Hudson Global, Inc.
Form PRE 14A
January 25, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:
x Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Hudson Global, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Not applicable.

(2) Aggregate number of securities to which transaction applies:

Not applicable.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Not applicable.

(4) Proposed maximum aggregate value of transaction:

$41,200,000

(5) Total fee paid:

$5,129.40

The filing fee was calculated in accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended and was determined by multiplying $0.00012450 by the proposed maximum aggregate value of all transactions.

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY PROXY MATERIALS – SUBJECT TO COMPLETION

[___________], 2018

Dear Stockholders of Hudson Global, Inc.:

We previously announced that Hudson Global, Inc. ("Hudson") entered into agreements for the sale of our recruitment and talent management operations in Europe and Asia Pacific to strategic buyers (the "Sale Transactions") for which we expect to receive estimated proceeds of $41.2 million in cash, subject to adjustment. Assuming these transactions are consummated, Hudson intends to focus on its growing global recruitment process outsourcing ("RPO") business. Because the Sale Transactions in the aggregate constitute a sale of substantially all of Hudson's assets under Delaware law, we are calling a special meeting of stockholders to obtain stockholder approval of the sale of substantially all of Hudson's assets pursuant to the Sale Transactions. You are cordially invited to attend the Special Meeting of Stockholders to be held on [______], [_________], 2018, at [_____] a.m., Eastern Time, at the offices of Foley & Lardner LLP, 90 Park Avenue, 35th Floor, New York, New York 10016 (the "Special Meeting").

At the Special Meeting, you will be asked to consider and vote on resolutions: (1) adopting the proposed sale of substantially all of Hudson's assets (the "Sale Resolution") pursuant to agreements ("Sale Agreements") for the sale of its recruitment and talent management operations in Europe and Asia Pacific; (2) approving the advisory (non-binding) resolution on the compensation of Hudson named executive officers related to the Sale Transactions; and (3) approving the adjournment of the Special Meeting, if necessary and appropriate, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to adopt the Sale Resolution or to permit each purchaser in the Sale Transactions to satisfy the closing condition in each Sale Agreement that such purchaser's financing is assured. The closing of each Sale Transaction will be contingent upon the closing of each other Sale Transaction. Each of these proposals is described in detail in the accompanying Notice of the Special Meeting of Stockholders and Proxy Statement.

Your vote is important no matter how large or small your holdings may be. To assure your representation at the Special Meeting, please vote your shares over the Internet or via the toll-free telephone number, as instructed on the enclosed proxy card. You may also vote your shares by signing and dating the enclosed proxy card and returning it in the postage-paid envelope provider, whether or not you plan to attend the Special Meeting.

After careful consideration, the Board of Directors unanimously recommends that you vote "FOR" the foregoing proposals.

We hope to see you at the Special Meeting of Stockholders.

Sincerely,

Stephen A. Nolan
Chief Executive Officer

HUDSON GLOBAL, INC.
NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held [_____], 2018

To the Stockholders of Hudson Global, Inc.:

We are providing notice that the special meeting of stockholders of Hudson Global, Inc. (“Hudson”) will be held on [______], [_________], 2018, at [_____] a.m., Eastern Time, at the offices of Foley & Lardner LLP, 90 Park Avenue, 35th Floor, New York, New York 10016 (the “Special Meeting”), for the following purposes:

1. To adopt a resolution approving the proposed sale of substantially all of Hudson’s assets (the “Sale Resolution”) pursuant to agreements (the “Sale Agreements”) for the sale of its recruitment and talent management operations in Europe and Asia Pacific (the “Sale Transactions”). The closing of each Sale Transaction will be contingent upon the closing of each other Sale Transaction.

2. To approve the advisory (non-binding) resolution on compensation of Hudson named executive officers related to the Sale Transactions (the “Transactions-Related Compensation Proposal”).

3. To approve the adjournment of the Special Meeting, if necessary and appropriate, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to adopt the Sale Resolution or to permit each purchaser in the Sale Transactions to satisfy the closing condition in each Sale Agreement that such purchaser’s financing is assured (the “Adjournment Proposal”).

We also will consider and act upon such other business as may properly come before the Special Meeting or any adjournment or postponement of the Special Meeting.

Only stockholders of record at the close of business on [__________], 2018 will be entitled to vote at the Special Meeting and any adjournment or postponement of the Special Meeting.

Your vote is important no matter how large or small your holdings may be. To assure your representation at the Special Meeting, please vote your shares over the Internet or via the toll-free telephone number, as instructed on the enclosed proxy card. You may also vote your shares by signing and dating the enclosed proxy card and returning it in the postage-paid envelope provider, whether or not you plan to attend the Special Meeting.

For directions to the Special Meeting, please write Philip A. Skalski, Corporate Secretary, Hudson Global, Inc., 1325 Avenue of the Americas, 12th Floor, New York, New York 10019 or call (212) 351-7300.

By Order of the Board of Directors
HUDSON GLOBAL, INC.

Philip A. Skalski
Corporate Secretary

New York, New York
[________], 2018

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Stockholders to be Held on [_______], 2018. The Notice of Special Meeting of Stockholders and this proxy statement are also available on the Internet at *http://www.[__________]*.

Proxy Statement

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GLOSSarY OF TERMS

All capitalized terms used in this proxy statement but not otherwise defined herein have the meanings set forth under this "Glossary of Terms".

"$" means the United States dollar and is the currency of the United States.

"Adjournment Proposal" means the proposal to approve the adjournment of the Special Meeting, if necessary and appropriate, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to adopt the Sale Resolution or to permit each Purchaser in the Sale Transactions to satisfy the closing condition in each Sale Agreement that such Purchaser's financing is assured.

"**APAC Group Companies**" means the APAC Subsidiaries and their subsidiaries.

"APAC Purchase Price" means $7,500,000 in cash subject to a reduction as described in "The Sale Agreements – APAC Sale Agreement – APAC Purchase Price and Adjustments to APAC Purchase Price", which as of the date of this proxy statement is expected to result in estimated proceeds of $6,000,000.

"APAC Purchaser" means Apache Group Holdings Pty Limited.

"APAC Sale Agreement" means the Share Sale Agreement, dated December 17, 2017 and amended on January 25, 2018, among APAC Sellers and APAC Purchaser, a composite copy of which is attached hereto as Annex C, pursuant to which APAC Purchaser will acquire the APAC Subsidiaries, subject to the closing conditions set forth therein.

"APAC Sale Transaction" means the acquisition of the APAC Subsidiaries by APAC Purchaser pursuant to the terms and conditions of the APAC Sale Agreement. The APAC Sale Transaction excludes the assets of the APAC Subsidiaries' RPO Business, which will be transferred to the Company or other subsidiaries retained by the Company prior to the closing of the APAC Sale Transaction.

“**APAC Sellers**” means Hudson and Hudson Highland.

“APAC Subsidiaries” means Hudson Highland (APAC) Pty Ltd. and Hudson HoldCo (Hong Kong) Limited.

“**AUD**” means the Australian dollar and is the currency of Australia

“**Belgium Group Companies**” means Belgium Subsidiary or any of its subsidiaries.

“Belgium Purchase Price” means $28,250,000 in cash subject to a reduction as described in “The Sale Agreements – Belgium Sale Agreement – Belgium Purchase Price and Adjustments to Belgium Purchase Price”, which as of the date of this proxy statement is expected to result in estimated proceeds of $24,700,000.

“Belgium Purchaser” means Value Plus NV.

“Belgium Sale Agreement” means the Agreement for the Sale and Purchase of the Share Capital of Hudson Belgium NV, dated December 17, 2017 and amended on January 25, 2018, among Belgium Sellers, Belgium Purchaser, Ivan De Witte and De Witte Comm. V., a composite copy of which is attached hereto as Annex A, pursuant to which Belgium Purchaser will acquire the Belgium Subsidiary, subject to the closing conditions set forth therein.

“Belgium Sale Transaction” means the acquisition of the Belgium Subsidiary by Belgium Purchaser pursuant to the terms and conditions of the Belgium Sale Agreement. The Belgium Sale Transaction excludes the assets of Belgium Subsidiary’s RPO Business, which will be transferred to the Company or other subsidiaries retained by the Company prior to the closing of the Belgium Sale Transaction.

"Belgium Sellers" mean Hudson and Hudson Highland.

"Belgium Subsidiary" means Hudson Belgium NV.

"Board of Directors" means the board of directors of Hudson.

"EUR" means the lawful currency of the member states of the European Monetary Union that have adopted or that adopt the single currency in accordance with the treaty establishing the European Community, as amended by the Treaty on European Union.

"Europe Purchaser" means Morgan Philips Group S.A.

"Europe Purchase Price" means $10,500,000 in cash subject to adjustment as described in "The Sale Agreements – Europe Sale Agreement – Europe Purchase Price and Adjustments to Europe Purchase Price", which as of the date of this proxy statement is expected to result in estimated proceeds of $10,500,000.

"Europe Sale Agreement" means that Share Sale Agreement, dated December 17, 2017 and amended on January 25, 2018, among Europe Sellers and Europe Purchaser, a composite copy of which is attached hereto as Annex B, pursuant to which Europe Purchaser will acquire the Europe Subsidiaries, subject to the closing conditions set forth therein.

"Europe Sale Transaction" means the acquisition of the Europe Subsidiaries by Europe Purchaser pursuant to the terms and conditions of the Europe Sale Agreement. The Europe Sale Transaction excludes the assets of the Europe Subsidiaries' RPO Business, which will be transferred to the Company or other subsidiaries retained by the Company prior to the closing of the Europe Sale Transaction.

"Europe Sellers" means Hudson, Hudson Global Resources AG ZUG, Hudson Global Resources Jersey Limited and Hudson Europe BV.

“Europe Subsidiaries” means Hudson Global Resources SAS, Hudson Global Resources Madrid SL, Hudson Global Resources Barcelona SL, Hudson Global Resources Limited and Hudson Global Resources Sp. zo.o.

“GAAP” means the generally accepted accounting principles in the United States.

“Hudson,” “we,” “us,” “our,” and “the Company” means Hudson Global, Inc., a Delaware corporation.

“Hudson Highland” means Hudson Highland Group Holdings International, Inc.

“**Non-Belgium Hudson Group**” means Hudson or any of its subsidiaries other than the Belgium Subsidiary or any of its subsidiaries.

“Purchasers” means APAC Purchaser, Belgium Purchaser and Europe Purchaser, collectively.

“RPO” means recruitment process outsourcing.

“RPO Business” means the RPO portion of Hudson’s business, including the portion of such business transferred from (i) the APAC Group Companies prior to the closing of the APAC Sale Transaction, (ii) the Belgium Group Companies prior to the closing of the Belgium Sale Transaction and (iii) the Europe Subsidiaries prior to the closing of the Europe Sale Transaction.

“Sale Agreements” means the Belgium Sale Agreement, Europe Sale Agreement and APAC Sale Agreement, collectively.

“Sale Resolution” means the proposal to adopt a resolution approving the proposed sale of substantially all of Hudson’s assets.

"Sale Subsidiaries" means the Belgium Subsidiary, the Europe Subsidiaries and the APAC Subsidiaries, collectively.

"Sale Transactions" means the APAC Sale Transaction, the Belgium Sale Transaction and the Europe Sale Transaction, collectively.

"Sellers" means APAC Sellers, Belgium Sellers and Europe Sellers.

"Special Meeting" means the special meeting of stockholders of Hudson Global, Inc. to be held on [______], [_________], 2018, at [_____] a.m., Eastern Time, at the offices of Foley & Lardner LLP, 90 Park Avenue, 35th Floor, New York, New York 10016, and all adjournments and postponements of such meeting.

