UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 100389 / June 20, 2024

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4510 / June 20, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-21975

In the Matter of **CPI AEROSTRUCTURES, INC.,** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), against CPI Aerostructures, Inc. ("CPI Aero" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-And-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

Summary

1. This matter involves financial reporting, accounting, internal accounting controls, and disclosure controls and procedures failures by CPI Aero, an aerospace structural products manufacturer. These failures led to multiple restatements of CPI Aero's financial statements for fiscal periods between January 1, 2018 and December 31, 2022 concerning, among other things, reported revenue, inventory, loss reserves, and deferred tax asset and liability balances contained in the Income Taxes footnote. In addition, CPI Aero reported multiple material weaknesses in its internal control over financial reporting ("ICFR") and failed to maintain effective disclosure controls and procedures ("DCP") for the six consecutive annual reporting periods from 2018 through 2023.

2. As a result of this conduct, CPI Aero violated Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1, 13a-11, 13a-13, and 13a-15(a) thereunder.

Respondent

3. CPI Aerostructures, Inc. is a New York corporation headquartered in Edgewood, New York. CPI Aero is a manufacturer of structural assemblies, integrated systems, and kitted components for the domestic and international aerospace and defense markets. CPI Aero's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act. Respondent's securities trade on the NYSE American exchange under the symbol "CVU." At all relevant times, Respondent filed periodic reports with the Commission, including Forms 10-K and 10-Q, pursuant to Section 13(a) of the Exchange Act and related rules thereunder.

CPI Aero's Third Quarter 2018 Restatement and Material Weakness

4. On February 8, 2019, CPI Aero filed a Form 8-K announcing that its prior quarterly report for the third quarter of 2018 should no longer be relied upon due to an error in the financial statements. Respondent stated that its review control procedures failed to identify, in a timely manner, the miscoding of an invoice in its records resulting in an overstatement of revenue. The financial statements as of and for the three and nine months ended September 30, 2018 were restated on February 27, 2019, resulting in a reduction of net income of approximately $742,000. As a result of this error, CPI Aero disclosed in its 2018 Form 10-K that ICFR and DCP were not effective and identified the miscoding error as a material weakness in ICFR.

CPI Aero's 2018 and 2019 Restatements

5. On February 14, 2020, CPI Aero filed a Form 8-K announcing that its prior annual report on Form 10-K for 2018 and quarterly reports on Form 10-Q for 2018 and 2019 should no longer be relied upon due to revenue recognition errors in the financial statements resulting from the misapplication of ASC Topic 606, and that management's reports on the effectiveness of ICFR, press releases, and investor communications describing Respondent's financial statements for such periods also should no longer be relied upon.

6. Respondent recognizes revenues and profits for contracts with customers using the cost-to-cost percentage of completion method of accounting. Historically, for long-term programs, CPI Aero applied the cost-to-cost percentage of completion method at the program level, which considered the entire duration of expected production activity on a particular program. Respondent estimated its revenue recognition utilizing the life of the program, including unexercised and non-binding customer purchase options, to both measure progress and estimate profit margin. Management subsequently concluded that its life of the program accounting was not an appropriate application of ASC Topic 606.

7. CPI Aero determined the performance obligation, rather than the life of the program, to be the appropriate unit of accounting for its long-term programs. Respondent considers only the costs incurred relative to the total expected costs of satisfying the performance obligations identified in the contract when measuring progress, and no longer includes unexercised and non-binding customer purchase options in its application of ASC Topic 606.

8. On August 25, 2020, CPI Aero filed its 2019 Form 10-K, which included restated amounts for its previously filed 2018 Form 10-K. On this same date, CPI Aero filed amended quarterly reports on Form 10-Q/A for 2019, which included restated amounts for its previously filed quarterly reports for 2019 and 2018. The restatements corrected numerous accounting errors, including the following:

Balance Sheet	As of December 31		As of September 30	
	2018 (As Restated)	2018 (As Previously Reported)	2019 (As Restated)	2019 (As Previously Reported)
Contract Assets	$ 17,588,866	$ 113,333,491	$ 14,487,015	$ 121,458,084
Total Current Assets	$ 44,208,723	$ 140,204,589	$ 38,956,888	$ 146,016,968
Contract Liabilities	$ 5,252,579	$ 3,588,500	$ 1,561,543	$ 1,606,649
Loss Reserve	$ 3,663,558	$ 216,606	$ 2,895,045	$ 216,606
Total Current Liabilities	$ 22,925,751	$ 17,815,728	$ 21,282,110	$ 18,346,825
Retained Earnings (Accumulated Deficit)	$ (74,596,536)	$ 22,760,215	$ (6,430,353)	$ 100,165,509

