may be able to sue the persons and firms that committed the fraud for damages; or

if you have signed an arbitration agreement, however, you may have to pursue your claim through arbitration. If the person purchasing the securities is someone other than an accredited investor or an established customer of the broker/dealer, the broker/dealer must also approve the potential customer's

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account by obtaining information concerning the customer's financial situation, investment experience and investment objectives. The broker/dealer must also make a determination whether the transaction is suitable for the customer and whether the customer has sufficient knowledge and experience in financial matters to be reasonably expected to be capable of evaluating the risk of transactions in such securities. Accordingly, the Securities and Exchange Commission's rules may limit the number of potential purchasers of the shares of our common stock. Resale restrictions on transferring penny stocks are sometimes imposed by some states, which may make transaction in our stock more difficult and may reduce the value of the investment. Various state securities laws pose restrictions on transferring penny stocks and as a result, investors in our common stock may have the ability to sell their shares of our common stock impaired.

**Future acquisitions could disrupt our business and harm our financial condition.**

In order to remain competitive, we may decide to acquire additional businesses, products and technologies. As we have limited experience in evaluating and completing acquisitions, our ability as an organization to make such acquisitions is unproven. Acquisitions could require significant capital infusions and could involve many risks, including, but not limited to, the following:

we may have to issue convertible debt or equity securities to complete an acquisition, which would dilute our stockholders and could adversely affect the market price of our common stock;

an acquisition may negatively impact our results of operations because it may require us to incur large one-time charges to earnings, amortize or write down amounts related to goodwill and other intangible assets, or incur or assume substantial debt or liabilities, or it may cause adverse tax consequences, substantial depreciation or deferred compensation charges;

we may encounter difficulties in assimilating and integrating the business, technologies, products, personnel or operations of companies that we acquire;

certain acquisitions may disrupt our relationship with existing customers who are competitive to the acquired business;

acquisitions may require significant capital infusions and the acquired businesses, products or technologies may not generate sufficient revenue to offset acquisition costs;

an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;

acquisitions may involve the entry into a geographic or business market in which we have little or no prior experience; and

key personnel of an acquired company may decide not to work for us.

If any of these risks occurred, it could adversely affect our business, financial condition and operating results. We cannot assure you that we will be able to identify or consummate any future acquisitions on acceptable terms, or at all. If we do pursue any acquisitions, it is



possible that we may not realize the anticipated benefits from such acquisitions or that the market will not view such acquisitions positively.

### **Risks Related To Our Industry**

**Compliance with the extensive government regulations to which we are subject is expensive and time consuming, and may result in the delay or cancellation of product sales, introductions or modifications.**

Extensive industry regulation has had, and will continue to have, a significant impact on our business. All pharmaceutical companies, including Halozyme, are subject to extensive, complex, costly and evolving regulation by the federal government, principally the FDA and to a lesser extent by the U.S. Drug Enforcement Administration ( DEA ), and foreign and state government agencies. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other domestic and foreign statutes and regulations govern or influence the testing, manufacturing, packing, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of our products. Under certain of these regulations, Halozyme and its contract suppliers and manufacturers are subject to periodic inspection of its or their respective facilities, procedures and operations and/or the testing of products by the FDA, the DEA and other authorities, which conduct periodic inspections to confirm that Halozyme and its contract suppliers and manufacturers are in compliance with all applicable regulations. The

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FDA also conducts pre-approval and post-approval reviews and plant inspections to determine whether our systems, or our contract suppliers and manufacturers processes, are in compliance with current good manufacturing products and other FDA regulations. If we, or our contract supplier, fail these inspections, we may not be able to commercialize our product in a timely manner without incurring significant additional costs, or at all.

In addition, the FDA imposes a number of complex regulatory requirements on entities that advertise and promote pharmaceuticals, including, but not limited to, standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities, and promotional activities involving the Internet.

We are dependent on receiving FDA and other governmental approvals prior to manufacturing, marketing and shipping our products. Consequently, there is always a risk that the FDA or other applicable governmental authorities will not approve our products, or will take post-approval action limiting or revoking our ability to sell our products, or that the rate, timing and cost of such approvals will adversely affect our product introduction plans or results of operations.