"Transactions-Related Compensation Proposal" means the proposal to approve the advisory (non-binding) resolution on compensation of Hudson named executive officers related to the Sale Transactions.

SUMMARY TERM SHEET

This summary, together with the question and answer section that follows, highlights selected information contained in this proxy statement and may not contain all of the information that is important to you. To understand the Sale Transactions and the Special Meeting fully, and for a more complete description of the terms of the Sale Transactions and the Sale Agreements, you should carefully read this entire proxy statement and the documents delivered with this proxy statement.

Parties to the Sale Agreements (Page 34)

Belgium Sale Agreement

Belgium Sellers: Hudson Global, Inc., a Delaware corporation, and its wholly owned subsidiary, Hudson Highland Group Holdings International, Inc., a Delaware corporation (collectively the "Belgium Sellers"), are parties to the Belgium Sale Agreement. Hudson, on behalf of itself and through its wholly owned subsidiaries, provides specialized professional-level recruitment and related talent solutions worldwide. Core service offerings include Permanent Recruitment, Contracting, RPO and Talent Management Solutions. Hudson has approximately 1,600 employees and operates in 13 countries with three reportable geographic business segments: Hudson Americas, Hudson Asia Pacific, and Hudson Europe. The principal executive offices of such entities and Hudson are located at 1325 Avenue of the Americas, 12th Floor, New York, New York, 10019 and our telephone number is (212) 351-7300.

Belgium Purchaser: Value Plus NV, a limited liability company incorporated under the laws of Belgium (the "Belgium Purchaser"), and Ivan De Witte and De Witte Comm. V. are parties to the Belgium Sale Agreement. Belgium Purchaser was formed solely for the purpose of acquiring the Belgium Subsidiary and has not engaged in any business except for activities incidental to its formation and as contemplated by the Belgium Sale Agreement. Belgium Purchaser is led by Hudson's current Belgium operations chief executive officer Ivan De Witte and a management buyout team from his management group. Such business is a market leader in Belgium, providing innovative talent solutions to clients. The business is led by an experienced team of tenured industry professionals and was founded by Mr. De Witte in 1982. Hudson's current Belgium operations have a team of 250 people, including consultants, researchers, R&D and support staff. Belgium Purchaser's principal executive office is located at Grote Moortel 6, 9830 Sint-Martens-Latem, Belgium and its telephone number is +32 475 45 43 30.

Europe Sale Agreement

Europe Sellers: Hudson Global, Inc., Hudson Global Resources AG ZUG, a Switzerland company, Hudson Global Resources Jersey Limited, a United Kingdom limited liability company, and Hudson Europe BV, a Netherlands limited liability company (collectively the “Europe Sellers”), are parties to the Europe Sale Agreement.

Europe Purchaser: Morgan Philips Group S.A., a Luxembourg *société anonyme* governed by the laws of the Grand Duchy of Luxembourg (the “Europe Purchaser”), is a party to the Europe Sale Agreement. Europe Purchaser was established in 2013 and has grown to be a major international recruitment business with offices in Europe, the U.S., Latin America, the Middle East and Asia. It specializes in executive search, permanent and temporary recruitment, interim management and talent management. Europe Purchaser is noted for its digital approach to executive search and recruitment with a number of online tools and applications, including video CVs and talent matching apps. Europe Purchaser’s principal executive office is located at 74 avenue de Faïencerie, L-1510, Luxembourg, and its telephone number is +35 2 27 12 53 30 30.

APAC Sale Agreement

APAC Sellers: Hudson Global, Inc. and Highland Group Holdings International, Inc. are parties to the APAC Sale Agreement (collectively the “APAC Sellers”).

APAC Purchaser: Apache Group Holdings Pty Limited ("APAC Purchaser"), is a party to the APAC Sale Agreement. APAC Purchaser was formed solely for the purpose of acquiring the APAC Subsidiaries and has not engaged in any business except for activities incidental to its formation and as contemplated by the APAC Sale Agreement. APAC Purchaser is led by Hudson's current Asia Pacific chief executive officer Mark Steyn and a management buyout team with 76 years' combined tenure in the business. Their team consists of over 675 employees working across 16 offices in five countries and has a 30-year track record in Australia, over 26 years in New Zealand and a 17-year track record in Asia. APAC Purchaser's principal executive office is located at Level 25, 20 Bond Street, Sydney, NSW 2000, Australia, and its telephone number is +61 2 8233 2105.

The Special Meeting (Page 26)

Date, Time and Place of Special Meeting (Page 26)

The Special Meeting will be held on [______], [_________], 2018, starting at [_____] a.m., Eastern Time, at the offices of Foley & Lardner, 90 Park Avenue, 35th Floor, New York, New York 10016.

You will be asked to consider and vote upon the following proposals: (1) to adopt the Sale Resolution; (2) to approve the Transactions-Related Compensation Proposal; and (3) to approve the Adjournment Proposal.

Record Date, Voting and Quorum (Page 26)

Only holders of our common stock of record at the close of business on [_______], 2018, the record date, will be entitled to vote at the Special Meeting. At the close of business on the record date, we had [_______] shares of common stock outstanding and entitled to vote that were held by approximately [____] stockholders of record.

Only holders of our common stock are entitled to vote and are allowed one vote for each share held as of the record date. Shares may not be voted cumulatively.

A quorum is required for our stockholders to conduct business at the Special Meeting. The presence of the holders of stock representing a majority of the outstanding shares of stock entitled to vote at the Special Meeting, in person or represented by proxy, is necessary to constitute a quorum. Both abstentions and broker "non-votes" (i.e., shares held by a broker, bank or other nominee that are represented at the Special Meeting, but with respect to which such broker, bank or other nominee is not empowered to vote on the proposal) are counted for the purpose of determining the presence of a quorum.

Revocability of Proxies (Page 27)

Any registered stockholder who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted in any one of the following ways:

- submitting another properly completed proxy with a later date;
- attending the Special Meeting and voting in person; or
- delivering to our principal offices (Attention: Corporate Secretary) a written instrument that revokes the proxy.

Simply attending the Special Meeting will not constitute revocation of a proxy. If you have instructed your broker to vote your shares, the above-described options for revoking your proxy do not apply and instead you must follow the directions provided by your broker to change your instructions.

General Description of the Sale Transactions (Page 34)

On December 16, 2017, the Board of Directors, at a meeting duly called and held, unanimously approved the Sale Agreements, composite copies of which are included as Annexes A, B and C to this proxy statement, and determined that the Sale Transactions are in the best interests of Hudson and its stockholders. Please read each Sale Agreement carefully. Pursuant to the terms of the Sale Agreements, among other things:

- Sellers agreed to sell: (i) the Belgium Subsidiary to Belgium Purchaser, (ii) the Europe Subsidiaries to Europe Purchaser and (iii) the APAC Subsidiaries to APAC Purchaser, which, in each case excludes Hudson's RPO Business conducted by the Belgium Group Companies, the Europe Subsidiaries and the APAC Group Companies, and in aggregate, the Sale Transactions constitute a sale of substantially all of Hudson's assets under Delaware law; and
- in exchange for such sales, Belgium Purchaser agreed to pay the Belgium Purchase Price, Europe Purchaser agreed to pay the Europe Purchase Price and APAC Purchaser agreed to pay the APAC Purchase Price.

In the event our stockholders adopt the Sale Resolution, we expect that the Sale Transactions will close promptly following the Special Meeting. The closing of each Sale Transaction will be contingent upon the closing of each other Sale Transaction.

Reasons for the Sale Transactions (Page 35)

In evaluating the Sale Transactions and Sale Agreements, including the sales of the Belgium Subsidiary, the Europe Subsidiaries and the APAC Subsidiaries, the Board of Directors consulted with Hudson's management and outside legal advisors and considered a number of factors, including alternatives to the Sale Transactions, the sale process and terms of the Sale Agreements. For a more complete description of the reasons for the Sale Transactions, see "Proposal 1 – The Sale Resolution – Reasons for the Sale Transactions," on page 35.

Post-Closing Business and Investment of Proceeds from the Sale Transactions (Page 39)

If the Sale Resolution receives the affirmative vote of the holders of a majority of the shares outstanding as of the record date and the other conditions to the closing of the Sale Transactions are satisfied or waived, the Purchasers will acquire substantially all of Hudson's assets. Following the Sale Transactions, Hudson intends to use the proceeds from the Sale Transactions for the purposes of investing in its RPO Business, reducing support staff costs, continuing Hudson's existing share repurchase program and other general corporate purposes. If the Sale Resolution does not receive the affirmative vote of the holders of a majority of the shares outstanding as of the record date, or if the other conditions to the closing of the Sale Transactions are not satisfied or waived, then either we or the respective Purchasers may terminate the Sale Agreements and the Board of Directors, along with our management, will reassess our options in light of our strategic goals and any alternatives that may be available to us.

Certain U.S. Federal, State and Foreign Income Tax Consequences of the Sale Transactions (Page 41)

The Sale Transactions will not result in any material U.S. federal or state income tax consequences to our stockholders. The Sale Transactions will be a taxable event to us for U.S. federal, state and foreign income tax purposes. We anticipate that the Sale Transactions will result primarily in losses but also some taxable gain to Hudson in an amount equal to the difference between the purchase price received and Hudson's adjusted tax basis in the shares being sold. Any gain recognized by Hudson for U.S. federal income tax purposes as a result of the Sale Transactions is expected to be fully offset by available net operating loss carryovers. Any gain recognized by Hudson for U.S. state income tax purposes may not be fully offset by net operating loss carryovers, but is not expected to be material. We anticipate that any foreign income tax liability to Hudson resulting from the Sale Transactions will not be material.

Certain Accounting Consequences of the Sale Transactions (Page 41)

For the Sale Transactions, we will recognize net cash proceeds from the legal sale and transfer of the Belgium Subsidiary, the Europe Subsidiaries and the APAC Subsidiaries. Additionally, we will recognize a corresponding reduction of assets and liabilities relating to the Belgium Subsidiary, the Europe Subsidiaries and the APAC Subsidiaries, in each case other than the assets and liabilities relating to the RPO Business that are transferred to Hudson or one of its retained subsidiaries prior to the closings of the Sale Transactions.

No Appraisal Rights (Page 42)

You will not experience any change in your rights as a stockholder as a result of the Sale Transactions. Delaware law and our bylaws do not provide for appraisal or other similar rights for dissenting stockholders in connection with the Sale Transactions, and we do not intend to independently provide stockholders with any such right. Accordingly, you will have no right to dissent and obtain payment for your shares in connection with the Sale Transactions.

Required Vote (Pages 26, 42, 68 and 69)

On all matters, each share has one vote. The proposal to adopt the Sale Resolution requires the affirmative vote of the holders of a majority of our outstanding shares as of the record date. Since this proposal requires the holders of a majority of our outstanding shares as of the record date to adopt the Sale Resolution, both broker "non-votes" and abstentions would have the same effect as votes "AGAINST" such proposal. The Transactions-Related Compensation Proposal and the Adjournment Proposal each require the affirmative vote of the holders of a majority of our outstanding shares that are present in person or represented by proxy at the Special Meeting. Abstentions would have the same effect as votes "AGAINST" such proposal. Broker "non-votes" are not included in the tabulation of the voting results for the Transactions-Related Compensation Proposal and, therefore, they do not have the effect of votes "AGAINST" such proposal.

