

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, 2023**

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, \$0.01 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.

Large accelerated filer Accelerated filer Non-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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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, 2023 (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 NYSE American on June 30, 2023 of \$3.89) held by non-affiliates of the registrant was \$46,445,647.

As of April 4, 2024, the registrant had 12,854,428 shares of common stock, \$.001 par value, outstanding.

Documents Incorporated by Reference:

Portions of the CPI Aerostructures, Inc. Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Annual Report on Form 10-K with respect to the registrant's 2024 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

FORM 10-K
ANNUAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

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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 “believe”, “intend”, “plan”, “will”, “will likely result”, “we expect”, “could”, “will continue”, “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. These statements are not guarantees of future performance and are subject to risks and uncertainties. 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. Numerous factors, including the risk factors described in “Item 1A: Risk Factors” in this Annual Report on Form 10-K, could cause our actual results to differ materially from those expressed in our forward-looking statements. We assume no obligation to revise or update any forward looking statements for any reason except as required by law.

The forward-looking statements contained in this Form 10-K speak only as of the date of its filing. Except where required by applicable law, we expressly disclaim a duty to provide updates to forward-looking statements after the date of this Form 10-K to reflect subsequent events, changed circumstances, changes in expectations, or the estimates and assumptions associated with them. The forward-looking statements in this Form 10-K are intended to be subject to the safe harbor protection provided by the federal securities laws.

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

EXPLANATORY NOTE

During our review of the Company’s (defined below) deferred income tax positions as of December 31, 2023, we determined that, due to the inadequate review, assessment of and reporting of the Company’s temporary differences between book and taxable income, the Company’s December 31, 2022 deferred tax assets and deferred tax liabilities balances as previously reported by the Company in Note 11 “Income Taxes” of the Company’s financial statements which were included within the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022, require restatement. The restatement of these balances has no impact to the Company’s previously reported net deferred tax asset on its December 31, 2022 balance sheet and no impact to the Company’s previously reported net income, earnings per share or cash flow for the twelve months ended December 31, 2022. The restatement of the aforementioned balances, as well as additional details regarding the restatement adjustments, appears in Note 11 “Income Taxes” of the Company’s financial statements included within this Annual Report on Form 10-K.

Company management has determined that a material weakness exists in the Company’s internal controls relating to the review, assessment of and reporting of the Company’s temporary differences between book and taxable income and has included disclosure of this material weakness in Management’s Annual Report on Internal Control over Financial Reporting included in Part II Item 9A in this Annual Report on Form 10-K. Except as described above and as amended in this Annual Report on Form 10-K, we have not amended and do not intend to amend any of our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q.

PART I

Item 1. BUSINESS

General

CPI Aerostructures, Inc., including its wholly owned subsidiary Welding Metallurgy, Inc. (“WMI”) and Compac Development Corporation, a wholly owned subsidiary of WMI (collectively, “CPI Aero”, the “Company”, “us”, or “we”) is a manufacturer of structural assemblies, integrated systems, and kitted components for the domestic and 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 United States (“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 markets. In addition to our assembly operations, we provide manufacturing engineering, program management, supply chain management, kitting, and maintenance repair and overhaul (“MRO”) services.

CPI Aero has over 43 years of experience as a contractor. Our team possesses extensive technical expertise, program and supply chain 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. Our corporate filings, including our Annual Reports 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 (the “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.

History

Conceived and started as a technical consulting firm on January 11, 1980, within a few years, Composite Products International Inc. (“CPI”) was manufacturing aircraft structural components for U.S. military aircraft under contract to the U.S. Government. By the late 1980s, CPI was also providing

structural components for civil aircraft in the commercial market.

In the 1990s, CPI became a publicly traded company and changed its name to CPI Aerostructures, Inc. (“CPI Aero”). The Company continued to grow, both in size and in its business. U.S. Government contracts served as the mainstay of CPI Aero’s business, and the Company continued to grow its presence in the commercial market as well. Commitment to customer satisfaction and pride in a job well done propelled CPI Aero to the forefront as a reputable and hardworking supplier to OEMs.

On September 5, 2000, CPI Aero shares were listed on the American Stock Exchange (now known as NYSE American). We also started to focus on diversifying our business model to pursue more commercial contracts. In 2007, the Company won three major contracts and experienced great growth and expansion.

In 2018, CPI Aero acquired Welding Metallurgy Inc. This allowed for a small but strategically important amount of vertical integration in complex fusion welding and large diameter tube bending capability. The acquisition included Miller Stuart and Compac Development Corp., two other business lines that added fabrication of electrical cables, harnesses and enclosures to the Company's capabilities.

Today, CPI Aero continues to engage in traditional high quality structural assembly manufacturing while incorporating the latest in technology to improve quality and streamline production. Our success is rooted in our core company values, the dedication and skill of our employees, and our commitment to providing our customers the full-service solution they require.

Products and Services

We offer design, engineering, manufacture, build, MRO services, and supply chain and kitting services capabilities to the A&D industry as follows:

- **Aerostructures:** New Production and Repair/Overhaul of Fielded Wing Structures and other Control Surfaces, Rudder Island, Engine Inlets/Nacelles, Engine Exhaust Manifolds, Aircraft Doors and Windows, Aircraft Steps and Racks, and other Aircraft Secondary Structures
- **Aerosystems:** Airborne Pod Structures and Integration of Internal Systems, Radar Housing Structures, Panel Assemblies, Mechanical Door Locking Systems, and Canopy Lifting Systems
- **Large Diameter Tube Bending:** Complex Ducts and Tubes in Steel, Aluminum, Titanium, and Nickel Alloys
- **Complex Specialty Welding:** Fusion Welded Fluid Tanks and Resistance Welding (Spot and Seam)
- **Electrical Cables, Harness, and Enclosures:** Wire Harnesses, Power Control Systems, Fuel Management Systems, Power Distribution Systems, Fully Integrated Electrical Control Systems, and enclosures

Engineering Services and Capabilities

As a build-to-print structural component manufacturer, CPI Aero's engineering focus is on executing customer contracts through product realization, and to support collaborative design development using design for manufacturing and assembly ("DFMA"), geometric dimensioning & tolerancing ("GD&T"), and tooling concept support. Although not vertically integrated, CPI Aero has a deep well of experience on various types of detail part manufacturing that allows us to provide detailed design for manufacturing input during the design refinement process.

We have significant experience working in a full model-based definition environment, both CATIA and NX, due to our long sustainment support on older airframes. CPI Aero also possesses the capability to work with traditional blueprints, mylars and loft. The Company has executed several projects where older engineering data sets were "rehabilitated" to fully model-based datasets per customers' requests.

CPI Aero is capable and has experience in designing many types of assembly type tools up to and including large floor mounted, articulated tooling at high levels of precision. We are also capable of designing various types of tooling that can be 3D printed for rapid response. Understanding our customers' product performance needs and combining product GD&T layout and final tooling definitions and requirements helps us maximize product realization success.

Overall, CPI Aero's engineering team is dedicated to providing our customers an experience where our activities are an extension of their business and complement their engineering goals.

Business Strategy

CPI Aero is committed to achieving revenue, gross profit margin, and earnings growth through the successful implementation of our business development strategy. CPI Aero's future strategic direction is tied to aerostructures, aerosystems, supply chain, and kitting services, and a deeper market penetration of formerly acquired businesses in welding, tube bending, wire harnesses, and electronics. To accomplish this strategy, we are focused on executing on our current customer programs while pursuing new aerospace build-to-print opportunities - in both new production and MRO statements of work.

We believe that there has been a shift in the market for more build-to-print contracts by OEMs versus the recent past trend of design and build contracts. This trend fits in well with CPI Aero's strengths. In addition, we expect to identify and close contracts for which we can provide more value added content to our customer (like integrating sub-assemblies into higher level Aerostructures and Aerosystems statements of work) and we intend to pursue statements of work that require proportionately higher CPI Aero value added content.

Another tenet of the CPI Aero business development strategy is portfolio reshaping of our existing business by identifying and closing long-term agreements or multi-year contracts, which provides an opportunity to firm-up supplier agreements and secure supplier capacity.

The final element of CPI Aero's business development strategy is to build upon the Company's existing customer relationships and to develop relationships with new customers. We intend to increase customer engagements by deploying our business development personnel to solidify existing customer relationships which have been established by performance excellence, transparency and trust over many years and multiple programs. We have also added additional resources to our business development function to cultivate new relationships with new customers.

We will make sure each customer has the best possible buying experience, by ensuring we are a best value partner through the delivery of high quality products delivered on time. The CPI Aero team will always work in a collaborative way to meet customers' needs and solve their problems.

The Market

We have positioned the 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 also act as a subcontractor to prime contractors in the production of commercial aircraft structures.

Over time, our Company has expanded in both capabilities and size, as evidenced by our growth in our operational, global supply chain management, program management, and engineering capabilities, as well as the growth in our manufacturing shop floor size and equipment base. These expansions have provided us the ability to supply larger and more complex Aerostructures and Aerosystems products 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 obtain MRO, kitting, tube bending, welding, and electronics related contracts.

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. With respect to Aerostructures products, we often compete against much larger Tier 1 suppliers, such as Triumph Group, Spirit Aerosystems, Kaman Aerospace, GKN Aerospace, 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. With respect to Aerosystems products, 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 customers. We believe our unique skills related to integrated pod structures combined with a very efficient and generally much lower cost structure create 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 Northrop Grumman, Lockheed Martin, 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 them in these situations. Furthermore, in some cases these prime contractors 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 of our 40 years of experience and expertise in responding to requests for proposals for government contracts.

Our Customers

Approximately \$6.0 million and \$6.1 million of our revenue for the years ended December 31, 2023 and 2022, respectively, were from customers outside the U.S. All other revenue for the years ended December 31, 2023 and 2022 has been attributable to customers within the U.S. We have no assets outside the U.S.

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 also 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 defense sector include leading prime defense contractors such as:

- **Lockheed Martin Corporation** - we provide products used in the production of Lockheed Martin Corporation's ("Lockheed Martin") F-35 Joint Strike Fighter and an international variant of the F-16 Fighting 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 CH-53K, and a special purpose helicopter;

- **RTX Corporation, formerly Raytheon Technologies** – we provide products to two business divisions of RTX Corporation: Raytheon (Next Generation Jammer – Mid-Band pod, Advanced Tactical Pods, Intelligence, Surveillance and Airborne Reconnaissance Pods, Missile Wings and Components, and Radar Racks) and Collins Aerospace (RF Enclosures);
- **The Boeing Company** - we provide critical wing structure for The Boeing Company’s (“Boeing”) A-10 re-wing program and welded structures for the CH-47 Chinook helicopter; and
- **Northrop Grumman Corporation** – we provide structural components and kits for the Northrop Grumman Corporation (“NGC”) E-2D Advanced Hawkeye, various integrated radar and laser pod structures, welded tubes, and welded fluid tanks for a classified program.

81% and 82% of our revenue in 2023 and 2022, respectively, was generated by subcontracts with defense prime contractors.

Our OEM customers in the civil aviation market include:

- **Embraer S.A. Executive Jets** – we provide engine inlet assemblies for Embraer S.A.’s (“Embraer”) Phenom 300 business jet.

5% and 7% of our revenue in 2023 and 2022, respectively, was generated by commercial contract sales.

CPI Aero also is a prime contractor to the DOD, primarily through contracts directly with the USAF and the Defense Logistics Agency (“DLA”), providing supply chain management, assembly & integration, and kitting services for the F-16 and T-38 programs. 14% and 10% of our revenue in 2023 and 2022, respectively, were generated by direct government sales.

Significant Contracts

Our most significant contracts are described below:

Military Aircraft – Subcontracts with Prime Contractors

E-2D Advanced Hawkeye: The NGC E-2D Advanced 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 U.S. Navy. The U.S. 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. In 2021, we received additional orders valued at approximately \$11 million. Since 2008, the cumulative orders we have received on this program through December 31, 2023 exceed \$209 million. We anticipate shipping against these orders into 2025.

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 the Japan Air Self Defense Force (“JASDF”). We are responsible for component source selection, supply chain management, delivery of kits, and providing manufacturing engineering services to NGC during the integration of the components into the WOWP E-2D. In late 2019, CPI Aero received additional WOWP kit requirements increasing the total value of this program for the JASDF to be in excess of \$20 million. CPI completed deliveries in support of this contract in 2023.

In February 2020, the Company’s subsidiary WMI received approximately \$4 million in purchase orders from NGC to produce numerous welded structures and tubes for the E-2D Advanced Hawkeye. Under the terms of the purchase orders, WMI manufactured more than 140 different items in support of the production of at least 25 E-2D aircraft. CPI received follow-on orders for additional quantities of welded products in 2023 and anticipates additional orders in 2024.

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 139 EA-18G Growlers during the production phase. There are two pods per aircraft. There are also 11 EA-18Gs operated by the Royal Australian Air Force. Raytheon received a \$1 billion sole source contract from the U.S. Navy in April 2016, and CPI Aero has a contract with Raytheon to assemble the pod structural housing and air management system (“AMS”) and integrate customer furnished equipment. In 2019, Raytheon authorized CPI Aero to begin production of pod structures and AMS components for the System Demonstration and Test Article (“SDTA”) phase of the NGJ-MB program. All SDTA pods and AMS components orders received were valued in excess of \$60 million and completed delivery as of December 31, 2022.

On November 16, 2021 the Company announced it was authorized by Raytheon to start the production phase of the program. The Company was awarded low rate production (“LRIP”) I and II orders valued at approximately \$18.5 million. LRIP III, for which the Company was awarded an order of approximately \$14.0 million in October 2022, and later definitized at \$32.5 million. In November 2023, RTX issued a Memorandum for Record for Lot4 with an anticipated Program Value of \$32 million and an initial funding limit of \$16 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. This 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 that it had received an Indefinite Delivery/Indefinite Quantity (“IDIQ”) contract 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, and the USAF ordered 27 wing sets from Boeing immediately at contract award. In 2019, CPI Aero announced the receipt of an 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 had received initial purchase orders under the IDIQ contract valued at approximately \$6 million for the production of four 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. In March of 2022, CPI Aero announced the receipt of additional purchase orders totaling approximately \$3.2 million, bringing the total purchase orders received to \$23.4 million.

F-35 Lightning II: The Lockheed Martin F-35 Lightning II is a family of single-seat, single-engine, all-weather stealth multirole fighter aircraft that provides unmatched multi-role capability, survivability, and connectivity with data sharing capabilities essential for joint all-domain operations. Current DOD plans call for acquiring a total of 2,456 F-35s. U.S. allies are expected to purchase hundreds of additional F-35s, with eight nations participating as cost-sharing partners in the program with the United States, and six other nations allied with the U.S. purchasing the F-35 via foreign military sales agreements with the DOD. In 2015, CPI Aero was awarded a multi-year contract to supply four different lock assemblies for the arresting gear door on the F-35C Carrier Take Off and Landing variant. CPI Aero made its first delivery under that contract in May 2017. In 2018, the Company received a new long-term agreement valued at approximately \$8 million for lock assemblies to be delivered between 2020 and 2024. In November 2017, CPI Aero 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 variants.

