

CPI AEROSTRUCTURES INC  
Form 10-Q  
November 09, 2015

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2015

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-11398

**CPI AEROSTRUCTURES, INC.**

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction  
of incorporation or organization)

11-2520310

(IRS Employer Identification Number)

Edgar Filing: CPI AEROSTRUCTURES INC - Form 10-Q

91 Heartland Blvd., Edgewood, NY 11717  
(Address of principal executive offices) (zip code)

(631) 586-5200

(Registrant's telephone number including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 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:

|                         |                           |
|-------------------------|---------------------------|
| 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 12b-2 of the Exchange Act). Yes No

As of October 31, 2015 the number of shares of common stock, par value \$.001 per share, outstanding was 8,577,256.

**INDEX**

---

**Part I - Financial Information**

Item 1 – Condensed Financial Statements

Condensed Balance Sheets as of September 30, 2015 (Unaudited) and December 31, 2014 3

Condensed Statements of Operations and Comprehensive Income (Loss) for the Three and Nine Months ended September 30, 2015 (Unaudited) and 2014 (Unaudited) 4

Condensed Statements of Shareholders’ Equity for the Nine Months ended September 30, 2015 (Unaudited) and 2014 (Unaudited) 5

Condensed Statements of Cash Flows for the Nine Months ended September 30, 2015 (Unaudited) and 2014 (Unaudited) 6

Notes to Condensed Financial Statements (Unaudited) 7

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations 17

Item 3 – Quantitative and Qualitative Disclosures About Market Risk 26

Item 4 – Controls and Procedures 26

**Part II - Other Information**

Item 1 – Legal Proceedings 27

Item 1A – Risk Factors 27

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds 27

Item 3 – Defaults Upon Senior Securities 27

Item 4 – Mine Safety Disclosures 27

Item 5 – Other Information 27

Item 6 – Exhibits 28

Signatures 29



**Part I - Financial Information****Item 1 – Condensed Financial Statements****CONDENSED BALANCE SHEETS**

|   | <b>September<br/>30,<br/><br/>2015<br/><br/>(Unaudited)</b> | <b>December<br/>31,<br/><br/>2014<br/><br/>(Note 1)</b> |
|---|---|---|
| <b>ASSETS</b>   |   |   |
| Current Assets:   |   |   |
| Cash  | \$ 1,893,534  | \$ 1,504,907  |
| Accounts receivable, net  | 8,728,857   | 6,466,814   |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 96,537,127  | 79,054,139  |
| Deferred income taxes   | 2,102,000   | 1,708,000   |
| Refundable income taxes   | ---   | 8,138,322   |
| Prepaid expenses and other current assets                                   | 909,565   | 828,275   |
| <b>Total current assets</b>   | <b>110,171,083</b>  | <b>97,700,457</b>                                       |
| Plant and equipment, net  | 2,374,757   | 2,755,186   |
| Deferred income taxes   | 1,439,000   | 3,591,000   |
| Other assets  | 108,080   | 108,080   |
| <b>Total Assets</b>   | <b>\$ 114,092,920</b>                                       | <b>\$ 104,154,723</b>                                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                 |   |   |
| Current Liabilities:  |   |   |
| Accounts payable  | \$ 14,174,354   | \$ 8,928,456  |
| Accrued expenses  | 1,285,357   | 1,061,747   |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 113,115   | 193,650   |
| Current portion of long-term debt   | 999,712   | 971,713   |
| Contract loss   | 990,364   | 396,182   |
| Line of credit  | 24,700,000  | 25,150,000  |
| Income tax payable  | 182,592   | 6,067   |
| Deferred income taxes   | 153,000   | 128,000   |
| <b>Total current liabilities</b>  | <b>42,598,494</b>   | <b>36,835,815</b>                                       |
| Long-term debt, net of current portion                                      | 625,034   | 1,289,843   |
| Deferred income taxes   | 459,000   | 622,000   |
| Other liabilities   | 624,516   | 593,909   |
| <b>Total Liabilities</b>  | <b>44,307,044</b>   | <b>39,341,567</b>                                       |

Edgar Filing: CPI AEROSTRUCTURES INC - Form 10-Q

Shareholders' Equity:

|   |                       |                       |
|---|-----------------------|-----------------------|
| Common stock - \$.001 par value; authorized 50,000,000 shares, 8,564,417 and 8,500,555 shares, respectively, issued and outstanding | 8,564                 | 8,501                 |
| Additional paid-in capital  | 52,045,208            | 51,440,770            |
| Retained earnings   | 17,737,914            | 13,373,601            |
| Accumulated other comprehensive loss  | (5,810 )              | (9,716 )              |
| <b>Total Shareholders' Equity</b>   | <b>69,785,876</b>     | <b>64,813,156</b>     |
| <b>Total Liabilities and Shareholders' Equity</b>   | <b>\$ 114,092,920</b> | <b>\$ 104,154,723</b> |