Financing (Page 40)

The Belgium Purchase Price is estimated to be $24,700,000, which is expected to be funded by a combination of equity contributions from the owners of the Belgium Purchaser and third parties and debt financing from third parties. In connection with entering into the Belgium Purchase Agreement, the Belgium Purchaser obtained a commitment letter for a EUR7,000,000 irrevocable equity commitment from Mr. De Witte, an owner of the Belgium Purchaser. The commitment to fund under the equity commitment letter is subject only to the Belgium Sale Transaction closing pursuant to the terms of the Belgium Sale Agreement. Under the Belgium Purchase Agreement, the Belgium Purchaser is required to take certain actions to obtain the balance of the financing necessary to close the Belgium Sale Transaction and to obtain financing pursuant to the equity commitment letter, but if the Belgium Purchaser fails to obtain financing, it will be required to pay Belgium Sellers a termination fee of EUR750,000.

The Europe Purchase Price is estimated to be $10,500,000, which is expected to be funded by a combination of equity contributions from and convertible debt issuances to third parties and, if necessary, Europe Purchaser's cash on hand or committed financing arrangements. In connection with entering into the Europe Sale Agreement, Europe Purchaser obtained commitment letters totaling $8,460,000 in irrevocable equity commitments, EUR1,500,000 of irrevocable convertible note commitments and EUR1,000,000 in an irrevocable bridge loan facility. The commitment to fund under the equity and convertible note commitment letters is subject only to the conditions to closing in the Europe Purchase Agreement being satisfied or waived. The commitment to fund under the bridge loan facility commitment letter is subject only to finalizing the documentation for the bridge loan facility and the closing of the Europe Sale Transaction. Under the Europe Sale Agreement, the Europe Purchaser is required to take certain actions with respect to obtaining financing pursuant to the commitment letters, but if the Europe Purchaser fails to obtain financing, it will be required to pay Europe Sellers a termination fee of $762,000.

The APAC Purchase Price is estimated to be $6,000,000, which is expected to be funded by a combination of equity contributions from the owners of the APAC Purchaser and debt financing from a third party. In connection with entering into the APAC Purchase Agreement, the APAC Purchaser obtained unconditional commitment letters totaling AUD$1,000,000 in irrevocable equity commitments from the owners of APAC Purchaser and AUD$4,000,000 in a debt commitment in the form of an amortizing term debt facility to be provided by National Australia Bank Limited. Although National Australia Bank Limited’s debt commitment letter expires on March 31, 2018, it has agreed to seek credit approval in good faith to extend the availability of such facilities if the closing of the APAC Sale Transaction does not occur by that date. The commitment to fund under the debt commitment letter is subject only to finalizing the documentation for the amortizing term debt facility. The APAC Purchaser expects to fund the balance of the APAC Purchase Price by utilizing available credit pursuant to financing arrangements currently in place with Hudson Global Resources (Aust) Pty Ltd and provided by National Australia Bank Limited, as described in more detail in Note 13 to the Combined Financial Statements of Sale of Subsidiaries (Unaudited) for the European, Belgium, and Asia Pacific Businesses of Hudson Global Inc. included in this proxy statement as Annex F. Under the APAC Sale Agreement, the APAC Purchaser is required to take certain actions with respect to obtaining financing pursuant to the commitment letters, but if the APAC Purchaser fails to obtain financing, it will be required to pay APAC Sellers a termination fee of $300,000.

All Sale Agreements provide that the closing of the Sale Transactions contemplated in each Sale Agreement is conditioned upon prior to the Company holding a vote of its stockholders at the Special Meeting to adopt the Sale Resolution, each Purchaser providing the Company with confirmation that each Purchaser's financing is assured, which confirmation may be in the form of either (x) equity commitment letters or debt commitment letters or definitive financing agreements that do not contain conditions to funding other than the conditions to closing of the transactions contemplated by the applicable Sale Agreement or (y) a certificate addressed to the Company from a Purchaser that it has debt and equity financing in place and it is prepared to fund the purchase price payable upon closing of the transactions contemplated by each Sale Agreement.

The Sale Agreements (Page 43 and Annexes A, B and C)

General. Pursuant to the Belgium Sale Agreement, Belgium Purchaser has agreed to pay Belgium Sellers the Belgium Purchase Price and pursuant to the APAC Sale Agreement, APAC Purchaser has agreed to pay APAC Sellers the APAC Purchase Price. Under the Belgium Sale Agreement and the APAC Sale Agreement, Hudson provided limited representations and warranties related to ownership of the Belgium Subsidiary and the APAC Subsidiaries, respectively, and authority to enter into such sale agreement, among other areas as set forth in the Belgium Sale Agreement and APAC Sale Agreement. Pursuant to the Europe Sale Agreement, Europe Purchaser has agreed to pay Europe Sellers the Europe Purchase Price. The parties to the Europe Sale Agreement have provided each other with customary representations and warranties as more fully set forth in the Europe Sale Agreement.

In addition, under all Sale Agreements the applicable Sellers have agreed to certain covenants, including interim operating covenants which place certain restrictions on the operation of the Sale Subsidiaries until the applicable Sale Transaction closes, an employee non-solicitation covenant, a non-competition covenant and a covenant that requires that we assist the relevant Purchaser to obtain financing to consummate the relevant Sale Transaction. Also, all Sale Agreements provide that the closing of the Sale Transactions contemplated in each Sale Agreement is conditioned upon the closings of the transactions contemplated in each other Sale Agreement occurring simultaneously with such closing.

Belgium Sale Agreement

Belgium Purchase Price and Adjustments to the Belgium Purchase Price (Page 44)

Under the terms of the Belgium Sale Agreement, Belgium Purchaser will make a cash payment at closing of the Belgium Purchase Price, which is $28,250,000 minus the items listed below from December 31, 2016 through the closing date. As of the date of this proxy statement, the payment is expected to result in estimated proceeds to

Belgium Sellers of $24,700,000.

- The declaration or payment of any dividend or other distribution of profits, reverses or assets to, or reduction of share capital or redemption or purchase of any shares from Non-Belgium Hudson Group.

- The payment of any management, monitoring, service or other stockholder or director’s fees (excluding recurring information technology allocations) to Belgium Sellers.

- The payment of any costs by any of Belgium Purchaser or the Belgium Subsidiary to Hudson in connection with Hudson’s incentive stock and awards plan, whether payable before or after closing.

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- Any taxation, interest or penalties paid or becoming payable as a consequence of any of the foregoing.

- Any agreement or arrangement made or entered into by any Belgium Group Companies to do or give effect to any matter referred to in the first two bullet points.

Representations and Warranties (Page 44)

The Belgium Sale Agreement contains a limited number of representations and warranties applicable to Belgium Sellers, subject in totality to a materiality qualification, relating to, among other things, the following:

- corporate organization and valid existence;

- capacity, power and authority to execute and deliver and perform obligations under the Belgium Sale Agreement and the other relevant documents;

- binding effect of the Belgium Sale Agreement and the other relevant agreements;

- nature of, ownership to and status of the shares of the Belgium Subsidiary; and

- ownership of subsidiaries of the Belgium Subsidiary.

The Belgium Sale Agreement contains a limited number of representations and warranties applicable to Belgium Purchaser, subject in some cases to customary qualifications, relating to, among other things, the following:

- corporate organization and valid existence;

- capacity, power and authority to execute and deliver and perform obligations under the Belgium Sale Agreement and the other relevant documents;

- binding effect of the Belgium Sale Agreement and the other relevant agreements; and

· financial ability relating to commitment letters Belgium Purchaser has received.

Ancillary Agreements (Page 46)

In connection with the closing of the Belgium Sale Transaction, Hudson will (a) transfer to Belgium Purchaser all Hudson trademarks registered in Benelux as soon as the Hudson RPO trademark is registered in Benelux (with the Hudson name to be licensed to Belgium Purchaser prior to that time) and (b) license to Belgium Purchaser the right to use the Hudson.com domain name until January 1, 2019.

Conditions to Closing of the Belgium Sale Transaction (Page 46)

Belgium Purchaser's obligation to close the Belgium Sale Transaction is conditioned on Belgium Purchaser obtaining the financing contemplated under the Belgium Sale Agreement and, on the closing date, there being no pending or threatened actions or proceedings by or before any court or other governmental authority which seeks to restrain, prohibit or invalidate the transactions contemplated by the Belgium Sale Agreement. Belgium Sellers' obligation to close the Belgium Sale Transaction is conditioned on:

· the Sale Resolution receiving the affirmative vote of the holders of a majority of the shares outstanding as of the record date;

&middot material adverse effect upon our profitability.

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

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

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

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

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

The maximum contract value specified under each contract that we enter into is not necessarily indicative of the revenues that we will realize under that contract. Because we may not receive the full amount we expect under a contract, we may not accurately estimate our backlog because the earnings of revenues on programs included in backlog may never occur or may change. Cancellations of pending contracts or terminations or reductions of contracts in progress could have a material adverse effect on our business, prospects, financial condition or results of operations. As of December 31, 2017, our backlog was approximately $389 million, of which 18% was funded and 82% was unfunded.

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

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

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

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

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

Our management determined that as of December 31, 2017, our internal control over financial reporting was effective based on criteria created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") set forth in *Internal Control – Integrated Framework* (2013). However, if material weaknesses are identified in our internal control over financial reporting in the future, our management will be unable to report favorably as to the effectiveness of our internal control over financial reporting and/or our disclosure controls and procedures, and we could be required to implement remedial measures. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Such remedial measures could be expensive and time consuming and could potentially cause investors to lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price and potentially subject us to litigation.

We incur risk associated with new programs

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

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

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

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

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

Any system or service disruptions, including those caused by projects to improve our information technology systems, if not anticipated and appropriately mitigated, could disrupt our business and impair our ability to effectively provide products and related services to our customers and could have a material adverse effect on our business. We could also be subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, intruders or hackers, computer viruses, natural disasters, power shortages or terrorist attacks. Cyber security threats are evolving and include, but are not limited to, malicious software, 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. Any such failures 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, there can be no assurance that these procedures and controls will be sufficient. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption which would adversely affect our business, results of operations and financial condition. Moreover, expenditures incurred in implementing cyber security and other procedures and controls could adversely affect our results of operations and financial condition.

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

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

The Company's acquisition of Welding Metallurgy, Inc. is subject to a number of conditions, and may not be completed on the terms or timeline currently contemplated, or at all.

On March 21, 2018, the Company entered into a Stock Purchase Agreement for the purchase of Welding Metallurgy, Inc. as discussed in Item 7, Management's Discussion and Analysis - Recent Developments. The completion of the acquisition is subject to certain conditions, including the Company obtaining financing to pay the purchase price, receipt of requisite customer approval, delivery of financial statements to the Company and other customary closing conditions. The Company cannot ensure that the acquisition will be completed on the terms or timeline currently contemplated, or at all. Many of the conditions to the closing of the acquisition are not within the control of the Company and the Company cannot predict when or if these conditions will be satisfied. The failure to meet any or all of the conditions could delay the closing of the acquisition or prevent it from occurring. Any delay in the completion of the acquisition could cause the Company not to realize some or all of the benefits the Company expects to achieve if the acquisition is completed within the expected timeframe.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

CPI Aero's executive offices and production facilities are situated in an approximately 171,000 square foot building located at 91 Heartland Blvd., Edgewood, New York 11717. CPI Aero occupies this facility under a ten-year lease that commenced in June 2011. The current monthly base rent is $139,955, including real estate taxes.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common shares are listed on the NYSE American under the symbol CVU. The following table sets forth for 2017 and 2016, the high and low sales prices of our common shares for the periods indicated, as reported by the NYSE American.

