

CPI AEROSTRUCTURES INC  
Form 10-K  
March 28, 2016  
United States

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

Commission file number 1-11398

**CPI AEROSTRUCTURES, INC.**

(Exact name of registrant as specified in its charter)

New York 11-2520310  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

91 Heartland Blvd., Edgewood, New York 11717  
(Address of principal executive offices)

(631)  
586-5200  
(Registrant's  
telephone  
number,  
including  
area code)

**Securities registered pursuant to Section 12(b) of the Act:**

| <u>Title of Each Class</u>     | <u>Name of each exchange on which registered</u> |
|--------------------------------|--------------------------------------------------|
| Common Stock, \$.001 par value | NYSE MKT                                         |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes      No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes      No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes      No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes      No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

|                                               |                           |
|-----------------------------------------------|---------------------------|
| Large accelerated filer                       | Accelerated filer         |
| Non-accelerated filer                         | Smaller reporting company |
| (do not check if a smaller reporting company) |                           |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).

Yes      No

As of June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the registrant's common stock (based on its reported last sale price on the NYSE MKT of \$10.01) held by non-affiliates of the registrant was \$77,727,039.

As of March 23, 2016, the registrant had 8,596,982 common shares, \$.001 par value, outstanding.

**Documents Incorporated by Reference:**

Part III (Items 10, 11, 12, 13 and 14) from the definitive Proxy Statement for the 2016 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year covered by this report.

CPI AEROSTRUCTURES, INC.

FORM 10-K ANNUAL REPORT

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## **PART I**

### **Item 1. BUSINESS**

#### **General**

CPI Aerostructures, Inc. (“CPI Aero®” or the “Company”) is a United States (“U.S.”) supplier of aircraft parts for fixed wing aircraft and helicopters in both the commercial and defense markets. We are a manufacturer of structural aircraft parts and aerosystems. Additionally, we leverage our global supply chain skills to assist our customers in managing a diverse worldwide supplier market by providing “one stop shopping” for an assortment of aerospace parts. Within the global aerostructures supply chain, we are either a Tier 1 supplier to aircraft original equipment manufacturers (“OEMs”) or a Tier 2 subcontractor to major Tier 1 manufacturers. We also are a prime contractor to the U.S. Department of Defense, primarily the Air Force. In addition to our assembly operations, we provide engineering; program management, supply chain management, and maintenance repair and overhaul (“MRO”) services.

Among the key programs that CPI Aero supplies are the E-2D Advanced Hawkeye surveillance aircraft, the A-10 Thunderbolt attack jet, the Gulfstream G650, the UH-60 BLACK HAWK® helicopter, the S-92® helicopter, the MH-60S mine countermeasure helicopter, the AH-1Z ZULU attack helicopter, the HondaJet-Advanced Light Jet, the MH-53 and CH-53 variant helicopters, the C-5A Galaxy cargo jet, the F-16 fighter aircraft, the Embraer Phenom 300 light business jet and the New Cessna Citation X+.

We are a subcontractor for 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 (“Bell”). 57%, 5% and 66% of our revenue in 2015, 2014 and 2013, respectively, was generated by subcontracts with defense prime contractors. Our 2014 defense subcontractor revenue was significantly decreased because of the change in estimate on the A-10 program, described in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MDA”).

We also operate as a subcontractor to prime commercial contractors, including Sikorsky, Honda Aircraft Company, Inc. (“Honda”), Embraer S.A. (“Embraer”) and The Triumph Group (“Triumph”), in the production of commercial aircraft parts. 42%, 93% and 32% of our revenue in 2015, 2014 and 2013, respectively, was generated by commercial contract sales.

We also perform as a prime contractor supplying aircraft structural parts directly 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 “Thunderbolt” attack jet, and the F-16 fighter jet. 1%, 2% and 2% of our revenue in 2015, 2014 and 2013, respectively, was generated by prime government contract sales.

CPI Aero has over 35 years of experience as a contractor. Most members of our management team have held management positions at large aerospace contractors, including NGC and GKN Aerospace. 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.

CPI Aero was incorporated under the laws of the State of New York in January 1980 under the name Composite Products International, Inc. CPI Aero changed its 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 located at [www.cpiaero.com](http://www.cpiaero.com). Our corporate filings, including our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, our proxy statements and reports filed by our officers and directors under Section 16-(a) of the Securities Exchange Act, and any amendments to those filings, are available, free of charge, on our website as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission. We do not intend for information contained in our website to be a part of this Annual Report on Form 10-K.

## Significant Contracts

Some of our significant contracts are as follows:

### Military Aircraft – Subcontracts with Prime Contractors

**E-2D “Advanced Hawkeye”** The NGC E-2 Hawkeye is an all-weather, carrier-based tactical Airborne Early Warning 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 initially valued 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 2016 exceed \$140 million.

In addition, in 2015 we won an award to supply structural components and kits for the Outer Wing Panel (“OWP”) on the E-2D Advanced Hawkeye airborne early warning and control (“AEW&C”) aircraft that will be manufactured for Japan. We will be responsible for component source selection, supply chain management, delivery of kits, and will provide manufacturing engineering services to Northrop Grumman during the integration of the components into the OWP. The contract from Northrop Grumman is valued at between \$25 million and \$30 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. In 2008, we received an initial order of \$3.2 million from the Integrated Defense Systems unit of Boeing in support of its \$2 billion award to produce up to 242 enhanced wings for the A-10.

**UH-60 “BLACK HAWK”** The UH-60 BLACK HAWK helicopter is the leader in multi-mission-type aircraft. Among the mission configurations its serves are troop transport, medical evacuation, electronic warfare, attack, assault support and special operations. More than 3,000 BLACK HAWK helicopters are in use today, operating in 29 countries. We have long-term agreements from Sikorsky to manufacture gunner window assemblies, fuel panel assemblies, and perform MRO on stabilators for the BLACK HAWK helicopter for a period of five years.

**F-16 “Fighting Falcon”** The Lockheed Martin Fighting Falcon is a single-engine multirole fighter aircraft. Originally developed by General Dynamics for the USAF, over 2,900 F-16 aircraft are flown by the USAF and by air forces around the world today. CPI has a contract with United Technologies Aerospace Systems to manufacture pod structures for the DB-110 reconnaissance system, which is used primarily on exported F-16 aircraft.

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

**Gulfstream G650** In March 2008, Spirit Aerosystems (“Spirit”) awarded us a contract to provide leading edges for the Gulfstream G650 business jet, a commercial program that Spirit was supporting. In December 2014, Spirit transferred its work-scope on this program to Triumph. We will continue to provide leading edges for the G650 as our purchase orders and long term agreement have transferred to Triumph.

**HondaJet© advanced light business jet** In May 2011, Honda awarded us a contract to manufacture engine inlets and flaps and vane assemblies for the HondaJet advanced light business jet. We have received approximately \$18.5 million in orders on this program through December 2015. We estimate the potential value of this program to be approximately \$70 million.

**Embraer Phenom 300** In May 2012, Embraer awarded us a contract to manufacture engine inlets for the Embraer Phenom 300 business jet. We have received approximately \$25.3 million in orders on this program through December 2015. We estimate the potential value of the program to be in excess of \$40 million.

**Cessna Citation X** In November 2012, Cessna Aircraft Company (“Cessna”) awarded us a contract to supply structural assemblies, predominately wing spars, for Cessna’s flagship aircraft, the newly-relaunched Cessna Citation X. We have received approximately \$9.7 million in orders on this program through December 2015. We estimate the value of the contract to be approximately \$24 million.

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

**F-16 “Fighting Falcon”** In November 2014, The Defense Logistics Agency (“DLA”) awarded CPI a Multi-Year contract to provide structural wing components and logistical support for global F-16 aircraft MRO operations. We estimate the value of the contract, including options, to be approximately \$53.5 million.

### **Sales and Marketing**

We are recognized within the aerospace industry as a Tier 1 or Tier 2 supplier to major aircraft suppliers. Additionally, we may bid for military contracts set aside specifically for small businesses.

We are awarded contracts for our products and services through the process of competitive bidding. This process begins when we first learn, formally or otherwise, of a potential contract from a prospective customer and concludes after all negotiations are completed upon award. When preparing our response to a prospective customer for a potential contract, we evaluate the contract requirements and determine and outline the services and products we can provide to fulfill the contract at a competitive price. Each contract also benefits from various additional services that we offer, including program management, engineering, and global supply chain program management, which streamlines the vendor management and procurement process and monitors the progress, timing, and quality of component delivery.

Our average sales cycle, which generally commences at the time a prospective customer issues a request for proposal and ends upon delivery of the final product to the customer, varies widely.

Because of the complexities inherent in the aerospace industry, the time from the initial request for proposal to award ranges from as little as a few weeks to several years. Additionally, our contracts have ranged from six months to as long as ten years. Also, repeat and follow-on jobs for current contracts frequently provide additional opportunities with minimal start-up costs and rapid rates to production.

## **The Market**

Since our founding in 1980 until 2007, our company concentrated on manufacturing small assemblies and structures to prime contractors for use by the U.S. Military. Government-based contracts are subject to the national defense budget and procurement funding decisions which, accordingly, drives demand for our business in that market. Government spending and budgeting for procurement, operations and maintenance are affected not only by military action, but also the related fiscal consequences of these actions, as well as the political electoral process.

Since 2008, we have widened the scope of our target markets, positioning our company to take advantage of the opportunities a broader customer base provides while simultaneously reducing the impact of direct government contracting limitations. Our success as a subcontractor to defense prime contractors has provided us with opportunities to act as a subcontractor to prime contractors in the production of commercial aircraft structures, which also reduced our exposure to government spending decisions.

Over time, our Company has expanded both in size and capabilities, with growth in our operational and global supply chain program management. These expansions have allowed us the ability to supply more complex aerospace assemblies and aerosystems and structures in support of our government-based programs as well as to pursue opportunities within the commercial and business jet markets. Our capabilities have also allowed us to acquire MRO and kitting contracts.

Approximately \$9.9 million and \$7.1 million of our revenue for the years ended December 31, 2015 and 2014, respectively, was from customers outside the U.S. All other revenue for each of the three years in the period ended December 31, 2015 has been attributable to customers within the U.S. We have no assets outside the U.S.

**Backlog**

We produce custom assemblies pursuant to long-term contracts and customer purchase orders. Backlog consists of aggregate values under such contracts and purchase orders, excluding the portion previously included in operating revenues on the basis of percentage of completion accounting, and including estimates of future contract price escalation. Substantially all of our backlog is subject to termination at will and rescheduling, without significant penalty. Funds are often appropriated for programs or contracts on a yearly or quarterly basis, even though the contract may call for performance that is expected to take a number of years. Therefore, our funded backlog does not include the full value of our contracts. Our total backlog as of December 31, 2015 and 2014 was as follows:

| Backlog             | December 31, 2015    | December 31, 2014    |
|---------------------|----------------------|----------------------|
| (Total)             |                      |                      |
| Funded              | \$101,145,000        | \$120,570,000        |
| Unfunded/unreleased | 286,171,000          | 283,078,000          |
| Total               | <u>\$387,316,000</u> | <u>\$403,648,000</u> |

Approximately 71% of the total amount of our backlog at December 31, 2015 was attributable to government contracts. Our backlog attributable to government contracts at December 31, 2015 and 2014 was as follows:

| Backlog      | December 31, 2015    | December 31, 2014    |
|--------------|----------------------|----------------------|
| (Government) |                      |                      |
| Funded       | \$95,048,000         | \$117,875,000        |
| Unfunded     | 181,826,000          | 136,893,000          |
| Total        | <u>\$276,874,000</u> | <u>\$254,768,000</u> |

Our backlog attributable to commercial contracts at December 31, 2015 and 2014 was as follows:

| Backlog             | December 31, 2015    | December 31, 2014    |
|---------------------|----------------------|----------------------|
| (Commercial)        |                      |                      |
| Funded              | \$6,097,000          | \$2,695,000          |
| Unfunded/unreleased | 104,345,000          | 146,185,000          |
| Total               | <u>\$110,442,000</u> | <u>\$148,880,000</u> |

Our unfunded backlog is primarily comprised of the long-term contracts that we received from Spirit and NGC during 2008, Honda and Bell during 2011 and Cessna, Sikorsky and Embraer during 2012. These long-term contracts are expected to have yearly orders which will be funded in the future.

Approximately 68% of the funded backlog at December 31, 2015 is expected to be recognized as revenue during 2016.

### **Material and Parts**

We subcontract production of substantially all parts incorporated into our products to third party manufacturers under firm fixed price orders. Our decision to purchase certain components generally is based upon whether the components are available to meet required specifications at a cost and with a delivery schedule consistent with customer requirements. From time to time, we are required to purchase custom made parts from sole suppliers and manufacturers in order to meet specific customer requirements.

We obtain our raw materials from several commercial sources. Although certain items are only available from limited sources of supply, we believe that the loss of any single supplier would not have a material adverse effect on our business.

## **Competition**

We face competition in our role as both a prime contractor to the U.S. Government and as a Tier 1 or Tier 2 subcontractor to military and commercial aircraft manufacturers. For certain unrestricted contracts for the US Government, we may compete against well-established prime contractors, including NGC, Lockheed and Boeing. All of these competitors possess significantly larger infrastructures, greater resources and the capabilities to respond to much larger contracts. We believe that 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 larger prime contractors compete for significant modification awards they generally do not compete for awards in smaller modifications, spares and replacement parts, even for aircraft for which they are the original manufacturer. In certain instances, the large prime contractors often subcontract much of the work they win to their Tier 1 suppliers so we also may act as a subcontractor to some of these major prime contractors. Further, in some case, these companies are not permitted to bid, for example when the Government designates a contract as a Small Business Set-Aside. In these restricted contracts for the US Government, CPI Aero typically competes against numerous small business competitors. We believe we compete effectively against the smaller competitors because smaller competitors generally do not have the expertise we have in responding to requests for proposals for government contracts, nor will they typically have the more than 35 years of past performance in conducting more than 2000 contracts for the Government.