See Notes to Condensed Financial Statements

**CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME(LOSS)**

|  | <b>For the Three Months Ended</b> |              | <b>For the Nine Months Ended</b> |                |
|--|-----------------------------------|--------------|----------------------------------|----------------|
|  | <b>September 30, 2015</b>         | <b>2014</b>  | <b>September 30, 2015</b>        | <b>2014</b>    |
|  | <b>(Unaudited)</b>                |              | <b>(Unaudited)</b>               |                |
| Revenue  | \$26,790,881                      | \$21,487,677 | \$68,611,766                     | \$19,619,571   |
| Cost of sales  | 21,194,449                        | 17,016,373   | 55,564,894                       | 53,620,290     |
| Gross profit (loss)  | 5,596,432                         | 4,471,304    | 13,046,872                       | (34,000,719)   |
| Selling, general and administrative expenses   | 1,898,965                         | 1,800,878    | 5,968,123                        | 5,424,581      |
| Income (loss) from operations  | 3,697,467                         | 2,670,426    | 7,078,749                        | (39,425,300)   |
| Interest expense   | 218,382                           | 67,879       | 703,436                          | 370,234        |
| Income (loss) before provision for (benefit from) income taxes                         | 3,479,085                         | 2,602,547    | 6,375,313                        | (39,795,534)   |
| Provision for (benefit from) income taxes  | 1,033,000                         | 905,000      | 2,011,000                        | (12,869,000)   |
| Net income (loss)  | 2,446,085                         | 1,697,547    | 4,364,313                        | (26,926,534)   |
| Other comprehensive income, net of tax - Change in unrealized gain- interest rate swap | 1,382                             | 5,095        | 3,906                            | 9,727          |
| Comprehensive income (loss)  | \$2,447,467                       | \$1,702,642  | \$4,368,219                      | \$(26,916,807) |
| Income (loss) per common share – basic   | \$0.29                            | \$0.20       | \$0.51                           | \$(3.18 )      |
| Income (loss) per common share – diluted   | \$0.28                            | \$0.20       | \$0.51                           | \$(3.18 )      |
| Shares used in computing income (loss) per common share:                               |                                   |              |                                  |                |
| Basic  | 8,564,417                         | 8,483,111    | 8,544,475                        | 8,459,028      |
| Diluted  | 8,625,308                         | 8,545,889    | 8,613,316                        | 8,459,028      |

See Notes to Condensed Financial Statements





**CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**

|   | Common<br>Stock<br>Shares | 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, 2014                        | 8,410,493                 | \$ 8,410 | \$50,381,348                     | \$38,582,876         | \$ (21,115)                                   | ) \$88,951,519                   |
| Net loss  | ----                      | ----     | ----                             | (26,926,534)         | ----  | (26,926,534)                     |
| Change in unrealized loss from interest rate swap | ----                      | ----     | ----                             | ----                 | 9,727   | 9,727                            |
| Common stock issued upon exercise of options      | 72,618                    | 73       | 447,678                          | ----                 | ----  | 447,751                          |
| Tax benefit of stock option exercise              | ---                       | ---      | 86,000                           | ---                  | ---   | 86,000                           |
| Stock-based compensation expense                  | ----                      | ----     | 350,824                          | ----                 | ----  | 350,824                          |
| Balance at September 30, 2014                     | 8,483,111                 | \$ 8,483 | \$51,265,850                     | \$11,656,342         | \$ (11,388)                                   | ) \$62,919,287                   |
| Balance at January 1, 2015                        | 8,500,555                 | \$ 8,501 | \$51,440,770                     | \$13,373,601         | \$ (9,716)                                    | ) \$64,813,156                   |
| Net income  | ----                      | ----     | ----                             | 4,364,313            | ----  | 4,364,313                        |
| Change in unrealized loss from interest rate swap | ----                      | ----     | ----                             | ----                 | 3,906   | 3,906                            |
| Common stock issued upon exercise of options      | 25,352                    | 26       | 79,974                           | ----                 | ----  | 80,000                           |
| Tax benefit of stock option exercise              | ---                       | ---      | 33,000                           | ---                  | ---   | 33,000                           |
| Stock-based compensation expense                  | 38,510                    | 37       | 491,464                          | ---                  | ---   | 491,501                          |
| Balance at September 30, 2015                     | 8,564,417                 | \$ 8,564 | \$52,045,208                     | \$17,737,914         | \$ (5,810)                                    | ) \$69,785,876                   |

See Notes to Condensed Financial Statements

**CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| <b>For the Nine Months Ended September 30,</b>   | <b>2015</b>  | <b>2014</b>    |
|--|--------------|----------------|
| Cash flows from operating activities:  |              |                |
| Net income (loss)  | \$4,364,313  | \$(26,926,534) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |              |                |
| Depreciation and amortization  | 623,566      | 556,580        |
| Deferred rent  | 34,513       | 12,823         |
| Loss on disposal of fixed asset  | ---          | 1,042          |
| Stock-based compensation   | 491,501      | 350,824        |
| Deferred income taxes  | 1,624,889    | (13,063,910)   |
| Tax benefit from stock option plans  | (33,000 )    | (86,000 )      |
| Changes in operating assets and liabilities:   |              |                |
| Increase in accounts receivable  | (2,262,043 ) | (4,509,770 )   |
| (Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts | (17,482,988) | 34,805,809     |
| Increase in prepaid expenses and other assets  | (81,290 )    | (234,739 )     |
| Increase in accounts payable and accrued expenses  | 5,469,508    | 641,470        |
| Decrease in billings in excess of costs and estimated earnings on uncompleted contracts            | (80,535 )    | (67,742 )      |
| Increase in accrued losses on uncompleted contracts  | 594,182      | 1,528,921      |
| Taxes refunded   | 8,133,433    | ----           |
| Increase (decrease) in income taxes payable  | 209,525      | (650,536 )     |
| Net cash provided by (used in) operating activities  | 1,605,574    | (7,641,762 )   |
| Cash used in investing activities - purchase of plant and equipment                                | (126,953 )   | (514,043 )     |
| Cash flows from financing activities:  |              |                |
| Payments on long-term debt   | (752,994 )   | (712,992 )     |
| Proceeds from line of credit   | 8,200,000    | 8,500,000      |
| Payments on line of credit   | (8,650,000 ) | (1,500,000 )   |
| Proceeds from exercise of stock options  | 80,000       | 447,751        |
| Tax benefit from stock option plans  | 33,000       | 86,000         |
| Net cash (used in) provided by financing activities  | (1,089,994 ) | 6,820,759      |
| Net increase (decrease) in cash  | 388,627      | (1,335,046 )   |
| Cash at beginning of period  | 1,504,907    | 2,166,103      |
| Cash at end of period  | \$1,893,534  | \$831,057      |
| Supplemental disclosures of cash flow information:   |              |                |
| Noncash investing and financing activities:  |              |                |