Period	High	Low
2016		
Quarter Ended March 31, 2016	$9.66	$6.93
Quarter Ended June 30, 2016	$8.00	$5.50
Quarter Ended September 30, 2016	$7.29	$6.31
Quarter Ended December 31, 2016	$9.75	$6.48
2017		
Quarter Ended March 31, 2017	$9.76	$6.35
Quarter Ended June 30, 2017	$9.70	$5.55
Quarter Ended September 30, 2017	$10.05	$8.05
Quarter Ended December 31, 2017	$9.60	$8.20

On March 16, 2018, the closing sale price for our common shares on the NYSE American was $8.30. On March 16, 2018, there were 197 holders of record of our common shares and, we believe, over 2,200 beneficial owners of our common shares.

Dividend Policy

To date, we have not paid any dividends on our common shares. Any payment of dividends in the future is within the discretion of our board of directors (subject to the limitation on dividends contained in the Bank United Credit Facility, as described more fully in Item 7, Management's Discussion and Analysis), and will depend on our earnings, if any, our capital requirements and financial condition and other relevant factors. Our board of directors does not intend to declare any cash or other dividends in the foreseeable future, but intends instead to retain earnings, if any, for use in our business operations.

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

There have been no sales of unregistered sales of our equity securities for the three months ended December 31, 2017. The have been no repurchases of our outstanding common stock during the three months ended December 31, 2017.

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Equity Compensation Plan Information

The following table sets forth certain information at December 31, 2017 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	80,249	$11.05	443,007

ITEM 6. Selected Financial Data

The following table sets forth our financial data as of the dates and for the periods indicated. The data has been derived from our audited financial statements. The selected financial data should be read in conjunction with our audited financial statements and MDA. Our results of operations for 2016 and 2014 were materially affected by the change in estimate described in MDA.

Statement of Operations Data:	Years Ended December 31,				
	2017	2016	2015	2014	2013
Revenue	$81,283,148	$ 81,329,858	$100,202,557	$ 39,687,010	$82,988,522
Cost of sales	62,637,232	77,010,940	83,600,854	69,411,709	64,555,275
Gross profit (loss)	18,645,916	4,318,918	16,601,703	(29,724,699)	18,433,247
Selling, general and administrative expenses	8,449,594	8,614,190	7,636,148	7,308,220	6,704,524
Income (loss) from operations	10,196,322	(4,295,272)	8,965,555	(37,032,919)	11,728,723

Other income (expense):					
Interest/ other income (expense)	(19,774)	(22,659)	(40,433)	145,072	78,957
Interest expense	(1,698,914)	(1,356,645)	(918,129)	(794,428)	(653,786)
Total other expense, net	(1,718,688)	(1,379,304)	(958,562)	(649,356)	(574,829)
Income (loss) before provision for (benefit from) income taxes	8,477,634	(5,674,576)	8,006,993	(37,682,275)	11,153,894
Provision for (benefit from) income taxes	2,710,000	(2,066,000)	2,991,000	(12,473,000)	3,417,000
Net income (loss)	$5,767,634	($3,608,576)	$5,015,993	($25,209,275)	$7,736,894
Income (loss) per common share – basic	$0.65	($0.42)	$0.59	($2.98)	$0.92
Income (loss) per common share – diluted	$0.65	($0.42)	$0.58	($2.98)	$0.91
Basic weighted average number of common shares outstanding	8,831,064	8,655,848	8,522,817	8,465,937	8,389,048
Diluted weighted average number of common shares outstanding	8,838,445	8,655,848	8,579,986	8,465,937	8,470,578

Balance Sheet Data:	**At December 31,**				
	2017	2016	2015	2014	2013
Cash	$1,430,877	$1,039,586	$1,002,023	$1,504,907	$2,166,103
Costs and estimated earnings in excess of billings on uncompleted contracts	111,158,551	99,578,526	102,622,387	79,054,139	112,597,136
Total current assets	120,382,436	111,288,206	112,355,720	95,992,457	120,181,761
Total assets	124,184,499	117,791,895	116,712,536	103,404,723	124,272,594
Total current liabilities	42,244,635	40,692,721	45,062,803	36,707,815	31,741,678
Working capital	78,137,801	70,595,485	67,292,917	59,284,642	88,440,083
Short-term debt	24,847,685	23,780,609	24,711,491	26,121,713	22,370,349
Long-term debt	7,019,468	8,860,724	483,961	1,289,843	2,198,187
Shareholders' equity	74,313,333	67,605,706	70,532,109	64,813,156	88,951,519
Total liabilities and shareholders' equity	124,184,499	117,791,895	116,712,536	103,404,723	124,272,594

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

Forward-Looking Statements

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

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

Recent Developments

On March 21, 2018, the Company entered into a Stock Purchase Agreement (the "Agreement") with Air Industries Group ("Air Industries"), pursuant to which, subject to the satisfaction or waiver of certain conditions, the Company will purchase from Air Industries all of the shares (the "Shares") of Welding Metallurgy, Inc. ("WMI"), a wholly owned subsidiary of Air Industries (the "Acquisition"). WMI is engaged in the manufacture of complex components and assemblies for the defense and commercial aircraft industries.

Under the terms of the Agreement, the Company will pay a purchase price for the Shares as follows: (i) $9.0 million in cash, subject to adjustment based on the working capital of WMI at the closing of the Acquisition and (ii) up to an aggregate of $1.0 million, in two payments of up to $500,000 each (the "Contingent Payments") if WMI enters into certain long-term supply agreements. The Contingent Payments are reduced if milestones for signing are not achieved.

The Agreement contains customary representations, warranties, and covenants of Air Industries and the Company and post-closing indemnities. The representations and warranties set forth in the Agreement generally survive for 18 months following the closing of the Acquisition, with longer survival periods with respect to certain specified representations and warranties.

The completion of the Acquisition is subject to customary closing conditions, approval from certain customers of WMI, the Company obtaining financing to pay the purchase price and the delivery of financial statements to the Company.

The Company anticipates financing the Acquisition through a new term loan to be included with an expanded and extended credit facility to be negotiated with the Company's existing lender. There can be no assurance that the Company will be able to expand and extend the credit facility and that the Acquisition will be funded as anticipated.

The Company expects the closing of the Acquisition to occur during the second quarter of 2018.

Business Operations

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

Critical Accounting Policies

Revenue Recognition

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

When adjustments are required for the estimated total revenue on a contract, these changes are recognized with an inception-to-date effect in the current period. Also, when estimates of total costs to be incurred exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The fundamental principles of the guidance are that entities should recognize revenue in a manner that reflects the timing of transfer of goods and services to customers and the amount of revenue recognized reflects the consideration that an entity expects to receive for the goods and services provided. Entities have the option of two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). Effective January 1, 2018, the Company adopted Topic 606 using the modified retrospective method for all of its contracts. Following the adoption of Topic 606, the Company's revenue recognition for all of its contracts remained materially consistent with historical practice. In addition, following the adoption of Topic 606, the Company will change the presentation of its balance sheet moving its costs and estimated earnings in excess of billings on uncompleted contracts to contract assets and its billings in excess of costs and estimated earnings to contract liabilities.

Results of Operations

Year Ended December 31, 2017 as Compared to the Year Ended December 31, 2016

Revenue. Revenue for the year ended December 31, 2017 was $81,283,148 compared to $81,329,858 for the same period last year, representing a decrease of $46,710.

Overall, revenue generated from prime government contracts for the year ended December 31, 2017 was $6,647,248 compared to $3,493,343 for the year ended December 31, 2016, an increase of $3,153,905. This increase is a result of revenue recognized on the T-38C Pacer Classic III aircraft structural modification program, as this program has transitioned from the start-up stage to the delivery stage.

Revenue generated from government subcontracts for the year ended December 31, 2017 was $45,080,617 compared to $37,355,447 for the year ended December 31, 2016, an increase of $7,725,170. This increase is the result of many factors, predominately increases in revenue on new programs as they ramp up production, or new purchases orders on continuing programs. Examples of programs with increases in revenue in 2017 compared to 2016 include: NGC radar pod, $1 million, Raytheon next generation jammer pod, $7.2 million, Lockheed F-35 lock assemblies, $1.4 million, Bell helicopter engine inlets, $2.8 million, Sikorsky gunner windows, $1.2 million and Sikorsky weapons pylon, $1.2 million. These were partially offset by a $9 million decrease in revenue on the E-2D program, as this program transitions towards the end of deliveries on the most recent multiyear order.

Revenue generated from commercial contracts was $29,555,283 for the year ended December 31, 2017 compared to $40,481,068 for the year ended December 31, 2016, a decrease of $10,925,785. This decrease is predominately the result of a $4.7 million decrease in the Company's G650 program, a result of lower production, and a $5.6 million decrease in the Company's Embraer program. Embraer cut back on delivery requirements in the fourth quarter of 2016, as it had completed retrofitting all older aircraft with new engine inlets. Current requirements on the Embraer program are only for new production aircraft.

Cost of sales. Cost of sales for the years ended December 31, 2017 and 2016 was $62,637,232 and $77,010,940, respectively, a decrease of $14,373,708 or 18.7%.

The components of cost of sales were as follows:

	Years ended December 31, 2017	December 31, 2016
Procurement	$41,286,646	$52,504,318
Labor	6,745,038	8,112,981
Factory overhead	15,770,436	15,750,146
Other contract costs (credit)	(1,164,888)	643,495
Cost of Sales	$62,637,232	$77,010,940

Procurement for the year ended December 31, 2017 was $41,286,646 compared to $52,504,318, a decrease of $11,217,672 or 21.4%. The decrease in procurement was the result of lower procurement on the Company's E-2D program, as we did multiyear volume discounted buys in 2016.

Labor costs for the year ended December 31, 2017 were $6,745,038 compared to $8,112,981, a decrease of $1,367,943 or 16.9%. This decrease is predominately due to decreases in labor on our A-10 program, as we near completion on the assemblies from that program, as well as a decrease in labor on the Company's Embraer program, as we decreased production on that program, as described above.

During the three months ended March 31, 2016, the Company had information that the USAF was intending to increase the number of ship sets on order for the A-10. An increase in the number of ship sets on order would improve the Company's estimated gross margin on the overall program.

In April 2016, the Company became aware that the USAF had reevaluated its position and as such had deferred any decision regarding increasing the orders on the A-10 program. These changes in position by the USAF were supported by communications from Boeing, the Company's customer.

Based on the above facts, the Company believed that, it was not probable that there would be any future orders on the A-10 beyond the 173 currently on order. As a result of the information that management became aware of in April 2016, for the quarter ended March 31, 2016 the Company estimated that the A-10 program would run through the conclusion of its current purchase order with Boeing at ship set number 173. The change in estimate resulted in a reduction of revenue of approximately $8.9 million in the quarter ended March 31, 2016.

Other contract costs (credit) for the year ended December 31, 2017 was ($1,164,888) compared to $643,495, a decrease of $1,808,383. Other contract costs relate to expenses recognized for changes in estimates and expenses predominately associated with loss contracts. Other contract costs are comprised predominantly of charges related to the change in estimate on the A-10 program in 2016. In the year ended December 31, 2017, other contract costs are a credit, as we have incurred actual expenses on our A-10 program that had been previously recognized as part of the change in estimate charge.

Gross profit. Gross profit for the year ended December 31, 2017 was $18,645,916 compared to $4,318,918 for the year ended December 31, 2016, an increase of $14,326,998. Gross profit percentage ("gross margin") for the year ended December 31, 2017 was 22.9% compared to 5.3% for the same period last year, predominately the result of the change in estimate on the Company's A-10 program in 2016.