UH-60 “BLACK HAWK”: The Sikorsky UH-60 BLACK HAWK helicopter is the leader in multi-mission rotary wing aircraft. Among the mission configurations it serves are troop transport, medical evacuation, electronic warfare, attack, assault support, and special operations. More than 4,000 BLACK HAWK helicopters are in use today, operating in 29 countries. CPI Aero manufactures several different structural assemblies, including welded structure for the BLACK HAWK. The majority of CPI Aero’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 products ultimately used on the BLACK HAWK. In 2017, CPI Aero received an approximately \$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 for the BLACK HAWK, continuing work it has performed since 2010. A third five-year long-term agreement was awarded in January 2022, also for gunner window assemblies, estimated at \$13.6 million with a period of performance from 2023-2027. Also, 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 BLACK HAWK. The HIRSS is a defensive countermeasures system that is integral to the survival of the BLACK HAWK by reducing the opportunity for an infrared-seeking threat system to acquire, lock onto, track, and destroy the aircraft. Finally, in May 2021, the Company announced receiving a multi-year contract valued at up to \$17.2 million for the repair and overhaul of outboard stabilator assemblies in support of the Sikorsky MH-60 SEAHAWK.

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 began in 2021 and will continue through 2024. In June 2020, the Company announced that it had been awarded an order from Lockheed Martin as part of the previously announced multi-year contract to manufacture RI/DCC assemblies for new production F-16 Block 70/72 aircraft, in March 2021 the Company announced that it had received an additional order for these assemblies for \$9.2 million and in November 2022, the Company announced another follow-on order for these assemblies for \$4 million. On August 28, 2023 CPI announced the receipt of a 2nd Multiyear long-term agreement with not-to-exceed funding of \$34.4M. The total value of the RI/DCC program, including both multi-year contracts is approximately \$59.3 million.

CH-53K King Stallion: The CH-53K is a heavy-lift helicopter being developed by Sikorsky for the U.S. Marine Corps. 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, 2023, we had received orders valued at more than \$2.7 million from Spirit AeroSystems, Inc.

In addition, the Company also manufactures welded tubes for the CH-53K as a Tier 1 supplier to Sikorsky. In August 2023, CPI received a Long-term Agreement with a ceiling price of \$17.4 million and a funding limit of \$7.3 million. These tubes will be required for the multi-year on this program. A component of this statement of work also includes CPI Aero intellectual property.

Undisclosed Pod Structure: In 2019, the Company received an initial purchase order from Raytheon to manufacture pod structures for an undisclosed application. The value of the order was approximately \$2.3 million for manufacturing engineering services, development of assembly tooling, and the production of the prototypes. The undisclosed pod structure is currently under development. In October 2021, the Company announced that Raytheon awarded the Company an approximately \$6.1 million contract modification that changes the scope of work the Company would perform and increases the quantity of pods to be produced. The program value as of December 31, 2023 was \$8.4 million.

Undisclosed Vehicle: In 2018, the Company started production of a welded tank for NGC for an undisclosed application on an undisclosed platform. The total value of orders received as of December 31, 2023 is \$3.2 million.

B-52 Radar Rack: In late 2021, the Company received an initial purchase order from Raytheon to manufacture radar rack structures for the B-52 Radar Modernization Program. The value of the order was approximately \$4.0 million for manufacturing engineering services, development of assembly tooling, and the production of the initial units. The non-recurring and tooling phase of the program was completed and the initial 11 racks will be delivered in 2024.

Military Aircraft – Prime Contracts with U.S. Government

T-38 Pacer Classic III, Phase 2: For more than 50 years, the NGC 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”) program 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 \$2.0 million from the USAF to provide structural modification kits for the PC III aircraft structural modification 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 had received orders valued at approximately \$15.3 million for the PC III, Phase 3 and TRIM programs, and in 2021, the Company announced it had received three separate orders for additional requirements valued at approximately \$16.2 million. Through December 2023, CPI has received funded orders under this long term agreement totaling \$48.3 million.

Commercial Aircraft – Subcontracts with Prime Contractors

Embraer Phenom 300: The Phenom 300 is a twin-engine, executive jet produced by Brazilian aircraft company Embraer that can carry between six and ten passengers and a crew of two. We have been producing engine inlet assemblies for Embraer under a long-term agreement we entered into in 2012. In January 2024, we celebrated the delivery of the 800th Shipset of Inlets. In 2023, we received funded orders totaling \$4.4 million.

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 (“ASC 606”). Unfunded backlog is the estimated amount of future orders under the expected duration of the program. Substantially all of our unfunded 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, 2023 is \$513,351,000.

Our total backlog as of December 31, 2023 and 2022 was as follows:

Backlog (Total)	December 31, 2023	December 31, 2022
Funded	\$ 118,218,000	\$ 122,148,000
Unfunded	395,133,000	392,352,000
Total	<u>\$ 513,351,000</u>	<u>\$ 514,500,000</u>

Approximately 97% and 98% of the total amount of our backlog at December 31, 2023 and 2022 was attributable to government contracts. Our backlog attributable to government contracts at December 31, 2023 and 2022 was as follows:

Backlog (Government)	December 31, 2023	December 31, 2022
Funded	\$ 115,681,000	\$ 119,133,000
Unfunded	383,574,000	384,652,000
Total	<u>\$ 499,255,000</u>	<u>\$ 503,785,000</u>

Our backlog attributable to commercial contracts at December 31, 2023 and 2022 was as follows:

Backlog (Commercial)	December 31, 2023	December 31, 2022
Funded	\$ 2,537,000	\$ 3,015,000
Unfunded	11,559,000	7,700,000
Total	<u>\$ 14,096,000</u>	<u>\$ 10,715,000</u>

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.

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, county, and local agencies 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 follow all federal, state and local rules and regulations regarding the disposal of these chemicals and associated waste. 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 \$2.0 million general liability insurance policy, a \$100 million products liability insurance policy, and a \$5.0 million umbrella liability insurance policy. Additionally, we maintain \$10.0 million of director and officers’ liability insurance. 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

Our ability to attract, develop and retain top talent across all of our business functions, and particularly in highly technical areas, has a significant impact on organizational success. Accordingly, our human capital management strategy places a significant focus on both attracting a diverse, highly skilled workforce and engaging and developing talent from within by creating a work environment that promotes inclusion and equitability. By providing our valued employees the opportunity to enhance their skillsets, develop their careers and pursue excellence through numerous training and development opportunities, we consistently emphasize the importance of innovation and continuous improvement throughout our organization. We continue to pursue opportunities that enable us to build our talent pipeline, particularly for skilled labor, including running an apprentice training program several times over the course of the year and forging relationships with local high school and trade schools.

We attract and compensate our employees by offering a competitive total rewards package which includes benefits, resources, and programs that support health, physical, mental, and financial wellness. The benefits package we offer, coupled with employee recognition opportunities and employee engagement activities help create a comprehensive employee experience. We periodically benchmark our benefits programs and associated costs to remain competitive.

As of December 31, 2023, we had 203 full-time employees as compared to 208 full-time employees as of December 31, 2022. On an as-needed basis, we employ temporary personnel with specialized disciplines to fill staffing gaps. We do not have any employees represented by a union, and we believe that our relations with our employees are good. We provide our team members with ongoing opportunities to share thoughts and perspectives on company and employment-related matters through surveys, all-hands meetings, and management open door policies. Our management, with oversight from the Compensation and 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.

Diversity and Inclusion

We value diversity and inclusion in our workforce as we understand that diversity of background, thought, and experience leads to greater innovation and improved business results. We are committed to increasing and retaining diversity at all levels of our workforce, and focus on diversity and inclusion throughout our recruitment, hiring, and onboarding processes. Over the last year, we have increased diversity on our board of directors to 29% up from 17% in 2022. Our executive management team is comprised of 40% diverse employees.

Across our total employee population and based on employees who self-identify, as of December 31, 2023, approximately 21% of our workforce are female, 34% are multicultural and 5% are veterans.

Safety

Ensuring the safety and well-being of our employees is a top priority. The goal of our safety program is to increase safety knowledge and awareness throughout the organization to ensure occupational health, reduce risk, and prevent incidents. We regularly benchmark our safety performance, self-audit our safety compliance, and provide our employees with safety-related training. We conduct an investigation, including root cause analysis and corrective action, any time a safety incident or a near miss occurs.

Our Safety Committee is comprised of employees from various disciplines throughout the organization who meet on a regular basis to execute continuous improvement strategies, develop methods to increase ownership of safety throughout the organization, establish new safety initiatives, and assess safety performance.

We monitor the effectiveness of our safety program by comparing recordable incidents and incident severity year over year. We measure the number of safety incidents with the total recordable incident rate (“TRIR”) metric and the severity of incidents with the days away restricted and transferred (“DART”) metric. The table below represents our result from the two most recent calendar years:

Safety Metric	2023	2022
TRIR	2.9	2.6
DART	1.0	1.3

TRIR = total number of recordable cases x 200,000 / total hours worked

DART = number of cases with days away from work x 200,000 / total hours worked by all employees

Community Involvement

Having a positive impact on the community around us is one of our most important values. We donate to local charitable organizations, such as United Way of Long Island, through both monetary contributions, as well as “drives” to collect and deliver employee donated food and school supplies. We actively engage and educate local high school students from surrounding districts about the manufacturing and engineering industry and career trajectory. This includes, hosting educational experiences and shop tours with high school and trade school classes. Members of our leadership team participate on the boards of the local aviation college and trade associations that support and advance the interests of the local community.

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 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, 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, the threat or existence of a government shutdown and potential downgrades of the United States’ credit rating, and risks relating to the upcoming U.S. presidential election. 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 A&D industry has experienced 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, there can be no assurance 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 costs to us.

We depend upon a select base of large prime defense contractors for the majority of our revenue, which subjects us to unique risks which may adversely affect us.

We currently generate a majority of our revenues by producing products for numerous programs under contracts with three prime defense contractors to the U.S. Government. These significant customers – Lockheed Martin, Raytheon and NGC – constituted approximately 30%, 26% and 12%, respectively of our 2023 revenue. Our revenues from these customers are diversified over several different A&D products, programs, and subsidiaries within these customers, however, any significant change in production rates by any of these customers would have a material effect on our results of operations and cash flows. There is no assurance that our current significant customers will continue to buy products from us at current levels, that we will retain any or all our existing significant customers, or that we will be able to form new relationships with other customers upon the loss of one or more of our existing significant customers.

We are subject to strict governmental regulations relating to the environment, which could result in fines and remediation expenses 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 fulfill our obligations as the prime contractor. Subcontractor performance deficiencies could result in a customer eliminating our ability to progress bill or terminate our contract for default. A prohibition on progress billing may have an adverse effect upon our cash flow and profitability and a default termination could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. In addition, a delay in our ability to obtain components and equipment parts from our suppliers may affect our ability to meet our customers’ needs and may have a material adverse effect upon our profitability.

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

Operating margin is adversely affected when contract costs that cannot be billed to customers are incurred. This cost growth can occur if estimates to complete a contract increase due to technical challenges or if initial estimates used for calculating the contract price were incorrect. The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability and cost 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 affect 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 for 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 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 is not necessarily indicative of the revenues that we will realize under that contract. Because we may not receive the full amount we expect under a contract, we may not accurately estimate our backlog because the earnings of revenues on programs included in backlog may never occur or may change. Cancellations of pending contracts or terminations or reductions of contracts in progress could have a material adverse effect on our business, prospects, financial condition, or results of operations.

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 employees at all levels. Competition for key personnel is intense. Our ability to attract and retain senior officers and experienced, top rate employees is dependent on several factors, including prevailing market conditions and compensation and benefit packages offered by companies competing for the same talent and our reputation in the industry. If our reputation is adversely affected, we may be unable to recruit, hire, and retain talented personnel. The inability to hire and retain these people may adversely affect our production operations and other aspects of our business.

We are subject to intense competition for the skilled technicians necessary to manufacture our products.

We are subject to intense competition for the services of skilled technicians necessary to manufacture our products. The demand for these individuals may increase as other manufacturers seek to bring to the U.S. manufacturing processes currently outsourced overseas. If the U.S. economy continues to undergo a period of inflation, our labor costs may increase which could have a material adverse effect on our business, financial condition, and results of operations.

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 inflation 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 the current inflationary and high interest rate environment in the U.S. and the resultant impacts on the supply chain, the labor market and the general economy, as well 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. If these characteristics and trends adversely affect customers in the commercial aerospace industry, they may reduce the overall demand for our products.

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 our credit 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. See "Risks Related to Our Indebtedness and Liquidity" below.

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.

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 the North American Industry Classification Systems ("NAICS") industry and product specific codes that are regulated in the U.S. by the Small Business Administration ("SBA"). 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 and technological changes, including the use of machine learning and generative artificial intelligence, 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. 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 because of any system or operational failure or disruption which could 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 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, 2023, we had approximately \$74.7 million of gross net operating losses (“NOLs”) for federal tax purposes and approximately \$17.3 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 \$60.3 million; these NOLs will expire in varying amounts from 2034 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 taxable income for tax years before January 1, 2021 and up to 80% of 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. The Company completed a Section 382 analysis for the year ended December 31, 2022, and believes that no ownership change occurred during the relevant lookback period through December 31, 2023 that would limit our ability to use our NOLs.

Product liability claims in excess of insurance could adversely affect our financial results and financial condition.

We face potential liability for property damage, personal injury, or death as a result of the failure of products designed or manufactured by us. Although we currently maintain product liability insurance (including aircraft product liability insurance), any material product liability not covered by insurance could have a material adverse effect on our financial condition, results of operations, and cash flows.

Increased scrutiny from investors, lenders, regulators and other market participants regarding our environmental, social, governance, sustainability or climate responsibilities could expose us to additional costs and adversely impact our liquidity, results of operations, reputation, employee retention, and stock price.

There is an increasing focus from certain investors, customers, and other key stakeholders concerning corporate responsibility, specifically related to environmental, social, and governance (“ESG”) factors. Some investors may use ESG criteria to guide their investment strategies and, in some cases, may choose not to invest in us if they believe our policies relating to corporate responsibilities are inadequate.

The ESG factors by which companies’ corporate responsibility practices are assessed may change. This could result in greater expectations of us and cause us to undertake costly initiatives to satisfy such new criteria. If we are unable to satisfy the new corporate responsibility criteria, investors may view our policies related to corporate responsibility as inadequate. We risk damage to our reputation in the event our corporate responsibility procedures or goals do not meet the standards or goals set by various constituencies. In addition, if our competitors’ corporate responsibility performance is perceived to be greater than ours, potential or current investors may elect to invest in our competitors instead. Further, in the event we communicate certain initiatives or goals related to ESG, we could fail, or be perceived to have failed, in our achievement of such initiatives or goals. If we fail to satisfy the expectations of investors and other key stakeholders, or our initiatives are not executed as planned, our reputation, employee retention, and willingness of our customers and suppliers to do business with us, financial results, and stock price could be materially and adversely affected.