We also compete at the Tier 1 and Tier 2 levels for work for major subcontracts with OEMS in both the military and commercial markets. We often compete against much larger Tier 1 suppliers, such as Triumph Group, Spirit AeroSystems, Kaman Aerospace, GKN Aerospace, Ducommun, LMI Aerospace, and Precision Castparts Corp. We believe that we can compete effectively with these larger companies by delivering products with the same level of quality and performance at a better value for our customer.

## **Government Regulation**

### *Environmental Regulation*

We are subject to regulations administered by the U.S. Environmental Protection Agency, the U.S. Occupational Safety and Health Administration, various state agencies and county and local authorities acting in cooperation with federal and state authorities. Among other things, these regulatory bodies impose restrictions to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous chemicals and substances. The extensive regulatory framework imposes compliance burdens and risks on us. Governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose civil and criminal fines in the case of violations.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”) imposes strict, joint and several liability on the present and former owners and operators of facilities that release hazardous substances into the environment. The Resource Conservation and Recovery Act of 1976 (“RCRA”) regulates the generation, transportation, treatment, storage and disposal of hazardous waste. In New York State, the handling, storage and disposal of hazardous substances are governed by the Environmental Conservation Law, which contains the New York counterparts of CERCLA and RCRA. In addition, the Occupational Safety and Health Act, which requires employers to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, obligates employers to provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances.

Our operations require the use of a limited amount of chemicals and other materials for painting and cleaning, including solvents and thinners, which are classified under applicable laws as hazardous chemicals and substances. We have obtained a permit from the Town of Islip, New York, Building Division in order to maintain a paint booth containing flammable liquids.

#### *Federal Aviation Administration Regulation*

We are subject to regulation by the Federal Aviation Administration (“FAA”) under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations.

### *Government Contract Compliance*

Our government contracts and sub-contracts are subject to the procurement rules and regulations of the U.S. Government. Many of the contract terms are dictated by these rules and regulations. Specifically, cost-based pricing is determined under the Federal Acquisition Regulations (“FAR”), which provide guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, advertising, interest expense, and public relations are unallowable, and therefore not recoverable through sales. During and after the fulfillment of a government contract, we may be audited in respect of the direct and allocated indirect costs attributed thereto. These audits may result in adjustments to our contract costs. Additionally, we may be subject to U.S. Government inquiries and investigations because of our participation in government procurement. Any inquiry or investigation can result in fines or limitations on our ability to continue to bid for government contracts and fulfill existing contracts. We believe that we are in compliance with all federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits required for the operation of our business.

### **Government Contract Compliance**

The U.S. Government generally has the ability to terminate our contracts, in whole or in part, without prior notice, for convenience or for default based on performance. If a U.S. Government contract were to be terminated for convenience, we generally would be protected by provisions covering reimbursement for costs incurred on the contract and profit on those costs, but not the anticipated profit that would have been earned had the contract been completed. In the unusual circumstance where a U.S. Government contract does not have such termination protection, we attempt to mitigate the termination risk through other means. Termination resulting from our default may expose us to liability and could have a material adverse effect on our ability to compete for other contracts. The U.S. Government also has the ability to stop work under a contract for a limited period of time for its convenience. In the event of a stop work order, we generally would be protected by provisions covering reimbursement for costs incurred on the contract to date and for costs associated with the temporary stoppage of work on the contract. However, such temporary stoppages and delays could introduce inefficiencies for which we may not be able to negotiate full recovery from the U.S. Government, and could ultimately result in termination for convenience or reduced future orders on certain contracts. Additionally, we may be required to continue to perform for some period of time on certain of our U.S. Government contracts, even if the U.S. Government is unable to make timely payments.

### **Insurance**

We maintain a \$2 million general liability insurance policy, a \$100 million products liability insurance policy, and a \$5 million umbrella liability insurance policy. Additionally, we maintain a \$10 million director and officers’ insurance policy. We believe this coverage is adequate for the types of products presently marketed because of the strict inspection standards imposed on us by our customers before they take possession of our products. Additionally, the

FAR generally provide that we will not be held liable for any loss of or damage to property of the government that occurs after the government accepts delivery of our products and that results from any defects or deficiencies in our products unless the liability results from willful misconduct or lack of good faith on the part of our managerial personnel.

### **Proprietary Information**

None of our current assembly processes or products are protected by patents. We rely on proprietary know-how and information and employ various methods to protect the processes, concepts, ideas and documentation associated with our products. These methods, however, may not afford complete protection and there can be no assurance that others will not independently develop such processes, concepts, ideas and documentation.

CPI Aero® is a registered trademark of the Company.

### **Employees**

As of March 21, 2016, we had 280 full-time employees. We employ temporary personnel with specialized disciplines on an as-needed basis. None of our employees are members of a union. We believe that our relations with our employees are good.

## Item 1A. RISK FACTORS

In addition to other risks and uncertainties described in this Annual Report on Form 10-K, the following material risk factors should be carefully considered in evaluating our business because such factors may have a significant impact on our business, operating results, liquidity and financial condition. As a result of the risk factors set forth below, actual results could differ materially from those projected in any forward-looking statements.

### *Risks related to our business*

#### **We depend on government contracts for a significant portion of our revenues.**

We are a supplier, either directly or as a subcontractor, to the U.S. Government and its agencies. Government subcontracts accounted for 58% of our revenue in 2015, 5% of our revenue in 2014 and 66% of our revenue in 2013. In addition, 1% percent of revenue for 2015, 2% of revenue for 2014 and 2% of revenue for 2013 was derived from prime government contract sales. We depend on government contracts for a significant portion of our business. If we are suspended or barred from contracting with the U.S. Government, if our reputation or relationship with individual federal agencies were impaired, or if the government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our business, prospects, financial condition and operating results would be materially adversely affected.

**We face risks relating to government contracts.**

The funding of U.S. Government programs is subject to congressional budget authorization and appropriation processes. For many programs, U.S. Congress appropriates funds on a fiscal year basis even though a program may extend over several fiscal years. Consequently, programs are often only partially funded initially and additional funds are committed only as Congress makes further appropriations. We cannot predict the extent to which total funding and/or funding for individual programs will be included, increased or reduced in budgets approved by Congress or be included in the scope of separate supplemental appropriations. In the event that appropriations for any of our programs becomes unavailable, or is reduced or delayed, our contract or subcontract under such program may be terminated or adjusted by the U.S. Government, which could have a material adverse effect on our future sales under such program, and on our financial position, results of operations and cash flows.

We also cannot predict the impact of potential changes in priorities due to military transformation and planning and/or the nature of war-related activity on existing, follow-on or replacement programs. A shift of government priorities to programs in which we do not participate and/or reductions in funding for or the termination of programs in which we do participate, unless offset by other programs and opportunities, could have a material adverse effect on our financial position, results of operations and cash flows.

In addition, the U.S. Government generally has the ability to terminate contracts, in whole or in part, without prior notice, for convenience or for default based on performance. In the event of termination for the U.S. Government's convenience, contractors are generally protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs but not the anticipated profit that would have been earned had the contract been completed. Termination by the U.S. Government of a contract for convenience could also result in the cancellation of future work on that program. Termination by the U.S. Government of a contract due to our default could require us to pay for re-procurement costs in excess of the original contract price, net of the value of work accepted from the original contract. Termination of a contract due to our default may expose us to liability and could have a material adverse effect on our ability to compete for contracts.

**We have risks associated with competing in the bidding process for contracts.**

We obtain many of our contracts through a competitive bidding process. In the bidding process, we face the following risks:

we must bid on programs in advance of their completion, which may result in unforeseen technological difficulties or cost overruns;

we must devote substantial time and effort to prepare bids and proposals for competitively awarded contracts that may not be awarded to us; and

awarded contracts may not generate sales sufficient to result in profitability.

**We are subject to strict governmental regulations relating to the environment, which could result in fines and remediation expense in the event of non-compliance.**

We are required to comply with extensive and frequently changing environmental regulations at the federal, state and local levels. Among other things, these regulatory bodies impose restrictions to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous substances into the environment. This extensive regulatory framework imposes significant compliance burdens and risks on us. In addition, these regulations may impose liability for the cost of removal or remediation of certain hazardous substances released on or in our facilities without regard to whether we knew of, or caused, the release of such substances. Furthermore, we are required to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances. Our operations require the use of a limited amount of chemicals and other materials for painting and cleaning that are classified under applicable laws as hazardous chemicals and substances. If we are found not to be in compliance with any of these rules, regulations or permits, we may be subject to fines, remediation expenses and the obligation to change our business practice, any of which could result in substantial costs that would adversely impact our business operations and financial condition.

**We may be subject to fines and disqualification for non-compliance with Federal Aviation Administration regulations.**

We are subject to regulation by the FAA under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations and financial condition.

**If our subcontractors or suppliers fail to perform their contractual obligations, our contract performance and our ability to obtain future business and our profitability could be materially and adversely impacted.**

Most of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services that we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontract, our failure to extend existing task orders or issue new task orders under a subcontract, or our hiring of personnel of a subcontractor. A failure by one or more of our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations as the prime contractor. Subcontractor performance deficiencies could result in a

customer eliminating our ability to progress bill or terminating our contract for default. A prohibition on progress billing may have an adverse effect upon our cash flow and profitability and a default termination could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. In addition, a delay in our ability to obtain components and equipment parts from our suppliers may affect our ability to meet our customers' needs and may have a material adverse effect upon our profitability.

**Due to fixed contract pricing, increasing contract costs exposes us to reduced profitability and the potential loss of future business.**

Operating margin is adversely affected when contract costs that cannot be billed to customers are incurred. This cost growth can occur if estimates to complete a contract increase due to technical challenges or if initial estimates used for calculating the contract price were incorrect. The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters, and the inability to recover any claims included in the estimates to complete. A significant increase in cost estimates on one or more programs could have a material adverse effect on our financial position or results of operations.

**We use estimates when accounting for contracts. Changes in estimates could affect our profitability and our overall financial position.**

We recognize revenue from our contracts over the contractual period under the percentage-of-completion (POC) method of accounting. Under the POC method of accounting, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded on our balance sheet as an asset captioned "Costs and estimated earnings in excess of billings on uncompleted contracts." Contracts where billings to date have exceeded recognized revenues are recorded on our balance sheet as a liability captioned "Billings in excess of costs and estimated earnings on uncompleted contracts." Changes to the original estimates may be required during the life of the contract. Estimates are reviewed monthly and the effect of any change in the estimated gross margin percentage for a contract is reflected in the financial statements in the period the change becomes known. The use of the POC method of accounting involves considerable use of estimates in determining revenues and profits and in assigning the amounts to accounting periods. As a result, there can be a significant disparity between earnings (both for accounting and taxes) as reported and actual cash received by us during any reporting period. We continually evaluate all of the issues related to the assumptions, risks and uncertainties inherent with the application of the POC method of accounting; however, there is no assurance that our estimates will be accurate. If our estimates are not accurate or a contract is terminated, we will be forced to adjust revenue in later periods. Furthermore, even if our estimates are accurate, we may have a shortfall in our cash flow and we may need to borrow money to pay for costs until the reported earnings materialize to actual cash receipts.

**If the contracts associated with our backlog were terminated, our financial condition would be adversely affected.**

The maximum contract value specified under each contract that we enter into is not necessarily indicative of the revenues that we will realize under that contract. Because we may not receive the full amount we expect under a contract, we may not accurately estimate our backlog because the earnings of revenues on programs included in backlog may never occur or may change. Cancellations of pending contracts or terminations or reductions of contracts in progress could have a material adverse effect on our business, prospects, financial condition or results of operations. As of December 31, 2015, our backlog was approximately \$387 million, of which 26% was funded and 74% was unfunded.

**We may be unable to attract and retain personnel who are key to our operations.**

Our success, among other things, is dependent on our ability to attract and retain highly qualified senior officers and engineers. Competition for key personnel is intense. Our ability to attract and retain senior officers and experienced, top rate engineers is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent. The inability to hire and retain these persons may

adversely affect our production operations and other aspects of our business.

**We are subject to the cyclical nature of the commercial aerospace industry, and any future downturn in the commercial aerospace industry or general economic conditions could adversely impact the demand for our products.**

Our business may be affected by certain characteristics and trends of the commercial aerospace industry or general economic conditions that affect our customers, such as fluctuations in the aerospace industry's business cycle, varying fuel and labor costs, intense price competition and regulatory scrutiny, certain trends, including a possible decrease in aviation activity and a decrease in outsourcing by aircraft manufacturers or the failure of projected market growth to materialize or continue. In the event that these characteristics and trends adversely affect customers in the commercial aerospace industry, they may reduce the overall demand for our products.

**If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our common stock.**

Our management has determined that as of December 31, 2015, our internal controls over financial reporting were not effective based on the criteria created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") set forth in *Internal Control – Integrated Framework (2013)*.

Because of the material weakness identified in our internal controls over financial reporting, our management is unable to report favorably as to the effectiveness of our internal control over financial reporting and/or our disclosure controls and procedures, and we are required to implement remedial measures. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Such remedial measures could be expensive and time consuming and could potentially cause investors to lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price and potentially subject us to litigation. For more information see, "Management's Report on Internal Control over Financial Reporting."