Statement of Operations				
	For the 3 Months Ended March 31			
	2018 (As Restated)	2018 (As Previously Reported)	2019 (As Restated)	2019 (As Previously Reported)
Revenue	$ 14,989,951	$ 18,191,623	$ 21,988,384	$ 25,583,531
Net Income (Loss)	$ (1,442,907)	$ 1,256,765	$ (934,716)	$ 1,658,598
	For the 3 Months Ended June 30			
	2018 (As Restated)	2018 (As Previously Reported)	2019 (As Restated)	2019 (As Previously Reported)
Revenue	$ 17,175,679	$ 20,261,239	$ 20,101,713	$ 23,158,251
Net Income (Loss)	$ (1,884,106)	$ 1,257,225	$ (881,167)	$ 2,710,457
	For the 3 Months Ended September 30			
	2018 (As Restated)	2018 (As Previously Reported)	2019 (As Restated)	2019 (As Previously Reported)
Revenue	$ 15,842,610	$ 19,017,301	$ 22,689,762	$ 25,711,153
Net Income (Loss)	$ (2,524,326)	$ 585,896	$ (1,255,051)	$ 1,666,913
	For the Year Ended December 31			
	2018 (As Restated)	2018 (As Previously Reported)		
Revenue	$ 70,366,016	$ 83,929,270		
Net Income (Loss)	$ (7,546,753)	$ 2,211,563		

9. The misstated financial statement amounts were also included in several current reports on Form 8-K, including those filed on March 22, 2018, August 8, 2018, November 8, 2018, March 13, 2019, May 10, 2019, August 7, 2019, and November 6, 2019.

CPI Aero's 2018 and 2019 Material Weaknesses

10. CPI Aero disclosed in its 2019 Form 10-K that ICFR and DCP were not effective as of December 31, 2019 or December 31, 2018. Respondent identified several material

weaknesses in ICFR relating to the control environment, risk assessment, control activities and monitoring, revenue recognition, accounting for significant non-routine complex transactions, and information technology general controls. Specific material weaknesses included, among other things, failure to hire and retain personnel with an appropriate level of knowledge and experience in certain areas of financial accounting, lack of technical proficiency and training of management to provide adequate oversight of accounting and financial reporting in the implementation of certain accounting practices, and insufficiently documented and detailed accounting policies and procedures.

CPI Aero's 2019 and 2020 Restatements

11. On June 7, 2021, CPI Aero filed a Form 8-K announcing that its prior annual report on Form 10-K for 2020 and quarterly reports on Form 10-Q for 2020 should no longer be relied upon due to inventory costing and related internal accounting controls errors, and that management's reports on the effectiveness of ICFR, press releases, and investor communications describing Respondent's financial statements for such periods also should no longer be relied upon.

12. On November 17, 2021, CPI Aero filed a Form 8-K announcing that its prior annual report on Form 10-K for 2019 should no longer be relied upon due to additional accounting impacts resulting from correcting the inventory costing errors, and that management's reports on the effectiveness of ICFR, press releases, and investor communications describing Respondent's financial statements for such periods also should no longer be relied upon. Specifically, CPI Aero anticipated previously reported reserves would be insufficient upon the correction of the inventory costing errors.

13. CPI Aero's inventory cost accounting errors resulted from software processing and coding errors when a December 2018 acquisition was integrated into CPI Aero's software system. These accounting errors impacted CPI Aero's product lines for which revenue is recognized when a product ships to customers, which represented approximately 15% of total 2020 revenue. Accounting errors included, among other things, inconsistent units of measure being used for quantities ordered and quantities received of certain purchased parts, incorrect accrual of inventory received but awaiting quality inspection, the double counting of labor attributable to inventory, and the failure to record over or under absorbed overhead costs at the end of accounting periods.

14. The correction of the inventory cost accounting errors resulted in the determination that certain contracts previously believed to be in a profitable position were actually in a loss position and required the recording of additional allowance for losses. Certain other inventory items also required additional allowances. Respondent re-evaluated the sufficiency of its provisions for loss contracts and inventory reserves that it had previously recorded and concluded that increases to these reserves were required. It was further determined that the correction of these errors began with the fourth quarter of 2019.