Risks Related to Our Indebtedness and Liquidity

We obtained amendments to and received waivers of and consents to non-compliance with certain covenants under our credit facility with BankUnited and there can be no assurance that we will not fall out of compliance with our covenants in the future.

The Company was not in compliance with certain financial covenants under our credit facility (the “BankUnited Facility” or the “Credit Agreement”) with BankUnited, N.A. (“BankUnited”) for the quarter ended March 31, 2022, and financial statement submission covenants for the quarters ended March 31, 2022 and June 30, 2022 and obtained amendments to and received waivers of and consents to the non-compliance, as described in more detail in Note 8 to our consolidated financial statements included in Part II Item 8 of this Annual Report on Form 10-K. There can be no assurance that we will be in compliance with our covenants in the future or that BankUnited will grant further waivers if we fall out of compliance or consents to future non-compliance. 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.

Our capital requirements, liquidity and financial condition raise significant risks as to our ability to continue as a going concern.

Our working capital requirements can vary significantly, depending in part on the timing of the conclusion of mature programs and new program awards and the payment terms with our customers and suppliers. There is currently no availability for borrowings under the BankUnited Facility and the Company finances its operations from internally generated cash flow. Notes 8 and 9 to our consolidated financial statements included in Part II - Item 8 of this Annual Report on Form 10-K includes a discussion regarding the BankUnited Facility and recent amendments thereto.

Our consolidated financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. If we become unable to continue as a going concern, we may have to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our consolidated financial statements. It is management's estimation that there will likely not be any individual conditions or combination of events that will occur in the coming year which would cause the Company to be unable to continue as a going concern.

Our cost of borrowing under the Credit Agreement is based on the Prime Rate of interest per annum published in the Money Rates section of The Wall Street Journal (the "Prime Rate") plus the margin charged by our lender, and increases in the Prime Rate negatively impact our profitability.

Interest rates under our Credit Agreement are based on the Prime Rate, and as a result, we have exposure to interest rate risk. Certain central banks, such as the U.S. Federal Reserve, effected multiple interest rate increases in 2022 and 2023. Increases in interest rates increase our cost of borrowing and/or potentially make it more difficult to refinance our existing indebtedness.

We have identified material weaknesses in our internal control over financial reporting over a number of years which adversely affected our ability to report our financial condition and results of operations in a timely and accurate manner. The material weaknesses led to multiple restatements of our consolidated financial statements. The material weaknesses and restatements have resulted in our failure to meet SEC reporting obligations, affected and may continue to affect investor confidence, our stock price and our ability to raise capital in the future, and have resulted and may continue to result in stockholder litigation.

We have reported material weaknesses in internal control over financial reporting and did not maintain effective disclosure controls and procedures for reporting periods from 2018 through September 2023. The material weaknesses led to our restatement of our consolidated financial statements for the nine months ended September 30, 2018 and the years ended December 31, 2018, 2019 and 2020. Although these material weaknesses have been remediated as of December 31, 2023, these material weaknesses and restatements have affected investor confidence, our stock price, and resulted in the past in our failure to meet various SEC reporting requirements and stockholder litigation.

As described in Item 9A of this Annual Report on Form 10-K, we identified a material weakness in our internal control over financial reporting of income taxes, which led to the restatement within Note 11 "Income Taxes" of the financial statements within this Annual Report on Form 10-K the Company's December 31, 2022 deferred tax assets and deferred tax liabilities balances. The Company is in the process of remediating this material weakness.

If a future failure in internal control should occur, it may cause us to fail to meet SEC reporting obligations, negatively affect the accuracy of our financial statements and disclosures, investor and customer confidence, our ability to raise capital in the future and result in events of default under our banking agreement, any of which could have a negative effect on the price of our common stock, subject us to regulatory investigations and penalties and additional stockholder litigation, and have a material adverse impact on our business and financial condition.

Risks Related to Global Events

The ongoing war between Russia and Ukraine, and the retaliatory measures imposed by the U.S., United Kingdom, European Union and other countries and the responses of Russia to such measures have caused significant disruptions to domestic and foreign economies.

The invasion of Ukraine by the Russian Federation had an immediate impact on the global economy resulting in higher prices for oil and other commodities. The U.S., United Kingdom, European Union, and other countries responded to Russia's invasion of Ukraine by imposing various economic sanctions and bans. Russia has responded with its own retaliatory measures. These measures have impacted the availability and price of certain raw materials and transportation costs. The invasion and retaliatory measures also disrupted economic markets. The global impact of these measures is continually evolving and cannot be predicted with certainty and there is no assurance that Russia's invasion of Ukraine and responses thereto will not further disrupt the global economy and supply chain. Further, there is no assurance that even when the invasion of Ukraine ceases, that nations will not continue to impose sanctions and bans on other nations.

While these events have not interrupted our operations or materially impacted our ability to obtain raw materials, these or future developments resulting from the invasion of Ukraine such as a cyberattack on the U.S., us or our suppliers, could make it difficult for or increase the cost of certain raw materials and transportation costs, or make it difficult to access debt and equity capital on attractive terms, if at all, and impact our ability to fund business activities and repay debt on a timely basis.

Russia's invasion of Ukraine may alter countries' willingness to rely on others as the source of certain products and material.

Historically, prime contractors and OEMs in the U.S. A&D industry have relied upon suppliers outside the U.S. for products and raw materials. Russia's invasion of Ukraine and the economic disruption resulting from retaliatory measures may cause many of these companies to rethink these strategies and seek sources of supply within the U.S. To the extent they do so, it could disrupt domestic markets for raw materials and supplies, and the market for the skilled laborers we need to manufacture our products.

We cannot forecast with any certainty whether the disruptions caused by the Russian invasion of Ukraine, restrictions imposed by various governments in response thereto and resulting changes in business practices, may materially impact our business and our consolidated financial position, results of operations, and cash flows.

The conflict between Israel and Hamas, rising tensions between China and Taiwan, the ongoing war between Russia and Ukraine, and terrorist acts and acts of war may seriously harm our business, results of operations and financial condition.

U.S. and global responses to actual or potential military conflicts such as Russia's invasion of Ukraine, terrorism, perceived nuclear, biological, and chemical threats and other global political crises increase uncertainties with respect to the U.S. and other business and financial markets. Several factors associated, directly or indirectly, with actual or potential military conflicts, terrorism, perceived nuclear, biological, and chemical and cyber threats, and other global political crises and responses thereto, may adversely affect the mix of products purchased by defense departments in the U.S. or other countries to platforms not serviced by us. A shift in defense budgets to product lines we do not produce could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 1C. CYBERSECURITY

Cybersecurity risk management is an important part of our overall risk management efforts. We maintain a cybersecurity program that is comprised of policies, procedures, controls and plans whose objective is to help us prevent and effectively respond to cybersecurity threats or incidents. Through our cybersecurity risk management process, we continuously monitor cybersecurity vulnerabilities and potential attack vectors to company systems. We maintain various measures to safeguard against cybersecurity threats such as monitoring systems, security controls, policy enforcement, data encryption, employee training, tools and services from third-party providers and management oversight to assess, identify and mitigate risks from cybersecurity threats. We conduct regular testing of these controls and systems including vulnerability scanning, penetration testing and simulating the execution of parts of our disaster recovery plan. All employees are required to pass a mandatory cybersecurity training course on an annual basis and we regularly conduct phishing simulations to train our employees on how to recognize phishing attempts.

We have implemented cybersecurity frameworks, policies and practices which incorporate industry-standards and contractual requirements. We also contractually flow cybersecurity regulatory requirements to our subcontractors as required by the Defense Federal Acquisition Regulation Supplement and other government agency specific requirements. These contractual flow downs include the requirement that our subcontractors implement certain information security controls. Additionally, we gather information and review the SOC-2 reports of certain third-parties who integrate with our systems, such as our payroll processor, managed solutions provider and software as a service providers on an annual basis to identify and manage risk. We continuously evaluate and seek to improve and mature our cybersecurity processes. We apply lessons learned from our defense and monitoring efforts to help prevent future attacks and utilize data analytics to detect anomalies and search for cyber threats. Additionally, our Internal Audit function regularly assesses our program effectiveness through audits of systems and processes to help maintain compliance with policies.

Cybersecurity threats of all types, such as attacks from computer hackers, cyber criminals, nation-state actors, social engineering and other malicious internet-based activities, continue to increase. We believe that our current preventative actions and response planning provide adequate measures of protection against cybersecurity risks. While we have implemented measures to safeguard our information technology systems, the evolving nature of cybersecurity attacks and vulnerabilities means that these protections may not always be effective. In 2023, we did not identify any cybersecurity threats that have materially affected or are reasonably likely to materially affect our business strategy, results of operations, or financial condition. However, despite our efforts, we cannot eliminate all risks from cybersecurity threats, or provide assurances that we have not experienced undetected cybersecurity incidents. For additional information about these risks, see Part I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K.

Governance

Our board of directors has oversight of our strategic and business risk management and oversees management's execution of our cybersecurity risk management program. The board receives regular updates from management on our cybersecurity risks. In addition, management updates the board as necessary, regarding any material cybersecurity incidents, as well as incidents with lesser impact potential. Management is responsible for identifying, assessing, and managing cybersecurity risks on an ongoing basis, establishing processes to ensure that such potential cybersecurity risk exposures are monitored, putting in place appropriate mitigation measures, maintaining cybersecurity policies and procedures, and providing regular reports to our board of directors. In the event of an incident, we intend to follow our incident response plan, which outlines the steps to be followed from incident detection to mitigation, recovery and notification, including notifying functional areas (e.g. legal), as well as senior leadership and the board, as appropriate.

Our Vice President of Human Resources & Administration ("VP HR&A") leads our cybersecurity program and is responsible for our overall information security strategy, policy, security engineering, operations and cyber threat detection and response. The VP HR&A manages a team of information technology professionals with broad experience, including in cybersecurity threat assessments and detection, mitigation technologies, incident response, insider threats and regulatory compliance.

Our cybersecurity program is regularly assessed through management self-evaluation and ongoing monitoring procedures to evaluate our program effectiveness, including assessments associated with internal controls over financial reporting as well as vulnerability management through active discovery and testing to validate patching and configuration.

Item 2. PROPERTIES

CPI Aero’s executive offices and production facility is 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 lease that expires on April 30, 2026.

Item 3. LEGAL PROCEEDINGS

This information is set forth in Note 16 to our Consolidated Financial Statements, which is hereby incorporated by reference.

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 28, 2024, there were 171 holders of record of our shares of common stock. We believe there are substantially more beneficial holders of our 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 BankUnited Facility, as described more fully in Part II, 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, 2023. There have been no repurchases of our outstanding common stock during the three months ended December 31, 2023.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth certain information at December 31, 2023 with respect to our equity compensation plans that provide for the issuance of options, warrants or rights to purchase our securities:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in the first column)
Equity Compensation Plans Approved by Security Holders	—	\$ —	621,419
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	—	\$ —	621,419

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 2,200,000 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, 2023, we have granted 1,580,945 shares under this plan and 619,055 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, 2023, we have granted 497,636 shares under this plan and 2,364 shares remained available for grant.

Item 6. [RESERVED]

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

On February 20, 2024, the Company entered into a Thirteenth Amendment to the Credit Agreement (the "Thirteenth Amendment"). Under the Thirteenth Amendment, the parties amended the Credit Agreement by (a) extending the maturity date of the Company's existing revolving line of credit to August 31, 2025; and (b) setting the aggregate maximum principal amount of all revolving line of credit loans to \$19,800,000 from January 1, 2024 through March 31, 2024, \$19,080,000 from April 1, 2024 through June 30, 2024, \$18,360,000 from July 1, 2024 through September 30, 2024, \$17,640,000 from October 1, 2024 through December 31, 2024, \$16,920,000 from January 1, 2025 through March 31, 2025, \$16,200,000 from April 1, 2025 through June 30, 2025 and \$15,480,000 thereafter, and for payments to be made by the Company to comply therewith (if any such payments are necessary), on the first day of each such period.

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 sector of the market, with our production of various reconnaissance pod structures and fuel panel systems. Within the global aerospace 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 Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, revenues and expenses, and disclosure of contingencies during the reporting period. Significant estimates and assumptions include revenue recognition, the valuation of deferred income taxes, and the valuation of inventory. Actual results could differ from those estimates.

We believe that the following discussion addresses our critical accounting policies which require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. For more discussion of these and other significant accounting policies, refer to Part II, Item 8, Note 1 "Principal Business Activity and Summary of Significant Accounting Policies" in our notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Revenue Recognition

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 Part II, Item 8, Note 1 "Principal Business Activity and Summary of Significant Accounting Policies" in the notes to the consolidated financial statements included in this Form 10-K for additional information regarding the Company's revenue recognition policy.

Deferred Income Taxes – Valuation Allowance

On a quarterly basis, we assess the likelihood that we will be able to recover our deferred tax assets against future sources of taxable income and reduce the carrying amounts of deferred tax assets by recording a valuation allowance if, based on the available evidence, it is more likely than not (defined as a likelihood of more than 50%) that all or a portion of such assets will not be realized.

Assessing the realizability of deferred tax assets requires the determination of whether it is more likely than not that some portion or all the deferred tax assets will not be realized. In assessing the need for a valuation allowance, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, loss carryback and tax-planning strategies. Generally, more weight is given to objectively verifiable evidence, such as a cumulative loss in recent years, as a significant piece of negative evidence to overcome. As of December 31, 2023, the Company achieved three years of consecutive book and taxable income, along with projections of profitability, for which management determined that there is sufficient positive evidence to conclude that it is more likely than not that a portion of the deferred tax assets will be realized. As such, \$14,170,891 of the valuation allowance was released during the fourth quarter of 2023, leaving a balance in the valuation allowance of \$569,143 as of December 31, 2023.

Inventory

Inventory is stated at the lower of cost or estimated net realizable value. Cost is determined using the weighted average method. The Company capitalizes labor, material, subcontractor and overhead costs as work-in-process for contracts where control has not yet passed to the customer. The Company regularly reviews inventory quantities on hand, future purchase commitments with its suppliers, and the estimated usability for its inventory. If the Company's review indicates a reduction in usability below carrying value, it reduces its net inventory to its net realizable value.

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.

Revenue

Revenue for the year ended December 31, 2023 was \$86,466,321 compared to \$83,335,764 for the year ended December 31, 2022, representing an increase of \$3,130,557, or 3.8%. The increase was primarily related to increases in the Raytheon - SDTA program and the T-38 Pacer Classic program, partly offset by decreases in the Sikorsky HIRRS program.

Revenue generated from prime government contracts for the year ended December 31, 2023 was \$11,842,145 compared to \$8,663,308 for the year ended December 31, 2022, an increase of \$3,178,837, or 36.7%. This increase is primarily a result of increased revenue recognized on the T-38 Pacer Classic program.