### **We incur risk associated with new programs**

New programs with new technologies typically carry risks associated with design changes, development of new production tools, increased capital and funding commitments, ability to meet customer specifications, delivery schedules and unique contractual requirements, supplier performance, ability of the customer to meet its contractual obligations to us, and our ability to accurately estimate costs associated with such programs. In addition, any new program may not generate sufficient demand or may experience technological problems or significant delays in the regulatory or other certification or manufacturing and delivery schedule. If we were unable to perform our obligations under new programs to the customer's satisfaction, if we were unable to manufacture products at our estimated costs, or if a new program in which we had made a significant investment was terminated or experienced weak demand, delays or technological problems, then our business, financial condition and results of operations could be materially adversely affected. This risk includes the potential for default, quality problems, or inability to meet specifications, as well as our inability to negotiate final pricing for program changes, and could result in low margin or forward loss contracts, and the risk of having to write-off costs and estimated earnings in excess of billings on uncompleted contracts if it were deemed to be unrecoverable over the life of the program. In addition, beginning new work on existing programs also carries risk associated with the transfer of technology, knowledge and tooling.

In order to perform on new programs we may be required to expend up-front costs which may not have been negotiated in our selling price. Additionally, we may have made margin assumptions related to those costs, that in the case of significant program delays and/or program cancellations, or if we are not successful in negotiating favorable margin on scope changes, could cause us to bear impairment charges which may be material, for costs that are not recoverable. Such charges and the loss of up-front costs could have a material adverse impact on our liquidity.

### **We are presently classified as a small business and the loss of our small business status may adversely affect our ability to compete for government contracts.**

We are presently classified as a small business under certain of the codes under the North American Industry Classification Systems ("NAICS") industry and product specific codes which are regulated in the United States by the

Small Business Administration. We are not considered a small business under all NAICS codes. While we do not presently derive a substantial portion of our business from contracts which are set-aside for small businesses, we are able to bid on small business set-aside contracts as well as contracts which are open to non-small business entities. As the NAICS codes are periodically revised, it is possible that we may lose our status as a small business. The loss of small business status would adversely impact our eligibility for special small business programs and limit our ability to partner with other business entities which are seeking to team with small business entities as may be required under a specific contract.

**Unauthorized access to our or our customers' information and systems could negatively impact our business.**

We face certain security threats, including threats to the confidentiality, availability and integrity of our data and systems. We maintain a network of technical security controls, policy enforcement mechanisms, monitoring systems and management oversight in order to address these threats. While these measures are designed to prevent, detect and respond to unauthorized activity in our systems, certain types of attacks, including cyber-attacks, could result in significant financial or information losses and/or reputational harm. In addition, we maintain information and technology data for certain customers. Many of these customers face similar security threats. If we cannot prevent the unauthorized access, release and/or corruption of our customers' confidential, classified or personally identifiable information, our reputation could be damaged, and/or we could face financial losses.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

CPI Aerostructures' executive offices and production facilities are situated in an approximately 171,000 square foot building located at 91 Heartland Blvd., Edgewood, New York 11717. CPI Aerostructures occupies this facility under a ten-year lease that commenced in June 2011. The current monthly base rent is \$133,372, including real estate taxes.

**Item 3. LEGAL PROCEEDINGS**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

**Item MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND**  
**5. ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

Our common shares are listed on the NYSE MKT under the symbol CVU. The following table sets forth for 2015 and 2014, the high and low sales prices of our common shares for the periods indicated, as reported by the NYSE MKT.

| <u>Period</u>                    | <u>High</u> | <u>Low</u> |
|----------------------------------|-------------|------------|
| <u>2014</u>                      |             |            |
| Quarter Ended March 31, 2014     | \$16.00     | \$12.50    |
| Quarter Ended June 30, 2014      | \$13.97     | \$12.00    |
| Quarter Ended September 30, 2014 | \$12.75     | \$9.75     |
| Quarter Ended December 31, 2014  | \$12.65     | \$9.12     |
| <u>2015</u>                      |             |            |
| Quarter Ended March 31, 2015     | \$12.35     | \$10.46    |
| Quarter Ended June 30, 2015      | \$12.24     | \$9.91     |
| Quarter Ended September 30, 2015 | \$10.15     | \$8.50     |
| Quarter Ended December 31, 2015  | \$9.84      | \$8.40     |

On March 22, 2016, the closing sale price for our common shares on the NYSE MKT was \$7.41. On March 14, 2016, there were 230 holders of record of our common shares and, we believe, over 2,200 beneficial owners of our common shares.

**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.

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

There have been no sales of unregistered sales of our equity securities for the three months ended December 31, 2015. There have been no repurchases of our outstanding common stock during the three months ended December 31, 2015.

**Equity Compensation Plan Information**

The following table sets forth certain information at December 31, 2015 with respect to our equity compensation plans that provide for the issuance of options, warrants or rights to purchase our securities.

| <b>Plan Category</b>       | <b>Number of Securities Remaining</b> |                                                           |                                      |
|----------------------------|---------------------------------------|-----------------------------------------------------------|--------------------------------------|
|                            | <b>Number of Securities</b>           | <b>Weighted-Average</b>                                   | <b>Available for Future Issuance</b> |
|                            | <b>to be Issued upon Exercise of</b>  | <b>Exercise Price of</b>                                  | <b>under Equity Compensation</b>     |
|                            | <b>Outstanding Options,</b>           | <b>Outstanding Options, Plans (excluding securities</b>   |                                      |
|                            | <b>Warrants and Rights</b>            | <b>Warrants and Rights reflected in the first column)</b> |                                      |
| <b>Equity Compensation</b> |                                       |                                                           |                                      |
| <b>Plans Approved by</b>   |                                       |                                                           |                                      |
| <b>Security Holders</b>    | 269,983                               | \$11.29                                                   | 113,787                              |

**Item 6. Selected Financial Data**

The following table sets forth our financial data as of the dates and for the periods indicated. The data has been derived from our audited financial statements. The selected financial data should be read in conjunction with our audited financial statements and MDA. Our results of operations for 2014 were materially affected by the change in estimate described in MDA.

| <b>Statement of Operations Data:</b> | <b>Years Ended December 31,</b> |               |               |               |               |
|--------------------------------------|---------------------------------|---------------|---------------|---------------|---------------|
|                                      | <b>2015</b>                     | <b>2014</b>   | <b>2013</b>   | <b>2012</b>   | <b>2011</b>   |
| Revenue                              | \$ 100,202,557                  | \$ 39,687,010 | \$ 82,988,522 | \$ 89,272,582 | \$ 74,135,669 |
| Cost of sales                        | 83,600,854                      | 69,411,709    | 64,555,275    | 65,039,969    | 55,325,729    |
| Gross profit (loss)                  | 16,601,703                      | (29,724,699)  | 18,433,247    | 24,232,613    | 18,809,940    |

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|                                                                |             |                |             |              |             |
|----------------------------------------------------------------|-------------|----------------|-------------|--------------|-------------|
| Selling, general and administrative expenses                   | 7,636,148   | 7,308,220      | 6,704,524   | 7,322,630    | 7,931,586   |
| Income (loss) from operations                                  | 8,965,555   | (37,032,919)   | 11,728,723  | 16,909,983   | 10,878,354  |
| Other income (expense):                                        |             |                |             |              |             |
| Interest/ other income (expense)                               | (40,433 )   | 145,072        | 78,957      | 31,520       | 4,065       |
| Interest expense                                               | (918,129 )  | (794,428 )     | (653,786 )  | (416,373 )   | (343,491 )  |
| Total other income (expense), net                              | (958,562 )  | (649,356 )     | (574,829 )  | (384,853 )   | (339,426 )  |
| Income (loss) before provision for (benefit from) income taxes | 8,006,993   | (37,682,275)   | 11,153,894  | 16,525,130   | 10,538,928  |
| Provision for (benefit from) income taxes                      | 2,991,000   | (12,473,000)   | 3,417,000   | 5,514,000    | 3,122,000   |
| Net income (loss)                                              | \$5,015,993 | \$(25,209,275) | \$7,736,894 | \$11,011,130 | \$7,416,928 |
| Income (loss) per common share – basic                         | \$0.59      | \$(2.98 )      | \$0.92      | \$1.43       | \$1.08      |
| Income (loss) per common share – diluted                       | \$0.58      | \$(2.98 )      | \$0.91      | \$1.40       | \$1.04      |
| Basic weighted average number of common shares outstanding     | 8,522,817   | 8,465,937      | 8,389,048   | 7,721,304    | 6,869,624   |
| Diluted weighted average number of common shares outstanding   | 8,579,986   | 8,465,937      | 8,470,578   | 7,865,090    | 7,133,604   |

| <b>Balance Sheet Data:</b>                                                  | <b>At December 31,</b> |              |              |              |             |
|-----------------------------------------------------------------------------|------------------------|--------------|--------------|--------------|-------------|
|                                                                             | <b>2015</b>            | <b>2014</b>  | <b>2013</b>  | <b>2012</b>  | <b>2011</b> |
| Cash                                                                        | \$ 1,002,023           | \$ 1,504,907 | \$ 2,166,103 | \$ 2,709,803 | \$ 878,200  |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 102,622,387            | 79,054,139   | 112,597,136  | 108,909,844  | 79,126,828  |
| Total current assets                                                        | 112,355,720            | 95,992,457   | 120,181,761  | 119,354,056  | 85,209,924  |
| Total assets                                                                | 116,712,536            | 103,404,723  | 124,272,594  | 124,883,516  | 89,056,573  |
| Total current liabilities                                                   | 45,062,803             | 36,707,815   | 31,741,678   | 39,645,331   | 33,023,488  |
| Working capital                                                             | 67,292,917             | 59,284,642   | 88,440,083   | 79,708,725   | 52,186,436  |
| Short-term debt                                                             | 24,711,491             | 26,121,713   | 22,370,349   | 24,550,564   | 16,987,380  |
| Long-term debt                                                              | 483,961                | 1,289,843    | 2,198,187    | 3,209,873    | 889,239     |
| Shareholders' equity                                                        | 70,532,109             | 64,813,156   | 88,951,519   | 80,594,199   | 54,026,207  |
| Total liabilities and shareholders' equity                                  | 116,712,536            | 103,404,723  | 124,272,594  | 124,883,516  | 89,056,573  |

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward-Looking Statements**

When used in this Annual Report on Form 10-K and in future filings by us with the Securities and Exchange Commission, the words or phrases “will likely result,” “management expects” or “we expect,” “will continue,” “is anticipated,” “estimated” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The risks are included in “Item 1A: Risk Factors” and “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report on Form 10-K. We have no obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

You should read the financial information set forth below in conjunction with our financial statements and notes thereto.

## **Business Operations**

We are engaged in the contract production of structural aircraft parts for fixed wing aircraft and helicopters in both the commercial and defense markets. We have also recently expanded our presence in the aerosystems segment of the market, with our production of various reconnaissance pod structures and fuel panel systems. Within the global aerostructure and aerosystem supply chain, we are either a Tier 1 supplier to aircraft OEMs or a Tier 2 subcontractor to major Tier 1 manufacturers. We also are a prime contractor to the U.S. Department of Defense, primarily the U.S. Air Force. In conjunction with our assembly operations, we provide engineering, program management, supply chain management and kitting, and MRO services.

## Critical Accounting Policies

### *Revenue Recognition*

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

## Results of Operations

### *Year Ended December 31, 2015 as Compared to the Year Ended December 31, 2014*

*Revenue.* Revenue for the year ended December 31, 2015 was \$100,202,557 compared to \$39,687,010 for the same period last year, representing an increase of \$60,515,547.

Overall, revenue generated from prime government contracts for the year ended December 31, 2015 was \$892,752 compared to \$778,175 for the year ended December 31, 2014, an increase of \$114,577 or 14.7%.

Revenue generated from government subcontracts for the year ended December 31, 2015 was \$56,982,785 compared to \$2,059,029 for the year ended December 31, 2014, an increase of \$54,923,756. Because of the change in estimate on our Wing Replacement Program for the U.S. Air Force's A-10 Thunderbolt aircraft ("WRP") described below, our 2014 revenue from government subcontracts was unusually low, which resulted in the increase in revenue for 2015 as compared to 2014.

Revenue generated from commercial contracts was \$42,327,020 for the year ended December 31, 2015 compared to \$36,849,806 for the year ended December 31, 2014, an increase of \$5,477,214 or 14.9%. This increase is the result of an approximate \$2.8 million increase in revenue on our Embraer Phenom 300 program and an approximate \$5.1 million increase in our Honda program. These programs have progressed out of the low rate early stage into a more normal production phase. These increases were offset by small decreases in our G650 program and our Sikorsky S-92 programs.

During the year ended December 31, 2015, we received approximately \$61.6 million of new contract awards, which included \$13.3 million of government prime contract awards, approximately \$14.1 million of government subcontract awards and approximately \$34.2 million of commercial contract awards, compared to \$92.9 million of new contract awards in 2014, which included \$0.5 million in government prime contract awards, \$67.1 million of government subcontract awards and \$25.3 million of commercial contract awards. In September of last year we received a \$65 million multi-year contract modification adding four additional years' worth of E-2/C-2 wing kits. This amount was entirely included in new contract awards for the 2014 period. This means we will no longer receive annual purchase orders for our largest program as has been the case historically, making the comparison to last year less informative.

### *Cost of sales*

Cost of sales for the years ended December 31, 2015 and 2014 was \$83,600,854 and \$69,411,709, respectively, an increase of \$14,189,145 or 20.4%.

The components of the cost of sales were as follows:

|                      | Year ended   |              |
|----------------------|--------------|--------------|
|                      | December 31, | December 31, |
|                      | 2015         | 2014         |
| Procurement          | \$57,473,129 | \$45,106,460 |
| Labor                | 9,188,417    | 8,558,125    |
| Factory overhead     | 16,431,764   | 15,350,942   |
| Other contract costs | 507,544      | 396,182      |
| Cost of Sales        | \$83,600,854 | \$69,411,709 |

Procurement for the year ended December 31, 2015 was \$57,473,129 compared to \$45,106,460, an increase of \$12,366,669 or 27.4%. The increase in procurement was the result of increased procurement on the Company's E-2D program, as we ramp up to support our recently won multi-year contract.