Favorable/Unfavorable Adjustments to Gross Profit

During the years ended December 31, 2017, 2016 and 2015, circumstances required that we make changes in estimates to various contracts. Such changes in estimates resulted in decreases in total gross profit as follows:

	Years Ended		
	2017	2016	2015
Favorable adjustments	$ 944,000	$ 269,000	$ 1,067,000
Unfavorable adjustments	(1,984,000)	(1,936,000)	(2,942,000)
Net adjustments	($1,040,000)	($1,667,000)	($1,875,000)

During the year ended December 31, 2017 we had one contract which had an approximately $822,000 of unfavorable adjustments caused by changing estimates on a long-term program. We are working with the customer to agree to contract extensions and expect to decrease our selling price. Additionally, we had one contract that had a gap in production, as well as a smaller than expected order quantity. The gap in production and low quantity has resulted in an unfavorable adjustment of approximately $514,000. There were no other material changes, favorable or unfavorable, during the year ended December 31, 2017.

During the year ended December 31, 2016 we had one contract which had an approximately $270,000 unfavorable adjustment caused by excess labor and procurement costs due to difficulty in the manufacturing process. In addition, we had an approximate $354,000 unfavorable adjustment on one contract that was canceled by the government. Also, we had 4 contracts that each had between $140,000 and $245,000 (cumulatively $890,000) of unfavorable adjustments caused by excess labor costs incurred. No other individual favorable or unfavorable changes in estimates for the year ended December 31, 2016 were material.

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

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2017 were $8,449,594 compared to $8,614,190 for the year ended December 31, 2016, a decrease of $164,596, or 1.9%. This decrease was primarily due to a decrease of approximately $364,000 in accounting and legal fees related mostly to the extension of 2016 costs related to the 2015 audit process and an executive compensation study, a decrease of $311,000 for the reserve for disputed account receivables with various customers, offset by an increase of $400,000 in accrued bonuses and an increase of $93,000 in salaries.

Interest expense. Interest expense for the year ended December 31, 2017 was $1,698,914, compared to $1,356,645 for 2016, an increase of $342,269 or 25.2%. The increase in interest expense is the result of an increase in the average amount of outstanding debt during 2017 as compared to 2016.

Income (loss) from operations. We had income from operations for the year ended December 31, 2017 of $10,196,322 compared to loss from operations of $4,295,272 for the year ended December 31, 2016. The increase was predominately the result in the increase in gross profit described above.

Provision for (benefit from) income taxes. Our historic effective tax rate has been between 30%-32% of taxable income. The rate has been below the statutory federal income tax rate of 34% because of our ability to utilize the domestic production activity deduction, available to companies that do manufacturing within the United States. Since 2015, we have been providing for state income taxes in states where, although we don't have any property or full time employees, the historic method for the allocation of state income taxes, we do have sales and have employees present on at least a part time basis. As such the effective tax rate for both 2017 and 2016 is approximately 32% and 37%, respectively.

In accordance with the Tax Cuts and Jobs Act that was enacted on December 22, 2017 ("U.S. Tax Reform"), we have recorded a credit for income taxes of $207,000. The impact of the U.S. Tax Reform is primarily from revaluing our U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. For U.S. federal purposes the corporate statutory income tax rate was reduced from 35% to 21%, effective for our 2018 tax year. The provisional impact of the U.S. Tax Reform is our current best estimate based on the preliminary review of the new law and is subject to revision based on our existing accounting for income taxes policy as further information is gathered and interpretation and analysis of the tax legislation evolves. The Securities and Exchange Commission has issued rules allowing for a measurement period of up to one year after the enactment date of the U.S Tax Reform to finalize the recording of the related tax impacts. Any future changes to our provisional estimated impact of the U.S Tax Reform will be included as an adjustment to the provision for income taxes.

Year Ended December 31, 2016 as Compared to the Year Ended December 31, 2015

Revenue. Revenue for the year ended December 31, 2016 was $81,329,858 compared to $100,202,557 for the year ended December 31, 2015, representing a decrease of $18,872,699.

Overall, revenue generated from prime government contracts for the year ended December 31, 2016 was $3,493,343 compared to $892,752 for the year ended December 31, 2015, an increase of $2,600,591. This increase is a result of our deliveries on our F-16 contract, that began in 2016.

Revenue generated from government subcontracts for the year ended December 31, 2016 was $37,355,447 compared to $56,982,785 for the year ended December 31, 2015, a decrease of $19,627,338. This decrease is the result of many factors including: a $13.4 million decrease in revenue on the Company's A-10 program with Boeing because of a change in estimate on the program, as previously described, a $5.6 million decrease in revenue from the Company's E-2D program with NGC, due to the timing of work related to the multiyear order received in 2014, a $1.0 million decrease in revenue from the Company's gunner window program with Sikorsky, due to lower orders, and a $1.3 million decrease in revenue from the Company's fuel panel program with Sikorsky, due to lower orders. These decreases were offset by a $4.8 million increase in the Company's E-2D wet outer wing program, which had only nominal activity in 2015 and was in production in 2016.

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Revenue generated from commercial contracts was $40,481,068 for the year ended December 31, 2016 compared to $42,327,020 for the year ended December 31, 2015, a decrease of $1,845,952. This decrease is predominately the result of a $3.9 million decrease in the Company's Cessna Citation + program, as we completed production on our outstanding order, a $1.3 million decrease in the Company's Embraer program, as Embraer cut back on delivery requirements in the fourth quarter of 2016, a $800,000 decrease in revenue on the Company's Honda program, as we near completion of the flap and vane portion of this program and a $2.8 million decrease in revenue from various Sikorsky commercial programs, the result of lower demand. These decreases were offset by a $6.5 million increase in revenue from the Company's G650 program.

During the year ended December 31, 2016, we received approximately $36.5 million of new contract awards, which included $6.3 million of government prime contract awards, approximately $10.4 million of government subcontract awards and approximately $19.8 million of commercial contract awards, compared to $61.6 million of new contract awards in 2015, which included $13.3 million in government prime contract awards, $14.1 million of government subcontract awards and $34.2 million of commercial contract awards.

Cost of sales

Cost of sales for the years ended December 31, 2016 and 2015 was $77,010,940 and $83,600,854, respectively, a decrease of $6,589,914 or 7.9%.

The components of the cost of sales were as follows:

	Year ended December 31, 2016	December 31, 2015
Procurement	$52,504,318	$57,473,129
Labor	8,112,981	9,188,417
Factory overhead	15,750,146	16,431,764
Other contract costs	643,495	507,544
Cost of Sales	$77,010,940	$83,600,854

Procurement for the year ended December 31, 2016 was $52,504,318 compared to $57,473,129, a decrease of $4,968,811 or 8.6%. The decrease in procurement was the result of lower procurement on the Company's E-2D program, as we did multiyear volume discounted buys in 2015. .

Labor costs for the year ended December 31, 2016 were $8,112,981 compared to $9,188,417, a decrease of $1,075,436 or 11.7%. This decrease is predominately due to decreases in labor on our A-10 program, as we near completion on some of the assemblies from that program, as well as a decrease in labor on the Company's Cessna Citation program, as we completed the assemblies on order on that program. .

Factory overhead for the year ended December 31, 2016 was $15,750,146 compared to $16,431,764, a decrease of $681,618 or 4.2%. This decrease is the result of a decrease in employee benefits, factory supplies and indirect salaries, as shop production has declined. .

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Gross profit. Gross profit for the year ended December 31, 2016 was $4,318,918 compared to $16,601,703 for the year ended December 31, 2015, a decrease of $12,282,785. Gross profit percentage ("gross margin") for the year ended December 31, 2016 was 5.3% compared to 16.6% for the same period in 2015, predominately the result of the change in estimate on the Company's A-10 program.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2016 were $8,614,190 compared to $7,636,148 for the year ended December 31, 2015, an increase of $978,042, or 12.8%. This increase was primarily due to an approximately a $460,000 increase in accounting and legal fees related mostly to the extended 2015 audit process and an executive compensation study, a $411,000 reserve for disputed account receivables with various customer and an increase of $355,000 in salaries.

Interest expense. Interest expense for the year ended December 31, 2016 was $1,356,645, compared to $918,129 for 2015, an increase of $438,516 or 47.8%. The increase in interest expense is the result of an increase in the average amount of outstanding debt during 2016 as compared to 2015.

Income (loss) from operations. We had loss from operations for the year ended December 31, 2016 of $4,295,272 compared to income from operations of $8,965,555 for the year ended December 31, 2015.

Provision for (benefit from) income taxes. Our historic effective tax rate has been between 30%-32% of taxable income. The rate has been below the statutory federal income tax rate of 34% because of our ability to utilize the domestic production activity deduction, available to companies that do manufacturing within the United States. Beginning in 2015, we are providing for state income taxes in states where, although we don't have any property or full time employees, the historic method for the allocation of state income taxes, we do have sales and have employees present on at least a part time basis. As such the effective tax rate for both 2016 and 2015 is approximately 37%.

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, 2017, we had working capital of $78,137,801 compared to $70,595,485 at December 31, 2016, an increase of $7,542,316, or 10.7%. This increase is predominately the result of increases in Costs and Estimated Earnings in excess of Billings on Uncompleted Contracts ("CEE").

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

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

Several of our programs require us to expend up-front costs that may have to be amortized over a portion of production units. In the case of significant program delays and/or program cancellations, we could be required to bear impairment charges, which may be material for costs that are not recoverable. Such charges and the loss of up-front costs could have a material impact on our liquidity 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, 2017, our cash balance was $1,430,877 compared to $1,039,586 at December 31, 2016, an increase of $391,291. Our accounts receivable balance at December 31, 2017 decreased to $5,379,821 from $8,514,613 at December 31, 2016.

Bank Credit Facilities.

On December 5, 2012, the Company entered into an Amended and Restated Credit Agreement with Santander Bank (as further amended on August 6, 2014 and March 31, 2015, the "Credit Agreement") as the sole arranger, administrative agent, collateral agent and lender and Valley National Bank as lender. The Credit Agreement provided for a revolving credit facility of $35 million (the "Revolving Facility"). The Revolving Facility and term loan under the Credit Agreement are secured by all of our assets.

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

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

Bank United, N.A. assumed and succeeded to all the right and interest of Santander in connection with the Credit Agreement, Revolving Facility and Santander Term Loan. On March 24, 2016, the Company entered into an Amended and Restated Credit Agreement with Bank United, N.A. as the sole arranger, administrative agent and collateral agent (the "BankUnited Facility"). The BankUnited Facility provides for a revolving credit loan commitment of $30 million and a $10 million term loan. The term of the BankUnited Facility is through March of 2019. The revolving loan bears interest at a rate based upon a pricing grid, as defined in the agreement. The range for LIBOR based loans is between 2.5% and 3.25% above the then applicable LIBOR rate. The range of base rate loans is between the bank's prime rate and 0.75% above the bank's prime rate.

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

On May 9, 2016, the Company entered into an amendment (the "Amendment") to the BankUnited Facility. The Amendment changed the definition of EBITDA for the Leverage Coverage Ratio Covenant for the remainder of 2016 and changed the maximum leverage ratio from 3 to 1 to 3.5 to 1 for the quarters ending June 30, 2016 and September

30, 2016. Also, the Amendment increased the interest rate on the BankUnited Facility by 50 basis points and requires the repayment of a portion of the Term Loan in and to the extent that the Company receives any contract reimbursement payments from its current Request for Equitable Adjustment with Boeing on the A-10 program.

Also, in May 2016, the Company entered into a new interest rate swap with the objective of reducing our exposure to cash flow volatility arising from interest rate fluctuations associated with certain debt. The notional amount, maturity date, and currency of this contract match those of the underlying debt.

As of December 31, 2017, the Company was in compliance with all of the covenants contained in the Bank United Facility, as amended.

