

REFINITIV

# DELTA REPORT

## 10-K

AIRI - AIR INDUSTRIES GROUP

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31,  
2022

The following comparison report has been automatically generated

**TOTAL DELTAS** 2958

 **CHANGES** 173

 **DELETIONS** 1417

 **ADDITIONS** 1368

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2022 December 31, 2023  
or

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-35927

**AIR INDUSTRIES GROUP**  
(Name of small business issuer in its charter)

Nevada	80-0948413	
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)	
1460 Fifth Avenue, Bay Shore, New York 11706		
(Address of Principal Executive Offices)		
(631) 968-5000		
(Registrant's Telephone Number, Including Area Code)		
Securities registered pursuant to Section 12(b) of the Act:		
Title of Each Class	Trading Symbol	Name of each Exchange on which Registered
Common Stock, par value \$0.001	AIRI	NYSE-American

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Non-Accelerated Filer  Accelerated Filer  Smaller Reporting Company

Emerging growth company

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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

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

As of **June 30, 2022** **June 30, 2023**, the aggregate market value of our common stock held by non-affiliates was **\$17,477,754**, **\$8,910,812**, based on **2,496,822** **2,510,088** shares of outstanding common stock held by non-affiliates, and a price of **\$7.00** **\$3.55** per share, which was the last reported sale price of our common stock on the NYSE American on that date.

There were **3,259,367** **3,315,368** shares of the registrant's common stock outstanding as of **May 10, 2023** **April 12, 2024**.

DOCUMENTS INCORPORATED BY REFERENCE: None

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**AIR INDUSTRIES GROUP**  
**FORM 10-K**  
**For the Fiscal Year Ended December 31, 2022 December 31, 2023**

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## Cautionary Note Regarding Forward-Looking Statements

This **report** Annual Report on Form 10-K filed by Air Industries Group (herein referred to as "Air Industries", the "company". "we", "us", or "our") contains forward-looking statements. Certain of the matters discussed herein concerning, among other items, our operations, cash flows, financial position and economic performance including, in particular, future sales, product demand, competition and the effect of economic conditions, include forward-looking statements.

Forward-looking statements are predictive in nature and can be identified by the fact that they do not relate strictly to historical or current facts and generally include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions. Although we believe that these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flow, research and development costs, working capital, capital expenditures, distribution channels, profitability, new products, adequacy of funds from operations, and general economic conditions, these statements and other projections contained herein expressing opinions about future outcomes and non-historical information, are subject to uncertainties and, therefore, there is no assurance that the outcomes expressed in these statements will be achieved.

Investors are cautioned that forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from the expectations expressed in forward-looking statements contained herein. Given these uncertainties, you should not place any reliance on these forward-looking statements which speak only as of the date hereof. See "Risk factors" for a discussion of factors that could cause our actual results to differ from those expressed or implied by forward-looking statements.

We **do not intend to update, or revise publicly and** undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. You are advised, however, to consult any additional disclosures we make in our reports filed with the Securities and Exchange Commission ("SEC").

## PART I

### ITEM 1. BUSINESS

#### Introduction

As We believe we are one of the leading manufacturers of precision components and assemblies for large aerospace and defense prime contractors. Our products include landing gears, flight controls, engine mounts and components for aircraft jet engines, ground turbines and other complex machines. The ultimate end-user for most of our products is the U.S. Government, international governments, and commercial global airlines. Whether it is a small individual component for assembly by others or complete assemblies we manufacture ourselves, our high quality and extremely reliable products are used in mission critical operations that are essential for safety of military personnel and civilians.

We specialize in the aerospace and defense markets, operating within a hierarchical network of suppliers. At the top of the supply chain pyramid, is the prime contractor, also known as an Original Equipment Manufacturer ("OEM"). A prime contractor designs, develops and produces the final product for the end-user. We play a critical role in this report, unless otherwise stated ecosystem, operating as a "Tier One" supplier, delivering our products directly to prime contractors, or as a "Tier Two" supplier, providing larger complex components to others. In some cases, we ship products directly to the context requires otherwise, U.S. Government. Our strategic position has made us a key partner for many prominent defense prime contractors and global commercial aviation manufacturers, often leading us to become the "Company" exclusive or primary supplier for certain high precision parts and terms such as "we," "us" "our," and "AIRI" refer assemblies. We often receive Long-Term Agreements ("LTAs") from our customers, demonstrating their commitment to Air Industries Group, a Nevada corporation, and its wholly-owned subsidiaries.us.

We are a manufacturer of complex machined parts renowned for our unwavering commitment to genuine quality and assemblies for the Aerospace and Defense ("A&D") market. exceptional reliability. Our products are used by Original Equipment Manufacturers ("OEM") in the manufacture of fixed wing aircraft, helicopters jet turbine engines, and other complex sophisticated A&D products. We also manufacture rich history dates to 1941, producing parts for World War II fighter aircraft. Since then, we have maintained an impeccable record with no known incidents of part failure leading to a mission failure resulting in a fatality. In an era plagued by foreign counterfeit parts, we strategically operate all our facilities within the ground power turbine industry United States. Our two state-of-the-art manufacturing centers located in Long Island, New York, and are in discussions Barkhamsted, Connecticut, allow for rigorous oversight of production and adherence to manufacture products stringent quality standards. Spanning over 150,000 square feet, our manufacturing centers serve as the operational hubs for submarines.

We are a holding company with our three legal subsidiaries, Air Industries Machining, ("AIM") Nassau Tool Works ("NTW") and Sterling Engineering Company ("SEC" STE"). Our subsidiaries have been manufacturers of A&D product for decades; SEC began manufacturing aircraft components in 1941 – over 80-years ago – for use in World War II. NTW was formed in the early 1960's and AIM has been in business since 1951. Collectively, our subsidiaries have over 200 years of manufacturing experience in the A&D market.

We operate For the past several years, despite facing significant financial and operational challenges, we have strategically invested substantial amounts in new capital equipment, tooling, and processes to bolster our business using two main facilities. One is located in Long Island, New York, competitive position. Additionally, we expanded our sales and the other is in Barkhamsted, Connecticut. We have over 150,000 square feet marketing efforts, with a sharp focus on expanding relationships with customers and cultivating new ones. Fiscal 2023 marked a year of manufacturing space, approximately 75,000 square feet in each location, progress and employ approximately 190 people, positioning for growth.

Historically, we operated We finished 2023 with \$51.5 million of net sales. Our backlog, which represents the value of all funded orders received, stood at \$98.3 million an increase of 14.7% as compared to our businesses and reported their results as two separate segments, with AIM and NTW comprising our Complex Machining Segment ("CMS") and our SEC as the Turbine & Engine Component Segment ("TEC") backlog on December 31, 2022. Our CMS segment specializes marketing efforts bore fruit and we secured our first order with a new foreign-based defense and aerospace prime customer. Despite absorbing a sudden and unexpected increase of interest rates related to our outstanding indebtedness, we were able to make significant investments in flight critical components including flight controls capital equipment and landing gear. Our TEC segment focuses on manufacturing components for

jet engines. Historically, each segment had different customers and utilized different production facilities.related processes. On the bottom-line, we reported a net loss of \$2.1 million. As we enter fiscal 2024, we believe our future is looking brighter.

Moving forward, our business strategy is geared towards competing and winning contracts that enable us to achieve sustainable and profitable business growth and delivering high quality reliable products to our customers. At its core, lies a highly trained and close-knit team of over 180 individuals committed to driving excellence and precision in every aspect of our operations. We are firmly focused on securing new contract awards, improving operations and successful execution. With total unfilled contract values amounting to \$191.9 million (including our \$98.3 million in backlog and all potential orders against LTA agreements previously awarded to us), as of December 31, 2023, we are confident in our ability to boost sales in 2024, attain profitability and improve our financial position.

In recent years the operations of our CMS and TEC segments have become increasingly integrated. In addition, we have made significant capital expenditures to modernize our manufacturing equipment and all of our operations now share the same manufacturing facilities and use most, if not all, of the same sales and marketing functions. We made these changes to take advantage of the long-term growth opportunities we see in the A&D market. In early fiscal 2022, we further changed our management approach and now make decisions regarding the allocation of resources and assess operating performance based on one integrated business rather than two reporting segments. As such, effective with our first quarter ended March 31, 2022, we began to present our operations as one reportable operating segment.

The A&D business is comprised of a small number of OEM's relying on several "tiers" or layers of many more numerous smaller manufacturers supplying product. Each successive tier supplies increasingly larger, more complex product to the next higher tier and OEM companies. Air Industries is generally either a tier one manufacturer supplying product directly to an OEM, or a tier two manufacturer supplying product to a tier one supplier which delivers to an OEM.

Our business has evolved over the years, our products becoming increasing complex. Where once we manufactured smaller individual components for others to assemble into complex assemblies, we now manufacture those complex assemblies ourselves. For example, in the past we, along with other suppliers, manufactured individual components to be assembled into a landing gear by an OEM customer. Today we manufacture the entire landing gear, assembling over 200 individual parts, most manufactured internally, others sub-contracted or purchased into a complete landing gear delivered directly to an OEM, ready to be installed on an aircraft.

We are predominately a supplier of military aviation product. Defense products were 82.6% and 87.7% of our business in 2022 and 2021 respectively. Our OEM customers in the defense sector include: **Customer Profiles**

In 2023 and 2022, approximately 82.3% and 82.6% of our net sales were attributed to customers who use our products for end-use on military aircraft. The rest of our net sales are attributable to commercial aviation uses and, to a much lesser extent, ground power electricity generation and other uses.

We have cultivated long-standing relationships with many large and well-known customers including:

- **Raytheon TechnologiesRTX Corporation (“RTX”)** - (f/k/a **United Technologies Corporation**), multinational aerospace and defense conglomerate and a major player in the aerospace and defense industry. We supply products for sell to several business units and/or subsidiaries of RTX, including **Collins Aerospace** (which includes **Collins Landing Systems** and **Collins Aerostructures**) and **Pratt Whitney**. RTX was formerly known as **Raytheon Technologies Corporation** including: and prior to that **United Technologies Corporation**.
- **Lockheed Martin Corporation (“Lockheed Martin”)** - Lockheed Martin is a leading global security and aerospace company with its principal customers being agencies of the U.S. Government. We sell directly to one of its legal subsidiaries, **Sikorsky Aircraft Corporation (“Sikorsky”)**.
- **Goodrich Landing SystemsGeneral Electric Aerospace (“GE”)** – We supply GE Aerospace with high precision components that are used in jet turbine aircraft engines that are used on several commercial aircraft platforms.
- **GE Verona** – We supply GE Verona with precision components that are used in ground-based turbines for electrical power generation.
- **The U.S. Government** – We supply certain components and assemblies directly to the Defense Logistics Agency (“DLA”), a combat support agency within the U.S. Department of Defense (“DoD”). The DLA’s mission is to manage the end-to-end global defense supply chain and deliver readiness to the warfighter. It supports all five U.S. military services, federal, state, and local agencies, as well as partner and allied nations. The DLA procures items from us and provides them, as it deems fit, to other suppliers who assemble them into finished products.

In 2023, our sales and marketing strategy to expand our customer base yielded significant results, as we secured an initial \$700,000 order from a foreign-based defense and aerospace prime ranked among the world’s leading suppliers of finished landing gears. Our initial order from them was for specialized components with initial deliveries slated to commence in the fourth quarter of 2024. As we continue to develop and strengthen this relationship, we are optimistic about securing additional orders over time.

#### **Platform and Program Profiles**

Most of our machined components and assemblies are integral to high-profile platforms and named programs. Platforms generally refer to equipment that is utilized in missions or operations whereas programs are broader initiatives and can encompass the development and production of new platforms, upgrades to existing systems and other initiatives. The following platforms and programs (ranked in descending order by their 2023 net sales), accounted for 85.2% and 81.0% of our net sales in 2023 and 2022, respectfully:

- **F-18 Hornet:** The F-18 Hornet, the U.S. Navy’s primary fighter aircraft, primarily operates from aircraft carriers and enjoys international use, notably in Finland and Australia. Originating in the late 1960s, it has seen numerous upgrades and enhancements over the years. We manufacture complete landing gear components for several variants, supplying these to the **Northrop Grumman E2-D Hawkeye**, **airborne warning and control U.S. government or Tier 1 or other suppliers** for spares that go on the aircraft **deployed with the US Navy and several foreign governments**, the **Lockheed F-35 Lightning II** **Joint Strike multi-role fighter aircraft used that where originally produced by all branches of the US military and multiple foreign militaries and for the F-15 Eagle fighter aircraft** **Boeing**.

**Pratt & Whitney** – we manufacture jet turbine engine components for several military and commercial jet engines.

- **Lockheed Martin Corporation.** *The E-2D Hawkeye:* We supply products provide the main and nose landing gear, as well as the arresting gear for the **Sikorsky Aircraft** unit of **Lockheed** **E-2D Hawkeye**, a twin-engine, tactical aircraft utilized for providing advanced airborne warning and control for carrier-based operations. Often referred to as the “digital quarterback,” it conducts battlefield management and command and control operations for aircraft carrier strike groups. While primarily for the **UH-60 BlackHawk** multi-purpose helicopter used by the **US** and many foreign militaries, **U.S. Navy**, a small number have been sold to U.S. allies, notably **Japan**.

- **General Electric Corporation.** We supply products used in General Electric jet turbine aircraft engines used by several military aircraft platforms.
- **US Department of Defense.** We supply landing gear product for the US Navy F-18 fighter aircraft directly to the Defense Department.
- **Northrop Grumman Corporation.** We supply product used on the E2-D Hawkeye, airborne warning and control aircraft.