Labor costs for the year ended December 31, 2015 were \$9,188,417 compared to \$8,558,125, an increase of \$630,292 or 7.4%. This increase is due to more direct touch employees needed to support increased delivery volume in 2015 compared to 2014, specifically on our Embraer and Honda programs.

Factory overhead for the year ended December 31, 2015 was \$16,431,764 compared to \$15,350,942, an increase of \$1,080,822 or 7.0%. This increase is the result of an increase of approximately \$1,002,645 for employee benefits, predominately increasing insurance rates, offset by decreases in indirect labor of \$337,322 as we continue to improve the efficiency of our workforce.

*Gross profit/loss.* Gross profit/loss for the year ended December 31, 2015 was a profit of \$16,601,703 compared to a loss of \$29,724,699 for the year ended December 31, 2014, an increase of \$46,326,402. Gross profit/loss percentage (“gross margin”) for the year ended December 31, 2015 was 16.6% compared to (74.9%) for the same period last year. The swing in gross margin from a profit to a loss is the result of the change in estimate on the A-10 program described above.

#### ***Favorable/Unfavorable Adjustments to Gross Profit***

During the years ended December 31, 2015 and 2014, circumstances required that we make changes in estimates to various contracts. Such changes in estimates resulted in decreases in total gross profit as follows:

|                         | Year Ended    |                |             |
|-------------------------|---------------|----------------|-------------|
|                         | 2015          | 2014           | 2013        |
| Favorable adjustments   | \$1,067,000   | \$700,000      | \$1,258,000 |
| Unfavorable adjustments | (2,942,000)   | (43,268,000)   | (4,958,000) |
| Net adjustments         | \$(1,875,000) | \$(42,568,000) | (3,700,000) |

For the year ended December 31, 2015, we had one contract on which we have experienced technical issues, which resulted in excess engineering time and additional procurement costs that caused an unfavorable adjustment of approximately \$1,434,000. Additionally there was one contract that was running over the budgeted labor, which caused an unfavorable adjustment of approximately \$758,000. No other individual favorable or unfavorable changes in estimates for the year ended December 31, 2015 were material. Additionally, on one contract we had significant engineering changes, which resulted in excess labor and procurement costs that caused an unfavorable adjustment of approximately \$3,000,000.

For the year ended December 31, 2014, approximately \$39,915,000 of the unfavorable adjustment was the result of the changes in estimates on the Company’s A-10 WRP described earlier. In addition, the Company has one contract that has had shipping dates extended a number of times. As a result, labor and procurement costs have changed since the initial contract estimate, which resulted in an unfavorable adjustment of approximately \$693,000. The Company also has one contract on which we have experienced technical issues, which resulted in excess engineering time that

caused an unfavorable adjustment of approximately \$599,000. Also, the Company has one multi-year contract that has experienced procurement price increases that has caused an unfavorable adjustment of approximately \$555,000. No other individual favorable or unfavorable changes in estimates for the year ended December 31, 2014.

For the year ended December 31, 2013 we had three contracts which resulted in favorable adjustments of \$395,000, \$350,000 and \$106,000, respectively. This was the result of receiving increased delivery orders during 2013 which allowed us to improve labor efficiency and to negotiate quantity discounts on procurement. Additionally, we had two contracts which resulted in unfavorable adjustments of \$708,000 and \$448,000, respectively. These unfavorable adjustments were the result of giving pricing discounts to customers, in exchange for increasing the on certain long term agreements. Lastly, we had one contract that had an unfavorable adjustment of \$1,500,000, which was the result of excess labor and material costs incurred for rework and tooling adjustments. No other individual favorable or unfavorable changes in estimates for the year ended December 31, 2013 were material.

*Selling, general and administrative expenses.* Selling, general and administrative expenses for the year ended December 31, 2015 were \$7,636,148 compared to \$7,308,220 for the year ended December 31, 2014, an increase of \$327,928, or 4.5%. This increase was primarily due to an approximately a \$70,000 increase in accrued bonuses, the result of officers not earning a bonus in 2014 because of our net loss, a \$90,000 increase in Board of Directors' fees, which was the result of having 6 outside directors on our board of directors for all of 2015, an \$88,000 increase in marketing and advertising expenses and a \$78,000 increase in computer expenses, resulting from increased computer licensing costs associated with our larger staff.

*Interest expense.* Interest expense for the year ended December 31, 2015 was \$918,129 compared to \$794,428 for 2014, an increase of \$123,701 or 15.6%. The increase in interest expense is the result of an increase in the average amount of outstanding debt during 2015 as compared to 2014.

*Income (loss) from operations.* We had income from operations for the year ended December 31, 2015 of \$8,965,555 compared to a loss from operations of \$37,032,919 for the year ended December 31, 2014 resulting predominantly from the A-10 change in estimate.

*Provision for (benefit from) income taxes* Our historic effective tax rate has been between 30%-32% of taxable income. The rate has been below the statutory federal income tax rate of 34% because of our ability to utilize the domestic production activity deduction, available to companies that do manufacturing within the United States. Beginning in 2015, we are providing for state income taxes in states where, although we don't have any property or full time employees, the historic method for the allocation of state income taxes, we do have sales and have employees present on at least a part time basis. As such the effective tax rate for 2015 is approximately 37%. We expect that future tax rates will approximate the 2015 effective tax rate.

#### *Year Ended December 31, 2014 as Compared to the Year Ended December 31, 2013*

*Revenue.* Revenue for the year ended December 31, 2014 was \$39,687,010 compared to \$82,988,522 for the same period last year, representing a decrease of \$43,301,512 or 52.2%.

Overall, revenue generated from prime government contracts for the year ended December 31, 2014 was \$778,175 compared to \$1,373,456 for the year ended December 31, 2013, a decrease of \$595,281 or 43.3%. This decrease is consistent with our shift from being primarily a prime contractor to the U.S. Government to a subcontractor to large prime contractors.

Revenue generated from government subcontracts for the year ended December 31, 2014 was \$2,059,029 compared to \$54,837,383 for the year ended December 31, 2013, a decrease of \$52,778,354 or 96.2%. Approximately \$50.3 million of this decrease was a result of the change in estimate on our Wing Replacement Program for the U.S. Air Force's A-10 Thunderbolt aircraft. During the period ended June 30, 2014, the Company adjusted the estimated total revenue and recorded a loss on the A-10 contract. This change in estimate predominately accounts for the large decrease in revenue from government subcontracts.

Revenue generated from commercial contracts was \$36,849,806 for the year ended December 31, 2014 compared to \$26,777,683 for the year ended December 31, 2013, an increase of \$10,072,123 or 37.6%. Approximately \$5.1 million of this increase in revenue was a result in the ramp up in production on the Embreair Phenom 300 program. Additionally, approximately \$1.3 million of the increase was related to production on the Cessna Citation program and \$700,000 was related to the HondaJet program. All of these programs were won in the 2011-2012 timeframe and achieved regular production during 2014.

During the year ended December 31, 2014, we received approximately \$92.9 million of new contract awards, which included \$0.5 million of government prime contract awards, approximately \$67.1 million of government subcontract awards and approximately \$25.3 million of commercial contract awards, compared to \$122.3 million of new contract awards in 2013, which included no government prime contract awards, \$96.0 million of government subcontract awards and \$26.3 million of commercial contract awards.

#### *Cost of sales*

Cost of sales for the years ended December 31, 2014 and 2013 was \$69,411,709 and \$64,555,275, respectively, an increase of \$4,856,434, or 7.5%.

The components of the cost of sales were as follows:

|                      | Year ended   |              |
|----------------------|--------------|--------------|
|                      | December 31, | December 31, |
|                      | 2014         | 2013         |
| Procurement          | \$45,106,460 | \$44,003,746 |
| Labor                | 8,558,125    | 6,428,728    |
| Factory overhead     | 15,350,942   | 13,980,889   |
| Other contract costs | 396,182      | 141,912      |
| Cost of Sales        | \$69,411,709 | \$64,555,275 |

Procurement for the year ended December 31, 2014 was \$45,106,460 compared to \$44,003,746, an increase of \$1,102,714 or 2.5%. The increase in procurement was the result of increased procurement on the Company's E-2D program.

Labor costs for the year ended December 31, 2014 were \$8,558,125 compared to \$6,428,728, an increase of \$2,129,397 or 33.1%. This increase is due to more direct touch employees needed to support increasing delivery volume in 2014 compared to 2013, specifically on our Embraer and Honda programs.

Factory overhead for the year ended December 31, 2014 was \$15,350,942 compared to \$13,980,889, an increase of \$1,370,053 or 9.8%. This increase is the result of an increase of approximately \$675,000 for indirect labor and payroll costs and an increase of approximately \$288,000 in factory supplies related to an increase in work.

*Gross profit/loss.* Gross profit/loss for the year ended December 31, 2014 was a loss of \$29,724,699 compared to a profit of \$18,433,247 for the year ended December 31, 2013, a decrease of \$48,157,946. Gross profit/loss percentage (“gross margin”) for the year ended December 31, 2014 was (74.9%) compared to 22.2% for the same period last year. The swing in gross margin from a profit to a loss is the result of the change in estimate on the A-10 program described above.

*Selling, general and administrative expenses.* Selling, general and administrative expenses for the year ended December 31, 2014 were \$7,308,220 compared to \$6,704,524 for the year ended December 31, 2013, an increase of \$603,696, or 9.0%. This increase was primarily due to an approximately \$148,000 increase in salaries, \$100,000 of which is the result of the separation payment paid to our former CEO, a \$140,000 increase in Board of Directors’ fees, the result of having one more board member in 2014 than in 2013, a \$110,000 increase in computer expenses, resulting from increased computer licensing costs associated with our larger staff, an \$86,000 increase in consulting fees, predominately the result of the consulting fees paid to our former CEO after his employment ended, and an \$80,000 increase in employee insurance and benefits, the result of increases associated with insurance costs nationally.

*Interest expense.* Interest expense for the year ended December 31, 2014 was \$794,428, compared to \$653,786 for 2013, an increase of \$140,642 or 21.5%. The increase in interest expense is the result of an increase in the average amount of outstanding debt during 2014 as compared to 2013.

*Income (loss) from operations.* We had a loss from operations for the year ended December 31, 2014 of \$37,032,919 compared to income of \$11,728,723 for the year ended December 31, 2013 resulting predominately from the A-10 change in estimate.

## **Business Outlook**

The statements in the “Business Outlook” section and other forward-looking statements of this Annual Report on Form 10-K are subject to revision during the course of the year in our quarterly earnings releases and SEC filings and at other times.

## **Liquidity and Capital Resources**

*General.* At December 31, 2015, we had working capital of \$67,292,917 compared to \$59,284,642 at December 31, 2014, an increase of \$8,008,275, or 13.5%.

*Cash Flow.* A large portion of our cash is used to pay for materials and processing costs associated with contracts that are in process and which do not provide for progress payments. Costs for which we are not able to bill on a progress basis are components of CEE on our balance sheet and represent the aggregate costs and related earnings for uncompleted contracts for which the customer has not yet been billed. These costs and earnings are recovered upon shipment of products and presentation of billings in accordance with contract terms.

Because the POC method of accounting requires us to use estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods, there can be a significant disparity between earnings (both for accounting and tax purposes) as reported and actual cash that we receive during any reporting period. Accordingly, it is possible that we may have a shortfall in our cash flow and may need to borrow money until the reported earnings materialize into actual cash receipts.

In order to perform on new programs, we may be required to expend up-front costs that may have to be amortized over a portion of production units. In the case of significant program delays and/or program cancellations, we could be required to bear impairment charges, which may be material for costs that are not recoverable. Such charges and the loss of up-front costs could have a material impact on our liquidity and results of operations.

We continue to work to obtain better payment terms with our customers, including accelerated progress payment arrangements, as well as exploring alternative funding sources.

At December 31, 2015, our cash balance was \$1,002,023 compared to \$1,504,907 at December 31, 2014, a decrease of \$502,884. Our accounts receivable balance at December 31, 2015 increased to \$7,665,837 from \$6,466,814 at December 31, 2014.

*Bank Credit Facilities.*

On December 5, 2012, the Company entered into an Amended and Restated Credit Agreement with Santander Bank (“Restated Agreement”) as the sole arranger, administrative agent, collateral agent and lender and Valley National Bank as lender. The Restated Agreement provided for a revolving credit facility of \$35 million (the “Revolving Facility”). The Revolving Facility and term loan under the Restated Agreement are secured by all of our assets.

As of December 31, 2015, the Company was in compliance with all covenants contained in the Restated Agreement.

As of December 31, 2015 and 2014, the Company had \$23.7 million and \$25.2 million, respectively, outstanding under the Revolving Facility.

On March 9, 2012, the Company obtained a \$4.5 million term loan from Santander Bank to be amortized over five years (the “Santander Term Loan”). The Santander Term Loan was used by the Company to purchase tooling and equipment for new programs. The Santander Term Loan was continued under the Restated Agreement, and was payable in monthly installments of \$75,000, with a final payment of the remaining principal balance on March 9, 2017. The Santander Term Loan bore interest at the lower of LIBOR plus 3% or Santander Bank’s prime rate. The Santander Term Loan was subject to the amended and restated terms and conditions of the Restated Agreement.

In connection with the Santander Term Loan, the Company and Santander Bank entered into a five-year interest rate swap agreement, in the notional amount of \$4.5 million. Under the interest rate swap, the Company paid an amount to Santander Bank representing interest on the notional amount at 4.11% and received an amount from Sovereign representing interest on the notional amount at a rate equal to the one-month LIBOR plus 3%. The effect of this interest rate swap was that the Company paid a fixed interest rate of 4.11% over the term of the Santander Term Loan.

