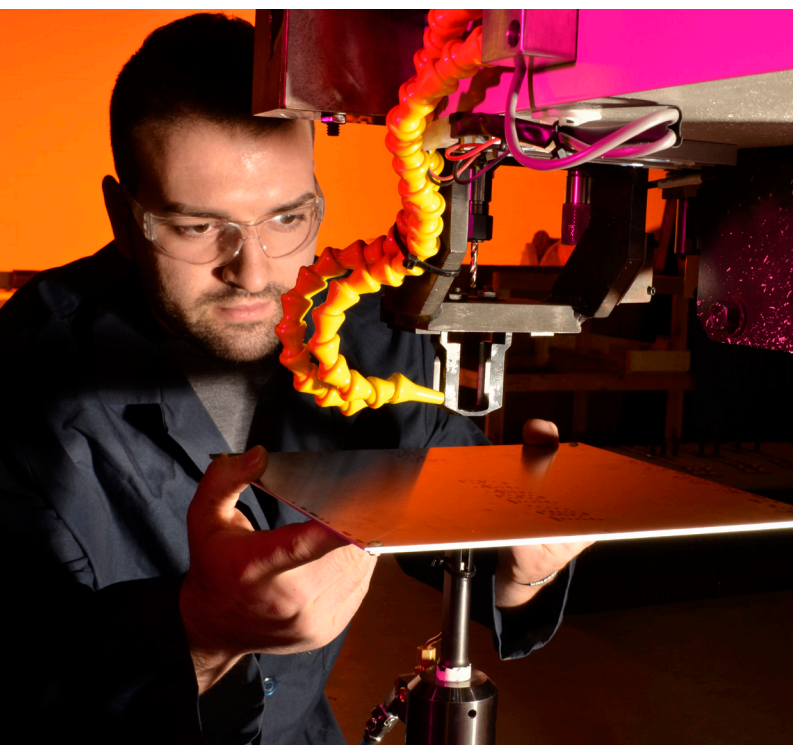




2014 ANNUAL REPORT



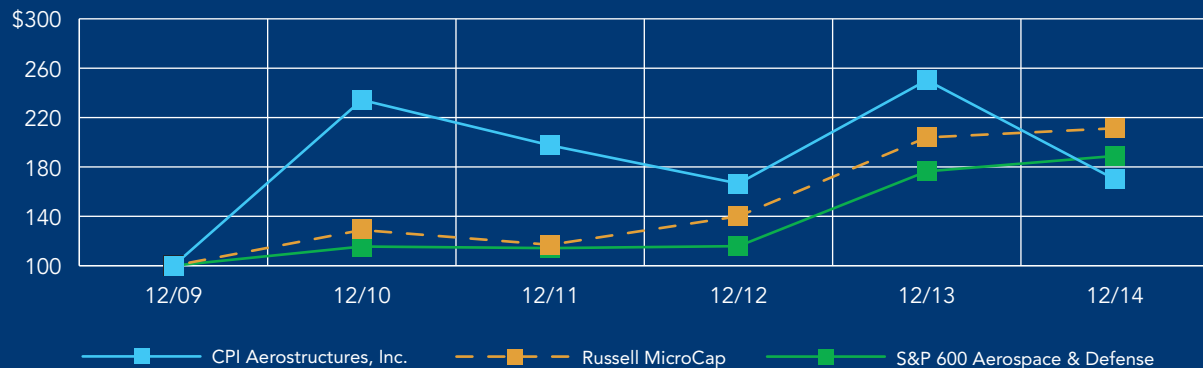
OUR COMPANY

CPI Aerostructures, Inc. ("CPI Aero") is engaged in the contract production of structural aircraft parts principally for the U.S. Air Force and other branches of the U.S. armed forces, either as a prime contractor or as a subcontractor for other defense prime contractors. CPI Aero also acts as a subcontractor to prime aircraft manufacturers in the production of commercial aircraft parts. CPI Aero has over 35 years of aerospace manufacturing experience. 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.

OUR MISSION

Our mission is to exceed the expectations of our customers by manufacturing the highest quality aerospace structural products while providing a low risk, collaborative and completely satisfying customer experience. As a result, we will be able to grow our business with existing customers, earn the trust of new customers, generate sustainable cash flow, improve the lives of our employees and their families and increase the value of the corporation.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*



*\$100 invested on 12/31/09 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Copyright© 2015 Russell Investment Group. All rights reserved.

Copyright© 2015 S&P, a division of The McGraw-Hill Companies Inc. All rights reserved.



2014 HIGHLIGHTS

- Ended 2014 with funded backlog of \$120.6 million, up \$10.2 million for the year
- In 2014, received \$92.9 million in new contract awards for commercial and defense programs
- 2014 year-end results included a one-time, non-cash charge related to the A-10 Wing Replacement Program
- 2014 commercial revenue of \$36.9 million, up 37.6% as compared to 2013 commercial revenue
- 2015 guidance: record revenue of \$92.0 million - \$102.0 million; net income of \$7.2 million - \$8.0 million
- In 2015, expects to realize approximately \$9 million in tax refund and over \$5 million in tax loss carry forwards related to the A-10 WRP

TO OUR SHAREHOLDERS: In this letter I will address our performance in 2014, our expectations for 2015 and our outlook over the longer-term. I am proud to report that despite the challenges related to military budget cuts, in many respects 2014 was a year of significant accomplishments which have positioned CPI Aero for a great future.

2014 Results and Expectations for 2015 and Beyond

We ended 2014 with a large backlog of over \$404 million (of which over \$120 million is funded), new contract awards of approximately \$93 million and a significant bid pipeline with over 70% for Tier 1 level work and several bids for large commercial airliners. Our top and bottom lines for 2014 were affected by a one-time, non-cash \$44.7 million adjustment to revenue and \$31.4 million adjustment to net income, related to revised estimates of a significantly shorter life and lower production quantity A-10 Wing Replacement Program (WRP). However, we expect to generate the highest revenue in our history in 2015.

2015 revenue is expected to be in the range of \$92.0 million to \$102.0 million, with performance for the second half of the year to be much stronger than the first half due to the timing of delivery orders associated with several recently announced major programs. Gross margin will continue to be affected by the A-10 WRP and is expected to be in the range of 19.0% to 21.0%, lower than our historical margin. In 2015, we expect to generate net income in the range of \$7.2 million to \$8.0 million. Also due to the recovery of previously paid income taxes and the use of tax loss carry forwards related to our A-10 WRP, our cash flow for 2015 is expected to be between \$13 million and \$15 million.

Looking beyond 2015, we see continued strength in production rates of our business jet programs, steady production on our more mature programs and exciting opportunities in new programs we are targeting for both the defense and commercial markets.

Defense Market: Challenges and Opportunities

Despite military budget cuts, the defense market has been and will continue to be an integral part of our business. The Defense market remains an incredibly large market with great potential in certain segments. We are targeting programs with long-term opportunities- mainly programs for national security platforms for which we already provide products or for new programs well supported in the DOD's budget plans.

As a result of our efforts, we recently received three defense-related program awards: a \$53.5 million contract from the Defense Logistics Agency to provide structural wing components and logistical support for global F-16 aircraft maintenance, repair and overhaul (MRO) operations, a \$49 million contract for the T-38 Pacer Classic II program and an \$86.1 million contract from Northrop Grumman Corporation for Outer Wing Panel (OWP) kits for the E-2D Advanced Hawkeye. These recent wins added over \$188 million in backlog until 2022.

Going forward, we see growth in the near-term for our military helicopter and our Intelligence, Surveillance, and Reconnaissance pod business segments. Furthermore, we are pursuing work on other high-priority weapons systems such as the F-35 and CH-53K and we continue to see an increasing demand from Sikorsky for our Maintenance, Repair, and Overhaul services.



Douglas McCrosson
Chief Executive Officer and President



Eric Rosenfeld
Chairman of the Board of Directors

Commercial Programs

Commercial programs remain an important segment of our business as well and we will continue to increase our efforts to further diversify our customer base and programs within this market. Going forward, commercial programs are expected to generate a higher percentage of total revenue and our intention is to work toward having about 40% of our revenue derived from commercial aircraft.

Currently, all of our non-military programs are within business jets and civilian helicopters but we are bidding for work on many current and future business and regional jet aircraft including offerings from Cessna, Gulfstream, Embraer, and Bombardier. Also, we have submitted a number of proposals for large commercial aircraft at the Tier 2 level for structure on a variety of recently introduced large commercial airliners, including the Boeing 787.