The balance of our business, comprising 17.4% and 12.3% of our business in 2022 and 2021 respectively, is in commercial aviation and to a minor degree in ground power electricity generation. Our OEM customers in the commercial sector include:

- **Rohr Inc.**, (a wholly owned subsidiary of Raytheon Technologies) We manufacture a component used in several versions of the Pratt & Whitney new geared turbine fan commercial jet turbine engine.
- **General Electric Corporation.** We supply products used in General Electric jet turbine aircraft engines used by several commercial aircraft platforms and ground power electricity generation.

Our business is concentrated on five aircraft platforms which comprised 76.9% and 76.6% of our business in 2022 and 2021 respectively.

- **UH-60 BlackHawk.** We have manufactured many components and assemblies for the BlackHawk and its many variants for more than 20 years. BlackHawk helicopters entered service in 1979 and remain in production today. It is the primary helicopter used by the US Army and other branches of the US military. The BlackHawk is also used by many foreign countries and militaries. Over 4,000 aircraft have been produced with many, perhaps as many as 3,000, remaining in use today and generating significant after-market demand.
- **F-35 Lightning II.** The F-35 Lightning also known as the Joint Strike Fighter is a new aircraft that will in coming years replace the US Air Force F-15 and the US Navy and Marine Corps F-18 fighters. Eight other nations have participated in the development of the aircraft and will be users of the aircraft, as will other international militaries. There are three variants of the aircraft, conventional take-off and landing F-35A, short take-off and vertical landing F-35B and a carrier based variant F-35C. The aircraft entered service with the US Marine Corps in 2015 and approximately 2,300 are expected to be produced.

- **F-18 Hornet, UH-60 Black Hawk Helicopter:** The F-18 Hornet currently is We supply flight critical components, such as the primary flight control assembly and the tail-rotor gearbox, for the UH-60 Black Hawk Helicopter. Serving as the primary helicopter for the U.S. Army, it fulfills essential roles in transport, troop movement, medical evacuation and cargo lift operations. Manufactured by Sikorsky, it includes many variants and is also utilized by other branches of the U.S. military and U.S. allied countries. Since entering service in 1979, over 4,000 helicopters have been produced. Deployment of new helicopters is projected to continue through at least 2027, with ongoing sustainment activities anticipated for many years thereafter.
- **Pratt & Whitney Geared Turbo-Fan Engine (“GTF”):** Used in commercial aviation, the GTF represents a new generation of jet engines that offer improved fuel efficiency, reduced emissions, and lower noise levels compared to traditional turbofan engines. We manufacture Thrust Struts, a critical component that essentially absorbs and distributes the forward thrust produced by the jet engine, ensuring that the force is evenly applied across the structure of the aircraft to maintain stability and integrity during takeoff, cruising and landing. We supply our Thrust Struts to Collins Aerostructures for integration into Geared Turbofan engines, utilized by smaller airlines such as those operating the Airbus A220 and Embraer E2 aircraft. Demand for these engines is anticipated to increase over the next few years.
- **The CH-53 Helicopter (including the CH53K variant):** Developed in the 1960s and manufactured by Sikorsky, the CH-53 is recognized as the largest and most powerful helicopter in the U.S. military. It has evolved through several variants, with hundreds delivered and used by the U.S. Marine Corps. In 2021, we secured a LTA to supply Chaff Pods for the CH-53K, the latest iteration in the CH-53 series. These pods deploy metallized strips to generate false radar targets, safeguarding the helicopters from missile threats. The CH-53K plays a crucial role in the U.S. Marine Corps' plans to support a wide range of current and future operations. In 2023 we received a purchase order to manufacture Swashplates and Hubs to be used on the CH-53K. Initial deliveries of these parts has commenced.
- **The F-35 Lightning II (also known as the Joint Strike Fighter):** Manufactured by Lockheed Martin, the Joint Strike Fighter is a stealth fighter aircraft for designed to replace the US U.S. Air Force F-15 and the U.S. Navy operating primarily from aircraft carriers. The and Marine Corps F-18 is also in service internationally, notably Finland fighters. It includes three variants: the conventional take-off and Australia landing F-35A, the short take-off and vertical landing F-35B, and the carrier based variant F-35C. We manufacture complete have produced landing gear components for all three variants and currently manufacture landing gear components for the US Navy version. The production of this aircraft is expected to continue for many variants years, with the DoD's aiming for an inventory objective of the aircraft 2,456 aircraft, in addition to expected demand from other countries.
- **Northrop Grumman E2-D Advanced Hawkeye.** The ED-D Hawkeye is a US Navy carrier-based aircraft used to F-15 Eagle Tactical Fighter: We provide airborne warning and control for carrier-based air operations. The aircraft's role is to maintain control of the airspace surrounding an aircraft carrier for protection of the vessel and aircraft in operation. The “D” version, the most current of the E2 remains in production. The aircraft is also used by seven foreign militaries notably Japan.
  - **Pratt & Whitney Geared Turbo-Fan.** The P&W Geared Turbo-Fan (“GTF”) is a next generation jet turbine engine used in commercial aviation. The GTF engine is widely acknowledged to deliver improved fuel economy and a lower noise footprint than existing jet engines. There are several versions of the GTF. Air Industries produces a component landing gear components for the smaller versions F-15 Eagle Tactical Fighter. Originally designed for the U.S. Air Force, it is known as a dedicated air superiority fighter. Currently manufactured by Boeing, it was designed in the late 1960s with over 600 aircraft estimated to be in service. The F-15 has been exported to various countries including Israel, Saudi Arabia and Japan. Although it is anticipated that this plane will be ultimately replaced by the Joint Strike Fighter, we believe it will be flying for years to come. It boasts an impeccable combat record with no known losses in aerial combat. We ship most of our components directly to the engine used on the popular A-220 and Embraer narrow body aircraft. U.S. DoD.

## Our Market

The A&D aerospace and defense industry has become very consolidated, now is dominated by just a select few very large prime contractors and OEM's. These include including Airbus, Boeing, General Electric, Lockheed Martin, Northrop Grumman, and

Raytheon Technologies. Many if not most of RTX. These primes oversee large platforms and programs for ultimate end-user for the large prime contractors and OEM's are our direct Tier One customers, and we also supply product as a Tier two supplier to many of their Tier one suppliers. We also sell directly to the US Department of Defense ("DOD"). U.S. government, foreign governments or global aviation companies.

Our products are incorporated Once a supplier is chosen and integrated into a platform or selected for a specific program, replacing them becomes a complex challenge. In many cases, suppliers often become the sole or single source. Being a sole source means being chosen as the exclusive supplier by the customer, whereas being a single source indicates that, despite the availability of other potential manufacturers, only one supplier is currently used. This scenario of single or sole sourcing is especially prevalent with legacy aircraft. While prime contractors generally prefer multiple sources for new aircraft platforms, the majority production lines to mitigate single points of which remain in failure, utilizing a single vendor can lead to higher production today. The demand volumes, lower average unit costs, and opportunities for after-market products quality improvements.

Demand for both defense and commercial aviation components is based on new production and subsequent maintenance, repair and overhaul ("MRO") of. Flight critical components are frequently replaced on aircraft on a flight time, or flight cycle basis. The demand for MRO and after-market products can continue for many years, even decades, after the production line for new aircraft is shut-down. shut down.

We target products that are flight critical, whose flawless operation is essential to the safe operation of the aircraft. To qualify to produce these products At a manufacturer needs to maintain various accreditations. Obtaining accreditation while not impossible is difficult, time consuming and thus a barrier to entry for competitors. Further, flight critical components are frequently replaced on aircraft on a flight time, or flight cycle basis. Thus, demand for these products arises from both production of new aircraft, and MRO demand based on the flight hours of existing fleets of aircraft.

For many of our products high level, we are able to monitor the sole or single source of product DoD budget for our customers. Sole source product means that we are the only manufacturer of the product. Single source means that while other manufacturers could supply the product, we are the only producer currently in the market. Single or sole sourcing is more likely to occur with legacy aircraft. OEM's generally prefer to have multiple sources of product to support a production line of new aircraft and avoid single point of failure issues, particularly in light of the supply chain disruptions caused by the outbreak of Covid-19.

Our market is predominately military. As such demand for our products is closely aligned with the budget of the DOD. We monitor two components of the DOD budget; procurement which affects demand resulting from both new production and operations & maintenance which affects demand resulting from the maintaining of existing aircraft. For Fiscal Year 2022, procurement and operations and maintenance accounted components as well as industry reports to gauge overall industry spending. While large U.S. Government programs are managed through specific budget lines and oversight structures, most, if not all, of our machine parts and assemblies are not explicitly identified in the U.S. Government budget. Therefore, predicting period-to-period demand with precision is challenging. While we primarily rely on our customers to help us project short-term and long-term demand, the timing of receipt of contract awards and related orders is difficult to predict. Consequently, comparative period-to-period net sales for more than 50% of the entire defense budget. any customer or program may not be meaningful.

## **Sales and Marketing**

We Sales and marketing activities in 2023 indicate a return to normalcy compared to the disruptions caused by COVID-19 in 2022 and 2021. Travel restrictions no longer hinder our ability to visit customers, and employees are generally recognized as a Tier 1 or Tier 2 supplier in the A&D industry. We are also recognized as having extensive experience and accreditation more willing to produce and assemble complex flight safety products. attend trade shows, facilitating our communication efforts.

Most We primarily rely upon a small team of highly skilled sales and business development professionals with extensive industry experience. Our goal is to cultivate customer relationships akin to partnerships and the concept of customer alignment. For example, our customers heavily rely on suppliers to deliver high-quality parts that meet specifications in a timely and cost-effective manner. They regularly assess suppliers based on various quantitative criteria such as on-time delivery performance, defect rates, adherence to specifications, cost performance, lead times, order processing time, stockout rates, and similar metrics. Therefore, one of our contracts with primary objectives is to maintain high ratings and leverage these metrics in our customers are in the form of a Long-Term Agreement ("LTA"). These LTA's specify the number sales and price of products that the customer may order from us for a period of time. The quantity and price in any year may vary from other years within the LTA. Once awarded, the customer places orders against the LTA. These orders are called releases. Once released the order is a firm order. While a firm order may be cancelled the customer is subject to termination liability and must pay us for the cost of material, labor and other costs incurred up to the date of termination. marketing activities.

Our sales cycle is highly variable, varies significantly, ranging from a few weeks to several years, depending upon on the complexity of the product and manufacturing steps involved. While customers may occasionally engage in spot buys, most of our orders (also known as bookings) stem from LTAs. LTAs outline the number quantity and price of steps necessary products the customer may order within a specified timeframe. When actual products are needed, the customer places a funded order against the LTA. The value of this funded order is included in our backlog until we ship it. Although cancellations of funded orders are possible, customers are usually subject to complete manufacturing. Contracts termination liability, necessitating payment to us for product can be very short, just costs incurred up to the termination date. In certain termination cases, the customer is also required to pay us a few months to as long as ten-years, reasonable profit.

We obtain secure new or follow-on LTA's LTAs through competitive bidding. We respond bidding in response to a customer's Request for Quotation ("RFQ") with proposed. These proposals detail prices based on quantities, sometimes varying quantities per year, which may vary annually, for shipments over a number of multiple years. There may be The bidding process typically entails several rounds of submissions from us and from competitive suppliers, and a period of negotiation negotiations before an LTA award is awarded. granted. For defense products, in certain cases, LTAs may be awarded or extended without an RFQ, competitive bidding. In addition to products sold pursuant to LTA's there are also "spot buys" of product such cases, pricing may be determined through cost analysis or audit with ultimate approval by customers. the customer or the U.S. government.

LTA's, particularly for defense products, may be extended or new orders placed without competitive bidding. In this instance and in some others our price for the product must be supported by an analysis or audit and approval of our costs by the customer or by the Government.

In 2021 and to a lesser extent in the first half of 2022 We believe our sales and marketing strategy received significant validation in 2023 when we secured an initial \$700,000 order from a foreign-based defense and aerospace prime ranked among the world's leading suppliers of finished landing gears. While this new customer relationship is in its early stages, we are dedicating substantial efforts were negatively affected by Covid travel restrictions limiting our ability to visit customers further develop and strengthen this partnership, with the reluctance aim of receiving significant orders in the employees of some of our customers to return to the office and attend trade shows, complicating our ability to contact them. As a result of these challenges our "book-to-bill" ratio (new orders booked divided by sales) was 0.75 to 1.00 and 0.9 to 1.00 for the years ended December 31, 2022 and 2021 respectively, below historic levels.

Our approach to sales and marketing can be best understood through the concept of customer alignment. The aerospace industry is dominated by a small number of large prime contractors and OEM's. These customers rely heavily upon subcontractors to supply quality parts meeting specifications on a timely and cost effective basis. These customers and other customers we supply routinely rate their suppliers based on a variety of performance factors. One of our principal goals is to be highly rated and thus deemed reliable by all of our customers and throughout the industry. future.

The large prime contractors are increasingly seeking subcontractors who can supply **Bookings and are qualified to integrate the fabrication of larger, more complex and more complete subassemblies. We seek to position ourselves within the supply chain of these contractors and manufacturers to be selected for subcontracted projects. Successful positioning requires that we qualify to be a preferred supplier by achieving and maintaining independent third party quality approval certifications, specific customer quality system approvals and top supplier ratings through strong performance on existing contracts. Backlog**

During our sales and marketing efforts we let customers know that Bookings represent funded orders we have employees with secured during a given financial period. In fiscal 2023, bookings were \$62,262,000 or a 55% increase compared to \$40,166,000 in 2022. Our "book-to-bill" ratio, which is our bookings divided by net sales, was 1.20x for 2023, a significant improvement over the talent 0.75x ratio of 2022. Although bookings are subject to wide variations in timing, resulting in period-to-period comparisons not necessarily being meaningful, we do use bookings and experience to manage the manufacture of sections of aircraft structures to be delivered to the final assembly phase of the aircraft manufacturing cycle, and customers have now engaged us for these services.

