

**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, 2020

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:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.001 par value	CVU	NYSE American

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer

Non-accelerated Filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over

financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2020 (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 American on June 30, 2020 of \$3.76) held by non-affiliates of the registrant was \$35,301,795.

As of April 15, 2021, the registrant had 12,132,606 shares of common stock, \$.001 par value, outstanding.

**Documents Incorporated by Reference:**

Part III (Items 10, 11, 12, 13 and 14) from the definitive Proxy Statement for the 2021 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.

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CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES  
FORM 10-K ANNUAL REPORT  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020  
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## PART I

### Item 1. BUSINESS

#### Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Annual Report on Form 10-K and in future filings by us with the Securities and Exchange Commission (“SEC”), 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. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. There can be no assurance that future developments will be those that have been anticipated. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements. Further, 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 consolidated financial statements and notes thereto.

#### General

CPI Aerostructures, Inc., including its wholly owned subsidiaries (“CPI Aero”, “CPI”, the “Company”, “us” or “we”) is a manufacturer of structural assemblies, integrated systems, and kitted components for the international aerospace and defense (“A&D”) markets. Our products are generally used by customers in the production of fixed wing aircraft, helicopters, electronic warfare (“EW”) systems, intelligence, surveillance, and reconnaissance (“ISR”) systems, missiles, and other sophisticated A&D products. We are primarily a Tier 1 supplier to Original Equipment Manufacturers (“OEMs”). We are also a Tier 2 supplier to larger Tier 1 manufacturers and a prime contractor to the U.S. Department of Defense (“DOD”), primarily the U.S. Air Force (“USAF”). Our products are used by OEMs within both commercial aerospace and national security end markets. In addition to our assembly operations, we provide manufacturing engineering, program management, supply chain management, and maintenance repair and overhaul (“MRO”) services.

Our OEM customers in the defense sector include leading prime defense contractors such as:

- **Lockheed Martin Corporation** - we provide products used in the production of the F-35 Joint Strike Fighter and an international variant of the F-16 Falcon. We also provide structural assemblies to Sikorsky, a Lockheed Martin company (“Sikorsky”), for many of their military helicopter platforms including the UH-60 BLACK HAWK®, CH-53E, and a special purpose helicopter;
- **Raytheon Technologies Corporation** - we provide products to three of their business divisions: Space and Airborne Systems (the Next Generation Jammer – Mid-Band pod), Missile Systems (wing), and Integrated Defense Systems (Evolved Sea Sparrow missile launcher controller);
- **Boeing** - we provide critical wing structure for the A-10 re-wing program and welded structure for the CH-47 Chinook;
- **Northrop Grumman (“NGC”)** – we provide structural components and kits for the E-2D Advanced Hawkeye, various integrated radar and laser pod structures, and welded fluid tanks for a classified program; and

80% and 72% of our revenue in 2020 and 2019, respectively, were generated by subcontracts with defense prime contractors.

We have positioned our Company to take advantage of opportunities in the military aerospace market to a broad customer base, which we believe will reduce the potential impact of industry consolidation. 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 we believe will also reduce our exposure to defense industry consolidation, government spending decisions, and other defense industry risks.

Our OEM customers in the civil aviation market include:

- **Embraer Executive Jets** – we provide engine inlet assemblies for the Phenom 300 business jet;
- **Gulfstream**– we provide a critical structure used to produce the wing of Gulfstream Aircraft Company’s flagship G650 large business jet and derivative models such as the G650ER.

10% and 21% of our revenue in 2020 and 2019, respectively, were generated by commercial contract sales.

CPI also is a prime contractor to the DOD, primarily through contracts directly with the USAF and the Defense Logistics Agency (“DLA”). 10% and 7% of our revenue in 2020 and 2019, respectively, were generated by direct government sales.

CPI Aero has over 40 years of experience as a contractor. Our 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.

We maintain a website located at [www.cpiaero.com](http://www.cpiaero.com). Our corporate filings, including our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, our proxy statements and reports filed by our officers and directors under Section 16(a) of the Securities Exchange Act of 1934, as amended (“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 SEC. The contents of our website are not incorporated in or otherwise to be regarded as 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**

**NGC E-2D “Advanced Hawkeye”:** The NGC E-2 Hawkeye is an all-weather, carrier-based tactical Airborne Early Warning aircraft. The twin turboprop aircraft was designed and developed in the 1950s by the Grumman Aircraft Company for the United States Navy. 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 used in the production of Outer Wing Panels (“OWP”) of 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. In February of 2019, we announced a new multi-year award valued at up to approximately \$47.5 million. In June 2020, we announced that we had received firm orders valued in excess of \$43 million and \$5 million in long-lead funding in anticipation of purchase orders for OWP structural components and kits. Since 2008, the cumulative orders we have received on this program through December 31, 2020 exceed \$207 million.

In addition, in 2015 we won an award to supply structural components and kits for the Wet Outer Wing Panel (“WOWP”) on the E-2D Advanced Hawkeye airborne early warning and control (“AEW&C”) aircraft that will be manufactured for Japan. We are responsible for component source selection, supply chain management, delivery of kits, and are providing manufacturing engineering services to NGC during the integration of the components into the WOWP. In late 2019, CPI Aero received additional WOWP kit requirements increasing the total expected value of the WOWP program for Japan to be in excess of \$37 million.

In February 2020, the Company’s WMI subsidiary received from NGC approximately \$4 million in purchase orders to provide numerous welded structure and tubes for the E-2D Advanced Hawkeye. Under the terms of the purchase orders, WMI will manufacture more than 140 different items in support of the production of at least 25 E-2D aircraft. The period of performance is expected to be through 2022.

**ALQ-249 Next Generation Jammer – Mid-Band Pod (NGJ-MB):** The Raytheon NGJ-MB pod is an external jamming pod that will disrupt and degrade enemy aircraft and ground radar and communication systems and will replace the ALQ-99 system on the U.S. Navy’s EA-6B Growler carrier-based electronic warfare aircraft. The U.S. Navy plans to install these pods on 138 EA-18G Growlers during the production phase. There are 2 pods per aircraft. Raytheon received a \$1 billion sole source contract from the U.S. Navy in April 2016, and CPI has a contract with Raytheon to assemble the pod structural housing and air management system (“AMS”). In 2019, Raytheon authorized CPI Aero to begin production of pod structures and air management system components for the System Demonstration and Test Article (“SDTA”) phase of the NGJ-MB program. All SDTA pods and AMS components are expected to ship during 2021. CPI Aero estimates the value of the NGJ-MB program through the SDTA phase to be approximately \$60 million. We believe that the total value of the NGJ-MB program through production will be in excess of \$210 million through 2030.

**A-10 Thunderbolt II “Warthog”:** The Boeing A-10 Thunderbolt II, also known as the Warthog, is a twin-engine aircraft that provides close-air support of ground forces and employs a wide variety of conventional munitions including general-purpose bombs. The simple, effective and survivable single-seat aircraft can be used against all ground targets, including tanks and other armored vehicles. On August 21, 2019, Boeing announced an award from the USAF with a maximum contract value of \$999 million to manage the production of up to 112 new wing sets and spares kits for A-10 aircraft. The USAF ordered 27 wing sets immediately at contract award. In 2019, CPI announced the receipt of an Indefinite Delivery/Indefinite Quantity (IDIQ) contract with a maximum ceiling value of \$48 million from Boeing for structural assemblies for the A-10. Under the terms of the IDIQ contract, CPI Aero will manufacture major structural subassemblies of the A-10 aircraft’s wing. The Company also announced that it has received initial purchase orders under the IDIQ contract valued at approximately \$6 million for the production of 4 shipsets of assemblies and associated program start-up costs. In May 2020, CPI Aero announced the receipt of additional purchase orders totaling approximately \$14 million from Boeing.

**F-35 Lightning II:** The Lockheed F-35 Lightning II is a family of single-seat, single-engine, all-weather stealth multirole fighters designed to perform ground attack, aerial reconnaissance, and air defense missions. The DOD plans to acquire over 2,400 F-35's by 2034 and 11 other countries also have plans to acquire the aircraft. The Company has two significant contracts for products used on the F-35. In 2015, CPI was awarded a multi-year contract to supply four different lock assemblies for the arresting gear door on the F-35A CTOL. CPI made its first delivery under that contract in May 2017. In 2018, the Company received a new long-term agreement value at approximately \$8 million for lock assemblies to be delivered between 2020 and 2024. In November 2017, CPI was awarded an additional \$15.8 million multi-year contract to manufacture canopy activation drive shaft assemblies for the F-35A, F-35B, and F-35C aircraft.

**UH-60 “BLACK HAWK”:** The Sikorsky UH-60 BLACK HAWK helicopter is the leader in multi-mission-type-aircraft. Among the mission configurations its serves are troop transport, medical evacuation, electronic warfare, attack, assault support and special operations. More than 3,000 BLACK HAWK helicopters are in use today, operating in 29 countries. CPI Aero and its WMI subsidiary manufacture several different structural assemblies, including welded structure, for the BLACK HAWK helicopter. The majority of CPI’s contracts for the BLACK HAWK are as a Tier 1 supplier to Sikorsky. The Company also is a Tier 2 supplier to GKN Aerospace for ultimate use on the BLACK HAWK. In 2017, CPI Aero received an approximate \$21 million long-term agreement through 2022 for the production of fuel panel assemblies, work it has performed for Sikorsky since 2010. Also in 2017, the Company received an \$8 million long-term agreement through 2022 to manufacture machine gunner window assemblies, continuing work it has performed since 2010. More recently, since October 2018, CPI Aero has received multiple purchase orders totaling \$22 million for Hover Infrared Suppression System (HIRSS) module assemblies for use as spares on older variants of the UH-60 BLACK HAWK helicopter. The HIRSS is a defensive countermeasures system that is integral to the survival of the UH-60 Black Hawk by reducing the opportunity for an infrared-seeking threat system to acquire, lock onto, track, and destroy the helicopter.

**F-16V Fighting Falcon:** The Lockheed Martin F-16 is the world’s most successful, combat-proven multirole fighter. Approximately 3,000 operational F-16s are in service today in 25 countries. The F-16V is a new variant, sold exclusively to international air forces and is the most technologically advanced, fourth generation fighter in the world. In 2019, the Company announced it had been awarded a multi-year contract by Lockheed Martin to manufacture Rudder Island and Drag Chute Canister (RI/DCC) assemblies for the F-16V. The RI/DCC is a large structural sub-assembly that is installed on the tail section of the aircraft. Deliveries are expected to begin during late 2020 and continue through 2024. In June 2020, the Company announced that it had been awarded a follow-on order from Lockheed Martin to manufacture structural assemblies for new production F-16 Block 70/72 aircraft. The total value of the RI/DCC program is approximately \$21 million and we have received more than \$8.7 million in orders through December 31, 2020.

**CH-53K King Stallion:** The CH-53K is a heavy-lift helicopter being developed by Sikorsky for the United States Marine Corps. Flight testing began in 2018. We manufacture composite electronics racks as a Tier 2 supplier to Spirit AeroSystems, Inc., the manufacturer of the CH-53K cockpit and cabin. Through December 31, 2020, we have received orders for development and test valued at more than \$2.5 million, including a \$1.1 million order for rack with delivery requirements commencing in mid-2020 through 2021.

**Undisclosed Vehicle:** In 2018 the Company received an initial purchase order from Raytheon Missile Systems Company, a subsidiary of Raytheon Company, to manufacture structural assemblies on an undisclosed vehicle. In 2019 CPI Aero completed the initial order and in January 2021 announced a subsequent purchase order to manufacture additional units. The undisclosed vehicle is currently under development. Terms of the order will not be disclosed.

**Undisclosed Pod Structure:** In 2019 the Company received an initial purchase order from Raytheon to manufacture pod structures for an undisclosed application. The initial value of the order is approximately \$2.3 million for manufacturing engineering service, development of assembly tooling and the production of the prototypes. The undisclosed vehicle is currently under development. A prototype is expected to be manufactured during 2021.

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

**F-16 “Fighting Falcon”:** Since 2014, we have been a prime contractor to the DLA to provide structural wing components and logistical support for global F-16 aircraft MRO operations. Through December 31, 2020 we have received almost \$15 million in orders on this program.

**T-38 Pacer Classic III, Phase 2:** For more than 50 years, the Northrop T-38 has been the principal supersonic jet trainer used by the USAF. The T-38C Pacer Classic III Fuselage Structural Modification Kit Integration program (“PC III”) and the Talon Repair Inspection and Maintenance (“TRIM”) programs are expected to increase the structural service life of the T-38 beyond 2030. In 2015, CPI Aero was awarded Phase 2 of PC III and has received purchase orders valued at approximately \$2 million from the USAF to provide structural modification kits for the PC III aircraft structural modification program. Through December 2020, we have received \$23.8 million in orders on this program.

**T-38 Pacer Classic III, Phase 3 and TRIM:** In July 2019, the Company announced a new \$65.7 million IDIQ contract from the USAF for the final phase of PC III as well as TRIM. The TRIM program is a separate USAF structural modification effort that will extend the structural service life of T-38A and T-38 model types, as well as, T-38C models that were not modified during PC III. Through December 31 2020, the Company has received orders valued at approximately \$15.3 million for the PC III, Phase 3 and TRIM programs. In February 2021, the Company announced it had received orders for additional requirements valued at \$8.7 million, bringing total orders under this long term contract to approximately \$24 million.

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

**G650/G650ER:** The Gulfstream G650 is a twin-engine business jet airplane produced by Gulfstream Aerospace that can be configured to carry from 11 to 18 passengers. Gulfstream began the G650 program in 2005 and revealed it to the public in 2008. The G650 is Gulfstream’s largest and fastest business jet. The G650ER is an extended range version of the aircraft. In 2020, Gulfstream announced the launch of a new derivative the G700. In March 2008, Spirit AeroSystems, Inc. awarded us a contract to provide fixed leading edges (FLE) for the Gulfstream G650 business jet, and derivative models, a commercial program that Spirit was supporting. In December 2014, Spirit transferred its work-scope on this program to Triumph Group. Due to the impact of the COVID-19 pandemic, in May 2020, Triumph Group cancelled nearly all open orders with the Company. On May 27, 2020, Triumph Group announced it had reached an agreement in principle to sell the G650 wing program to Gulfstream Aerospace, and on June 12, 2020, we received a joint communication from Gulfstream Aerospace and Triumph Group that stated Gulfstream’s intention at the conclusion of the transaction is to continue to purchase G650 wing components from the Company. In December 2020, we received purchase orders directly from Gulfstream for wing components for use on the G650, G650ER and/or G700 aircraft.

**Phenom 300:** The Phenom 300 is a twin-engine, executive jet produced by Brazilian aircraft company Embraer, S.A. that can carry between 6 and 10 passengers and a crew of 2. We have been producing engine inlet assemblies for Embraer under a long-term agreement we entered into in 2012. We have received approximately \$36 million in orders on this program through December 31 2020. We estimate the potential value of the program to be in excess of \$52 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 generally awarded initial 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.

Many times for our defense programs, after the initial contract, subsequent follow-on contracts are awarded on a sole-source basis, subject to cost-justification and direct negotiation with our customer and in some cases, the federal government.

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 10 years. Also, repeat and follow-on jobs for current contracts frequently provide additional opportunities with minimal start-up costs and rapid rates to production.

### **The Market**

We have positioned our Company to take advantage of opportunities in the military aerospace market to a broad customer base, thereby 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 in both size and capabilities, with growth in our operational and global supply chain program management. These expansions have allowed us the ability to supply more complex aerostructure assemblies and aerosystems and structures in support of our government-based programs as well as to pursue opportunities within the commercial and business jet markets. Our capabilities have also allowed us to acquire MRO and kitting contracts.

Approximately \$2.9 million and \$3.3 million of our revenue for the years ended December 31, 2020 and 2019, respectively, were from customers outside the U.S. All other revenue for the years ended December 31, 2020 and 2019 has been attributable to customers within the U.S. We have no assets outside the U.S.

Government-based contracts are subject to national defense budget and procurement funding decisions that, accordingly, drive 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 process.

### **Backlog**

We produce custom assemblies pursuant to long-term contracts and customer purchase orders. Funded backlog consists of aggregate funded values under such contracts and purchase orders, excluding the portion previously included in operating revenues pursuant to Accounting Standards Codification Topic 606 (“ASC606”), and including estimates of future contract price escalation. Unfunded backlog is the estimated amount of future orders under the expected duration of the program. 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.

The total backlog at December 31, 2020 is primarily comprised of long-term programs with Raytheon (Next Generation Jammer – Mid Band), Northrop Grumman (E-2D), USAF (T-38), Boeing (A-10), and Embraer (Phenom 300). Funded backlog is primarily from purchase orders under long-term contracts with Northrop Grumman (E-2D), Sikorsky (BLACK HAWK), Lockheed Martin (F-16V), and the USAF (T-38). Approximately 54% of the funded backlog at December 31, 2020 is expected to be recognized as revenue during 2021.



Our total backlog as of December 31, 2020 and 2019 was as follows:

<b>Backlog (Total)</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Funded	\$ 169,567,000	\$ 147,647,000
Unfunded	306,618,000	414,231,000
<b>Total</b>	<b>\$ 476,185,000</b>	<b>\$ 561,878,000</b>

Approximately 96% of the total amount of our backlog at December 31, 2020 was attributable to government contracts, compared to 88% at December 31, 2019. Our backlog attributable to government contracts at December 31, 2020 and 2019 was as follows:

<b>Backlog (Government)</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Funded	\$ 166,156,000	\$ 136,932,000
Unfunded	290,632,000	359,770,000
<b>Total</b>	<b>\$ 456,788,000</b>	<b>\$ 496,702,000</b>

Our backlog attributable to commercial contracts at December 31, 2020 and 2019 was as follows:

<b>Backlog (Commercial)</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Funded	\$ 3,411,000	\$ 10,715,000
Unfunded	15,986,000	54,461,000
<b>Total</b>	<b>\$ 19,397,000</b>	<b>\$ 65,176,000</b>

### Material and Parts

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

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

### Competition

We face competition in our role as both a prime contractor to the U.S. Government and as a Tier 1 or Tier 2 subcontractor to military and commercial aircraft manufacturers. Within our aerostructures capability, we often compete against much larger Tier 1 suppliers, such as Triumph Group, Spirit AeroSystems, Kaman Aerospace, GKN, Ducommun, and LMI Aerospace. We believe that we can compete effectively with these larger companies by delivering products with the same level of quality and performance at a better value for our customer. Within our aerosystems capability, such as our portfolio of EW and ISR integrated pod structures, we find more limited competition and are not aware of competition from any of the aerostructures companies mentioned above. In these cases, we typically compete with the internal manufacturing arm of our customer. We believe our unique skills related to integrated pod structures combined with a very efficient and generally much lower cost structure creates a competitive advantage for bidding on aerosystems contracts.

For certain unrestricted contracts for the U.S. Government, we may compete against well-established prime contractors, including NGC, Lockheed and Boeing. All of these competitors possess significantly larger infrastructures, greater resources and the capabilities to respond to much larger contracts. We believe that our competitive advantage lies in our ability to offer large contractor capabilities with the flexibility and responsiveness of a small company, while staying competitive in cost and delivering superior quality products. While larger prime contractors compete for significant modification awards, they generally do not compete for awards in smaller modifications, spares and replacement parts, even for aircraft for which they are the original manufacturer. In certain instances, the large prime contractors often subcontract much of the work they win to their Tier 1 suppliers so we also may act as a subcontractor to some of these major prime contractors. Further, in some cases these companies are not permitted to bid, for example when the U.S. Government designates a contract as a Small Business Set-Aside. In these restricted contracts for the U.S. Government, CPI Aero typically competes against numerous small business competitors. We believe we compete effectively against the smaller competitors because smaller competitors generally do not have the expertise we have in responding to requests for proposals for government contracts, nor will they typically have the more than 40 years of past performance in conducting thousands of contracts for the U.S. Government.

## **COVID-19 Coronavirus Pandemic Impact on Our Business**

The outbreak of the COVID-19 coronavirus was declared a pandemic by the World Health Organization during our first quarter of 2020. During the latter part of our first quarter and subsequent to our quarter end, the COVID-19 pandemic grew, causing non-essential businesses to shut down and many people to observe the shelter-in-place directive from our state government. Our business and operations and the industries in which we operate have been impacted by public and private sector policies and initiatives in the U.S. to address the transmission of COVID-19, such as the imposition of travel restrictions and the adoption of remote work. The COVID-19 pandemic has contributed to a general slowdown in the global economy, has adversely impacted the businesses of certain of our customers and suppliers, and, if it continues for an extended period of time, it could adversely impact our results of operations and financial condition. In response to the COVID-19 impact on our business, we have been and continue to actively mitigate costs and adjust production schedules. We have also been taking actions to preserve capital and protect the long-term needs of our businesses, including negotiating progress payments with our customers and reducing discretionary spending. For more information on the current and potential impact of the COVID-19 pandemic on our business, see Risk Factors included in Part I, Item 1A of this Annual Report on Form 10-K.

## **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 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, 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.

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 claims that have been and may be brought against us, and 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 U.S. Government that occurs after the U.S. 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 is 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.

### **Human Capital Management**

As of December 31, 2020, we had 267 full-time employees. We employ temporary personnel with specialized disciplines on an as-needed basis. We depend on a highly educated and skilled workforce. We seek to advance a diverse, equitable and inclusive work environment for all employees. Our ability to attract, develop and retain the best talent, particularly those with technical, engineering and science backgrounds or experience, is critical for us to execute our strategy and grow our businesses. Our management, with oversight from the Compensation & Human Resources Committee of our board of directors, monitors the hiring, retention and management of our employees and regularly conducts succession planning to ensure that we continue to cultivate the pipeline of talent needed to operate our business.

In addition, we have taken measures to protect our workforce in response to the COVID-19 pandemic, including allowing employees to work from home when possible and implementing safety protocols to support our essential employees required to work onsite, such as making changes to shift work to promote social distancing among our manufacturing personnel, and providing masks and hand sanitizer.

None of our employees is a member 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 did and could continue to differ materially from those projected in any forward-looking statements.

**Risks Related to the Restatement of our Prior Period Consolidated Financial Statements and Material Weaknesses in our Internal Control**

*In 2020, we restated our consolidated financial statements for several prior periods, which has affected and may continue to affect investor confidence, our stock price, our ability to raise capital in the future, and our reputation with our customers, which has resulted and may continue to result in stockholder litigation and may reduce customer confidence in our ability to complete new contract opportunities.*

In August 2020 we filed an Annual Report on Form 10-K for the year ended December 31, 2019, which included a restatement of the financial statements which were previously filed with our Annual Report on Form 10-K for the year ended December 31, 2018. The prior restatement of our consolidated financial statements primarily reflects the correction of certain errors relating to our recognition of revenue, which errors resulted from an incorrect application of U.S. GAAP. Such restatement has had and may continue to have the effect of eroding investor confidence in the Company and our financial reporting and accounting practices and processes, has negatively impacted and may continue to negatively impact the trading price of our common stock, has resulted and may continue to result in stockholder litigation, may make it more difficult for us to raise capital on acceptable terms, if at all, and may negatively impact our reputation with our customers and cause customers to place new orders with other companies.