Expanding Our Capabilities

Our growth strategy and vision for the future is being supported by investments in new automated manufacturing technologies and production floor software. These investments will increase output, improve quality, and lower production costs which are crucial factors in successfully competing and winning larger and more complex awards for military and commercial programs, in both domestic and international markets. We plan to use a portion of the cash income tax benefit of approximately \$14 million related to the A-10 WRP, which we

expect to receive in 2015, to further invest in new and advanced technologies and facility improvements and for providing continued skills training programs to ensure our workers are the best trained and best prepared in the industry.

Looking Ahead

On behalf of the Board of Directors and the entire management team, we would like to thank our customers, employees and shareholders for their continued support and dedication.

Looking back at everything we have accomplished over the last few years and the opportunities ahead of us, we couldn't be more proud and optimistic about the bright future of CPI Aero. Our vision for the future is clear, our strategy is sound and we are well-positioned to continue to deliver best-in-class services and products to our customers, further grow our business and increase shareholder value.

Sincerely yours,

Douglas McCrosson
Chief Executive Officer and President

Eric Rosenfeld
Chairman of the Board of Directors

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, 2014

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
(I.R.S. Employer
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:

Title of Each Class

Name of each exchange on which registered

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, 2014 (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 \$12.67) held by non-affiliates of the registrant was \$98,094,700.

As of February 27, 2015, the registrant had 8,500,555 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 2015 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

TABLE OF CONTENTS

PART I	1
Item 1. BUSINESS	1
Item 1A. RISK FACTORS	7
Item 1B. UNRESOLVED STAFF COMMENTS	11
Item 2. PROPERTIES	11
Item 3. LEGAL PROCEEDINGS	11
Item 4. MINE SAFETY DISCLOSURES	11
PART II	12
Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	12
Item 6. SELECTED FINANCIAL DATA	13
Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	14
Item 7A. QUANTATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	19
Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	19
Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	19
Item 9A. CONTROLS AND PROCEDURES	20
Item 9B. OTHER INFORMATION	22
PART III	23
Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	23
Item 11. EXECUTIVE COMPENSATION	23
Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	23
Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	23
Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES	23
PART IV	
Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	24
INDEX TO FINANCIAL STATEMENTS	28

[This page intentionally left blank.]

PART I

Item 1. BUSINESS

General

CPI Aerostructures, Inc. (“CPI Aero®” or the “Company”) is a United States (“U.S.”) manufacturer 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 defense market, with our production of various reconnaissance pod structures and fuel panel systems. Within the global aerostructure 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 conjunction with 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 act as a subcontractor to leading defense prime contractors such as Northrop Grumman Corporation (“NGC”), The Boeing Company (“Boeing”), Lockheed Martin Corporation (“Lockheed”), Sikorsky Aircraft Corporation (“Sikorsky”) and Bell Helicopter (“Bell”). 5%, 66% and 63% of our revenue in 2014, 2013 and 2012, 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 (“MD&A”).

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. 93%, 32% and 30% of our revenue in 2014, 2013 and 2012 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 attack jet, and the F-16. 2%, 2% and 7% of our revenue in 2014, 2013 and 2012 respectively, was generated by prime government contract sales.

CPI Aero has over 35 years of experience as a contractor, completing over 2,500 contracts to date. Most members of our management team have held management positions at large aerospace contractors, including NGC, Lockheed and The Fairchild Corporation. Our technical team possesses extensive technical expertise and program management and integration capabilities. Our competitive advantage lies in our ability to offer large contractor capabilities with the flexibility and responsiveness of a small company, while staying competitive in cost and delivering superior quality products.

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. 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 “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 2015 exceed \$140 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. As of February 2015, we estimate that this contract will be terminated at approximately 130 ship sets valued at approximately \$54 million.

UH-60 “BLACK HAWK” The UH-60 BLACK HAWK helicopter is the leader in multi-mission-type aircraft. Among the mission configurations it 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 US Air Force (“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, Inc. awarded us a contract to manufacture engine inlets and flaps and vane assemblies for the HondaJet advanced light business jet. We have received approximately \$11.5 million in orders on this program through December 2014. 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 \$14.8 million in orders on this program through December 2014. 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 \$13.5 million in orders on this program through December 2014. We estimate the value of the contract, over a seven-year period, to be approximately \$41 million.

Military Aircraft — Prime Contracts with U.S. Government

C-5A “Galaxy” The C-5A Galaxy cargo jet is one of the largest aircraft in the world and can carry a maximum cargo load of 270,000 pounds. Lockheed delivered the first C-5A in 1970. The C-5A Galaxy carries fully equipped combat-ready military units to any point in the world on short notice and then provides field support to sustain the fighting force. Our first C-5A contract was approximately \$590,000 of structural spares and was awarded in 1995. In 2004, the Air Force awarded us a seven-year tips other and panels (“TOP”) contract to build an assortment of parts for the C-5A, including wing tips and panels. The ordering period for the C-5 TOP contract ended in May of 2011. We delivered the last part on this program in February 2015.

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.

Our military customers have included Defense Supply Center Richmond, Wright-Patterson Air Force Base (“AFB”), Warner Robins AFB, Tinker AFB, NAVICP, Hill AFB and the U.S. Army Redstone Arsenal. Our commercial customers have included NGC, Lockheed, Spirit, Sikorsky, Bell, Boeing Military, Nordam, UTAS, Embraer, Cessna and Honda.

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 exceptional growth in our operational and global supply chain program management expertise. These expansions have allowed us the ability to supply more complex aerostructure assemblies, and aerosystems and structures in support of our government-based programs as well as pursue opportunities within the commercial and business jet markets. Our capabilities have also allowed us to acquire MRO and kitting contracts.

Approximately \$7.1 million and \$2.0 million of our revenue for the years ended December 31, 2014 and 2013, respectively was from customers outside the U.S. All other revenue for each of the three years in the period ended December 31, 2014 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, 2014 and 2013 was as follows:

Backlog (Total)	December 31, 2014	December 31, 2013
Funded	\$120,570,000	\$110,431,000
Unfunded/unreleased	283,078,000	321,011,000
Total	<u>\$403,648,000</u>	<u>\$431,442,000</u>

Approximately 63% of the total amount of our backlog at December 31, 2014 was attributable to government contracts. Our backlog attributable to government contracts at December 31, 2014 and 2013 was as follows:

Backlog (Government)	December 31, 2014	December 31, 2013
Funded	\$117,875,000	\$ 82,803,000
Unfunded	136,893,000	165,574,000
Total	<u>\$254,768,000</u>	<u>\$248,377,000</u>

Our backlog attributable to commercial contracts at December 31, 2014 and 2013 was as follows:

Backlog (Commercial)	December 31, 2014	December 31, 2013
Funded	\$ 2,695,000	\$ 27,628,000
Unfunded/unreleased	146,185,000	155,437,000
Total	<u>\$148,880,000</u>	<u>\$183,065,000</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 70% of the funded backlog at December 31, 2014 is expected to be recognized as revenue during 2015.

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 subcontractor to military and commercial aircraft manufacturers. We compete with numerous larger, well-established prime contractors engaged in the supply of aircraft parts and assemblies to the military, including NGC, Lockheed, Boeing, Nordam and Triumph. All of these competitors possess significantly larger infrastructures, greater resources and the capabilities to respond to much larger contracts. In certain instances, we also may act as a subcontractor to some of these major prime contractors. We also compete against smaller contractors such as AeroComponents, Aerospace Engineering and Support, GSE Dynamics, Honeycomb Company of America, Alton Iron Works, B&B Devices and Precision Manufacturing Solutions.

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 the larger prime contractors compete for significant modification awards and subcontract components to other suppliers, they generally do not compete for awards in smaller modifications, spares and replacement parts, even for aircraft for which they are the original manufacturer. 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.

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 February 27, 2015, we had 281 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 5% of our revenue in 2014, 66% of our revenue in 2013 and 63% of our revenue in 2012. In addition, 2% percent of revenue for 2014, 2% of revenue for 2013 and 7% of revenue for 2012 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, 2014, our backlog was approximately \$403 million, of which 30% was funded and 70% 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 determined that as of December 31, 2014, our internal control over financial reporting was effective based on criteria created by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) set forth in *Internal Control—Integrated Framework* (1992). However, if material weaknesses are identified in our internal control over financial reporting in the future, our management will be unable to report favorably as to the effectiveness of our internal control over financial reporting and/or our disclosure controls and procedures, and we could be 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.

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.

The loss of small business status may adversely affect our ability to compete for some government contracts.

We may be 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 U.S. 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 and for other reasons, 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.