Initial contracts are usually obtained through competitive bidding against other qualified subcontractors, while follow-on contracts are usually retained by successfully performing initial contracts. Our long term business generally benefits from barriers to entry resulting from investments, certifications, familiarization with the needs and systems of customers, and manufacturing techniques developed during the initial manufacturing phase. We endeavor to develop each of our relationships to one of a "partnership" where we participate in the resolution of pre-production design and build issues, and initial contracts are obtained as single source awards and follow-on pricing is determined through negotiations. In response to the impediments to traditional means of marketing our products and services encountered during 2020 and 2021 book-to-bill as a result gauge of the cancellation of industry-wide events and the difficulties in scheduling meetings with our customers, we have adapted our business development efforts to

increase our use of social media and online presentations, and will continue to look for new ways to interact with our customers.**future**  
**net sales.**

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## Our Backlog

The backlog, which can be considered our “funded backlog,” stood at \$98.3 million as of December 31, 2023, marking a 14.7% increase from the \$85.7 million on December 31, 2022. It represents the net sales we report consists solely of firm expect to realize from funded orders received and is equivalent to our remaining performance obligations pursuant to Accounting Standards Codification (“ASC”) 606, Revenue from customers. We do Contracts with Customers, at the end of each period. These funded orders, approved by customers, come from LTAs, spot-buys, or other contracts and are for essential machined components and assemblies used in the key platforms and programs we serve. Previously, we limited our backlog to items scheduled to ship within an 18-month period. Our new enhanced definition provides visibility into the value of all firm orders. The bulk of our \$98.3 million backlog is expected to ship over the next 24 months, but does not estimate include possible or probable future orders pursuant to LTA's existing LTAs or anticipated probable contract renewals. Our backlog exists due to the total potential net sales under contracts actually awarded to us as of December 31, 2023, was \$191.1 million, including the long lead times necessary to produce many value of our products. Our production cycle from ordering raw material to delivering finished product can vary from several weeks to more than one year. Customers must place orders in light of existing funded backlog of these lead-times creating a back-log of future deliveries. The production cycle for jet engine products is much shorter and accordingly the backlog for jet engine products is much lower. Our total 18-Month firm backlog was \$60.1 and \$75.0 Million at December 31, 2022 and 2021, respectively, \$98.3 million.

Our backlog today is the result of purchase orders for the Sikorsky Black Hawk, the F-25 Joint Strike Fighter, the Northrop Grumman E2-D, the F-18 fighter aircraft and the Pratt & Whitney Geared Turbo-Fan jet engine.

## Competition

Winning a new contract award is highly competitive. We Not only must we have the capabilities to manufacture to customer design specifications. We specifications, but we compete against companies that have similar, or better manufacturing capabilities and often greater financial, physical and technical resources in the domestic and, to a lesser degree, in the global marketplace. Our ability to win new contracts generally requires providing us to become a trusted partner to the customer by having the capabilities to deliver superior quality products on a timely basis at competitive prices. This requires that product, more quickly and with lower pricing than our competitors. Accordingly, we strive for continuous improvement must continually invest in our capabilities process improvements and capital equipment.

In recent years, we have strategically made significant investments to enhance our competitiveness. To accomplish this, competitiveness and market position. For example, in fiscal 2023 and 2022, we have made significant investments in new machinery and equipment totaling approximately \$3,725,000; \$1,364,000 invested \$2,119,000 and \$2,361,000 in new property and 2022, respectively. This new equipment improves the productive capacity of to support our employees, increases goals. These investments have increased production efficiency and speed, while maintaining closer tolerances, and increasing have expanded the size of product products we can manufacture with a larger working “envelope”. We anticipate spending an additional \$1,750,000 to \$2,500,000 in 2023 plan to continue to expand our productive capacity. this strategy and anticipate investing approximately \$2,000,000 in 2024 for new or upgraded equipment.

Our marketing strategy involves developing long-term working relationships with customers. These relationships enable us to develop barriers to entry to competitors by establishing and maintaining advanced quality approvals, certifications and tooling investments that are difficult and expensive to duplicate.

Among our competitors are: include: Monitor Aerospace, a division of Stellex GKN Aerospace; Hydromil, a division of Triumph Aerospace Group; Heroux Aerospace Devetek and Ellanef Manufacturing, a division of Magellan Corporation.

## Manufacturing, Raw Materials and Replacement Parts

The manufacturing process Our production cycle spanning from ordering raw materials to delivering finished products, can vary from several weeks to over a year. Consequently, for certain products, particularly especially those involving finished assemblies, we serve as product integrator, requires must procure significant purchased amounts of raw materials hardware and subcontracted details. As a result, much begin processing well ahead of our success actual ship dates. This underscores the importance of efficient subcontract management in profitably meeting customer demand for delivery deadlines. In some cases, customers may provide us with these products requires efficient and effective subcontract management. Price raw materials as they may be able to obtain better processing or delivery schedules from other suppliers.

The price and availability of many raw materials utilized in the aerospace industry are subject susceptible to volatile fluctuations in global markets and political conditions. Most raw material suppliers of raw materials are unwilling hesitant to commit to long-term contracts at fixed prices. This is prices, posing a substantial risk as given our strategy often involves long term fixed entails entering into LTA agreements which require us to commit to long-term price commitments to commitments. However, many of our customers. LTAs provide pricing protection when there is a large increase in the in the cost of raw materials.

### Employees

As of May 1, 2023 March 31, 2024, we employed 185 180 people. Of these, 76 101 were involved in manufacturing and production activities, 25 were in quality control, 45 were in administration, and the remaining 9 were in sales and procurement, and 100 were in manufacturing.

AIM is a party to a collective bargaining agreement (the “Agreement”) with the United Service Workers, IUJAT, Local 355 (the “Union”) with which we believe we maintain good relations. The Agreement was renewed as of December 31, 2021 and expires on December 31, 2024 and covers the majority of AIM’s personnel, approximately 130 individuals, which equates to approximately 70% of all of our employees.

AIM is required to make a monthly contribution to each of the Union’s United Welfare Fund and the United Services Worker’s Security Fund. This is the only pension benefit required by the Agreement and the Company is not obligated for any future defined benefit to retirees. The Agreement contains a “no-strike” clause, whereby, during the term of the Agreement, the Union will not strike and AIM will not lockout its employees.

procurement. All of our employees are covered under a co-employment agreement with Insperity Services, LLC, a professional employer organization that provides out-sourced human resource and payroll services organization. This arrangement allows us to provide employees with comprehensive benefits at a lower cost than we could provide.

Our AIM subsidiary has a collective bargaining agreement with the United Service Workers, IUJAT, Local 355 (the “Union”). This agreement is effective until December 31, 2024 and covers the majority of AIM’s 125 personnel. We are required to make a monthly contribution to Union’s United Welfare Fund and the United Services Worker’s Security Fund, the sole pension benefit for covered employees. We are not obligated to provide any future defined benefits. Additionally, the collective bargaining agreement contains a “no-strike” clause, and a “no-lock-out” clause. We believe we maintain good relationships with the Union and expect to renew the collective bargaining agreement before it expires.

### **Regulations**

We believe that we are in compliance with all federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits required for the operation of our business. The key regulations impacting our business are further discussed below:

#### **Environmental Regulation; Employee Safety**

##### **Environmental Regulation and Employee Safety**

We are subject to regulations administered by the United States Environmental Protection Agency, the Occupational Safety and Health Administration, various state agencies and county and local authorities acting in cooperation with federal and state authorities. Among other things, these regulatory bodies impose restrictions that require us to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous chemicals and substances. The extensive This regulatory framework imposes compliance burdens and financial and operating risks on us. Governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose civil and criminal fines in the case of violations.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”) imposes strict, joint and several liabilities on the present and former owners and operators of facilities that release hazardous substances into the environment. The Resource Conservation and Recovery Act of 1976 (“RCRA”) regulates the generation, transportation, treatment, storage and disposal of hazardous waste. New York and Connecticut, the states where our production facilities are located, also have stringent laws and regulations governing the handling, storage and disposal of hazardous substances, counterparts of CERCLA and RCRA. In addition, the Occupational Safety and Health Act, which requires employers to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, obligates employers to provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances.

#### **Federal Aviation Administration Administration:**

We are subject to regulation by the Federal Aviation Administration (“FAA”) under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations. We have never been subject to such fines or disqualifications.

#### **Government Contract ComplianceFederal Acquisition Regulations:**

Our All our U.S government contracts and those of many of our customers are subject to the procurement rules and regulations of the United States government, including the Federal Acquisition Regulations. Many As such, many of the contract terms are dictated by our LTA agreements require us to adhere to these rules and regulations. During and after the fulfillment of a government contract, we may be audited in respect of the direct and allocated indirect costs attributed to the project. These audits may result in adjustments to our contract costs. Additionally, we may be subject to U.S. government inquiries and investigations because of our participation in government procurement. Any inquiry or investigation can result in fines or limitations on our ability to continue to bid for government contracts and fulfill existing contracts.

We believe that we are in compliance with all federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits required for the operation of our business.



## **More Information About Our Business and Where to Find It**

Our Internet website is AirIndustriesGroup.com, at which you can find our filings with the SEC, including press releases, annual reports, quarterly reports, current reports, and any amendments to those filings. We also use our website to disseminate other material information to our investors. We also make announcements regarding company developments and financial and operating performance through social media channels such as at LinkedIn.com/company/air-industries-group to communicate with customers and the public about our Company, our products, services, and other issues. Among other things, we post on our website and social media channels information about our public conference calls (including the scheduled dates, times and the methods by which investors and others can listen to those calls), and we make available for replay webcasts of those calls and other presentations for a limited time. Information and updates about our Annual Meetings will also be posted on our website including on the "Home Page" and in the "Investor Relations" section. None of the information on our website, blog or any other website identified herein is incorporated by reference in this annual report and such information should not be considered a part of this annual report.

## **ITEM 1A. RISK FACTORS**

The purchase of our common stock involves a very high degree of risk.

In evaluating our common stock and our business, you should carefully consider the risks and uncertainties described below and the other information and our consolidated financial statements and related notes included herein. If any of the events described in the risks below actually occurs, our financial condition or operating results may be materially and adversely affected, the price of our common stock may decline, perhaps significantly, and you could lose all or a part of your investment.

The risks below can be characterized into **four** three groups:

- 1) Risks related to disruptive global events such as a widespread public health crisis, the outbreak of an international conflict, a terrorist event or a banking crisis, such as Covid-19 and the war in Ukraine, and responses to such events;
- 2) Risks related to our business, including risks specific to the defense and aerospace industry;
- 3) Risks arising from our indebtedness; and
- 4) Risks related to our status as a public company and our common stock.

The financial statements contained in this Report, as well as the description of our business contained herein, unless otherwise indicated, principally reflect the status of our business and the result of operations as of December 31, 2022.

### **Risks Related to Global Events**

*Disruptive national and international events, such as the outbreak of a public health crisis, an international conflict, a terrorist event, a banking crisis, the possibility of default by the United States on its obligations due to its debt ceiling or the actuality of such an event, and the response of the United States, other countries and the public to such events, and the resulting macroeconomic disruption to the financial markets and the businesses of our customers and suppliers, could have a negative impact on our results of operation and financial condition.*

The outbreak of the Covid-19 pandemic, the invasion of Ukraine by the Russian Federation and the measures adopted by various governments and agencies, as well as the decision by many individuals and businesses to voluntarily shut down or self-quarantine and work from home in response to the outbreak of Covid-19 had serious adverse impacts on domestic and foreign economies, the financial markets and our ability, as well as the ability of some of our customers and suppliers, to operate in the ordinary course. While we continued to operate substantially in the normal course of business since the outbreak of Covid-19, we were forced to adjust our sales and marketing practices due to difficulties encountered in contacting our customers to maintain existing programs and win new orders and did not receive new contracts during 2021 and 2022 at a rate consistent with historical levels. Although business has substantially returned to pre-Covid-19 operating levels and our ability to win new orders appears to be returning to historical levels, there is no assurance that there will not be another event, such as a public health crisis, an international conflict, a terrorist event, a banking crisis or the possibility of a default by the United States on its obligations due to its debt ceiling or the actuality of such an event, which will have a material adverse impact on our industry, operations or financial condition. Moreover,

although our industry appears to be operating in the normal course, employees of certain customers continue to work from home impacting our ability to communicate with them and the future economic impact of changes in business practices which resulted from Covid-19 or which might result from a future event, cannot be predicted with certainty. Covid-19 caused significant disruption to the commercial travel and aerospace industries. Although air travel has increased, it may take several years for overall economic conditions to return to normal, particularly in the aerospace industry, for air travel and the resulting demand for new and refurbished aircraft to return to normal. If conditions do not improve, or if they worsen, it could make it difficult for us to access debt and equity capital on attractive terms, or at all, and impact our ability to fund business activities and repay debt on a timely basis.

**Russia's invasion of Ukraine, continued tensions between the US and the European Union with China and Russia, may alter countries' willingness to rely on others as the source of certain products and material.**

Historically, prime contractors and OEMs in the United States A & D industry have relied upon suppliers outside the United States for products and raw materials, including suppliers in Russia and China. Supply chain disruptions resulting from China's initial response to Covid-19, Russia's invasion of Ukraine and the economic disruption resulting from retaliatory measures, continued tensions between the US and other countries, may cause many companies in the A&D industry and the governments of the countries in which they are located, including the United States, to rethink these strategies and seek or mandate that such companies obtain more reliable sources of supply. To the extent they do so, it could disrupt the markets for raw materials and supplies, our ability and the ability of our suppliers to obtain raw materials and supplies and the market for the skilled laborers we need to manufacture our products.