Revenue generated from government subcontracts for the year ended December 31, 2023 was \$69,672,602 compared to \$69,023,729 for the year ended December 31, 2022, an increase of \$648,873, or 0.9%. The increase in revenue was primarily related to increases in the Raytheon - SDTA program and the Lockheed Martin F-16 Rudder Island program, partly offset by decreases in the Sikorsky HIRRS program and the NGC E-2D WOWP program.

Revenue generated from commercial contracts for the year ended December 31, 2023 was \$4,951,574 compared to \$5,648,727 for the year ended December 31, 2022, a decrease of \$697,153, or 12.3%. The decrease in revenue resulted from decreased revenue recognized on the Gulfstream G650 program, which concluded in 2022.

Cost of sales

Cost of sales for the year ended December 31, 2023 was \$69,400,693 compared to \$67,031,502 for the year ended December 31, 2022, an increase of \$2,369,191 or 3.5%.

The components of cost of sales were as follows:

	Years ended	
	December 31, 2023	December 31, 2022
Procurement	\$ 46,020,628	\$ 46,094,088
Labor	7,054,308	6,829,405
Factory overhead	16,028,140	15,730,682
Other cost of sales	297,617	(1,622,673)
Cost of sales	<u>\$ 69,400,693</u>	<u>\$ 67,031,502</u>

Procurement for the year ended December 31, 2023 was \$46,020,628 compared to \$46,094,088 for the year ended December 31, 2022, a decrease of \$73,460 or 0.2%. This decrease is primarily the result of a decrease in procurement for the Lockheed Martin F-16 Rudder Island program, the Raytheon - SDTA program, the NGC E-2D MYP II OWP program and the NGC E2D WOWP program, the Bell AH-1Z program, the Gulfstream G650 program and the Raytheon B-52 Radar Rack program, partly offset by increases in the Sikorsky HIRRS program and the Raytheon Next Generation Jammer – Mid-Band pod program.

Labor costs for the year ended December 31, 2023 were \$7,054,308 compared to \$6,829,405 for the year ended December 31, 2022, an increase of \$224,903 or 3.3%. The increase is primarily the result of higher labor cost incurred on the Boeing A-10 Warthog program.

Factory overhead costs for the year ended December 31, 2023 were \$16,028,140 compared to \$15,730,682 for the year ended December 31, 2022, an increase of \$297,458 or 1.9%. The increase is primarily the result of higher overhead rates incurred on the Raytheon Next Generation Jammer – Mid-Band pod program, the Sikorsky – Gunner Windows program and the Lockheed Martin F-16 Rudder Island program.

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 and direct charges to cost of sales. For the year ended December 31, 2023, there were costs in the amount of \$297,617 compared to a reduction of costs in the amount of \$1,622,673 for the year ended December 31, 2022, an increase of \$1,920,290 or 118.3%. The increase is primarily the result of a higher level of cost decrease in 2022 related to changes in inventory levels and loss contract reserve reductions.

Gross profit

Gross profit for the year ended December 31, 2023 was \$17,065,628 compared to \$16,304,262 for the year ended December 31, 2022, an increase of \$761,366 or 4.7%. Gross profit percentage (“gross margin”) for the year ended December 31, 2023 was 19.7% compared to 19.6% for year ended December 31, 2022.

Favorable/(Unfavorable) Adjustments to Gross Profit

During the years ended December 31, 2023 and 2022, we made changes in estimates to various contracts. Such changes in estimates resulted in changes in total gross profit as follows:

	Years Ended	
	December 31, 2023	December 31, 2022
Favorable adjustments	\$ 2,601,615	\$ 4,962,675
(Unfavorable) adjustments	(4,052,117)	(3,207,099)
Net adjustments	<u>\$ (1,450,502)</u>	<u>\$ 1,755,576</u>

Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) for the year ended December 31, 2023 were \$10,758,624 compared to \$11,410,067 for the year ended December 31, 2022, a decrease of \$651,443 or 5.7%. The decrease was primarily due to decreased insurance expense and legal fees.

Interest expense

Interest expense for the year ended December 31, 2023 was \$2,455,214, compared to \$2,271,101 for the year ended December 31, 2022, an increase of \$184,113 or 8.1%. The increase is the result of higher year-over-year interest rates charged on our outstanding debt under the Credit Agreement, partially offset by a year-over-year decrease in the amount of our outstanding debt under the Credit Agreement.

Income before provision for income taxes

Income before provision for income taxes for the year ended December 31, 2023 was \$3,851,790 compared to \$2,623,094 for the year ended December 31, 2022, an increase of \$1,228,696 or 46.8%. The increase was driven by the aforementioned increase in gross profit and decrease in SG&A, partially offset by the increase in interest expense described above.

Provision (benefit) for income taxes

The income tax (benefit) for the year ended December 31, 2023 was (\$13,349,414), which was an effective tax (benefit) rate of (346.6%), as compared to the income tax (benefit) of (\$6,553,131) for the year ended December 31, 2022, which was an effective tax (benefit) rate of (249.8%). The income tax (benefit) in 2023 and 2022 was primarily due to reductions of the Company’s deferred tax asset valuation allowance recorded by the Company in the fourth quarter of 2023 and the fourth quarter of 2022 of \$14,170,891 and \$6,473,532, respectively.

Net income

Net income for the year ended December 31, 2023 was \$17,201,204 compared to \$9,176,225 for the year ended December 31, 2022, an increase of \$8,024,979 or 87.5%. The increase in net income was driven by the aforementioned increase in gross profit, decrease in SG&A and the 2023 income tax (benefit), partially offset by the aforementioned increase in interest expense.

Earnings per share

Basic earnings per share was \$1.40 for the year ended December 31, 2023 calculating utilizing 12,311,219 weighted average shares outstanding as compared to \$0.74 for the year ended December 31, 2022 calculated utilizing 12,389,890 weighted average shares outstanding, an increase of \$0.66 per share, or 88.8%. Diluted earnings per share was \$1.38 for the year ended December 31, 2023 calculated utilizing 12,471,961 weighted average shares outstanding as compared to \$0.74 for the year ended December 31, 2022 calculated utilizing 12,389,890 weighted average shares outstanding, an increase of \$0.64 per share, or 86.4%.

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, 2023, we had working capital of \$15,402,381 compared to working capital of \$12,896,602 at December 31, 2022, an increase of \$2,505,779, or 19.4%. This increase is primarily the result of an increase in contract assets and cash, partially offset by an increase in accrued expenses and accounts payable and a decrease in current portion of long-term debt.

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, 2023, our cash balance was \$5,094,794 compared to \$3,847,225 at December 31, 2022, an increase of \$1,247,569, or 32.4%. The increase was driven by \$3,928,341 in cash provided by operations, partly offset by our pay down of outstanding debt during 2023 of \$2,679,766.

BankUnited Facility

This information is set forth in Note 8 to our Consolidated Financial Statements, appearing following Item 15 of this Annual Report on Form 10-K which is hereby incorporated by reference.

Leases

This information is set forth in Note 10 to our Consolidated Financial Statements, appearing following Item 15 of this Annual Report on Form 10-K which is hereby incorporated by reference.

Liquidity

Our working capital requirements can vary significantly, depending in part on the timing of the conclusion of mature programs and new program awards and the payment terms with our customers and suppliers. There is currently no availability for borrowings under the BankUnited Facility and the Company finances its operations from internally generated cash flow. Note 8 to our consolidated financial statements included in Part II - Item 8 includes a discussion regarding the BankUnited Facility and recent amendments thereto which provide, among other things, for increases in principal payments and the interest rate on the loans provided for therein. Management has (i) negotiated and executed a further amendment to the Credit Agreement which extended the maturity date of the Credit Agreement to August 31, 2025, (ii) obtained and regularly seeks additional progress payment and advance payment customer contract funding provisions, (iii) maintained procedures to minimize investments in inventory and contract assets, (iv) remained focused on its military customer base and (v) maintained its approximately \$118.2 million backlog of funded orders, 98% of which are for military programs. Based upon the aforementioned factors, it is management’s estimation that there will likely not be any individual conditions or combination of events that will occur in the coming year which would cause the Company to be unable to meet its obligations or otherwise continue as a going concern. However, there can be no assurance that such plans will accomplish their intended goals.

Contractual Obligations

The table below summarizes information about our contractual obligations as of December 31, 2023 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
Line of credit	\$ 20,040,000	\$ 2,400,000	\$ 17,640,000	\$ —	\$ —
Finance Leases	70,981	44,498	26,483	—	—
Operating Leases	5,482,708	2,228,784	3,244,696	9,228	—
Insurance Financing Agreement	280,910	280,910	—	—	—
Total Contractual Cash Obligations	\$ 25,874,599	\$ 4,954,192	\$ 20,911,179	\$ 9,228	\$ —

Inflation

Inflation historically has not had a material effect on our operations, although the current inflationary environment in the U.S., and its impact on interest rates, the supply chain, the labor market and general economic conditions, are factors that the Company actively monitors in an attempt to mitigate and manage potential negative impacts on and risks faced by the Company. The majority of the Company's long term contracts with its customers reflect fixed pricing and its long term contracts with its suppliers reflect fixed pricing. When bidding for work, the Company takes inflation risk and supply side pricing risk into account in its proposals.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

We are exposed to interest rate risk on variable-rate credit facilities for which there was \$20,040,000 outstanding at December 31, 2023. Additionally, if we were to refinance our long-term debt, it may be refinanced at higher interest rates.

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, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were not effective due to 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, 2023 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 identified a material weakness in its internal controls relating to the inadequate review, assessment of and reporting of the Company’s temporary differences between book and taxable income. This material weakness led to the need to restate within Note 11 “Income Taxes” of this Annual Report on Form 10-K the Company’s December 31, 2022 deferred tax assets and deferred tax liabilities balances, which had no impact to the Company’s previously reported net deferred tax asset on its December 31, 2022 Balance Sheet and no impact to the Company’s previously reported Net Income, Earnings Per Share or Cash Flow for the twelve months ended December 31, 2022. The restatement of the aforementioned balances, as well as additional details regarding the restatement adjustments, appears in Note 11 “Income Taxes” of this Annual Report on Form 10-K. The Company is in the process of remediating the aforementioned material weakness. The Company’s remediation plans currently include conducting a comprehensive review of the scope and work of its outside tax advisor, providing additional education and training in tax accounting to the its finance personnel and requiring additional review of, approval over and documentation of the work product of its tax advisor and tax accounting preparers.

Conclusion

As described above, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2023.

Notwithstanding the conclusion by our management that our controls and procedures as of December 31, 2023 were not effective, as described above with respect to income tax accounting, 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.

CPI is a non-accelerated filer for 2023. 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 2024 for 2023.

Changes in Internal Control Over Financial Reporting

Other than as disclosed above, there were no changes in our internal control over financial reporting during the quarter ended December 31, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the quarter ended December 31, 2023, we implemented additional internal controls related to the reconciliation of accounts receivable that include more timely account reconciliation and transactional reviews, and strengthening oversight controls over the accounts receivable and billing function.

Item 9B. OTHER INFORMATION

None.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2023.

Item 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2023.

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

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2023.

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

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2023.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2023.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2023 and 2022

Consolidated Statements of Operations for the Years Ended December 31, 2023 and 2022

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2023 and 2022

Consolidated Statements of Cash Flows for the Years Ended December 31, 2023 and 2022

Notes to Financial Statements

(2) Financial Statement Schedules:

None.

(3) The following Exhibits are filed as part of this report:

<u>Exhibit No.</u>	<u>Description</u>
<u>3.1</u>	<u>Certificate of Incorporation of the Company, as amended, (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K, filed on August 25, 2020).</u>
<u>3.1.1</u>	<u>Certificate of Amendment of the Certificate of Incorporation of Composite of Precision Industries, 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).</u>
<u>3.1.2</u>	<u>Certificate of Amendment of the Certificate of Incorporation of Consortium Products International, Inc., dated June 30, 1992 (incorporated by reference to Exhibit 3.1.2 to the Company's Annual Report on Form 10-K, filed on August 25, 2020).</u>
<u>3.1.3</u>	<u>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).</u>
<u>3.1.4</u>	<u>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).</u>
<u>3.1.5</u>	<u>Certificate of Amendment of the 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).</u>
<u>3.2</u>	<u>Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K/A filed on November 24, 2021).</u>
<u>3.2.1</u>	<u>Amended Article V, Section 6 of Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 22, 2021).</u>
<u>4.1*</u>	<u>Securities of the Registrant.</u>
<u>10.1**</u>	<u>Performance Equity Plan 2009 (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed on April 30, 2009).</u>
<u>10.2**</u>	<u>2016 Long-Term Incentive Plan, as amended (incorporated by reference from Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed on June 28, 2023).</u>
<u>10.3.1</u>	<u>Agreement of Lease, dated June 30, 2011, between Heartland Boys II L.P. and CPI Aerostructures, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 15, 2011).</u>
<u>10.3.2</u>	<u>Lease Amendment, dated November 11, 2020, between Heartland Boys II L.P. and CPI Aerostructures, Inc. (incorporated by reference to Exhibit 10.3.2 to the Company's Annual Report on Form 10-K/A filed on November 24, 2021).</u>
<u>10.3.3</u>	<u>Second Lease Amendment, dated November 10, 2021, 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 8-K filed on November 12, 2021).</u>
<u>10.4.1</u>	<u>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 BankUnited, N.A. (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 28, 2016).</u>
<u>10.4.2</u>	<u>First Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 10, 2016).</u>
<u>10.4.3</u>	<u>Second Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.4.3 to the Company's Annual Report on Form 10-K filed on August 25, 2020).</u>
<u>10.4.4</u>	<u>Third Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 16, 2018).</u>
<u>10.4.5</u>	<u>Fourth Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 27, 2018).</u>
<u>10.4.6</u>	<u>Fifth Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 26, 2019).</u>
<u>10.4.7</u>	<u>Waiver and Sixth Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 24, 2020).</u>
<u>10.4.8</u>	<u>Waiver and Seventh Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 17, 2021).</u>
<u>10.4.9</u>	<u>Waiver and Eighth Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 28, 2021).</u>
<u>10.4.10</u>	<u>Consent, Waiver and Ninth Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 12, 2022).</u>
<u>10.4.11</u>	<u>Consent, Waiver and Tenth Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 19, 2022).</u>

<u>10.4.12</u>	<u>Eleventh Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 11, 2022).</u>
<u>10.4.13</u>	<u>Twelfth Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 23, 2023).</u>
<u>10.4.14</u>	<u>Thirteenth Amendment to the Amended and Restated Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 21, 2024).</u>
<u>10.5</u>	<u>Amended and Restated Continuing General Security Agreement among CPI Aerostructures, Inc. and BankUnited N.A. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 28, 2016).</u>
<u>21*</u>	<u>Subsidiaries of the Registrant.</u>
<u>23.1*</u>	<u>Consent of RSM US LLP.</u>
<u>31.1*</u>	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2*</u>	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1***</u>	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 905 of the Sarbanes-Oxley Act of 2002.</u>
<u>97*</u>	<u>The Company's Clawback Policy Relating to the Recovery of excessive Incentive-Based Compensation from Executive Officers in the Event of an Accounting Restatement.</u>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Scheme 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.
104*	Cover page formatted as Inline XBRL and contained in Exhibit 101.
*	Filed herewith.
**	Management contract compensatory plan or arrangement.
***	Furnished herewith.