Edgar Filing: CPI AEROSTRUCTURES INC - Form 10-Q

|  |           |           |
|--|-----------|-----------|
| Equipment acquired under capital lease | \$116,184 | ---       |
| Cash paid during the period for:       |           |           |
| Interest                               | \$736,987 | \$708,504 |
| Income taxes                           | \$29      | \$855,000 |

See Notes to Condensed Financial Statements

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

---

### 1. INTERIM FINANCIAL STATEMENTS

The condensed financial statements of CPI Aerostructures, Inc. (the “Company”) as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

The condensed balance sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by the SEC. Such adjustments are of a normal, recurring nature. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for interim periods are not necessarily indicative of the operating results to be expected for the full year or any other interim period.

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 September 30, 2015, the Company had approximately \$2,152,000 of uninsured balances. The Company limits its credit risk by selecting financial institutions considered to be highly creditworthy.

The Company predominantly recognizes revenue from contracts over the contractual period under the percentage-of-completion (“POC”) method of accounting. Under the POC method of accounting, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded as an asset captioned “Costs and estimated earnings in excess of billings on uncompleted contracts.” Contracts where billings to date have exceeded recognized revenues are recorded as a liability captioned “Billings in excess of costs and estimated earnings on uncompleted contracts.” Changes to the original estimates may be required during the life of the contract. Estimates are reviewed monthly and the effect of any change in the estimated gross margin percentage for a contract is reflected in cost of sales in the period the change becomes known. The use of the POC method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods. As a result, there can be a significant disparity between earnings (both for accounting and tax purposes) as reported and actual cash received during any reporting period. The Company continually evaluates all of the issues related to the assumptions, risks and uncertainties inherent with the application

of the POC method of accounting; however, it cannot be assured that estimates will be accurate. If estimates are not accurate or a contract is terminated, the Company is required to adjust revenue in later periods. Furthermore, even if estimates are accurate, there may be a shortfall in cash flow and the Company may need to borrow money, or seek access to other forms of liquidity, to fund its work in process or to pay taxes until the reported earnings materialize as actual cash receipts.

**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

---

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.

Because of the change in estimate on the Company's A-10 program recognized in the quarter ended June 30, 2014, the Company incurred a net loss for the year ended December 31, 2014. The A-10 program, along with all the Company's programs, is evaluated on an ongoing basis. If facts and circumstances change, previously recognized estimates may be adjusted in the future and such adjustments may be material. This net loss, after adjustment for carrying back tax losses to recover previously paid taxes of approximately \$8,300,000, resulted in a net operating loss carry forward at September 30, 2015 of approximately \$4,300,000, which will expire in 2029. The Company's 2014 tax return, along with its claim to recover the aforementioned previously paid taxes, were filed with the IRS in April 2015. The Company received this refund in the nine month period ended September 30, 2015.

In May 2014, the 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. The new standard was to become effective for annual and interim periods in fiscal years beginning after December 15, 2016. In April 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 consolidated 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. The other modifications to the original proposals are still pending.

**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

---

**2. 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’s net income for the three and nine months ended September 30, 2015 includes approximately \$76,500 and \$491,500, respectively, of non-cash compensation expense related to the Company’s stock compensation grants. The Company’s net income/(loss) for the three and nine months ended September 30, 2014 includes approximately \$145,200 and \$350,800, respectively, of non-cash compensation expense related to the Company’s stock option grants. On January 1, 2015, the Company granted 51,349 RSUs to its board of directors as partial compensation for the 2015 year. RSUs vest straight line on a quarterly basis over a one year period. On January 1, 2014, the Company granted 36,292 stock options to its board of directors as partial compensation for the 2014 year. Options to acquire 6,772 shares were granted on July 1, 2014 to a new board member as part of the normal compensation. The non-cash compensation expense related to all of the Company’s stock-based compensation arrangements is recorded as a component of selling, general and administrative expenses.

The estimated fair value of each stock option award granted was determined on the date of grant using the Black-Scholes option valuation model. The estimated fair value of each RSU granted was determined based on the fair market value of the Company’s common stock on the date of grant.