**Our suppliers and sole manufacturer are subject to regulation by the FDA and other agencies, and if they do not meet their commitments, we would have to find substitute suppliers or manufacturers, which could delay the supply of our products to market.**

Regulatory requirements applicable to pharmaceutical products make the substitution of suppliers and manufacturers costly and time consuming. We have no internal manufacturing capabilities and are, and expect to be in the future, entirely dependent on contract manufacturers and suppliers for the manufacture of our products and for their active and other ingredients. The disqualification of these suppliers through their failure to comply with regulatory requirements could negatively impact our business because the delays and costs in obtaining and qualifying alternate suppliers (if such alternative suppliers are available, which we cannot assure) could delay clinical trials or otherwise inhibit our ability to bring approved products to market, which would have a material adverse affect on our business and financial condition.

**We may be required to initiate or defend against legal proceedings related to intellectual property rights, which may result in substantial expense, delay and/or cessation of the development and commercialization of our products.**

We rely on patents to protect our intellectual property rights. The strength of this protection, however, is uncertain. For example, it is not certain that:

Our patents and pending patent applications cover products and/or technology that we invented first;

we were the first to file patent applications for these inventions;

others will not independently develop similar or alternative technologies or duplicate our technologies;

any of our pending patent applications will result in issued patents; and

any of our issued patents, or patent pending applications that result in issued patents, will be held valid and infringed in the event the patents are asserted against others.

We currently own or license several U.S. and foreign patents and also have pending patent applications. There can be no assurance that our existing patents, or any patents issued to us as a result of such applications, will provide a basis for commercially viable products, will provide us with any competitive advantages, or will not face third-party challenges or be the subject of further proceedings limiting their scope or enforceability.

We may become involved in interference proceedings in the U.S. Patent and Trademark Office to determine the priority of our inventions. In addition, costly litigation could be necessary to protect our patent position. We also rely on trademarks to protect the names of our products. These trademarks may be challenged by others. If we enforce our trademarks against third parties, such enforcement proceedings may be expensive. We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect with confidentiality agreements with employees, consultants and others with whom we discuss our business. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of these agreements, and we might not be able to resolve these disputes in our favor.

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In addition to protecting our own intellectual property rights, third parties may assert patent, trademark or copyright infringement or other intellectual property claims against us based on what they believe are their own intellectual property rights. While we have not ever been and are currently not involved in any litigation, in the event we become involved, we may be required to pay substantial damages, including but not limited to treble damages, for past infringement if it is ultimately determined that our products infringe a third party's intellectual property rights. Even if infringement claims against us are without merit, defending a lawsuit takes significant time, may be expensive and may divert management's attention from other business concerns. Further, we may be stopped from developing, manufacturing or selling our products until we obtain a license from the owner of the relevant technology or other intellectual property rights. If such a license is available at all, it may require us to pay substantial royalties or other fees.

**If third-party reimbursement is not available, our products may not be accepted in the market.**

Our ability to earn sufficient returns on our products will depend in part on the extent to which reimbursement for our products and related treatments will be available from government health administration authorities, private health insurers, managed care organizations and other healthcare providers.

Third-party payers are increasingly attempting to limit both the coverage and the level of reimbursement of new drug products to contain costs. Consequently, significant uncertainty exists as to the reimbursement status of newly approved healthcare products. If we succeed in bringing one or more of our product candidates to market, third-party payers may not establish adequate levels of reimbursement for our products, which could limit their market acceptance and result in a material adverse effect on our financial condition.

**We face intense competition and rapid technological change that could result in the development of products by others that are superior to the products we are developing.**

We have numerous competitors in the United States and abroad, including, among others, major pharmaceutical and specialized biotechnology firms, universities and other research institutions that may be developing competing products. Such competitors may include Sigma-Aldrich Corporation, ISTA Pharmaceuticals, Inc. (ISTA), and Allergan, Inc., among others. These competitors may develop technologies and products that are more effective or less costly than our current or future product candidates or that could render our technologies and product candidates obsolete or noncompetitive. Many of these competitors have substantially more resources and product development, manufacturing and marketing experience and capabilities than we do. In addition, many of our competitors have significantly greater experience than we do in undertaking preclinical testing and clinical trials of pharmaceutical product candidates and obtaining FDA and other regulatory approvals of products and therapies for use in healthcare. In particular, ISTA is developing ovine derived hyaluronidase (Vitrace®) for intraocular use. On May 6, 2004 the FDA approved ISTA's Vitrace® for use as a spreading agent, the same indication we plan to seek for Enhance SC.