As of December 31, 2017, the Company had $22.8 million outstanding and as of December 31, 2016, the Company had $22.4 million outstanding under the BankUnited Facility.

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

Contractual Obligations. The table below summarizes information about our contractual obligations as of December 31, 2017 and the effects these obligations are expected to have on our liquidity and cash flow in the future years.

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Debt	$8,500,000	$1,833,333	$6,666,667	—	—
Capital Lease Obligations	555,209	175,667	305,596	$73,946	—
Operating Leases	7,572,922	1,679,465	3,484,025	2,409,432	—
Interest Rate Swap Agreement	18,781	18,781	—	—	—
Total Contractual Cash Obligations	$16,646,912	$3,707,246	$10,456,288	$2,483,378	$ —

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2017. Based on this evaluation, they have concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are effective in timely providing them with material information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act.

There were no material changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our disclosure controls and procedures.

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

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

Management's Report on Internal Control Over Financial Reporting

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

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

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

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on criteria established in *Internal Control- Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, out internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited CPI Aerostructures, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the balance sheets and the related statements of operations and comprehensive income (loss), shareholders' equity, and cash flows of the Company, and our report dated March 22, 2018, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ CohnReznick LLP

Jericho, New York

March 22, 2018

(Continued)

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

See Item 14.

Item 11. EXECUTIVE COMPENSATION

See Item 14.

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

See Item 14.

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

See Item 14.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Items 10, 11, 12, 13 and 14 will be contained in our definitive proxy statement for our 2018 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year covered by this report pursuant to Regulation 14A under the Exchange Act, and incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Report of Independent Registered Public Accounting Firm

Balance Sheets as of December 31, 2017 and 2016

Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2017, 2016 and 2015

Statements of Shareholders' Equity for the Years Ended December 31, 2017, 2016 and 2015

Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

Notes to Financial Statements

Exhibit Number	Name of Exhibit	No. in Document
3.1	Certificate of Incorporation of the Company, as amended. (1)	3.1
3.1(a)	Certificate of Amendment of Certificate of Incorporation filed on July 14, 1998. (2)	3.1(a)
3.2	Amended and Restated By-Laws of the Company. (3)	3.2
10.20	Performance Equity Plan 2009 (4)	
10.21	2016 Long Term Incentive Plan	
10.23	Agreement of Lease, dated June 30, 2011, between Heartland Boys II L.P. and CPI Aerostructures Inc. (5)	10.1
10.31	Amended and Restated Credit Agreement, dated as of March 24, 2016, as amended on May 6, 2016, among CPI Aerostructures, Inc., the several lenders from time to time party thereto, and Bank United, N.A.	10.1
14	Code of Business Conduct and Ethics	
**21	Subsidiaries of the Registrant	
**23.1	Consent of CohnReznick LLP	
**31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
**31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
**32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
***101.INS	XBRL Instance Document	
***101.SCH	XBRL Taxonomy Extension Schema Document	

***101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
***101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
***101.LAB	XBRL Taxonomy Extension Label Linkbase Document
***101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**Filed herewith.

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

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

CPI AEROSTRUCTURES, INC.

INDEX TO FINANCIAL STATEMENTS

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CPI AEROSTRUCTURES, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders CPI Aerostructures Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of CPI Aerostructures, Inc. (the Company) as of December 31, 2017 and 2016, and the related statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively referred to as 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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 22, 2018, expressed an unqualified opinion.

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 PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. 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.

/s/ CohnReznick LLP

We have served as the Company's auditor since 2004.

Jericho, New York

March 22, 2018

CPI AEROSTRUCTURES, INC.

BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash	$1,430,877	$1,039,586
Accounts receivable, net	5,379,821	8,514,613
Costs and estimated earnings in excess of billings on uncompleted contracts	111,158,551	99,578,526
Prepaid expenses and other current assets	2,413,187	2,155,481
Total current assets	120,382,436	111,288,206
Property and equipment, net	2,046,942	2,298,610
Deferred income taxes	1,566,818	3,952,598
Other assets	188,303	252,481
Total Assets	$124,184,499	$117,791,895
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$15,129,872	$14,027,457
Accrued expenses	1,911,421	1,386,147
Billings in excess of costs and estimated earnings on uncompleted contracts	74,657	115,337
Current portion of long-term debt	2,009,000	1,341,924
Contract loss	171,673	1,377,171
Line of credit	22,838,685	22,438,685
Income taxes payable	109,327	6,000
Total current liabilities	42,244,635	40,692,721
Long-term debt, net of current portion	7,019,468	8,860,724
Other liabilities	607,063	632,744
Total Liabilities	49,871,166	50,186,189
Commitments		
Shareholders' Equity:		
Common stock - $.001 par value; authorized 50,000,000 shares, 8,864,319 and 8,739,836 shares, respectively, issued and outstanding	8,863	8,738
Additional paid-in capital	53,770,618	52,824,950
Retained earnings	20,548,652	14,781,018
Accumulated other comprehensive loss	(14,800)	(9,000)
Total Shareholders' Equity	74,313,333	67,605,706
Total Liabilities and Shareholders' Equity	$124,184,499	$117,791,895

see notes to financial statements

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CPI AEROSTRUCTURES, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Years ended December 31,	2017	2016	2015
Revenue	$81,283,148	$81,329,858	$100,202,557
Cost of sales	62,637,232	77,010,940	83,600,854
Gross profit	18,645,916	4,318,918	16,601,703
Selling, general and administrative expenses	8,449,594	8,614,190	7,636,148
Income (loss) from operations	10,196,322	(4,295,272)	8,965,555
Other expense:			
Other expense	(19,774)	(22,659)	(40,433)
Interest expense	(1,698,914)	(1,356,645)	(918,129)
Total other expense, net	(1,718,688)	(1,379,304)	(958,562)
Income (loss) before provision for (benefit from) income taxes	8,477,634	(5,674,576)	8,006,993
Provision for (benefit from) income taxes	2,710,000	(2,066,000)	2,991,000
Net income (loss)	5,767,634	(3,608,576)	5,015,993
Other comprehensive income (loss), net of tax			
Change in unrealized (gain) loss-interest rate swap	(5,800)	(5,547)	6,263
Comprehensive income (loss)	$5,761,834	($3,614,123)	$5,022,256
Income (loss) per common share-basic	$0.65	($0.42)	$0.59
Income (loss) per common share-diluted	$0.65	($0.42)	$0.58
Shares used in computing earnings per common share:			
Basic	8,831,064	8,655,848	8,552,817
Diluted	8,838,445	8,655,848	8,579,986

see notes to financial statements

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CPI AEROSTRUCTURES, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2017, 2016 and 2015

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2015	8,500,555	$ 8,501	$ 51,440,770	$ 13,373,601	($ 9,716)	$ 64,813,156
Net income	—	—	—	5,015,993	—	5,015,993
Change in unrealized loss from interest rate swap	—	—	—	—	6,263	6,263
Common stock issued upon exercise of options, net	25,352	26	79,974	—	—	80,000
Common stock issued as employee compensation	6,255	6	59,417	—	—	59,423
Stock based compensation expense	51,349	51	524,223	—	—	524,274
Tax benefit from stock option plans	—	—	33,000	—	—	33,000
Balance at December 31, 2015	8,583,511	8,584	52,137,384	18,389,594	(3,453)	70,532,109
Net loss	—	—	—	(3,608,576)	—	(3,608,576)
Change in unrealized loss from interest rate swap	—	—	—	—	(5,547)	(5,547)
Common stock issued upon exercise of options, net	3,448	3	(3)	—	—	—
Common stock issued as employee compensation	98,645	97	163,354	—	—	163,451
Stock based compensation expense	54,232	54	524,215	—	—	524,269
Balance at December 31, 2016	8,739,836	8,738	52,824,950	14,781,018	(9,000)	67,605,706
Net income	—	—	—	5,767,634	—	5,767,634
Change in unrealized loss from interest rate swap	—	—	—	—	(5,800)	(5,800)

Common stock issued upon exercise of options	3,334	3	(3)	—	—	—
Common stock issued as employee compensation	5,550	6	50,776	—	—	50,782
Stock based compensation expense	115,599	116	894,895	—	—	895,011
Balance at December 31, 2017	8,864,319	$ 8,863	$ 53,770,618	$ 20,548,652	($ 14,800)	$ 74,313,333

see notes to financial statements

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CPI AEROSTRUCTURES, INC.

STATEMENTS OF CASH FLOWS

Years ended December 31,	2017	2016	2015
Cash flows from operating activities:			
Net income (loss)	$5,767,634	($3,608,576)	$5,015,993
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	616,291	661,921	854,063
Debt issue cost	85,571	61,320	—
Deferred rent	(30,680)	8,235	46,017
Stock based compensation expense	895,011	524,269	524,274
Common stock issued as employee compensation	50,782	163,451	59,423
Loss on disposal of fixed asset	21,010	—	—
Deferred portion of provision for income taxes	2,384,980	(2,077,299)	2,659,000
Tax benefit for stock options	—	—	(33,000)
Bad debt expense	150,000	460,514	50,000
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	2,984,792	(1,309,290)	(1,249,023)
(Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts	(11,580,025)	3,043,861	(23,568,248)
Increase in prepaid expenses and other current assets	(257,706)	(1,013,008)	(237,199)
(Increase) decrease in refundable income taxes	—	(77,000)	8,133,433
Increase (decrease) in accounts payable and accrued expenses	1,627,689	(4,023,547)	9,446,948
(Decrease) increase in accrued losses on uncompleted contracts	(1,205,498)	827,448	153,541
Increase (decrease) in income taxes payable	103,327	(183,000)	220,822
Decrease in billings in excess of costs and estimated earnings on uncompleted contracts	(40,680)	(60,101)	(18,212)
Net cash provided by (used in) operating activities	1,572,498	(6,600,802)	2,057,832
Cash flows from investing activities:			
Purchase of property and equipment	(281,922)	(136,320)	(209,718)
Proceeds from sale of fixed assets	42,480	—	—
Net cash used in investing activities	(239,442)	(136,320)	(209,718)
Cash flows from financing activities:			
Proceeds from exercise of stock options	—	—	80,000
Payment of line of credit	(4,100,000)	(30,400,000)	(9,650,000)
Proceeds from line of credit	4,500,000	29,138,685	8,200,000
Payment of long-term debt	(1,341,765)	(1,710,145)	(1,013,998)
Proceeds from long-term debt	—	10,000,000	—
Debt issue costs	—	(253,855)	—
Tax benefit for stock options	—	—	33,000

Net cash (used in) provided by financing activities	(941,765)	6,774,685	(2,350,998)
Net increase (decrease) in cash	391,291	37,563	(502,884)
Cash at beginning of year	1,039,586	1,002,023	1,504,907
Cash at end of year	$1,430,877	$ 1,039,586	$1,002,023
Supplemental schedule of noncash investing and financing activities:			
Equipment acquired under capital lease	$146,192	$ 465,475	$247,881
Cashless exercise of stock options	$202,500	$ 168,750	—
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	$1,578,627	$ 1,182,791	$1,000,403
Cash paid for income taxes	$144,718	$ 302,025	$351,275

see notes to financial statements

CPI AEROSTRUCTURES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Principal business activity And summary of significant Accounting policies

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

Use of Estimates

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

Revenue Recognition

The Company’s revenue is primarily recognized based on the percentage of completion method of accounting for its contracts measured by the percentage of total costs incurred to date to estimated total costs at completion for each contract. Contract costs include all direct material, labor costs, tooling and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative costs are charged to expense as incurred. Estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Changes in job performance may result in revisions to costs and income and are recognized in the period in which revisions are determined to be required. The percentage of completion method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods and, as a result, there can be a significant disparity between earnings (both for accounting and taxes) as reported and actual cash received by the Company during any reporting period. In accordance with industry practice, costs and estimated earnings in excess of billings on uncompleted contracts, included in the accompanying balance sheets, contain amounts relating to contracts and programs with long production cycles, a portion of which will not be realized within one year. The Company’s recorded revenue may be adjusted in later periods in the event that the Company’s cost estimates prove to be inaccurate or a contract is terminated.