As described in Item 9A this Annual Report on Form 10-K, we have taken a number of steps in order to strengthen our accounting function so as to allow us to be able to provide timely and accurate financial reporting. However, we cannot assure you that these steps will be successful and we cannot assure you that additional material weaknesses in our internal control over financial reporting will not arise or be identified in the future. To the extent these steps are not successful, we could be required to incur significant additional time and expense. Moreover, because of the inherent limitations of any control system, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis, or at all. If we are unable to provide reliable and timely financial reports in the future, our business and reputation may be further harmed. The occurrence of any future errors, misstatements, or failures in internal control may also cause us to fail to meet reporting obligations, negatively affect investor and customer confidence in our management and the accuracy of our financial statements and disclosures, result in events of default under our banking agreements, or result in adverse publicity and concerns from investors and customers, any of which could have a negative effect on the price of our common stock, subject us to regulatory investigations and penalties or additional stockholder litigation, and have a material adverse impact on our business and financial condition.

*We face litigation and regulatory action relating to the restatement of the Non-Reliance Period consolidated financial statements.*

Our Company and certain of our current and former executive officers and directors are defendants in litigation arising out of the errors in and restatements of our financial statements for the year ended December 31, 2018, and quarters ended March 31, 2018, June 30, 2018, September 30, 2018, March 31, 2019, June 30, 2019, and September 30, 2019 (“Non-Reliance Periods”). Please see Part I, Item 3, “Legal Proceedings.” These proceedings may result in significant expenses and the diversion of management attention from our business. We cannot ensure that additional litigation or other claims by shareholders will not be brought in the future arising out of the same subject matter.

As previously disclosed, on May 22, 2020, the Company received a subpoena from the Securities and Exchange Commission (the “Commission”) Division of Enforcement (the “Division”) seeking documents and information relating, among other things, to previously disclosed errors in and restatement of the Company’s financial statements, the Company’s October 16, 2018 equity offering and the recent separation of the Company’s former Chief Financial Officers. By letter dated March 12, 2021 and received on March 16, 2021, the Division Staff notified the Company that the Division has concluded its investigation and, based on the information the Division has as of such date, it does not intend to recommend an enforcement action by the Commission against the Company. The Division’s notice was provided under the guidelines described in the final paragraph of Securities Act Release No. 5310 which states in part that the notice “must in no way be construed as indicating that the party has been exonerated or that no action may ultimately result from the staff’s investigation.” Please see Part I, Item 3, “Legal Proceedings.” We may also be subject to further examinations, investigations, proceedings and orders by regulatory authorities, including a cease and desist order, suspension of trading of our securities, delisting of our securities and/or the assessment of possible civil monetary penalties. Any such further actions could be expensive and damaging to our business, results of operations and financial condition.

***We are in compliance with various covenants under our credit facility with BankUnited as of December 31, 2020 but there can be no assurance that we will not fall out of compliance with the amended covenants in the future.***

The Company is in compliance with the various covenants under our credit facility (the “BankUnited Facility”) with BankUnited, N.A. (“BankUnited”) for the year ended December 31, 2020. If we fall out of compliance with our banking covenants, BankUnited may declare a default under the BankUnited Facility and, among other remedies, could declare the full amount of the BankUnited Facility immediately due and payable and could foreclose against our collateral. If this were to occur, we may be unable to secure outside financing, if needed, to fund ongoing operations and for other capital needs. Any sources of financing that may be available to us could also be at higher costs and require us to satisfy more restrictive covenants, which could limit or restrict our operations, cash flows and earnings. We cannot ensure that additional financing would be available to us, or be sufficient or available on satisfactory terms.

***We are currently ineligible to file a registration statement on Form S-3 to register the offer and sale of securities, which could adversely affect our ability to raise future capital.***

We did not file our Annual Report for the year ended December 31, 2019 or our Quarterly Reports for the three months ended March 31, 2020, June 30, 2020 and September 30, 2020 within the respective timeframes required by the SEC. However, we regained status as a current filer when we filed our Quarterly Report for the three months ended September 30, 2020. However, we will not be considered a timely filer and will not be eligible to offer and sell securities using our existing shelf registration statement on Form S-3 or file a new short-form registration statement on Form S-3 to register the offer and sale of our securities until twelve full calendar months from the date we regain status as a current filer. If we wish to register the offer and sale of our securities to the public prior to such time, we will be required to use the long-form registration statement, Form S-1, which may increase both our transaction costs and the amount of time required to complete the transaction. This may adversely affect our ability to raise funds, if we choose to do so.

### **Risks Related to COVID-19**

***The impact of the coronavirus (COVID-19) pandemic on our operations, supply chain, and customers has impacted and could continue to have a material adverse effect on our business, financial position, results of operations and/or cash flows.***

It is possible that the continued spread of COVID-19 could cause disruption in our supply chain or significantly increase the costs required to meet our contractual commitments, cause delay, or limit the ability of, the U.S. Government and other customers to perform, including making timely payments to us, negotiating contracts, performing quality inspections, accepting delivery of finished products, and cause other unpredictable events. The disruption of air travel has impacted demand for the commercial air industry. Commercial aircraft manufacturers are reducing production rates due to fewer expected aircraft deliveries and, as a result, may reduce demand for our products. There have been and may continue to be changes in our government and commercial customers’ priorities and practices, as our customers confront competing budget priorities and more limited resources. These changes may impact current and future programs, procurements, and funding decisions, which in turn could impact our results of operations.

The COVID-19 pandemic could also impact our liquidity. Slower production schedules, higher company medical costs, potential inability of our customers to make timely payments to us, and similar factors could impact our cash flows. A period of generating lower cash from operations could adversely affect our financial position. We are currently considering a range of options to mitigate such risks, including progress payments from our customers and longer payment terms with our suppliers; however, we may not be successful in these efforts. The extent to which COVID-19 impacts our cash flow will determine whether we need to obtain additional funding, which could be difficult to obtain. Due to uncertainty related to COVID-19 and its impact on us and the aerospace industry, and the volatility in the capital markets in general, access to financing may be reduced and we may have difficulty obtaining financing on terms acceptable to us or at all.

The extent to which COVID-19 affects our operations will depend on future developments, which are highly uncertain, including the duration of the outbreak, new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or address its impact, among others. For instance, the Company’s accounting staff and outside advisors have been working modified hours and remotely due to social distancing protocols and concern over their safety and the safety of others. Access to records, the inability to perform tasks efficiently, and IT connectivity issues, along with similar measures taken by the Company’s outside advisors, have hindered and may continue to hinder timely preparation of our financial statements. Additionally, even though our facility remains open, we have experienced and may continue to experience additional operating costs due to social distancing, securing personal protective equipment, and sanitizing workspaces, worker absences, and lower productivity. If significant portions of our workforce or our suppliers’ workforces are unable to work effectively, including because of illness, quarantines, government actions, facility closure or other restrictions in connection with the COVID-19 pandemic, our operations will likely be impacted. We may be unable to perform fully on our contracts and our costs may increase as a result of the COVID-19 outbreak. These cost increases may not be fully recoverable or adequately covered by insurance. In addition, the impact on our accounting staff and outside advisors may hamper our efforts to comply with our filing obligations with the SEC.

We continue to monitor the situation, to assess further possible implications to our business, supply chain and customers, and to take actions in an effort to mitigate adverse consequences. We cannot at this time predict the future impact of the COVID-19 pandemic, but it could have a material adverse effect on our business, financial position, results of operations and/or cash flows.

### **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. 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, whether due to the restatement and errors in the Non-Reliance Period financial statements or otherwise, or if the U.S. 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, the 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. Appropriations are driven by numerous factors, including geopolitical events, macroeconomic conditions, the ability of the U.S. Government to enact relevant legislation, such as appropriations bills and continuing resolutions, and the threat or existence of a government shutdown. U.S. Government appropriations for our programs and for defense spending generally may be impacted or delayed by the COVID-19 pandemic as governmental priorities and finances change. 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, completely 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. Additionally, we are a subcontractor on some U.S. Government contracts. In these arrangements, the U.S. Government could terminate the prime contract for convenience or otherwise, without regard to our performance as a subcontractor. We can give no assurance that we would be awarded new U.S. Government contracts to offset the revenues lost as a result of the termination of any of our U.S. Government 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.

***Further consolidation in the aerospace industry could adversely affect our business and financial results.***

The aerospace and defense industry is experiencing significant consolidation, including among our customers, competitors and suppliers. While we believe we have positioned our Company to take advantage of opportunities to market to a broad customer base, which we believe will reduce the potential impact of industry consolidation, we cannot assure you that industry consolidation will not impact our business. Consolidation among our customers may result in delays in the awarding of new contracts and losses of existing business. Consolidation among our competitors may result in larger competitors with greater resources and market share, which could adversely affect our ability to compete successfully. Consolidation among our suppliers may result in fewer sources of supply and increased cost to us.

***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 comply 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 affect our business operations and financial condition.

***We may be subject to fines and disqualification for non-compliance with Federal Aviation Administration (“FAA”) 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, our hiring of personnel of a subcontractor, or disputes concerning payment. 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 affect 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. For example, the COVID-19 pandemic has impacted, and continues to impact, our supply chain, as described above.

***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, pandemics, 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 may effect our profitability and our overall financial position.***

We primarily recognize revenue from our contracts over the contractual period pursuant to ASC 606. Pursuant to ASC 606, 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 on our consolidated balance sheet as an asset captioned "Contract assets." Contracts where billings to date have exceeded recognized revenues are recorded on our consolidated balance sheet as a liability captioned "Contract liabilities." Changes to the original estimates may be required during the term of the contract. Estimates are reviewed quarterly and the effect of any change in the estimated gross margin percentage for a contract is reflected in the consolidated financial statements in the period the change becomes known. ASC 606 requires the use of considerable 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 ASC 606; 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 and results of operations 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 would have a material adverse effect on our business, prospects, financial condition or results of operations.

***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 and our reputation in the industry. If our reputation is adversely affected, for instance due to our handling of the COVID-19 pandemic, we may be unable to recruit, hire, and retain talented personnel. 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, including related to COVID-19, 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. For example, the COVID-19 pandemic has significantly impacted, and continues to impact, the commercial aerospace industry, as described above.

***Our working capital requirements may negatively affect our liquidity and capital resources.***

Our working capital requirements can vary significantly, depending in part on the timing of new program awards and the payment terms with our customers and suppliers. If our working capital needs exceed our cash flows from operations, we would look to our cash balances and availability for borrowings under the BankUnited Facility to satisfy those needs, as well as potential sources of additional capital, which may not be available on satisfactory terms and in adequate amounts, if at all.

***We incur risks 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 contract assets if they were deemed to be unrecoverable. 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 experience margin degradation which may be material, for costs that are not recoverable. Such charges and the loss of up-front costs could have a material adverse impact on our liquidity.

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

We are presently classified as a small business under certain of the codes under the North American Industry Classification Systems ("NAICS") industry and product specific codes that are regulated in the United States by the Small Business Administration. We are not considered a small business under all NAICS codes. While we do not presently derive a substantial portion of our business from contracts that are set-aside for small businesses, we are able to bid on small business set-aside contracts as well as contracts that are open to non-small business entities. As the NAICS codes are periodically revised, it is possible that we may lose our status as a small business. The loss of small business status would adversely affect our eligibility for special small business programs and limit our ability to collaborate with other business entities which are seeking to team with small business entities as may be required under a specific contract.

***Cyber security attacks, internal system or service failures may adversely impact our business and operations.***

Any system or service disruptions, including those caused by projects to improve our information technology systems, if not anticipated and appropriately mitigated, could disrupt our business and impair our ability to effectively provide products and related services to our customers and could have a material adverse effect on our business. We could also be subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, intruders or hackers, computer viruses, natural disasters, power shortages or terrorist attacks. Cyber security threats are evolving and include, but are not limited to, malicious software, phishing and other unauthorized attempts to gain access to sensitive, confidential or otherwise protected information related to us or our products, customers or suppliers, or other acts that could lead to disruptions in our business. The COVID-19 pandemic has forced many of our non-manufacturing employees to shift to work-from-home arrangements, which increases our vulnerability to email phishing, social engineering or “hacking” through our remote networks, and similar cyber-attacks aimed at employees working remotely. Because the techniques used by cyber-attackers to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these tactics. Any such failures to prevent or mitigate cyber-attacks could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs or subject us to claims and damage our reputation. In addition, the failure or disruption of our communications or utilities could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Although we utilize various procedures and controls to monitor and mitigate the risk of these threats, including contracting with an outside cyber security firm to provide constant monitoring of our systems, and training our employees to recognize attacks, there can be no assurance that these procedures and controls will be sufficient. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption which would adversely affect our business, results of operations and financial condition. Moreover, expenditures incurred in implementing cyber security and other procedures and controls could adversely affect our results of operations and financial condition.

***Our financial results may be adversely impacted by the failure to successfully execute or integrate acquisitions and joint ventures.***

The Company may evaluate potential acquisitions or joint ventures that align with our strategic objectives. The success of such activity depends, in part, upon our ability to identify suitable sellers or business partners, perform effective assessments prior to contract execution, negotiate contract terms, and, if applicable, obtain customer and government approval. These activities may present certain financial, managerial, staffing and talent, and operational risks, including diversion of management's attention from existing core businesses, difficulties integrating or separating businesses from existing operations, and challenges presented by acquisitions or joint ventures which may not achieve sales levels and profitability that justify the investments made. If the acquisitions or joint ventures are not successfully implemented or completed, there could be a negative impact on our financial condition, results of operations and cash flows.

***Our ability to utilize our tax benefits could be substantially limited if we fail to generate sufficient income or if we experience an “ownership change.”***

As of December 31, 2020, we had approximately \$92.1 million of gross net operating losses (“NOLs”) for federal tax purposes and approximately \$38.4 million of post-apportionment NOLs for state tax purposes. As a result of the Tax Cuts and Jobs Act of 2017 and the Coronavirus Aid, Relief, and Economic Security Act of 2020, NOLs arising before January 1, 2018, and NOLs arising after January 1, 2018, are subject to different rules. Our pre-2018 NOLs totaled approximately \$78.8 million; these NOLs will expire in varying amounts from 2030 through 2039, if not utilized, and can offset 100% of future taxable income for regular tax purposes. Our NOLs arising in 2018, 2019 and 2020 can generally be carried back five years, carried forward indefinitely and can offset 100% of future taxable income for tax years before January 1, 2021 and up to 80% of future taxable income for tax years after December 31, 2020. Any NOLs arising on or after January 1, 2021, cannot be carried back, can generally be carried forward indefinitely and can offset up to 80% of future taxable income.

Our ability to fully recognize the benefits from our NOLs is dependent upon our ability to generate sufficient income prior to their expiration. In addition, our NOL carryforwards may be limited if we experience an ownership change as defined by Section 382 of the Internal Revenue Code (“Section 382”). In general, an ownership change under Section 382 occurs if 5% shareholders increase their collective ownership of the aggregate amount of our outstanding shares by more than 50 percentage points over a relevant lookback period. For the year ended December 31, 2020 we have determined that no ownership change occurred during the relevant lookback period that would limit our ability to use our NOLs, however the sale of additional equity securities in the future may trigger an ownership change under Section 382 which could significantly limit our ability to utilize our tax benefits.

## Other Risks

*If our common stock is delisted from the NYSE American exchange, our business, financial condition, results of operations and stock price could be adversely affected, and the liquidity of our stock and our ability to obtain financing could be impaired.*

There can be no assurance that we will maintain such compliance or that we will not be delinquent in the future. Any such further delinquency could result in the delisting of our common stock from the NYSE American exchange, which would adversely affect our ability to attract new investors, decrease the liquidity of our outstanding shares of common stock, reduce our flexibility to raise additional capital, reduce the price at which our common stock trades, and increase the transaction costs inherent in trading such shares with overall negative effects for our stockholders.

*If we do not meet the standards for forgiveness of our PPP Loan, we may be required to repay the loan over a period of two years.*

On April 10, 2020, we entered into a loan with BNB Bank as the lender (“Lender”) in an aggregate principal amount of \$4,795,000 (“PPP Loan”) pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The PPP Loan is evidenced by a promissory note (“Note”). Subject to the terms of the Note, the PPP Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the Small Business Administration. The Company has applied to the Lender for full forgiveness of the PPP Loan, with the amount which may be forgiven calculated in accordance with the terms of the CARES Act, as modified by the Paycheck Protection Flexibility Act. While we expect to meet the standards for full forgiveness of the PPP Loan, there can be no assurance that we will receive full forgiveness.

### **Item 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **Item 2. PROPERTIES**

CPI Aero’s executive offices and production facilities are situated in an approximately 171,000 square foot building located at 91 Heartland Blvd., Edgewood, New York 11717. We use approximately 131,000 square feet of this building for manufacturing space and 40,000 square feet for offices and laboratories for engineering and design work. CPI Aero occupies this facility under a 10-year lease that expires on April 30, 2022. A one year extension to April 30, 2023 has been negotiated.

### **Item 3. LEGAL PROCEEDINGS**

#### **Settlement of Working Capital Dispute**

In December 2018, the Company completed the acquisition of WMI from Air Industries for a purchase price of \$7.9 million, subject to a potential post-closing working capital adjustment. Of the purchase price, \$2 million was placed in escrow at closing and was to be released after the completion of the working capital adjustment and for indemnification contingencies. Air Industries objected to the Company’s calculation of the post-closing working capital adjustment and rejected the determination of BDO USA, LLP (“BDO”), the independent accountant appointed by the parties to resolve the dispute. On September 27, 2019, the Company filed a notice of motion in the Supreme Court of the State of New York, County of New York, against Air Industries seeking, among other things, a judgment against Air Industries in the amount of approximately \$4.1 million. In October 2019, Air Industries and the Company jointly authorized the release to the Company of approximately \$619,000 from escrow, which represented the value of certain undisputed items. On October 1, 2020, the court denied the Company’s motion on procedural grounds, holding that the Company must commence a special proceeding to obtain the relief sought. The court’s decision was made without prejudice and did not resolve the working capital dispute.

The Company and Air Industries entered into a settlement agreement dated as of December 23, 2020, to resolve the post-closing working capital adjustment dispute in exchange for the release to the Company of the \$1,381,000 cash remaining in escrow. Such amount was released from escrow to the Company on December 28, 2020. As part of the settlement agreement CPI agreed to give up the right to pursue the additional disputed working capital amount of approximately \$2.1 million.

### **Class Action Lawsuit**

As previously disclosed, a consolidated class action lawsuit has been filed against the Company, Douglas McCrosson, the Company's Chief Executive Officer, Vincent Palazzolo, the Company's former Chief Financial Officer, and the two underwriters of the Company's October 16, 2018 offering of common stock, Canaccord Genuity LLC and B. Riley FBR. The Amended Complaint in the action asserts claims on behalf of two plaintiff classes, (i) purchasers of the Company's common stock issued pursuant to and/or traceable to the Company's offering conducted on or about October 16, 2018; and (ii) purchasers of the Company's common stock between March 22, 2018 through February 14, 2020. The Amended Complaint alleges that the defendants violated Sections 11, 12(a) (2), and 15 of the Securities Act by negligently permitting false and misleading statements to be included in the registration statement and prospectus supplements issued in connection with its October 16, 2018 securities offering. The Amended Complaint also alleges that the defendants violated Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated by the SEC, by making false and misleading statements in the Company's periodic reports filed between March 22, 2018 through February 14, 2020. Plaintiffs seek unspecified compensatory damages, including interest; rescission or a rescissory measure of damages; unspecified equitable or injunctive relief; and costs and expenses, including attorney's fees and expert fees. On February 19, 2021, the Company moved to dismiss the Amended Complaint. Plaintiffs' opposition to the motion to dismiss is due on April 23, 2021, and the Company's reply is due on May 24, 2021.

### **Shareholder Derivative Action**

Four shareholder derivative actions have been filed against current members of our board of directors and certain of our current and former officers.

The first action was filed in the United States District Court for the Eastern District of New York, and purports to assert derivative claims against the individual defendants for violations of Section 10(b) and 21(d) of the Exchange Act and breach of fiduciary duty, unjust enrichment, and contribution, and seeks to recover on behalf of the Company for any liability the Company might incur as a result of the individual defendants' alleged misconduct. The complaint also seeks declaratory, equitable, injunctive, and monetary relief, as well as attorneys' fees and other costs. On October 26, 2020, the plaintiff filed an amended complaint. On January 27, 2021, the Court stayed the action pursuant to a joint stipulation filed by the parties.

The second action (captioned *Woodyard v. McCrosson, et al.*, Index No. 613169/2020) was filed on September 17, 2020 in the Supreme Court of the State of New York (Suffolk County), and purports to assert derivative claims against the individual defendants for breach of fiduciary duty and unjust enrichment, and seeks to recover on behalf of the Company for any liability the Company might incur as a result of the individual defendants' alleged misconduct, along with declaratory, equitable, injunctive and monetary relief, as well as attorneys' fees and other costs. On December 22, 2020, the parties filed a joint stipulation staying the action pending further developments in the class action.

The third action (captioned *Berger v. McCrosson, et al.*, No. 1:20-cv-05454) was filed on November 10, 2020, in the United States District Court for the Eastern District of New York, and purports to assert derivative claims against current and former members of our board of directors, and certain of our current and former officers. The complaint, which is based on the shareholder's inspection of certain corporate books and records, purports to assert derivative claims against the individual defendants for breach of fiduciary duty and unjust enrichment, and seeks to implement reforms to the Company's corporate governance and internal procedures and to recover on behalf of the Company an unspecified amount of monetary damages. The complaint also seeks equitable, injunctive, and monetary relief, as well as attorneys' fees and other costs.

On March 19, 2021, the parties to the Moulton and Berger actions filed a joint stipulation consolidating the actions and staying the consolidated action pending further developments in the class action.

The fourth action (captioned *Wurst v. Bazaar, et al.*, Index No. 605244/2021) was filed on March 24, 2021, in the Supreme Court of the State of New York (Suffolk County), and purports to assert derivative claims against the Company's current and former executive officers, certain board members, and the Company as a nominal defendant. The complaint purports to assert derivative claims against the individual defendants for breach of fiduciary duty, unjust enrichment, and waste of corporate assets, and seeks to recover on behalf of the Company for any liability the Company might incur as a result of the individual defendants' alleged misconduct. The complaint also seeks declaratory, equitable, injunctive, and monetary relief, as well as attorneys' fees and other costs. On April 12, 2021, the parties filed a joint stipulation staying the action pending further developments in the class action.

Each of these derivative actions is based substantially on the same facts alleged in the class action complaint summarized above.