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 \$130,224, including real estate taxes.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND 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 2014 and 2013, the high and low sales prices of our common shares for the periods indicated, as reported by the NYSE MKT.

Period	High	Low
<u>2013</u>		
Quarter Ended March 31, 2013	\$11.54	\$ 8.39
Quarter Ended June 30, 2013	\$10.87	\$ 8.26
Quarter Ended September 30, 2013	\$11.93	\$10.54
Quarter Ended December 31, 2013	\$15.15	\$10.69
<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

On February 27, 2015, the closing sale price for our common shares on the NYSE MKT was \$12.25. On February 27, 2015, there were 225 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, 2014. The following table sets forth information for the three months ended December 31, 2014 with respect to repurchases of our outstanding common stock:

Issuer Purchases of Equity Securities

Period	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
October 1, 2014 – October 31, 2014	—	—	—	—
November 1, 2014 – November 30, 2014 . . .	—	—	—	—
December 1, 2014 – December 31, 2014 . . .	12,306	11.89	—	—
Total	12,306	11.89	—	—

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

Equity Compensation Plan Information

The following table sets forth certain information at December 31, 2014 with respect to our equity compensation plans that provide for the issuance of options, warrants or rights to purchase our securities.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in the first column)
Equity Compensation Plans Approved by Security Holders			
Holders	349,982	\$10.97	175,416

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 financial statements and MD&A. Our results of operations for 2014 were materially affected by the change in estimate described in MD&A.

Statement of Operations Data:

	Years Ended December 31,				
	2014	2013	2012	2011	2010
Revenue	\$ 39,687,010	\$82,988,522	\$89,272,582	\$74,135,669	\$43,990,784
Cost of sales	69,411,709	64,555,275	65,039,969	55,325,729	37,877,960
Gross profit (loss)	(29,724,699)	18,433,247	24,232,613	18,809,940	6,112,824
Selling, general and administrative expenses	7,308,220	6,704,524	7,322,630	7,931,586	5,415,292
Income (loss) from operations	(37,032,919)	11,728,723	16,909,983	10,878,354	697,532
Other income (expense):					
Interest/other income	145,072	78,957	31,520	4,065	3,770
Interest expense	(794,428)	(653,786)	(416,373)	(343,491)	(158,406)
Total other income (expense), net	(649,356)	(574,829)	(384,853)	(339,426)	(154,636)
Income (loss) before provision for (benefit from) income taxes	(37,682,275)	11,153,894	16,525,130	10,538,928	542,896
Provision for (benefit from) income taxes	(12,473,000)	3,417,000	5,514,000	3,122,000	13,000
Net income (loss)	<u>\$(25,209,275)</u>	<u>\$ 7,736,894</u>	<u>\$11,011,130</u>	<u>\$ 7,416,928</u>	<u>\$ 529,896</u>
Income (loss) per common share – basic	<u>\$ (2.98)</u>	<u>\$ 0.92</u>	<u>\$ 1.43</u>	<u>\$ 1.08</u>	<u>\$ 0.08</u>
Income (loss) per common share – diluted	<u>\$ (2.98)</u>	<u>\$ 0.91</u>	<u>\$ 1.40</u>	<u>\$ 1.04</u>	<u>\$ 0.08</u>
Basic weighted average number of common shares outstanding	<u>8,465,937</u>	<u>8,389,048</u>	<u>7,721,304</u>	<u>6,869,624</u>	<u>6,489,942</u>
Diluted weighted average number of common shares outstanding	<u>8,465,937</u>	<u>8,470,578</u>	<u>7,865,090</u>	<u>7,133,604</u>	<u>6,736,501</u>

Balance Sheet Data:

	At December 31,				
	2014	2013	2012	2011	2010
Cash	\$ 1,504,907	\$ 2,166,103	\$ 2,709,803	\$ 878,200	\$ 823,376
Costs and estimated earnings in excess of billings on uncompleted contracts	79,054,139	112,597,136	108,909,844	79,126,828	47,165,166
Total current assets	97,700,457	120,181,761	119,354,056	85,209,924	54,747,455
Total assets	104,154,723	124,272,594	124,883,516	89,056,573	56,457,187
Total current liabilities	36,835,815	31,741,678	39,645,331	33,023,488	10,370,285
Working capital	60,864,642	88,440,083	79,708,725	52,186,436	44,377,170
Short-term debt	26,121,713	22,370,349	24,550,564	16,987,380	1,485,008
Long-term debt	1,289,843	2,198,187	3,209,873	889,239	1,190,097
Shareholders' equity	64,813,156	88,951,519	80,594,199	54,026,207	44,670,443
Total liabilities and shareholders' equity	104,154,723	124,272,594	124,883,516	89,056,573	56,457,187

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 aerospace markets. We have also recently expanded our presence in the aerosystems segment of the aerospace 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, 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%. 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%. 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.

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.

Because of the extremely competitive market as we transition to more commercial work, the cost justification audit related to the anticipated multiyear release on the E-2D program, as well as the normal lower margins achieved during the early stages of long-term commercial programs, and the remaining effect of the A-10 program, we expect our gross margin percentage for 2015 to be in the range of 19% – 21%.

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.

Income Taxes. Because of the change in estimate on the Company's A-10 program, described above, the Company incurred a net loss for the year ended December 31, 2014. This net loss, after adjustment for carrying back tax losses to recover previously paid taxes, results in a net operating loss carryforward at December 31, 2014 of approximately \$7,600,000 which will expire in 2029.

Year Ended December 31, 2013 as Compared to the Year Ended December 31, 2012

Revenue. Revenue for the year ended December 31, 2013 was \$82,988,522 compared to \$89,272,582 for the same period in 2012, representing a decrease of \$6,284,060 or 7.0%.

Overall, revenue generated from prime government contracts for the year ended December 31, 2013 was \$1,373,456 compared to \$6,239,286 for the year ended December 31, 2012, a decrease of \$4,865,830 or 78%. This decrease is consistent with our strategy, as we transition away from being a prime government contractor.

Revenue generated from government subcontracts for the year ended December 31, 2013 was \$54,837,383 compared to \$56,357,371 for the year ended December 31, 2012, a decrease of \$1,519,988 or 2.7%.

Revenue generated from commercial contracts was \$26,777,683 for the year ended December 31, 2013 compared to \$26,675,925 for the year ended December 31, 2012, an increase of \$101,758 or 0.4%.

During the year ended December 31, 2013, we received approximately \$122.3 million of new contract awards, which included no government prime contract awards, approximately \$96.0 million of government subcontract awards and approximately \$26.3 million of commercial contract awards, compared to \$81.6 million of new contract awards in 2012, which included \$4 million of government prime contract awards, \$74.7 million of government subcontract awards and \$6.5 million of commercial contract awards.

Gross profit. Gross profit for the year ended December 31, 2013 was \$18,433,247 compared to \$24,232,613 for the year ended December 31, 2012, a decrease of \$5,799,366. Gross profit percentage ("gross margin") for the year ended December 31, 2013 was 22.2% compared to 27.1% for the same period last year.

The gross margin percentage is lower in 2013 than in 2012 because of adjustments to our long term programs with Spirit (now Triumph) on the G650, NGC and Boeing as well as the C-5 TOP Program. The adjustment for our G650 program was the result of price reductions given as part of an agreement to increase the program value and to extend the life of the program until 2019. The adjustment for NGC was a result of price reductions that were necessary upon the completion of a government pricing analysis. The adjustment for our Boeing program was a result of the negotiations for program changes. The Boeing adjustment approximates a 200 basis point decrease in our gross margin percentage. The adjustment for the C-5 TOP Program was the result of excess time and work required on C-5 wing tip panels

Additionally, the gross margin percentage was 80 basis points below our expected gross margin range of 23% – 24%, because of excess engineering time required on our Pod program with UTAS Aerospace.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2013 were \$6,704,524 compared to \$7,322,630 for the year ended December 31, 2012, a decrease of \$618,106, or 8.4%. This decrease was primarily due to an approximately \$500,000 decrease in

accrued officer's bonus as computed pursuant to the officers' employment agreements, a \$266,000 decrease in accounting and legal fees, and a \$213,000 decrease in payroll taxes, offset by a \$326,000 increase in salaries as a result of increased headcount.

Interest expense. Interest expense for the year ended December 31, 2013 was \$653,786, compared to \$416,373 for 2012, an increase of \$237,413 or 57%. The increase in interest expense is the result of an increase in the average amount of outstanding debt during 2013 as compared to 2012.