We cannot forecast with any certainty whether such disruptions, restrictions imposed by various governments in response thereto and resulting changes in business practices, may materially impact our ability and the ability of our suppliers to obtain necessary raw material, our business and our consolidated financial position, results of operations, and cash flows.

In reading the remaining risk factors set forth below, in each case, consider the additional uncertainties caused by the potential for disruptive global events such as a widespread public health crisis, the outbreak of an international conflict, terrorist event or banking crisis and continued rivalries between various countries.

**Risks Related to Our Business**

**We may need additional financing to fund investments in new or upgraded property or equipment.**

We may need to obtain require additional financing to fund acquisitions of capital items necessary for our growth and to upgrade investments in new or upgraded property or equipment, in order to remain competitive. We If we do, we may also need to obtain the agreement of holders of portions of our debt to extend or otherwise refinance such debt. We In order to gain consent, we may need to offer these holders increases in the rates of interest they receive or otherwise compensate them through payments of cash or issuances of our equity securities. Future financings Such additional financing or refinancings refinancing may involve the issuance of debt, equity and/or securities convertible into or exercisable or exchangeable for our equity securities. Additional funding securities and may not be available to us on reasonable terms, if at all. If we are able unable to consummate such financings additional financing or re-financings, re-financing, the trading price of our common stock could be adversely affected, and the terms of such financings financing may adversely affect the interests of our existing stockholders. Any failure to obtain additional fund working capital when required would have a material adverse effect on our business and financial condition and may result in a decline in our stock price. Any issuances of our common stock, preferred stock, or securities such as warrants or notes that are convertible into, exercisable or exchangeable for, our capital stock, would have a dilutive effect on the voting and economic interest of our existing stockholders.

**A reduction in government spending on defense could materially adversely impact our revenues, results of operations and financial condition.**

A large percentage of our revenue is derived from products for US military aviation. There are risks associated with programs that are subject to appropriation by Congress, which could be potential targets for reductions in funding. Reductions in United States Government spending on defense or future changes in the mix of defense products required by United States Government agencies could limit demand for our products and may have a materially adverse effect on our operating results and financial condition. For the past several years, our operations have been impacted by volatility in government procurement cycles and spending patterns. There can be no assurance that our financial condition and results of operations will not be materially adversely impacted by future volatility in defense spending or a change in the mix of products purchased by defense departments in the United States or other countries, or the perception on the part of our customers that such changes are about to occur.

**A reduction in budgeted or actual U.S. government spending for defense or changes in the mix of defense products could materially adversely impact our business strategy, revenues, operating results and financial condition.**

The ultimate end-user for most of our products is the U.S. Government, with significant use on military aircraft. In certain instances, our products may be exported to allied foreign governments by the U.S. Government. Although we expect to generate net sales from all of our key aerospace and defense platforms and programs for many years, they are subject to significant risk. Congressional appropriation and presidential approval are required for funding leaving our platforms and programs vulnerable to potential budget reductions at any point. For instance, a decrease in U.S. government defense spending or a strategy shift to rocket and drone platforms instead of large military aircraft platforms, could curtail demand for our landing gear parts and other components we provide which would likely have a materially adverse effect on our business strategy, revenues, operating results and financial condition.

Our operations have historically been subject to the fluctuations in government procurement cycles and spending patterns by our customers. There can be no assurance that our financial condition and future results of operations will not be materially adversely impacted by volatility in defense spending or changes in the mix of product favored by the U.S. Government or other nations, or the perception among our customers regarding the likelihood of such shifts.

**Although we have cultivated long-standing relationships with many of our customers, the aerospace and defense industry is characterized by a smaller number of large and well-known prime customers. We depend on revenues from a few significant relationships. Any these relationships and any loss, cancellation, reduction, or interruption in these relationships could harm our business.**

We derive most of our revenues from a small number of customers. Four customers represented approximately 77% and three customers represented 75% of total sales for the years ended December 31, 2022 and 2021, respectively. The markets in which we sell our products are dominated purchased by a relatively small number of large aerospace and defense customers which who incorporate them into larger products for ultimate end-use by the U.S. Government, international governments, and commercial global airlines. Consequently, we have contracts with United States governmental agencies, thereby limiting the number a high degree of potential customers. sales concentration among specific customers making it challenging to diversify our customer base. In fiscal years 2023 and 2022, four and three customers, respectively, accounted for approximately 64.2% and 76.5% of net sales, respectively. Our future success depends relies heavily on our ability to develop nurturing expanding and manage relationships with significant customers. We effectively managing these relationships. Nevertheless, we cannot be sure that we will be able to retain our largest assure retention of these customers or that we will be able their continuing to attract additional customers, or that our customers will continue to buy our products in the same amounts as in prior years. purchasing at previous levels. The loss of one or more of our largest any key customers, any reduction a decline or interruption in sales to these customers, them, or our inability to successfully develop establish relationships with additional new customers, or future price concessions that we may have to make, could significantly harm impact our business.

**We depend on revenues from components for a few aircraft programs and platforms and the cancellation or reduction of either production or use funding of these aircraft platforms could them will harm our business.**

We derive a significant portion of our revenues net sales from supplying components for a few select aircraft programs and platforms, specifically the Sikorsky BlackHawk helicopter, the Northrop Grumman E-2 Hawkeye naval aircraft, such as the F-18 Hornet, and the E-2D Hawkeye, the UH-60 Black Hawk Helicopter, Pratt & Whitney Geared TurboFan Jet engine, Turbo-Fan Engine, the CH-53 Helicopter, the F-35 Lightning II (also known as the Joint Strike Fighter) and the F-15 Eagle Tactical Fighter. A reduction decrease in demand for our products, as a result of either a reduction in the stemming from reduced aircraft production of new or diminished aircraft or a reduction in the use of existing aircraft in the fleet (reducing after-market demand) utilization, would have a material adverse effect on adversely affect our future operating results and financial condition.

**Intense Changes in outsourcing strategies and intense competition in our markets may lead to a reduction in our revenues and market share.**

The defense and aerospace component manufacturing market is highly competitive competitive. Competition has been increasing and we expect that competition will increase is expected to intensify further. Our large aerospace and perhaps intensify. In particular, we anticipate that manufacturers which have historically operated predominately in the commercial sector may seek to increase the revenue derived in the defense aerospace market to utilize excess capacity. Many prime customers, Tier One suppliers and many of our

competitors have significantly greater technical, manufacturing, financial and marketing resources than we do. We In the future, our defense and aerospace customers could make changes in their supply chain strategies that could adversely impact us. For instance, they could decide to in-source manufacturing, stop purchasing pursuant to existing LTA agreements or seek other sources at any time. If they seek other suppliers, we may not be able to compete successfully against either current or future competitors. competitors (including commercial manufacturers that wish to diversify their revenues and expand into the defense supply chain). Increased competition could result in reduced revenue, lower margins or loss of market share, any of which could significantly harm our business, our operating results and financial condition.

**We may lose sales if we fail to timely meet the needs of any specifications and requirements of our customers.**

Our Most of our customers incorporate our products into larger products such as aircraft assemblies or completed aircraft. They rely upon us to deliver products meeting their pursuant to existing LTA agreements that include detailed specifications on a timely basis to ensure smooth operation of their assembly lines, and requirements. If a customer were to conclude that it could not rely upon us for timely delivery of quality products, any reason, it could look to dual source a product or rely upon another party altogether. A customer We could reach such be informed of a conclusion even if our failure to timely deliver product was the result of events beyond our control, such as the failure of the customer to place an order for a long lead time product on a timely basis change in sourcing decisions with limited notice or supply us with agreed upon raw materials for processing, not at all. Any decision by a customer to rely upon an alternate supplier for some or all of its needs could significantly harm our business, our operating results and our financial condition.

**We may lose sales if our suppliers fail to meet our needs or shipments of ship raw materials are not timely made, to us on timely.**

Although We must deliver our products timely with high quality to ensure smooth operation of our customer production lines. In order to do so, we attempt to procure most of our raw materials, parts and components as well as subcontracted services from multiple various sources and rely upon a number of subcontractors to perform detailed services, or believe that these materials, components and services are readily available from numerous sources, utilize multiple subcontractors. However, certain materials, components and services are exclusively available only from a sole or limited number of sources suppliers and often need we are reliant upon them. Additionally, material sourced from overseas are susceptible to be sourced by our customer supply chain disruptions stemming from global events and political decisions. While we believe that, substitute in many cases, alternative supplies, components, or assemblies, and or subcontractors could be obtained, use of secured, sourcing substitutes would require may necessitate the development of new suppliers or would require us product re-engineering and qualification, potentially leading to re-engineer our products, shipment delays. Any interruptions in raw material shipments or both, which could delay shipment of our products and could have a materially adverse effect on our operating results and financial condition. Any delays in the shipment of raw materials or the subcontracted service performance of subcontracted services could significantly harm our business, our operating results and our financial condition.

**A We may not be able to improve our gross margin and a reduction in our revenues future sales levels could have a disproportionate effect on our gross profit as a percentage of our net sales.**

Our operations have state-of-the-art manufacturing facilities currently has a large percentage of fixed factory overhead relative to our overall expenses. As a result, Consequently, our gross profit as a percentage of new sales is highly linked with sales volume. Any If we do not increase our sales volume, it will be difficult to materially improve our gross profit margin. Although we have plans to improve operating efficiencies at our current sales levels, we may not be able to do so. Further, any reduction in our future sales volume would likely causes us to absorb the fixed overhead costs over a smaller base of sales, likely causing our gross profit margin as a percentage of sales to decrease. decline from current levels. Any reduction in our profit margin adversely impacts our reported performance and would have a material adverse impact on results of operation and consolidated our financial position.

**There are risks associated with the bidding processes in which we compete.**

We obtain many LTA and other contracts through a competitive bidding process. We must devote substantial time and resources to prepare bids and proposals and may not have contracts awarded to us. Even if we win contracts, there can be no assurance that the prices that we have bid will be sufficient to allow us to generate a profit from any particular contract. There are significant costs involved with producing a small number of initial units of any new product and it may not be possible to recoup such costs on later production runs.

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

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, supply chain disruptions and the inability to recover any claims included in the estimates for added services necessary to complete. complete production. A significant change in cost costs from those on which we based our estimates on one or more programs could have a material effect on our consolidated financial position or results of operations.

***The prices of raw materials we use are volatile.***

The prices of raw materials used in our manufacturing processes are volatile. Our contracts generally Some LTA agreement with customers allow us to increase our prices due to increases in the price of raw materials. Many contracts, however, However, these LTA agreements generally require that we first absorb all or a portion of the increase in expense resulting from inflation price increases before passing being able to pass on the increase on to the customer. For some LTA agreements, we are at full risk for future price agreements. If the prices of raw materials rise, we may not be able to pass along all of such increases to our customers and this could have an adverse impact on our consolidated financial position and results of operations. It is possible that some of the raw materials we use might become subject to new or increased tariffs. Significant increases in the prices of raw materials could adversely impact our customers' demand for certain products which could lead to a reduction in our revenues and have a material adverse impact on our revenues and on our consolidated financial position and results of operations.

***Some of the products we produce have long lead times.***

Some of the products we produce require months to produce and we sometimes produce products in excess of the number ordered intending to sell the excess as spares when orders arise. As a result, our inventory turns slowly and ties up our working capital. Our inventory represented approximately 60% 59% of our assets as of December 31, 2022 December 31, 2023. Any requirement to write down the value of our inventory due to obsolescence, excess and slow moving, or a drop in the price of materials could have a material adverse effect on our consolidated financial position and results of operations and could result in a breach of the financial covenants in our Loan Facility with Webster Bank ("Webster") operations.

***We do not own the intellectual property rights to products we produce.***

Nearly Although we develop our internal processes, nearly all the parts and subassemblies we produce are built to customer specifications and the customer owns the intellectual property, if any, related to the product. Consequently, if a customer desires to use another manufacturer to fabricate its part or subassembly, it would be free to do so, which could have a material adverse effect on our business, our operating results and financial condition.

***There are risks associated with new programs.***

New programs typically carry risks associated with design changes, acquisition of new production tools, funding commitments, imprecise or changing specifications, timing delays and the accuracy of cost estimates associated with such programs. In addition, any new program may experience delays for a variety of reasons after significant expenditures are made. If we were unable to perform under new programs to the customers' satisfaction or if a new program in which we had made a significant investment was terminated or experienced weak demand, delays or other problems, then our business, financial condition and results of operations could be materially adversely affected. This 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.

To perform on new programs, we may be required to incur material up-front costs which may not have been separately negotiated and may not be recoverable. Such charges and the loss of up-front costs could have a material impact on our liquidity.

The need to control our expenses will place a significant strain on our management and operational resources. If we are unable to control our expenses effectively, our business, results of operations and financial condition may be adversely affected.

***There are risks associated with offering new services, services to our customers.***

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From time-to-time in order to reduce our dependence on subcontractors or increase our gross margins we may offer new services to our customers, such as painting and finishing products we manufacture, already manufacture for them. There are risks associated with offering new these services and even if such services are performed timely and correctly, it is likely that our margins for these new services will be relatively low, or even negative, in the initial phases when volume is low. We may not be successful in achieving positive gross margins for these new services or be able to ultimately meet our customer requirements. If we are unsuccessful, it could hurt our relationship with our customers.