On March 24, 2016, the Company entered into a Credit Agreement with Bank United, N.A. as the sole arranger, administrative agent and collateral agent (the “BankUnited Facility”). The BankUnited Facility provides for a revolving credit loan commitment of \$30 million and a \$10 million term loan. The proceeds of the BankUnited Facility were used to pay off all amounts outstanding under the Santander Term Loan and the Revolving Facility. The term of the BankUnited Facility is through March of 2019. The revolving loan bears interest at a rate based upon a pricing grid, as defined in the agreement. The range for LIBOR based loans is between 2% and 2.75% above the then applicable LIBOR rate. The range of base rate loans is between the bank’s prime rate and 0.25% above the bank’s prime rate.

In connection with the BankUnited Facility, the Company terminated the Santander interest rate swap agreement.

We believe that our existing resources, together with the availability under our credit facility, will be sufficient to meet our current working capital needs for at least the next 12 months.

*Contractual Obligations.* The table below summarizes information about our contractual obligations as of December 31, 2015 and the effects these obligations are expected to have on our liquidity and cash flow in the future years.

| <b>Contractual Obligations</b>      | <b>Payments Due By Period</b> |                             |                  |                  |                          |
|-------------------------------------|-------------------------------|-----------------------------|------------------|------------------|--------------------------|
|                                     | <b>Total</b>                  | <b>Less than<br/>1 year</b> | <b>1-3 years</b> | <b>4-5 years</b> | <b>After 5<br/>years</b> |
| Debt                                | \$1,200,000                   | \$900,000                   | \$300,000        | -                | -                        |
| Capital Lease Obligations           | 295,452                       | 111,491                     | 124,165          | \$59,796         | -                        |
| Operating Leases                    | 10,812,771                    | 1,600,467                   | 3,318,847        | 3,484,025        | \$2,409,432              |
| Employment Agreement Compensation** | 606,000                       | 606,000                     | --               | -                | -                        |
| Interest Rate Swap Agreement        | 4,453                         | -                           | 4,453            | -                | -                        |
| Total Contractual Cash Obligations  | \$12,918,676                  | \$3,217,958                 | \$3,747,465      | \$3,543,821      | \$2,409,432              |

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

*Inflation.* Inflation historically has not had a material effect on our operations.

## **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Management does not believe that there is any material market risk exposure with respect to derivative or other financial instruments that would require disclosure under this item.

## **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

This information appears following Item 15 of this Report and is incorporated herein by reference.

## **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

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## ITEM 9A CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosures. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, and Board of Directors, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2015. Based on this evaluation and considering the material weakness in internal control over financial reporting described below relating to the recognition of revenue related to a request for equitable adjustment, we concluded as of December 31, 2015 that our disclosure controls and procedures were not effective at the reasonable assurance level.

In light of the material weakness described below, additional analyses and procedures were performed to ensure that our financial statements included in this Annual Report on Form 10-K were prepared in accordance with generally accepted accounting principles ("GAAP"). These measures included expanded year-end closing procedures and evaluation of all possible requests for equitable adjustment on contracts. As a result of these measures, management concluded that our financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented in conformity with GAAP.

The report called for by Item 308(a) of Regulation S-K is included herein as "Management's Report on Internal Control Over Financial Reporting."

The attestation report called for by Item 308(b) of Registration S-K is included herein as "Report of Independent Registered Public Accounting Firm."

## Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on criteria established in *Internal Control- Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and anticipates to continue to use this criteria in the future. Based on this evaluation, management concluded that the Company’s internal control over financial reporting was not effective as of December 31, 2015.

A material weakness is a control deficiency or combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness was identified as of December 31, 2015: due to an ongoing negotiation with one customer, the Company submitted a request for equitable adjustment (“REA”) on a contract, as allowed under the contract. During the fourth quarter of 2015, the Company initially concluded that it had sufficient documentation to recognize revenue based upon the REA. After further evaluation, management concluded that it did not have sufficient documentation to record such revenue and therefore its review controls over this REA were not adequate. Management has already implemented practices and procedures to address the foregoing material weakness, including more timely reviews of infrequently occurring transactions, such as an REA. Additionally, the Company is undertaking a process to increase the size and technical expertise of its accounting staff to evaluate such transactions in the future on a more timely basis.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

CPI Aerostructures, Inc.

We have audited CPI Aerostructures, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control- Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CPI Aerostructures, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The Company did not have adequate review controls over the accounting for a request for equitable adjustment on a contract in its revenue recognition process. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 financial statements, and this report does not affect our report dated March 28, 2016, on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, CPI Aerostructures, Inc. has not maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets as of December 31, 2015 and 2014, and the related statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015, and the related financial statement schedule of CPI Aerostructures, Inc. and our report dated March 28, 2016 expressed an unqualified opinion.

/s/ CohnReznick LLP

Jericho, New York

March 28, 2016

**Item 9B. OTHER INFORMATION**

None.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

See Item 14.

**Item 11. EXECUTIVE COMPENSATION**

See Item 14.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

See Item 14.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

See Item 14.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Items 10, 11, 12, 13 and 14 will be contained in our definitive proxy statement for our 2016 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year covered by this report pursuant to Regulation 14A under the Exchange Act, and incorporated herein by reference.

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this report:

1. The following financial statements are filed as a part of this report:

Report of Independent Registered Public Accounting Firm

Balance Sheets as of December 31, 2015 and 2014

Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2015, 2014 and 2013

Statements of Shareholders' Equity for the Years Ended December 31, 2015, 2014 and 2013

Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013

Notes to Financial Statements

2. The following financial statement schedule is filed as part of this report:

Schedule II -Valuation and Qualifying Accounts-Allowance for Doubtful Accounts

3. The following exhibits are filed as part of this report:

| <u>Exhibit<br/>Number</u> | <u>Name of Exhibit</u>                                                               | <u>No. in<br/>Document</u> |
|---------------------------|--------------------------------------------------------------------------------------|----------------------------|
| 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. (5)                                                   | 3.2  |
| *10.11 | Employment Agreement between Vincent Palazzolo and the Company, dated as of December 16, 2009. (4) | 10.2 |

|        |                                                                                                             |       |
|--------|-------------------------------------------------------------------------------------------------------------|-------|
| *10.12 | Stock Option Agreement between the Company and Vincent Palazzolo, dated December 1, 2006. (3)               | 10.24 |
| *10.19 | Employment Agreement between Douglas McCrosson and the Company, dated as of December 16, 2009. (4)          | 10.3  |
| 10.20  | Performance Equity Plan 2009 (6)                                                                            |       |
| 10.23  | Agreement of Lease, dated June 30, 2011, between Heartland Boys II L.P. and CPI Aerostructures Inc. (7)     | 10.1  |
| *10.26 | Letter Amendment to Employment Agreement, dated November 4, 2011, from the Company to Vincent Palazzolo (8) | 10.2  |
| *10.27 | Letter Amendment to Employment Agreement, dated November 4, 2011, from the Company to Douglas McCrosson (8) | 10.3  |

10.31 Amended and Restated Credit Agreement, dated as of December 5, 2012, among CPI Aerostructures, Inc., the several lenders from time to time party thereto, and Sovereign Bank, N.A. (25) 10.1

\*\*12 Statement re Computation of Ratios

14 Code of Business Conduct and Ethics (13)

\*\*21 Subsidiaries of the Registrant

\*\*23.1 Consent of CohnReznick LLP

\*\*31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

\*\*31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

\*\*32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*\*\*101.INS XBRL  
Instance  
XBRL  
\*\*\*101.SCH Taxonomy  
Extension  
Schema  
XBRL  
\*\*\*101.CAL Taxonomy  
Extension  
Calculation  
XBRL  
\*\*\*101.DEF Taxonomy  
Extension  
Definition  
XBRL  
\*\*\*101.LAB Taxonomy  
Extension  
Labels  
XBRL  
\*\*\*101.PRE Taxonomy  
Extension  
Presentation

\*Management compensation contract or arrangement.

\*\*Filed herewith.

- (1) Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-49270) declared effective on September 16, 1992 and incorporated herein by reference.
- (2) Filed as an exhibit to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1998 and incorporated herein by reference.
- (3) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 1, 2006 and incorporated herein by reference.
- (4) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 21, 2009 and incorporated herein by reference.
- (5) Filed as an exhibit to the Company's Current Report on Form 8-K dated November 13, 2007 and incorporated herein by reference.
- (6) Included as Appendix A to the Company's Proxy Statement filed on April 30, 2009.
- (7) Filed as an exhibit to the Company's Current Report on Form 10-Q for the quarter ended June 30, 2011 and incorporated herein by reference
- (8) Filed as an exhibit to the Company's Current Report on Form 8-K dated November 7, 2011 and incorporated herein by reference

**CPI AEROSTRUCTURES, INC.**

**INDEX TO FINANCIAL STATEMENTS**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of CPI Aerostructures, Inc.

We have audited the accompanying balance sheets of CPI Aerostructures, Inc. as of December 31, 2015 and 2014, and the related statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audit of the financial statements included the financial statement schedule listed in the index appearing under Item 15. CPI Aerostructures, Inc. management is responsible for these financial statements and financial statement schedule. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial statements referred to above present fairly, in all material respects, the financial position of CPI Aerostructures, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CPI Aerostructures, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework*(2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 28, 2016, expressed an adverse opinion on the effectiveness of CPI Aerostructures, Inc.'s internal control over financial reporting.

/s/ CohnReznick LLP

Jericho, New York

March 28, 2016

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**CPI AEROSTRUCTURES, INC.****BALANCE SHEETS**

|                                                                                                                                     | <b>December<br/>31,<br/>2015</b> | <b>December<br/>31,<br/>2014</b> |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| <b>ASSETS</b>                                                                                                                       |                                  |                                  |
| Current Assets:                                                                                                                     |                                  |                                  |
| Cash                                                                                                                                | \$ 1,002,023                     | \$ 1,504,907                     |
| Accounts receivable, net                                                                                                            | 7,665,837                        | 6,466,814                        |
| Costs and estimated earnings in excess of billings on uncompleted contracts                                                         | 102,622,387                      | 79,054,139                       |
| Refundable income taxes                                                                                                             | ---                              | 8,138,322                        |
| Prepaid expenses and other current assets                                                                                           | 1,065,473                        | 828,275                          |
| <b>Total current assets</b>                                                                                                         | <b>112,355,720</b>               | <b>95,992,457</b>                |
| Property and equipment, net                                                                                                         | 2,358,736                        | 2,755,186                        |
| Deferred income taxes                                                                                                               | 1,890,000                        | 4,549,000                        |
| Other assets                                                                                                                        | 108,080                          | 108,080                          |
| <b>Total Assets</b>                                                                                                                 | <b>\$ 116,712,536</b>            | <b>\$ 103,404,723</b>            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                         |                                  |                                  |
| Current Liabilities:                                                                                                                |                                  |                                  |
| Accounts payable                                                                                                                    | \$ 18,379,469                    | \$ 8,928,456                     |
| Accrued expenses                                                                                                                    | 1,057,682                        | 1,061,747                        |
| Billings in excess of costs and estimated earnings on uncompleted contracts                                                         | 175,438                          | 193,650                          |
| Current portion of long-term debt                                                                                                   | 1,011,491                        | 971,713                          |
| Contract loss                                                                                                                       | 549,723                          | 396,182                          |
| Line of credit                                                                                                                      | 23,700,000                       | 25,150,000                       |
| Income taxes payable                                                                                                                | 189,000                          | 6,067                            |
| <b>Total current liabilities</b>                                                                                                    | <b>45,062,803</b>                | <b>36,707,815</b>                |
| Long-term debt, net of current portion                                                                                              | 483,961                          | 1,289,843                        |
| Other liabilities                                                                                                                   | 633,663                          | 593,909                          |
| <b>Total Liabilities</b>                                                                                                            | <b>46,180,427</b>                | <b>38,591,567</b>                |
| Commitments                                                                                                                         |                                  |                                  |
| <b>Shareholders' Equity:</b>                                                                                                        |                                  |                                  |
| Common stock - \$.001 par value; authorized 50,000,000 shares, 8,583,511 and 8,500,555 shares, respectively, issued and outstanding | 8,584                            | 8,501                            |
| Additional paid-in capital                                                                                                          | 52,137,384                       | 51,440,770                       |
| Retained earnings                                                                                                                   | 18,389,594                       | 13,373,601                       |
| Accumulated other comprehensive loss                                                                                                | (3,453 )                         | (9,716 )                         |

|                                                   |                       |                       |
|---------------------------------------------------|-----------------------|-----------------------|
| <b>Total Shareholders' Equity</b>                 | <b>70,532,109</b>     | <b>64,813,156</b>     |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 116,712,536</b> | <b>\$ 103,404,723</b> |