### **SEC Investigation**

As previously disclosed, on May 22, 2020, the Company received a subpoena from the Securities and Exchange Commission (the "Commission") Division of Enforcement (the "Division") seeking documents and information relating, among other things, to previously disclosed errors in and restatement of the Company's financial statements, the Company's October 16, 2018 equity offering and the recent separation of the Company's former Chief Financial Officers. By letter dated March 12, 2021 and received on March 16, 2021, the Division Staff notified the Company that the Division has concluded its investigation and, based on the information the Division has as of such date, it does not intend to recommend an enforcement action by the Commission against the Company. The Division's notice was provided under the guidelines described in the final paragraph of Securities Act Release No. 5310 which states in part that the notice "must in no way be construed as indicating that the party has been exonerated or that no action may ultimately result from the staff's investigation."

**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**

Our shares of common stock are listed on the NYSE American exchange under the symbol CVU. On March 31, 2021, there were 176 holders of record of our shares of common stock, and we believe, over 2,200 beneficial owners of our shares of common stock.

**Dividend Policy**

To date, we have not paid any dividends on our common stock. Any payment of dividends in the future is within the discretion of our board of directors (subject to the limitation on dividends contained in the Bank United Credit Facility, as described more fully in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations) 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**

There have been no sales of unregistered equity securities for the three months ended December 31, 2020. There have been no repurchases of our outstanding common stock during the three months ended December 31, 2020.

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table sets forth certain information at December 31, 2020 with respect to our equity compensation plans that provide for the issuance of options, warrants or rights to purchase our securities:

<b>Plan Category</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in the first column)</b>
<b>Equity Compensation Plans Approved by Security Holders</b>	--	\$--	844,223
<b>Equity Compensation Plans Not Approved by Security Holders</b>	--	--	--
<b>Total</b>	--	\$--	844,223

Long-term equity incentives are an important component of compensation and are designed to align the interests of our executive officers and directors who receive long-term equity awards with the Company's long-term performance and to increase shareholder value. The Company has awarded long-term incentive compensation pursuant to two plans:

*2016 Long-Term Incentive Plan.* The 2016 Long-Term Incentive Plan, as amended, authorizes the grant of 1,400,000 shares of our common stock, which may be granted in the form of stock options, stock appreciation rights, restricted stock, deferred stock, stock reload options, and other stock-based awards, to employees, officers, directors, and consultants of the Company. As of December 31, 2020, we have granted 602,007 shares under this plan and 797,993 shares remained available for grant under this plan.

*Performance Equity Plan 2009.* The Performance Equity Plan 2009 authorizes the grant of 500,000 stock options, stock appreciation rights, restricted stock, deferred stock, stock reload options, and other stock-based awards. As of December 31, 2020, we have granted 453,770 shares under this plan and 46,230 shares remained available for grant.

**Item 6. SELECTED FINANCIAL DATA**

Not applicable.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis includes forward-looking statements involving risks and uncertainties and should be read together with the "Risk Factors" section of this Annual Report on Form 10-K. Such risks and uncertainties could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Recent Developments

*Paycheck Protection Program (PPP) Loan*

On April 10, 2020, we entered into the PPP Loan, with BNB Bank (now part of Dime Community Bank) as the Lender, in an aggregate principal amount of \$4,795,000, pursuant to the Paycheck Protection Program under the CARES Act. The PPP Loan is evidenced by the Note. Subject to the terms of the Note, the PPP Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the Small Business Administration (SBA). The Note provides for customary events of default including, among other things, cross-defaults on any other loan with the Lender. The PPP Loan may be accelerated upon the occurrence of an event of default.

On November 2, 2020 the Company applied to the Lender for full forgiveness of the PPP Loan, calculated in accordance with the terms of the CARES Act, as modified by the Paycheck Protection Flexibility Act. We were notified by our lender that our application was accepted and forwarded to the SBA, from whom, we are currently awaiting a response. To date the lender has not requested payment of any interest or principal.

*Impact of COVID-19*

The impact that the recent COVID-19 pandemic will have on our business is uncertain. Our staff has been working modified hours and remotely due to social distancing protocols and concern over their safety and the safety of others since on or about March 19, 2019.

During late 2020, we began to experience an increased rate of employees testing positive for COVID-19 and we took steps to mitigate virus transmission within the workplace. These steps included adding a second manufacturing shift to lessen employee density on the manufacturing floor and to require most non-manufacturing personnel to work from home. These measures continued into the current year. We believe it is possible that the impact of the COVID-19 pandemic could have an adverse effect on the results of our operations, financial position and cash flow for the year ending December 31, 2021, particularly in the first fiscal quarter. We have taken mitigating steps in an attempt to reduce the adverse effects. For example, we have curtailed discretionary spending, deferred all business travel, and taken other steps to preserve cash. We have also taken action to more closely manage the flow of materials to be more responsive to unanticipated changes in customer delivery schedules.

## **Certain Transactions**

The following transactions occurred during the periods covered by this Management's Discussion and Analysis of Financial Condition and Results of Operations:

### *Acquisition of WMI*

In December 2018, the Company completed the acquisition of WMI from Air Industries for a purchase price of \$7.9 million, subject to a potential post-closing working capital adjustment. Of the purchase price, \$2 million was placed in escrow at closing and was to be released after the completion of the working capital adjustment and for indemnification contingencies. Air Industries objected to the Company's calculation of the post-closing working capital adjustment and rejected the determination of BDO USA, LLP ("BDO"), the independent accountant appointed by the parties to resolve the dispute. On September 27, 2019, the Company filed a notice of motion in the Supreme Court of the State of New York, County of New York, against Air Industries seeking, among other things, a judgment against Air Industries in the amount of approximately \$4.1 million. In October 2019, Air Industries and the Company jointly authorized the release to the Company of approximately \$619,000 from escrow, which represented the value of certain undisputed items. The remaining escrowed amount of approximately \$1,381,000 is shown as restricted cash on the consolidated balance sheet. The additional disputed amount of approximately \$2.1 million is not on the Company's consolidated balance sheet due to the uncertainty of collection.

The Company and Air Industries entered into a settlement agreement dated as of December 23, 2020, to resolve the post-closing working capital adjustment dispute in exchange for the release to the Company of the \$1,381,000 cash remaining in escrow. Such amount was released from escrow to the Company on December 28, 2020. As part of the settlement agreement CPI agreed to give up the right to pursue the additional disputed working capital amount of approximately \$2.1 million.

### *Honda Aircraft Company, Inc. Settlement and Release Agreement*

In January 2020, the Company requested a modification to the recurring sales price contained in the Master Purchase Agreement dated January 14, 2019 ("Honda MPA") with Honda Aircraft Company, Inc. ("HACI") for the manufacture of engine inlet assemblies for the HondaJet aircraft. HACI denied the Company's request. HACI and the Company subsequently commenced discussions that would result in the Company exiting the program. On December 23, 2020 HACI and the Company entered into a Settlement and Release Agreement that, subject to the terms and conditions therein, terminates the Honda MPA and cancels all remaining purchase orders placed with the Company thereunder.

## **Business Operations**

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

## **Critical Accounting Policies**

### **Revenue Recognition**

Effective January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("ASC 606"), using the modified retrospective method. In accordance with ASC 606, the Company recognizes revenue when it transfers control of a promised good or service to a customer in an amount that reflects the consideration it expects to be entitled to in exchange for the good or service. The majority of the Company's performance obligations are satisfied over time as the Company (i) sells products with no alternative use to the Company and (ii) has an enforceable right to recover costs incurred plus a reasonable profit margin for work completed to date. Under the over time revenue recognition model, revenue and gross profit are recognized over the contract period as work is performed based on actual costs incurred and an estimate of costs to complete and resulting total estimated costs at completion.

See Note 3 "Revenue", for additional information regarding the Company's revenue recognition policy.

## Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases (“ASC 842”)”, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. On January 1, 2019, the Company adopted the new lease standard using the optional transition method under which comparative financial information will not be restated and continue to apply the provisions of the previous lease standard in its annual disclosures for the comparative periods. In addition, the new lease standard provides a number of optional practical expedients in transition. The Company elected the package of practical expedients. As such, the Company did not have to reassess whether expired or existing contracts are or contain a lease; did not have to reassess the lease classifications or reassess the initial direct costs associated with expired or existing leases.

ASC 842 also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption under which the Company will not recognize right-of-use (“ROU”) assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases. The Company elected the practical expedient to not separate lease and non-lease components for certain classes of assets (office building).

On January 1, 2019, the Company recognized ROU assets and lease liabilities of approximately \$5.3 million and \$5.9 million, respectively, on its consolidated balance sheet using an estimated incremental borrowing rate of 6%. As of December 31, 2020 the Company has ROU assets and lease liabilities of approximately \$4.1 million and \$4.4 million, respectively, on its consolidated balance sheet.

## Goodwill

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU-2017-04)”. ASU 2017-04 is intended to simplify how all entities assess goodwill for impairment. This is accomplished by removing the requirement to determine the fair value of individual assets and liabilities in order to calculate a reporting unit’s “implied” goodwill. The goodwill impairment test consists of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value.

An entity may still perform the optional qualitative assessment for a reporting unit to determine if it is more likely than not that goodwill is impaired. However, the ASU 2017-04 eliminates the requirement to perform a qualitative assessment for any reporting unit with zero or negative carrying amount. The Company adopted ASU-2017-4 for the year ended December 31, 2020.

## Results of Operations

The following discussion provides an analysis of our results of operations and should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

### *Year Ended December 31, 2020 as Compared to the Year Ended December 31, 2019*

**Revenue.** Revenue for the year ended December 31, 2020 was \$87,584,690 compared to \$87,518,688 for the year ended December 31, 2019, representing an increase of \$66,002. We experienced revenue increases on our E2-D wing panel kits, our Pacer Classic III Phase 2 program with USAF as this effort transitions to Phase 3, and our Lockheed Martin F-16 Rudder Island program. The revenue increases were partially offset by decreases on our Raytheon NGJ Pod program as we transitioned to our follow on order, and on the G650 fixed leading edge program.

Overall, revenue generated from prime government contracts for the year ended December 31, 2020 was \$9,115,983 compared to \$6,429,860 for the year ended December 31, 2019, an increase of \$2,686,123. This increase is primarily a result of increased revenue recognized on the T-38C Pacer Classic phase 2 aircraft structural modification program which is transitioning from Phase 2 to Phase 3. CPI Aero was awarded the Phase 3 contract in 2019.

Revenue generated from government subcontracts for the year ended December 31, 2020 was \$70,106,741 compared to \$62,319,526 for the year ended December 31, 2019, an increase of \$7,787,215. The increase in revenue related to the start of a new multi-year award for the Northrop Grumman E2D program as well as increases related to the NGC WWP, and the F16 Rudder Island program, offset by a decrease in the Raytheon NGJ Pod program as described above.

Revenue generated from commercial contracts was \$8,361,966 for the year ended December 31, 2020 compared to \$18,769,302 for the year ended December 31, 2019, a decrease of \$10,407,336. Most of this decrease resulted from decreased production of the Gulfstream G650 fixed leading edge assembly. We also had year-over-year revenue declines in our program with Honda as we negotiated an exit to this unprofitable program. Revenue from Embraer also declined largely due to decreased business jet demand.

**Cost of sales.** Cost of sales for the years ended December 31, 2020 and 2019 were \$75,490,503 and \$78,386,997, respectively, a decrease of \$2,896,494 or 4%.

The components of cost of sales were as follows:

	Years ended	
	December 31, 2020	December 31, 2019
Procurement	\$ 56,093,073	\$ 49,920,962
Labor	6,063,509	7,778,571
Factory overhead	20,003,530	20,726,990
Other cost of sales	(6,669,609)	(39,526)



Cost of sales

\$ 75,490,503

\$ 78,386,997

Procurement for the year ended December 31, 2020 was \$56,093,073 compared to \$49,920,962 for the year ended December 31, 2019, an increase of \$6,172,111 or 12%. This increase is primarily the result of an increase in procurement for the E2D and WOWP programs.

Labor costs for the year ended December 31, 2020 were \$6,063,509 compared to \$7,778,571 for the year ended December 31, 2019, a decrease of (\$1,715,062) or 22%. The decrease is primarily the result of the absence in 2020 of labor associated with the NGJ pod program, which was very labor intensive, as well as lower labor on the HondaJet and G650 programs.

Factory overhead costs for the year ended December 31, 2020 were \$20,003,530 compared to \$20,726,990 for the year ended December 31, 2019, a decrease of (\$723,460) or 3%. This decrease is primarily due to a decrease in factory supplies.

Other cost of sales relates to items that can increase or decrease cost of sales such as changes in inventory levels, changes in inventory valuation, changes to inventory reserves, changes in loss contract provisions, absorption variances and direct charges to cost of sales. For the year ended December 31, 2020 there was a reduction of costs in the amount of (\$6,669,609) primarily the result of changes in inventory levels and reductions in loss contract reserves.

**Gross profit.** Gross profit for the year ended December 31, 2020 was \$12,094,187 compared to \$9,131,691 for the year ended December 31, 2019, an increase of \$2,962,496. Gross profit percentage (“gross margin”) for the year ended December 31, 2020 was 13.8% compared to 10.4% for the same period last year. The increase was primarily on our E2-D kitting programs which experienced a growth in revenue as well as our exit from unprofitable programs, partially offset by a decrease in gross profit on our Raytheon Pod program due to lower volumes.

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

During the years ended December 31, 2020 and 2019, we made changes in estimates to various contracts. Such changes in estimates resulted in changes in total gross profit as follows:

	<b>Years Ended</b>	
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Favorable adjustments	\$ 2,241,357	\$ 409,226
Unfavorable adjustments	(3,975,745)	(3,444,850)
Net adjustments	<u>\$ (1,734,388)</u>	<u>\$ (3,035,624)</u>

#### ***Selling, general and administrative expenses***

Selling, general and administrative expenses (“SG&A”) for the year ended December 31, 2020 were \$12,046,170 compared to \$11,562,781 for the year ended December 31, 2019, an increase of \$483,389 or 4.2%. This increase was primarily due to increased legal and accounting expenses compared to the prior period associated with the prior restatement of our consolidated financial statements for several prior periods.

#### ***Interest expense***

Interest expense for the year ended December 31, 2020 was \$1,421,955, compared to \$2,104,851 for the year ended December 31, 2019, a decrease of \$682,896 or 32%. The decrease in interest expense is the result of continued principal repayment on our term loan with BankUnited, lower overall interest rates and a favorable 1% interest rate on our PPP loan with the SBA which we are accruing but not paying. If the PPP Loan is forgiven, the accrual will be reversed.

#### ***Profit/ (Loss) from operations***

We had a profit from operations for the year ended December 31, 2020 of \$48,017 compared to a loss from operations of (2,431,090) for the year ended December 31, 2019. This improvement was primarily the result of higher revenue and gross profit on the E2D program and the exit from unprofitable programs.

**Provision (Benefit) for income taxes.** The income tax (benefit) for the year ended December 31, 2020 was (\$53,500), an effective tax rate of 3.09%. The tax benefit consists of a refund received from the 2014 NOL carryback claim and state minimum taxes. In February 2019, the Company received information that the net operating loss carryback that was utilized in 2014 was under examination and could possibly be partially disallowed by the Internal Revenue Service (“IRS”). This adjustment was an issue of timing of the loss and had no income tax provision effect. In June 2020, the Company received a letter from the IRS stating that the returns will be accepted as filed. In September 2020, the Company received additional refunds related to the tax years under examination. The examination is now closed and there is no uncertain tax position recorded for this item.

## 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, 2020, we had working capital of \$12,309,372 compared to working capital of \$13,851,717 at December 31, 2019, a decrease of \$1,542,345, or 11.1%. This decrease is primarily the result of an increase in accounts payable and accrued expenses.

**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 contract assets on our consolidated 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 ASC 606 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 or take steps to defer cash outflows until the reported earnings materialize into actual cash receipts.

Several of our programs require us to expend up-front costs that may have to be amortized over a portion of production units. In the case of significant program delays and/or program cancellations, we could experience margin degradation, 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, 2020, our cash balance was \$6,033,537 compared to \$4,052,109 at December 31, 2019, an increase of \$1,981,428. Our accounts receivable balance at December 31, 2020 decreased to \$4,962,906 from \$7,029,602 at December 31, 2019.

## Bank Credit Facilities

**BankUnited:** On March 24, 2016, the Company entered into the BankUnited Facility. The Credit Agreement entered into in connection with the BankUnited Facility provided for a revolving credit loan commitment of \$30 million (the “Revolving Loan”) and a \$10 million term loan (“Term Loan”). The Revolving Loan bears interest at a rate as defined in the Credit Agreement.

On August 24, 2020, the Company entered into a Sixth Amendment (the “Sixth Amendment”) to the Credit Agreement. Under the Sixth Amendment, the parties amended the Credit Agreement by extending the maturity date of the Company’s Revolving Loan and Term Loan to May 2, 2022 and making conforming changes to the repayment schedule of the Term Loan, by increasing the Term Loan \$6.0 million and reducing the Revolving Loan by \$6.0 million. The maturities of the Term Loan are included in the maturities of long-term debt.

The BankUnited Facility, as amended by the Sixth Amendment, requires us to maintain the following financial covenants: (1) maintain a Fixed Cost (Debt Service) coverage ratio of no less than 1.5 to 1.0 at December 31, 2020 and no less than 1.25 to 1.0 for the trailing four quarter period at the end of each quarter thereafter; (2) maintain a minimum net income, after taxes, of no less than \$1.00; (3) effective March 31, 2021, maintain a maximum leverage ratio at the end of each quarter for the trailing four quarter period of no more than 4.0 to 1.0; (4) maintain a minimum adjusted EBITDA at the end of each quarter of no less than \$1 million; and (5) maintain a minimum liquidity of \$3 million at all times. As of December 31, 2020, the Company was in compliance with all of the covenants contained in the BankUnited Facility.

As of December 31, 2020 and December 31, 2019, the Company had \$20.7 million and \$26.7 million respectively outstanding under the BankUnited Facility.

**BNB Bank (BNB)** On April 10, 2020, we entered into the PPP Loan, with BNB Bank (now part of Dime Community Bank) as the Lender, in an aggregate principal amount of \$4,795,000, pursuant to the Paycheck Protection Program under the CARES Act. The PPP Loan is evidenced by the Note. Subject to the terms of the Note, the PPP Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the Small Business Administration (SBA). The Note provides for customary events of default including, among other things, cross-defaults on any other loan with the Lender. The PPP Loan may be accelerated upon the occurrence of an event of default.

On November 2, 2020 the Company applied to the Lender for full forgiveness of the PPP Loan as calculated in accordance with the terms of the CARES Act, as modified by the Paycheck Protection Flexibility Act. We were notified by our lender that our application was accepted and forwarded to the SBA, from whom, we are currently awaiting a response. To date the lender has not requested payment of any interest or principal. All amounts are classified as current or long term in accordance with the Note terms.

We believe that our existing resources, together with the availability under the BankUnited Facility, will be sufficient to meet our current working capital needs for at least the next 12 months from the date of issuance of our consolidated financial statements. However, our working capital requirements can vary significantly, depending in part on the timing of new program awards and the payment terms with our customers and suppliers. If our working capital needs exceed our cash flows from operations, we would look to our cash balances and availability for borrowings under our borrowing arrangement to satisfy those needs, as well as potential sources of additional capital, which may not be available on satisfactory terms and in adequate amounts, if at all.

**Contractual Obligations.** The table below summarizes information about our contractual obligations as of December 31, 2020 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	\$ 12,028,333	\$ 6,245,833	\$ 5,782,500	\$ —	\$ —
Finance Lease Obligations	678,428	255,833	351,614	70,981	—
Operating Leases	4,356,386	1,819,237	2,537,149	—	—
Total Contractual Cash Obligations	\$ 17,063,147	\$ 8,320,903	\$ 8,671,263	\$ 70,981	\$ —

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

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

Not applicable.

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

This information appears following Item 15 of this Annual Report on Form 10-K 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**

Our management evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of December 31, 2020. Based on this evaluation of our disclosure controls and procedures, management has concluded that our disclosure controls and procedures were not effective as of December 31, 2020 because of the material weakness described below.

### **Management's Annual Report on Internal Control over Financial Reporting**

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

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

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that the Company's internal control over financial reporting was not effective at the reasonable assurance level as of December 31, 2020 because of the material weakness described below.

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 consolidated financial statements will not be prevented or detected on a timely basis.

In connection with management's evaluation of the Company's internal control over financial reporting described above, management has identified the deficiencies described below that constitute a material weakness in our internal control over financial reporting as of December 31, 2020.

#### *Control Environment, Risk Assessment, Control Activities and Monitoring*

We did not maintain effective internal control over financial reporting related to control environment, risk assessment, control activities and monitoring:

- There were insufficiently documented Company accounting policies and insufficiently detailed Company procedures to put policies into effective action.
- The design and implementation of internal controls related to cut-off procedures were not sufficient to ensure proper accounting for in-transit items.
- The design and implementation of internal controls related to preparation and review of financial statement disclosures were not sufficient to ensure the completeness and accuracy of required disclosures.

Notwithstanding the conclusion by our management that our controls and procedures as of December 31, 2020 were not effective, and notwithstanding the material weaknesses in our internal control over financial reporting described above, management believes that the consolidated financial statements and related financial information included in this Annual Report on Form 10-K fairly present in all material respects our financial position, results of operations and cash flows as of and for the dates presented, and for the periods ended on such dates, in conformity with U.S. GAAP.

## Remediation of Previously Reported Material Weakness

In connection with management's evaluation of the Company's internal control over financial reporting described above, management has concluded that the material weaknesses reported in its Annual Report on Form 10-K for the period ended December 31, 2019 had been remediated and that internal controls put in place to prevent future occurrences of these material weaknesses were effective as of December 31, 2020.

During the course of 2020, we have implemented measures to remediate the underlying causes that gave rise to the previously disclosed material weaknesses and material errors. These measures include the Welding Metallurgy operations as they were incorporated into CPI's operations as of December 31, 2019. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to further the overall objective to design and operate internal controls that mitigate identified risks and enable an effective system of internal control over external financial reporting.

CPI is a non-accelerated filer for 2020. As such, CPI is not subject to the requirement to have an auditor attestation report on internal control over financial reporting in the 10-K filed in 2021 for 2020. Accordingly, based upon its internal testing which is performed by a national public accounting and advisory firm, EisnerAmper LLP, management believes that as of December 31, 2020, it has successfully remediated the internal control weaknesses which gave rise to the material errors in our prior financial statements.

- **Revenue Recognition Accounting:**

During 2020, Management, with advice from a leading global accounting and advisory firm, reviewed and updated its revenue recognition policies to be compliant with ASC Topic 606. In addition, the Company has updated its procedures and implemented new controls to remediate the identified weakness and to prevent the material error which occurred in prior periods with regards to revenue recognition wherein revenue and associated estimated margins were not constrained to firm orders received. Current procedures and controls now reconcile EAC revenue with firm funded purchase orders received from customers, which constrains revenue to firm funded orders as required by ASC Topic 606. Standardized templates have been developed to assist the evaluation process, based upon the overall updated policies and procedures including daily decision guidelines. Testing has shown that the previously identified Revenue Recognition material weakness has been remediated.