**Attracting and retaining executive talent and other key personnel is an essential element of our future success.**

Our future success depends to a significant extent upon our ability to attract executive talent, as well as the continued service of our existing executive officers and other key management and technical personnel. Experienced We are a relatively small company and experienced management and technical, marketing and support personnel in the defense and aerospace industries are in demand and competition for their talents is intense. Our failure to attract executive talent, or retain our existing executive, officers key management and key technical personnel, could have a material adverse effect on our business, financial condition and results of operations.

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

We are subject to intense competition for the services of skilled machinists necessary to manufacture our products and those of other companies in the A & D aerospace and defense industry. Since the outbreak of COVID-19, In recent years, the competition for skilled employees has intensified. Moreover, certain large employers in intensified and we have experienced wage inflation. We have strategically located our industry operations in the Northeast U.S. and many companies are expanding their domestic production. As such, there is currently seeking to hire a large number shortage of skilled technicians. We are currently seeking workers in the U.S. In order to maintain and increase production levels, we must hire new employees and machinists for our Long Island and Connecticut two state-of-the art manufacturing facilities and we may not be able to expand do so or the costs to hire and/or train them may significantly exceed our business. The demand for these individuals may increase as other manufacturers seek to bring to the United States manufacturing processes currently outsourced overseas. budget. If the United States U.S. economy undergoes a period of continues to experience inflation, our labor costs may further increase which could have a material adverse effect on our business, financial condition and results of operations.

**We are subject to strict governmental regulations relating to the environment, which could result in fines and remediation expense in the event of non-compliance.**

We are required to comply with extensive and frequently changing environmental regulations at the federal, state and local levels. Among other things, these regulatory bodies impose restrictions to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous substances into the environment. This extensive regulatory framework imposes significant compliance burdens and risks on us. In addition, these regulations may impose liability for the cost of removal or remediation of certain hazardous substances released on or in our facilities without regard to whether we knew of, or caused, the release of such substances. Furthermore, we We are also required to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances. Our operations require the use of chemicals and other materials for painting and cleaning that are classified under applicable laws as hazardous chemicals and substances. If we are found to be in violation of any of these rules, regulations or permits, we may be subject to fines, remediation expenses and the obligation to change our business practice, any of which could result in substantial costs that would adversely impact our business operations and financial condition.

***We may be subject to fines and disqualification for non-compliance with Federal Aviation Administration regulations.***

We are subject to regulation by the FAA under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations. We have never been subject to such fines or disqualification.

**Cyber security attacks, internal system or service failures, may adversely impact and any unauthorized access to our customer data will have an adverse effect on our business and operations. reputation.**

Most of our products are used by large aerospace and prime contractors who ultimately provide them to the U.S. Government, foreign governments and commercial airlines. As such, in most cases, we are required to maintain confidential and proprietary information on our information systems. Hackers, whether they be individuals, entities or hostile enemies, may attempt to penetrate our network or those of our third-party hosting and storage providers, to gain access to confidential and proprietary data. If any of this data is hacked or leaked, obtained by others or destroyed without authorization, it could harm our reputation, we could be exposed to civil and criminal liability, which will materially impact our financial results and financial condition. Any system or service disruptions including caused by hackers or even those caused by projects to improve our information technology systems, capabilities, if not anticipated and appropriately mitigated, could significantly disrupt our business and impair our ability to effectively provide products and related services to our customers and production assembly could have an immediate material adverse effect on our business. We could also be subject to systems failures, including network, software or hardware failures, whether caused by us or third-party service providers, intruders or hackers, computer viruses, natural disasters or power shortages or terrorist attacks. Cyber security threats are evolving and include, but are not limited to, malicious software, unauthorized attempts to shortages.

If hackers gain access to sensitive, confidential or otherwise protected information, related they may attempt to force us or our products, customers or suppliers, or other acts that could lead to disruptions in our business, pay a ransom before stopping their attack. Any such failures hacker penetration could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs or require us to pay ransom to a hacker which takes over our systems, 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 and have increased recent investment to improve our cyber-security posture, there can be no assurance that these procedures and controls or new investments 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.

**Terrorist acts We are subject to an extensive and acts highly-evolving regulatory landscape, and requirements imposed by our customers to secure our communications, and any adverse changes to, or our failure to comply with, any laws and regulations or requirements of war may seriously harm our clients could adversely affect our brand, reputation, business, operating results, of operations and financial condition.**

**United States** We subject to extensive laws, rules and global responses regulations directed to actual those who conduct business over the internet, in addition to security requirements imposed by our clients, including those governing privacy, data governance, data protection and cybersecurity. Many LTAs that we sign with our customers also require us to comply with strict vendor clauses including replications of specific sections of the FAR. These legal and regulatory regimes, including the laws, rules, and regulations thereunder, may be modified, interpreted, and applied in an inconsistent manner. To the extent we have not complied with such laws, rules, and regulations, or potential military conflicts requirements imposed by our LTAs, we could be subject to significant fines, limitations the products and services we provide, reputational harm, and other regulatory consequences, each of which may be significant and could adversely affect our business, operating results, and financial condition.

**Any disruptive national or international events, such as Russia's invasion of Ukraine, terrorism, perceived nuclear, biological and chemical threats and other global political potential future public health crises, increase uncertainties with respect to the U.S. and other business and financial markets. Several factors associated, directly ongoing or indirectly, with actual new conflicts, domestic or potential military conflicts, terrorism, perceived nuclear, biological and chemical and cyber threats, and other global political foreign terrorist activities, banking crises, and responses thereto, from the U.S. Government, other nations, and the public to such occurrences, could significantly disrupt the operations of us or our suppliers and impede our ability to procure, receive, or replenish inventory (including raw materials). These disruptions may also present challenges in communication and lead to sudden and unexpected shifts in product demand by our customers. Furthermore, global financial markets could experience disruptions, affecting our business and our ability to secure future financing, including accessing debt or equity. The occurrence of any of these events could result in lost sales and otherwise adversely affect our business, operating results, and financial condition.**

Conflicts between nations (such as the mix ongoing Russia-Ukraine conflict), or between nations and terrorist organizations (such as the ongoing conflict between terrorist groups and Israel), as well as terrorist attacks, natural disasters (such as hurricanes, fires, floods and earthquakes), unusually adverse weather conditions, pandemic outbreaks or a banking crisis could adversely affect our operations and financial performance. If any of these events affect us or our suppliers, it could result in an inability on our part to manufacture products and/or result in lost sales, materially affecting our operations and financial performance.

Additionally, such events could disrupt travel, making it a challenge to communicate with our customers, as evidenced during the coronavirus pandemic. Moreover, they could lead to increases in fuel or other energy prices, fuel shortages, temporary labor shortages, temporary or long-term disruptions in delivery of products purchased by defense departments in the United States or other countries from our suppliers and disruption to platforms not serviced by us. A shift in defense budgets to product lines we do not produce our information systems, any of which could have a material an adverse effect impact on our business, operating results and financial condition condition. Disruptive events could make it difficult for us to access debt and results of operations, equity capital on attractive terms, or at all, and impact our ability to service or refinance our debt, fund business activities, and repay debt on a timely basis.

**Russia's invasion of Ukraine, the conflict in the Middle East, continued tensions between the US and the European Union with China and Russia, and tension between the US and the European Union with respect to funding Ukraine's war effort, may alter countries' willingness to rely on others as the source of certain products and material.**

Historically, prime contractors and the entire U.S. aerospace and defense supply chain have relied upon parts, components, and raw materials from foreign suppliers including those located in Russia and China. Geo-political tensions have increased during the past several years and we expect them to continue. Supply chain disruptions resulting from escalating political tensions and the economic disruption resulting from retaliatory measures between any countries could result in production delays and cancellations of programs. Additionally, any material changes to the current aerospace and defense supplier structure resulting from geo-political tensions or otherwise could disrupt the markets for raw materials and supplies and our ability and the ability of our suppliers to obtain raw materials, may be significantly impacted. We cannot forecast with any certainty whether such disruptions, restrictions imposed by various governments in response thereto and resulting changes in business practices, may materially impact our ability and the ability of our suppliers to obtain necessary raw material, our business and our consolidated financial position, results of operations, and cash flows.

#### **Risks Related to Our Indebtedness**

**Our As of December 31, 2023, we have total indebtedness of approximately \$23,311,000, large portions of which must be redeemed or refinanced prior to December 30, 2025 and July 1, 2026. We may have a material adverse effect on not be able to achieve favorable financing terms in the future or consummate any refinancing of our operations. existing loans prior to their respective maturity dates. Failure to do so would materially impact our business and our stock price.**

We have substantial indebtedness under our loan facility with Webster ("Loan Facility"). As of December 31, 2022 December 31, 2023, we had approximately \$18,748,000 \$15,849,000 of indebtedness outstanding under the Loan Facility. All of our pursuant to a loan facility that matures on December 30, 2025 with Webster Bank ("Current Credit Facility"). The average interest rate on this indebtedness under the Loan Facility during fiscal 2023 was 7.55%. This indebtedness is secured by a lien on substantially all of our assets.

We also have approximately \$6,162,000 of indebtedness outstanding in the form of subordinated notes payable ("Related Party Notes") that mature on July 1, 2026. These notes and which are held by related parties, specifically two directors Michael N. Taglich (our Chairman) and Robert F. Taglich, (a Director), and their affiliates. The Related Party Notes payable carry an interest rate ranging between 7% and 12% per year.

**Notes** In addition to \$884,000 of finance lease obligations and a \$22,000 vehicle loan, we also had \$393,000 of borrowings for solar energy systems pursuant to a financing agreement ("Solar Facility") with CT Green Bank. The Solar Facility requires borrowings for completed projects to be repaid over a principal value of approximately \$2,732,000 carry an interest rate of 6% per annum and are convertible into approximately 182,000 shares of common stock at a conversion price of \$15.00 per share. Notes with a principal value of approximately \$2,080,000 carry an interest rate of 7% per annum and are convertible into approximately 224,000 shares of common stock at a conversion price of \$9.30 per share. 20-year level payment term.

If we are unable to pay amounts due under our Loan Facility or the subordinated notes indebtedness when due, our operations may be materially and adversely affected. We may need to offer the holders must pay or refinance large portions of this debt increases in the indebtedness prior to December 30, 2025, and July 1, 2026. During fiscal 2024, we initiated steps to refinance this debt. Refinancing may require us to pay higher interest rates of interest they receive than we currently pay, agree to more restrictive business or otherwise compensate them through payments of cash financial covenants or issuances of our equity securities. Future financings or re-financings may involve the issuance of debt, equity and/or new securities convertible into or exercisable or exchangeable for our equity securities. If we are able to consummate such financings or re-financings, the terms of such financings common stock which may adversely affect the trading price of our common stock and the interests of our existing stockholders. Any failure to refinance our existing debt or obtain additional working capital when required would have a material adverse effect on our business and financial condition and may result in a decline in our stock price. Any issuances of our common stock, preferred stock, or securities such as warrants or notes that are convertible into, exercisable or exchangeable for, our capital stock, would have a dilutive effect on the voting and economic interest of our existing stockholders.

Our current or future leverage may adversely affect our ability to finance future operations and capital needs, may limit our ability to pursue business opportunities and may make our results of operations more susceptible to adverse economic conditions. Ultimately, we may not be able to successfully refinance our indebtedness and if we cannot, we would become insolvent.

***The weighted average interest rate associated with portions of our current debt we paid in 2023 on borrowings outstanding on the Current Credit Facility was 7.55% and this interest rate may increase, increase in the future.***

The weighted average interest rate paid during the year-ended December 31, 2023 on borrowings outstanding on the Current Credit Facility was 7.55% as compared to 4.50% for the year-ended December 31, 2022, the increase primarily the result of the increase in the target rates set by the Federal Reserve. Under the terms of the Webster our Current Credit Facility, amounts due to Webster bear interest at a per annum rate equal to the greater of (i) 3.50% and (ii) a rate per annum equal to the rate per annum published from time to time in the "Money Rates" table of the Wall Street Journal (or such other presentation within The Wall Street Journal as may be adopted hereafter for such information) as the base or prime rate for corporate loans at the nation's largest commercial bank, less sixty-five hundredths (-0.65%) of one percent per annum. Consequently, the rate of interest we paid under the Facility did not increase despite the initial increases in the target may be susceptible to future increased rates set by if the Federal Reserve though the more recent increases have resulted increases in the interest rate we pay under the Webster Facility. The weighted average interest rate paid during the year-ended December 31, 2022 was 4.50%. Given current interest rates, the interest rate we pay under the Webster Facility will increase as the Federal Reserve continues chooses to increase its target rate of interest. In addition, under

***We may not be able to comply with the covenants of the Current Credit Facility and our debt could be called.***

Under the terms of the Webster Current Credit Facility, we are required to maintain certain business and financial covenants including a defined Fixed Charge Coverage Ratio of 1.25 to 1.00 (as defined) that is determined at the end of each fiscal quarter. If This ratio is a financial metric that we use to measure our ability to cover fixed charges such as interest and leases expenses as divided by EBITDA (as defined in the Current Credit Facility) which represents net income (or loss) before interest, taxes, depreciation, and amortization. For the year ended December 31, 2023, we achieved a Fixed Charge Coverage Ratio of 1.31x as compared to the required ratio of 0.95x and were in full compliance with all other covenants. As of March 31, 2024, we were to fail to meet such covenant, Webster would have the right to increase the rate of interest payable on amounts outstanding under the Facility. The Company was not in

compliance with the covenant at December 31, 2022. The Company was required ratio of 1.10x. We are currently in default discussions with our lender to obtain waivers, but may not be able to do so.

During our first and third quarters of its covenant fiscal 2023, primarily because of the unexpected and dramatic increase in interest rates and the failure to provide its audited financial statements receive certain raw materials from a supplier, we were unable to Webster bank within ninety (90) days comply with the Fixed Charge Coverage Ratio. In 2023, our lender provided waivers for these quarters and provided for more relaxed Fixed Charge Coverage ratios for future periods, including the 0.95x as of its fiscal year end. The Company has subsequently received December 31, 2023.