The following weighted-average assumptions were used for the options granted during the nine months ended September 30, 2014:

|                              |               |
|------------------------------|---------------|
| Risk-free interest rate      | 1.45% - 1.64% |
| Expected volatility          | 83% - 102%    |
| Dividend yield               | 0%            |
| Expected option term (years) | 5             |

Edgar Filing: CPI AEROSTRUCTURES INC - Form 10-Q

A summary of the status of the Company's stock option plans as of September 30, 2015 and changes during the nine months ended September 30, 2015 is as follows:

|  | <b>Options</b> | <b>Weighted<br/>average<br/>exercise<br/>price</b> | <b>Weighted<br/>average<br/>remaining<br/>contractual<br/>term (in<br/>years)</b> | <b>Aggregate<br/>intrinsic<br/>value</b> |
|--|----------------|--|---|--|
| Outstanding<br>at beginning of period      | 349,983        | \$ 10.97   |   |  |
| Exercised                                  | (55,000 )      | 8.00   |   |  |
| Outstanding and vested<br>at end of period | 294,983        | \$ 11.53   | 1.82  | \$ 146,598                               |



**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

---

During the nine months ended September 30, 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.

The intrinsic value of all options exercised during the nine months ended September 30, 2015 and 2014 was approximately \$230,500 and \$513,000, respectively. No options were exercised during the three months ended September 30, 2015 and 2014.

**3. Derivative Instruments and Fair Value**

Our use of derivative instruments has been to hedge interest rates. These derivative contracts are entered into with a financial institution. 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 condensed balance sheets 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 income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

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.

In March 2012, the Company entered into interest rate swaps 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 these interest rate swap contracts as cash flow hedges. 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 the quarter ended September 30, 2015. As of September 30, 2015 and December 31, 2014, we had a net deferred loss associated with cash flow hedges of approximately \$8,800 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. 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.

**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

---

Fair Value

At September 30, 2015 and December 31, 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.

|  | September 30, 2015 |              |
|--|--------------------|--------------|
|  | Carrying<br>Amount | Fair Value   |
| Debt                                     |                    |              |
| Short-term borrowings and long-term debt | \$26,324,746       | \$26,324,746 |

|  | December 31, 2014  |              |
|--|--------------------|--------------|
|  | Carrying<br>Amount | Fair Value   |
| Debt                                     |                    |              |
| Short-term borrowings and long-term debt | \$27,411,556       | \$27,411,556 |

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

**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**


---

The following table presents the fair values of those financial liabilities measured on a recurring basis as of September 30, 2015 and December 31, 2014:

| Description             | Total   | Fair Value Measurements<br>September 30, 2015                             |   |  |
|-------------------------|---------|---|---|--|
|                         |         | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>assets | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level<br>3) |
|                         |         | (Level<br>1)  |   |  |
| Interest Rate Swap, net | \$8,810 | --  | \$ 8,810  | --   |
| Total                   | \$8,810 | --  | \$ 8,810  | --   |

| Description             | Total    | Fair Value Measurements<br>December 31, 2014                              |   |  |
|-------------------------|----------|---|---|--|
|                         |          | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>assets | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level<br>3) |
|                         |          | (Level<br>1)  |   |  |
| Interest Rate Swap, net | \$14,716 | --  | \$ 14,716   | --   |
| Total                   | \$14,716 | --  | \$ 14,716   | --   |

The fair value of the Company's interest rate swaps 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 of the interest differential between the contractual swap and the replacement swap.

As of September 30, 2015 and December 31, 2014, \$8,810 and \$14,716, respectively, was included in Other Liabilities related to the fair value of the Company's interest rate swap, and \$5,810 and \$9,716, respectively, net of tax of \$3,000 and \$5,000, respectively, was included in Accumulated Other Comprehensive Loss.

**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)****4. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS**

Costs and estimated earnings in excess of billings on uncompleted contracts consist of:

|  | September 30, 2015  |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | U.S.                |                     |                     |
|  | Government          | Commercial          | Total               |
| Costs incurred on uncompleted Contracts  | \$331,229,392       | \$113,516,197       | \$444,745,589       |
| Estimated earnings   | 62,389,343          | 47,564,640          | 109,953,983         |
| Sub-total  | 393,618,735         | 161,080,837         | 554,699,572         |
| Less billings to date  | 338,242,351         | 120,033,209         | 458,275,560         |
| <b>Costs and estimated earnings in excess of billings on uncompleted contracts</b> | <b>\$55,376,384</b> | <b>\$41,047,628</b> | <b>\$96,424,012</b> |
|  | December 31, 2014   |                     |                     |
|  | U.S.                |                     |                     |
|  | 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          |
| Sub-total  | 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 September 30, 2015 and December 31, 2014:

|   | September<br>30, 2015 | December<br>31, 2014 |
|---|-----------------------|----------------------|
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$96,537,127          | \$79,054,139         |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (113,115 )            | (193,650 )           |

Totals

\$96,424,012 \$78,860,489

U.S. Government Contracts includes contracts directly with the U.S. Government and Government subcontracts.

---

13

---

**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

---

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 nine months ended September 30, 2015, 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 \$333,000 from that which would have been reported had the revised estimates been used as the basis of recognition of contract profits in prior years. During the nine months ended September 30, 2014, 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 \$42,346,000 from that which would have been reported had the revised estimates 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 uncompleted open contracts, it is possible that additional significant costs could occur on contracts prior to completion.