- **Accounting for Significant Non-Routine Complex Transactions:**

The Company has established a policy with regards to accounting for significant, non-routine, complex transactions which states that prior to any future requirement for accounting for significant, non-routine, complex transactions, the Company will engage experienced professionals and outline and execute a set of controls unique to each transaction to ensure that the non-routine complex transaction is recorded in a proper manner. In 2020 there were no non-routine complex transactions but the Company believes the controls and procedures implemented will allow for proper identification and accounting for those transaction.

- **Information Technology General Controls (ITGC):**

For years subsequent to 2019, the Company has implemented an improved 404 compliant ITGC testing program. The Company has identified relevant ITGCs for key financial systems relating to Change Management, Logical Security, Physical Security, and Computer Operations. We have engaged EisnerAmper LLP to test the design, implementation and operating effectiveness of the controls. Testing has shown that the previously identified ITGC material weakness has been remediated.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting other than as described above.

**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 ACCOUNTANTS FEES AND SERVICES**

The information required by Items 10, 11, 12, 13 and 14 will be contained in our definitive proxy statement for our 2021 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 consolidated financial statements are filed as a part of this report:

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of December 31, 2020 and 2019  
Consolidated Statements of Operations for the Years Ended December 31, 2020 and 2019  
Consolidated Statements of Shareholders' Deficit for the Years Ended December 31, 2020 and 2019  
Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019  
Notes to Consolidated Financial Statements

<u>Exhibit Number</u>	<u>Name of Exhibit</u>
<a href="#">3.1</a>	<a href="#">Certificate of Incorporation of Composite Products International, Inc., dated January 5, 1980 (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</a>
<a href="#">3.1.1</a>	<a href="#">Certificate of Amendment of the Certificate of Incorporation of Composite Products International, Inc., dated May 9, 1989 (incorporated by reference to Exhibit 3.1.1 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</a>
<a href="#">3.1.2</a>	<a href="#">Certificate of Amendment of the Certificate of Incorporation of Consortium of Precision Industries, Inc., dated June 30, 199 (incorporated by reference to Exhibit 3.1.2 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</a>
<a href="#">3.1.3</a>	<a href="#">Certificate of Amendment of the Certificate of Incorporation of CPI Aerostructures, Inc., dated August 7, 1992 (incorporated by reference to Exhibit 3.1.3 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</a>
<a href="#">3.1.4</a>	<a href="#">Certificate of Amendment of the Certificate of Incorporation of CPI Aerostructures, Inc., dated June 3, 1997 (incorporated by reference to Exhibit 3.1.4 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</a>
<a href="#">3.1.5</a>	<a href="#">Certificate of Amendment of Certificate of Incorporation of CPI Aerostructures, Inc., dated June 16, 1998 (incorporated by reference to Exhibit 3.1.5 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</a>
<a href="#">3.2</a>	<a href="#">Amended and Restated By-Laws of the Company (incorporated by reference from exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 14, 2020).</a>
<a href="#">**4.1</a>	<a href="#">Securities of the Registrant</a>
<a href="#">10.1</a>	<a href="#">Performance Equity Plan 2009 (incorporated by reference from Appendix A to the Company's Proxy Statement on Schedule 14A filed on April 30, 2009).</a>
<a href="#">**10.2</a>	<a href="#">2016 Long-Term Incentive Plan, as amended.</a>
<a href="#">10.3</a>	<a href="#">Agreement of Lease, dated June 30, 2011, between Heartland Boys II L.P. and CPI Aerostructures Inc. (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 10-Q for the quarter ended June 30, 2011).</a>
<a href="#">10.4.1</a>	<a href="#">Amended and Restated Credit Agreement, dated as of March 24, 2016, among CPI Aerostructures, Inc., the several lenders from time to time party thereto, and Bank United, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 28, 2016).</a>
<a href="#">10.4.2</a>	<a href="#">First Amendment to the Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 10, 2016).</a>
<a href="#">10.4.3</a>	<a href="#">Second Amendment to the Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.4.3 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</a>
<a href="#">10.4.4</a>	<a href="#">Third Amendment to the Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 16, 2018).</a>
<a href="#">10.4.5</a>	<a href="#">Fourth Amendment to the Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 27, 2018).</a>
<a href="#">10.4.6</a>	<a href="#">Fifth Amendment to the Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 26, 2019).</a>
<a href="#">10.4.7</a>	<a href="#">Sixth Amendment and Waiver to the Amended and Restated Credit Agreement, dated August 24, 2020 (incorporated by reference to Exhibit 10.4.7 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</a>

10.4.8	Form of Amendment and Restated Term Note (included as Exhibit A-1 to the Sixth Amendment and Waiver).
10.4.9	Form of Amendment and Restated Revolving Credit Note (included as Exhibit A-2 to the Sixth Amendment and Waiver).
<a href="#">10.5</a>	<a href="#">Amended and Restated Continuing General Security Agreement among CPI Aerostructures, Inc. and Bank United, N.A. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 28, 2016).</a>
<a href="#">**21</a>	<a href="#">Subsidiaries of the Registrant</a>
<a href="#">**23.1</a>	<a href="#">Consent of CohnReznick LLP</a>
<a href="#">**31.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">**31.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">**32.1</a>	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
***101.INS	XBRL Instance Document
***101.SCH	XBRL Taxonomy Extension Schema Document
***101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
***101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
***101.LAB	XBRL Taxonomy Extension Label Linkbase Document
***101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\*\*Filed herewith.

\*\*\*XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of section 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.

**Item 16. FORM 10-K SUMMARY**

None.

**CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES**  
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**CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
CPI Aerostructures, Inc.

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of CPI Aerostructures, Inc. and Subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of operations, shareholders' deficit and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

## Revenue Recognition

### Critical Audit Matter Description

The majority of the Company's revenues for its contracts are recognized over-time as the Company (i) sells products with no alternative use to the Company and (ii) has an enforceable right to recover costs incurred plus a reasonable profit margin for work completed to date. The Company uses the cost-to-cost input method to measure progress for its performance obligations because it best depicts the transfer of control to the customer which occurs as the Company incurs costs on its contracts. Under the over-time revenue recognition model, revenue and gross profit are recognized over the contract period as work is performed based on actual costs incurred, an estimate of costs to complete and resulting total estimated costs at completion.

Given the complexity of the estimates regarding the revenue and costs associated with such contracts, auditing these estimates required extensive audit effort and a high degree of auditor judgment to devise, execute and evaluate the results of appropriate audit procedures.

### How the Critical Audit Matter was addressed in the Audit

Our principal audit procedures related to the Company's revenue, costs and profit for these contracts included the following:

- We obtained an understanding of and evaluated the design and implementation of the controls that address the risk of material misstatement of contract revenue including those associated with cost to complete estimates for long-term fixed price contracts.
- We selected a sample of contracts with customers and performed the following:
  - Evaluated whether the recognition of revenue over time on such contracts was appropriate based on the terms and conditions of each contract, including whether continuous transfer of control to the customer occurred as progress was made toward fulfilling the performance obligation.
  - Compared the transaction price to the consideration to be received based on current rights and obligations under the contracts and any modifications that were agreed upon with the customers.
  - Tested the accuracy and completeness of the costs incurred to date for the performance obligation.
  - Evaluated the estimates of total cost and profit for the performance obligation by:
    - Comparing costs incurred to date to the costs management estimated to be incurred to date.
    - Comparing management's estimates for selected contracts to cost and profit estimates for similar current and historic performance obligations.
    - Performing retrospective reviews of management's judgments and estimates and comparing actual performance to estimated performance, when evaluating the thoroughness and precision of management's estimation process.
    - We analytically evaluated selected quarter over quarter changes in contract profit estimates by obtaining explanations from the Company's project managers regarding timing and amount of costs incurred and corroborating and assessing the reasonableness of these responses by obtaining documents such as signed purchase orders and contract change orders.
  - Tested the mathematical accuracy of management's calculation of revenue recognized during the period for the performance obligations.

## Liquidity Evaluation

### Critical Audit Matter Description

Management has concluded that there were sufficient resources available to meet its obligations and fund operations for at least one year from the date the consolidated financial statements were available to be issued and expects to be in compliance with the required debt covenants established under its credit facility. The Company's strategies include significant judgments and estimates involved in the execution of their business plans which include the ability to maintain and grow its funded backlog orders.

We identified liquidity as a critical audit matter due to the significant management estimates supporting their conclusion that they will remain in compliance with the established debt covenant requirements and have sufficient liquidity to sustain normal operations for at least one year from the date the consolidated financial statements were available to be issued. This in turn led to a high degree of auditor subjective judgement to evaluate the evidence supporting the liquidity considerations and related conclusion. Management's liquidity conclusion is relevant to the users of the consolidated financial statements and that also impacted our assessment of liquidity as a critical audit matter.

### How the Critical Audit Matter was addressed in the audit

Our principal audit procedures related to the Company's liquidity evaluation included the following:

- Obtained an understanding of the Company's process to estimate future cash flows, including methods, inputs and significant assumptions used in developing the liquidity assessment.
- Evaluated the reasonableness of management's income statement, balance sheet, and cash flow projections for at least one year from the date the consolidated financial statements were available to be issued by comparing the forecasted financial information to historical results, funded and unfunded backlog, newly obtained contracts as well as considered the Company's ability to exit loss contracts and the overall change in business strategies to primarily focus on government versus commercial contracts.
- Evaluated the adequacy of the Company's disclosure of these circumstances in the consolidated financial statements.
- Evaluated the impact of actual results incurred to date on the Company's projections and covenant calculation through the date the consolidated financial statements were available to be issued.

/s/ CohnReznick LLP

We have served as the Company's auditors since 2004

New York, New York

April 15, 2021

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 6,033,537	\$ 4,052,109
Restricted cash	—	1,380,684
Accounts receivable, net	4,962,906	7,029,602
Contract assets	19,729,638	15,280,807
Inventory	9,567,921	5,891,386
Refundable income taxes	40,000	474,904
Prepaid expenses and other current assets	534,857	721,964
<b>Total Current Assets</b>	<b>40,868,859</b>	<b>34,831,456</b>
Operating lease right-of-use assets	4,075,048	3,886,863
Property and equipment, net	2,521,742	3,282,939
Intangibles, net	250,000	375,000
Goodwill	1,784,254	1,784,254
Other assets	191,179	179,068
<b>Total Assets</b>	<b>\$ 49,691,082</b>	<b>\$ 44,339,580</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable	\$ 12,092,684	\$ 8,199,557
Accrued expenses	5,693,518	2,372,522
Contract liabilities	1,650,549	3,561,707
Loss reserve	800,971	2,650,963
Current portion of long-term debt	6,501,666	2,484,619
Operating lease liabilities	1,819,237	1,709,153
Income taxes payable	862	1,216
<b>Total Current Liabilities</b>	<b>28,559,487</b>	<b>20,979,737</b>
Line of credit	20,738,685	26,738,685
Long-term operating lease liabilities	2,537,149	2,596,784
Long-term debt, net of current portion	6,205,095	1,764,614
<b>Total Liabilities</b>	<b>58,040,416</b>	<b>52,079,820</b>
<b>Shareholders' Deficit :</b>		
Common stock - \$.001 par value; authorized 50,000,000 shares, 11,951,271 and 11,818,830 shares, respectively, issued and outstanding	11,951	11,819
Additional paid-in capital	72,005,841	71,294,629
Accumulated deficit	(80,367,126)	(79,046,688)
<b>Total Shareholders' Deficit</b>	<b>(8,349,334)</b>	<b>(7,740,240)</b>
<b>Total Liabilities and Shareholders' Deficit</b>	<b>\$ 49,691,082</b>	<b>\$ 44,339,580</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31,	2020	2019
Revenue	\$ 87,584,690	\$ 87,518,688
Cost of sales	75,490,503	78,386,997
Gross profit	12,094,187	9,131,691
Selling, general and administrative expenses	12,046,170	11,562,781
Profit/(Loss) from operations	48,017	(2,431,090)
Other expense:		
Other income	—	89,666
Interest expense	(1,421,955)	(2,104,851)
Total other expense, net	(1,421,955)	(2,015,185)
Loss before provision for income taxes	(1,373,938)	(4,446,275)
Provision for/ (benefit from) income taxes	(53,500)	3,877
Net loss	\$ (1,320,438)	\$ (4,450,152)
Loss per common share-basic	\$ (0.11)	\$ (0.38)
Loss per common share-diluted	\$ (0.11)	\$ (0.38)
Shares used in computing loss per common share:		
Basic	11,884,307	11,808,052
Diluted	11,884,307	11,808,052

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

Years ended December 31, 2020 and 2019

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Shareholders' Deficit
Balance at January 1, 2019	11,718,246	\$ 11,718	\$ 70,651,413	\$ 74,596,536	\$ (3,933,405)
Net loss	—	—	—	(4,450,152)	(4,450,152)
Costs related to stock offering	—	—	(119,571)	—	(119,571)
Common stock issued as employee compensation	4,950	5	32,319	—	32,324
Stock based compensation expense	95,634	96	730,468	—	730,564
Balance at December 31, 2019	<u>11,818,830</u>	<u>11,819</u>	<u>71,294,629</u>	<u>(79,046,688)</u>	<u>(7,740,240)</u>
Net loss	—	—	—	(1,320,438)	(1,320,438)
Stock based compensation expense	132,441	132	711,212	—	711,344
Balance at December 31, 2020	<u><u>11,951,271</u></u>	<u><u>\$ 11,951</u></u>	<u><u>\$ 72,005,841</u></u>	<u><u>\$ (80,367,126)</u></u>	<u><u>\$ (8,349,334)</u></u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2020	2019
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,320,438)	\$ (4,450,152)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,032,986	1,124,063
Amortization of debt issuance costs	95,429	95,507
Cash expended in excess of rent expense	(137,737)	(112,048)
Stock-based compensation expense	711,344	730,564
Common stock issued as employee compensation	—	32,324
Bad debt expense	(23,395)	34,098
<b>Changes in operating assets and liabilities:</b>		
Decrease in accounts receivable	2,090,091	1,807,802
(Increase) decrease in contract assets	(4,448,831)	2,308,059
(Increase) decrease in inventory	(3,676,535)	227,336
Decrease in prepaid expenses and other current assets	187,107	1,202,189
Decrease in refundable income taxes	434,904	394,902
Increase (decrease) in accounts payable and accrued expenses	7,214,124	(678,380)
(Decrease) in contract liabilities	(1,911,158)	(1,968,872)
(Decrease) in loss reserve	(1,849,992)	(1,012,597)
(Decrease) in income taxes payable	(354)	(112,777)
<b>Net cash used in operating activities</b>	<u>(1,602,455)</u>	<u>(377,982)</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(146,788)	(436,010)
<b>Net cash used in investing activities</b>	<u>(146,788)</u>	<u>(436,010)</u>
<b>Cash flows from financing activities:</b>		
Payment of line of credit	—	(1,300,000)
Proceeds from line of credit	—	4,000,000
Proceeds from PPP loan	4,795,000	—
Payment of long-term debt	(2,337,473)	(2,436,786)
Stock offering costs paid	—	(119,571)
Debt issuance costs	(107,540)	(25,000)
<b>Net cash provided by financing activities</b>	<u>2,349,987</u>	<u>118,643</u>
Net (decrease) increase in cash and restricted cash	600,744	(695,349)
Cash and restricted cash at beginning of year	5,432,793	6,128,142
Cash and restricted cash at end of year	<u>\$ 6,033,537</u>	<u>\$ 5,432,793</u>
<b>Supplemental schedule of noncash investing, financing activities:</b>		
Equipment acquired under capital lease	<u>\$ 134,900</u>	<u>\$ 399,800</u>
<b>Supplemental schedule of cash flow information:</b>		
Cash paid during the year for interest	<u>\$ 1,490,152</u>	<u>\$ 2,066,174</u>
Cash paid (received) for income taxes	<u>\$ (488,052)</u>	<u>\$ (378,652)</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company consists of CPI Aerostructures, Inc. (“CPI”) and Welding Metallurgy, Inc. (“WMI”), a wholly owned subsidiary acquired on December 20, 2018 and Compac Development Corporation (“Compac”), a wholly owned subsidiary of WMI, collectively the “Company.”

CPI is a U.S. supplier of aircraft parts for fixed wing aircraft and helicopters in both the commercial and defense markets. We manufacture complex aerospace assemblies, as well as aerosystems. Additionally, we supply parts for maintenance, repair and overhaul (“MRO”) and kitting contracts.

An operating segment, in part, is a component of an enterprise whose operating results are regularly reviewed by the chief operating decision maker (the “CODM”) to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to a limited extent. The Company’s CODM, the Chief Executive Officer, reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues for purposes of making operating decisions and assessing financial performance. The Company has determined that it has a single operating and reportable segment.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

#### Use of Estimates

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

#### Business Combinations

The Company applied acquisition accounting for the WMI acquisition in accordance with Accounting Standards Codification 805, “Business Combinations” (“ASC 805”). Acquisition accounting requires that the assets acquired and liabilities assumed be recorded at their respective estimated fair values at the date of acquisition. The excess purchase price over fair value of the net assets acquired is recorded as goodwill. In determining estimated fair values, we are required to make estimates and assumptions that affect the recorded amounts including, but not limited to, expected future cash flows, discount rates, remaining useful lives of long-lived assets, useful lives of identified intangible assets, replacement or reproduction costs of property and equipment and the amounts to be recovered in future periods from acquired net operating losses and other deferred tax assets. Our estimates in this area impact, among other items, the amount of depreciation and amortization, impairment charges in certain instances if the asset becomes impaired, and income tax expense or benefit that we report. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain.

#### Revenue Recognition

Effective January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, “Revenue from Contracts with Customers” (“ASC 606”), using the modified retrospective method. In accordance with ASC 606, the Company recognizes revenue when it transfers control of a promised good or service to a customer in an amount that reflects the consideration it expects to be entitled to in exchange for the good or service. The majority of the Company’s performance obligations are satisfied over-time as the Company (i) sells products with no alternative use to the Company and (ii) has an enforceable right to recover costs incurred plus a reasonable profit margin for work completed to date. Under the over-time revenue recognition model, revenue and gross profit are recognized over the contract period as work is performed based on actual costs incurred and an estimate of costs to complete and resulting total estimated costs at completion. In 2020, the Company corrected its application of ASC 606, which resulted in a restatement of its previously issued consolidated financial statements for 2018 and the first three quarters of 2019.

See Note 3, “Revenue”, for additional information regarding the Company’s revenue recognition policy.

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

### 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 provides 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 to 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 six 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, 2020 and 2019, the Company had \$6,024,418 and \$4,020,203, 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.

### Inventory

Inventories are reported at lower of cost or net realizable value using weighted average actual cost.

### Property and Equipment

Property and equipment are recorded at cost.

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.

### Leases

The Company leases a building and equipment. Under ASC 842, at contract inception we determine whether the contract is or contains a lease and whether the lease should be classified as an operating or a finance lease. Operating leases are included in ROU assets and operating lease liabilities in our consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset during the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The determination of the length of lease terms is affected by options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The existence of significant economic incentive is the primary consideration when assessing whether the Company is reasonably certain of exercising an option in a lease. Both finance and operating lease ROU assets and liabilities are recognized at commencement date and measured as the present value of lease payments to be made over the lease term. As the interest rate implicit in the lease is not readily available for most of the Company's leases, the Company uses its estimated incremental borrowing rate in determining the present value of lease payments. The estimated incremental borrowing rate is derived from information available at the lease commencement date. The lease ROU asset recognized at commencement is adjusted for any lease payments related to initial direct costs, prepayments, and lease incentives.

For operating leases, lease expense is recognized on a straight-line basis over the lease term. For finance leases, lease expense comprises the amortization of the ROU assets recognized on a straight-line basis generally over the shorter of the lease term or the estimated useful life of the underlying asset and interest on the lease liability. Variable lease payments not dependent on a rate or index are recognized when the event, activity, or circumstance in the lease agreement upon which those payments are contingent is probable of occurring and are presented in the same line of the consolidated balance sheet as the rent expense arising from fixed payments. The Company has lease agreements with lease and non-lease components. Non-lease components are combined with the related lease components and accounted for as lease components for all classes of underlying assets.

On January 1, 2019, the Company recognized right of use assets and lease liabilities in the range of approximately \$5.3 million to \$5.9 million, respectively, on its consolidated balance sheet using an estimated incremental borrowing rate of 6%. At December 31, 2020 the Company has right of use assets and lease liabilities of approximately \$4.1 million and \$4.4 million respectively.

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

### 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, 2020 and 2019.

### Fair Value

At December 31, 2020 and 2019, the fair values of cash, accounts receivable and accounts payable approximated their carrying values because of the short-term nature of these instruments.

	2020		2019	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Debt				
Line of credit and long-term debt	\$ 33,445,446	\$ 33,445,446	\$ 30,987,918	\$ 30,987,918

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

### Loss Per Share

Basic loss per common share is computed using the weighted-average number of shares outstanding. Diluted loss 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. There were no incremental shares that were used in the calculation of diluted loss per common share in 2020 and 2019. Since the Company is in a loss position no incremental shares were used in the calculation of diluted loss per share since these shares would be considered anti-dilutive.

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

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

The Company's policy is to record estimated interest and penalties related to uncertain tax positions in income tax expense.

### Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU-2017-04). ASU 2017-04 is intended to simplify how all entities assess goodwill for impairment. This is accomplished by removing the requirement to determine the fair value of individual assets and liabilities in order to calculate a reporting unit's "implied" goodwill. The goodwill impairment test consists of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

An entity may still perform the optional qualitative assessment for a reporting unit to determine if it is more likely than not that goodwill is impaired. However, the ASU 2017-04 eliminates the requirement to perform a qualitative assessment for any reporting unit with zero or negative carrying amount. The Company adopted ASU-2017-4 for the year ended December 31, 2020.

### COVID-19

The outbreak of the COVID-19 coronavirus was declared a pandemic by the World Health Organization during our first quarter of 2020. During the latter part of our first quarter and subsequent to our quarter end, the COVID-19 pandemic grew, causing non-essential businesses to shut down and many people to observe the shelter-in-place directive from our state government. Our business and operations and the industries in which we operate have been impacted by public and private sector policies and initiatives in the U.S. to address the transmission of COVID-19, such as the imposition of travel restrictions and the adoption of remote work. The COVID-19 pandemic has contributed to a general slowdown in the global economy, has adversely impacted the businesses of certain of our customers and suppliers, and, if it continues for an extended period of time, it could adversely impact our results of operations and financial condition. In response to the COVID-19 impact on our business, we have been and continue to actively mitigate costs and adjust production schedules. We have also been taking actions to preserve capital and protect the long-term needs of our businesses, including negotiating progress payments with our customers and reducing discretionary spending.