Even if we obtain a waiver from the bank for this default. Any failure to meet the fixed charge coverage ratio as of March 31, 2024, if we do not achieve our fiscal 2024 plan and successfully execute our business strategy, we may not be able to comply with future quarterly covenant requirements. If we fail to do so and/or are unable to obtain future waivers, we may have to pay increased interest rates or may be required to immediately pay any outstanding debt. An increase in the interest rate of interest payable under the Webster Facility would increase our interest expense and likely have a material adverse impact on our consolidated financial position and results of operations. If we were required to make immediate repayment, we may not be able to obtain financing to do so and would become insolvent.

**Our indebtedness may limit our ability to pay dividends in the future.**

We currently do not pay dividends and the terms of our Loan Current Credit Facility require that we maintain certain financial covenants, limit our ability to pay dividends.

We currently do not pay dividends and have no foreseeable plans to do so. Additionally, the terms and covenants of our Current Credit Facility do not currently allow us to. In the future should we decide to pay dividends, we would need to seek covenant changes or a waiver under our Loan Current Credit Facility. There can be no assurance our lenders would agree to covenant changes or waivers acceptable to us or at all, grant a waiver. In addition, we may in the future incur additional indebtedness or otherwise become subject to agreements whose terms restrict our ability to pay dividends in the future. Even if our lender would agree to allow us to pay a dividend, our Board of Directors may choose to use the amount which could be paid as a dividend to reduce our outstanding indebtedness.

## **Risks Related to our status as a public company and our common stock**

### **The price of our common stock can fluctuate.**

The financial markets have been impacted in various ways by the reactions to the outbreak of the COVID-19 pandemic and government stimulus programs adopted in response to the pandemic, and Russia's invasion of Ukraine and government responses thereto. The price of our common stock has and is expected to continue to be volatile. We cannot forecast with any certainty whether and to what degree the disruption caused by the COVID-19 pandemic, Russia's invasion of Ukraine and reactions thereto will continue to adversely impact financial markets and the impact to our common stock. Likewise, we cannot state with certainty the degree to which financial markets were supported by government stimulus programs and whether such support will continue as governments elect not to adopt similar measures in the future.

### **The ownership of our common stock is highly concentrated, and your interests may conflict with the interests of our existing stockholders.**

Two of our directors, Michael N. Taglich and Robert F. Taglich, and their affiliates own a significant number of shares of our outstanding common stock as well as a significant amount of debt convertible into our common stock, which together with their position as directors of our Company, give them significant influence over the outcome of corporate actions, including those requiring stockholder approval and the terms on which we complete transactions with their affiliates. The interests of these directors may be different from the interests of other stockholders on these and other matters. This concentration of ownership could also have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could reduce the price of our common stock.

**We can provide no assurance that our common stock will continue to meet NYSE American listing requirements. If we fail to comply with the continuing listing standards of the NYSE American, our common stock could be delisted.**

If we fail to satisfy the continued listing requirements of the NYSE American, the NYSE American may take steps to delist our common stock. The delisting of our common stock would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase common stock when you wish to do so.

### **There is only a limited public market for our common stock.**

Although our common stock is listed on the NYSE American. However, American, there is only a limited number of our shares available in the public float and the related market capitalization of the shares in our public such float is relatively small. The trading volume for our common stock has been limited and a more active public market for our common stock may not develop or be sustained over time. The lack of a robust market may impair a stockholder's ability to sell shares of our common stock. In the absence of a more active trading market, any attempt to sell our shares could result in a decrease in the price of our stock. Specifically, you our shareholders may not be able to resell your their shares of common stock at or above the price you paid for such shares or at all.

Moreover, sales of our common stock in the public market, or the perception that such sales could occur, could negatively impact the price of our common stock. As a result, you our shareholders may not be able to sell your shares of our common stock in short time periods, or possibly at all, and the price per share of our common stock may fluctuate significantly.

### **The ownership of our common stock is highly concentrated amongst related parties, and their interests may conflict with the interests of other stockholders.**

Two of our directors, Michael N. Taglich and Robert F. Taglich, and their affiliates own a significant portion of our outstanding shares of common stock. They also hold \$6,162,000 of Related Party Notes, some of which are convertible into our common stock. Although the Related Party Notes are subordinate to the \$15,849,000 of debt outstanding pursuant to the Current Credit Facility, we may require additional concessions from the holders of the Related Party Notes when we seek to refinance the Current Credit Facility. These related parties have significant influence over the outcome of corporate actions, including those requiring stockholder approval. The interests of these related parties may be different from the interests of other stockholders on these and other matters. Additionally, this concentration of ownership could also have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could reduce the price of our common stock.

### **The market price of our common stock is likely to be highly volatile, which could result in substantial losses to investors.**

The market price of our common stock has historically been volatile and is likely to continue to be volatile. The market price of our common stock could fluctuate widely due to factors relating to our operations as well as those beyond our control. Because our common stock is thinly traded, the trading price may be volatile due to factors concerning our operations, such as variations in our operating results, failure to meet the covenants under the Current Credit Facility, news regarding the loss of a major customer or termination or a reduction in funding for a program we are on, the loss of management personnel, the outcome or perception of the potential outcome of any litigation, general industry conditions and significant industry developments. In addition, the market price of our common stock may be affected by factors unrelated to our operations, such as general economic factors, government budgeting decisions affecting our industry and developments in the financial markets and availability of credit.



**Disruptive national and international events and the response of the United States, other countries and the public to such events, and the resulting macroeconomic disruption to the financial markets could lead to increased volume and price volatility for publicly traded securities which could adversely impact the price of our common stock.**

Disruptive national and international events, such as the outbreak of a public health crisis, conflicts between nations or between nations and terrorist organizations, terrorist acts, natural disasters, a banking crisis, the possibility of default by the U.S. Government on its obligations due to its debt ceiling or the actuality of such an event, and the response of the U.S. Government, other countries and the public to such events, and the resulting macroeconomic disruption to the financial markets could lead to increased volume and price volatility for publicly traded securities which could adversely impact the price of our common stock.

**We can provide no assurance that our common stock will continue to be listed on the NYSE American. If we fail to meet the continued listing standards of the NYSE American, our common stock could be delisted. The delisting of our common stock could impair your ability to purchase shares of our common stock or sell your common stock when you wish to do so which could have a negative effect on the price of our common stock.**

If we fail to satisfy the continued listing requirements of the NYSE American, it may take steps to delist our common stock. There are measures that can be taken to remain in compliance with certain of the listing requirements of NYSE American which often require the undertaking of a reverse stock split, selling common stock at prices below what the Board of Directors may believe is its true value or completing a merger to acquire a new business. There are other exchanges and trading platforms on which we could choose to list our common stock. Our Board periodically examines the costs and benefits of listing our common stock on the NYSE American with the costs and benefits that would result from an alternative trading platform. If our Board were to choose to seek another platform for the trading of our common stock, this could entail suspending our obligation to file periodic reports with the SEC and using other means to make information publicly available to shareholders and potential buyers of our common stock. There can be no assurance that any cost savings and other benefits we might achieve from trading on another platform would outweigh any negative impact to the trading market and price of our common stock that would result from delisting from the NYSE American.

**If we fail to meet the expectations of securities analysts or investors, our stock price could decline significantly.**

Our quarterly and annual operating results fluctuate significantly due to a variety of factors, some of which are outside our control. Accordingly, we believe period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indications of future performance. Some of the factors that could cause quarterly or annual operating results to fluctuate include conditions inherent in government contracting and our business such as the timing of cost and expense recognition for contracts, the United States U.S. Government contracting and budget cycles, introduction of new government regulations and standards, contract closeouts, variations in manufacturing efficiencies, our ability to obtain components and subassemblies from contract manufacturers and suppliers, general economic conditions and economic conditions specific to the defense market and disruptions caused by global events such as COVID-19 and Russia's invasion of Ukraine. Because we base our operating expenses on anticipated revenue trends and a high percentage of our expenses are fixed in the short term, any delay in generating or recognizing forecasted revenues could significantly harm our business.

Fluctuations in quarterly results or announcements of extraordinary events such as an award of a new contract, acquisitions or litigation, may cause earnings to fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock could significantly decline. These fluctuations, as well as general economic and market conditions, may adversely affect the future market price of our common stock, as well as our overall operating results. Consequently, our share price may experience significant volatility and may not necessarily reflect the value of our expected performance.

**Future financings or acquisitions may adversely affect the market price of our common stock.**

Future sales or issuances of our common stock, including upon conversion of our outstanding convertible notes, upon exercise of our outstanding warrants and options, or as part of future financings or acquisitions, would be substantially dilutive to the outstanding shares of common stock. Any dilution or potential dilution may cause our stockholders to sell their shares, which would contribute to a downward movement in the price of common stock.

**We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time effort to compliance requirements, including establishing and maintaining internal controls over financial reporting, and we may be exposed to potential risks if we are unable to comply with these requirements. Costs to comply may increase in the future.**

As a public company, we incur significant legal, accounting and other expenses under the Sarbanes-Oxley Act of 2002, together with rules implemented by the Securities and Exchange Commission and applicable market regulators. These rules impose various requirements on public companies, including requiring certain corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these requirements. Moreover, **these if new rules and/or regulations are adopted in future periods, they will likely increase our legal and financial compliance costs and will make some activities more time-consuming and costlier.**

The Sarbanes-Oxley Act, among other things, requires that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluations and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Compliance with Section 404 may require that we incur substantial accounting expenses and expend significant management efforts. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner, the market price of our stock could decline if investors and others lose confidence in the reliability of our financial statements and we could be subject to sanctions or investigations by the SEC or other applicable regulatory authorities.

**If we are unable to effectively maintain a system of internal control over financial reporting, we may not be able to accurately or timely report our financial results and our stock price could be adversely affected.**

Our management determined that as of **December 31, 2022** **December 31, 2023**, our disclosure controls and procedures and internal control over financial reporting were not effective due to **certain material weaknesses in our internal control over financial reporting related to our review controls related to the preparation of our income tax provision, weakness regarding appropriate segregation of duties with respect to and validation of data produced by certain portions modules of our financial IT systems systems**. We first determined this weakness in fiscal 2022. Although new controls have been implemented during fiscal 2023, they were put in place late in the year which did not allow sufficient time for testing of the effectiveness of such controls. We expect to conclude our testing of effectiveness in fiscal 2024 but we may find that fiscal 2023 remediations were not effective and **the establishment of appropriate inventory reserves. Any** have to incur additional costs to adopt new controls. A significant increase in costs in 2024 or any failure to maintain our controls or operation of these controls, could harm our operations, decrease the reliability of our financial reporting, and cause us to fail to meet our financial reporting obligations, which could adversely affect our business and reduce our stock price.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 1C. CYBERSECURITY

We regularly review our cybersecurity defenses to assess our vulnerability to cybersecurity attacks from viruses, malware and more sophisticated and targeted cyber-related attacks such as hackers looking to demand ransomware or access our systems to obtain information and data, as well as our vulnerability to cybersecurity failures resulting from human error and technological errors. We rely upon internal information technology ("IT") personnel working in conjunction with specialized outside security consultants on a day-to-day basis to conduct reviews and upgrade our systems when determined to be necessary.

Our overall strategy in combatting cybersecurity risks includes a variety of measures, including:

- the use of antivirus software, virtual private networks, email security, as well as other software and system-wide measures such as multi-factor authorization to prevent and detect data intrusions;
- deployment of updates and patches as they become available from our software suppliers and consultants and maintaining the current versions of major software to reduce the exposure to vulnerabilities;
- the use of third-party services to conduct mandatory online training for all employees regarding identifying and avoiding cyber-security risks;
- the review of the security procedures used by third parties that may host or otherwise have access to our systems;
- the deployment of third-party cybersecurity experts to perform penetration testing on our internal and external networks and systems in an effort to identify potential vulnerabilities; and
- consideration of the cybersecurity risks posed by interacting with current and potential third-party service providers, suppliers and customers.

We are not aware of any weakness in our systems or malware embedded in our systems that are likely to would materially affect, or are reasonably likely to materially affect, our operations.

Day-to day management of cybersecurity threats is conducted by our IT department in conjunction with outside service providers, which is charged with identifying and reporting threats to senior management. On a quarterly basis, cybersecurity is reviewed by our Chief Executive Officer and Chief Financial Officer, who are expected to report to the Audit Committee.

### Board Oversight

The Audit Committee of our Board of Directors, which is composed of all non-employee directors, is responsible for oversight of our efforts to eliminate cybersecurity risks. The Audit Committee meets regularly with our Chief Executive Officer and Chief Financial Officer and, in turn, reports its finding to the Board of Directors.

## ITEM 2. PROPERTIES

We have strategically located our properties in the U.S. We lease a 5.4-acre corporate campus and maintain an approximately 81,000 square foot state-of-the-art manufacturing facility located in Bay Shore, New York, which houses York. We maintain our executive offices and a majority of our operations. This corporate headquarter at this facility whose lease expires in September 2026. We also maintain lease a small warehouse lease nearby in Bohemia, New York. That lease term commenced on April 1, 2020 and expires on May 31, 2025. in May 2025.

The balance of our operations are conducted in We own a second 74,923 square foot state-of the-art manufacturing facility located in Barkhamsted, Connecticut, which we own. Connecticut.