15. On November 24, 2021, CPI Aero filed its amended 2020 Form 10-K/A and included corrected balances for each quarter. The restatements corrected numerous accounting errors, including the following:

Balance Sheet				
	As of December 31		**As of December 31**	
	2019 (As Restated)	**2019 (As Previously Reported)**	**2020 (As Restated)**	**2020 (As Previously Reported)**
Inventory	$ 4,906,253	$ 5,891,386	$ 6,386,288	$ 9,567,921
Total Current Assets	$ 33,846,323	$ 34,831,456	$ 37,687,226	$ 40,868,859
Loss Reserve	$ 3,965,913	$ 2,650,963	$ 2,009,247	$ 800,971
Total Current Liabilities	$ 22,294,687	$ 20,979,737	$ 30,012,252	$ 28,559,487
Retained Earnings (Accumulated Deficit)	$ (81,346,771)	$ (79,046,688)	$ (85,001,254)	$ (80,367,126)
Statement of Operations				
	For the Year Ended December 31			
	2019 (As Restated)	**2019 (As Previously Reported)**	**2020 (As Restated)**	**2020 (As Previously Reported)**
Cost of Sales	$ 80,687,080	$ 78,386,997	$ 77,824,732	$ 75,490,503
Net Income (Loss)	$ (6,750,235)	$ (4,450,152)	$ (3,654,753)	$ (1,320,438)

In addition, net loss for the three months ended March 31, 2020 and June 30, 2020 increased by approximately $545,000 and $764,000, respectively; and net income for the three months ended September 30, 2020 increased by approximately $24,000.

16. The misstated financial statement amounts were also included in several current reports on Form 8-K including those filed on August 25, 2020, September 30, 2020, November 12, 2020, December 31, 2020, and April 16, 2021.

CPI Aero's 2019 and 2020 Material Weaknesses

17. Prior to the restatements, CPI Aero's 2020 Form 10-K filed on April 15, 2021 disclosed material weaknesses related to the control environment, risk assessment, and control activities and monitoring that resulted in ineffective ICFR. The 2020 Form 10-K also disclosed that DCP were not effective as of December 31, 2020. Specifically, the material weaknesses related to cut-off procedures and the preparation and review of financial statement disclosures, as well as insufficiently documented policies and detailed procedures.

18. In its 2020 Form 10-K/A filed on November 24, 2021, CPI Aero disclosed several additional material weaknesses in ICFR related to the control environment, risk assessment, control

activities and monitoring, and accounting for inventory and the related IT environment. Specifically, the material weaknesses included, among other things:

a. insufficiently documented accounting policies;

b. insufficiently designed and implemented controls related to cut-off procedures for in-transit inventory items;

c. insufficiently designed and implemented controls related to the establishment, monitoring, and review of loss contracts and excess and obsolete inventory reserves;

d. insufficient controls related to financial statement preparation and disclosures; and

e. insufficient controls related to accounting for inventory costing, including the double counting of labor and overhead, inconsistent use of units of measure, and inappropriate accounting for under or over absorbed overhead.

CPI Aero Continued to Report Material Weaknesses in ICFR and Ineffective DCP For Several Years

19. CPI Aero disclosed in its 2021 Form 10-K that ICFR was not effective due to material weaknesses related to the insufficient design and implementation of internal controls related to monitoring and review of inventory costing to ensure proper valuation and appropriately stated inventory costs and the preparation and review of financial statement disclosures to ensure the completeness and accuracy of required disclosures. CPI Aero also disclosed in its 2021 Form 10-K that DCP were not effective.

20. CPI Aero disclosed in its 2022 Form 10-K that ICFR was not effective. Respondent reported material weaknesses related to the processing and accrual of vendor invoices, the reconciliation of accounts receivable and contract assets, and the documentation with respect to its internal controls over inventory. CPI Aero also disclosed that DCP were not effective.

21. CPI Aero disclosed in its second quarter 2023 Form 10-Q that ICFR continued to be ineffective due to a material weakness related to the accounting for the quarterly accrual of goods in transit, including the effects on revenue and cost of sales. CPI Aero also disclosed that DCP were not effective. CPI Aero disclosed in its third quarter 2023 Form 10-Q that ICFR and DCP continued to be ineffective.