Income from operations. We had income from operations for the year ended December 31, 2013 of \$11,728,723 compared to \$16,909,983 for the year ended December 31, 2012. The decrease in income from operations is a result of the lower revenue and lower gross margin, as described above.

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, 2014, we had working capital of \$60,864,742 compared to \$88,440,083 at December 31, 2013, a decrease of \$27,575,341, or 31%. This decrease was predominately the result of costs and estimated earnings in excess of billings on uncompleted contracts ("CEE") being approximately \$33.5 million lower at December 31, 2014 as compared to 2013, because of the change in estimate on the A-10 program, previously discussed, offset by the increase in refundable income taxes.

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, such as the UTAS Aerospace and Embraer 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, 2014, our cash balance was \$1,504,907 compared to \$2,166,103 at December 31, 2013, a decrease of \$661,196. Our accounts receivable balance at December 31, 2014 increased to \$6,466,814 from \$4,392,254 at December 31, 2013.

Bank Credit Facilities.

Until December 2012, the Company was party to a Credit Agreement, dated August 13, 2007, as amended, between the Company and Sovereign Bank (the "Prior Agreement"), which provided for a revolving credit facility and two term loans. Immediately prior to entering into the Restated Agreement (identified below), a revolving credit facility in the aggregate of \$18.0 million was available to the Company under the Prior Agreement.

On December 5, 2012, the Company entered into an Amended and Restated Credit Agreement with Sovereign Bank ("Restated Agreement") as the sole arranger, administrative agent, collateral agent and lender and

Valley National Bank as lender. The Restated Agreement increased the revolving credit facility under the Prior Agreement from \$18 million to \$35 million (the “Revolving Facility”), refinanced one of the previous term loans as a revolving credit loan, continued the other term loan and then-existing revolving credit loans, and amended and restated the general terms of the Prior Agreement. The revolving credit loans under the Restated Agreement mature on December 5, 2016. The Revolving Facility and term loan under the Restated Agreement are secured by all of our assets.

On August 6, 2014, the Company entered into a First Amendment and Waiver to Amended and Restated Credit Agreement (the “Amendment”) with Santander Bank, N.A., formerly known as Sovereign Bank, N.A., to (i) amend certain terms of the Revolving Facility to provide that contract reimbursement payments that may be received by the Company in connection with the Company’s A-10 program will be used to prepay revolving credit loans made pursuant to the Revolving Facility and (ii) waive non-compliance by the Company of the Restated Agreement covenant requiring Minimum Net Income (as defined in the Restated Agreement) to be at least \$1.00 as of the end of the fiscal quarter ended June 30, 2014.

As of December 31, 2014, the Company was in compliance with all covenants contained in the Restated Agreement.

As of December 31, 2014 and 2013, the Company had \$25.2 million and \$21.4 million, respectively, outstanding under the Revolving Facility.

On October 22, 2008, the Company obtained a \$3.0 million term loan from Sovereign Bank to be amortized over five years (the “Sovereign Term Loan”). This term loan was refinanced as part of the revolving credit loan under the Restated Agreement of December 5, 2012.

On March 9, 2012, the Company obtained a \$4.5 million term loan from Sovereign Bank to be amortized over five years (the “Sovereign Term Loan 2”). The Sovereign Term Loan 2 was used by the Company to purchase tooling and equipment for new programs. The Sovereign Term Loan 2 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 Sovereign Term Loan 2 bears interest at the lower of LIBOR plus 3% or Sovereign Bank’s prime rate. The Sovereign Term Loan 2 is subject to the amended and restated terms and conditions of the Restated Agreement.

In connection with the Sovereign Term Loan 2, the Company and Sovereign 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 Sovereign Bank representing interest on the notional amount at 4.11% and receives 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 will be the Company paying a fixed interest rate of 4.11% over the term of the Sovereign Term Loan 2.

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, 2014 and the effects these obligations are expected to have on our liquidity and cash flow in the future years.

Contractual Obligations	Payments Due By Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Debt	\$ 2,100,000	\$ 900,000	\$1,200,000	\$ —	\$ —
Capital Lease Obligations	161,556	71,713	67,023	\$ 22,819	—
Operating Leases	12,375,456	1,562,684	3,239,849	3,400,216	\$4,172,707
Employment Agreement					
Compensation**	1,176,000	588,000	588,000	—	—
Interest Rate Swap Agreement	14,716	—	14,716	—	—
Total Contractual Cash Obligations .	<u>\$15,827,728</u>	<u>\$3,122,397</u>	<u>\$5,109,588</u>	<u>\$3,423,035</u>	<u>\$4,172,707</u>

** 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.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)). Based on that evaluation, they have concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are effective in timely providing them with material information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act.

There were no material changes in our internal control over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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. With the participation of the Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control-Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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 policies or procedures may deteriorate.

The scope of management's assessment of the effectiveness of internal control over financial reporting includes all of our businesses. Based on the evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2014.

Our independent registered public accounting firm, CohnReznick LLP, audited our internal control over financial reporting as of December 31, 2014. CohnReznick LLP's report dated March 6, 2015 expressed an unqualified opinion on our internal control over financial reporting and is included in this Item 9A.

Report of Independent Registered Public Accounting Firm

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

We have audited CPI Aerostructures, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company'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 included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and 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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of CPI Aerostructures, Inc. as of December 31, 2014 and 2013, 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, 2014, and our report dated March 6, 2015 expressed an unqualified opinion of those financial statements.

/s/ CohnReznick LLP
Jericho, New York
March 6, 2015

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 2015 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, 2014 and 2013

Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2014, 2013 and 2012

Statements of Shareholders' Equity for the Years Ended December 31, 2014, 2013 and 2012

Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012

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:

Exhibit Number	Name of Exhibit	No. in Document
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. ⁽³⁾	3.1(a)
3.2	Amended and Restated By-Laws of the Company. ⁽¹¹⁾	3.2
10.2	1995 Employee Stock Option Plan. ⁽²⁾	10.4
10.3	Form of military contract. ⁽¹⁾	10.7
10.4	1998 Performance Equity Plan. ⁽³⁾	10.28
10.5	Performance Equity Plan 2000. ⁽⁴⁾	10.29
10.5.1	Amendment to Performance Equity Plan 2000 ⁽⁹⁾	10.6.1
*10.7	Stock Option Agreement between the Company and Edward J. Fred, dated June 18, 2002. ⁽⁶⁾	10.56
10.9	Registration Rights Agreement between the Company and Chemical Investments dated February 26, 2002, as assigned to Crescendo Partners, II. ⁽⁷⁾	10.27
10.9.1	Schedule of Omitted Document in the form of Exhibit 10.9, including material detail in which such document differs from Exhibit 10.9. ⁽⁷⁾	10.27.1
*10.10	Stock Option agreement between Vincent Palazzolo and the Company, dated as of May 17, 2004. ⁽⁸⁾	10.22
*10.11	Employment Agreement between Vincent Palazzolo and the Company, dated as of December 16, 2009. ⁽¹⁰⁾	10.2
*10.12	Stock Option Agreement between the Company and Vincent Palazzolo, dated December 1, 2006. ⁽⁹⁾	10.24
*10.13	Amended and Restated Employment Agreement between Edward J. Fred and the Company, dated December 16, 2009. ⁽¹⁰⁾	10.1
10.14	Credit Agreement between CPI Aerostructures, Inc., and Sovereign Bank, dated as of August 13, 2007 ⁽¹²⁾	10.23
10.15	Commercial Security Agreement, dated August 13, 2007, between CPI Aerostructures, Inc., Grantor, and Sovereign Bank, Lender ⁽¹²⁾	10.24