Item 16. FORM 10-K SUMMARY

None

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors 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, 2023 and 2022, the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, 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.

Restatement

As discussed in Note 11 to the financial statements, the 2022 financial statements have been restated to correct a misstatement.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 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 audit to obtain reasonable assurance about whether the 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 audit, 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 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 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 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 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 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 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.

Deferred Tax Asset Valuation Allowance

As described in Note 1 and Note 11 of the financial statements, the Company's net deferred tax asset of approximately \$19.9 million is net of a valuation allowance of approximately \$0.6 million as of December 31, 2023. The Company recognizes deferred tax assets and liabilities for the expected future income tax consequences of events that have been recognized in the Company's financial statements. Valuation allowances are provided for deferred tax assets where it is considered more likely than not that the Company will not realize the benefit of such assets. In evaluating the realizability of deferred tax assets in future periods, the available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, loss carrybacks and tax-planning strategies are considered.

We identified management's determination of the value of deferred tax assets as a critical audit matter as there is significant judgment required by management to conclude that it is more likely than not that these deferred tax assets will be realized in future periods. In addition, the auditing of these elements involved complex and subjective auditor judgment, including the need to involve personnel with specialized skill and knowledge.

Our audit procedures related to the realization of the Company's net deferred tax assets included the following, among others:

- Evaluated the reasonableness of management's estimate in regard to the ability to generate future taxable income and utilize the deferred tax assets by evaluating the forecast of future taxable income, including testing of management's assumptions used in their projections.
- Utilized personnel with specialized knowledge and skill in accounting for income taxes to assist in the evaluation of management's assessment of positive and negative evidence and their conclusion that it is more likely than not that the Company will realize a benefit from its net deferred tax assets.

Revenue Recognition

As described in Note 2 of the financial statements, revenue for the year ended December 31, 2023 was \$86.5 million, including \$82.7 million of revenue recognized using an over time revenue recognition model. As described in Note 1 of the financial statements, the majority of the Company's revenues are from long-term contracts with performance obligations 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 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.

Given the complexity and significant estimates and assumptions management makes regarding revenue and costs associated with long-term contracts with performance obligations satisfied over time, we identified revenue recognition over these contracts as a critical audit matter. Auditing these estimates required a high degree of auditor judgement and increased audit effort.

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

- Obtained an understanding of management's process related to the accounting for contract revenue including cost to complete estimates for long-term contracts with performance obligations satisfied over time.
- Performed substantive test of details on a sample of contracts with customers to ensure modifications were agreed to by the customer.
- Performed journal entry testing related to revenue.
- Tested the accuracy and completeness of the costs incurred to date on a sample of contracts.
- Performed procedures, including a retrospective and prospective review, over estimated costs to complete on a sample of contracts.
- On a sample of contracts, we evaluated whether the revenue recognition over time on contracts was appropriate based on the terms and conditions.
- Tested the mathematical accuracy of management's calculation of revenue recognized on a sample basis.
- Performed procedures to evaluate the reasonableness of the significant assumptions used to estimate contract costs to complete on a sample of contracts.

/s/ RSM US LLP

We have served as the Company's auditor since 2021.

New York, New York
April 5, 2024

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
ASSETS		
Current Assets:		
Cash	\$ 5,094,794	\$ 3,847,225
Accounts receivable, net	4,352,196	4,857,772
Insurance recovery receivable	—	3,600,000
Contract assets, net	35,312,068	27,384,540
Inventory	1,436,647	2,493,069
Refundable income taxes	40,000	40,000
Prepaid expenses and other current assets	678,026	975,830
Total Current Assets	46,913,731	43,198,436
Operating lease right-of-use assets	4,740,193	6,526,627
Property and equipment, net	794,056	1,124,556
Deferred tax asset	19,938,124	6,574,463
Goodwill	1,784,254	1,784,254
Other assets	189,774	238,744
Total Assets	\$ 74,360,132	\$ 59,447,080
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 10,487,012	\$ 8,029,996
Accrued expenses	10,275,695	7,344,590
Litigation settlement obligation	—	3,600,000
Contract liabilities	5,937,629	6,001,726
Loss reserve	337,351	576,549
Current portion of line of credit	2,400,000	1,200,000
Current portion of long-term debt	44,498	1,719,766
Operating lease liabilities	1,999,058	1,817,811
Income taxes payable	30,107	11,396
Total Current Liabilities	31,511,350	30,301,834
Line of credit, net of current portion	17,640,000	19,800,000
Long-term operating lease liabilities	3,100,571	5,077,235
Long-term debt, net of current portion	26,483	70,981
Total Liabilities	52,278,404	55,250,050
Commitments and Contingencies (see note 16)		
Shareholders' Equity:		
Common stock - \$.001 par value; authorized 50,000,000 shares, 12,771,434 and 12,506,795 shares, respectively, issued and outstanding	12,771	12,507
Additional paid-in capital	73,872,679	73,189,449
Accumulated deficit	(51,803,722)	(69,004,926)
Total Shareholders' Equity	22,081,728	4,197,030
Total Liabilities and Shareholders' Equity	\$ 74,360,132	\$ 59,447,080

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2023 and 2022

	2023	2022
Revenue	\$ 86,466,321	\$ 83,335,764
Cost of sales	<u>69,400,693</u>	<u>67,031,502</u>
Gross profit	17,065,628	16,304,262
Selling, general and administrative expenses	<u>10,758,624</u>	<u>11,410,067</u>
Income from operations	6,307,004	4,894,195
Interest expense	<u>(2,455,214)</u>	<u>(2,271,101)</u>
Income before benefit for income taxes	3,851,790	2,623,094
Benefit from income taxes	<u>(13,349,414)</u>	<u>(6,553,131)</u>
Net income	<u>\$ 17,201,204</u>	<u>\$ 9,176,225</u>
Income per common share-basic	\$ 1.40	\$ 0.74
Income per common share-diluted	\$ 1.38	\$ 0.74
Shares used in computing income per common share:		
Basic	12,311,219	12,389,890
Diluted	12,471,961	12,389,890

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2023 and 2022

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance at January 1, 2022	12,335,683	\$ 12,336	\$ 72,833,742	\$ (78,181,151)	\$ (5,335,073)
Net income	—	—	—	9,176,225	9,176,225
Issuance of common stock upon settlement of restricted stock, net	171,112	171	—	—	171
Stock-based compensation expense	—	—	355,707	—	355,707
Balance at December 31, 2022	<u>12,506,795</u>	<u>12,507</u>	<u>73,189,449</u>	<u>(69,004,926)</u>	<u>4,197,030</u>
Net income	—	—	—	17,201,204	17,201,204
Issuance of common stock upon settlement of restricted stock, net	264,639	264	—	—	264
Stock-based compensation expense	—	—	770,362	—	770,362
Shares withheld for tax withholdings	—	—	(87,132)	—	(87,132)
Balance at December 31, 2023	<u>12,771,434</u>	<u>\$ 12,771</u>	<u>\$ 73,872,679</u>	<u>\$ (51,803,722)</u>	<u>\$ 22,081,728</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net income	\$ 17,201,204	\$ 9,176,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	470,950	688,096
Amortization of debt issuance costs	103,304	133,997
Stock-based compensation expense	770,626	355,878
Deferred income taxes	(13,363,661)	(6,574,463)
Bad debt expense	—	72,099
Changes in operating assets and liabilities:		
Decrease in accounts receivable	505,576	37,843
Decrease (increase) in insurance recovery receivable	3,600,000	(750,000)
Increase in contract assets	(7,927,528)	(2,925,201)
Decrease in inventory	1,056,422	1,535,856
Decrease (increase) in prepaid expenses and other current assets	297,804	(350,755)
Decrease in operating right-of-use assets	1,786,434	1,270,141
Increase (decrease) in accounts payable and accrued expenses	5,107,211	(1,157,019)
(Decrease) increase in litigation settlement obligation	(3,600,000)	596,741
(Decrease) increase in contract liabilities	(64,097)	878,960
Decrease in lease liabilities	(1,795,417)	(1,131,135)
Decrease in loss reserve	(239,198)	(919,165)
Increase in income taxes payable	18,711	6,231
Net cash provided by operating activities	<u>3,928,341</u>	<u>944,329</u>
Cash flows from investing activities:		
Purchase of property and equipment	(140,450)	(40,789)
Net cash used in investing activities	<u>(140,450)</u>	<u>(40,789)</u>
Cash flows from financing activities:		
Principal payments on line of credit	(960,000)	(250,000)
Principal payments on long-term debt	(1,719,766)	(3,115,181)
Proceeds from insurance financing obligation	330,482	—
Repayments of insurance financing obligation	(49,572)	—
Taxes paid related to net share settlement of equity awards	(87,132)	—
Debt issuance costs	(54,334)	—
Net cash used in financing activities	<u>(2,540,322)</u>	<u>(3,365,181)</u>
Net increase (decrease) in cash	1,247,569	(2,461,641)
Cash at beginning of year	3,847,225	6,308,866
Cash at end of year	<u>\$ 5,094,794</u>	<u>\$ 3,847,225</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,454,065	\$ 1,792,858
Cash paid for income taxes	<u>\$ 4,364</u>	<u>\$ 25,291</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company consists of CPI Aerostructures, Inc. (“CPI”), Welding Metallurgy, Inc. (“WMI”) and Compac Development Corporation, 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. CPI manufactures complex aerostructure assemblies, as well as aerosystems. Additionally, CPI supplies 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 for purposes of making operating decisions and assessing financial performance. The Company has determined that it has a single operating and reportable segment.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the United States Securities and Exchange Commission (“SEC”). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates by management. Actual results could differ from these estimates.

Revenue Recognition

The Company follows Accounting Standards Codification Topic 606, “Revenue from Contracts with Customers” (“ASC 606”). 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.

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. This is known as the over time revenue recognition model. 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 as a percentage of total estimated costs at completion of the contract.

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.

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.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

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 total estimated costs expected at completion 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.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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."

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 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.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash

The Company maintains its cash in multiple financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to the limit of \$250,000. From time to time, the Company's balances may exceed these limits. As of December 31, 2023 and 2022, the Company had \$4,943,628 and \$3,763,608, respectively, of uninsured balances. The Company limits its credit risk by selecting financial institutions considered to be highly credit worthy.

Allowance for Credit Losses

The Company maintains an allowance for credit losses on accounts receivable and contract assets. The adequacy of the allowance is assessed quarterly through consideration of factors such as age of the receivable and identification of any anticipated collectability issues by account, if applicable. The Company writes off accounts when they are deemed to be uncollectible.

Inventory

Inventories, which consist of raw materials, work in progress and finished goods, are reported at lower of cost or net realizable value using the weighted average cost method. The Company capitalizes labor, material, subcontractor and overhead costs as work-in-process for contracts where control has not yet passed to the customer. The Company regularly reviews inventory quantities on hand, future purchase commitments with its suppliers, and the estimated usability for its inventory. If the Company's review indicates a reduction in usability below carrying value, it reduces its net inventory to its net realizable value.

Property and Equipment

Property and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed utilizing the straight-line method over the estimated useful life of the asset. Leasehold improvements depreciation is computed over the shorter of the lease term or estimated useful life of the asset. Additions and improvements that extend the useful lives are capitalized, while repairs and maintenance are expensed as incurred.

Leases

The Company leases a building and various equipment. Under ASC 842, Leases ("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 right-of-use ("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. 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. The ROU asset is amortized 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.

At December 31, 2023, the Company has right of use assets and lease liabilities of \$4,740,193 and \$5,099,629, respectively. At December 31, 2022, the Company had right of use assets and lease liabilities of \$6,526,627 and \$6,895,046, respectively.

Finance leases are treated as the purchase of an asset on a financing basis. Assets under finance leases, which primarily represent machinery and equipment, computer equipment, and leasehold improvements, are included in property and equipment, net, with the related liabilities included in current portion of long-term debt and long-term debt on the consolidated balance sheets.

Goodwill

Goodwill represents the excess of purchase price of an acquisition over the fair value of net assets acquired. Goodwill is not amortized but instead is assessed for impairment annually as of December 31st and when events and circumstances warrant an evaluation. The Company has determined that it has a single operating and reporting unit, and assesses during its evaluation whether it believes it is more likely than not that the fair value of this reporting unit is greater than or less than its carrying amount by comparing the fair value of this reporting unit with its carrying value. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the amount by which the carrying value exceeds the fair value is recognized as an impairment loss. The Company performed its annual impairment assessment of goodwill as of December 31, 2023 and concluded that goodwill was not impaired. The Company assessed goodwill using qualitative factors to determine whether it was more likely than not that the fair value is less than its carrying value (step 0) and determined that no further testing was required.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable by comparing the estimated undiscounted cash flows expected to result from the use of the asset and the estimated amounts expected to be realized upon the asset's eventual disposition with the carrying value of the asset. If the carrying amount of the asset exceeds the aforementioned estimated expected undiscounted cash flows and estimated expected disposition proceeds, the Company measures the amount of the impairment to record by comparing the carrying amount of the asset with its estimated fair value. As of December 31, 2023, the Company determined that long-lived assets were not impaired.

Fair Value

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs.

At December 31, 2023 and 2022, the fair values of the Company's current assets and current liabilities approximated their carrying values because of the short-term nature of these instruments.

The carrying value of the line of credit and long-term debt approximates fair value (level 2) as the interest rate is based on market quotes.

Earnings per Share

The Company complies with the accounting and disclosure requirements of FASB ASC Topic 260, "Earnings Per Share" and uses the treasury stock method in the calculation of earnings per share. Net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period.

Basic and diluted income per common share is computed using the weighted average number of common shares outstanding. Diluted income per common share is adjusted for the incremental shares attributed to unvested RSUs. There were 160,742 and 0 incremental shares used in the calculation of diluted income per common share for the years ended December 31, 2023 and 2022, respectively.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The Company recognizes the effect of an income tax position only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities.

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

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Compensation - Stock Compensation ("ASC 718"). ASC 718 establishes accounting for stock-based awards exchanged for employee and nonemployees. Under the provisions of ASC 718, stock-based compensation cost is measured at the grant date, based on the fair value of the award on the grant date, and is recognized as expense over the employee's requisite service period (generally the vesting period of the equity grant).

Restricted stock awards are granted at the discretion of the Company's board of directors. These awards are restricted as to the transfer of ownership and generally vest over the requisite service period. The Company recognizes forfeitures at the time the forfeiture occurs.