### Liquidity

At December 31, 2020, our cash balance was \$6,033,537 compared to \$4,052,109 at December 31, 2019, an increase of \$1,981,428. Our accounts receivable balance at December 31, 2020 decreased to \$4,962,906 from \$7,029,602 at December 31, 2019. At December 31, 2020, we had working capital of \$12,309,372 compared to working capital of \$13,851,719 at December 31, 2019.

On August 24, 2020, the Company entered into a Sixth Amendment (the "Sixth Amendment") to the BankUnited March 24, 2016 Credit Agreement. Under the Sixth Amendment, the parties amended the Credit Agreement by extending the maturity date of the Company's Revolving Loan and Term Loan to May 2, 2022 and making conforming changes to the repayment schedule of the Term Loan, by increasing the Term Loan \$6.0 million and reducing the Revolving Loan by \$6.0 million. The maturities of the Term Loan are included in the maturities of long-term debt. The BankUnited Facility, as amended by the Sixth Amendment, requires us to maintain the following financial covenants: (1) maintain a Fixed Cost (Debt Service) coverage ratio of no less than 1.5 to 1.0 at December 31, 2020 and no less than 1.25 to 1.0 for the trailing four quarter period at the end of each quarter thereafter; (2) maintain a minimum net income, after taxes, of no less than \$1.00; (3) effective March 31, 2021, maintain a maximum leverage ratio at the end of each quarter for the trailing four quarter period of no more than 4.0 to 1.0; (4) maintain a minimum adjusted EBITDA at the end of each quarter of no less than \$ million; and (5) maintain a minimum liquidity of \$ million at all times. As of December 31, 2020, the Company was in compliance with all of the covenants contained in the BankUnited Facility. As of December 31, 2020 and December 31, 2019, the Company had \$20.7 million and \$26.7 million outstanding under the BankUnited Line of Credit Facility.

Our working capital requirements can vary significantly, depending in part on the timing of new program awards and the payment terms with our customers and suppliers. We continue to work to obtain better payment terms with our customers, including accelerated progress payment arrangements, as well as exploring alternative funding sources. The Company currently has a shareholders' deficit and has experienced continuing losses from operations and negative cash flows from operations year to date that collectively represent significant risks to the Company to continue to operate as a going concern. To address these matters, the Company has a) negotiated a revised credit facility with BankUnited effective August 24, 2020, b) has in the fourth quarter exited an unprofitable program to avoid continuing cash losses c) obtained and is seeking additional progress payment and advance payment customer contract funding provisions, d) initiated new procedures to reduce investments in inventory and contract assets, e) remained focused on its military segment which has proven to be less susceptible to COVID-19 related impacts and f) maintained a strong (approximately \$170 million) backlog of funded orders, 98% of which are for military programs. Based upon management's assessment of the identified significant risks and the execution of the plans described above, management believes that substantial risk does not exist as to whether the Company's liquidity and debt resources will be sufficient to meet its obligations as a going concern through a year and a day from the date these financial statements were available to be issued.

## 2. BUSINESS COMBINATION

In December 2018, the Company completed the acquisition of WMI from Air Industries for a purchase price of \$7.9 million, subject to a potential post-closing working capital adjustment. Of the purchase price, \$2 million was placed in escrow at closing and was to be released after the completion of the working capital adjustment and for indemnification contingencies. Air Industries objected to the Company's calculation of the post-closing working capital adjustment and rejected the determination of BDO USA, LLP ("BDO"), the independent accountant appointed by the parties to resolve the dispute. On September 27, 2019, the Company filed a notice of motion in the Supreme Court of the State of New York, County of New York, against Air Industries seeking, among other things, a judgment against Air Industries in the amount of approximately \$4.1 million. In October 2019, Air Industries and the Company jointly authorized the release to the Company of approximately \$619,000 from escrow, which represented the value of certain undisputed items. The remaining escrowed amount of approximately \$1,381,000 is shown as restricted cash on the consolidated balance sheet. The additional disputed amount of approximately \$2.1 million is not on the Company's consolidated

balance sheet due to the uncertainty of collection.



## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

The Company and Air Industries entered into a settlement agreement (“Settlement Agreement”) dated as of December 23, 2020, to resolve the post-closing working capital adjustment dispute in exchange for the release to the Company of the \$1,381,000 cash remaining in escrow. Such amount was released from escrow to the Company on December 28, 2020. As part of the settlement agreement CPI agreed to give up the right to pursue the additional disputed working capital amount of approximately \$2.1 million.

### 3. REVENUE RECOGNITION

#### Contracts with Customers and Performance Obligations

The majority of the Company’s revenues are from long-term contracts with the U.S. government and commercial contractors. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. For the Company, the contract under ASC 606 is typically established upon execution of a purchase order either in accordance with a long-term customer contract or on a standalone basis.

To determine the proper revenue recognition for our contracts, we must evaluate whether two or more contracts should be combined and accounted for as a single contract, and whether the combined or single contract should be accounted for as one performance obligation or more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or to separate a contract into multiple performance obligations could change the amount of revenue and profit recorded in a period. A performance obligation is a promise within a contract to transfer a distinct good or service to the customer in exchange for payment and is the unit of account for recognizing revenue. The Company’s performance obligations in its contracts with customers are typically the sale of each individual product contemplated in the contract or a single performance obligation representing a series of products when the contract contains multiple products that are substantially the same. The Company has elected to account for shipping performed after control over a product has transferred to a customer as fulfillment activities. When revenue is recognized in advance of incurring shipping costs, the costs related to the shipping are accrued. Shipping costs are included in costs of sales. The Company provides warranties on many of its products; however, since customers cannot purchase such warranties separately and they do not provide services beyond standard assurances, warranties are not separate performance obligations.

A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when or as the performance obligation is satisfied. For contracts with more than one performance obligation, the Company allocates the transaction price to each performance obligation based on its estimated standalone selling price. When standalone selling prices are not available, the transaction price is allocated using an expected cost plus margin approach as pricing for such contracts is typically negotiated on the basis of cost.

The contracts with the U.S. government typically are subject to the Federal Acquisition Regulation (FAR) which provides guidance on the types of costs that are allowable in establishing prices for goods and services provided under U.S. government contracts. The pricing for commercial contractors are based on the specific negotiations with each customer and any taxes imposed by governmental authorities are excluded from revenue. The transaction price is primarily comprised of fixed consideration as the customer typically pays a fixed fee for each product sold. The Company does not adjust the amount of revenue to be recognized under a customer contract for the effects of the time value of money when the timing difference between receipt of payment and transferring the good or service is less than one year.

The majority of the Company’s performance obligations are satisfied over time as the Company (i) sells products with no alternative use to the Company and (ii) has an enforceable right to recover costs incurred plus a reasonable profit margin for work completed to date. The Company uses the cost-to-cost input method to measure progress for its performance obligations because it best depicts the transfer of control to the customer which occurs as the Company incurs costs on its contracts.

The Company generally utilizes the portfolio approach to estimate the amount of revenue to recognize for its contracts and groups contracts together that have similar characteristics. Contract gross profit margins are calculated using the estimated costs for either the individual contract or the portfolio as applicable. Significant judgment is used to determine which contracts are grouped together to form a portfolio. The portfolio approach is utilized only when the result of the accounting is not expected to be materially different than if applied to individual contracts.

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

The Company's contracts are often modified to account for changes in contract specifications and requirements. The Company considers contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price, and the measure of progress for the performance obligation to which it relates, are recognized prospectively when the remaining goods or services are distinct and on a cumulative catch-up basis when the remaining goods or services are not distinct.

The Company also has contracts that are considered point in time. Under the point in time revenue recognition model, revenue is recognized when control of the components has transferred to the customer, in most cases this will be based on shipping terms.

### **Contract Estimates**

Certain contracts contain forms of variable consideration, such as price discounts and performance penalties. The Company generally estimates variable consideration using the most likely amount based on an assessment of all available information (i.e., historical experience, current and forecasted performance) and only to the extent it is probable that a significant reversal of revenue recognized will not occur when the uncertainty is resolved.

In applying the cost-to-cost input method, the Company compares the actual costs incurred relative to the total estimated costs expected at completion to determine its progress towards satisfying its performance obligation and to calculate the corresponding amount of revenue to recognize. For any costs incurred that do not depict the Company's performance in transferring control of goods or services to the customer, the Company excludes such costs from its input method measure of progress as the amounts are not reflected in the price of the contract. Costs that are inputs to the satisfaction of a performance obligation include labor, materials and subcontractors' costs, other direct costs and an allocation of indirect costs.

Changes to the original estimates may be required during the life of the contract. Estimates are reviewed quarterly and the effect of any change in the estimated gross margin percentage for a contract is reflected in revenue in the period the change becomes known. ASC 606 involves considerable use of estimates and judgment in determining revenues, costs and profits and in assigning the amounts to accounting periods. For instance, management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation, execution by our subcontractors, the availability and timing of funding from the customer, and overhead cost rates, among other variables. The Company continually evaluates all of the factors related to the assumptions, risks and uncertainties inherent with the application of the cost-to-cost input method; however, it cannot be assured that estimates will be accurate. If estimates are not accurate, or a contract is terminated which will affect estimates at completion, the Company is required to adjust revenue in the period the change is determined.

When changes are required for the estimated total revenue on a contract, these changes are recognized on a cumulative catch-up basis in the current period. A significant change in one or more estimates could affect the profitability of one or more of our performance obligations. If estimates of total costs to be incurred exceed estimates of total consideration the Company expects to receive, a provision for the remaining loss on the contract is recorded in the period in which the loss becomes evident.

### **Capitalized Contract Acquisition Costs and Fulfillment Costs**

Contract acquisition costs are those incremental costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company does not typically incur contract acquisition costs or contract fulfillment costs that are subject to capitalization in accordance with the guidance in Accounting Standards Codification Subtopic 340-40, "Other Assets and Deferred Costs—Contracts with Customers."

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

### Disaggregation of Revenue

The following table presents the Company's revenue disaggregated by contract type:

	<u>Year Ended</u>	<u>Year Ended</u>
	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Aerostructure	\$ 34,248,296	\$ 41,921,232
Aerosystems	14,787,309	26,624,568
Kitting and Supply Chain Management	38,549,085	18,972,888
<b>Total</b>	<b>\$ 87,584,690</b>	<b>\$ 87,518,688</b>

### Transaction Price Allocated to Remaining Performance Obligations

As of December 31, 2020, the aggregate amount of transaction price allocated to the remaining performance obligations was approximately \$170 million. This represents the amount of revenue the Company expects to recognize in the future on contracts with unsatisfied or partially satisfied performance obligations as of December 31, 2020. The Company estimates that it will recognize approximately 54% of this amount in fiscal year 2021, approximately 28% in fiscal year 2022 and the remainder in fiscal year 2023.

#### 4. CONTRACT ASSETS AND LIABILITIES

Contract assets represent revenue recognized on contracts in excess of amounts invoiced to the customer and the Company's right to consideration is conditional on something other than the passage of time. Amounts may not exceed their net realizable value. Under the typical payment terms of our government contracts, the customer retains a portion of the contract price until completion of the contract, as a measure of protection for the customer. Our government contracts therefore typically result in revenue recognized in excess of billings, which we present as contract assets. Contract assets are classified as current. The Company's contract liabilities represent customer payments received or due from the customer in excess of revenue recognized. Contract liabilities are classified as current.

Revenue recognized for the year ended December 31, 2020, that was included in the contract liabilities balance as of January 1, 2020 was \$3.6 million and as of January 1, 2019 was \$5.2 million.

**CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES**

**5. RECONCILIATION OF CASH AND RESTRICTED CASH**

The following table provides a reconciliation of cash and restricted cash reported within the statement of cash flows that sum to the total of the same such amounts shown in the statement of cash flows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Cash	\$ 6,033,537	\$ 4,052,109
Restricted cash	—	1,380,684
<b>Total cash and restricted cash shown in the statement of cash flow</b>	<b>\$ 6,033,537</b>	<b>\$ 5,432,793</b>

**6. ACCOUNTS RECEIVABLE**

Accounts receivable consists of trade receivables as follows:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Billed receivables	\$ 5,226,468	\$ 7,260,457
Less: allowance for doubtful accounts	(263,562)	(230,855)
<b>Total accounts receivable, net</b>	<b>\$ 4,962,906</b>	<b>\$ 7,029,602</b>

**7. INVENTORY**

The components of inventory consisted of the following:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Raw materials	\$ 2,128,213	\$ 881,761
Work in progress	3,512,572	1,916,209
Finished goods (Includes completed components)	3,927,136	3,093,416
<b>Total inventory</b>	<b>\$ 9,567,921</b>	<b>\$ 5,891,386</b>

**8. PROPERTY AND EQUIPMENT**

	<b>December 31,</b>		<b>Estimated</b>
	<b>2020</b>	<b>2019</b>	<b>Useful Life (years)</b>
Machinery and equipment	\$ 3,964,491	\$ 3,829,592	5 to 7
Computer equipment	4,179,087	4,179,087	5
Furniture and fixtures	709,350	709,350	7
Automobiles and trucks	13,162	13,162	5
Leasehold improvements	2,585,762	2,573,874	Lesser of lease term or 10 years
<b>Total gross property and equipment</b>	<b>11,451,852</b>	<b>11,305,065</b>	
<b>Less accumulated depreciation and amortization</b>	<b>(8,930,110)</b>	<b>(8,022,126)</b>	
<b>Total property and equipment, net</b>	<b>\$ 2,521,742</b>	<b>\$ 3,282,939</b>	

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was \$907,986 and \$999,063, respectively.

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

During the years ended December 31, 2020 and 2019, the Company acquired \$134,900 and \$399,800, respectively, of property and equipment under capital leases.

### 9. INTANGIBLES AND GOODWILL

	December 31,	
	2020	2019
Intangibles	\$ 500,000	\$ 500,000
Less: amortization of intangibles	(250,000)	(125,000)
Total intangibles, net	\$ 250,000	\$ 375,000
Goodwill	\$ 1,784,254	\$ 1,784,254

As discussed in Note 1, the Company completed the WMI Acquisition on December 20, 2018. The acquisition was accounted for as a business combination in accordance with ASC 805. Accordingly, the Company recorded the fair value of the assets and liabilities assumed at the date of acquisition.

As a result of the acquisition, the Company recorded Goodwill of \$1,784,254 as a result of adjustments to the fair value of the acquired WMI inventory. The Company's intangible asset is comprised of the value of the customer relationships acquired as part of the WMI Acquisition. The useful life is four years representing the remaining economic life.

Amortization expense for the year ended December 31, 2020 and December 31, 2019 was \$125,000 and \$125,000 respectively.

### 10. LINE OF CREDIT

On March 24, 2016, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with BankUnited, N.A. and the sole arranger, administrative agent and collateral agent and Citizens Bank N.A. as a lender (the "BankUnited Facility"). The BankUnited Facility provided for a revolving credit loan commitment of \$30 million (the "Revolving Loan") and a \$10 million term loan ("Term Loan"). The Revolving Loan bears interest at a rate based upon a pricing grid, as defined in the agreement.

On August 24, 2020, the Company entered into a Sixth Amendment (the "Sixth Amendment") to the Credit Agreement. Under the Sixth Amendment, the parties amended the Credit Agreement by extending the maturity date of the Company's Revolving Loan and Term Loan to May 2, 2022 and making conforming changes to the repayment schedule of the Term Loan. The availability under the Revolving Note was permanently reduced by \$6 million, to \$24 million, and the outstanding principal amount on the Term Note was increased to approximately \$7,933,000.

The BankUnited Facility, as amended by the Sixth Amendment, requires us to maintain the following financial covenants: (1) maintain a Fixed Cost (Debt Service) coverage ratio of no less than 1.5 to 1.0 at December 31, 2020 and no less than 1.25 to 1.0 for the trailing four quarter period at the end of each quarter thereafter; (2) maintain a minimum net income, after taxes, of no less than \$1.00; (3) effective March 31, 2021, maintain a maximum leverage ratio at the end of each quarter for the trailing four quarter period of no more than 4.0 to 1.0; (4) maintain a minimum adjusted EBITDA at the end of each quarter of no less than \$1 million; and (5) maintain a minimum liquidity of \$3 million at all times. As of December 31, 2020, the Company was in compliance with all of the covenants contained in the BankUnited Facility, as amended.

As of December 31, 2020 and December 31, 2019, the Company had \$20.7 million and \$26.7 million respectively outstanding under the BankUnited Facility.

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

The BankUnited Facility is secured by all of the Company's assets.

### 11. LONG-TERM DEBT

As described above, in connection with the Sixth Amendment, the Company and BankUnited agreed to extend the maturity dates of the Revolving Loan and Term Loan to May 2, 2022 and make conforming changes to the repayment schedule of the Term Loan. The availability under the Revolving Note was permanently reduced by \$6 million, to \$24 million, and the outstanding principal amount on the Term Note was increased by \$6 million to approximately \$7,933,000. The BankUnited Facility, as amended by the Sixth Amendment, requires us to maintain the financial covenants described in the preceding note.

The Company paid to BankUnited, commitment and agent fees in the amount of \$107,540 in 2020, together with out of pocket costs, expenses, and reasonable attorney's fees incurred by BankUnited in connection with the Sixth Amendment. The Company paid to BankUnited, commitment and agent fees in the amount of \$25,000 in 2019, together with out of pocket costs, expenses, and reasonable attorney's fees incurred by BankUnited in connection with the Fifth Amendment. The Company has cumulatively paid approximately \$596,000 of total debt issuance costs in connection with the BankUnited Facility of which approximately \$84,000 is included in other assets at December 31, 2020.

On April 10, 2020, we entered into the Paycheck Protection Program (PPP) Loan, with BNB Bank (now part of Dime Community Bank) as the Lender, in an aggregate principal amount of \$4,795,000, pursuant to the Paycheck Protection Program under the CARES Act. The PPP Loan is evidenced by the Note. Subject to the terms of the Note, the PPP Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the Small Business Administration (SBA). The Note provides for customary events of default including, among other things, cross-defaults on any other loan with the Lender. The PPP Loan may be accelerated upon the occurrence of an event of default.

On November 2, 2020 the Company applied to the Lender for full forgiveness of the PPP Loan as calculated in accordance with the terms of the CARES Act, as modified by the Paycheck Protection Flexibility Act. We were notified by our lender that our application was accepted and forwarded to the SBA, from whom, we are currently awaiting a response. To date the lender has not requested payment of any interest or principal. All amounts are classified as current or long term in accordance with the Note terms.

The maturities of the long-term debt (excluding unamortized debt issuance costs) as of December 31, 2020, are as follows:

Year ending December 31,	
2021	\$ 6,501,666
2022	5,997,681
2023	136,433
2024	44,498
2025	26,483
Total	<u>\$ 12,706,761</u>

Included in the long-term debt are financing leases and notes payable of \$678,428 and \$546,100 at December 31, 2020 and 2019, respectively, including a current portion of \$255,833 and \$384,619, respectively.

### 12. LEASES

The Company leases a building and equipment. Under ASC 842, at contract inception we determine whether the contract is or contains a lease and whether the lease should be classified as an operating or a financing lease. Operating leases are included in ROU assets and operating lease liabilities in our consolidated balance sheets.

The Company leases manufacturing and office space under an agreement classified as an operating lease. The lease agreement expires on April 30, 2023 and does not include any renewal options. The agreement provides for an initial monthly base amount plus annual escalations through the term of the lease. In addition to the monthly base amounts in the lease agreement, the Company is required to pay real estate taxes and operating expenses during the lease terms.

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

The Company also leases office equipment in agreements classified as operating leases.

For the years ended December 31, 2020, and 2019 the Company's operating lease expense was \$1,625,539 and \$1,761,374, respectively.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2020 were as follows:

Year ending December 31,		
2021	\$	1,964,815
2022		1,946,746
2023		657,667
2024		8,349
2025		—
Total undiscounted operating lease payments		4,577,577
Less imputed interest		(221,191)
Present value of operating lease payments		\$ 4,356,386

The following table sets forth the ROU assets and operating lease liabilities as of December 31, 2020 and 2019:

	2020	2019
<b>Assets</b>		
ROU Assets	\$ 4,075,048	\$ 3,886,863
<b>Liabilities</b>		
Current operating lease liabilities	\$ 1,819,237	\$ 1,709,153
Long-term operating lease liabilities	2,537,149	2,596,784
Total ROU liabilities	\$ 4,356,386	\$ 4,305,937

The right-of-use assets under financing leases was \$4,075,048 and \$3,024,852 at December 31, 2020 and 2019, respectively. Accumulated depreciation of assets under financing leases was approximately \$517,091 and \$1,868,377 at December 31, 2020 and 2019, respectively.

The Company's weighted average remaining lease term for its operating leases is 2.3 years.

### 13. INCOME TAXES

We account for income taxes in accordance with ASC 740 Income Taxes. ASC 740 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected tax consequences or events that have been recognized in our consolidated financial statements or tax returns. ASC 740 also clarifies the accounting for uncertainty in income taxes recognized in the consolidated financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the consolidated financial statements recognition and measurement of a tax position taken, or expected to be taken, in a tax return.

The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The 2014 tax return was under audit by the IRS and the Company has received notification that the returns will be accepted as filed. The Company generally is no longer subject to U.S. or state examinations by tax authorities for taxable years prior to 2017. However, net operating losses utilized from prior years in subsequent years' tax returns are subject to examination until three years after the filing of subsequent years' tax returns. The statute of limitations expiration in foreign jurisdictions for corporate tax returns generally ranges between two and five years depending on the jurisdiction.

**CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES**

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

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
<b>Current:</b>		
Federal	\$ (57,788)	\$ —
State	4,288	3,877
<b>Deferred:</b>		
Federal	—	—
State	—	—
<b>Total</b>	<b>\$ (53,500)</b>	<b>\$ 3,877</b>

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

<b>December 31,</b>	<b>2020</b>	<b>2019</b>
Taxes computed at the federal statutory rate	\$ (288,527)	\$ (1,012,457)
State income tax, net	3,387	3,890
Research and development tax credit	(210,374)	(180,813)
Change in valuation allowance	393,599	1,127,573
Other	59,242	10,870
Refund from IRS audit	(57,788)	—
Permanent differences	46,961	54,814
Provision (benefit) for income taxes	<b>\$ (53,500)</b>	<b>\$ 3,877</b>

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

<b>Deferred Tax Assets:</b>	<b>2020</b>	<b>2019</b>
Allowance for doubtful accounts	\$ 56,884	\$ 50,100
Credit carryforwards	1,758,809	1,435,543
Inventory reserve	307,456	423,605
Restricted stock	189,072	87,976
Other	18,654	15,237
Acquisition costs	93,063	100,774
Lease liability	940,230	934,463
Disallowed interest expense	891,345	791,785
Net operating loss carryforward	20,886,666	21,058,838
Deferred tax assets	<u>25,142,179</u>	<u>24,898,321</u>
Valuation allowance	(21,608,803)	(21,213,040)
<b>Deferred Tax Liabilities:</b>		
Prepaid expenses	115,437	114,738
Revenue recognition	2,086,045	2,133,348
Property and equipment	452,384	593,678
Right of use asset	879,510	843,517
Deferred tax liabilities	<u>\$ 3,533,376</u>	<u>\$ 3,685,281</u>
Net deferred tax assets (liabilities)	<u>\$ —</u>	<u>\$ —</u>



## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

As of December 31, 2020, the Company had approximately \$92.1 million of gross net operating loss carryforwards (“NOLs”) for federal tax purposes and approximately \$38.4 million of post apportionment NOLs for state tax purposes. As a result of the Tax Cuts and Jobs Act of 2017 and the Coronavirus Aid, Relief, and Economic Security Act of 2020, NOLs arising before January 1, 2018, and NOLs arising after January 1, 2018, are subject to different rules. Our pre-2018 NOLs totaled approximately \$78.8 million; these NOLs will expire in varying amounts from 2030 through 2039, if not utilized, and can offset 100% of future taxable income for regular tax purposes. Our NOLs arising in 2018, 2019 and 2020 can generally be carried back five years, carried forward indefinitely and can offset 100% of future taxable income for tax years before January 1, 2021 and up to 80% of future taxable income for tax years after December 31, 2020. Any NOLs arising on or after January 1, 2021, cannot be carried back, can generally be carried forward indefinitely and can offset up to 80% of future taxable income. The federal NOLs begin to expire in 2034; losses generated in 2018 and forward have an indefinite life. The state NOLs begin to expire in 2034.

Our ability to fully recognize the benefits from our NOLs is dependent upon our ability to generate sufficient income prior to their expiration. In addition, our NOL carryforwards may be limited if we experience an ownership change as defined by Section 382 of the Internal Revenue Code (“Section 382”). In general, an ownership change under Section 382 occurs if 5% shareholders increase their collective ownership of the aggregate amount of our outstanding shares by more than 50 percentage points over a relevant lookback period. For the year ended December 31, 2020 we have determined that no ownership change occurred during the relevant lookback period that would limit our ability to use our NOLs, however the sale of additional equity securities in the future may trigger an ownership change under IRC Section 382 which could significantly limit our ability to utilize our tax benefits. The Company will recognize a tax benefit in the consolidated financial statements for an uncertain tax position only if management’s assessment is that the position is “more likely than not” (i.e., a likelihood greater than 50%) to be allowed by the tax jurisdiction based solely on the technical merits of the position. The term “tax position” refers to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for financial reporting purposes.

The provision for income tax benefit for the year ended December 31, 2020 was (\$53,500), an effective tax rate of 3.09%. The tax consists of a refund received from the 2014 NOL carryback claim and state minimum taxes. In February 2019, the Company received information that the net operating loss carryback that was utilized in 2014 was under examination and could possibly be partially disallowed by the Internal Revenue Service (“IRS”). This adjustment was an issue of timing of the loss and had no income tax provision effect. In June 2020, the Company received a letter from the IRS stating that the returns will be accepted as filed. In September 2020, the Company received additional refunds related to the tax years under examination. The examination is now closed and there is no uncertain tax position recorded for this item.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, was enacted and signed into law, and GAAP requires recognition of the tax effects of new legislation during the reporting period that includes the enactment date. The CARES Act, among other things, includes changes to the tax provisions that benefits business entities and makes certain technical corrections to the 2017 Tax Cuts and Jobs Act, including, permitting net operating losses, or NOLs, carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The CARES Act provides other reliefs and stimulus measures. We have evaluated the impact of the CARES Act, and do not expect that any provision of the CARES Act would result in a material cash benefit to us or have a material impact on our financial statements or internal controls over financial reporting.

### 14. STOCK BASED COMPENSATION NEEDS UPDATE

The Company accounts for stock-based compensation based on the fair value of the stock or stock-based instrument on the date of grant. The Company’s net loss for the years ended December 31, 2020 and 2019, includes approximately \$711,000 and \$763,000 of stock based compensation expense, respectively, for the grant of RSUs and shares.

In January 2020, the Company granted 73,551 restricted stock units (“RSUs”) to its board of directors as partial compensation for the 2020 year. RSUs vest quarterly on a straight-line basis over a one-year period. In August 2020, the Company granted 2,617 RSUs to one of its board members as partial compensation for the 2020 year. In October 2020, the company granted 949 shares of common stock to one of its board members as partial compensation for the 2020 year. In November 2020, the Company granted 5,758 shares of common stock to one of its board members as partial compensation for the 2020 year. In January 2019, the Company granted 75,353 RSUs to its board of directors as partial compensation for the 2019 year. In April 2019, the Company granted 6,677 RSUs to one of its board members as partial compensation for the 2019 year. In June 2019, a board member retired and 6,596 of his unvested RSUs were forfeited. In June 2019, two board members were granted an additional 2,725 RSUs as partial compensation for the 2019 year. RSUs vest quarterly on a straight-line basis over a one-year period. The Company’s net loss for the years ended December 31, 2020 and 2019 includes approximately \$532,000 and \$498,000, respectively, of non-cash compensation expense related to the RSU grants to the board of directors. This expense is recorded as a component of selling, general and administrative expenses.

In February 2020, a former CFO forfeited 10,000 RSU’s upon his resignation. In August 2020, the Company granted 84,383 RSU’s to various officers and employees. In the event that any of these employees voluntarily terminates their employment prior to certain dates, portions of the shares may be forfeited. In addition, if certain Company performance criteria are not achieved, portions of these shares may be forfeited. These shares will be expensed during various periods through March 2024 based upon the service and performance thresholds. In August 2020, the Company granted 9,346 RSU’s to an employee. The shares will be fully vested August 26, 2021. In August 2020, 66,242 of the RSU’s granted in 2016, 2017, 2018 and 2019, respectively, were forfeited because the Company failed to achieve certain performance criteria for the year ended December 31, 2019.

In April 2019, the Company granted 94,972 shares of common stock to various officers and employees. In the event that any of these employees voluntarily terminates their employment prior to certain dates, portions of the shares may be forfeited. In addition, if certain Company performance criteria are not achieved, portions of these shares may be forfeited. These shares will be expensed during various periods through March 2023 based upon the service and performance thresholds. Additionally 29,306 of the shares granted in 2016, 2017 and 2018, were forfeited because the Company failed to achieve certain performance criteria for the year ended December 31, 2018. Employees returned 9,806 common shares to pay withholding taxes. The Company granted 4,950 shares of common stock to various employees. In November 2019, 38,906 shares were forfeited as a result of the termination of employment of an officer. In December 2019, the Company

granted 10,000 RSU's to the new CFO.

The Company's net loss for the years ended December 31, 2020 and 2019 includes approximately \$179,000 and \$265,000 respectively, of non-cash compensation expense related to the RSU grants to the officers and employees. This expense is recorded as a component of cost of goods sold of approximately \$57,000 and \$79,000 respectively, and as a component of selling, general and administrative expenses of approximately \$122,000 and \$186,000 respectively.

During the year ended December 31, 2019, 35,000 stock options were exercised, pursuant to the provisions of the stock option plan, where the Company received no cash and 34,478 shares of its common stock in exchange for the 35,000 shares issued in the exercise. There were no stock options outstanding as of December 31, 2019.

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

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 Company has 46,230 shares available for grant under the 2009 Plan as of December 31, 2020.

In 2016, the Company adopted the 2016 Long Term Incentive Plan (the “2016 Plan”). The 2016 Plan reserved 600,000 common shares for issuance, provided that, no more than 200,000 common shares be granted as incentive stock options. Awards may be made or granted to employees, officers, directors and consultants in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. Any shares of common stock granted in connection with awards other than stock options and stock appreciation rights are counted against the number of shares reserved for issuance under the 2016 Plan as one and one-half shares of common stock for every one share of common stock granted in connection with such award. Any shares of common stock granted in connection with stock options and stock appreciation rights are counted against the number of shares reserved for issuance under the 2016 Plan as one share for every one share of common stock issuable upon the exercise of such stock option or stock appreciation right awarded. In the fourth quarter of 2020 the company added 800,000 shares to the plan. The Company has 797,993 shares available for grant under the 2016 Plan as of December 31, 2020.

### 15. 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 2020 and 2019 amounted to \$288,553 and \$412,990, respectively.

### 16. MAJOR CUSTOMERS

For the year ended December 31, 2020, 35%, 11%, 11% and 9% of our revenue were generated from our four largest customers. For the year ended December 31, 2019, 28%, 18%, 13% and 12% of our revenue were generated from our four largest customers.

At December 31, 2020, 29%, 24% 15% and 13% of accounts receivable were due from our four largest customers. At December 31, 2019, 29%, 24%, 13% and 12% of accounts receivable were due from our four largest customers.

At December 31, 2020, 39%, 20%, 12% and 9% of our contract assets were related to our four largest customers. At December 31, 2019, 50%, 12%, 11%, and 7% of our contract assets were related to our four largest customers.

### 17. LEGAL PROCEEDINGS

#### Class Action Lawsuit

As previously disclosed, a consolidated class action lawsuit has been filed against the Company, Douglas McCrosson, the Company’s Chief Executive Officer, Vincent Palazzolo, the Company’s former Chief Financial Officer, and the two underwriters of the Company’s October 16, 2018 offering of common stock, Canaccord Genuity LLC and B. Riley FBR. The Amended Complaint in the action asserts claims on behalf of two plaintiff classes, (i) purchasers of the Company’s common stock issued pursuant to and/or traceable to the Company’s offering conducted on or about October 16, 2018; and (ii) purchasers of the Company’s common stock between March 22, 2018 through February 14, 2020. The Amended Complaint alleges that the defendants violated Sections 11, 12(a) (2), and 15 of the Securities Act by negligently permitting false and misleading statements to be included in the registration statement and prospectus supplements issued in connection with its October 16, 2018 securities offering. The Amended Complaint also alleges that the defendants violated Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated by the SEC, by making false and misleading statements in the Company’s periodic reports filed between March 22, 2018 through February 14, 2020. Plaintiffs seek unspecified compensatory damages, including interest; rescission or a rescissory measure of damages; unspecified equitable or injunctive relief; and costs and expenses, including attorney’s fees and expert fees. On February 19, 2021, the Company moved to dismiss the Amended Complaint. Plaintiffs’ opposition to the motion to dismiss is due on April 23, 2021, and the Company’s reply is due on May 24, 2021.

## CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

### **Shareholder Derivative Actions**

Two shareholder derivative actions have been filed against current members of our board of directors and certain of our current and former officers. The first action was filed in the United States District Court for the Eastern District of New York, and purports to assert derivative claims against the individual defendants for violations of Section 10(b) and 21(d) of the Exchange Act and breach of fiduciary duty, unjust enrichment, and contribution, and seeks to recover on behalf of the Company for any liability the Company might incur as a result of the individual defendants' alleged misconduct. The second action was filed in the Supreme Court of the State of New York (Suffolk County), purports to assert derivative claims against the individual defendants for breach of fiduciary duty and unjust enrichment, and seeks to recover on behalf of the Company for any liability the Company might incur as a result of the individual defendants' alleged misconduct, along with declaratory, equitable, injunctive and monetary relief, as well as attorneys' fees and other costs. Both derivative actions are based substantially on the same facts alleged in the class action complaint summarized above, and both cases have been stayed pending resolution of the motion to dismiss in the class action.

On November 10, a third shareholder derivative action was filed against current and former members of our board of directors, and certain of our current and former officers, in the United States District Court for the Eastern District of New York. The complaint, which is based on the shareholder's inspection of certain corporate books and records, purports to assert derivative claims against the individual defendants for breach of fiduciary duty and unjust enrichment, and seeks to implement reforms to the Company's corporate governance and internal procedures and to recover on behalf of the Company an unspecified amount of monetary damages. Defendants' deadline to answer or otherwise move against the complaint is April 5, 2021.

While the outcome of any litigation is inherently uncertain and the class action and derivative lawsuits are each still at an early stage, the Company and its officers and directors intend to vigorously defend against the claims and believe the claims are without merit.

### **SEC Investigation**

As previously disclosed, on May 22, 2020, the Company received a subpoena from the Securities and Exchange Commission (the "Commission") Division of Enforcement (the "Division") seeking documents and information relating, among other things, to previously disclosed errors in and restatement of the Company's financial statements, the Company's October 16, 2018 equity offering and the recent separation of the Company's former Chief Financial Officers. By letter dated March 12, 2021 and received on March 16, 2021, the Division Staff notified the Company that the Division has concluded its investigation and, based on the information the Division has as of such date, it does not intend to recommend an enforcement action by the Commission against the Company. The Division's notice was provided under the guidelines described in the final paragraph of Securities Act Release No. 5310 which states in part that the notice "must in no way be construed as indicating that the party has been exonerated or that no action may ultimately result from the staff's investigation."

**SIGNATURES**

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: April 15, 2021

CPI AEROSTRUCTURES, INC.  
(Registrant)

By: /s/ Thomas Powers  
Thomas Powers  
Acting 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/ Terry Stinson</u> Terry Stinson	Chairman of the Board of Directors	April 15, 2021
<u>/s/Carey Bond</u> Carey Bond	Vice Chairman of the Board of Directors	April 15, 2021
<u>/s/ Douglas McCrosson</u> Douglas McCrosson	Chief Executive Officer and President (Principal Executive Officer)	April 15, 2021
<u>/s/ Thomas Powers</u> Thomas Powers	Acting Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	April 15, 2021
<u>/s/ Walter Paulick</u> Walter Paulick	Director	April 15, 2021
<u>/s/ Eric Rosenfeld</u> Eric Rosenfeld	Director	April 15, 2021
<u>/s/ Michael Faber</u> Michael Faber	Director	April 15, 2021
<u>/s/ Richard Caswell</u> Richard Caswell	Director	April 15, 2021

**DESCRIPTION OF REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

The following description of the securities of CPI Aerostructures, Inc. (the "Company", "we", "our" or similar terms) is based upon the Company's amended and restated certificate of incorporation ("Charter"), the Company's bylaws ("Bylaws") and applicable provisions of law. We have summarized certain portions of the Charter and Bylaws below. The summary is not complete and is subject to, and is qualified in its entirety by express reference to, the provisions of our Charter and Bylaws, each of which is filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part.

**Authorized Capital Stock**

Pursuant to our Charter, our authorized capital stock consists of 55,000,000 shares, of which 50,000,000 is voting Common Stock, \$0.0001 par value per share, and 5,000,000 is Preferred Stock, \$0.001 par value per share.

**Common Stock**

*Authorization.* The outstanding shares of the Company's common stock are duly authorized, validly issued, fully paid and nonassessable.

*Listing.* The Company's common stock is traded on the NYSE American exchange under the ticker symbol "CVU."

*Voting Rights.* Common stockholders of record are entitled to one vote for each share held on all matters to be voted on by stockholders.

*Preemptive Rights, Etc.* Our stockholders have no preemptive or other subscription rights. There are no sinking fund provisions applicable to our common stock, except that upon the consummation of our initial business combination, subject to the limitations described herein, we will provide our stockholders with the opportunity to redeem their shares of our common stock for cash equal to their pro rata share of the aggregate amount then on deposit in the trust account.

**Preferred Stock**

Our Charter provides that shares of preferred stock may be issued from time to time in one or more series. Our board of directors will be authorized to fix the voting rights, if any, designations, powers, preferences, the relative, participating, optional or other special rights and any qualifications, limitations and restrictions, applicable to the shares of each series. Our board of directors will be able, without stockholder approval, to issue preferred stock with voting and other rights that could adversely affect the voting power and other rights of the holders of the common stock and could have anti-takeover effects.

We currently have no preferred stock issued or outstanding.

**Provisions of New York Law and Our Charter and Bylaws**

Certain provisions of New York law and of our Charter and Bylaws could make our acquisition by a third party, a change in our incumbent management, or a similar change of control more difficult. The provisions described below, and the board of directors' right to issue shares of our preferred stock from time to time in one or more classes or series without shareholder approval, as described above, may discourage certain types of coercive takeover practices and inadequate takeover bids and encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that these provisions help to protect our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us, and that this benefit outweighs the potential disadvantages of discouraging such a proposal because our ability to negotiate with the proponent could result in an improvement of the terms of the proposal.

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*Classified Board of Directors.* Our board of directors is divided into three classes. The members of each class are elected for a term of three years and only one class of directors is elected annually. Thus, it would take at least two annual elections to replace a majority of our board of directors. Nominations for our board of directors may be made by our board or, in certain situations, by any holder of common stock. A shareholder entitled to vote for the election of directors may nominate a person for election as director only if the shareholder provides written notice of his nomination to our secretary not later than 120 days in advance of the same day and month that our proxy statement was released to shareholders in connection with the previous year's annual meeting of shareholders or, if no annual meeting was held in the previous year, then by the end of the fiscal year to which the annual meeting in which the nomination will be made relates to.

*Stockholder Meetings.* A special meeting of our shareholders may be called only by our board of directors or our chairman of the board, if one has been elected, or our president. Any action required or permitted to be taken by a vote of our shareholders may be taken without a meeting by written consent, except that such written consent must be signed by the holders of all of the shares entitled to vote thereon.

*New York anti-takeover law.* We are subject to certain "business combination" provisions of Section 912 of the NYBCL and expect to continue to be so subject if and for so long as we have a class of securities registered under Section 12 of the Exchange Act. Section 912 provides, with certain exceptions, that a New York corporation may not engage in a "business combination" (e.g., merger, consolidation, recapitalization or disposition of stock) with any "interested shareholder" for a period of five years from the date that such person first became an interested shareholder unless the business combination or the transaction resulting in a person becoming an interested shareholder was approved by the board of directors of the corporation prior to that person becoming an interested shareholder. No New York corporation may engage at any time in any business combination with an interested shareholder other than (i) a business combination that is approved by the board of directors of the corporation prior to that person becoming an interested shareholder, or where the transaction resulting in a person becoming an interested shareholder was approved by the board of directors of the corporation prior to that person becoming an interested shareholder; (ii) a business combination that is approved by a majority of the outstanding stock not held by the interested shareholder or an affiliate of the interested shareholder at a meeting called no earlier than five years after the interested shareholder's stock acquisition date; or (iii) the business combination that meets certain valuation requirements for the consideration paid. An "interested shareholder" is defined as any person who (a) is the beneficial owner of 20% or more of the outstanding voting stock of a New York corporation or (b) is an affiliate or associate of a corporation that at any time during the prior five years was the beneficial owner, directly or indirectly, of 20% or more of the then outstanding voting stock. A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested shareholder. The "stock acquisition date," with respect to any person and any New York corporation, means the date that such person first becomes an interested shareholder of such corporation.

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## CPI AEROSTRUCTURES, INC.

## 2016 Long Term Incentive Plan

Adopted: June 28, 2016

Amended: October 6, 2020

**Section 1. Purpose; Definitions.**

1.1. **Purpose.** The purpose of the Plan is to enable the Company to offer to its employees, officers, directors and consultants whose past, present and/or potential future contributions to the Company and its Subsidiaries have been, are or will be important to the success of the Company, an opportunity to share monetarily in the success of, and/or acquire a proprietary interest in, the Company. The various types of long-term incentive awards that may be provided under the Plan will enable the Company to respond to changes in compensation practices, tax laws, accounting regulations and the size and diversity of its business.

1.2. **Definitions.** For purposes of the Plan, the following terms shall be defined as set forth below:

- (a) "Agreement" means the agreement between the Company and the Holder, or such other document as may be determined by the Committee, setting forth the terms and conditions of an award under the Plan.
- (b) "Board" means the Board of Directors of the Company.
- (c) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
- (d) "Committee" means the committee of the Board designated to administer the Plan as provided in Section 2.1. If no Committee is so designated, then all references in this Plan to "Committee" shall mean the Board.
- (e) "Common Stock" means the Common Stock of the Company, par value \$0.001 per share.
- (f) "Company" means CPI Aerostructures, Inc., a corporation organized under the laws of the State of New York.
- (g) "Disability" means physical or mental impairment as determined under procedures established by the Committee for purposes of the Plan.
- (h) "Effective Date" means the date determined pursuant to Section 12.1.
- (i) "Excluded Items" has the meaning set forth in Section 13.2.
- (j) "Fair Market Value," unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, means, as of any given date: (i) if the Common Stock is listed on a national securities exchange or is traded over-the-counter and last sale information is available, the last sale price of the Common Stock in the principal trading market for the Common Stock on such date, as reported by the exchange or by such source that the Committee deems reliable, as the case may be; or (ii) if the fair market value of the Common Stock cannot be determined pursuant to clause (i), such price as the Committee shall determine, in good faith.
- (k) "Holder" means a person who has received an award under the Plan.
- (l) "Incentive Bonus" means a bonus opportunity awarded under Section 9 pursuant to which a recipient may become entitled to receive an amount based on satisfaction of such Performance Goals as are specified in the Agreement.
- (m) "Incentive Stock Option" means any Stock Option intended to be and designated as an "incentive stock option" within the meaning of Section 422 of the Code.
- (n) "Non-qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.
- (o) "Normal Retirement" means retirement from active employment with the Company or any Subsidiary on or after such age which may be designated by the Committee as "retirement age" for any particular Holder. If no age is designated, it shall be 65.
- (p) "Other Stock-Based Award" means an award under Section 8 that is valued in whole or in part by reference to, or is otherwise based upon, Common Stock.
- (q) "Parent" means any present or future "parent corporation" of the Company, as such term is defined in Section 424(e) of the Code.
- (r) "Performance Goals" means the one or more goals established by the Committee in accordance with Sections 13.2.
- (s) "Plan" means the Company's 2016 Long Term Incentive Plan, as hereinafter amended from time to time.
- (t) "Repurchase Value" shall mean the Fair Market Value if the award to be settled under Section 2.2(d) or repurchased under Section 5.2(l) is comprised of shares of Common Stock and the difference between Fair Market Value and the exercise price (if lower than Fair Market Value) if the award is a Stock Option or Stock Appreciation Right; in each case, multiplied by the number of shares subject to the award. "Repurchase Value" if the award to be repurchased under Section 10.2 is comprised of shares of Common Stock shall mean the greater of the Fair Market Value or the based upon the price per share of Common Stock received or to be received by other shareholders of the Company in the event. "Repurchase Value" if the award to be repurchased under Section 10.2 is comprised of Stock Options or Stock Appreciation Rights shall mean the difference between the greater of Fair Market Value or the price per share of Common Stock received or to be received by other shareholders of the Company in the event and the exercise price (if lower) multiplied by the number of shares subject to the award.



(u) "Restricted Stock" means Common Stock received under an award made pursuant to Section 7 that is subject to restrictions under Section 7.

(v) "Restricted Stock Unit" means an unfunded, unsecured right to receive, on the applicable settlement date, one share or an amount in cash or other consideration determined by the Committee to be of equal value as of such settlement date, subject to certain vesting conditions and other restrictions.