**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

---

**5. income (Loss) PER COMMON SHARE**

Basic income (loss) per common share is computed using the weighted average number of common shares outstanding. Diluted income per common share for the three and nine month periods ended September 30, 2015 is computed using the weighted-average number of common shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock, as well as unvested RSUs. Through December 31, 2014, part of the compensation the Company paid to its Board of Directors was in stock options. In 2015, the Company changed its Board compensation to include RSU's and eliminated the grant of stock options. Incremental shares of 97,839 were used in the calculation of diluted income per common share in the three months ended September 30, 2015. Incremental shares of 235,649 were not used in the calculation of diluted income per common share in the three month period ended September 30, 2015, as their exercise price was in excess of the Company's average stock price for the respective period and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation, as they would be anti-dilutive. Incremental shares of 142,056 were used in the calculation of diluted income per common share in the nine months ended September 30, 2015. Incremental shares of 165,766 were not used in the calculation of diluted income per common share in the nine month period ended September 30, 2015, as their exercise price was in excess of the Company's average stock price for the respective period and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation, as they would be anti-dilutive. Incremental shares of 211,402 were used in the calculation of diluted income per common share in the three months ended September 30, 2014. Incremental shares of 163,581 were not used in the calculation of diluted income per common share in the three month period ended September 30, 2014, as the effect of incremental shares would be anti-dilutive. No incremental shares were used in the calculation of diluted income (loss) per common share in the nine month period ended September 30, 2014, as the effect of incremental shares would be anti-dilutive due to the loss reported.

**6. Line of credit**

On December 5, 2012, the Company entered into an Amended and Restated Credit Agreement ("Restated 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 ("Santander Revolving Facility") commitment of \$35 million.

As of September 30, 2015, the Company was in compliance with all of the financial covenants contained in the Restated Agreement, as amended. As of September 30, 2015, the Company had \$24.7 million outstanding under the Restated Agreement bearing interest at 3.50%.

The Santander Revolving Facility and term loan under the Restated Agreement are secured by all our assets.



**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

---

**7. 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"). 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 Bank's prime rate, 3.5% at September 30, 2015.

Additionally, 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 pays an amount to Santander Bank 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 rate of 4.11% over the term of the Santander Term Facility.

The maturities of long-term debt are as follows:

|                                    |              |
|------------------------------------|--------------|
| Twelve months ending September 30, |              |
| 2016                               | \$ 999,712   |
| 2017                               | 577,603      |
| 2018                               | 28,869       |
| 2019                               | 15,876       |
| Thereafter                         | 2,686        |
|                                    | \$ 1,624,746 |

In addition to the Santander Term Facility, included in long-term debt are capital leases and notes payable of \$199,746, including a current portion of \$99,712.

**8. MAJOR CUSTOMERS**

During the nine months ended September 30, 2015, the Company's three largest commercial customers accounted for 22%, 19% and 18% of revenue, respectively. During the nine months ended September 30, 2014, the Company's three largest commercial customers accounted for 26%, 22% and 11% of revenue, respectively. In addition, during the nine

months ended September 30, 2015 and 2014, 0.84% and 1.2%, respectively, of revenue was directly from the U.S. Government.

At September 30, 2015, 24%, 23%, 14% and 13% of Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts were from the Company's 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 the Company's four largest commercial customers.

At September 30, 2015 and December 31, 2014, less than 1.0% and less than 1.1%, respectively, of Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts were directly from the U.S. Government.

At September 30, 2015, 31%, 21% and 14% of our 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.

## **Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations**

---

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

### **Forward Looking Statements**

When used in this Form 10-Q 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 of our Annual Report on Form 10-K for the year ended December 31, 2014 and Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q. 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.

### **Business Operations**

We are a manufacturer of structural aircraft parts for fixed wing aircraft and helicopters in both the commercial and defense markets. Within the global aerospace supply chain, we are either a Tier 1 supplier to aircraft Original Equipment Manufacturers (“OEMs”) or a Tier 2 subcontractor to major Tier 1 manufactures. We also are a prime contractor to the U.S. Department of Defense, primarily the Air Force. In conjunction with our assembly operations, we provide engineering, program management, supply chain management, and Maintenance Repair & Overhaul (“MRO”) services.

### **Marketing and New Business**

From the beginning of the current fiscal year through September 30, 2015, we received approximately \$48.0 million of new contract awards compared to \$87.8 million in the same period of 2014. Included in last year’s results was a multi-year government subcontract valued at approximately \$65 million for a five year quantity of E-2D outer wing panel kits. Through September 30, 2015, we received \$12.7 million in prime contracts directly from the US

Government compared to \$0 in the same period of 2014. We received \$12.3 million in government subcontracts awards through the nine month period ended September 30, 2015 compared to \$65.1 during the same period in 2014. And finally, through September 30, 2015 we have received \$23.0 million in commercial subcontract awards as compared to \$22.7 million of commercial subcontracts in the same period in 2014.

## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

**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 September 30, 2015 and December 31, 2014 was as follows:

| Backlog  | September<br>30, | December      |
|----------|------------------|---------------|
| (Total)  | 2015             | 31, 2014      |
| Funded   | \$125,720,000    | \$120,570,000 |
| Unfunded | 295,944,000      | 283,078,000   |
| Total    | \$421,664,000    | \$403,648,000 |

Approximately 71% of the total amount of our backlog at September 30, 2015 was attributable to government contracts. Our backlog attributable to government contracts at September 30, 2015 and December 31, 2014 was as follows:

| Backlog      | September<br>30, | December      |
|--------------|------------------|---------------|
| (Government) | 2015             | 31, 2014      |
| Funded       | \$116,957,000    | \$117,875,000 |
| Unfunded     | 183,358,000      | 136,893,000   |
| Total        | \$300,315,000    | \$254,768,000 |

Our backlog attributable to commercial contracts at September 30, 2015 and December 31, 2014 was as follows:

| Backlog  | September<br>30,<br><br>(Commercial)<br>2015 | December<br>31, 2014 |
|----------|--|----------------------|
| Funded   | \$8,763,000                                  | \$2,695,000          |
| Unfunded | 112,586,000                                  | 146,185,000          |
| Total    | \$121,349,000                                | \$148,880,000        |

Our unfunded backlog is primarily comprised of the long-term contracts for the G650, E-2D, F-16, T-38, F-35, HondaJet Light Business Jet, Bell AH-1Z Cessna Citation X+, Sikorsky S-92 and Embraer Phenom 300. These long-term contracts are expected to have yearly orders, which will be funded in the future.