**We are exposed to product liability claims, and insurance against these claims may not be available to us on reasonable terms or at all.**

We might incur substantial liability in connection with clinical trials or the sale of our products. Product liability insurance is expensive and in the future may not be available on commercially acceptable terms, or at all. We do not currently carry product liability insurance, although we plan to acquire it within the next 12 months. A successful claim or claims brought against us in excess of our insurance coverage could materially harm our business and financial condition.

### **Item 3. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have, as of the end of the period covered by this Report, reviewed our process of gathering, analyzing and disclosing information that is required to be disclosed in our periodic reports (and information that, while not required to be disclosed, may bear upon the decision of management as to what information is required to be disclosed) under the Exchange Act of 1934, including

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information pertaining to the condition of, and material developments with respect to, our business, operations and finances. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our process provides for timely collection and evaluation of information that may need to be disclosed to investors.

**Changes in Internal Controls Over Financial Reporting**

There have been no significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended June 30, 2004, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

From time to time, Halozyme may be involved in litigation relating to claims arising out of its operations in the normal course of business. Halozyme currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

**Item 2. Changes in Securities.**

On June 16, 2004, a shareholder exercised warrants to purchase 66,724 common shares for gross proceeds of approximately \$29,999. These shares were purchased for investment in a private placement exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits and Reports on Form 8-K.**

**(a) Exhibits:**

<b>Exhibit</b>	<b>Title</b>
3.1	Articles of Incorporation (1)
3.2	Certificate of Amendment to Articles of Incorporation (1)
3.3	Bylaws (1)
3.4	Certificate of Amendment to Articles of Incorporation (2)
4.1	Form of Common Stock Certificate (3)
4.2	Form of Callable Stock Purchase Warrant (4)
10.1	License Agreement between University of Connecticut and Registrant, dated November 15, 2002 (3)

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- 10.2\* Agreement for Services between Avid Bioservices, Inc. and Registrant, dated November 19, 2003 (3)
  - 10.3 Agreement and Plan of Merger by DeliaTroph Pharmaceuticals and Registrant, dated January 28, 2004 (2)
  - 10.4\* Distribution Agreement between Mid Atlantic Diagnostics, Inc. and Registrant, dated January 30, 2004 (3)
  - 10.5\* Distribution Agreement between MediCult AS and Registrant, dated February 9, 2004 (3)
  - 10.6\* Distribution Agreement between Cook Ob/Gyn Incorporated and Registrant, dated April 13, 2004 (3)
  - 10.7 2004 Stock Plan and Form of Option Agreement thereunder (4)
  - 10.8 Form of Indemnity Agreement for Directors and Executive Officers (4)
  - 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
  - 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
  - 32.1 Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  - 32.2 Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (1) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 filed with the Commission on September 21, 2001.
- (2) Incorporated by reference to the Registrant's Information Statement on Schedule 14C filed with the Commission on February 17, 2004.
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(3) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 filed with the Commission on April 23, 2004.

(4) Incorporated by reference to the Registrant's amendment number two to the Registration Statement on Form SB-2 filed with the Commission on July 23, 2004.

\* Confidential treatment has been granted for certain portions of this exhibit. These portions have been omitted from this agreement and have been filed separately with the Securities and Exchange Commission.

**(b) Reports on Form 8-K:**

On April 6, 2004, we filed a current report on Form 8-K reporting that we had added a board member and a director had resigned.

On May 20, 2004, we filed a current report on Form 8-K/A reporting that we had provided the financial statement information for a previously filed Form 8-K.

On May 24, 2004, we filed a current report on Form 8-K reporting that we had added a board member and a director had resigned.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned in the City of San Diego, on August 16, 2004.

Halozyme Therapeutics, Inc.,  
a Nevada corporation

Date: August 16, 2004

By: /s/ Jonathan E. Lim

Jonathan E. Lim  
Its: President, Chief Executive  
Officer,  
Chairman of the Board  
(Principal Executive Officer)

Date: August 16, 2004

By: /s/ David A. Ramsay

David A. Ramsay  
Its: Secretary, Chief Financial Officer  
(Principal Financial and  
Accounting Officer)