Exhibit Number	Name of Exhibit	No. in Document
10.16	First Amendment to Credit Agreement, dated as of October 22, 2008, by and between CPI Aerostructures, Inc. and Sovereign Bank ⁽¹⁵⁾	10.16
10.17	ISDA 2002 Master Agreement and Schedule, dated as of October 22, 2008, between Sovereign Bank and CPI Aerostructures, Inc. ⁽¹⁵⁾	10.17
10.18	Second Amendment to Credit Agreement, dated as of July 7, 2009, by and between CPI Aerostructures, Inc. and Sovereign Bank ⁽¹⁴⁾	10.1
*10.19	Employment Agreement between Douglas McCrosson and the Company, dated as of December 16, 2009. ⁽¹⁰⁾	10.3
10.20	Performance Equity Plan 2009 ⁽¹⁶⁾	
10.21	Third Amendment to Credit Agreement, dated as of May 26, 2010, by and between CPI Aerostructures, Inc. and Sovereign Bank ⁽¹⁷⁾	10.1
10.22	Fifth Amendment to Credit Agreement, dated as of May 11, 2011, by and between CPI Aerostructures, Inc. and Sovereign Bank ⁽¹⁸⁾	10.1
10.23	Agreement of Lease, dated June 30, 2011, between Heartland Boys II L.P. and CPI Aerostructures Inc. ⁽¹⁹⁾	10.1
10.24	Sixth Amendment to Credit Agreement, dated as of September 1, 2011, by and between CPI Aerostructures, Inc. and Sovereign Bank ⁽²⁰⁾	10.1
*10.25	Letter Amendment to Employment Agreement, dated November 4, 2011, from the Company to Edward J. Fred ⁽²¹⁾	10.1
*10.26	Letter Amendment to Employment Agreement, dated November 4, 2011, from the Company to Vincent Palazzolo ⁽²¹⁾	10.2
*10.27	Letter Amendment to Employment Agreement, dated November 4, 2011, from the Company to Douglas McCrosson ⁽²¹⁾	10.3
10.28	Seventh Amendment to Credit Agreement, dated as of November 29, 2011, by and between CPI Aerostructures, Inc. and Sovereign Bank ⁽²²⁾	10.1
10.29	Eighth Amendment to Credit Agreement, dated as of March 9, 2012 by and between CPI Aerostructures, Inc. and Sovereign Bank, N.A. ⁽²³⁾	10.1
10.30	Underwriting Agreement, dated June 8, 2012 between CPI Aerostructures, Inc., Selling Stockholders and Roth Capital Partners, LLC, as representative ⁽²⁴⁾	10.1
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
10.32	First Amendment to Waiver to Amended and Restated Credit Agreement, dated as of August 6, 2014 by and between CPI Aerostructures, Inc. and Santander Bank, N.A. and Valley National Bank ⁽²⁶⁾	10.1
**10.33	From the Restricted Stock Unit between the Company and Non-Employee Directors	
**10.34	Description of Non-Employee Director Compensation Plan	
10.35	Form of Stock Option Agreement with Non-Employee Directors ⁽²⁷⁾	10.34
**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	

Exhibit Number	Name of Exhibit	No. in Document
**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	
***101.SCH	XBRL Taxonomy Extension Schema	
***101.CAL	XBRL Taxonomy Extension Calculation	
***101.DEF	XBRL Taxonomy Extension Definition	
***101.LAB	XBRL Taxonomy Extension Labels	
***101.PRE	XBRL Taxonomy Extension Presentation	

* Management compensation contract or arrangement.

** Filed herewith.

*** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

- (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 year ended December 31, 1995 and incorporated herein by reference.
- (3) 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.
- (4) Filed as an exhibit to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000 and incorporated herein by reference.
- (5) Filed as an exhibit to Schedule 13D filed on behalf of Edward J. Fred on October 19, 2001 and incorporated herein by reference.
- (6) Filed as an exhibit to Schedule 13D filed on behalf of Edward J. Fred on July 12, 2002 and incorporated herein by reference.
- (7) Filed as an exhibit to the Company's Registration Statement on Form SB-2 (No. 333-101902) declared effective on February 12, 2003 and incorporated herein by reference.
- (8) Filed as an exhibit to the Company's Current Report on Form 8-K dated May 24, 2004 and incorporated herein by reference.
- (9) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 1, 2006 and incorporated herein by reference.
- (10) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 21, 2009 and incorporated herein by reference.
- (11) Filed as an exhibit to the Company's Current Report on Form 8-K dated November 13, 2007 and incorporated herein by reference.
- (12) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 and incorporated herein by reference.
- (13) Filed as an exhibit to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003 and incorporated herein by reference.
- (14) Filed as an exhibit to the Company's Current Report on Form 8-K dated July 13, 2009 and incorporated herein by reference.

- (15) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.
- (16) Included as Appendix A to the Company's Proxy Statement filed on April 30, 2009.
- (17) Filed as an exhibit to the Company's Current Report on Form 8-K dated May 26, 2010 and incorporated herein by reference
- (18) Filed as an exhibit to the Company's Current Report on Form 8-K dated May 11, 2011 and incorporated herein by reference
- (19) 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
- (20) Filed as an exhibit to the Company's Current Report on Form 8-K dated September 2, 2011 and incorporated herein by reference
- (21) Filed as an exhibit to the Company's Current Report on Form 8-K dated November 7, 2011 and incorporated herein by reference
- (22) Filed as an exhibit to the Company's Current Report on Form 8-K dated November 30, 2011 and incorporated herein by reference
- (23) Filed as an exhibit to the Company's Current Report on Form 8-K dated March 12, 2012 and incorporated herein by reference
- (24) Filed as an exhibit to the Company's Current Report on Form 8-K dated June 8, 2012 and incorporated herein by reference
- (25) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 6, 2012 and incorporated herein by reference
- (26) Filed as an exhibit to the Company's Current Report on Form 8-K dated August 7, 2014 and incorporated herein by reference.
- (27) Filed as an exhibit to the Company's Current Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference

CPI AEROSTRUCTURES, INC.

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	F-1
Financial Statements:	
Balance Sheets as of December 31, 2014 and 2013	F-2
Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2014, 2013 and 2012	F-3
Statements of Shareholders' Equity for the Years Ended December 31, 2014, 2013 and 2012	F-4
Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012	F-5
Notes to Financial Statements	F-6 – F-18

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of CPI Aerostructures, Inc. as of December 31, 2014 and 2013, 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, 2014. Our audits of the financial statements included the financial statement schedule listed in the index appearing under Item 15. CPI Aerostructures, Inc.'s management is responsible for these financial statements and the financial statement schedule. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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, 2014 and 2013, and its results of operations and cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related 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, 2014, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 6, 2015, expressed an unqualified opinion on the effectiveness of CPI Aerostructures, Inc.'s internal control over financial reporting.

/s/ CohnReznick LLP
Jericho, New York
March 6, 2015

CPI AEROSTRUCTURES, INC.

BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash	\$ 1,504,907	\$ 2,166,103
Accounts receivable, net	6,466,814	4,392,254
Costs and estimated earnings in excess of billings on uncompleted Contracts	79,054,139	112,597,136
Deferred income taxes	1,708,000	417,000
Refundable income taxes	8,138,322	—
Prepaid expenses and other current assets	828,275	609,268
Total current assets	97,700,457	120,181,761
Property and equipment, net	2,755,186	2,849,753
Deferred income taxes	3,591,000	1,133,000
Other assets	108,080	108,080
Total Assets	<u>\$104,154,723</u>	<u>\$124,272,594</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 8,928,456	\$ 7,614,755
Accrued expenses	1,061,747	654,868
Billings in excess of costs and estimated earnings on uncompleted contracts	193,650	276,170
Current portion of long-term debt	971,713	1,020,349
Contract loss	396,182	—
Line of credit	25,150,000	21,350,000
Deferred income taxes	128,000	89,000
Income taxes payable	6,067	736,536
Total current liabilities	36,835,815	31,741,678
Long-term debt, net of current portion	1,289,843	2,198,187
Deferred income taxes	622,000	788,000
Other liabilities	593,909	593,210
Total Liabilities	<u>39,341,567</u>	<u>35,321,075</u>
Commitments		
Shareholders' Equity:		
Common stock — \$.001 par value; authorized 50,000,000 shares, 8,500,555 and 8,410,493 shares, respectively, issued and outstanding	8,501	8,410
Additional paid-in capital	51,440,770	50,381,348
Retained earnings	13,373,601	38,582,876
Accumulated other comprehensive loss	(9,716)	(21,115)
Total Shareholders' Equity	<u>64,813,156</u>	<u>88,951,519</u>
Total Liabilities and Shareholders' Equity	<u>\$104,154,723</u>	<u>\$124,272,594</u>

See Notes to Financial Statements

CPI AEROSTRUCTURES, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Years ended December 31,	2014	2013	2012
Revenue	\$ 39,687,010	\$82,988,522	\$89,272,582
Cost of sales	69,411,709	64,555,275	65,039,969
Gross profit (loss)	(29,724,699)	18,433,247	24,232,613
Selling, general and administrative expenses	7,308,220	6,704,524	7,322,630
Income (loss) from operations	(37,032,919)	11,728,723	16,909,983
Other income (expense):			
Interest/other income	145,072	78,957	31,520
Interest expense	(794,428)	(653,786)	(416,373)
Total other expense, net	(649,356)	(574,829)	(384,853)
Income (loss) before provision for (benefit from) income taxes	(37,682,275)	11,153,894	16,525,130
Provision for (benefit from) income taxes	(12,473,000)	3,417,000	5,514,000
Net income (loss)	(25,209,275)	7,736,894	11,011,130
Other comprehensive income (loss), net of tax			
Change in unrealized gain (loss) – interest rate swap . . .	11,399	19,712	(19,055)
Comprehensive income (loss)	\$(25,197,876)	\$ 7,756,606	\$10,992,075
Income (loss) per common share – basic	\$ (2.98)	\$ 0.92	\$ 1.43
Income (loss) per common share – diluted	\$ (2.98)	\$ 0.91	\$ 1.40
Shares used in computing income (loss) per common share:			
Basic	8,465,937	8,389,048	7,721,304
Diluted	8,465,937	8,470,578	7,865,090