The low level of funded backlog on commercial programs is the result of customers placing funded orders based upon expected lead time. These programs are under long-term agreements with our customers, and as such, we are protected by termination liability provisions.



## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

---

### Critical Accounting Policies

#### Revenue Recognition

We recognize revenue from our contracts over the contractual period under the percentage-of-completion (“POC”) method of accounting. Under the POC method of accounting, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded as an asset captioned “Costs and estimated earnings in excess of billings on uncompleted contracts.” Contracts where billings to date have exceeded recognized revenues are recorded as a liability captioned “Billings in excess of costs and estimated earnings on uncompleted contracts.” Changes to the original estimates may be required during the life of the contract. Estimates are reviewed monthly and the effect of any change in the estimated gross margin percentage for a contract is reflected in cost of sales in the period the change becomes known. The use of the POC method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods. As a result, there can be a significant disparity between earnings (both for accounting and tax purposes) 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, or seek access to other forms of liquidity, to fund our work in process or to pay taxes until the reported earnings materialize as actual cash receipts.

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. For the quarterly period ended June 30, 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”). In periods subsequent to June 30, 2014, the gross margin recognized on the A-10 program is zero because the entire estimated loss on the program was recognized in the quarter ended June 30, 2014. The A-10 program, along with all the Company’s programs, is evaluated on an ongoing basis. If facts and circumstances change, previously recognized estimates may be adjusted in the future and such adjustments may be material.



## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

---

### Results of Operations

#### *Revenue*

Revenue for the three months ended September 30, 2015 was \$26,790,881 compared to \$21,487,677 for the same period last year, an increase of 24.7%. The increase in revenue for the three month period ended September 30, 2015 is the result of increased work on the Company’s E-2D program, as we have begun to work on the multi-year order received at the end of 2014.

For the nine months ended September 30, 2015, revenue was \$68,611,766 compared to \$19,619,571 for the same period last year. The material difference in revenue for the nine month period and revenue from government subcontracts (described below) was the result of the change in estimate recognized in the second quarter of 2014.

We predominately generate revenue from subcontracts with OEMs and Tier 1 manufacturers. Revenue generated from government subcontracts for the nine months ended September 30, 2015 was \$37,003,015 compared to \$(7,039,352) for the nine months ended September 30, 2014.

Revenue from commercial subcontracts was \$31,034,309 for the nine months ended September 30, 2015 compared to \$25,922,384 for the nine months ended September 30, 2014, an increase of \$5,111,925 or 19.7%. This increase is the result of increased production on our Embraer and Honda programs.

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

#### *Cost of sales*

Cost of sales for the three months ended September 30, 2015 and 2014 was \$21,194,449 and \$17,016,373, respectively, an increase of \$4,178,076 or 24.6%. The increase in cost of sales for the three months ended September 30, 2015 was a result of the 24.7% increase in revenue compared to the three months ended September 30, 2014.

Cost of sales for the nine months ended September 30, 2015 and 2014 was \$55,564,894 and \$53,620,290, respectively, an increase of \$1,944,604 or 3.6%.

The components of the cost of sales were as follows:

|                      | Three months ended  |                     | Nine months ended   |                     |
|----------------------|---------------------|---------------------|---------------------|---------------------|
|                      | September<br>30,    | September<br>30,    | September<br>30,    | September<br>30,    |
|                      | 2015                | 2014                | 2015                | 2014                |
| Procurement          | \$15,529,184        | \$12,207,200        | \$36,046,790        | \$34,647,217        |
| Labor                | 2,662,403           | 2,150,171           | 7,194,292           | 6,418,809           |
| Factory Overhead     | 3,992,582           | 3,757,821           | 11,956,796          | 11,025,343          |
| Other contract costs | (989,720 )          | (1,098,819 )        | 367,016             | 1,528,921           |
| Cost of Sales        | <u>\$21,194,449</u> | <u>\$17,016,373</u> | <u>\$55,564,894</u> | <u>\$53,620,290</u> |

Other contract costs for the three months ended September 30, 2015 was (\$989,720) compared to (\$1,098,819), an increase of \$109,099. Other contract costs for the nine months ended September 30, 2015 was \$367,016 compared to \$1,528,921 a decrease of \$1,161,905. Other contract costs relate to expenses recognized for changes in estimates and expenses predominately associated with loss contracts. During the nine months ended September 30, 2014, the Company recognized approximately \$1.5 million in other contract costs related to the change in estimate on the A-10 WRP, as such other contract costs recognized in the nine months ended September 30, 2015 have declined significantly.