When adjustments are required for the estimated total revenue on a contract, these changes are recognized with an inception-to-date effect in the current period. Also, when estimates of total costs to be incurred exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

In addition, the Company recognizes revenue for parts supplied for certain MRO contracts when parts are shipped.

Government Contracts

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

CPI AEROSTRUCTURES, INC.

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

Cash

The Company maintains its cash in three financial institutions. The balances are insured by the Federal Deposit Insurance Corporation. From time to time, the Company’s balances may exceed these limits. As of December 31, 2017 and 2016, the Company had approximately $1,377,000 and $1,276,000, respectively, of uninsured balances. The Company limits its credit risk by selecting financial institutions considered to be highly credit worthy.

Accounts Receivable

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

Property and Equipment

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

Rent

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

Long-Lived Assets

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

Short-Term Debt

The fair value of the Company’s short-term debt is estimated based on the current rates offered to the Company for debt of similar terms and maturities. Using this method, the fair value of the Company’s short-term debt was not significantly different than the stated value at December 31, 2017 and 2016.

Derivatives

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

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

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

In March 2012, the Company entered into an interest rate swap with the objective of reducing its exposure to cash flow volatility arising from interest rate fluctuations associated with certain debt. The notional amount, maturity date, and currency of these contracts match those of the underlying debt. The Company has designated this interest rate swap contract as cash flow hedge. The Company measures ineffectiveness by comparing the cumulative change in the forward contract with the cumulative change in the hedged item. The interest rate swap contract was terminated as of

March 24, 2016. The Company paid approximately $4,000 at termination to settle the swap contract.

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CPI AEROSTRUCTURES, INC.

In May 2016, the Company entered into a new interest rate swap with the objective of reducing our exposure to cash flow volatility arising from interest rate fluctuations associated with certain debt. The notional amount, maturity date, and currency of this contract match those of the underlying debt. The Company has designated this interest rate swap contract as a cash flow hedge. The Company measures ineffectiveness by comparing the cumulative change in the forward contact with the cumulative change in the hedged item.

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

Fair Value

At December 31, 2017 and 2016, the fair values of cash, accounts receivable and accounts payable approximated their carrying values because of the short-term nature of these instruments.

	2017 Carrying Amount	Fair Value	2016 Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt	$31,893,894	$31,893,894	$32,689,467	$32,689,467

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

The following tables present the fair values of liabilities measured on a recurring basis as of December 31, 2017 and 2016:

		Fair Value Measurements 2017		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swap	$18,781	—	$ 18,781	—
Total	$18,781	—	$ 18,781	—

		Fair Value Measurements 2016		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swap	$13,685	—	$ 13,685	—
Total	$13,685	—	$ 13,685	—

CPI AEROSTRUCTURES, INC.

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

As of December 31, 2017 and 2016, $18,781 and $13,685, respectively, was included in other liabilities related to the fair value of the Company's interest rate swap, and $15,000 and $9,000, respectively, net of tax of approximately $4,000 and $5,000, respectively, was included in Accumulated Other Comprehensive Loss.

Earnings Per Share

Basic earnings (loss) per common share is computed using the weighted-average number of shares outstanding. Diluted earnings (loss) per common share is computed using the weighted-average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock. Incremental shares of approximately 35,000 were used in the calculation of diluted earnings per common share in 2017. Incremental shares of 45,249 were not included in the diluted earnings per share calculations at December 31, 2017, as their exercise price was in excess of the Company's quoted market price and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation. No incremental shares were used in the calculation of diluted loss per common share in 2016, as the effect of incremental shares would be anti-dilutive. Incremental shares of approximately 85,000 were used in the calculation of diluted earnings per common share in 2015. Incremental shares of 184,983 were not included in the diluted earnings per share calculations at December 31, 2015, as their exercise price was in excess of the Company's quoted market price and, accordingly, these shares are not assumed to be exercised for the diluted earnings per share calculation.

Income taxes

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

The Company does not have any liabilites for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. It is the Company's policy to recognize interest and penalties related to uncertain tax positions as a component of income tax expense. Uncertain tax positions are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions.

In accordance with the Tax Cuts and Jobs Act that was enacted on December 22, 2017 ("U.S. Tax Reform"), we have recorded a credit for income taxes of $207,000. The impact of the U.S. Tax Reform is primarily from revaluing our U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. For U.S. federal purposes the corporate statutory income tax rate was reduced from 35% to 21%, effective for our 2018 tax year. The provisional impact of the U.S. Tax Reform is our current best estimate based on the preliminary review of the new law and is subject to revision based on our existing accounting for income taxes policy as further information is gathered and interpretation and analysis of the tax legislation evolves. The Securities and Exchange Commission has issued rules allowing for a measurement period of up to one year after the enactment date of the U.S. Tax Reform to finalize the recording of the related tax impacts. Any future changes to our provisional estimated impact of the U.S. Tax Reform will be included as an adjustment to the provision for income taxes.

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Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The fundamental principles of the guidance are that entities should recognize revenue in a manner that reflects the timing of transfer of goods and services to customers and the amount of revenue recognized reflects the consideration that an entity expects to receive for the goods and services provided. Entities have the option of two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). Effective January 1, 2018, the Company adopted Topic 606 using the modified retrospective method for all of its contracts. Following the adoption of Topic 606, the Company's revenue recognition for all of its contracts remained materially consistent with historical practice. In addition, following the adoption of Topic 606, the Company will change the presentation of its balance sheet moving its costs and estimated earnings in excess of billings on uncompleted contracts to contract assets and its billings in excess of costs and estimated earnings to contract liabilities and will also include additional disclosures required in accordance with Topic 606.

In February 2016, the FASB issued ASU 2016-02, *"Leases (Topic 842)."* The updated guidance requires lessees to recognize lease assets and lease liabilities for most operating leases. In addition, the updated guidance requires that lessors separate lease and nonlease components in a contract in accordance with the new revenue guidance in ASU 2014-09. The updated guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect on its financial statements.

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

At December 31, 2017, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

	U.S. Government	Commercial	Total
Costs incurred on uncompleted contracts	$380,585,374	$176,564,952	$557,150,326

Estimated earnings	44,708,920	65,341,115	110,050,035
	425,294,294	241,906,067	667,200,361
Less billings to date	370,755,359	185,361,108	556,116,467
Costs and estimated earnings in excess of billings on uncompleted contracts	$54,538,935	$56,544,959	$111,083,894

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CPI AEROSTRUCTURES, INC.

At December 31, 2016, costs and estimated earnings in excess of billings on uncompleted contracts (unbilled) consist of:

	U.S. Government	Commercial	Total
Costs incurred on uncompleted contracts	$341,003,461	$153,898,425	$494,901,886
Estimated earnings	39,638,231	58,346,518	97,984,749
	380,641,692	212,244,943	592,886,635
Less billings to date	331,277,942	162,145,504	493,423,446
Costs and estimated earnings in excess of billings on uncompleted contracts	$49,363,750	$50,099,439	$99,463,189

The above amounts are included in the accompanying balance sheets under the following captions at December 31, 2017 and 2016.

	2017	2016
Costs and estimated earnings in excess of billings on uncompleted contracts	$111,158,551	$99,578,526
Billings in excess of costs and estimated earnings on uncompleted contracts	(74,657)	(115,337)
Totals	$111,083,894	$99,463,189

Unbilled costs and estimated earnings are billed in accordance with applicable contract terms. As of December 31, 2017, approximately $35 million of the balances above are not expected to be collected within one year. There are no amounts billed under retainage provisions.

Revisions in the estimated gross profits on contracts and contract amounts are made in the period in which the circumstances requiring the revisions occur. During the years ended December 31, 2017, 2016 and 2015, the effect of such revisions in total estimated contract profits resulted in a decrease to the total gross profit to be earned on the contracts of approximately $1,040,000, $1,667,000 and $1,875,000, respectively, from that which would have been reported had the revised estimate been used as the basis of recognition of contract profits in prior years.

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

CPI AEROSTRUCTURES, INC.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of trade receivables as follows:

	December 31, 2017	December 31, 2016
Billed receivables	$5,529,821	$9,050,127
Less: allowance for doubtful accounts	(150,000)	(535,514)
	$5,379,821	$8,514,613

4. PROPERTY AND EQUIPMENT

	December 31, 2017	December 31, 2016	Estimated Useful Life (years)
Machinery and equipment	$ 2,461,047	$ 2,289,175	5 to 10
Computer equipment	3,476,454	3,417,701	5
Furniture and fixtures	610,323	610,323	7
Automobiles and trucks	13,162	13,162	5
Leasehold improvements	1,798,823	1,694,900	Lesser of lease term or 10 years
	8,359,809	8,025,261	
Less accumulated depreciation and amortization	6,312,867	5,726,651	
	$ 2,046,942	$ 2,298,610	

Depreciation and amortization expense for the years ended December 31, 2017, 2016 and 2015 was $616,291, $661,921 and $854,063, respectively.

During the years ended December 31, 2017 and 2016, the Company acquired $146,192 and $465,475, respectively, of property and equipment under capital leases.

5. LINE OF CREDIT

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

On March 24, 2016, the Company entered into a Credit Agreement with Bank United, N.A. as the sole arranger, administrative agent and collateral agent and Citizens Bank N.A. (the “BankUnited Facility”). The BankUnited Facility provides for a revolving credit loan commitment of $30 million (the “Revolving Loan”) and a $10 million term loan (“Term Loan”). The proceeds of the BankUnited Facility were used to pay off all amounts outstanding under the Santander Term Loan and the Revolving Facility. The Revolving Loan bears interest at a rate based upon a pricing grid, as defined in the agreement.

On May 9, 2016, the Company entered into an amendment (the “Amendment”) to the BankUnited Facility. The Amendment changes the definition of EBITDA for the Leverage Coverage Ratio Covenant for the remainder of 2016 and changes the maximum leverage ratio from 3 to 1 to 3.5 to 1 for the quarters ending June 30, 2016 and September 30, 2016. Also, the Amendment increased the interest rate on the BankUnited Facility by 50 basis points and requires the repayment of a portion of the Term Loan if and to the extent that the Company receives any contract reimbursement payments from its current Request for Equitable Adjustment with Boeing on the A-10 program.

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As of December 31, 2017, the Company was in compliance with all of the financial covenants, contained in the Restated Agreement, as amended. As of December 31, 2017, the Company had $22.8 million outstanding under the Restated Agreement bearing interest at 4.75%.

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

6. LONG-TERM DEBT

On March 9, 2012, the Company obtained a $4.5 million term loan from Santander to be amortized over five years (the "Santander Term Facility"). The Santander Term Facility was used to purchase tooling and equipment for new programs.

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

The Santander interest swap agreement was terminated and the Santander Term Facility was paid off on March 24, 2016 using the proceeds of the Bank United Facility (See Note 5).

The Company paid approximately $254,000 of debt issuance costs with the Bank United Facility of which approximately $80,000 is included in other current assets and $27,000 is a reduction of long-term debt.