See Notes to Financial Statements

CPI AEROSTRUCTURES, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2014, 2013 and 2012

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2012 . .	7,079,638	\$7,080	\$35,346,273	\$ 19,834,852	\$(1,140,226)	\$(21,772)	\$ 54,026,207
Net Income	—	—	—	11,011,130	—	—	11,011,130
Change in unrealized loss from interest rate swap . . .	—	—	—	—	—	(19,055)	(19,055)
Common stock issued in share offering	1,195,750	1,195	13,322,499	—	—	—	13,323,694
Common stock issued upon exercise of options	210,143	210	1,290,305	—	—	—	1,290,515
Common stock issued as employee compensation . . .	19,165	19	266,032	—	—	—	266,051
Stock based compensation expense	—	—	382,657	—	—	—	382,657
Tax benefit from stock option plans	—	—	313,000	—	—	—	313,000
Treasury stock retired	(133,257)	(133)	(1,140,093)	—	1,140,226	—	—
Balance at December 31, 2012	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	<u>8,500,555</u>	<u>\$8,501</u>	<u>\$51,440,770</u>	<u>\$ 13,373,601</u>	<u>\$ —</u>	<u>\$ (9,716)</u>	<u>\$ 64,813,156</u>

See Notes to Financial Statements

CPI AEROSTRUCTURES, INC.
STATEMENTS OF CASH FLOWS

Years ended December 31,	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	\$(25,209,275)	\$ 7,736,894	\$ 11,011,130
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	763,736	704,435	623,795
Deferred rent	17,098	54,621	90,419
Stock-based compensation expense	467,765	379,809	382,657
Common stock issued as employee compensation	57,993	41,830	37,761
Loss on disposal of fixed asset	1,042	—	—
Deferred portion of provision for income taxes	(3,790,000)	(107,000)	11,000
Tax benefit for stock options	(86,000)	(27,000)	(313,000)
Bad debts	—	—	(50,000)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(2,074,560)	2,382,092	(3,951,680)
(Increase) decrease in other assets	—	1,512,904	—
(Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts	33,542,997	(3,612,292)	(29,783,016)
Decrease (increase) in prepaid expenses and other current assets	(219,007)	(183,205)	240,263
Increase (decrease) in refundable income taxes	(8,138,322)	—	—
Increase in accounts payable and accrued expenses	1,715,580	(5,817,028)	1,465,562
Increase in accrued losses on uncompleted contracts	396,182	—	—
(Decrease) increase in income taxes payable	(730,469)	582,536	(2,383,000)
Increase (decrease) in billings in excess of costs and estimated earnings on uncompleted contracts	(82,520)	(380,683)	540,387
Net cash provided by (used in) operating activities	(3,367,760)	3,267,913	(22,077,722)
Cash flows from investing activities:			
Purchase of property and equipment	(602,924)	(637,370)	(825,110)
Net cash used in investing activities	(602,924)	(637,370)	(825,110)
Cash flows from financing activities:			
Proceeds from exercise of stock options	447,751	—	1,290,515
Proceeds from sale of common stock	—	—	13,323,694
Payment of line of credit	(4,700,000)	(13,100,000)	(4,000,000)
Proceeds from line of credit	8,500,000	11,000,000	11,350,000
Payment of long-term debt	(1,024,263)	(1,101,243)	(2,042,774)
Proceeds from long-term debt	—	—	4,500,000
Tax benefit for stock options	86,000	27,000	313,000
Net cash provided by (used in) financing activities	3,309,488	(3,174,243)	24,734,435
Net increase (decrease) in cash	(661,196)	(543,700)	1,831,603
Cash at beginning of year	2,166,103	2,709,803	878,200
Cash at end of year	<u>\$ 1,504,907</u>	<u>\$ 2,166,103</u>	<u>\$ 2,709,803</u>
Supplemental schedule of noncash investing and financing activities:			
Equipment acquired under capital lease	\$ 67,283	\$ 9,342	\$ 76,592
Accrued expenses settled in exchange for common stock	—	\$ 152,076	\$ 228,290
Stock options proceeds paid with Company's stock	—	\$ 303,064	\$ 355,655
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	\$ 915,695	\$ 985,189	\$ 783,373
Cash paid for income taxes	<u>\$ 855,000</u>	<u>\$ 3,000,000</u>	<u>\$ 7,886,409</u>

See Notes to Financial Statements

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

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 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. The Company has no information to support a different conclusion.

Because of the probable termination of the Company’s A-10 WRP, the Company has reduced its revenue estimates with respect to this program by approximately 41%. 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, we have recorded a \$2.6 million adjustment to cost of sales on the A-10 WRP.

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: – (continued)

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, 2014 and 2013, the Company had approximately \$1,110,000 and \$2,112,000, respectively, of uninsured balances. The Company limits its credit risk by selecting financial institutions considered to be highly credit worthy.

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, 2014 and 2013.

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: – (continued)

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.

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 2014 and 2013. As of December 31, 2014 and 2013, we had a net deferred loss associated with cash flow hedges of approximately \$14,700 and \$32,000, 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, 2014 and 2013, 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.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt	<u>\$27,411,556</u>	<u>\$27,411,556</u>	<u>\$24,568,536</u>	<u>\$24,568,536</u>

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

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: – (continued)

The following tables present the fair values of liabilities measured on a recurring basis as of December 31, 2014 and 2013:

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

		Fair Value Measurements 2013		
Description	Total	Quoted Prices in Active Markets for Identical assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swap	\$31,992	—	\$31,992	—
Total	\$31,992	—	\$31,992	—

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, 2014 and 2013, \$14,716 and \$31,992, respectively, was included in Other Liabilities related to the fair value of the Company's interest rate swap, and \$9,716 and \$21,115, respectively, net of tax of \$5,000 and \$10,877, 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. 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. Incremental shares of 415,517 were used in the calculation of diluted earnings per common share in 2012. Incremental shares of 124,217 were not included in the diluted earnings per share calculations at December 31, 2012, 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.

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

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: – (continued)

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 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 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 is effective for annual and interim periods in fiscal years beginning after December 15, 2016. Early application is not permitted. ASU 2014-09 is effective for our first quarter of fiscal year 2017 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.

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

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

	<u>U.S. Government</u>	<u>Commercial</u>	<u>Total</u>
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
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 43,138,722	\$ 35,721,767	\$ 78,860,489

At December 31, 2013, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

	<u>U.S. Government</u>	<u>Commercial</u>	<u>Total</u>
Costs incurred on uncompleted contracts . . .	\$259,050,407	\$62,502,116	\$321,552,523
Estimated earnings	95,590,879	30,694,605	126,285,484
	354,641,286	93,196,721	447,838,007
Less billings to date	272,783,120	62,733,921	335,517,041
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 81,858,166	\$30,462,800	\$112,320,966

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

2. COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS: – (continued)

The above amounts are included in the accompanying balance sheets under the following captions at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Costs and estimated earnings in excess of billings on uncompleted contracts	\$79,054,139	\$112,597,136
Billings in excess of costs and estimated earnings on uncompleted contracts	(193,650)	(276,170)
Totals	<u>\$78,860,489</u>	<u>\$112,320,966</u>

Unbilled costs and estimated earnings are billed in accordance with applicable contract terms. As of December 31, 2014, approximately \$3 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, 2014, 2013 and 2012, 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 \$42,568,000, \$3,700,000 and \$1,300,000, 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.