(w) "SAR Value" means the excess of the Fair Market Value (on the exercise date) over (a) the exercise price that the participant would have otherwise had to pay to exercise the related Stock Option or (b) if a Stock Appreciation Right is granted unrelated to a Stock Option, the Fair Market Value of a share of Common Stock on the date of grant of the Stock Appreciation Right, in either case, multiplied by the number of shares for which the Stock Appreciation Right is exercised.

(x) "Stock Appreciation Right" means the right to receive from the Company, without a cash payment to the Company, a number of shares of Common Stock equal to the SAR Value divided by the Fair Market Value (on the exercise date).

(y) "Stock Option" or "Option" means any option to purchase shares of Common Stock which is granted pursuant to the Plan.

(z) "Subsidiary" means any present or future "subsidiary corporation" of the Company, as such term is defined in Section 424(f) of the Code.

(aa) "Vest" means to become exercisable or to otherwise obtain ownership rights in an award.

## **Section 2. Administration.**

2.1. **Committee Membership.** The Plan shall be administered by the Board or a Committee. If administered by a Committee, such Committee shall be composed of at least two directors, all of whom are "outside directors" within the meaning of the regulations issued under Section 162(m) of the Code and "non-employee" directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended. Committee members shall serve for such term as the Board may in each case determine and shall be subject to removal at any time by the Board.

2.2. **Powers of Committee.** The Committee shall have full authority to award, pursuant to the terms of the Plan: (i) Stock Options, (ii) Stock Appreciation Rights, (iii) Restricted Stock, (iv) Restricted Stock Units, (v) Other Stock-Based Awards, and/or (vi) Incentive Bonuses. For purposes of illustration and not of limitation, the Committee shall have the authority (subject to the express provisions of this Plan):

(a) to select the officers, employees, directors and consultants of the Company or any Subsidiary to whom Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Other Stock-Based Awards and/or Incentive Bonuses may from time to time be awarded hereunder;

(b) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, number of shares, share exercise price or types of consideration paid upon exercise of such options, such as other securities of the Company or other property, any restrictions or limitations, and any vesting, exchange, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions, or any Performance Goals, as the Committee shall determine);

(c) to determine the terms and conditions under which awards granted hereunder are to operate on a tandem basis and/or in conjunction with or apart from other awards under this Plan and cash and non-cash awards made by the Company or any Subsidiary outside of this Plan; and

(d) to make payments and distributions with respect to awards (*i.e.*, to "settle" awards) through cash payments in an amount equal to the Repurchase Value.

The Committee may not modify or amend any outstanding Option or Stock Appreciation Right to reduce the exercise price of such Option or Stock Appreciation Right, as applicable, below the exercise price as of the date of grant of such Option or Stock Appreciation Right. In addition, no payment of cash or other property having a value greater than the Repurchase Value may be made, and no Option or Stock Appreciation Right with a lower exercise price may be granted, in exchange for, or in connection with, the cancellation or surrender of an Option or Stock Appreciation Right.

Notwithstanding anything to the contrary, the Committee shall not grant to any one Holder in any one calendar year Options and/or Stock Appreciation Rights with respect to more than 100,000 shares in the aggregate or any other awards for more than 50,000 shares in the aggregate or Incentive Bonuses for more than \$500,000 in the aggregate. In all cases, determinations of these limits should be made in a manner that is consistent with the exemption for performance-based compensation that Section 162(m) of the Code provides.

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2.3. Interpretation of Plan. Subject to Section 11, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable, to interpret the terms and provisions of the Plan and any award issued under the Plan (and to determine the form and substance of all agreements relating thereto), and to otherwise supervise the administration of the Plan. Subject to Section 11, all decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole discretion and shall be final and binding upon all persons, including the Company, its Subsidiaries and Holders.

**Section 3. Stock Subject to Plan.**

3.1. Number of Shares. The total number of shares of Common Stock reserved and available for issuance under the Plan shall be up to 1,400,000 shares; *provided that*, no more than 200,000 shares of Common Stock may be granted as Incentive Stock Options. Any shares of Common Stock granted in connection with Stock Options and Stock Appreciation Rights shall be counted against this limit as one share for every one Stock Option or Stock Appreciation Right awarded. Any shares of Common Stock granted in connection with awards other than Stock Options and Stock Appreciation Rights shall be counted against this limit as one and one-half shares of Common Stock for every one share of Common Stock granted in connection with such award. Additionally, a non-employee Director may not be granted awards covering more than 50,000 shares of Common Stock in any year. Shares of Common Stock under the Plan ("Shares") may consist, in whole or in part, of authorized and unissued shares or treasury shares. If any shares of Common Stock that have been granted pursuant to a Stock Option cease to be subject to a Stock Option, or if any shares of Common Stock that are subject to any Stock Appreciation Right, Restricted Stock award, Restricted Stock Units or Other Stock-Based award granted hereunder are forfeited, or any such award otherwise terminates without a payment being made to the Holder in the form of Common Stock, such shares shall again be available for distribution in connection with future grants and awards under the Plan. Shares of Common Stock that are surrendered by a Holder or withheld by the Company as full or partial payment in connection with any award under the Plan, as well as any shares of Common Stock surrendered by a Holder or withheld by the Company or one of its Subsidiaries to satisfy the tax withholding obligations related to any award under the Plan, shall not be available for subsequent awards under the Plan.

3.2. Adjustment Upon Changes in Capitalization, Etc. In the event of any common stock dividend payable on shares of Common Stock, Common Stock split or reverse split, combination or exchange of shares of Common Stock, or other extraordinary or unusual event which results in a change in the shares of Common Stock of the Company as a whole, the Committee shall determine, in its sole discretion, whether such change equitably requires an adjustment in the terms of any award in order to prevent dilution or enlargement of the benefits available under the Plan (including number of shares subject to the award and the exercise price) or the aggregate number of shares reserved for issuance under the Plan. Any such adjustments will be made by the Committee, whose determination will be final, binding and conclusive.

3.3. Administrative Stand Still. In the event of any changes in capitalization described above in Section 3.2, or any other extraordinary transaction or change affecting the shares or the share price of Common Stock, including any equity restructuring or any securities offering or other similar transaction, for administrative convenience, the Committee may refuse to permit the exercise of any award for up to sixty days before and/or after such transaction; provided, however, that the Committee may not refuse to permit the exercise of any award during the last five trading days prior to the expiration of such award.

3.4. Substitute Awards. In connection with an entity's merger or consolidation with the Company or any Subsidiary or the Company's or any Subsidiary's acquisition of an entity's property or stock, the Committee may grant awards in substitution for any options or other stock or stock-based awards granted before such merger or consolidation by such entity or its affiliate. Substitute awards may be granted on such terms as the Committee deems appropriate, notwithstanding limitations on awards in the Plan. Substitute awards will not count against the Plan limit, except that shares acquired by exercise of substitute Incentive Stock Options will count against the maximum number of shares that may be issued pursuant to the exercise of Incentive Stock Options under the Plan.

**Section 4. Eligibility.**

Awards may be made or granted to employees, officers, directors and consultants who are deemed to have rendered or to be able to render significant services to the Company or its Subsidiaries and who are deemed to have contributed or to have the potential to contribute to the success of the Company and which recipients are qualified to receive options under the regulations governing Form S-8 registration statements under the Securities Act of 1933, as amended ("Securities Act"). No Incentive Stock Option shall be granted to any person who is not an employee of the Company or an employee of a Subsidiary at the time of grant or so qualified as set forth in the immediately preceding sentence. Notwithstanding the foregoing, an award may also be made or granted to a person in connection with his hiring or retention, or at any time on or after the date he reaches an agreement (oral or written) with the Company with respect to such hiring or retention, even though it may be prior to the date the person first performs services for the Company or its Subsidiaries; provided, however, that no portion of any such award shall vest prior to the date the person first performs such services and the date of grant shall be deemed to be the date hiring or retention commences.

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## **Section 5. Stock Options.**

5.1. Grant and Exercise. Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Non-qualified Stock Options. Any Stock Option granted under the Plan shall contain such terms, not inconsistent with this Plan, or with respect to Incentive Stock Options, not inconsistent with the Plan and the Code, as the Committee may from time to time approve. The Committee shall have the authority to grant Incentive Stock Options or Non-qualified Stock Options, or both types of Stock Options which may be granted alone or in addition to other awards granted under the Plan.

5.2. Terms and Conditions. Stock Options granted under the Plan shall be subject to the following terms and conditions:

(a) Option Term. The term of each Stock Option shall be fixed by the Committee; provided, however, that no Stock Option may be exercisable after the expiration of ten years from the date of grant; provided, further, that no Incentive Stock Option granted to a person who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of voting stock of the Company (“10% Shareholder”) may be exercisable after the expiration of five years from the date of grant.

(b) Exercise Price. The exercise price per share of Common Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant; provided, however, that the exercise price of a Stock Option may not be less than 100% of the Fair Market Value on the date of grant or, if greater, the par value of a share of Common Stock; provided, further, that the exercise price of an Incentive Stock Option granted to a 10% Shareholder may not be less than 110% of the Fair Market Value on the date of grant.

(c) Exercisability. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. The Committee intends generally to provide that Stock Options be exercisable only in installments, i.e., that they vest over time, typically over a three to five year period. The Committee may waive such installment exercise provisions at any time at or after the time of grant in whole or in part, based upon such factors as the Committee determines.

(d) Method of Exercise. Subject to whatever installment, exercise and waiting period provisions are applicable in a particular case, Stock Options may be exercised in whole or in part at any time during the term of the Option by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be purchased. Such notice shall be accompanied by payment in full of the purchase price, which shall be in cash or, if provided in the Agreement, either in shares of Common Stock (including Restricted Stock and other contingent awards under this Plan) or partly in cash and partly in such Common Stock, or such other means which the Committee determines are consistent with the Plan’s purpose and applicable law. Cash payments shall be made by wire transfer, certified or bank check or personal check, in each case payable to the order of the Company; provided, however, that the Company shall not be required to deliver certificates for shares of Common Stock with respect to which an Option is exercised until the Company has confirmed the receipt of good and available funds in payment of the purchase price thereof (except that, in the case of an exercise arrangement approved by the Committee and described in the last sentence of this paragraph, payment may be made as soon as practicable after the exercise). The Committee may permit a Holder to elect to pay the exercise price upon the exercise of a Stock Option by irrevocably authorizing a third party to sell shares of Common Stock (or a sufficient portion of the shares) acquired upon exercise of the Stock Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise.

(e) Stock Payments. Payments in the form of Common Stock shall be valued at the Fair Market Value on the date of exercise. Such payments shall be made by delivery of stock certificates in negotiable form that are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances.

(f) Transferability. Except as may be set forth in the next sentence of this Section or in the Agreement, no Stock Option shall be transferable by the Holder other than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the Holder’s lifetime, only by the Holder (or, to the extent of legal incapacity or incompetency, the Holder’s guardian or legal representative). Notwithstanding the foregoing, a Holder, with the approval of the Committee, may transfer a Non-Qualified Stock Option (i) (A) by gift, for no consideration, or (B) pursuant to a domestic relations order, in either case, to or for the benefit of the Holder’s “Immediate Family” (as defined below), or (ii) to an entity in which the Holder and/or members of Holder’s Immediate Family own more than fifty percent of the voting interest, subject to such limits as the Committee may establish and the execution of such documents as the Committee may require, and the transferee shall remain subject to all the terms and conditions applicable to the Non-Qualified Stock Option prior to such transfer. The term “Immediate Family” shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, any person sharing the Holder’s household (other than a tenant or employee), a trust in which these persons have more than fifty percent beneficial interest, and a foundation in which these persons (or the Holder) control the management of the assets. The Committee may, in its sole discretion, permit transfer of an Incentive Stock Option in a manner consistent with the Code and applicable securities law upon the Holder’s request.

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(g) Termination by Reason of Death. If a Holder's employment by, or association with, the Company or a Subsidiary terminates by reason of death, any Stock Option held by such Holder, unless otherwise determined by the Committee and set forth in the Agreement, shall thereupon automatically terminate, except that the portion of such Stock Option that has vested on the date of death may thereafter be exercised by the legal representative of the estate or by the legatee of the Holder under the will of the Holder, for a period of one year (or such other greater or lesser period as the Committee may specify in the Agreement) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is shorter.

(h) Termination by Reason of Disability. If a Holder's employment by, or association with, the Company or any Subsidiary terminates by reason of Disability, any Stock Option held by such Holder, unless otherwise determined by the Committee and set forth in the Agreement, shall thereupon automatically terminate, except that the portion of such Stock Option that has vested on the date of termination may thereafter be exercised by the Holder for a period of one year (or such other greater or lesser period as the Committee may specify in the Agreement) from the date of such termination or until the expiration of the stated term of such Stock Option, whichever period is shorter.

(i) Termination by Reason of Normal Retirement. Subject to the provisions of Section 13.4, if such Holder's employment by, or association with, the Company or any Subsidiary terminates due to Normal Retirement, any Stock Option held by such Holder, unless otherwise determined by the Committee and set forth in the Agreement, shall thereupon automatically terminate, except that the portion of such Stock Option that has vested on the date of termination may thereafter be exercised by the Holder for a period of one year in the case of a Non-Qualified Stock Option or three months in the case of an Incentive Stock Option (or such other greater or lesser period as the Committee may specify in the Agreement) from the date of such termination or until the expiration of the stated term of such Stock Option, whichever period is shorter.

(j) Other Termination. Subject to the provisions of Section 13.4, if such Holder's employment by, or association with, the Company or any Subsidiary terminates for any reason other than death, Disability or Normal Retirement, any Stock Option held by such Holder, unless otherwise determined by the Committee and set forth in the Agreement, shall thereupon automatically terminate, except that, if the Holder's employment is terminated by the Company or a Subsidiary without cause, the portion of such Stock Option that has vested on the date of termination may thereafter be exercised by the Holder for a period of three months (or such other greater or lesser period as the Committee may specify in the Agreement) from the date of such termination or until the expiration of the stated term of such Stock Option, whichever period is shorter.

(k) Incentive Stock Options. The aggregate Fair Market Value (on the date of grant of the Stock Option) with respect to which Incentive Stock Options become exercisable for the first time by a Holder during any calendar year (under all such plans of the Company and its Parent and Subsidiaries) shall not exceed \$100,000. To the extent that any Stock Option intended to qualify as an Incentive Stock Option does not so qualify, including by reason of the immediately preceding sentence, it shall constitute a separate Non-qualified Stock Option. The Company shall have no liability to any Holder or any other person if a Stock Option designated as an Incentive Stock Option fails to qualify as such at any time or if a Stock Option is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code and the terms of such Stock Option do not satisfy the requirements of Section 409A of the Code.

(l) Buyout and Settlement Provisions. The Committee may at any time, in its sole discretion, offer to repurchase a Stock Option previously granted, at a purchase price not to exceed the Repurchase Value, based upon such terms and conditions as the Committee shall establish and communicate to the Holder at the time that such offer is made.

(m) Rights as Shareholder. A Holder shall have none of the rights of a shareholder of the Company with respect to the shares subject to the Option until such shares shall be transferred to the Holder upon the exercise of the Option.

## **Section 6. Stock Appreciation Rights.**

6.1. Grant and Exercise. Subject to the terms and conditions of the Plan, the Committee may grant Stock Appreciation Rights in tandem with an Option or alone and unrelated to an Option. The Committee may grant Stock Appreciation Rights to participants who have been or are being granted Stock Options under the Plan as a means of allowing such participants to exercise their Stock Options without the need to pay the exercise price in cash. In the case of a Non-qualified Stock Option, a Stock Appreciation Right may be granted either at or after the time of the grant of such Non-qualified Stock Option. In the case of an Incentive Stock Option, a Stock Appreciation Right may be granted only at the time of the grant of such Incentive Stock Option.

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6.2. Terms and Conditions. Stock Appreciation Rights shall be subject to the following terms and conditions:

(a) Exercisability. Stock Appreciation Rights shall be exercisable as shall be determined by the Committee and set forth in the Agreement, subject, for Stock Appreciation Rights granted in tandem with an Incentive Stock Option, to the limitations, if any, imposed by the Code with respect to related Incentive Stock Options.

(b) Termination. All or a portion of a Stock Appreciation Right granted in tandem with a Stock Option shall terminate and shall no longer be exercisable upon the termination or after the exercise of the applicable portion of the related Stock Option.

(c) Method of Exercise. Stock Appreciation Rights shall be exercisable upon such terms and conditions as shall be determined by the Committee and set forth in the Agreement and, for Stock Appreciation Rights granted in tandem with a Stock Option, by surrendering the applicable portion of the related Stock Option. Upon exercise of all or a portion of a Stock Appreciation Right and, if applicable, surrender of the applicable portion of the related Stock Option, the Holder shall be entitled to receive a number of shares of Common Stock equal to the SAR Value divided by the Fair Market Value on the date the Stock Appreciation Right is exercised.

(d) Shares Available Under Plan. The granting of a Stock Appreciation Right in tandem with a Stock Option shall not affect the number of shares of Common Stock available for awards under the Plan. The number of shares available for awards under the Plan will, however, be reduced by the number of shares of Common Stock acquirable upon exercise of the Stock Option to which such Stock Appreciation Right relates.

#### **Section 7. Restricted Stock; Restricted Stock Units.**

7.1. Grant. Shares of Restricted Stock may be awarded either alone or in addition to other awards granted under the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which, grants of Restricted Stock will be awarded, the number of shares to be awarded, the price (if any) to be paid by the Holder, the time or times within which such awards may be subject to forfeiture, including upon termination of employment or failure of performance conditions ("Restriction Period"), the vesting schedule and rights to acceleration thereof, the Performance Goal(s), if any, and level of achievement versus the Performance Goal(s) that shall determine the number of shares of Restricted Stock granted, issued and/or vested, the term of the performance period, if any, as to which performance will be measured for determining the number of such shares of Restricted Stock and all other terms and conditions of the awards. In addition, the Committee may award Restricted Stock Units, which may be subject to vesting and forfeiture conditions during the applicable restriction period or periods, as set forth in an Agreement.

7.2. Restricted Stock Terms and Conditions. Each Restricted Stock award shall be subject to the following terms and conditions:

(a) Certificates. Restricted Stock, when issued, will be represented by a stock certificate or certificates registered in the name of the Holder to whom such Restricted Stock shall have been awarded. During the Restriction Period, certificates representing the Restricted Stock and any securities constituting Retained Distributions (as defined below) shall bear a legend to the effect that ownership of the Restricted Stock (and such Retained Distributions) and the enjoyment of all rights appurtenant thereto are subject to the restrictions, terms and conditions provided in the Plan and the Agreement. Such certificates shall be deposited by the Holder with the Company, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions that shall be forfeited or that shall not become vested in accordance with the Plan and the Agreement.

(b) Rights of Holder. Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes. The Holder will have the right to vote such Restricted Stock and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Restricted Stock, with the exceptions that (i) the Holder will not be entitled to delivery of the stock certificate or certificates representing such Restricted Stock until the Restriction Period shall have expired and unless all other vesting requirements with respect thereto shall have been fulfilled; (ii) the Company will retain custody of the stock certificate or certificates representing the Restricted Stock during the Restriction Period; (iii) the Company will retain custody of all dividends and distributions ("Retained Distributions") made, paid or declared with respect to the Restricted Stock (and such Retained Distributions will be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid or declared shall have become vested and with respect to which the Restriction Period shall have expired; and (iv) a breach of any of the restrictions, terms or conditions contained in this Plan or the Agreement or otherwise established by the Committee with respect to any Restricted Stock or Retained Distributions will cause a forfeiture of such Restricted Stock and any Retained Distributions with respect thereto.

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(c) Vesting; Forfeiture. Upon the expiration of the Restriction Period with respect to each award of Restricted Stock and the satisfaction of any other applicable restrictions, terms and conditions, which may include Performance Goals, (i) all or part of such Restricted Stock shall become vested in accordance with the terms of the Agreement, and (ii) any Retained Distributions with respect to such Restricted Stock shall become vested to the extent that the Restricted Stock related thereto shall have become vested. Any such Restricted Stock and Retained Distributions that do not vest shall be forfeited to the Company and the Holder shall not thereafter have any rights with respect to such Restricted Stock and Retained Distributions that shall have been so forfeited.

(d) Discretionary Adjustments and Limits. Notwithstanding the satisfaction of any Performance Goals, the number of shares of Restricted Stock granted, issued and/or vested under an award of Restricted Stock on account of either financial performance or personal performance evaluations may, to the extent specified in the Agreement, be reduced, but not increased, by the Committee on the basis of such further considerations as the Committee shall determine.

7.3. Restricted Stock Units Terms and Conditions. Each Restricted Stock Units award shall be subject to the following terms and conditions:

(a) Settlement. The Committee may provide that settlement of Restricted Stock Units will occur upon or as soon as reasonably practicable after the Restricted Stock Units vest or will instead be deferred, on a mandatory basis or at the Holder's election, in a manner intended to comply with Section 409A.

(b) Shareholder Rights. A Holder will have no rights of a holder of Common Stock with respect to shares subject to any Restricted Stock Unit unless and until the shares are delivered in settlement of the Restricted Stock Unit.

(c) Dividend Equivalents. If the Committee provides, a grant of Restricted Stock Units may provide a Holder with the right to receive dividend equivalents. Dividend equivalents may be paid currently or credited to an account for the Holder, settled in cash or shares and subject to the same restrictions on transferability and forfeitability as the Restricted Stock Units with respect to which the dividend equivalents are granted and subject to other terms and conditions as set forth in the Agreement.

#### **Section 8. Other Stock-Based Awards.**

Other Stock-Based Awards may be awarded, subject to limitations under applicable law, that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of Common Stock, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, purchase rights, shares of Common Stock awarded which are not subject to any restrictions or conditions, rights convertible into shares of Common Stock and awards valued by reference to the value of securities of or the performance of specified Subsidiaries. These other stock-based awards may include performance shares or options, whose award is tied to specific Performance Goals. Other Stock-Based Awards may be awarded either alone or in addition to or in tandem with any other awards under this Plan or any other plan of the Company. Each other Stock-Based Award shall be subject to such terms and conditions as may be determined by the Committee.

#### **Section 9. Incentive Bonuses**

9.1. General. Each Incentive Bonus award will confer upon the Holder the opportunity to earn a future payment tied to the level of achievement with respect to one or more Performance Goals established for a performance period established by the Committee.

9.2. Incentive Bonus Document. The terms of any Incentive Bonus will be set forth in an Agreement. Each Agreement evidencing an Incentive Bonus shall contain provisions regarding (i) the target and maximum amount payable to the Holder as an Incentive Bonus, (ii) the Performance Goals and level of achievement versus the Performance Goals that shall determine the amount of such payment, (iii) the term of the performance period as to which performance shall be measured for determining the amount of any payment, (iv) the timing of any payment earned by virtue of performance, (v) restrictions on the alienation or transfer of the Incentive Bonus prior to actual payment, (vi) forfeiture provisions and (vii) such further terms and conditions, in each case not inconsistent with this Plan as may be determined from time to time by the Committee.