CPI Aero's 2022 Footnote Restatement and 2023 Material Weakness

22. On April 3, 2024, CPI Aero filed a Form 8-K announcing that its prior annual report on Form 10-K for 2022 should no longer be relied upon due to errors within the Income

Taxes footnote to the financial statements, and that management's report on the effectiveness of ICFR for the same period also should no longer be relied upon. Respondent disclosed that the deferred tax asset and deferred tax liability balances reported in the footnote were each overstated by approximately $2.6 million due to computational errors and incomplete analyses of temporary differences between book and taxable income.

23. There was no impact on the balance sheet or income statement because the net deferred tax asset reported on the Respondent's balance sheet did not change. Respondent's net deferred tax asset consists primarily of net operating loss carryforwards large enough to absorb the other miscalculated timing differences.

24. On April 8, 2024, CPI Aero filed its 2023 Form 10-K and included corrected balances in the Income Taxes footnote for 2022. CPI Aero disclosed that this error resulted from the inadequate review, assessment, and reporting of the deferred tax asset and deferred tax liability balances and represented a material weakness in ICFR. The material weakness resulted in ineffective ICFR and DCP for the year ended December 31, 2023.

Violations

25. As a result of the conduct described above, CPI Aero violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13-11, and 13a-13 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act file with the Commission information, documents, and annual, current, and quarterly reports as the Commission may require and mandate that such reports contain such further material information as may be necessary to make the required statements not misleading.

26. As a result of the conduct described above, CPI Aero violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

27. As a result of the conduct described above, CPI Aero violated Section 13(b)(2)(B) of the Exchange Act, which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

28. Finally, as a result of the conduct described above, CPI Aero violated Exchange Act Rule 13a-15(a), which requires every issuer of a security registered pursuant to Section 12 of the Exchange Act to maintain ICFR and DCP.

CPI Aero's Remedial Efforts

29. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff. Specifically, CPI Aero implemented the following remedial measures: (i) as material weaknesses were identified, CPI Aero implemented corrective action to address the miscoded invoice error; reviewed, updated, and implemented its revenue recognition policies and procedures in accordance with ASC Topic 606; revised its Sarbanes-Oxley compliance program; and implemented various policies and procedures to address the inventory costing and allowance for losses errors; (ii) CPI Aero retained new personnel with expanded expertise in financial reporting, including a new Chief Financial Officer and Controller; and (iii) CPI Aero's Audit and Finance Committee hired a consultant to assist CPI Aero with identifying, documenting, and testing internal controls, including an assessment of internal control effectiveness, as well as working with management to identify and rate any deficiencies noted.

Undertakings

30. Respondent has undertaken to:

a. Fully remediate its outstanding material weaknesses in ICFR and have effective ICFR and DCP by December 31, 2024.

b. Publicly disclose, concurrent with the filing of the 2024 Form 10-K, whether in management's opinion, CPI Aero has fully remediated its material weaknesses in ICFR and has effective ICFR and DCP.

c. CPI Aero shall certify, in writing, compliance with the undertaking(s) set forth above. The certification shall be made by CPI Aero's CEO and identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Paul Pashkoff, Assistant Director, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent CPI Aero's Offer.

Accordingly, it is hereby ORDERED that**:**

A. Pursuant to Section 21C of the Exchange Act, Respondent CPI Aero cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, 13a-13, and 13a-15(a) thereunder.

B. Respondent shall comply with the undertakings enumerated in Paragraph 30, above.

C. If Respondent fails to comply with the undertakings enumerated in Paragraph 30, above, Respondent shall, by June 30, 2025, pay a civil money penalty in the amount of $400,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

D. If Respondent must pay a penalty, payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying CPI Aero as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Melissa Hodgman, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a

Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

F. Respondent acknowledges that the Commission is not imposing a civil penalty if Respondent timely complies with the undertakings set forth in Paragraph 30 above based upon its cooperation in a Commission investigation. If at any time following the entry of the Order, the Division of Enforcement ("Division") obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission, or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay a civil money penalty even if Respondent has complied with the undertakings set forth in Paragraph 30. Respondent may contest by way of defense in any resulting administrative proceeding whether it knowingly provided materially false or misleading information, but may not: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Vanessa A. Countryman
Secretary