Procurement for the three months ended September 30, 2015 was \$15,529,184 compared to \$12,207,200 an increase of \$3,321,984 or 27.2%. Procurement for the nine months ended September 30, 2015 was \$36,046,790 compared to \$34,647,217, an increase of \$1,399,573 or 4.0%. The increase in procurement in both periods was the result of increased procurement on the Company's E-2D program.

Labor costs for the nine months ended September 30, 2015 was \$7,194,292 compared to \$6,418,809, an increase of \$775,483 or 12.1%. This increase is due to more direct touch employees needed to support increasing delivery volume in 2015 compared to 2014, specifically on our Embraer and Honda programs.

Factory overhead for the nine months ended September 30, 2015 was \$11,956,796 compared to \$11,025,343, an increase of \$931,453 or 8.5%. This increase is the result of an increase of approximately \$939,000 for employee benefits, predominately increasing insurance rates, offset by decreases in indirect labor of \$182,196 as we continue to improve the efficiency of our workforce.

### ***Gross Profit***

Because of the material change in estimate on the A-10 program described above, comparisons of gross profit and gross profit percentage for the nine months ended September 30, 2015 to the gross loss and gross loss percentage for the same period in 2014 are not informative.

Gross profit percentage for the three months ended September 30, 2015 was 20.9%, which is comparable to the 20.8% gross profit percentage achieved in the three months ended September 30, 2014.

Additionally, gross profit percentage for the three and nine months ended September 30, 2015 was 20.9% and 19.0%, respectively. Gross profit percentage through September 30, 2015 is below our historic gross profit percentage because of the ongoing recording of revenue on the A-10 program with no gross profit, as compared to a positive gross margin in periods prior to June 30, 2014.

Gross profit percentage on all programs excluding the A-10 was 23.4% for the three and nine months ended September 30, 2015. These rates are in the middle of the expected range of gross profit percentage based on the

Company's current mix of programs.

*Favorable/Unfavorable Adjustments to Gross Profit*

During the nine months ended September 30, 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:

|                         | <u>Nine months ending</u> |                        |
|-------------------------|---------------------------|------------------------|
|                         | <u>2015</u>               | <u>2014</u>            |
| Favorable adjustments   | \$ 1,116,000              | \$ 676,000             |
| Unfavorable adjustments | (1,449,000)               | (43,022,000)           |
| Net adjustments         | <u>\$ (333,000)</u>       | <u>\$ (42,346,000)</u> |

For the nine months ended September 30, 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 \$803,000. No other individual favorable or unfavorable changes in estimates for the nine months ended September 30, 2015 were material.

For the nine months ended September 30, 2014, approximately \$39,916,000 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 \$691,000. 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 \$600,000. Also, the Company has one multi-year contract that has experienced procurement price increases that has caused an unfavorable adjustment of approximately \$550,000. No other individual favorable or unfavorable changes in estimates for the nine months ended September 30, 2014 were material.

**Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations**

---

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the three months ended September 30, 2015 were \$1,898,965 compared to \$1,800,878 for the three months ended September 30, 2014, an increase of \$98,087, or 5.4%. This increase was predominately the result of a \$90,000 increase in salaries and a \$70,000 increase in accrued bonus, offset by a \$69,000 decrease in Board of Directors fees. The decrease in Board of Directors fees was a timing difference since the year to date amounts show an overall increase in fees for 2015.

Selling, general and administrative expenses for the nine months ended September 30, 2015 were \$5,968,123 compared to \$5,424,581 for the nine months ended September 30, 2014, an increase of \$543,542, or 10.0%. This increase was predominately the result of a \$210,000 increase in accrued bonuses and a \$174,000 increase in costs relating to the grant of RSUs that were expensed for our board of directors, including having one more director in the nine months ended September 30, 2015 as compared to the same period last year.

***Income (Loss) Before Provision for (Benefit from) Income Taxes***

Income before provision for income taxes for the three months ended September 30, 2015 was \$3,479,085 compared to \$2,602,547 for the same period last year, an increase of \$876,538. For the nine months ended September 30, 2015, income before provision for income taxes was \$6,375,313 compared to a loss of \$39,795,534 for the same period last year, an increase of \$46,170,847.

***Provision for (Benefit from) Income Taxes***

Provision for income taxes was \$1,033,000 and \$2,011,000 for the three and nine months ended September 30, 2015, respectively. Provision for income taxes for the three months ended September 30, 2014 was \$905,000 and benefit from income taxes was \$12,869,000 for the nine months ended September 30, 2014, respectively. The effective tax rate at September 30, 2015 and 2014 was 31.5% and 32.3%, respectively. Our historical tax rates have been below the federal statutory rate because of the effect of permanent differences between book and tax deductions, predominately the R&D tax credit and the domestic production activity deduction.





**Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations**

---

***Net Income (Loss)***

Net income for the three months ended September 30, 2015 was \$2,446,085 or \$0.29 per basic share, compared to \$1,697,547 or \$0.20 per basic share, for the same period last year, an increase of 45%. Net income for the nine months ended September 30, 2015 was \$4,364,313 or \$0.51 per basic share, compared to a net loss of \$26,926,534, or \$3.18 per basic share, for the same period last year. Diluted income per share for the three months ended September 30, 2015 was \$0.28, calculated utilizing 8,625,308 average shares outstanding as adjusted for the dilutive effect of outstanding stock options and RSUs. This compares to diluted income per share of \$0.20 for the three months ended September 30, 2014, an increase of 40%. Diluted income per share for the nine months ended September 30, 2015 was \$0.51, calculated utilizing 8,613,316 average shares outstanding, compared to a loss of \$3.18 per diluted share for the same period last year.

