CPI AEROSTRUCTURES INC
Form 10-Q
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to __________

Commission File Number: 1-11398

CPI AEROSTRUCTURES, INC.

(Exact name of registrant as specified in its charter)

New York	11-2520310
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

(631) 586-5200

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No ×

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

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Part I - Financial Information

Item 1 – Condensed Financial Statements

CONDENSED BALANCE SHEETS

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

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

See Notes to Condensed Financial Statements

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CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME(LOSS)

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

See Notes to Condensed Financial Statements

CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

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

See Notes to Condensed Financial Statements

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

Supplemental disclosures of cash flow information:

Noncash investing and financing activities:

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

See Notes to Condensed Financial Statements

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. INTERIM FINANCIAL STATEMENTS

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

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

The Company maintains its cash in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation. From time to time, the Company’s balances may exceed these limits. As of September 30, 2015, the Company had approximately $2,152,000 of uninsured balances. The Company limits its credit risk by selecting financial institutions considered to be highly creditworthy.

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

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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

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

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard was to become effective for annual and interim periods in fiscal years beginning after December 15, 2016. In April 2015, the FASB proposed deferring the effective date of ASU 2014-09 for one year, and proposed some modifications to the original provisions. On July 9, 2015, the one year deferral of the effective date was approved, and as such ASU 2014-09 is effective for our first quarter of fiscal year 2018 using either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting. The other modifications to the original proposals are still pending.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

2. stock-based compensation

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

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

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

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

Risk-free interest rate	1.45%	-	1.64%
Expected volatility	83%	-	102%
Dividend yield			