Research and Development

Customer-funded research and development ("R&D") costs are incurred pursuant to contractual arrangements requiring us to provide a product meeting certain defined performance or other specifications, such as designs, and such contractual arrangements are accounted for principally by the over time revenue recognition method. Customer-funded R&D is included in the "Revenue" and "Cost of sales" line items in our Consolidated Statements of Operations.

Prior Period Reclassification

Certain amounts in prior periods have been reclassified to conform with current period presentation within the Consolidated Statement of Shareholder's Equity and the Consolidated Statements of Cash Flows.

Recently Issued Accounting Standards – Adopted

In 2023, the Company adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), using a modified retrospective method, which did not result in a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards – Not Adopted

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which focuses on the rate reconciliation and income taxes paid. ASU No. 2023-09 requires a public business entity ("PBE") to disclose, on an annual basis, a tabular rate reconciliation using both percentages and currency amounts, broken out into specified categories with certain reconciling items further broken out by nature and jurisdiction to the extent those items exceed a specified threshold. In addition, all entities are required to disclose income taxes paid, net of refunds received disaggregated by federal, state/local, and foreign and by jurisdiction if the amount is at least 5% of total income tax payments, net of refunds received. For PBEs, the new standard is effective for annual periods beginning after December 15, 2024, with early adoption permitted. An entity may apply the amendments in this ASU prospectively by providing the revised disclosures for the period ending December 31, 2025 and continuing to provide the pre-ASU disclosures for the prior periods, or may apply the amendments retrospectively by providing the revised disclosures for all period presented. We expect this ASU to only impact our disclosures with no impacts to our results of operations, cash flows, and financial condition.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. REVENUE

Disaggregation of Revenue

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

	Year Ended	
	December 31, 2023	December 31, 2022
Government subcontracts	\$ 69,672,602	\$ 69,023,729
Prime government contracts	11,842,145	8,663,308
Commercial contracts	4,951,574	5,648,727
Total	\$ 86,466,321	\$ 83,335,764

	Year Ended	
	December 31, 2023	December 31, 2022
Revenue recognized using over time revenue recognition model	\$ 82,713,436	\$ 75,911,241
Revenue recognized using point in time revenue recognition model	3,752,885	7,424,523
Total	\$ 86,466,321	\$ 83,335,764

Favorable/(Unfavorable) Adjustments to Gross Profit

We review our Estimates at Completion ("EAC") at least quarterly. Due to the nature of the work required to be performed on many of the Company's performance obligations, the estimation of total revenue and cost at completion is complex, subject to many inputs, and requires significant judgment by management on a contract-by-contract basis. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities, and the related changes in estimates of revenues and costs. The risks and opportunities relate to management's judgment about the ability and cost to achieve the schedule, consideration of customer-directed delays or reductions in scheduled deliveries, technical requirements, customer activity levels, and related variable consideration. Management must make assumptions and estimates regarding contract revenue and costs, including estimates of labor productivity and availability, the complexity and scope of the work to be performed, the availability and cost of materials including any impact from changing costs or inflation, the length of time to complete the performance obligation, the availability and timing of funding from our customer, and overhead cost rates, among others.

Changes in estimates of net sales, cost of sales, and the related impact to operating profit on contracts recognized over time are recognized on a cumulative catch-up basis, which recognizes the cumulative effect of the profit changes on current and prior periods based on a performance obligation's percentage-of-completion in the current period. A significant change in one or more of these estimates could affect the profitability of one or more of our performance obligations. Our EAC adjustments also include the establishment of, and changes to, loss provisions for our contracts accounted for on a percentage-of-completion basis.

Net EAC adjustments had the following impact on our gross profit during the years ended December 31, 2023 and 2022:

	Years Ended	
	December 31, 2023	December 31, 2022
Favorable adjustments	\$ 2,601,615	\$ 4,962,675
(Unfavorable) adjustments	(4,052,117)	(3,207,099)
Net adjustments	\$ (1,450,502)	\$ 1,755,576

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Favorable adjustments during the year ended December 31, 2023 included the NGC E-2D MY2 Outer Wing Panel (“OWP”) and NGC E-2D Wet Outer Wing Panel programs. Unfavorable adjustments during the year ended December 31, 2023 included the Boeing A-10 and Embraer Phenom 300 programs. Favorable adjustments during the year ended December 31, 2022 included the Raytheon NGJ Pods/AMS and Lockheed Martin F-16 Rudder Island programs. Unfavorable adjustments during the year ended December 31, 2022 included the NGC E-2D MY2 OWP and Embraer Phenom 300 programs.

Transaction Price Allocated to Remaining Performance Obligations

As of December 31, 2023, the aggregate amount of transaction price allocated to the remaining performance obligations was approximately \$118.2 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, 2023.

3. 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 assets. 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 liabilities.

	December 31, 2023	December 31, 2022	December 31, 2021
Contract assets	\$ 35,312,068	\$ 27,384,540	24,459,339
Contract liabilities	5,937,629	6,001,726	5,122,766

Contract assets at December 31, 2023 increased \$7,927,528 from December 31, 2022 due to the recognition of revenue during 2023 upon the satisfaction or partial satisfaction of performance obligations for which we had not yet billed our customers as of December 31, 2023, primarily on our T-38 Pacer Classic program, our Lockheed Martin F-16 Rudder Island program and our NGC E-2D Advanced Hawkeye OWP program.

Contract liabilities decreased \$64,097 during 2023, primarily due to revenue recognized on these performance obligations in excess of payments received.

Revenue recognized for the year ended December 31, 2023, that was included in the contract liabilities balances as of January 1, 2023 was \$3,816,336. Revenue recognized for the year ended December 31, 2022, that was included in the contract liabilities balances as of January 1, 2022 was \$3,598,601.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of trade receivables as follows:

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Billed receivables	\$ 4,444,504	\$ 5,139,757
Less: allowance for expected credit losses	(92,308)	(281,985)
Total accounts receivable, net	<u>\$ 4,352,196</u>	<u>\$ 4,857,772</u>

5. INVENTORY

The components of inventory consist of the following:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Raw materials	\$ 1,187,008	\$ 1,892,157
Work in progress	75,795	685,438
Finished goods (Includes completed components)	1,617,077	3,038,859
Gross inventory	\$ 2,879,879	\$ 5,616,454
Inventory reserves	(1,443,233)	(3,123,386)
Inventory, net	<u>\$ 1,436,647</u>	<u>\$ 2,493,069</u>

6. PROPERTY AND EQUIPMENT

The components of property and equipment consist of the following:

	<u>December 31,</u>		<u>Estimated</u>
	<u>2023</u>	<u>2022</u>	<u>Useful Life (years)</u>
Machinery and equipment	\$ 4,004,779	\$ 3,978,662	5 to 7
Computer equipment	4,242,437	4,191,040	5
Furniture and fixtures	709,350	709,350	7
Automobiles and trucks	13,162	13,162	5
Leasehold improvements	2,692,552	2,629,615	Lesser of lease term or 10 years
Total gross property and equipment	11,662,280	11,521,829	
Less accumulated depreciation and amortization	(10,868,224)	(10,397,273)	
Total property and equipment, net	<u>\$ 794,056</u>	<u>\$ 1,124,556</u>	

Depreciation expense for the years ended December 31, 2023 and 2022 was \$470,950 and \$563,096, respectively.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. GOODWILL

The Company acquired WMI on December 20, 2018. The acquisition was accounted for as a business combination in accordance with ASC Topic 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 of WMI on December 30, 2018, the Company recorded Goodwill of \$1,784,254.

8. LINE OF CREDIT

On March 24, 2016, the Company entered into an Amended and Restated Credit Agreement with the lenders named therein and BankUnited, N.A. (“BankUnited”) as Sole Arranger, Agent and a Lender, dated as of March 24, 2016 (as amended, the “Credit Agreement” or the “BankUnited Facility”). The BankUnited Facility originally 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 Credit Agreement.

On April 12, 2022, the Company entered into a Consent, Waiver and Ninth Amendment (the “Ninth Amendment”) to the Credit Agreement. Under the Ninth Amendment, the parties amended the Credit Agreement by (a) extending the maturity date of the Revolving Loan and the Term Loan to September 30, 2023, (b) providing for the repayment of an additional \$750,000 of the principal balance of the Term Loan in three installments of \$250,000 on September 30, 2022, December 31, 2022 and March 31, 2023 in addition to \$200,000 regular monthly principal payments through December 31, 2022 and (c) increasing the interest on the Revolving Loan and the Term Loan as follows: through June 30, 2022, Prime Rate (as defined in the Credit Agreement) plus 2.5%; from July 1, 2022 through August 31, 2022, Prime Rate plus 5%; from September 1, 2022 through October 31, 2022, Prime Rate plus 6%; from November 1, 2022 through December 31, 2022, Prime Rate plus 7%; and from January 1, 2023 through September 30, 2023, Prime Rate plus 8%. Additionally, under the Ninth Amendment, the Credit Agreement financial covenants were amended. BankUnited also waived or consented to certain covenant non-compliance, waived temporarily or consented to, late delivery of certain financial information and waived permanently late delivery of certain pro-forma budget information.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On August 19, 2022, the Company entered into a Consent, Waiver and Tenth Amendment (the “Tenth Amendment”) to the Credit Agreement. Under the Tenth Amendment, the parties amended the Credit Agreement by (a) increasing the maximum leverage ratio applicable for the fiscal quarter ending September 30, 2022 to 5.0 to 1.0, (b) waiving and/or consenting to the exclusion from the Company’s covenant compliance requirements for the fiscal quarters ended December 31, 2021, March 31, 2022, June 30, 2022 and September 30, 2022 up to (i) \$566,025 of losses incurred and reserves taken under the Borrower’s welded product contracts, and (ii) \$367,045 of reserves taken with respect to the Borrower’s welded product inventory, and (c) waiving and/or consenting to the exclusion from the Company’s covenant compliance requirements for the fiscal quarters ended March 31, 2022, June 30, 2022, September 30, 2022 and December 31, 2022 up to \$795,997 of accrued severance and COBRA costs and employer taxes incurred by the Company during the fiscal quarter ending March 31, 2022. Additionally, under the Tenth Amendment, BankUnited waived or consented to late delivery of certain financial information required by the Credit Agreement.

On November 10, 2022, the Company entered into an Eleventh Amendment to the Credit Agreement (the “Eleventh Amendment”). Under the Eleventh Amendment, the parties amended the Credit Agreement by (a) extending the maturity date of the Revolving Loan and the Term Loan to November 30, 2023 or with respect to the Term Loan, if earlier, until the outstanding principal balance is paid in full (the “Term Loan Maturity Date”), (b) providing for regular monthly principal payments of \$200,000 on the Term Loan from January 1, 2023 through the Term Loan Maturity Date (in addition to the Company’s existing obligation to make two principal payments on the term loan of \$250,000 on each of December 31, 2022 and March 31, 2023) and (c) decreasing the interest rate on the Revolving Loan and on the Term Loan to the Prime Rate plus 3.5% effective as of November 1, 2022.

On March 23, 2023, the Company entered into a Twelfth Amendment to the Credit Agreement (the “Twelfth Amendment”). Under the Twelfth Amendment, the parties amended the Credit Agreement by : (a) extending the maturity date of the Company’s existing revolving line of credit and its existing term loan to November 30, 2024 (under the terms of the Credit Agreement, the outstanding principal balance of the term loan will be repaid by June 30, 2023); (b) providing for reduction of the aggregate maximum principal amount of all revolving line of credit loans to \$20,520,000 from October 1, 2023 through December 31, 2023, \$19,800,000 from January 1, 2024 through March 31, 2024, \$19,080,000 from April 1, 2024 through June 30, 2024, \$18,360,000 from July 1, 2024 through September 30, 2024, and \$17,640,000 from October 1, 2024 and thereafter, and for payments to be made by the Company to comply therewith (if any such payments are necessary), on the first day of each such period; and (c) payment of a \$250,000 capitalized fee incurred in connection with the Eighth Amendment to the Credit Agreement in two installments, the first installment to be paid on June 1, 2023 in the amount of \$116,667 and the second installment to be paid July 1, 2023 in the amount of \$133,333, together with all unpaid interest accrued at the term loan interest rate on the capitalized fee through each such date.

The Credit Agreement, as amended, requires us to maintain the following financial covenants (subject to the exclusions provided for in the previous paragraph): (a) minimum debt service coverage ratio of no less than 1.5 to 1.0 for the trailing four quarter period ended March 31, 2022, 0.95 to 1.0 for the trailing four quarter period ended June 30, 2022, and 1.5 to 1.0 for the trailing four quarter period ended September 30, 2022 and for the trailing four quarter periods ended thereafter; (b) maximum leverage ratio of no less than 7.30 to 1.0 for the trailing four quarter period ended March 31, 2022, 6.30 to 1.0 for the trailing four quarter period ended June 30, 2022, 5.0 to 1.0 for the trailing four quarter period ended September 30, 2022 and 4.0 to 1.0 for the trailing four quarter periods thereafter; (c) minimum net income after taxes as of the end of each fiscal quarter being no less than \$1.00 commencing June 30, 2022; and (d) a minimum adjusted EBITDA at the end of each quarter of no less than \$1.0 million (waived for the quarter ended March 31, 2022). The additional principal payments, increase in interest and an amendment fee provided for in the Eighth and Ninth Amendments are excluded for purposes of calculating compliance with each of the financial covenants.

On February 20, 2024, the Company entered into a Thirteenth Amendment to the Credit Agreement (the “Thirteenth Amendment”). Under the Thirteenth Amendment, the parties amended the Credit Agreement by (a) extending the maturity date of the Company’s existing revolving line of credit to August 31, 2025; and (b) setting the aggregate maximum principal amount of all revolving line of credit loans to \$19,800,000 from January 1, 2024 through March 31, 2024, \$19,080,000 from April 1, 2024 through June 30, 2024, \$18,360,000 from July 1, 2024 through September 30, 2024, \$17,640,000 from October 1, 2024 through December 31, 2024, \$16,920,000 from January 1, 2025 through March 31, 2025, \$16,200,000 from April 1, 2025 through June 30, 2025 and \$15,480,000 thereafter, and for payments to be made by the Company to comply therewith (if any such payments are necessary), on the first day of each such period.

As of December 31, 2023 and December 31, 2022, the Company had \$20,040,000 and \$21,000,000, respectively, outstanding under the BankUnited Revolving Loan Facility. \$2,400,000 of the revolving line of credit matures and is payable by December 31, 2024 and the remaining balance of \$17,640,000 of the revolving line of credit matures and is payable by August 31, 2025.