SEE NOTES TO FINANCIAL STATEMENTS

**CPI AEROSTRUCTURES, INC.****STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

| <b>Years ended December 31,</b>                                | <b>2015</b>    | <b>2014</b>    | <b>2013</b>   |
|----------------------------------------------------------------|----------------|----------------|---------------|
| Revenue                                                        | \$ 100,202,557 | \$ 39,687,010  | \$ 82,988,522 |
| Cost of sales                                                  | 83,600,854     | 69,411,709     | 64,555,275    |
| Gross profit (loss)                                            | 16,601,703     | (29,724,699)   | 18,433,247    |
| Selling, general and administrative expenses                   | 7,636,148      | 7,308,220      | 6,704,524     |
| Income (loss) from operations                                  | 8,965,555      | (37,032,919)   | 11,728,723    |
| Other income (expense):                                        |                |                |               |
| Interest/other income (expense)                                | (40,433 )      | 145,072        | 78,957        |
| Interest expense                                               | (918,129 )     | (794,428 )     | (653,786 )    |
| Total other expense, net                                       | (958,562 )     | (649,356 )     | (574,829 )    |
| Income (loss) before provision for (benefit from) income taxes | 8,006,993      | (37,682,275)   | 11,153,894    |
| Provision for (benefit from) income taxes                      | 2,991,000      | (12,473,000)   | 3,417,000     |
| Net income (loss)                                              | 5,015,993      | (25,209,275)   | 7,736,894     |
| Other comprehensive income (loss), net of tax                  |                |                |               |
| Change in unrealized gain (loss)- Interest rate swap           | 6,263          | 11,399         | 19,712        |
| Comprehensive income (loss)                                    | \$5,022,256    | \$(25,197,876) | \$7,756,606   |
| Income (loss) per common share-basic                           | \$0.59         | \$(2.98 )      | \$0.92        |
| Income (loss) per common share-diluted                         | \$0.58         | \$(2.98 )      | \$0.91        |
| Shares used in computing earnings per common share:            |                |                |               |
| Basic                                                          | 8,552,817      | 8,465,937      | 8,389,048     |
| Diluted                                                        | 8,579,986      | 8,465,937      | 8,470,578     |

SEE NOTES TO FINANCIAL STATEMENTS



**CPI AEROSTRUCTURES, INC.****STATEMENTS OF SHAREHOLDERS' EQUITY****Years ended December 31, 2015, 2014 and 2013**

|                                                   | Common<br>Stock<br>Shares | Common<br>Stock<br>Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders'<br>Equity |
|---------------------------------------------------|---------------------------|---------------------------|----------------------------------|----------------------|-----------------------------------------------|----------------------------------|
| Balance at January 1, 2013                        | 8,371,439                 | \$ 8,371                  | \$49,780,673                     | \$30,845,982         | \$ (40,827 )                                  | \$80,594,199                     |
| Net Income                                        | ----                      | ----                      | ----                             | 7,736,894            | ----                                          | 7,736,894                        |
| Change in unrealized loss from interest rate swap | ----                      | ----                      | ----                             | ----                 | 19,712                                        | 19,712                           |
| Common stock issued upon exercise of options      | 18,399                    | 18                        | (18 )                            | ----                 | ----                                          | ---                              |
| Common stock issued as employee compensation      | 20,655                    | 21                        | 193,884                          | ----                 | ----                                          | 193,905                          |
| Stock based compensation expense                  | ----                      | ----                      | 379,809                          | ----                 | ----                                          | 379,809                          |
| Tax benefit from stock option plans               | ---                       | ---                       | 27,000                           | --                   | ---                                           | 27,000                           |
| Balance at December 31, 2013                      | 8,410,493                 | 8,410                     | 50,381,348                       | 38,582,876           | (21,115 )                                     | 88,951,519                       |
| Net Loss                                          | ----                      | ----                      | ----                             | (25,209,275 )        | ----                                          | (25,209,275 )                    |
| Change in unrealized loss from interest rate swap | ----                      | ----                      | ----                             | ----                 | 11,399                                        | 11,399                           |
| Common stock issued upon exercise of options      | 85,312                    | 86                        | 447,665                          | ----                 | ----                                          | 447,751                          |
| Common stock issued as employee compensation      | 4,750                     | 5                         | 57,992                           | ----                 | ----                                          | 57,997                           |
| Stock based compensation expense                  | ----                      | ----                      | 467,765                          | ----                 | ----                                          | 467,765                          |
| Tax benefit from stock option plans               | ---                       | ---                       | 86,000                           | --                   | ---                                           | 86,000                           |
| Balance at December 31, 2014                      | 8,500,555                 | 8,501                     | 51,440,770                       | 13,373,601           | (9,716 )                                      | 64,813,156                       |
| Net Income                                        | ----                      | ----                      | ----                             | 5,015,993            | ----                                          | 5,015,993                        |
| Change in unrealized loss from interest rate swap | ----                      | ----                      | ----                             | ----                 | 6,263                                         | 6,263                            |
|                                                   | 25,352                    | 26                        | 79,974                           | ----                 | ----                                          | 80,000                           |

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Common stock issued upon  
exercise of options

|                                                 |        |     |         |      |      |         |
|-------------------------------------------------|--------|-----|---------|------|------|---------|
| Common stock issued as<br>employee compensation | 6,255  | 6   | 59,417  | ---- | ---- | 59,423  |
| Stock based compensation<br>expense             | 51,349 | 51  | 524,223 | ---- | ---- | 524,274 |
| Tax benefit from stock option<br>plans          | ---    | --- | 33,000  | --   | ---  | 33,000  |

|                              |           |          |              |              |           |                |
|------------------------------|-----------|----------|--------------|--------------|-----------|----------------|
| Balance at December 31, 2015 | 8,583,511 | \$ 8,584 | \$52,137,384 | \$18,389,594 | \$ (3,453 | ) \$70,532,109 |
|------------------------------|-----------|----------|--------------|--------------|-----------|----------------|

SEE NOTES TO FINANCIAL STATEMENTS

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**CPI AEROSTRUCTURES, INC.****STATEMENTS OF CASH FLOWS**

| <b>Years ended December 31,</b>                                                                    | <b>2015</b>       | <b>2014</b>         | <b>2013</b>       |
|----------------------------------------------------------------------------------------------------|-------------------|---------------------|-------------------|
| Cash flows from operating activities:                                                              |                   |                     |                   |
| Net income (loss)                                                                                  | \$5,015,993       | \$(25,209,275)      | \$7,736,894       |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                   |                     |                   |
| Depreciation and amortization                                                                      | 854,063           | 763,736             | 704,435           |
| Deferred rent                                                                                      | 46,017            | 17,098              | 54,621            |
| Stock-based compensation expense                                                                   | 524,274           | 467,765             | 379,809           |
| Common stock issued as employee compensation                                                       | 59,423            | 57,993              | 41,830            |
|                                                                                                    | --                | 1,042               | ---               |
| Loss on disposal of fixed asset                                                                    |                   |                     |                   |
| Deferred portion of provision for income taxes                                                     | 2,659,000         | (3,790,000 )        | (107,000 )        |
| Tax benefit for stock options                                                                      | (33,000 )         | (86,000 )           | (27,000 )         |
|                                                                                                    | 50,000            | --                  | --                |
| Bad debt expense                                                                                   |                   |                     |                   |
| Changes in operating assets and liabilities:                                                       |                   |                     |                   |
| (Increase) decrease in accounts receivable                                                         | (1,249,023 )      | (2,074,560 )        | 2,382,092         |
| Decrease in other assets                                                                           | ---               | ---                 | 1,512,904         |
| (Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts | (23,568,248)      | 33,542,997          | (3,612,292 )      |
| Decrease in prepaid expenses and other current assets                                              | (237,199 )        | (219,007 )          | (183,205 )        |
|                                                                                                    | 8,133,433         | (8,138,322 )        | ---               |
| Increase in refundable income taxes                                                                |                   |                     |                   |
| Increase (decrease) in accounts payable and accrued expenses                                       | 9,446,948         | 1,715,580           | (5,817,028 )      |
|                                                                                                    | 153,541           | 396,182             | ---               |
| Increase in accrued losses on uncompleted contracts                                                |                   |                     |                   |
| (Decrease) increase in income taxes payable                                                        | 220,822           | (730,469 )          | 582,536           |
| Increase (decrease) in billings in excess of costs and estimated earnings on uncompleted contracts | (18,212 )         | (82,520 )           | (380,683 )        |
| <b>Net cash (used in) provided by operating activities</b>                                         | <b>2,057,832</b>  | <b>(3,367,760 )</b> | <b>3,267,913</b>  |
| Cash flows from investing activities:                                                              |                   |                     |                   |
| Purchase of property and equipment                                                                 | (209,718 )        | (602,924 )          | (637,370 )        |
| <b>Net cash used in investing activities</b>                                                       | <b>(209,718 )</b> | <b>(602,924 )</b>   | <b>(637,370 )</b> |
| Cash flows from financing activities:                                                              |                   |                     |                   |
| Proceeds from exercise of stock options                                                            | 80,000            | 447,751             | ---               |
| Payment of line of credit                                                                          | (9,650,000 )      | (4,700,000 )        | (13,100,000)      |
| Proceeds from line of credit                                                                       | 8,200,000         | 8,500,000           | 11,000,000        |

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|                                                            |                     |                  |                     |
|------------------------------------------------------------|---------------------|------------------|---------------------|
| Payment of long-term debt                                  | (1,013,998 )        | (1,024,263 )     | (1,101,243 )        |
| Tax benefit for stock options                              | 33,000              | 86,000           | 27,000              |
| <b>Net cash provided by (used in) financing activities</b> | <b>(2,350,998 )</b> | <b>3,309,488</b> | <b>(3,174,243 )</b> |
| Net decrease in cash                                       | (502,884 )          | (661,196 )       | (543,700 )          |
| Cash at beginning of year                                  | 1,504,907           | 2,166,103        | 2,709,803           |
| Cash at end of year                                        | \$1,002,023         | \$1,504,907      | \$2,166,103         |

**Supplemental schedule of noncash investing and financing activities:**

|                                                       |           |          |           |
|-------------------------------------------------------|-----------|----------|-----------|
| Equipment acquired under capital lease                | \$247,881 | \$67,283 | \$9,342   |
| Accrued expenses settled in exchange for common stock | ---       | ---      | \$152,076 |
| Stock options proceeds paid with Company's stock      | ---       | ---      | \$303,064 |

**Supplemental schedule of cash flow information:**

|                                        |             |           |             |
|----------------------------------------|-------------|-----------|-------------|
| Cash paid during the year for interest | \$1,000,403 | \$915,695 | \$985,189   |
| Cash paid for income taxes             | \$351,275   | \$855,000 | \$3,000,000 |

SEE NOTES TO FINANCIAL STATEMENTS

**CPI AEROSTRUCTURES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**1. Principal business activity And summary of significant Accounting policies**

CPI Aerostructures, Inc. (“CPI Aero®” or the “Company”) is a U.S. supplier of aircraft parts for fixed wing aircraft and helicopters in both the commercial and defense markets. We manufacture complex aerostructure assemblies, as well as aerosystems. Additionally, we supply parts for MRO and kitting contracts.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires the use of estimates by management. Actual results could differ from these estimates.

Revenue Recognition

The Company’s revenue is recognized based on the percentage of completion method of accounting for its 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. The percentage of completion method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods and, as a result, there can be a significant disparity between earnings (both for accounting and taxes) as reported and actual cash received by the Company during any reporting period. In accordance with industry practice, costs and estimated earnings in excess of billings on uncompleted contracts, included in the accompanying balance sheets, contain amounts relating to contracts and programs with long production cycles, a portion of which will not be realized within one year. The Company’s recorded revenue may be adjusted in later periods in the event that the Company’s cost estimates prove to be inaccurate or a contract is terminated.

When adjustments are required for the estimated total revenue on a contract, these changes are recognized with an inception-to-date effect in the current period. Also, when estimates of total costs to be incurred exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined. During the year ended December 31, 2014, the Company adjusted the estimated total revenue and recorded a loss on its Wing Replacement Program (“WRP”) for the U.S. Air Force’s A-10 Thunderbolt aircraft (“A-10”).

The long - term future of the A-10 has been uncertain since March 2014 when the U.S. Department of Defense released its 2015 Budget Request that called for the retirement of the entire A-10 fleet. More recent events have led the Company to conclude that our A-10 WRP will likely not continue to the full 242 aircraft as anticipated at the start of the program. The 2015 Department of Defense Appropriations Act passed by the United States House of Representatives on June 20, 2014 provides no funding for A-10 operations in U. S. Government fiscal year 2015 that commenced October 1, 2014. Further, this bill rescinds funding from the 2014 U. S. Department of Defense Budget that was to have been used for the procurement of additional wings for the A-10 in 2015.

Because of the probable termination of the Company’s A-10 WRP, the Company reduced its revenue estimates with respect to this program by approximately 41% in 2014. This change in estimate results in an approximate cumulative \$44.7 million decrease in revenue from the inception of the program in 2008 through June 30, 2014, all of which was recorded in the quarter ended June 30, 2014. Also, the uncertainty of the future of the A-10 aircraft has impacted the Company’s ability to achieve normal program cost reductions at suppliers. Accordingly, in addition to the \$44.7 million adjustment to revenue in 2014, we have recorded a \$2.6 million adjustment to cost of sales on the A-10 WRP.

## **CPI AEROSTRUCTURES, INC.**

### Government Contracts

The Company's government contracts are subject to the procurement rules and regulations of the U.S. government. Many of the contract terms are dictated by these rules and regulations. Specifically, cost-based pricing is determined under the Federal Acquisition Regulation ("FAR"), which provide guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. government contracts. For example, costs such as those related to charitable contributions, advertising, interest expense, and public relations are unallowable, and therefore not recoverable through sales. During and after the fulfillment of a government contract, the Company may be audited in respect of the direct and allocated indirect costs attributable thereto. These audits may result in adjustments to the Company's contract cost, and/or revenue.

When contractual terms allow, the Company invoices its customers on a progress basis.

### Cash

The Company maintains its cash in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation. From time to time, the Company's balances may exceed these limits. As of December 31, 2015 and 2014, the Company had approximately \$1,103,000 and \$1,110,000, respectively, of uninsured balances. The Company limits its credit risk by selecting financial institutions considered to be highly credit worthy.