The Term Loan had an initial amount of $10 million, payable in monthly installments, as defined in the agreement, which matures on March 31, 2019. The maturities of the Term Loan are included in the maturities of long-term debt.

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

Year ending December 31,	
2018	$2,009,000
2019	6,837,608
2020	134,655
2021	42,073
2022	31,873
	$9,055,209

Also included in long-term debt are capital leases and notes payable of $555,209 and $584,116 at December 31, 2017 and 2016, respectively, including a current portion of $175,667 and $175,257, respectively.

The cost of assets under capital leases was $1,975,642 and $1,829,450 at December 31, 2017 and 2016, respectively. Accumulated depreciation of assets under capital leases was approximately $1,300,970 and $1,157,000 at December 31, 2017 and 2016, respectively.

CPI AEROSTRUCTURES, INC.

7. COMMITMENTS

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

Year ending December 31,	
2018	$1,679,465
2019	1,720,750
2020	1,763,275
2021	1,807,074
2022	602,358
	$7,572,922

Rent expense for the years ended December 31, 2017, 2016 and 2015 was $1,608,701, $1,608,701 and $1,608,701, respectively.

8. INCOME TAXES

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

Year ended December 31,	2017	2016	2015
Current:			
Federal	$200,000	—	$82,000
Prior year under accrual	—	—	143,000
State	126,000	($51,000)	107,000
Deferred:			
Federal	2,244,000	(2,015,000)	2,659,000
State/Local	140,000	—	—
	$2,710,000	($2,066,000)	$2,991,000

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

December 31,	2017	2016	2015
Taxes computed at the federal statutory rate	$2,882,000	($1,929,000)	$2,722,000
State income tax, net	176,000	(34,000)	70,000
Prior year true-up	2,000	(3,000)	325,000
Research and development tax credit	(235,000)	(246,000)	(177,000)
Change in Federal Statutory Rate	(207,000)	—	—
Permanent differences	92,000	146,000	51,000
Provision for (benefit from) income taxes	$2,710,000	($2,066,000)	$2,991,000

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

Deferred Tax Assets:	2017	2016
Interest rate swap	$1,000	$9,000
Allowance for doubtful accounts	32,000	187,000
Credit carryforwards	1,986,000	1,548,000
Deferred rent	126,000	221,000
Stock options	102,000	295,000
Restricted stock	90,000	47,000
Net operating loss carryforward	750,000	5,057,000
Deferred Tax Assets	3,087,000	7,364,000
Deferred Tax Liabilities:		
Prepaid expenses	141,000	130,000
Revenue recognition	1,036,000	2,807,000
Property and equipment	276,000	475,000
State taxes	67,000	—
Deferred tax liabilities	1,520,000	3,412,000
Net Deferred Tax Assets	$1,567,000	$3,952,000

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

9. STOCK BASED COMPENSATION

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

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

The Company’s net income (loss) for the years ended December 31, 2017, 2016 and 2015, includes approximately $946,000, $688,000 and $584,000 of stock based compensation expense, respectively, for the grant of stock options and RSUs.

In January 2017, the Company granted 59,395 RSUs to its board of directors as partial compensation for the 2017 year. On January 1, 2016, the Company granted 53,882 RSUs to its board of directors as partial compensation for the 2016 year. RSUs vest quarterly on a straight-line basis over a one-year period. The Company’s net income (loss) for the year ended December 31, 2017 and 2016 includes approximately $550,000 and $524,000, respectively, of noncash compensation expense related to the RSU grants to the board of directors. This expense is recorded as a component of selling, general and administrative expenses. In addition, for the year ended December 31, 2017, the Company granted 5,550 shares of common stock to various employees and approximately $13,300 of compensation expense is included in selling, general and administrative expenses and approximately $37,500 of compensation expense is included in cost of sales for this grant.

In August 2016 and March 2017, the Company granted 98,645 and 73,060 shares of common stock, respectively, to various employees. In the event that any of these employees voluntarily terminates their employment prior to certain dates, portions of the shares may be forfeited. In addition, if certain Company performance criteria are not achieved, portions of these shares may be forfeited. These shares will be expensed during various periods through March 2021 based upon the service and performance thresholds. In March 2017, 12,330 of the shares granted in August 2016 were forfeited because the Company failed to achieve certain performance criteria for the year ended December 31, 2016. In addition, on March 9, 2017, these employees returned 4,525 common shares, valued at approximately $33,000, to pay the employees’ withholding taxes. For the years ended December 31, 2017 and 2016, approximately $219,000 and $135,100, respectively, of compensation expense is included in selling, general and administrative expenses and approximately $46,300 and $28,400, respectively of compensation expense is included in cost of sales for this grant.

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

In 2009, the Company adopted the Performance Equity Plan 2009 (the "2009 Plan"). The 2009 Plan reserved 500,000 common shares for issuance. The 2009 Plan provides for the issuance of either incentive stock options or nonqualified stock options to employees, consultants or others who provide services to the Company. The options' exercise price is equal to the closing price of the Company's shares on the day of issuance, except for incentive stock options granted to any person possessing more than 10% of the total combined voting power of all classes of Company stock, which are exercisable at 110% of the closing price of the Company's shares on the date of issuance.

The Company has 172,978 shares available for grant under the 2009 Plan.

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.

The Company has 270,309 shares available for grant under the 2016 Plan.

The Company did not grant any stock options in 2017, 2016 or 2015.

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

Fixed Options	Options	Weighted Average Exercise Price	Average remaining contractual term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	349,983	10.97	2.20	
Granted during period	—	—		
Exercised	(55,000)	8.00		
Forfeited/Expired	(25,000)	14.08		
Outstanding at December 31, 2015	269,983	11.29	1.71	
Granted during period	—	—		
Exercised	(25,000)	6.75		
Forfeited/Expired	(95,517)	13.83		
Outstanding at December 31, 2016	149,466	$ 10.43	1.58	
Granted during period	—	—		
Exercised	(25,000)	8.10		
Forfeited/Expired	(44,217)	10.62		
Outstanding at December 31, 2017	80,249	$ 11.05	1.10	$ 82,250
Vested at December 31, 2017	80,249	$ 11.05	1.10	$ 82,250

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

During the year ended December 31, 2017, no stock options were exercised for cash. During the same period, 25,000 options were exercised, pursuant to provisions of the stock option plan, where the Company received no cash and 21,666 shares of its common stock in exchange for the 25,000 shares issued in the exercise. The 21,666 shares that the Company received were valued at $202,580, the fair market value of the shares on the dates of exercise.

During the year ended December 31, 2016, no stock options were exercised for cash. During the same period, 25,000 options were exercised, pursuant to provisions of the stock option plan, where the Company received no cash and 21,552 shares of its common stock in exchange for the 25,000 shares issued in the exercise. The 21,552 shares that the Company received were valued at $168,750, the fair market value of the shares on the dates of exercise.

The intrinsic value of stock options exercised during the years ended December 31, 2017, 2016 and 2015 was approximately $31,300, $27,000 and $230,500, respectively.

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The fair value of all options vested during the years ended December 31, 2017, 2016 and 2015 was approximately $82,000, $151,000 and $221,000, respectively.

10. EMPLOYEE BENEFIT PLAN

On September 11, 1996, the Company's board of directors instituted a defined contribution plan under Section 401(k) of the Internal Revenue Code (the "Code"). On October 1, 1998, the Company amended and standardized its plan as required by the Code. Pursuant to the amended plan, qualified employees may contribute a percentage of their pretax eligible compensation to the Plan and the Company will match a percentage of each employee's contribution. Additionally, the Company has a profit-sharing plan covering all eligible employees. Contributions by the Company are at the discretion of management. The amount of contributions recorded by the Company in 2017, 2016 and 2015 amounted to $361,682, $351,932 and $422,334, respectively.

11. MAJOR CUSTOMERS

Eight percent of revenue in 2017, 4% of revenue in 2016 and 1% of revenue in 2015 were directly to the U.S. government. Less than 6% and 10% of accounts receivable at December 31, 2017 and 2016, respectively, were from the U. S. Government.

In addition, in 2017, 25%, 23% and 12% of our revenue were to our three largest commercial customers, respectively. In 2016, 36%, 29%, 12% and 11% of our revenue were to our four largest commercial customers, respectively. At December 31, 2017, 44%, 18% and 13% of accounts receivable were from our three largest commercial customers. At December 31, 2016, 35%, 24% and 17% of accounts receivable were from our three largest commercial customers.

At December 31, 2017 and 2016, 4% and 1%, respectively, of costs and estimated earnings in excess of billings on uncompleted contracts were from the U.S. Government.

At December 31, 2017, 32%, 20%, 12%, and 10% of costs and estimated earnings in excess of billings on uncompleted contracts were from our four largest commercial customers. At December 31, 2016, 33%, 26%, 12%, and 11% of Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts were from our four largest commercial customers.

In 2017 and 2016, approximately 4% and 11%, respectively, of our revenue was from a customer who is located outside the United States.

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12. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	Quarter ended			
2017	March 31,	June 30,	September 30,	December 31,
Revenue	$20,032,701	$16,731,951	$20,706,460	$23,812,036
Gross Profit	4,537,514	3,683,748	4,912,436	5,512,218
Net Income	1,249,301	765,647	1,695,513	2,057,173
Income per common share				
Basic	0.14	0.09	0.19	0.23
Diluted	0.14	0.09	0.19	0.23
2016				
Revenue	$12,670,032	$22,280,964	$22,110,829	$24,268,033
Gross Profit (loss)	(11,639,104)	5,034,001	5,024,368	5,899,653
Net Income (loss)	(9,220,220)	1,790,580	1,686,065	2,134,999
Income (loss) per common share				
Basic	(1.07)	0.21	0.19	0.24
Diluted	(1.07)	0.21	0.19	0.24

13. SUBSEQUENT EVENTS

On March 21, 2018, the Company entered into a Stock Purchase Agreement (the "Agreement") with Air Industries Group ("Air Industries"), pursuant to which, subject to the satisfaction or waiver of certain conditions, the Company will purchase from Air Industries all of the shares (the "Shares") of Welding Metallurgy, Inc. ("WMI"), a wholly owned subsidiary of Air Industries (the "Acquisition"). WMI is engaged in the manufacture of complex components and assemblies for the defense and commercial aircraft industries.

Under the terms of the Agreement, the Company will pay a purchase price for the Shares as follows: (i) $9.0 million in cash, subject to adjustment based on the working capital of WMI at the closing of the Acquisition and (ii) up to an aggregate of $1.0 million, in two payments of up to $500,000 each (the "Contingent Payments") if WMI enters into certain long-term supply agreements. The Contingent Payments are reduced if milestones for signing are not achieved.

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SIGNATURES

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

Dated: March 22, 2018 CPI AEROSTRUCTURES, INC.
(Registrant)

By: /s/ Vincent Palazzolo
Vincent Palazzolo

Chief Financial Officer and Secretary

(Principal financial and accounting officer)

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

Signature	Title	Date
/s/ Eric Rosenfeld Eric Rosenfeld	Chairman of the Board of Directors	March 22, 2018
/s/ Douglas McCrosson Douglas McCrosson	Chief Executive Officer and President	March 22, 2018
/s/ Vincent Palazzolo Vincent Palazzolo	Chief Financial Officer and Secretary (Principal financial and accounting officer)	March 22, 2018
/s/ Walter Paulick Walter Paulick	Director	March 22, 2018
/s/ Harvey Bazaar Harvey Bazaar	Director	March 22, 2018

/s/ Michael Faber Director March 22, 2018
Michael Faber

/s/ Terry Stinson Director March 22, 2018
Terry Stinson

/s/ Carey Bond Director March 22, 2018
Carey Bond

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