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

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. DEBT

As described above, in connection with the Twelfth Amendment, the Company and BankUnited agreed to amend the Credit Agreement by: (a) extending the maturity date of the Company's existing revolving line of credit and its existing term loan to November 30, 2024 (under the terms of the Credit Agreement, the outstanding principal balance of the term loan will be repaid by June 30, 2023); (b) providing for reduction of the aggregate maximum principal amount of all revolving line of credit loans to \$20,520,000 from October 1, 2023 through December 31, 2023, \$19,800,000 from January 1, 2024 through March 31, 2024, \$19,080,000 from April 1, 2024 through June 30, 2024, \$18,360,000 from July 1, 2024 through September 30, 2024, and \$17,640,000 from October 1, 2024 and thereafter, and for payments to be made by the Company to comply therewith (if any such payments are necessary), on the first day of each such period; and (c) payment of a \$250,000 capitalized fee incurred in connection with the Eighth Amendment to the Credit Agreement in two installments, the first installment to be paid on June 1, 2023 in the amount of \$116,667 and the second installment to be paid July 1, 2023 in the amount of \$133,333, together with all unpaid interest accrued at the term loan interest rate on the capitalized fee through each such date.

As described above, in connection with the Eleventh Amendment, the Company and BankUnited agreed to amend the Credit Agreement by (a) extending the maturity date of the Revolving Loan and the Term Loan to November 30, 2023 or with respect to the Term Loan, if earlier, until the outstanding principal balance is paid in full (the "Term Loan Maturity Date"), (b) providing for regular monthly principal payments of \$200,000 on the Term Loan from January 1, 2023 through the Term Loan Maturity Date (in addition to the Company's existing obligation to make two principal payments on the term loan of \$250,000 on each of December 31, 2022 and March 31, 2023) and (c) decreasing the interest rate on the Revolving Loan and on the Term Loan to the Prime Rate plus 3.5% effective as of November 1, 2022.

As described above, in connection with the Tenth Amendment, the Company and BankUnited agreed to amend the Credit Agreement by (a) amending the maximum leverage ratio applicable for the fiscal quarter ending on September 30, 2022, and (b) consenting to and waiving certain covenant non-compliance under the Credit Agreement. Under the Tenth Amendment, there are no changes to interest rates or repayment schedule and the terms pertaining to interest rates and repayment schedule remain the same as described below as per the Ninth Amendment. The Tenth Amendment had no effect on the interest rates on the Revolving Term Loan or Term Loan.

As described above, in connection with the Ninth Amendment, the Company and BankUnited agreed to extend the maturity dates of the Revolving Loan and Term Loan to September 30, 2023, provide for the repayment of an additional \$750,000 of the principal balance of the term loan in three installments of \$250,000 on September 30, 2022, December 31, 2022 and March 31, 2023 (in addition to the \$750,000 in additional principal payments as required by the Eighth Amendment due on November 30, 2021, December 31, 2021 and March 31, 2022), as well as the \$200,000 regular monthly principal payments paid monthly through maturity, increase the interest on the Revolving Loan and on the Term Loan as follows: through June 30, 2022, Prime Rate (as defined in the Credit Agreement) plus 2.5%; from July 1, 2022 through August 31, 2022, Prime Rate plus 5%; from September 1, 2022 through October 31, 2022, Prime Rate plus 6%; from November 1, 2022 through December 31, 2022, Prime Rate plus 7%; and from January 1, 2023 through September 30, 2023, Prime Rate plus 8%, waive or consent to certain covenant non-compliance, and waive temporarily or consented to, late delivery of certain financial information and waived permanently late delivery of certain pro-forma budget information. The BankUnited Facility, as amended, requires us to maintain the financial covenants described in the preceding note.

In 2022, as consideration for the lenders entering into the Ninth Amendment, the Company paid a \$62,833 fee to the lenders. The Company has cumulatively paid approximately \$962,000 of total debt issuance costs in connection with the BankUnited Facility of which approximately \$82,000 and \$131,000 is unamortized and included in other assets at December 31, 2023 and 2022, respectively.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The maturities of the long-term debt (excluding unamortized debt issuance costs) as of December 31, 2023, are as follows:

Year ending December 31,	
2024	\$ 44,498
2025	26,483
Total	\$ 70,981

Included in the long-term debt are financing leases and notes payable totaling \$70,981 and \$207,414 at December 31, 2023 and 2022, respectively, including a current portion of \$44,498 and \$136,433, respectively.

The BankUnited Facility is secured by all of the Company's assets and both the Revolving Loan and Term Loan bear interest at the Prime Rate + 3.50%. The Prime Rate was 8.50% as of December 31, 2023 and as such, the Company's interest rate on the Revolving Loan and Term Loan was 12.00% as of December 31, 2023.

During the year ended December 31, 2023, the Term Loan was fully repaid. At December 31, 2022, the Term Loan had an aggregate principal balance due of \$1,583,333, payable in monthly installments, as defined in the Credit Agreement.

10. LEASES

The Company leases manufacturing and office space under an agreement classified as an operating lease. On November 10, 2022, the Company executed the second amendment to the lease agreement for its manufacturing and office space, which extends the lease agreement's expiration date to April 30, 2026. The lease agreement 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.

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

For the years ended December 31, 2023 and 2022, the Company's operating lease expense was \$2,142,338 and \$2,101,596, respectively.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2023 were as follows:

Year ending December 31,	
2024	\$ 2,228,784
2025	2,283,354
2026	850,276
2027	111,065
2028	9,226
Total undiscounted operating lease payments	5,482,705
Less imputed interest	(383,076)
Present value of operating lease payments	\$ 5,099,629

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the ROU assets and operating lease liabilities as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Assets		
ROU assets, net	\$ 4,740,193	\$ 6,526,627
Liabilities		
Current operating lease liabilities	\$ 1,999,058	\$ 1,817,811
Long-term operating lease liabilities	3,100,571	5,077,235
Total lease liabilities	\$ 5,099,629	\$ 6,895,046

The Company's weighted average remaining lease term for its operating leases is 2.5 years as of December 31, 2023. The Company's weighted average discount rate for its operating leases is 5.43% as of December 31, 2023.

11. 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 Company generally is no longer subject to U.S. or state examinations by tax authorities for taxable years prior to 2019. 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.

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

Year ended December 31,	<u>2023</u>	<u>2022</u>
Current:		
State	\$ 14,248	\$ 21,332
Deferred:		
Federal	(12,608,425)	(6,428,448)
State	(755,237)	(146,015)
Total	\$ (13,349,414)	\$ (6,553,131)

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31,	2023	2022
Taxes computed at the federal statutory rate	\$ 808,876	\$ 550,850
State income tax, net	(585,381)	(98,499)
Research and development tax credit	(133,089)	(190,656)
Change in valuation allowance	(13,531,626)	(6,616,952)
Other	88,308	51,696
Accrued loss reserve adjustment	—	(253,738)
Permanent differences	3,498	4,168
Benefit for income taxes	<u>\$ (13,349,414)</u>	<u>\$ (6,553,131)</u>

The components of deferred income tax assets and liabilities are as follows at December 31:

Deferred Tax Assets:	2023	2022 (As Restated)
Allowance for credit losses	\$ 20,632	\$ 60,100
Capitalized R&D	1,420,263	864,969
Credit carryforwards	2,278,642	2,193,146
Inventory reserve	350,073	722,991
Accrued payroll	151,986	267,819
Loss contracts reserve	75,402	46,205
Restricted stock	94,809	92,677
Acquisition costs	74,136	77,762
Lease liability	1,139,836	1,469,551
Accrued legal	—	159,849
Disallowed interest expense	1,067,063	943,089
Net operating loss carryforward	16,356,545	17,513,901
Other	45,057	20,659
Deferred tax assets	<u>23,074,444</u>	<u>24,432,718</u>
Valuation allowance	(569,143)	(14,740,034)
Deferred Tax Liabilities:		
Prepaid expenses	143,126	207,980
Revenue recognition	1,224,106	1,341,105
Property and equipment	140,449	178,107
ROU asset	1,059,496	1,391,029
Deferred tax liabilities	<u>\$ 2,567,177</u>	<u>\$ 3,118,221</u>
Net deferred tax assets	<u>\$ 19,938,124</u>	<u>\$ 6,574,463</u>

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During our review of the Company’s deferred income tax positions as of December 31, 2023, we determined that the following adjustments are needed to our previously reported December 31, 2022 deferred tax assets and liabilities balances, with no impact to our net deferred tax assets, due to the inadequate review, assessment of and reporting of the Company’s temporary differences between book and taxable income. More specifically, the adjustments are required due to computational errors and incomplete analyses. Accordingly, we have restated the balances as previously reported, where needed, as follows:

Deferred Tax Assets:	2022 (as Previously Reported)	Restatement Adjustments	2022 (As Restated)
Allowance for credit losses	\$ 60,100	\$ —	\$ 60,100
Capitalized R&D	864,969	—	864,969
Credit carryforwards	2,193,146	—	2,193,146
Inventory reserve	1,130,788	(407,797)	722,991
Accrued payroll	267,819	—	267,819
Loss contracts reserve	46,205	—	46,205
Restricted stock	160,989	(68,312)	92,677
Acquisition costs	77,762	—	77,762
Lease liability	1,469,551	—	1,469,551
Accrued legal	159,849	—	159,849
Disallowed interest expense	1,268,226	(325,137)	943,089
Net operating loss carryforward	19,493,530	(1,979,629)	17,513,901
Other	20,659	—	20,659
Deferred tax assets	<u>27,213,593</u>	<u>(2,780,875)</u>	<u>24,432,718</u>
Valuation allowance	(14,916,923)	176,889	(14,740,034)
Deferred Tax Liabilities:			
Prepaid expenses	207,980	—	207,980
Revenue recognition	3,966,404	(2,625,299)	1,341,105
Property and equipment	156,794	21,313	178,107
ROU asset	1,391,029	—	1,391,029
Deferred tax liabilities	<u>\$ 5,722,207</u>	<u>\$ (2,603,986)</u>	<u>\$ 3,118,221</u>
Net deferred tax assets	<u>\$ 6,574,463</u>	<u>\$ —</u>	<u>\$ 6,574,463</u>

As of December 31, 2023, the Company had approximately \$74.7 million of gross net operating loss carryforwards (“NOLs”) for federal tax purposes and approximately \$17.3 million of post apportionment NOLs for state tax purposes. The Federal NOLs begin to expire in 2034. Losses generated in 2018 and forward of \$14.4 million have an indefinite life and can offset up to 80% of taxable income in the future. Federal NOLs generated prior to 2018 can offset 100% of future taxable income. The state NOLs begin to expire in 2034.

As a result of the Tax Cuts and Jobs Act of 2017 and the Coronavirus Aid, Relief, and Economic Security Act of 2020, federal NOLs arising before January 1, 2018, and NOLs arising after January 1, 2018, are subject to different rules. Our pre-2018 NOLs totaled approximately \$60.3 million; these NOLs will expire in varying amounts from 2034 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 taxable income for tax years before January 1, 2021 and up to 80% of 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 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. The Company has completed a Section 382 analysis for the year ended December 31, 2022, and believes that no ownership change occurred during the relevant lookback period that would limit our ability to use our NOLs. 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.

Assessing the realizability of deferred tax assets requires the determination of whether it is more likely than not that some portion or all the deferred tax assets will not be realized. In assessing the need for a valuation allowance, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, loss carryback and tax-planning strategies. Generally, more weight is given to objectively verifiable evidence, such as a cumulative loss in recent years, as a significant piece of negative evidence to overcome. As of December 31, 2023, the Company achieved three years of consecutive book and taxable income, along with projections of profitability, for which management determined that there is sufficient positive evidence to conclude that it is more likely than not that a portion of the deferred tax assets will be realized. As such, \$14,170,891 of

the valuation allowance was released during the fourth quarter of fiscal 2023, leaving a balance in the valuation allowance of \$569,143 as of December 31, 2023.

The income tax (benefit) for the year ended December 31, 2023 was \$(13,349,414), an effective tax (benefit) rate of (346.6%). The tax (benefit) was mostly the result of the aforementioned reduction in the valuation allowance on deferred tax assets. Management makes these estimates quarterly in order to determine the appropriate level of valuation allowance to include in the Company's financial statements at the balance sheet date.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. ACCRUED EXPENSES

Accrued expenses consists of the following:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Accrued purchases	\$ 7,132,847	\$ 4,153,237
Accrued payroll	1,143,913	1,285,122
Accrued insurance	855,190	837,371
Accrued interest	601,200	703,354
Accrued professional fees and other accrued expenses	542,545	365,506
Total	<u>\$ 10,275,695</u>	<u>\$ 7,344,590</u>

13. STOCK-BASED COMPENSATION

Stock-based compensation expense for restricted stock in the consolidated statements of operations is summarized as follows:

	<u>2023</u>	<u>2022</u>
Cost of sales	\$ 65,470	\$ 36,794
Selling, general and administrative	705,156	319,084
Total stock-based compensation expense	<u>\$ 770,626</u>	<u>\$ 355,878</u>

The Company grants restricted stock units (“RSUs”) to its board of directors as partial compensation. These RSUs vest quarterly on a straight-line basis over a one-year period.

The following table summarizes activity related to outstanding RSUs for the year ended December 31, 2023:

	<u>RSUs</u>	<u>Weighted Average Grant Date Fair Value of RSUs</u>
Non-vested – January 1, 2023	—	\$ —
Granted	173,718	\$ 3.43
Vested	(139,969)	\$ 3.43
Forfeited	(33,749)	\$ 3.42
Non-vested – December 31, 2023	<u>—</u>	<u>\$ —</u>

The Company grants shares of common stock (“Restricted Stock Awards”) to select employees. These shares have various vesting dates, ranging from vesting on the grant date to as late as four years from the date of grant. In the event that the employee’s employment is voluntarily terminated prior to certain vesting dates, portions of the shares may be forfeited. At December 31, 2023, the weighted average remaining amortization period was 2.7 years.

The following table summarizes activity related to outstanding Restricted Stock Awards for the year ended December 31, 2023:

	<u>Restricted Stock Awards</u>	<u>Weighted Average Grant Date Fair Value of Restricted Stock Awards</u>
Non-vested – January 1, 2023	130,583	\$ 2.37
Granted	111,447	\$ 3.82
Vested	(39,331)	\$ 3.07
Forfeited	(35,628)	\$ 2.04
Non-vested – December 31, 2023	<u>167,071</u>	<u>\$ 3.25</u>

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company grants shares of common stock (“Performance Restricted Stock Awards” or “PRSAs”) to select officers as part of our long-term incentive program that will result in that number of PRSAs being paid out if the target performance metric is achieved. The award vesting is based on specific performance metrics related to accounts payable delinquency, debt, and net income during the performance period. The PRSAs vest at 0% or 100% and all three metrics must be met to vest at 100%. The PRSAs granted under this program will vest on the fourth anniversary of the grant date, subject to the aforementioned performance criteria. At December 31, 2023, the weighted average remaining amortization period was 2.9 years.

The following table summarizes activity related to outstanding PRSAs for the year ended December 31, 2023:

	PRSAs	Weighted Average Grant Date Fair Value of PRSAs
Non-vested – January 1, 2023	31,737	\$ 2.65
Granted	48,050	\$ 3.27
Vested	(20,971)	\$ 2.65
Forfeited	(10,766)	\$ 2.65
Non-vested – December 31, 2023	<u>48,050</u>	<u>\$ 3.27</u>

The fair value of all RSUs, PRSAs and Restricted Stock Awards is based on the closing price of our common stock on the grant date. All RSUs, PRSAs, and Restricted Stock Awards vest and settle in common stock (on a one-for-one basis).