**Liquidity and Capital Resources**

***General***

At September 30, 2015, we had working capital of \$67,572,589 compared to \$60,864,642 at December 31, 2014, an increase of \$6,707,946 or 11.0%.

***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 “Costs and estimated earnings in excess of billings on uncompleted contracts” on our condensed balance sheets 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 revenue, 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, or to raise additional capital,

until the reported earnings materialize into actual cash receipts.

At September 30, 2015, we had a cash balance of \$1,893,534 compared to \$1,504,907 at December 31, 2014.

Our costs and estimated earnings in excess of billings increased by approximately \$17.5 million during the nine months ended September 30, 2015.

Several of our programs require us 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.

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

## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

---

### Credit Facilities

#### *Line of Credit*

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 provides for a revolving credit facility of \$35 million (“Santander Revolving Facility”). The revolving credit loans under the Restated Agreement mature on December 5, 2016. The Santander Revolving Facility and term loan under the Restated Agreement are secured by all of our assets.

As of September 30, 2015, the Company was in compliance with all the financial covenants, as amended, contained in the Restated Agreement. The Company has \$24.7 million outstanding under the Santander Revolving Facility. Our availability under our line of credit of \$10.3 million is fully available to us at September 30, 2015

#### *Term Loan*

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 Facility”). The Santander Term Facility was to be used by the Company to purchase tooling and equipment for new programs. The Santander Term Loan was continued under the Restated Agreement, and is payable in monthly installments of \$75,000, with a final payment of the remaining principal balance on March 9, 2017. The Santander Term Facility bears interest at the lower of LIBOR plus 3% or Santander Bank’s prime rate. The Santander Term Loan is 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 pays an amount to Santander Bank representing interest on the notional amount at a rate of 4.11% and receives an amount from Santander representing interest on the notional amount at 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 rate of 4.11% over the term of the Santander Term Loan.

#### *Contractual Obligations*

For information concerning our contractual obligations, see “*Contractual Obligations*” under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2014.

### **Item 3 – Quantitative and Qualitative Disclosures 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 4 – Controls and Procedures**

---

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

The Company's management has established disclosure controls and procedures designed to ensure that information it is required to disclose in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission rules and forms. Such disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information the Company is required to disclose in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management to allow timely decisions regarding required disclosure.

Based on an evaluation of the Company's disclosure controls and procedures as of September 30, 2015 made by management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) were effective as of September 30, 2015.

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

No change in our internal control over financial reporting occurred during the quarter ended September 30, 2015 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.



**Part II: Other Information****Item 1 – Legal Proceedings**

---

None.

**Item 1A – Risk Factors**

---

Material risks related to our business, financial condition and results of operations are disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 6, 2015. There have been no material changes to such risk factors. The risk factors disclosed in our Annual Report 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.

**Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds**

---

There have been no sales of unregistered equity securities for the three months ended September 30, 2015. The following table sets forth information for the nine months ended September 30, 2015 with respect to repurchases of our outstanding common stock:

**Issuer Purchases of Equity Securities**

| <b>Period</b> | <b>Total<br/>number<br/>of shares<br/>purchased<br/>(1)</b> | <b>Average<br/>price<br/>paid<br/>per<br/>share</b> | <b>Total<br/>number of<br/>shares<br/>(or units)<br/>purchased</b> | <b>Maximum<br/>number<br/>(or<br/>approximate<br/>dollar value)<br/>of shares (or</b> |
|---------------|---|---|--|---|
|---------------|---|---|--|---|



|                                      |        |          |  | as part of<br>publicly<br>announced<br><br>plans or<br>programs | units) that<br>may yet be<br>purchased<br>under the<br>plans or<br>programs |
|--------------------------------------|--------|----------|--|---|---|
| January 1, 2015 – September 30, 2015 | 29,648 | \$ 12.18 |  | —   | —   |
| Total                                | 29,648 | \$ 12.18 |  | —   | —   |

- (1) Represents shares that were delivered to the Company pursuant to provisions of stock option agreements and the 1998 Plan and the Performance Equity Plan 2000, which permit payment of the exercise price of options in shares of common stock delivered to the Company.

**Item 3 – Defaults Upon Senior Securities**

---

None.

**Item 4 – Mine Safety Disclosures**

---

Not applicable.

**Item 5 – Other Information**

---

None.

**Item 6 – Exhibits**

---

- Exhibit 31.1 Section 302 Certification by Chief Executive Officer and President  
Exhibit 31.2 Section 302 Certification by Chief Financial Officer (Principal Accounting Officer)  
Exhibit 32 Section 906 Certification by Chief Executive Officer and Chief Financial Officer  
The following financial information from CPI Aerostructures, Inc. Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Balance Sheet, (ii) the Condensed Income Statements, (iii) the Condensed Statement of Shareholder Equity, (iv) the Condensed Statements of Cash Flows, and (v) the Notes to the Condensed Financial Statements  
Exhibit 101

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CPI AEROSTRUCTURES, INC.

Dated: November 9, 2015 By. /s/ Douglas J. McCrosson  
Douglas J. McCrosson  
Chief Executive Officer and President

Dated: November 9, 2015 By. /s/ Vincent Palazzolo  
Vincent Palazzolo  
Chief Financial Officer (Principal Accounting Officer)