### Balance Sheet Classification of Deferred Taxes

During the fourth quarter of 2015, the Company early adopted amended Financial Accounting Standards Board ("FASB") guidance which eliminates the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts on the balance sheet. Rather the amended guidance requires deferred tax liabilities and assets be classified as noncurrent on the balance sheet. Prior period amounts were restated to conform with this presentation. The adoption of this guidance resulted in the elimination of "Deferred income tax assets" of \$1,708,000 within current assets, the elimination of "Deferred tax liabilities" of \$128,000 within current liabilities, the elimination of "Deferred tax liabilities" of \$622,000 within non-current liabilities and the elimination of "Deferred tax assets" of \$3,591,000 within non-current assets on the Company's Balance Sheet at December 31, 2014.

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**CPI AEROSTRUCTURES, INC.**

Accounts Receivable

Accounts receivable are reported at their outstanding unpaid principal balances. The Company writes off accounts when they are deemed to be uncollectible.

Property and Equipment

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

Rent

We recognize rent expense on a straight-line basis over the expected lease term. Within the provisions of certain leases there are escalations in payments over the lease term. The effects of the escalations have been reflected in rent expense on a straight-line basis over the expected lease term.

Long-Lived Assets

The Company reviews its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. As a result of its review, the Company does not believe that any such change has occurred. If such changes in circumstance are present, a loss is recognized to the extent the carrying value of the asset is in excess of the fair value of cash flows expected to result from the use of the asset and amounts expected to be realized upon its eventual disposition.

Short-Term Debt

The fair value of the Company's short-term debt is estimated based on the current rates offered to the Company for debt of similar terms and maturities. Using this method, the fair value of the Company's short-term debt was not significantly different than the stated value at December 31, 2015 and 2014.

### Derivatives

Our use of derivative instruments has primarily been to hedge interest rates. These derivative contracts are entered into with financial institutions. We do not use derivative instruments for trading purposes and we have procedures in place to monitor and control their use.

We record these derivative financial instruments on the balance sheet at fair value. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

**CPI AEROSTRUCTURES, INC.**

Any ineffective portion of the gain or loss on the derivative instrument for a cash flow hedge is recorded in the results of operations immediately. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the results of operations immediately. See below for a discussion of our use of derivative instruments, management of credit risk inherent in derivative instruments and fair value information.

In October 2008, the Company entered into an interest rate swap with the objective of reducing our exposure to cash flow volatility arising from interest rate fluctuations associated with certain debt. The notional amount, maturity date, and currency of these contracts match those of the underlying debt. The Company has designated this interest rate swap contract as a cash flow hedge. The Company measures ineffectiveness by comparing the cumulative change in the forward contract with the cumulative change in the hedged item. No material ineffectiveness was recognized in 2015 and 2014. As of December 31, 2015 and 2014, we had a net deferred loss associated with cash flow hedges of approximately \$4,500 and \$14,700, respectively, due to the interest rate swap which has been included in Other Liabilities.

As a result of the use of derivative instruments, the Company is exposed to risk that the counterparties may fail to meet their contractual obligations. Recent adverse developments in the global financial and credit markets could negatively impact the creditworthiness of our counterparties and cause one or more of our counterparties to fail to perform as expected. To mitigate the counterparty credit risk, we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. To date, all counterparties have performed in accordance with their contractual obligations.

**Fair Value**

At December 31, 2015 and 2014, the fair values of cash, accounts receivable, accounts payable and accrued expenses approximated their carrying values because of the short-term nature of these instruments.

|                                          | 2015<br>Carrying<br>Amount | Fair<br>Value | 2014<br>Carrying<br>Amount | Fair<br>Value |
|------------------------------------------|----------------------------|---------------|----------------------------|---------------|
| Debt                                     |                            |               |                            |               |
| Short-term borrowings and long-term debt | \$25,195,452               | \$25,195,452  | \$27,411,556               | \$27,411,556  |

We estimated the fair value of debt using market quotes and calculations based on market rates.

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**CPI AEROSTRUCTURES, INC.**

The following tables present the fair values of liabilities measured on a recurring basis as of December 31, 2015 and 2014:

| Description        | Total   | Fair Value Measurements 2015                                                              |                                                           |                                                    |
|--------------------|---------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                    |         | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level<br>3) |
| Interest Rate Swap | \$4,453 | --                                                                                        | \$ 4,453                                                  | --                                                 |
| Total              | \$4,453 | --                                                                                        | \$ 4,453                                                  | --                                                 |

| Description        | Total    | Fair Value Measurements 2014                                                              |                                                           |                                                    |
|--------------------|----------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                    |          | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level<br>3) |
| Interest Rate Swap | \$14,716 | --                                                                                        | \$ 14,716                                                 | --                                                 |
| Total              | \$14,716 | --                                                                                        | \$ 14,716                                                 | --                                                 |

The fair value of the Company's interest rate swap was determined by comparing the fixed rate set at the inception of the transaction to the "replacement swap rate," which represents the market rate for an offsetting interest rate swap with the same notional amounts and final maturity date. The market value is then determined by calculating the present value interest differential between the contractual swap and the replacement swap.

As of December 31, 2015 and 2014, \$4,453 and \$14,716, respectively, was included in other liabilities related to the fair value of the Company's interest rate swap, and \$3,453 and \$9,716, respectively, net of tax of \$1,000 and \$5,000, respectively, was included in Accumulated Other Comprehensive Loss.

### Earnings Per Share

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 to purchase common stock. Incremental shares of approximately 85,000 were used in the calculation of diluted earnings per common share in 2015. Incremental shares of 184,983 were not included in the diluted earnings per share calculations at December 31, 2015, as their exercise price was in excess of the Company's quoted market price and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation. No incremental shares were used in the calculation of diluted loss per common share in 2014, as the effect of incremental shares would be anti-dilutive. Incremental shares of 381,919 were used in the calculation of diluted earnings per common share in 2013. Incremental shares of 116,292 were not included in the diluted earnings per share calculations at December 31, 2013, as their exercise price was in excess of the Company's quoted market price and accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation.

## CPI AEROSTRUCTURES, INC.

### Income taxes

Income taxes are accounted for under the asset and liability method whereby deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences between the financial statements carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has recorded a liability of approximately \$98,000 for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. It is the Company's policy to recognize interest and penalties related to uncertain tax positions as a component of income tax expense. Uncertain tax positions are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In April of 2015, the FASB proposed deferring the effective date of ASU 2014-09 for one year, and proposed some modifications to the original provisions. On July 9, 2015, the one year deferral of the effective date was approved, and as such ASU 2014-09 is effective for our first quarter of fiscal year 2018 using either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

**CPI AEROSTRUCTURES, INC.****2. COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS**

At December 31, 2015, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

|                                                                                    | U.S.<br>Government  | Commercial          | Total                |
|------------------------------------------------------------------------------------|---------------------|---------------------|----------------------|
| Costs incurred on uncompleted contracts                                            | \$349,458,368       | \$123,078,356       | \$472,536,724        |
| Estimated earnings                                                                 | 62,718,792          | 49,539,299          | 112,258,091          |
|                                                                                    | 412,177,160         | 172,617,655         | 584,794,815          |
| Less billings to date                                                              | 353,601,903         | 128,745,963         | 482,347,866          |
| <b>Costs and estimated earnings in excess of billings on uncompleted contracts</b> | <b>\$58,575,257</b> | <b>\$43,871,692</b> | <b>\$102,446,949</b> |

At December 31, 2014, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

|                                                                                    | U.S.<br>Government  | Commercial          | Total               |
|------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Costs incurred on uncompleted contracts                                            | \$299,871,583       | \$90,272,545        | \$390,144,128       |
| Estimated earnings                                                                 | 56,708,610          | 39,773,983          | 96,482,593          |
|                                                                                    | 356,580,193         | 130,046,528         | 486,626,721         |
| Less billings to date                                                              | 313,441,471         | 94,324,761          | 407,766,232         |
| <b>Costs and estimated earnings in excess of billings on uncompleted contracts</b> | <b>\$43,138,722</b> | <b>\$35,721,767</b> | <b>\$78,860,489</b> |

The above amounts are included in the accompanying balance sheets under the following captions at December 31, 2015 and 2014.

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|                                                                             | 2015           | 2014          |
|-----------------------------------------------------------------------------|----------------|---------------|
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$ 102,622,387 | \$ 79,054,139 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (175,438 )     | (193,650 )    |
| <u>Totals</u>                                                               | \$ 102,446,949 | \$ 78,860,489 |

Unbilled costs and estimated earnings are billed in accordance with applicable contract terms. As of December 31, 2015, approximately \$17.6 million of the balances above are not expected to be collected within one year. There are no amounts billed under retainage provisions.

Revisions in the estimated gross profits on contracts and contract amounts are made in the period in which the circumstances requiring the revisions occur. During the years ended December 31, 2015, 2014 and 2013, the effect of such revisions in total estimated contract profits resulted in a decrease to the total gross profit to be earned on the contracts of approximately \$1,875,000, \$42,568,000 and \$3,700,000, respectively, from that which would have been reported had the revised estimate been used as the basis of recognition of contract profits in prior years.

Although management believes it has established adequate procedures for estimating costs to complete on uncompleted open contracts, it is at least reasonably possible that additional significant costs could occur on contracts prior to completion.

**CPI AEROSTRUCTURES, INC.****3. ACCOUNTS RECEIVABLE**

Accounts receivable consists of trade receivables as follows:

|                                       | December 31, |             |
|---------------------------------------|--------------|-------------|
|                                       | 2015         | 2014        |
| Billed receivables                    | \$7,740,837  | \$6,491,814 |
| Less: allowance for doubtful accounts | (75,000 )    | (25,000 )   |
|                                       | \$7,665,837  | \$6,466,814 |

**4. PROPERTY AND EQUIPMENT:**

|                                                | December 31, |             | Estimated                 |
|------------------------------------------------|--------------|-------------|---------------------------|
|                                                | 2015         | 2014        | Useful<br>Life<br>(years) |
| Machinery and equipment                        | \$1,910,532  | \$1,646,787 | 5 to 10                   |
| Computer equipment                             | 3,326,594    | 3,163,227   | 5                         |
| Furniture and fixtures                         | 610,323      | 610,323     | 7                         |
| Automobiles and trucks                         | 13,162       | 13,162      | 5                         |
| Leasehold improvements                         | 1,562,856    | 1,532,355   | 10                        |
|                                                | 7,423,467    | 6,965,854   |                           |
| Less accumulated depreciation and amortization | 5,064,731    | 4,210,668   |                           |
|                                                | \$2,358,736  | \$2,755,186 |                           |

Depreciation and amortization expense for the years ended December 31, 2015, 2014 and 2013 was \$854,063, \$763,736 and \$704,435, respectively.

During the years ended December 31, 2015 and 2014, the Company acquired \$247,881 and \$67,283, respectively, of property and equipment under capital leases.

**5. LINE OF CREDIT:**

On December 5, 2012, the Company entered into an Amended and Restated Credit Agreement with Sovereign Bank, now called Santander Bank, N.A. (“Santander”) as the sole arranger, administrative agent and collateral agent and Valley National Bank. The Restated Agreement provides for a revolving credit loan commitment (the “Revolving Facility”) of \$35 million. The term of the Restated Agreement is through December 2016.

As of December 31, 2015, the Company was in compliance with all covenants contained in the Restated Agreement. As of December 31, 2015, the Company had \$23.7 million outstanding under the Revolving Facility bearing interest at 3.5%.

**CPI AEROSTRUCTURES, INC.**

**6. LONG-TERM DEBT**

On March 9, 2012, the Company obtained a \$4.5 million term loan from Santander to be amortized over five years (the “Santander Term Facility”). The Santander Term Facility was used to purchase tooling and equipment for new programs. Santander Term Facility bears interest at the lower of LIBOR plus 3% or Santander’s prime rate, 3.25% at December 31, 2015.

Additionally, the Company and Santander entered into a five-year interest rate swap agreement, in the notional amount of \$4.5 million. Under the interest rate swap, the Company pays an amount to Santander representing interest on the notional amount at a fixed rate of 4.11% and receives an amount from Santander Bank representing interest on the notional amount of a rate equal to the one-month LIBOR plus 3%. The effect of this interest rate swap will be the Company paying a fixed interest fixed rate of 4.11% over the term of the SantanderTerm Facility.

The maturities of the long-term debt are as follows:

Year ending December 31,

|      |             |
|------|-------------|
| 2016 | \$1,011,491 |
| 2017 | 376,527     |
| 2018 | 47,638      |
| 2019 | 38,791      |
| 2020 | 21,005      |
|      | \$1,495,452 |

Also included in long-term debt are capital leases and notes payable of \$295,452 and \$161,555 at December 31, 2015 and 2014, respectively, including a current portion of \$111,491 and \$71,713, respectively.

The cost of assets under capital leases was approximately \$1,363,977 and \$1,118,720 at December 31, 2015 and 2014, respectively. Accumulated depreciation of assets under capital leases was approximately \$971,000 and \$765,000 at December 31, 2015 and 2014, respectively.

**7. COMMITMENTS:**

The Company has employment agreements with two employees. The aggregate future commitment under these agreements is \$606,000 for the year ending December 31, 2016. These agreements provide for additional bonus payments that are calculated as defined in the respective employment agreements.

The Company leases an office and warehouse facility under a non-cancelable operating lease which expires in April, 2022. The aggregate future commitment under this lease agreement is as follows:

Year ending December 31,

|            |              |
|------------|--------------|
| 2016       | \$1,600,467  |
| 2017       | 1,639,382    |
| 2018       | 1,679,465    |
| 2019       | 1,720,750    |
| 2020       | 1,763,274    |
| Thereafter | 2,409,432    |
|            | \$10,812,770 |

Rent expense for the years ended December 31, 2015, 2014 and 2013 was \$1,608,701, \$1,608,702 and \$1,636,171, respectively.