As of December 31, 2023, unamortized stock-based compensation costs related to restricted share arrangements was \$274,415.

In addition, our income tax liabilities for 2023 and 2022 were reduced by \$174,617 and \$101,497, respectively, due to recognized tax benefits on stock-based compensation arrangements.

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 2,364 shares available for grant under the 2009 Plan as of December 31, 2023.

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 2016 Plan, which increased the number of shares reserved for issuance under the 2016 Plan to 1,400,000 shares. In the second quarter of 2023, the Company added an additional 800,000 shares to the 2016 Plan, which increased the number of shares for reserved for issuance under the 2016 Plan to 2,200,000 shares. The Company has 619,055 shares available for grant under the 2016 Plan as of December 31, 2023.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. 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 during the years ended December 31, 2023 and 2022 amounted to \$300,600 and \$343,077, respectively.

15. MAJOR CUSTOMERS

For the year ended December 31, 2023, 30%, 26%, 13%, and 12% of our revenue was generated from our four largest customers. For the year ended December 31, 2022, 35%, 17%, 12% and 10% of our revenue was generated from our four largest customers.

At December 31, 2023, 30%, 17%, 12%, and 11% of accounts receivable were due from our four largest customers. At December 31, 2022, 38%, 21%, 17%, and 13% of accounts receivable were due from our four largest customers.

At December 31, 2023, 26%, 23%, 18%, and 15% of our contract assets were related to our four largest customers. At December 31, 2022, 27%, 20%, 16%, and 16% of our contract assets were related to our four largest customers.

16. COMMITMENTS AND CONTINGENCIES

The Company may be involved in various claims, suits, assessments, investigations, and legal proceedings that arise from time to time in the ordinary course of its business. The Company accrues a liability when it is both probable a liability has been incurred and the amount of the loss can be reasonably estimated. The Company reviews these accruals at least quarterly and adjusts them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. To the extent new information is obtained and the Company's views on the probable outcomes of claims, suits, assessments, investigations, or legal proceedings change, changes in the Company's accrued liabilities would be recorded in the period such determination is made. For some matters, the amount of liability is not probable or the amount cannot be reasonably estimated and, therefore, accruals have not been made.

Termination of Shareholder Derivative Actions and Class Action Lawsuit

Termination of Shareholder Derivative Actions

In 2020 and 2021, four shareholder derivative actions were filed against certain current and former members of our board of directors and certain of our current and former officers. All four of the actions—each described in further detail below—were based on substantially the same allegations and claims – specifically, that the defendants allegedly breached their fiduciary duties and/or violated securities laws by permitting false and misleading statements to be included in the Company's registration statement and prospectus supplements issued in connection with the Company's October 16, 2018 securities offering and/or by permitting false and misleading statements to be made in the Company's periodic reports filed between March 22, 2018 and February 14, 2020.

The first action (captioned *Moulton v. McCrosson, et al.*, No. 20-cv-02092) was filed on May 7, 2020, in the U.S. District Court for the Eastern District of New York. It purported to assert derivative claims against the individual defendants for violations of Section 10(b) and 21D of the Exchange Act, breach of fiduciary duty, and unjust enrichment and sought 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 sought declaratory, equitable, injunctive, and monetary relief, as well as attorneys' fees and other costs.

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). It purported to assert derivative claims against the individual defendants for breach of fiduciary duty and unjust enrichment and sought 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.

The third action (captioned *Berger v. McCrosson, et al.*, No. 1:20-cv-05454) was filed on November 10, 2020, in the U.S. District Court for the Eastern District of New York. The complaint, which was based on the shareholder's inspection of certain corporate books and records, purported to assert derivative claims against the individual defendants for breach of fiduciary duty and unjust enrichment, and sought 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 sought equitable, injunctive, and monetary relief, as well as attorneys' fees and other costs.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On March 19, 2021, the parties to the *Moulton and Berger* actions filed a joint stipulation consolidating the actions (under the caption *In re CPI Aerostructures Stockholder Derivative Litigation*, No. 20-cv-02092) and staying the consolidated action.

The fourth action (captioned *Wurst, et al. 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). The complaint purported to assert derivative claims against the individual defendants for breach of fiduciary duty, unjust enrichment, and waste of corporate assets, and sought 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 sought declaratory, equitable, injunctive, and monetary relief, as well as attorneys' fees and other costs.

On June 13, 2022, plaintiffs in the consolidated federal action informed the court that the Company and all defendants had reached an agreement in principle with all plaintiffs to settle the shareholder derivative lawsuits described above. On June 16, 2022, plaintiffs in the consolidated federal action filed an unopposed motion for preliminary approval of the settlement. On February 14, 2023, the magistrate judge recommended that the court grant the motion in its entirety. On March 6, 2023, the Court granted preliminary approval of the proposed settlement.

On May 17, 2023, plaintiffs in the consolidated federal action filed an unopposed motion for final approval of the settlement. The magistrate judge held a final approval hearing on June 7, 2023. On October 27, 2023, the magistrate judge recommended that the Court grant the final approval motion in its entirety. On December 11, 2023, the Court adopted that recommendation and entered orders granting final approval to the settlement and closing the case.

Pursuant to the settlement agreement, after the federal court's final approval of the settlement, the plaintiffs in the *Woodyard* and *Wurst* state-court actions voluntarily requested that those actions be dismissed. The parties to the *Woodyard* action filed a stipulation of dismissal on December 15, 2023, and the Court entered an order dismissing the action on December 19, 2023. The parties to the *Wurst* action filed a stipulation of dismissal on December 14, 2023, and the Court entered an order dismissing the action on December 18, 2023.

As part of the settlement, the Company agreed to undertake (or confirm that it has undertaken already) certain corporate governance reforms. In addition, the Company and/or its insurer have agreed to pay a total of \$585,000 in attorneys' fees to plaintiffs' counsel. The Company's insurer paid the full amount due of \$585,000. Because the settlement amount was transferred to counsel for plaintiffs on May 5, 2023 from the escrow account established for this purpose, we relieved from our balance sheet, as of that date, the amounts previously owed from our directors' and officers' insurance carrier and to that plaintiff.

Termination of Class Action Lawsuit

A consolidated class action lawsuit (captioned *Rodriguez v. CPI Aerostructures, Inc., et al.*, No. 20-cv-01026) was filed in the U.S. District Court for the Eastern District of New York against the Company; Douglas McCrosson, the Company's former 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 asserted 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 and February 14, 2020. The Amended Complaint alleged 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 alleged that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (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 and February 14, 2020. Plaintiff sought 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. Plaintiff submitted a brief in opposition to the motion to dismiss on April 23, 2021.

On May 20, 2021, the parties reached a settlement in the amount of \$3,600,000, subject to court approval. On July 9, 2021, Plaintiff filed an unopposed motion for preliminary approval of the settlement. On November 10, 2021, a magistrate judge recommended that the court grant the motion for preliminary approval in its entirety. The Court adopted the recommendation on May 27, 2022, and entered an order granting preliminary approval of the settlement on June 7, 2022. On August 5, 2022, the Plaintiff filed an unopposed motion for final approval. The magistrate judge held a hearing on the final approval motion on September 9, 2022. On February 16, 2023, the magistrate judge recommended that the Court grant the final approval motion in its entirety. The Court adopted that recommendation in its entirety on March 10, 2023, and terminated the case on March 13, 2023. On May 5, 2023, the Settlement Amount was transferred to plaintiff's counsel from the escrow account established for this purpose.

CPI AEROSTRUCTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Litigation Settlement Obligation and Insurance Recovery Receivable Pertaining to the Class Action Lawsuit and Shareholder Derivative Action

The attorneys' fees for both the class action lawsuit and the shareholder derivative actions were covered and paid by our directors' and officers' insurance carrier, after satisfaction of our \$750,000 retention. As of December 31, 2023, we had previously paid and accrued to our financial statements covered expenses totaling \$750,000, and had therefore met our insurance carrier's directors' and officers' retention requirement, which capped the Company's expenses pertaining to the class action suit at \$750,000. Because the Settlement Amount was transferred to counsel for plaintiff in the class action lawsuit on May 5, 2023, from the escrow account established for this purpose, we have relieved from our balance sheet, as of that date, the amounts previously owed from our directors' and officers' insurance carrier and to that plaintiff.

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 5, 2024

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Andrew L. Davis

Andrew L. Davis
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/Carey Bond</u> Carey Bond	Vice Chairman of the Board of Directors	April 5, 2024
<u>/s/ Richard Caswell</u> Richard Caswell	Director	April 5, 2024
<u>/s/ Andrew L. Davis</u> Andrew L. Davis	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	April 5, 2024
<u>/s/ Michael Faber</u> Michael Faber	Director	April 5, 2024
<u>/s/Dorith Hakim</u> Dorith Hakim	Chief Executive Officer and President (Principal Executive Officer)	April 5, 2024
<u>/s/ Pamela Levesque</u> Pamela Levesque	Director	April 5, 2024
<u>/s/ Rick Rosenjack</u> Rick Rosenjack	Director	April 5, 2024
<u>/s/ Terry Stinson</u> Terry Stinson	Chairman of the Board of Directors	April 5, 2024

**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.

Trading Market. 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.

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.

SUBSIDIARIES OF REGISTRANT

Welding Metallurgy, Inc.

Compac Development Corporation

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Nos. 333-272991, 333-255551, 333-212837, 333-164687 and 333-130077) on Form S-8 of CPI Aerostructures, Inc. of our report dated April 5, 2024, relating to the consolidated financial statements of CPI Aerostructures, Inc. and Subsidiaries, appearing in the Annual Report on Form 10-K of CPI Aerostructures, Inc. for the year ended December 31, 2023.

/s/ RSM US LLP

New York, New York
April 5, 2024

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

I, Dorith Hakim, 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 5, 2023

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Dorith Hakim

Dorith Hakim
CHIEF EXECUTIVE OFFICER, PRESIDENT AND DIRECTOR
(PRINCIPAL EXECUTIVE OFFICER)

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

I, Andrew L. Davis, 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 5, 2023

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Andrew L. Davis

Andrew L. Davis
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, 2022 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 5, 2023

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Dorith Hakim
Dorith Hakim
CHIEF EXECUTIVE OFFICER, PRESIDENT AND DIRECTOR
(PRINCIPAL EXECUTIVE OFFICER)

Dated: April 5, 2023

CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Andrew L. Davis
Andrew L. Davis
CHIEF FINANCIAL OFFICER AND SECRETARY
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)

CPI AEROSTRUCTURES, INC.

CLAWBACK POLICY

Introduction

The Board of Directors (the “**Board**”) of CPI Aerostructures, Inc. (the “**Company**”) believes that it is in the best interests of the Company and its shareholders to create and maintain a culture that emphasizes integrity and accountability and that reinforces the Company's pay-for-performance compensation philosophy. The Board has therefore adopted this policy which provides for the recoupment of certain executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under the federal securities laws (the “**Policy**”).

Administration

This Policy shall be administered by the Board or, if so designated by the Board, the Compensation and Human Resources Committee, in which case references herein to the Board shall be deemed references to the Compensation and Human Resources Committee. Any determinations made by the Board shall be final and binding on all affected individuals.

Covered Executives

This Policy applies to the Company’s current and former executive officers, as determined by the Board in accordance with Section 10D of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and the listing standards of the national securities exchange on which the Company's securities are listed, and such other senior executives and employees who may from time to time be deemed subject to the Policy by the Board (“**Covered Executives**”).

Recoupment; Accounting Restatement

In the event the Company is required to prepare an accounting restatement of its financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, the Board will require reimbursement or forfeiture of any excess Incentive Compensation (as defined below) received by any Covered Executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement.

Incentive Compensation

For purposes of this Policy, Incentive Compensation means any of the following:

- Annual bonuses and other short- and long-term cash incentives;
- Stock options;
- Stock appreciation rights;
- Restricted stock;
- Restricted stock units;
- Performance shares; or
- Performance units,

provided that, such compensation is granted, earned or vested based wholly or in part on the attainment of a financial reporting measure. Financial reporting measures include, but are not limited to:

- Company stock price;
- Total shareholder return;
- Revenues;
- Net income;
- Earnings before interest, taxes, depreciation, and amortization (EBITDA);
- Funds from operations;
- Liquidity measures such as working capital or operating cash flow;

Return measures such as return on invested capital or return on assets; and

Earnings measures such as earnings per share.

Excess Incentive Compensation: Amount Subject to Recovery

The amount to be recovered will be the excess of the Incentive Compensation paid to the Covered Executive based on the erroneous data over the Incentive Compensation that would have been paid to the Covered Executive had it been based on the restated results, as determined by the Board.

If the Board cannot determine the amount of excess Incentive Compensation received by the Covered Executive directly from the information in the accounting restatement, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement.

Method of Recoupment

The Board will determine, in its sole discretion, the method for recouping Incentive Compensation hereunder which may include, without limitation:

- (a) requiring reimbursement of cash Incentive Compensation previously paid;
- (b) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;
- (c) offsetting the recouped amount from any compensation otherwise owed by the Company to the Covered Executive;
- (d) cancelling outstanding vested or unvested equity awards; and/or
- (e) taking any other remedial and recovery action permitted by law, as determined by the Board.

No Indemnification

The Company shall not indemnify any Covered Executives against the loss of any incorrectly awarded Incentive Compensation.

Interpretation

The Board is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. Any determination of the Board shall be conclusive and binding on the Company and the applicable Covered Executives. The determination of the Board need not be uniform with respect to one or more Covered Executives.

It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act and any applicable rules or standards adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's securities are listed as such requirements may be amended, supplemented, or changed.

Effective Date

This Policy shall be effective as of the date it is adopted by the Board (the “**Effective Date**”) and shall apply to Incentive Compensation that is approved, awarded, or granted to Covered Executives on or after that date.

Amendment; Termination

The Board may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary to comply with regulations adopted by the Securities and Exchange Commission under Section 10D of the Exchange Act, any rules or standards adopted by any national securities exchange on which the Company's securities are listed and any other “clawback” provision required by law. The Board may terminate this Policy at any time.

Other Recoupment Rights

The Board intends that this Policy will be applied to the fullest extent of the law. The Board may require that any employment agreement, equity award agreement, or similar agreement entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company, including termination of employment, the initiation of civil or criminal proceedings, and any right to repayment under applicable law.

Impracticability

The Board shall recover any excess Incentive Compensation in accordance with this Policy unless such recovery would be impracticable, as determined by the Board in accordance with Rule 10D-1 of the Exchange Act and the listing standards of the national securities exchange on which the Company's securities are listed.

Successors

This Policy shall be binding and enforceable against all Covered Executives and, to the extent required by applicable law or guidance from the Securities and Exchange Commission, their beneficiaries, heirs, executors, administrators, or other legal representatives.