## ITEM 3. LEGAL PROCEEDINGS

On October 2, 2018, Contract Pharmacal Corp. ("Contract Pharmacal") commenced an action, relating to a Sublease entered into between us and Contract Pharmacal in May 2018 with respect to the property formerly occupied by our subsidiary Welding Metallurgy, Inc. ("WMI"), at 110 Plant Avenue, Hauppauge, New York. In the action, Contract Pharmacal sought damages for an amount in excess of \$1,000,000 for our failure to make the entire premises available by what it claims was the Sublease commencement date. On July 8, 2021, the Court denied Contract Pharmacal's motion for summary judgement. In the Order, the court granted Contract Pharmacal's Motions to drop its claim for specific performance and to amend its Complaint to reduce its claim for damages to \$700,000. Subsequently, Contract Pharmacal moved to amend its Complaint. We opposed and the Court denied the request to amend the Complaint. Contract Pharmacal filed a Motion to reargue which the Court denied on November 30, 2021. On March 10, 2022, Contract Pharmacal filed an appeal to the Court's decision with the Appellate Division. The Appellate Division which we have opposed, upheld the denial of Contract Pharmacal's motion for summary judgement and upheld the denial of its motion to amend its Complaint. On March 29, 2023, Contract Pharmacal filed a motion to reargue the appeal previously denied by the Appellate Division. We dispute the validity of the claims asserted by Contract Pharmacal, continue to believe we have a meritorious defense to those claims and intend to dispute the validity of the claim asserted by Contract Pharmacal.

From time to time we may be engaged in various lawsuits and legal proceedings in the ordinary course of our business. We are currently not aware of any legal proceedings the ultimate outcome of which, in our judgment based on information currently available, would have a material adverse effect on our business, financial condition or operating results. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder of our common stock, is an adverse party or has a material interest adverse to our interest.

## 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 for Our Common Stock

Our common stock is listed on the NYSE American under the symbol "AIRI."

#### Holders

On **May 10, 2023** **April 11, 2024**, there were 70 stockholders of record of our common stock. The number of record holders does not include persons who held our Common Stock in nominee or "street name" accounts through brokers.

#### Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes shares of our Common Stock to be issued upon exercise of options and warrants, the weighted-average exercise price of outstanding options and warrants and options available for future issuance pursuant to our equity compensation plans as of **December 31, 2022** **December 31, 2023**:

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 Remaining Shares Available for Future Securities Issuance Under Equity Compensation Plans	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 Remaining Shares Available for Future Securities Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	267,000	\$ 20.10	55,150	461,870	\$ 8.94	78,130
Equity compensation plans not approved by security holders	218,290	29.00	None	None	0.00	None
<b>Total</b>	<b>485,290</b>		<b>55,150</b>	<b>461,870</b>		<b>78,130</b>

The provisions of each of our equity compensation plans provide that shares covered by an award that is forfeited, expires or is settled in cash, and shares that are retained by us upon exercise of an award to satisfy the exercise price of such award or withholding taxes due in respect of such award, are available for future issuance under such plan provided the plan has not been terminated or expired. We anticipate that a portion of the option awards that have been granted will expire or be forfeited without having been exercised and will increase the number of shares remaining for issuance under our equity compensation plans.

#### Recent Sales of Unregistered Equity Securities

Except as previously reported in our periodic reports filed under the Exchange Act, we did not issue any unregistered equity securities during the fiscal year ended **December 31, 2022** **December 31, 2023**.

#### Purchases of Our Equity Securities

No repurchases of our common stock were made during the fiscal year ended **December 31, 2022** **December 31, 2023**.

**ITEM 6. [RESERVED]**

Not required.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2022 December 31, 2023 and 2021 2022 and the notes to those statements included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in this report that could cause actual results to differ materially from those anticipated in these forward-looking statements.

### Business Overview

Air Industries Group is a holding company with three legal subsidiaries, AIM, NTW We believe we are one of the leading manufacturers of precision components and SEC. SEC began manufacturing aircraft components in assemblies for large aerospace and defense contractors. Our rich history dates to 1941, – over 80-years ago – producing parts for use in World War II. NTW was formed in the early 1960's and AIM has been in business since 1971. II fighter aircraft. Since then, we have maintained an impeccable record with no known incidents of part failure leading to a fatal mission. We became a public company in 2005.

We manufacture aerospace components primarily for the defense industry. AIM and NTW, manufacture structural parts and assemblies focusing on flight safety, including aircraft Our products include landing gear, arresting gear, flight controls, engine mounts flight controls, throttle quadrants, and other components. SEC makes components and provides services for aircraft jet engines and ground-power turbines, ground turbines and other complex machines. The ultimate end-user for most of our products is the U.S. government, international governments, and commercial global airlines. Whether it is a small individual component for assembly by others or complete assemblies we manufacture ourselves, our high quality and extremely reliable products are used in mission critical operations that are essential for safety of military personnel and civilians.

Products of AIM and NTW Although our net sales are currently deployed on a wide range of high-profile military and commercial aircraft including the Sikorsky UH-60 Blackhawk, Lockheed Martin F-35 Joint Strike Fighter, Northrop Grumman E2D Hawkeye, the US Navy F-18 and USAF F-16 and F-15 fighter aircraft. They also make a critical component for the Pratt & Whitney Geared TurboFan ("GTF") aircraft engine used on commercial airliners. SEC makes products used in jet engines that are used on military and commercial aircraft including the USAF F-15 and F-16, the Airbus A-330 and the Boeing 777, and others, and in addition, concentrated amongst a number of ground-power turbine applications.

The aerospace market is highly competitive in both the defense and commercial sectors and we face intense competition in all areas of our business. Nearly all of our revenues are derived by producing products to customer specifications after being awarded a contract through a competitive bidding process. As the commercial aerospace and defense industries continue to consolidate and major prime contractors, seek to streamline supply chains by buying more complete sub-assemblies from fewer suppliers, we have sought to remain competitive not only by providing cost-effective world class products cultivated long-standing relationships with a number of their subsidiaries and/or business units. Additionally, our net sales are generated across several high-profile platforms and service but also by increasing our ability to produce more complex programs including: the F-18 Hornet, the E-2 Hawkeye, the UH-60 Black Hawk Helicopters, Geared Turbo Engines (used on smaller aircraft such as the Airbus A220 and complete assemblies for our customers.

We Embraer E2), the CH-53 Helicopter, the F-35 Lighting II and the F-15 Eagle Tactical Fighter. In many cases, we are focused on maintaining profitability the sole or single supplier of certain parts and positive cash flows from operating activities. We remain resolute on meeting customers' needs. To take advantage of the long-term growth opportunities we see in our markets, we have made significant capital investments in new equipment in recent years. We believe these investments will increase the velocity components and efficiency of production, increase the size of product we can make and allow us to offer additional services to our customers. Some of our investment expands our capabilities allowing us to internally process product that was previously outsourced to third party suppliers. We are pleased with the positive responses receive LTAs from our customers, about these initiatives.

Our ability both demonstrating their commitment to operate profitably and generate positive cash flows from operating activities is determined by our ability to win new or renewal contracts and fulfilling these contracts on a timely and cost effective basis. Winning a contract generally requires that we submit a bid containing fixed prices for the product or products covered by the

contract for an agreed upon period of time, sometimes for five-years or longer, with negotiated increases to reflect a portion of the impact of inflation. Thus, when submitting bids, we are required to estimate our future costs of production and, since we often rely upon subcontractors, the prices we can obtain from our subcontractors. us.

While Winning a new contract award is highly competitive. Our ability to win new contract awards generally requires us to deliver superior quality products, more quickly and with lower pricing than our revenues are largely determined by competitors. Accordingly, we must continually invest in process improvements and capital equipment. Recent investments in new equipment have improved the number productive capacity of contracts our employees, increased our efficiency and speed, and expanded the size of products we are awarded, can manufacture. We strategically operate two state-of-the-art manufacturing centers in the volume U.S. This allows for rigorous oversight of product delivered and price of product under each contract, our costs are determined by a number of factors. The principal factors impacting our variable costs are the cost of materials and supplies, labor, financing production and the efficiency at which adherence to stringent quality standards. Although there is currently a shortage of skilled workers, we can produce our products. The cost maintain a highly trained and close- knit team of materials used over 180 professionals committed to driving excellence and precision in the aerospace industry is highly volatile. The invasion of the Ukraine by the Russian Federation and retaliatory measures imposed by the United States, United Kingdom, the European Union and other countries, and the responses of Russia to such measures, have negatively impacted the availability and market price of certain minerals, such as titanium, for which Russia was a source of supply. To obtain necessary raw materials at prices deemed acceptable, we are working with those every aspect of our larger customers which have access to sources of metals necessary to manufacture their products not readily available to us or other companies of our size. Nevertheless, there can be no assurance that disruptions in the markets for metals will not adversely impact our ability to timely meet the needs of our customers.operations.

Our period-to-period net sales and operating results are significantly impacted by timing. In addition, the market for the skilled labor we require to operate our plants gross profit is highly competitive. Changes in the available pool of labor caused affected by Covid-19 and life-style changes in response to Covid-19 have not materially adversely impacted our ability to meet our production schedules. Nevertheless, as we seek to grow our business, there can be no assurance that the skilled labor we need to operate our machinery will be available to us or that the costs incurred to maintain our current labor force and those we seek to bring on will not increase.

The profit margin of the various products we sell varies based upon a number variety of factors, including the mix and complexity of the product, the intensity of the products, production efficiencies, price competition for such product and in general business operating environments. In some cases, the our gross profit is impacted by our ability to deliver replacement parts on short notice. Thus, in assessing our performance from one period to another, a reader must understand that changes in profit margin can be the result of shifts in the mix of products sold. Our operations have a large percentage of fixed factory overhead. As a result, our profit margins are also highly variable with sales volumes as under-absorption volumes.

For the past several years, despite facing significant financial and operational challenges, we have strategically invested substantial amounts in new capital equipment, tooling, and processes to bolster our competitive position. Additionally, we expanded our sales and marketing efforts, with a sharp focus on expanding relationships with existing customers and cultivating new ones. Fiscal 2023 marked a year of factory overhead decreases profits. overall progress and positioning for growth. Looking forward to fiscal 2024, our business strategy is geared towards achieving sustainable and profitable business growth. We are firmly focused on securing new contract awards, improving operations and successful execution.

Our revenues With total unfilled contract values amounting to \$191.9 million (including our \$98.3 million in backlog and all potential orders against LTA agreements previously awarded to us), as of December 31, 2023, we are principally determined by orders from our customers for the delivery of product – which we call releases – against LTA's with those customers. These long-term agreements generally have fixed prices for product with negotiated increases to reflect a portion of the impact of inflation, though over the term of a LTA prices often increase and not all of the increase is covered by agreed upon price protection clauses. Our direct costs of production include costs for material, labor, ability to boost sales in 2024, attain profitability and factory overhead; all of these costs may vary based on the efficiency of improve our factory operations. Our gross profit is highly variable due to the mix of products sold, and by sales volume, which can lead to the over absorption or under absorption of factory overhead costs. financial position.

Beyond these direct costs of production, we incur general and administrative costs termed Operating Expenses and financing costs for borrowed money, income taxes and miscellaneous income and expense. 21

A very large percentage of the products we produce are used on military as opposed to civilian aircraft. These products can be replacements for aircraft already in the fleet of the armed services or for the production of new aircraft. Reductions to the Defense Department budget and decreased usage of aircraft reduces the demand for both new production and replacement spares and could adversely impact our business and our revenue.

## **RESULTS OF OPERATIONS**

**Years ended December 31, 2022 December 31, 2023 and 2021: 2022:**

### **Selected Financial Information:**

	<b>2022</b>	<b>2021</b>
Net sales	\$ 53,238,000	\$ 58,939,000
Cost of sales	45,786,000	48,686,000
Gross profit	7,452,000	10,253,000
Operating expenses	7,646,000	7,766,000
Interest and financing costs	1,338,000	1,265,000
Other income, net	139,000	405,000
Gain on write-off of accounts payable	317,000	-
Provision/(Benefit) from income taxes	-	-
Net (loss) income	<b><u>\$ (1,076,000)</u></b>	<b><u>\$ 1,627,000</u></b>

	2023		2022		Change 2023 vs 2022	Percent Change 2023 vs 2022
	2023	Percentage of Net Sales	2022	Percentage of Net Sales		
Net sales	\$ 51,516,000	100.0 %	\$ 53,238,000	100.0 %	\$ (1,722,000)	-3.23 %
Cost of sales	44,088,000	85.6 %	45,786,000	86.0 %	(1,698,000)	-3.71 %
Gross profit	7,428,000	14.4 %	7,452,000	14.0 %	(24,000)	-0.32 %
Operating expenses	7,723,000	15.0 %	7,646,000	14.4 %	77,000	1.01 %
Interest expense	1,920,000	3.7 %	1,338,000	2.5 %	582,000	43.50 %
Other income, net	84,000	0.2 %	139,000	0.3 %	(55,000)	-39.57 %
Gain on write-off of accounts payable	-	0.0 %	317,000	0.6 %	(317,000)	-100.00 %
Provision for income taxes	-	0.0 %	-	0.0 %	-	-
Net loss	\$ (2,131,000)	-4.1 %	\$ (1,076,000)	-2.0 %	\$ (1,055,000)	98.05 %

**Balance Sheet Data:**

	December	December	December	December	Percent	
	31,	31,	31,	31,	Change	Change
	2022	2021	2023	2022		
Cash	\$ 281,000	\$ 627,000	\$ 346,000	\$ 281,000	65,000	23.13 %
Working capital	\$ 18,600,000	\$ 17,478,000	\$ 12,117,000	\$ 18,600,000	(6,483,000)	-12.81 %
Total assets	\$ 53,814,000	\$ 53,425,000	\$ 50,715,000	\$ 53,814,000	(3,098,000)	-5.76 %
Total stockholders' equity	\$ 16,839,000	\$ 17,389,000	\$ 15,190,000	\$ 16,839,000	(1,649,000)	-9.79 %

**Comparison of Fiscal 2023 to 2022**

**Net Sales:** Net sales in 2023 were \$51,516,000, a decrease of \$1,722,000, or 3.2%, compared with \$53,238,000 that we achieved in 2022. The year-over-year decrease in net sales was primarily due to delays in production associated with supply chain issues caused by one supplier failing to deliver raw materials for a key program as well as overall changes in customer mix and production requirements for other key platforms and programs.