**8 INCOME TAXES**

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

| Year ended December 31,  | 2015        | 2014           | 2013        |
|--------------------------|-------------|----------------|-------------|
| Current:                 |             |                |             |
| Federal                  | \$82,000    | \$(8,646,000 ) | \$3,334,000 |
| Prior year under accrual | 143,000     | 44,000         | 190,000     |
| State                    | 107,000     | 6,000          | ---         |
| Deferred:                |             |                |             |
| Federal                  | 2,659,000   | (3,877,000 )   | (107,000 )  |
|                          | \$2,991,000 | \$(12,473,000) | \$3,417,000 |

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**CPI AEROSTRUCTURES, INC.**

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

| December 31,                                 | 2015        | 2014           | 2013        |
|----------------------------------------------|-------------|----------------|-------------|
| Taxes computed at the federal statutory rate | \$2,722,000 | \$(12,812,000) | \$3,792,000 |
| State income tax, net                        | 70,000      | 4,000          | --          |
| Prior year true-up                           | 325,000     | 44,000         | 190,000     |
| Research and development tax credit          | (177,000 )  | (140,000 )     | ---         |
| Reduction in domestic production activity    | --          | 893,000        | ---         |
| AMT credit carryforward                      | --          | (584,000 )     | ---         |
| Permanent differences                        | 51,000      | 122,000        | (565,000 )  |
| Provision for (benefit from) income taxes    | \$2,991,000 | \$(12,473,000) | \$3,417,000 |

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

|                                        |           |           |
|----------------------------------------|-----------|-----------|
| Deferred Tax Assets:                   | 2015      | 2014      |
| Revenue recognition                    | \$--      | \$560,000 |
| Interest rate swap                     | 3,000     | 5,000     |
| FIN 48 liability                       | 33,000    | ---       |
| Allowance for doubtful accounts        | 26,000    | 9,000     |
| Credit carryforwards                   | 1,303,000 | 1,134,000 |
| Deferred rent                          | 212,000   | 197,000   |
| Stock options                          | 626,000   | 827,000   |
| Charitable contributions carry forward | 18,000    | ---       |
| Net operating loss carryforward        | 1,006,000 | 2,567,000 |
| Deferred Tax Assets                    | 3,227,000 | 5,299,000 |

Deferred Tax Liabilities:

|                          |             |             |
|--------------------------|-------------|-------------|
| Prepaid expenses         | 156,000     | 128,000     |
| Revenue recognition      | 606,000     | ---         |
| Property and equipment   | 575,000     | 622,000     |
| Deferred tax liabilities | 1,337,000   | 750,000     |
| Net Deferred Tax Assets  | \$1,890,000 | \$4,549,000 |

The Company recognized, for income tax purposes, a tax benefit of \$33,000, \$86,000 and \$27,000 for the years ended December 31, 2015, 2014 and 2013, respectively, for compensation expense related to its stock option plan for which no corresponding charge to operations has been recorded. Such amounts have been added to additional paid-in capital

in those years.

## **9. STOCK BASED COMPENSATION:**

The Company accounts for compensation expense associated with stock options and restricted stock units (“RSUs”) based on the fair value of the options and units on the date of grant.

The Company used the modified transition method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee stock-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of the fair value method.

The Company’s net income (loss) for the years ended December 31, 2015, 2014 and 2013, includes approximately \$524,000, \$468,000 and \$380,000 of stock based compensation expense, respectively, for the grant of stock options and RSUs .

**CPI AEROSTRUCTURES, INC.**

The Company recorded reductions in income tax payable of approximately \$325,000, \$513,000 and \$266,000 for the years ended December 31, 2015, 2014 and 2013, respectively, as a result of the tax benefit upon exercise of options. The compensation expense related to the Company's stock based compensation arrangements is recorded as a component of selling, general and administrative expenses. Cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized from options exercised (excess tax benefits) are classified as cash inflows from financing activities and cash inflows from operating activities.

In 2000, the Company adopted the Performance Equity Plan 2000 (the "2000 Plan"). The 2000 Plan, as amended, reserved 1,230,000 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.

In 2009, the Company adopted the Performance Equity Plan 2009 (the "2009 Plan"). The 2009 Plan reserved 500,000 common shares for issuance. The 2009 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 any person possessing more than 10% of the total combined voting power of all classes of Company stock, which are exercisable at 110% of the closing price of the Company's shares on the date of issuance.

The Company has 113,787 options available for grant under the 2009 Plan.

The estimated fair value of each option award granted was determined on the date of grant using the Black-Scholes option valuation model. The following weighted average assumptions were used for option grants during the years ended December 31, 2014 and 2013:

|                               | 2014  |   | 2013  |   |
|-------------------------------|-------|---|-------|---|
| Risk-free interest rate       | 1.45  | % | 0.72  | % |
| Expected volatility           | 102.0 | % | 106.0 | % |
| Dividend yield                | 0     | % | 0     | % |
| Expected option term in years | 5     |   | 5     |   |

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The Company did not grant any stock options in 2015. The risk free interest rate for the years ended December 31, 2014 and 2013 is based on the five year U.S. Treasury note rate on the day of grant. The expected volatility computation for the years ended December 31, 2014 and 2013 is based on the average of the volatility over the most recent five year period, which represents the Company's estimate of expected volatility over the expected option term. The Company has never paid a dividend, and is not expected to pay a dividend in the foreseeable future, therefore the dividend yield is assumed to be zero. The Company assumes zero forfeitures of options.

A summary of the status of the Company's stock option plans is as follows:

| Fixed Options                    | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (in<br>years) | Aggregate  |       |
|----------------------------------|-----------|------------------------------------------|-----------------------------------------------------------------------|------------|-------|
|                                  |           |                                          |                                                                       | Intrinsic  | Value |
| Outstanding at January 1, 2013   | 495,517   | \$ 9.33                                  | 2.73                                                                  |            |       |
| Granted during period            | 46,402    | 10.64                                    |                                                                       |            |       |
| Exercised                        | (45,000 ) | 6.70                                     |                                                                       |            |       |
| Forfeited/Expired                | (35,000 ) | 8.20                                     |                                                                       |            |       |
| Outstanding at December 31, 2013 | 461,919   | 9.80                                     | 2.28                                                                  |            |       |
| Granted during period            | 43,064    | 14.67                                    |                                                                       |            |       |
| Exercised                        | (155,000) | 8.52                                     |                                                                       |            |       |
| Outstanding at December 31, 2014 | 349,983   | 10.97                                    | 2.20                                                                  |            |       |
| Granted during period            | -         | -                                        |                                                                       |            |       |
| Exercised                        | (55,000 ) | 8.00                                     |                                                                       |            |       |
| Forfeited/Expired                | (25,000 ) | 14.08                                    |                                                                       |            |       |
| Outstanding at December 31, 2015 | 269,983   | \$ 11.29                                 | \$ 1.71                                                               | \$ 221,397 |       |
| Vested at December 31, 2015      | 269,983   | \$ 11.29                                 | \$ 1.71                                                               | \$ 221,397 |       |

**CPI AEROSTRUCTURES, INC.**

The weighted-average fair value of each option granted during the years ended December 31, 2014 and 2013, estimated as of the grant date using the Black-Scholes option valuation model was \$10.86 and \$8.17, respectively.

The Company's stock options granted to non-employee directors vest immediately upon grant and have a maximum contractual term of five years. Stock options granted to employees vest over three years and have a maximum contractual term of ten years. The expected option term is calculated utilizing historical data of option exercises.

During the year ended December 31, 2015, 10,000 stock options were exercised for cash, resulting in proceeds to the Company of \$80,000. During the same period, 45,000 options were exercised, pursuant to provisions of the stock option plan, where the Company received no cash and 29,648 shares of its common stock in exchange for the 45,000 shares issued in the exercise. The 29,648 shares that the Company received were valued at \$362,012, the fair market value of the shares on the dates of exercise.

During the years ended December 31, 2015, 2014 and 2013, the Company recognized a tax benefit of \$33,000, \$86,000 and \$27,000, respectively, from the exercise of stock options.

The intrinsic value of stock options exercised during the years ended December 31, 2015, 2014 and 2013 was approximately \$230,500, \$679,000 and \$266,000, respectively.

The fair value of all options vested during the years ended December 31, 2015, 2014 and 2013 was approximately \$221,000, \$387,000 and \$2,472,000, respectively.

**10. EMPLOYEE BENEFIT PLAN:**

On September 11, 1996, the Company's board of directors instituted a defined contribution plan under Section 401(k) of the Internal Revenue Code (the "Code"). On October 1, 1998, the Company amended and standardized its plan 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 2015, 2014 and 2013

amounted to \$422,334, \$355,428 and \$326,416, respectively.

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**CPI AEROSTRUCTURES, INC.****11. MAJOR CUSTOMERS:**

One percent of revenue in 2015, 2% of revenue in 2014 and 2% of revenue in 2013 were directly to the U.S. government. Less than 1% and 1% of accounts receivable at December 31, 2015 and 2014, respectively, were from the U. S. Government.

In addition, in 2015, 30%, 17%, 13% and 12% of our revenue were to our four largest commercial customers, respectively. In 2014, 22%, 22%, 19% and 11% of our revenue were to our four largest commercial customers, respectively. At December 31, 2015, 30%, 18% and 16% of accounts receivable were from our three largest commercial customers. At December 31, 2014, 26%, 21% and 15% of accounts receivable were from our three largest commercial customers.

At December 31, 2015 and 2014, 1% of costs and estimated earnings in excess of billings on uncompleted contracts were from the U.S. Government.

At December 31, 2015, 26%, 23%, 13%, and 11% of costs and estimated earnings in excess of billings on uncompleted contracts were from our four largest commercial customers. At December 31, 2014, 27%, 25%, 13% and 8% of costs and estimated earnings in excess of billings on uncompleted contracts were from our four largest commercial customers.

**12. QUARTERLY FINANCIAL DATA (UNAUDITED)**

The results of any single quarter are not necessarily indicative of the Company's results for the full year. Earnings per share data is computed independently for each of the periods presented. As a result, the sum of the earnings per share amounts for the quarter may not equal the total for the year.

|         | Quarter ended |              |               |              |
|---------|---------------|--------------|---------------|--------------|
| 2015    | March 31,     | June 30,     | September 30, | December 31, |
| Revenue | \$19,876,566  | \$21,944,320 | \$26,790,881  | \$31,590,790 |

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|                                |              |                |              |              |
|--------------------------------|--------------|----------------|--------------|--------------|
| Gross Profit                   | 3,602,071    | 3,848,369      | 5,596,432    | 3,554,831    |
| Net Income                     | 928,120      | 990,108        | 2,446,085    | 651,680      |
| Income per common share        |              |                |              |              |
| Basic                          | 0.11         | 0.12           | 0.29         | 0.08         |
| Diluted                        | 0.11         | 0.12           | 0.28         | 0.08         |
| 2014                           |              |                |              |              |
| Revenue                        | \$21,883,517 | \$(23,751,623) | \$21,487,677 | \$20,067,439 |
| Gross Profit (loss)            | 4,491,132    | (42,963,154)   | 4,471,304    | 4,276,019    |
| Net Income (loss)              | 1,728,869    | (29,691,951)   | 1,697,547    | 1,056,260    |
| Income (loss) per common share |              |                |              |              |
| Basic                          | 0.21         | (3.50 )        | 0.20         | 0.20         |
| Diluted                        | 0.20         | (3.50 )        | 0.20         | 0.20         |

### 13. SUBSEQUENT EVENT

On March 24, 2016, the Company entered into a Credit Agreement with Bank United as the sole arranger, administrative agent and collateral agent and Citizens Bank N.A. The Credit Agreement provides for a revolving credit loan commitment of \$30 million and a \$10 million term loan. The proceeds of the Credit Agreement were used to pay off all amounts outstanding under the Santander Term Facility and the Revolving Facility. The term of the Credit Agreement is through March of 2019.

The revolving loan bears interest at a rate based upon a pricing grid, as defined in the agreement. The range for LIBOR based loans is between 2% and 2.75% above the then applicable LIBOR rate. The range of base rate loans is between the bank's prime rate and 0.25% above the bank's prime rate.

Schedule II - Valuation and Qualifying Accounts

Allowance for Doubtful Accounts

(Deducted from Accounts Receivable)

|                                                 | 2015     | 2014     | 2013     |
|-------------------------------------------------|----------|----------|----------|
| Balance at January 1                            | \$25,000 | \$25,000 | \$25,000 |
| (Deductions from)/charges to costs and expenses | 50,000   | -        | -        |
| Deductions from reserves                        | -        | -        | -        |
| Balance at December 31,                         | \$75,000 | \$25,000 | \$25,000 |

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 28, 2016 CPI AEROSTRUCTURES, INC.  
(Registrant)

By: /s/ Vincent Palazzolo  
Vincent Palazzolo

Chief Financial Officer and Secretary

(Principal financial and accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| <u>Signature</u>                           | <u>Title</u>                                                                          | <u>Date</u>    |
|--------------------------------------------|---------------------------------------------------------------------------------------|----------------|
| /s/ Eric Rosenfeld<br>Eric Rosenfeld       | Chairman of the Board of<br>Directors                                                 | March 28, 2016 |
| /s/ Douglas McCrosson<br>Douglas McCrosson | Chief Executive Officer and<br>President                                              | March 28, 2016 |
| /s/ Vincent Palazzolo<br>Vincent Palazzolo | Chief Financial Officer and Secretary<br>(Principal financial and accounting officer) | March 28, 2016 |
| /s/ Walter Paulick<br>Walter Paulick       | Director                                                                              | March 28, 2016 |
| /s/ Kenneth McSweeney<br>Kenneth McSweeney | Director                                                                              | March 28, 2016 |
| /s/ Harvey Bazaar<br>Harvey Bazaar         | Director                                                                              | March 28, 2016 |
| /s/ Michael Faber<br>Michael Faber         | Director                                                                              | March 28, 2016 |

/s/ Terry Stinson Director March 28, 2016  
Terry Stinson