3. ACCOUNTS RECEIVABLE:

Accounts receivable consists of trade receivables as follows:

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Billed receivables	\$6,491,814	\$4,417,254
Less: allowance for doubtful accounts	(25,000)	(25,000)
	<u>\$6,466,814</u>	<u>\$4,392,254</u>

4. PROPERTY AND EQUIPMENT:

<u>December 31,</u>	<u>2014</u>	<u>2013</u>	<u>Estimated Useful Life (years)</u>
Machinery and equipment	\$1,646,787	\$1,263,962	5 to 10
Computer equipment	3,163,227	2,901,373	5
Furniture and fixtures	610,323	600,185	7
Automobiles and trucks	13,162	13,162	5
Leasehold improvements	1,532,355	1,518,779	10
	6,965,854	6,297,461	
Less accumulated depreciation and amortization . . .	4,210,668	3,447,708	
	<u>\$2,755,186</u>	<u>\$2,849,753</u>	

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

4. PROPERTY AND EQUIPMENT: – (continued)

Depreciation and amortization expense for the years ended December 31, 2014, 2013 and 2012 was \$763,736, \$704,435 and \$623,795, respectively.

During the years ended December 31, 2014 and 2013, the Company acquired \$67,283 and \$9,342, respectively, of property and equipment under notes payable and capital leases.

5. LINE OF CREDIT:

Until December 2012, the Company was party to a Credit Agreement, dated August 13, 2007, as amended, between the Company and Sovereign Bank (the “Prior Agreement”), which provided for a revolving credit facility and two term loans. Immediately prior to entering into the Restated Agreement (identified below), a revolving credit facility in the aggregate of \$18.0 million was available to the Company under the Prior Agreement.

On December 5, 2012, the Company entered into an Amended and Restated Credit Agreement with Sovereign Bank 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, which replaces the Sovereign Revolving Facility, and a term loan of \$3.9 million. The term of the Restated Agreement is through December 2016. The Restated Agreement increases the availability under, and amends and restates the Prior Agreement. One of the term loans under the Prior Agreement was refinanced as a revolving credit loan under the Restated Agreement. The other term loan and the revolving credit loans under the Prior Agreement continued as a term loan and revolving credit loan under the Restated Agreement.

As of December 31, 2014, the Company was in compliance with all covenants contained in the Restated Agreement. As of December 31, 2014, the Company had \$25.2 million outstanding under the Revolving Facility bearing interest at 3.25%.

6. LONG-TERM DEBT:

On October 22, 2008, the Company obtained a \$3 million term loan from Sovereign Bank to be amortized over five years (the “Sovereign Term Facility”). Prior to entering into the term loan the Company had borrowed \$2.5 million under the Sovereign Revolving Facility to fund the initial tooling costs related to a long-term contract. The Company used the proceeds from the Sovereign Term Facility to repay the borrowings under the Sovereign Revolving Facility and to pay for additional tooling related to a long-term contract. This term loan was refinanced as part of the Revolving Facility under the Restated Agreement.

On March 9, 2012, the Company obtained a \$4.5 million term loan from Sovereign Bank to be amortized over five years (the “Sovereign Term Facility 2”). Sovereign Term Facility 2 was used to purchase tooling and equipment for new programs. Sovereign Term Facility 2 bears interest at the lower of LIBOR plus 3% or Sovereign Bank’s prime rate.

Additionally, the Company and Sovereign 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 Sovereign Bank representing interest on the notional amount at a fixed rate of 4.11% and receives an amount from Sovereign 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 Sovereign Term Facility 2.

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT: – (continued)

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

<u>Year ending December 31,</u>	
2015	\$ 971,713
2016	951,927
2017	315,097
2018	16,350
2019	6,469
	<u>\$2,261,556</u>

Also included in long-term debt are capital leases and notes payable of \$161,555 and \$218,536 at December 31, 2014 and 2013, respectively, including a current portion of \$71,713 and \$120,349, respectively.

The cost of assets under capital leases was approximately \$1,118,720 and \$1,061,000 at December 31, 2014 and 2013, respectively. Accumulated depreciation of assets under capital leases was approximately \$765,000 and \$570,000 at December 31, 2014 and 2013, respectively.

7. COMMITMENTS:

The Company has employment agreements with two employees. The aggregate future commitment under these agreements is as follows:

<u>Year ending December 31,</u>	
2015	\$ 588,000
2016	588,000
	<u>\$1,176,000</u>

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 December 2022. The aggregate future commitment under this agreement is as follows:

<u>Year ending December 31,</u>	
2015	\$ 1,562,685
2016	1,600,467
2017	1,639,382
2018	1,679,465
2019	1,720,750
Thereafter	4,172,707
	<u>\$12,375,456</u>

Rent expense for the years ended December 31, 2014, 2013 and 2012 was \$1,608,702, \$1,636,171 and \$1,634,121, respectively.

CPI AEROSTRUCTURES, INC.
NOTES TO FINANCIAL STATEMENTS

8. INCOME TAXES:

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

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current:			
Federal	\$ (8,646,000)	\$3,524,000	\$5,503,000
Prior year over accrual	44,000	—	—
State	6,000	—	—
Deferred:			
Federal	(3,877,000)	(107,000)	11,000
	<u>\$(12,473,000)</u>	<u>\$3,417,000</u>	<u>\$5,514,000</u>

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

<u>December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Taxes computed at the federal statutory rate	\$(12,812,000)	\$3,792,000	\$5,701,000
State income tax, net	4,000	—	—
Prior year true-up	44,000	190,000	47,000
Research and development tax credit	(140,000)	—	—
Reduction in domestic production activity	893,000	—	—
AMT credit carryforward	(584,000)	—	—
Permanent differences	122,000	(565,000)	(234,000)
Provision for (benefit from) income taxes	<u>\$(12,473,000)</u>	<u>\$3,417,000</u>	<u>\$5,514,000</u>

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

<u>Deferred Tax Assets:</u>	<u>2014</u>	<u>2013</u>
Revenue recognition	\$ 560,000	\$ 408,000
Interest rate swap	5,000	—
Allowance for doubtful accounts	9,000	9,000
Credit carryforwards	1,134,000	—
Deferred tax asset – current	<u>1,708,000</u>	<u>417,000</u>
Deferred rent	197,000	191,000
Stock options	827,000	931,000
Interest rate swap	—	11,000
Net operating loss carryforward	<u>2,567,000</u>	<u>—</u>
Deferred Tax Assets – non current	<u>3,591,000</u>	<u>1,133,000</u>
Deferred Tax Liabilities:		
Prepaid expenses	128,000	89,000
Deferred Tax Liabilities – current	<u>128,000</u>	<u>89,000</u>
Property and equipment	622,000	788,000
Deferred tax liability – noncurrent	<u>622,000</u>	<u>788,000</u>
Net Deferred Tax Assets (Liabilities)	<u>\$4,549,000</u>	<u>\$ 673,000</u>

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

8. INCOME TAXES: – (continued)

The Company recognized, for income tax purposes, a tax benefit of \$513,000, \$266,000 and \$528,000 for the years ended December 31, 2014, 2013 and 2012, 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.

Because of the change in estimate on the Company's A-10 program, described above, the Company incurred a net loss for the year ended December 31, 2014. This net loss, after adjustment for carrying back tax losses to recover previously paid taxes, results in a net operating loss carryforward at December 31, 2014 of approximately \$7,600,000 which will expire in 2029.

9. EMPLOYEE STOCK OPTION PLANS:

The Company accounts for compensation expense associated with Stock Options based on the fair value of the options 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 share-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, 2014, 2013 and 2012, include approximately \$468,000, \$380,000 and \$383,000 of stock based compensation expense, respectively. The Company recorded reductions in income tax payable of approximately \$513,000, \$266,000 and \$528,000 for the years ended December 31, 2014, 2013 and 2012, 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) is 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 175,416 options available for grant under the 2009 Plan.

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

9. EMPLOYEE STOCK OPTION PLANS: – (continued)

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, 2013 and 2012:

	2014	2013	2012
Risk-free interest rate	1.45%	0.72%	0.90%
Expected volatility	102.0%	106.0%	101.8%
Dividend yield	0%	0%	0%
Expected option term-in years	5	5	5

The risk free interest rate for the years ended December 31, 2014, 2013 and 2012 is based on the 5 year U.S. Treasury note rate on the day of grant. The expected volatility computation for the years ended December 31, 2014, 2013 and 2012 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 as the historical forfeiture rate is below 1%.

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

Fixed Options	Options	Weighted average Exercise Price	Weighted average remaining contractual term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	695,000	\$ 8.33	2.66	
Granted during period	40,517	11.87		
Exercised	(240,000)	6.85		
Outstanding at December 31, 2012	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	387,146
Vested at December 31, 2014	349,983	10.97	2.20	387,146

The weighted-average fair value of each option granted during the years ended December 31, 2014, 2013 and 2012, estimated as of the grant date using the Black-Scholes option valuation model was \$10.86, \$8.17 and \$8.91, 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, 2014, 50,000 stock options were exercised for cash, resulting in proceeds to the Company of \$447,751. During the same period, 105,000 options were exercised, pursuant to provisions of the stock option plan, where the Company received no cash and 69,687 shares of its common

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

9. EMPLOYEE STOCK OPTION PLANS: – (continued)

stock in exchange for the 105,000 shares issued in the exercise. The 69,687 shares that the Company received were valued at \$873,390, the fair market value of the shares on the dates of exercise.