9.3. Performance Goals. The Committee shall establish the Performance Goals and level of achievement versus the Performance Goals that shall determine the target and maximum amount payable under an Incentive Bonus.

9.4. Timing and Form of Payment. The Committee shall determine the timing of payment of any Incentive Bonus. Payment of the amount due under an Incentive Bonus shall be made in cash. The Committee may provide for or, subject to such terms and conditions as the Committee may specify, may permit a Holder to elect for the payment of, any Incentive Bonus to be deferred to a specified date or event.

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9.5. Discretionary Adjustments. Notwithstanding satisfaction of any Performance Goals, the amount paid under an Incentive Bonus on account of either financial performance or personal performance evaluations may, to the extent specified in the Agreement, be reduced, but not increased, by the Committee on the basis of such further considerations as the Committee shall determine.

9.6. Termination. If a Holder's employment by, or association with, the Company or any Subsidiary terminates for any reason (including by reason of death or Disability), the Holder shall receive payment in respect of any Incentive Bonuses only to the extent specified by the Committee, unless otherwise expressly provided in the Agreement or another contract, including an employment agreement. Payments in respect of any such Incentive Bonuses shall be made at the time specified by the Committee and set forth in the Agreement.

**Section 10. Accelerated Vesting and Exercisability.**

10.1. Non-Approved Transactions. If any one person, or more than one person acting as a group, acquires the ownership of stock of the Company that, together with the stock held by such person or group, constitutes more than 50% of the total fair market value or combined voting power of the stock of the Company, and the Board does not authorize or otherwise approve such acquisition, then the vesting periods of any and all Stock Options and other awards granted and outstanding under the Plan shall be accelerated and all such Stock Options and awards will immediately and entirely vest, and the respective holders thereof will have the immediate right to purchase and/or receive any and all Common Stock subject to such Stock Options and awards on the terms set forth in this Plan and the respective Agreements respecting such Stock Options and awards, and all Performance Goals will be deemed achieved at 100% of target levels and all other terms and conditions will be deemed met. An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property is not treated as an acquisition of stock for purposes of this Section 10.1.

10.2. Approved Transactions. The Committee may, in the event of an acquisition by any one person, or more than one person acting as a group, together with acquisitions during the 12-month period ending on the date of the most recent acquisition by such person or persons, of assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions, or if any one person, or more than one person acting as a group, acquires the ownership of stock of the Company that, together with the stock held by such person or group, constitutes more than 50% of the total fair market value or combined voting power of the stock of the Company, which has been approved by the Company's Board of Directors, (i) accelerate the vesting of any and all Stock Options and other awards granted and outstanding under the Plan; (ii) require a Holder of any Stock Option, Stock Appreciation Right, Restricted Stock award or Other Stock-Based Award granted under this Plan to relinquish such award to the Company upon the tender by the Company to Holder of cash, stock or other property, or any combination thereof, in an amount equal to the Repurchase Value of such award; provided, however, that the obligation to tender the Repurchase Value to such Holders may be subject to any terms and conditions to which the tender of consideration to the Company's shareholders in connection with the acquisition is subject, including any terms and conditions of the acquisition providing for an adjustment to or escrow of such consideration; and provided, further, that in the case of any Stock Option or Stock Appreciation Right with an exercise price that equals or exceeds the price paid for a share of Common Stock in connection with the acquisition, the Committee may cancel the Stock Option or Stock Appreciation Right without the payment of consideration therefor; and/or (iii) terminate all incomplete performance periods in respect of awards in effect on the date the acquisition occurs, determine the extent to which Performance Goals have been met based upon such information then available as it deems relevant and cause to be paid to the Holder the all or the applicable portion of the award based upon the Committee's determination of the degree of attainment of Performance Goals, or on such other basis determined by the Committee. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

10.3. Code Section 409A. Notwithstanding any provisions of this Plan or any award granted hereunder to the contrary, no acceleration shall occur with respect to any award to the extent such acceleration would cause the Plan or an award granted hereunder to fail to comply with Code Section 409A.

**Section 11. Amendment and Termination.**

The Board may at any time, and from time to time, amend alter, suspend or discontinue any of the provisions of the Plan or any Agreement, but no amendment, alteration, suspension or discontinuance shall be made that would impair the rights of a Holder under any Agreement theretofore entered into hereunder, without the Holder's consent, except as set forth in this Plan or the Agreement. Notwithstanding anything to the contrary herein, no amendment to the provisions of the Plan shall be effective unless approved by the shareholders of the Company to the extent shareholder approval is necessary to satisfy any provision of the Code or other applicable law or the listing requirements of any national securities exchange on which the Company's securities are listed.

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## **Section 12. Term of Plan.**

12.1. Effective Date. The Effective Date of the Plan shall be May 9, 2016, subject to the approval of the Plan by the Company's shareholders within one year after the Effective Date. Only Stock Options may be granted under the Plan prior to such approval of the Plan by the Company's shareholders. Any Stock Options granted under the Plan prior to such approval shall be effective when made (unless otherwise specified by the Committee at the time of grant), but shall be conditioned upon, and subject to, such approval of the Plan by the Company's shareholders and no Stock Options shall vest or otherwise become free of restrictions prior to such approval.

12.2. Termination Date. Unless terminated by the Board, this Plan shall continue to remain effective until such time as no further awards may be granted and all awards granted under the Plan are no longer outstanding. Notwithstanding the foregoing, grants of Incentive Stock Options may be made only during the ten-year period beginning on the Effective Date.

## **Section 13. General Provisions.**

13.1. Written Agreements. Each award granted under the Plan shall be confirmed by, and shall be subject to the terms of, the Agreement executed by the Company and the Holder, or such other document as may be determined by the Committee. The Committee may terminate any award made under the Plan if the Agreement relating thereto is not executed and returned to the Company within 10 days after the Agreement has been delivered to the Holder for his or her execution.

13.2. Establishing Performance Goals. Performance Goals shall be established by the Committee based upon performance criteria that relate to one or more of the following with respect to the Company or any one or more of its Subsidiaries or its or their respective business units, in all cases before Excluded Items, except as otherwise determined by the Committee upon the grant of an award: sales or other revenues; cost of goods sold; gross profit; expenses or expense or cost reductions; income or earnings, including net income or income from operations; earnings before one or more items such as interest, taxes, depreciation and amortization; margins; working capital or any of its components, including accounts receivable, inventories or accounts payable; assets or productivity of assets; return on shareholders' equity, capital, assets or other financial measure that appears on the Company's financial statements or is derived from one or more amounts that appear on the Company's financial statements; stock price; dividend payments; economic value added, or other measure of profitability that considers the cost of capital employed; cash flow; debt or ratio of debt to equity or other financial measure that appears on the Company's financial statements or is derived from one or more amounts that appear on the Company's financial statements; net increase (decrease) in cash and cash equivalents; customer satisfaction; market share; product quality; new product introductions or launches; sustainability, including energy or materials utilization; business efficiency measures; safety; or any combination of the foregoing. Performance Goals also may include earnings per share on a consolidated basis and total shareholder return. Unless otherwise determined by the Committee at the time of grant, as to each Performance Goal, the relevant measurement of performance shall be computed in accordance with U.S. generally accepted accounting principles to the extent applicable, but will exclude the effects of the following: (i) charges for reorganizing and restructuring; (ii) discontinued operations; (iii) asset write-downs; (iv) gains or losses on the disposition of a business or business segment or arising from the sale of assets outside the ordinary course of business; (v) changes in tax or accounting principles, regulations or laws; (vi) extraordinary, unusual, transition, one-time and/or non-recurring expenses, revenues or other items of gain or loss; (vii) changes in interest expenses as a result of modified debt structures; and (viii) mergers and acquisitions, that, in case of each of the foregoing, the Company identifies in its publicly filed periodic or current reports, its audited financial statements, including notes to the financial statements, or the Management's Discussion and Analysis section of the Company's annual report, to the extent applicable (collectively, the "Excluded Items"). With respect to any award intended to qualify as performance-based compensation under Section 162(m) of the Code, such exclusions shall be made only to the extent consistent with Section 162(m) of the Code. To the extent consistent with Section 162(m) of the Code, the Committee may also provide for other adjustments to Performance Goals in the Agreement evidencing any award. In addition, the Committee may appropriately adjust any evaluation of performance under a Performance Goal to exclude any of the following events that occurs during a performance period: (i) litigation, claims, judgments or settlements; (ii) the effects of changes in other laws or regulations affecting reported results; and (iii) accruals of any amounts for payment under this Plan or any other compensation arrangements maintained by the Company; provided that, with respect to any award intended to qualify as performance-based compensation under Section 162(m) of the Code, such adjustment may be made only to the extent consistent with Code Section 162(m) of the Code. Where applicable, the Performance Goals may be expressed, without limitation, in terms of attaining a specified level of the particular criterion or the attainment of an increase or decrease (expressed as absolute numbers, averages and/or percentages) in the particular criterion or achievement in relation to a peer group or other index. The Performance Goals may include a threshold level of performance below which no payment will be made (or no vesting will occur), levels of performance at which specified payments will be paid (or specified vesting will occur), and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur).

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13.3. Performance Awards. The Committee, in its sole discretion, may determine at the time an award is granted or at any time thereafter whether such award is intended to qualify as “performance based compensation” within the meaning of Section 162(m) of the Code. For the avoidance of doubt, nothing herein shall require the Committee to structure any awards in a manner intended to constitute performance based compensation and the Committee shall be free, in its sole discretion, to grant awards that are not intended to be performance based compensation. Notwithstanding any other provision of the Plan and except as otherwise determined by the Committee, any award which is granted under the Plan and is intended to qualify as performance based compensation” shall be subject to any additional limitations set forth in Section 162(m) of the Code or any regulations or rulings issued thereunder that are requirements for qualification as performance based compensation, and the Plan and the applicable Agreement shall be deemed amended to the extent necessary to conform to such requirements. In addition, Restricted Stock awards, Other Stock-Based Awards and Incentive Bonus awards that are intended to qualify as performance based compensation under Section 162(m) of the Code shall be subject to the following provisions, which shall control over any conflicting provision in the Plan or any Agreement:

(a) To the extent necessary to comply with the requirements of Section 162(m)(4)(C) of the Code, no later than 90 days following the commencement of any performance period or any designated fiscal period or period of service (or such earlier time as may be required under Section 162(m) of the Code), the Committee shall, in writing, (a) designate the recipient to receive such award, (b) select the performance criteria applicable to the performance period, (c) establish the Performance Goals, and amounts of such awards, as applicable, which may be earned for such performance period based on the performance criteria, and (d) specify the relationship between performance criteria and the Performance Goals and the amounts of such awards, as applicable, to be earned by each covered employee for such performance period.

(b) Following the completion of each performance period, the Committee shall certify in writing whether and the extent to which the applicable Performance Goals have been achieved for such performance period. In determining the amount earned under such awards, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant, including the assessment of individual or corporate performance for the performance period.

(c) No adjustment or action described in any provision of the Plan shall be authorized to the extent that such adjustment or action would cause such award to fail to so qualify as performance based compensation, unless the Committee determines that the award should not so qualify.

13.4. Unfunded Status of Plan. The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments not yet made to a Holder by the Company, nothing contained herein shall give any such Holder any rights that are greater than those of a general creditor of the Company.

#### 13.5. Employees.

(a) Engaging in Competition With the Company; Solicitation of Customers and Employees; Disclosure of Confidential Information. If a Holder’s employment with the Company or a Subsidiary is terminated for any reason whatsoever, and within 12 months after the date thereof such Holder either (i) accepts employment with any competitor of, or otherwise engages in competition with, the Company or any of its Subsidiaries, (ii) solicits any customers or employees of the Company or any of its Subsidiaries to do business with or render services to the Holder or any business with which the Holder becomes affiliated or to which the Holder renders services or (iii) uses or discloses to anyone outside the Company any confidential information or material of the Company or any of its Subsidiaries in violation of the Company’s policies or any agreement between the Holder and the Company or any of its Subsidiaries, the Committee, in its sole discretion, may require such Holder to return to the Company the economic value of any award that was realized or obtained by such Holder at any time during the period beginning on the date that is six months prior to the date such Holder’s employment with the Company is terminated; provided, however, that if the Holder is a resident of the State of California, such right must be exercised by the Company for cash within six months after the date of termination of the Holder’s service to the Company or within six months after exercise of the applicable Stock Option, whichever is later. In such event, Holder agrees to remit to the Company, in cash, an amount equal to the difference between the Fair Market Value of the Shares on the date of termination (or the sales price of such Shares if the Shares were sold during such six month period) and the price the Holder paid the Company for such Shares.

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(b) Termination for Cause. If a Holder's employment with the Company or a Subsidiary is terminated for cause, the Committee may, in its sole discretion, require such Holder to return to the Company the economic value of any award that was realized or obtained by such Holder at any time during the period beginning on that date that is six months prior to the date such Holder's employment with the Company is terminated. In such event, Holder agrees to remit to the Company, in cash, an amount equal to the difference between the Fair Market Value of the Shares on the date of termination (or the sales price of such Shares if the Shares were sold during such six month period) and the price the Holder paid the Company for such Shares.

(c) No Right of Employment. Nothing contained in the Plan or in any award hereunder shall be deemed to confer upon any Holder who is an employee of the Company or any Subsidiary any right to continued employment with the Company or any Subsidiary, nor shall it interfere in any way with the right of the Company or any Subsidiary to terminate the employment of any Holder who is an employee at any time.

13.6. No Fractional Shares. No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan. The Committee shall determine whether cash, additional awards or other securities or property shall be issued or paid in lieu of fractional shares of Common Stock or whether any fractional shares should be rounded, forfeited or otherwise eliminated.

13.7. Provisions for Foreign Participants. The Committee may modify awards granted to Holders who are foreign nationals or employed outside the United States or establish subplans or procedures under the Plan to address differences in laws, rules, regulations or customs of such foreign jurisdictions with respect to tax, securities, currency, employee benefit or other matters.

13.8. Limitations on Liability.

(a) Notwithstanding any other provisions of the Plan, no individual acting as a director, officer, other employee or agent of the Company or any Subsidiary will be liable to any Holder, former Holder, spouse, beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan or any award, and such individual will not be personally liable with respect to the Plan because of any contract or other instrument executed in his or her capacity as member of the Committee, director, officer, other employee or agent of the Company or any Subsidiary. The Company will indemnify and hold harmless each director, officer, other employee and agent of the Company or any Subsidiary that has been or will be granted or delegated any duty or power relating to the Plan's administration or interpretation, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim with the Committee's approval) arising from any act or omission concerning this Plan unless arising from such person's own fraud or bad faith.

(b) Neither the Company nor any Subsidiary shall be liable to a Holder or any other person as to: (i) the non-issuance or sale of shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder; and (ii) any tax consequence expected, but not realized, by any Holder or other person due to the receipt, exercise or settlement of any award granted hereunder.

13.9. Lock-Up Period. The Company may, at the request of any underwriter representative, placement agent or otherwise, in connection with an offering of any Company securities under the Securities Act or pursuant to an exemption therefrom, prohibit any Holder from, directly or indirectly, selling or otherwise transferring any shares of Common Stock or other Company securities during a period of up to one hundred eighty days following either the effective date of a Company registration statement filed under the Securities Act, in the case of a registered offering, or the closing date of the sale of the Company securities, in the case of an offering exempt from registration, or for such longer period as determined by the underwriter, representative or placement agent.

13.10. Data Privacy. As a condition for receiving any award, each Holder explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of personal data as described in this Section 13.10 by and among the Company and its Subsidiaries and affiliates exclusively for implementing, administering and managing the Holder's participation in the Plan. The Company and its Subsidiaries and affiliates may hold certain personal information about a Holder, including the Holder's name, address and telephone number; birthdate; social security, insurance number or other identification number; salary; nationality; job title(s); any shares held in the Company or its Subsidiaries and affiliates; and award details, to implement, manage and administer the Plan and awards (the "Data"). The Company and its Subsidiaries and affiliates may transfer the Data amongst themselves as necessary to implement, administer and manage a Holder's participation in the Plan, and the Company and its Subsidiaries and affiliates may transfer the Data to third parties assisting the Company with Plan implementation, administration and management. These recipients may be located in the Holder's country, or elsewhere, and the Holder's country may have different data privacy laws and protections than the recipients' country. By accepting an award, each Holder authorizes such recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, to implement, administer and manage the Holder's participation in the Plan, including any required Data transfer to a broker or other third party with whom the Company or the Holder may elect to deposit any shares. The Data related to a Holder will be held only as long as necessary to implement, administer, and manage the Holder's participation in the Plan. A Holder may, at any time, view the Data that the Company holds regarding such Holder, request additional information about the storage and processing of the Data regarding such Holder, recommend any necessary corrections to the Data regarding the Holder or refuse or withdraw the consents in this Section 13.10 in writing, without cost, by contacting the local human resources representative. The Company may cancel Holder's ability to participate in the Plan and, in the Committee's discretion, the Holder may forfeit any outstanding awards if the Holder refuses or withdraws the consents in this Section 13.10. For more information on the consequences of refusing or withdrawing consent, Holders may contact their local human resources representative.

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13.11. Successor. The obligations of the Company under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of the Company and its affiliates, taken as a whole.

13.12. Investment Representations; Company Policy. The Committee may require each person acquiring shares of Common Stock pursuant to a Stock Option or other award under the Plan to represent to and agree with the Company in writing that the Holder is acquiring the shares for investment without a view to distribution thereof. Each person acquiring shares of Common Stock pursuant to a Stock Option or other award under the Plan shall be required to abide by all policies of the Company in effect at the time of such acquisition and thereafter with respect to the ownership and trading of the Company's securities.

13.13. Additional Incentive Arrangements. Nothing contained in the Plan shall prevent the Board from adopting such other or additional incentive arrangements as it may deem desirable, including, but not limited to, the granting of Stock Options and the awarding of Common Stock and cash otherwise than under the Plan; and such arrangements may be either generally applicable or applicable only in specific cases.

13.14. Withholding Taxes. Not later than the date as of which an amount must first be included in the gross income of the Holder for Federal income tax purposes with respect to any Stock Option or other award under the Plan, the Holder shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any Federal, state and local taxes of any kind required by law to be withheld or paid with respect to such amount. If permitted by the Committee, tax withholding or payment obligations may be settled with Common Stock, including Common Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditioned upon such payment or arrangements and the Company or the Holder's employer (if not the Company) shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Holder from the Company or any Subsidiary.

13.15. Clawback. Notwithstanding any other provisions of the Plan, any award which is subject to recovery under any law, government regulation or listing requirement of any national securities exchange on which the Company's securities are listed, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or listing requirement).

13.16. Governing Law. The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the law of the State of New York (without regard to choice of law provisions).

13.17. Other Benefit Plans. Any award granted under the Plan shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company or any Subsidiary and shall not affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation (unless required by specific reference in any such other plan to awards under this Plan).

13.18. Non-Transferability. Except as otherwise expressly provided in the Plan or the Agreement, no right or benefit under the Plan may be alienated, sold, assigned, hypothecated, pledged, exchanged, transferred, encumbered or charged, and any attempt to alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void.

13.19. Applicable Laws. The obligations of the Company with respect to all Stock Options and awards under the Plan shall be subject to (i) all applicable laws, rules and regulations and such approvals by any governmental agencies as may be required, including, without limitation, the Securities Act, and (ii) the rules and regulations of any securities exchange on which the Common Stock may be listed. Notwithstanding anything herein to the contrary, the Plan and all awards will be administered only in conformance with such applicable laws. To the extent such applicable laws permit, the Plan and all Agreements will be deemed amended as necessary to conform to such applicable laws.

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13.20. Conflicts. If any of the terms or provisions of the Plan or an Agreement conflict with the requirements of Section 422 of the Code, then such terms or provisions shall be deemed inoperative to the extent they so conflict with such requirements. Additionally, if this Plan or any Agreement does not contain any provision required to be included herein under Section 422 of the Code, such provision shall be deemed to be incorporated herein and therein with the same force and effect as if such provision had been set out at length herein and therein. If any of the terms or provisions of any Agreement conflict with any terms or provisions of the Plan, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of the Plan. Additionally, if any Agreement does not contain any provision required to be included therein under the Plan, such provision shall be deemed to be incorporated therein with the same force and effect as if such provision had been set out at length therein.

13.21. Compliance with Section 409A of the Code. The Company intends that any awards be structured in compliance with, or to satisfy an exemption from, Section 409A of the Code, such that there are no adverse tax consequences, interest, or penalties pursuant to Section 409A of the Code as a result of the awards. Notwithstanding the Company's intention, in the event any award is subject to Section 409A of the Code, the Committee may, in its sole discretion and without a participant's prior consent, amend this Plan and/or outstanding Agreements, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and actions with retroactive effect) as are necessary or appropriate to (i) exempt this Plan and/or any award from the application of Section 409A of the Code, (ii) preserve the intended tax treatment of any such award, or (iii) comply with the requirements of Section 409A of the Code, including without limitation any such regulations guidance, compliance programs and other interpretive authority that may be issued after the date of grant of an award. This Plan shall be interpreted at all times in such a manner that the terms and provisions of the Plan and the awards are exempt from or comply with Section 409A of the Code.

13.22. Non-Registered Stock. The shares of Common Stock to be distributed under this Plan have not been, as of the Effective Date, registered under the Securities Act or any applicable state or foreign securities laws and the Company has no obligation to any Holder to register the Common Stock or to assist the Holder in obtaining an exemption from the various registration requirements, or to list the Common Stock on a national securities exchange or any other trading or quotation system.

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**SUBSIDIARIES OF REGISTRANT**

Welding Metallurgy, Inc.

Compac Development Corporation

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-11669, 333-42403, 333-130077, 333- 164687 and 333-212837) and on Form S-3 (Registration No. 333-220090), of CPI Aerostructures, Inc. of our report dated April 15, 2021, on our audits of the consolidated financial statements of CPI Aerostructures, Inc. as of December 31, 2020 and 2019 and for the years then ended included in the Annual Report on Form 10-K of CPI Aerostructures, Inc. for the year ended December 31, 2020.

/s/ CohnReznick LLP  
New York , New York  
April 15, 2021

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**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 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 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: April 15, 2021

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, Thomas Powers, 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 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 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: April 15, 2021

CPI AEROSTRUCTURES, INC.  
(Registrant)

By: /s/ Thomas Powers  
Thomas Powers  
Acting 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, 2020 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: April 15, 2021

CPI AEROSTRUCTURES, INC.  
(Registrant)

By: /s/ Douglas McCrosson  
Douglas McCrosson  
Chief Executive Officer, President and Director  
(Principal executive officer)

Dated: April 15, 2021

CPI AEROSTRUCTURES, INC.  
(Registrant)

By: /s/ Thomas Powers  
Thomas Powers  
Acting Chief Financial Officer and Secretary  
(Principal financial and accounting officer)

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