During the years ended December 31, 2014, 2013 and 2012, the Company recognized a tax benefit of \$86,000, \$27,000 and \$313,000, respectively, from the exercise of stock options.

The intrinsic value of stock options exercised during the years ended December 31, 2014, 2013 and 2012 was approximately \$679,000, \$266,000 and \$1,337,000, respectively.

The fair value of all options vested during the years ended December 31, 2014, 2013 and 2012 was approximately \$387,000, \$2,472,000 and \$859,000, 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 2014, 2013 and 2012 amounted to \$355,428, \$326,416 and \$301,196, respectively.

11. MAJOR CUSTOMERS:

Two percent of revenue in 2014, 2% of revenue in 2013 and 7% of revenue in 2012 were directly to the U.S. government. One percent of accounts receivable at December 31, 2014 and 2013 were from the U.S. Government.

In addition, in 2014, 22%, 22%, 19% and 11% of our revenue were to our four largest commercial customers, respectively. In 2013, 26%, 21%, 19% and 12% of our revenue were to our four largest commercial customers, respectively. At December 31, 2014, 26%, 21% and 15% of accounts receivable were from our three largest commercial customers. At December 31, 2013, 28%, 24% and 20% of accounts receivable were from our three largest commercial customers.

At December 31, 2014 and 2013, less than one percent of Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts were from the U.S. government.

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. At December 31, 2013, 40%, 17%, 16% and 10% of Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts were from our four largest commercial customers.

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

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			
2014	March 31,	June 30,	September 30,	December 31,
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)	1,036,548	1,717,259
Earning per share (loss)				
Basic	0.21	(3.50)	0.20	0.20
Diluted	0.20	(3.50)	0.20	0.20
2013				
Revenue	\$19,927,433	\$21,110,452	\$20,664,645	\$21,285,992
Gross Profit	4,440,570	4,236,247	4,476,127	5,280,303
Net Income	1,671,276	1,784,274	1,911,100	2,370,244
Earning per share				
Basic	0.20	0.21	0.23	0.28
Diluted	0.20	0.21	0.23	0.28

CPI AEROSTRUCTURES, INC.

Schedule II — Valuation and Qualifying Accounts
Allowance for Doubtful Accounts
(Deducted from Accounts Receivable)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance at January 1	\$25,000	\$25,000	\$ 75,000
(Deductions from)/charges to costs and expenses	—	—	—
Deductions from reserves	—	—	(50,000)
Balance at December 31,	<u>\$25,000</u>	<u>\$25,000</u>	<u>\$ 25,000</u>

CPI AEROSTRUCTURES, INC.

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 6, 2015

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>
<u>/s/ Eric Rosenfeld</u> Eric Rosenfeld	Chairman of the Board of Directors	March 6, 2015
<u>/s/ Douglas McCrosson</u> Douglas McCrosson	Chief Executive Officer and President	March 6, 2015
<u>/s/ Vincent Palazzolo</u> Vincent Palazzolo	Chief Financial Officer and Secretary (Principal financial and accounting officer)	March 6, 2015
<u>/s/ Walter Paulick</u> Walter Paulick	Director	March 6, 2015
<u>/s/ Kenneth McSweeney</u> Kenneth McSweeney	Director	March 6, 2015
<u>/s/ Harvey Bazaar</u> Harvey Bazaar	Director	March 6, 2015
<u>/s/ Michael Faber</u> Michael Faber	Director	March 6, 2015
<u>/s/ Terry Stinson</u> Terry Stinson	Director	March 6, 2015

Exhibit 12

	For the year ended December 31,				
	2014	2013	2012	2011	2010
Pretax income	(37,682,275)	11,153,895	16,525,130	10,538,928	542,896
Fixed Charges:					
Interest Expense	984,428	1,043,786	783,373	343,491	158,406
Total earnings	(36,697,847)	12,197,681	17,308,503	10,882,419	701,302
Ratio of earnings to fixed charges . . .	(37.28)	11.69	22.09	31.68	4.43

SUBSIDIARIES OF REGISTRANT

None.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Numbers 333-11669, 333-42403, 333-130077 and 333-164687) and on Form S-3 (Registration Number 333-181056), of our reports dated March 6, 2015, on our audits of the financial statements and financial statement schedule of CPI Aerostructures, Inc. as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012, and the effectiveness of internal control over financial reporting of CPI Aerostructures, Inc. as of December 31, 2014 included in the 2014 Annual Report on Form 10-K of CPI Aerostructures, Inc.

/s/ CohnReznick LLP
Jericho, New York
March 6, 2015

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY
ACT OF 2002**

I, Douglas McCrosson, certify that:

1. I have reviewed this Annual Report on Form 10-K of CPI Aerostructures, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 6, 2015

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Douglas McCrosson

Douglas McCrosson
Chief Executive Officer, President and Director
(Principal executive officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY
ACT OF 2002**

I, Vincent Palazzolo, certify that:

1. I have reviewed this Annual Report on Form 10-K of CPI Aerostructures, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 6, 2015

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Vincent Palazzolo

Vincent Palazzolo
Chief Financial Officer and Secretary
(Principal financial and accounting officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CPI Aerostructures, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission (the “Report”), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: March 6, 2015

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Douglas McCrosson

Douglas McCrosson
Chief Executive Officer, President and Director
(Principal executive officer)

Dated: March 6, 2015

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Vincent Palazzolo

Vincent Palazzolo
Chief Financial Officer and Secretary
(Principal financial and accounting officer)

CORPORATE INFORMATION

Officers

Douglas McCrosson
*President and
Chief Executive Officer*

Vincent Palazzolo
Chief Financial Officer

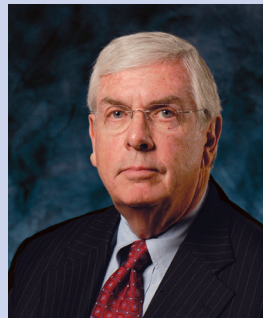
Board of Directors



Eric Rosenfeld
Chairman



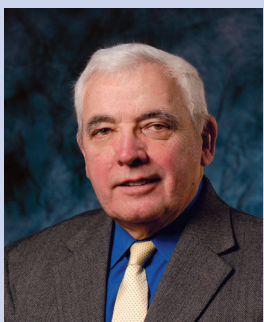
Douglas McCrosson
*President and
Chief Executive Officer*



Harvey Bazaar
Director



Michael Faber
*Chief Executive Officer
Nextpoint Management Company*



Kenneth McSweeney
*Principal
K.F. McSweeney, Unlimited*



Walter Paulick
*President
W.R. Paulick and Associates, Inc.*



Terry Stinson
*Chief Executive Officer
Stinson Consulting, LLC*

Corporate Headquarters

CPI Aero
91 Heartland Boulevard
Edgewood, NY 11717
Tel: (631) 586-5200
Fax: (631) 586-5814
www.cpiaero.com

Transfer Agent

Communications regarding
change of address, transfer of
stock ownership, or lost stock
certificates should be directed to:

Continental Stock Transfer
& Trust Company
17 Battery Place
New York, NY 10004
(800) 509-5586 / (212) 509-4000

Common Stock

CPI Aerostructures' common
stock trades on The NYSE MKT
under the symbol CVU.

Counsel

Graubard Miller
405 Lexington Avenue
11th Floor
New York, NY 10174

Independent Auditors

CohnReznick LLP
100 Jericho Quadrangle
Jericho, NY 11753

Investor Relations

The Equity Group Inc.
800 Third Avenue — 36th Floor
New York, NY 10022
(212) 371-8660

Stockholder Contact and Form 10-K

Stockholders are encouraged to
contact the Company with ques-
tions or requests for informa-
tion. A copy of the Company's
Annual Report on Form 10-K for
the year ended December 31,
2014, as filed with the Securities
and Exchange Commission, will
be sent to stockholders free of
charge upon written request.
Inquiries should be directed to:

Chief Financial Officer
CPI Aero
91 Heartland Boulevard
Edgewood, NY 11717
(631) 586-5200
or contact the Company at its
website.

www.cpiaero.com



91 Heartland Boulevard
Edgewood, NY 11717

cpiaero.com