**Consolidated** The composition of customers that exceeded 10% of our net sales for the year ended December 31, 2022 were \$53,238,000, a decrease of \$5,701,000, in either 2023 or 9.7%, compared with \$58,939,000 for the year ended December 31, 2021. The decrease in sales resulted principally from the sale of products with lower selling prices and from contracts that expired in 2021 that were not renewed in 2022. 2022 are shown below:

As indicated in the table below, four customers represented 76.5% and three customers represented 75.4% of total sales for the years ended December 31, 2022 and 2021, respectively.

Customer	Percentage of Sales	
	2022	2021
Goodrich Landing Gear Systems	29.3 %	37.2 %
Sikorsky Aircraft	21.4 %	25.7 %
United States Department of Defense	14.3 %	12.5 %
Rohr	11.5 %	*

Customer	Percentage of Net Sales	
	2023	2022
RTX (a)	27.3 %	40.6 %
Lockheed Martin	24.7 %	21.4 %
Boeing	12.2 %	0.0 %

\*(A) Customer was less than 10% of sales for the year-ended December 31, 2021

RTX includes Collins Landing Systems and Collins Aerostructures

As indicated in the table below, three customers represented 70.3% and three customers represented 74.7% of gross accounts receivable at December 31, 2022 and 2021, respectively.

Customer	Percentage of Receivables	
	2022	2021
Goodrich Landing Gear Systems	33.1 %	50.3 %
Rohr	23.6 %	12.7 %
Sikorsky	13.6 %	**
United States Department of Defense	*	11.7 %

\* Customer was less than 10% of accounts receivable at December 31, 2022

\*\* Customer was less than 10% of accounts receivable at December 31, 2021

#### **Gross Profit:**

Consolidated gross profit from operations for the year ended December 31, 2022 was \$7,452,000, a decrease of \$2,801,000, or 27.3%, as compared to gross profit of \$10,253,000 for the year ended December 31, 2021. Consolidated gross profit as a percentage of sales was 14.0% and 17.4% for the years ended December 31, 2022 and 2021, respectively. These decreases were attributable to lower sales and the mix of products sold during 2022 as compared to 2021. The Company also corrected its policy for determining the reserve for slow-moving and excess inventory which led to an increase in the reserve, further decreasing the gross profit and gross profit percentage.

The composition of our net sales by platform or program profiles for the years ended December 31, 2023 and 2022 are shown below:

Platform or Program	Percentage of Net Sales	
	2023	2022
F-18 Hornet	24.3 %	13.3 %
E2-D Hawkeye	18.9 %	15.6 %
UH-60 Blank Hawk Helicopter	18.1 %	16.5 %
GTF	10.5 %	9.5 %
CH-53 Helicopter	7.4 %	6.3 %
F-35 Lightning II	4.0 %	18.6 %
F-15 Eagle Tactical Fighter	2.1 %	3.8 %
All other platforms	14.7 %	16.4 %
Total	100.0 %	100.0 %

Based on the significant easing of the 2023 supply chain issue discussed above and expected delivery dates for products used in all our other platforms and programs, we expect fiscal 2024 sales to increase as compared to the level we achieved in 2023.

**Gross Profit:** Gross profit for the year ended December 31, 2023, amounted to \$7,428,000, comparable to the \$7,452,000 achieved in 2022. Our gross profit percentage in fiscal 2023 increased to 14.4% from the 14.0% we achieved in 2022. This improvement can be attributable to changes in the sales across our major platforms, shifts in product mix, and overall operating efficiencies.

#### **Operating Expenses**

**Consolidated:** In fiscal 2023, operating expenses were totaled \$7,723,000, slightly higher than the \$7,646,000 and \$7,766,000 for fiscal 2022 and 2021, respectively, representing a decrease of \$120,000 or 1.5%, recorded in 2022. As a percentage of consolidated net sales, operating expenses were rose to 15.0%, compared to the 14.4% and 13.2% for achieved in fiscal 2022 and 2021, respectively. There were 2022. The increase in cost related to employment both dollars and percentage was primarily driven by higher professional fees and costs including employee health benefits which were not passed on to associated with the employees, increases in investor relations and increased travel costs resulting from the resumption improvement of travel to customers as Covid-19 restrictions eased. The increased costs were primarily offset by reductions in expenses related to our information technology system and the recovery of bad debt.

#### **Gain on write-off of Accounts Payable**

During the year ending December 31, 2022, the Company, reviewed all old outstanding payables that were not paid hardening our cyber-security protection. We continue to look for ways to reduce our costs and based on the statute of limitations, a claim would no longer be enforceable. The Company determined that approximately \$317,000 of old payables fell into this category. This adjustment is recorded as Write-off of accounts payable on the accompanying Statement of Operations.

#### **Interest improve our operating performance and Financing Costs**

Our interest and financing costs for the year ended December 31, 2022 totaled \$1,338,000, an increase of \$73,000 or 5.8% from \$1,265,000 in 2021, as a result of higher interest rates on our Loan Facility during 2022. The average interest rate charged was 4.50% and 3.50% for the years ended December 31, 2022 and 2021, respectively.financial results.

**Net (Loss) Income Interest Expense:** Interest expense (which includes amortization of deferred financing costs) was \$1,920,000 in fiscal 2023, an increase of \$582,000 or 43.5% from \$1,338,000 in 2022. The increase is primarily attributable to an increase in the average interest rate on outstanding debt pursuant to our Current Credit Facility which increased to 7.55% in 2023 as compared to 4.50% in 2022.

**Net Loss:** Net loss for the year ended December 31, 2022 December 31, 2023 was \$1,076,000, \$2,131,000, compared to a net income loss of \$1,627,000 \$1,076,000 for the year ended December 31, 2021 December 31, 2022, for the reasons discussed above.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our material cash requirements are for debt service, capital expenditures and funding working capital/operating costs.

As of December 31, 2022 December 31, 2023, we have debt service requirements related to:

- 1) Our Webster Outstanding indebtedness under our Current Credit Facility of \$18,748,000 consisting \$15,849,000 (consisting of a Revolving Loan of \$13,352,000 \$10,804,000 and a term loan Term Loan in the amount of \$5,396,000. \$5,045,000). This debt matures on December 30, 2025, and requires us to make monthly payments of approximately \$79,000 in 2024.
- 2) Related party debt consisting Party Notes of convertible subordinated note payables of \$4,812,000 and subordinated note payables of \$1,350,000. approximately \$6,162,000. This debt is not due until matures on July 1, 2026. We Pursuant to the Current Credit Facility we are permitted to make principal payments against this debt in the amount of \$250,000 per quarter, pursuant to the Third Amendment to the Loan and Security Agreement with Webster, as long as certain conditions are met. On July 14, 2022, a principal payment in the amount of \$250,000 was made as the conditions for such payment were met for the first quarter of 2022.
- 3) Various equipment leases and contractual obligations related to our normal business. business, including advances under our Solar Facility for the installation of solar energy systems including the replacement of the existing roof at our Sterling Facility

Under the terms of the Current Credit Facility, we are required to meet a Fixed Charge Coverage Ratio (as defined) that is determined at the end of each fiscal quarter. This ratio is a financial metric that we use to measure our ability to cover fixed charges such as interest and leases expenses as divided by EBITDA (as defined in the Current Credit Facility) which represents net income (loss) before interest, taxes, depreciation and amortization. As of December 31, 2023, we achieved a Fixed Charge Coverage Ratio of 1.31x as compared to the required ratio of 0.95x and were in full compliance with all other covenants. However, as of March 31, 2024, we were not in compliance with the required ratio of 1.10x.

Although we have started discussions with our lender to receive a waiver with respect to our failure to meet the Fixed Charge Coverage Ratio at March 31, 2024, it is reasonably possible such waiver will not be granted. Even if such waiver is granted, we may fail to achieve the Fixed Charge Coverage Ratio in the future or otherwise fail to meet covenants in the Current Credit Facility. Therefore, we have classified the term loan that expires on December 30, 2025 as current as of December 31, 2023, in accordance with the guidance in ASC 470-10-45, "Debt – Other Presentation Matters", related to the classification of callable debt. We are required to maintain a collection account with our lender into which substantially all of our cash receipts are remitted. If we were to default under our Current Credit Facility, our lender could choose to increase the rate of interest we pay or refuse to make loans under the revolving portion of the Facility and keep the funds remitted to the collection account. If the lender were to raise the rate of interest we pay, it would adversely impact our operating results. If the lender were to cease making new loans under our revolving facility, we would lack the funds to continue our operations. The rights granted to our lender under the Current Credit Facility combined with the possibility that we might fail to meet covenants in the future raise substantial doubt about our ability to continue as a going concern for the one year commencing as of the issuance of the opinion of our auditors contained in this report.

The following is a brief discussion of recent amendments to the Current Credit Facility (all of which have been filed with the SEC):

- On May 17, 2022, we entered into a Fourth Amendment that increased the Term Loan to \$5,000,000 and reduced our monthly principal repayments requirements. It also provided for the establishment of a Capital Expenditure Line in the amount of \$2,000,000 on which we can draw upon to purchase machinery and equipment. In 2022, we borrowed \$878,000, and in 2023, we borrowed \$739,500 against this Capital Expenditure Line. In connection with this amendment, we paid a fee of \$20,000.
- On August 4, 2023, we entered into a Fifth Amendment that waived a default caused by our failure to meet the required Fixed Coverage Charge Ratio for the fiscal quarter ended March 31, 2023. Additionally, the amendment provided for a revised Fixed Coverage Charge Ratio for the fiscal quarters ending June 30, 2023 and September 30, 2023 and increased the amount of purchase money secured debt (or finance leases) we are allowed to have outstanding at any time to \$2,000,000. In connection with this amendment, we paid a fee of \$10,000.
- On November 20, 2023, we entered into a Sixth Amendment that waived defaults caused by the failure by us to achieve the Fixed Charge Coverage Ratio of the Fifth Amendment and because we purchased capital expenditures (as defined) in excess of permitted amounts. This amendment further revised the Fixed Charge Coverage Ratio by requiring it to be calculated on a rolling period basis and not be less than, (a) 1.10x (as calculated on a six-months basis) for the fiscal quarter ending March 31, 2024, (b) 1.20x (as calculated on a nine-months basis) for the fiscal quarter ending June 30, 2024, and (c) 1.25 (as calculated on a twelve-months basis) for all fiscal quarters beginning with September 30, 2024, until the Current Credit Facility expires. This amendment also increased our ability to make additional capital expenditures up to a limit of \$2,500,000 in any fiscal year. In connection with this amendment, we paid a fee of \$20,000.

Although navigating the current business landscape remains challenging and it is difficult to predict period-to-period financial performance, we believe we will be able to meet our financial obligations for the foreseeable future. However, if we are unable to obtain a waiver from our lender and they were to cease lending, we would not be able to meet our financial obligations. As of December 31, 2023, we have borrowing capacity of approximately \$9,830,000 under the Revolving Loan (including \$383,000 pursuant to the Capital Expenditure Line).

In addition to required Term Loan payments of approximately \$948,000 in fiscal 2024, we may have to make additional payments. For so long as the Term Loan under the Current Credit Facility remains outstanding, if Excess Cash Flow (as defined) is a positive amount for any fiscal year, we are obligated to pay an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow and (ii) the outstanding principal balance of the Term Loan. Such payment shall be applied to the outstanding principal balance of the Term loan, on or prior to the April 15 immediately following such fiscal year. For the fiscal year ended December 31, 2023, based on the calculation there was no Excess Cash Flow payment required.

In addition to the outstanding indebtedness under the Current Credit Facility and Related Party Notes, we have various equipment leases and contractual obligations of an ongoing nature which we service in the ordinary course out of our cash flow from operations. Our material cash requirements are for debt service, capital expenditures and funding working capital. We have historically met our cash requirements with funds provided by a combination of cash generated from operating activities and cash generated from equity and debt financing transactions. Based on our current revenue visibility and strength of our backlog, we believe that we have sufficient liquidity to meet our short-term cash requirements. However, if we are unable to obtain a waiver from our lender and they were to cease lending we may not have sufficient liquidity to meet our cash requirements over for the next twelve months. On May 17, 2022, we entered into the Fourth Amendment to the Loan and Security Agreement with Webster. The purpose of the amendment was to increase the Term Loan to \$5,000,000, reduce the monthly principal installments to be made in respect to the term loan and establish a capital expenditure line of credit in the amount of \$2,000,000 which we can draw upon months from time to time to finance purchases of machinery and equipment, thereby increasing the amount of capital expenditures we may make each year. During December 2022 we borrowed \$878,000 for a capital expenditure and again in January 2023 we borrowed \$739,500 for an additional capital expenditure.

For so long as the Webster term loan remains outstanding, if Excess Cash Flow (as defined) is a positive amount for any Fiscal Year, we are obligated to pay Webster an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow and (ii) the outstanding principal balance of the term loan. Such payment shall be made to Webster and applied to the outstanding principal balance of the term loan, on or prior to the April 15 immediately following such Fiscal Year. As required, we provided the calculation for the Excess Cash Flow payment of \$208,000 for fiscal year ended December 31, 2022 to Webster prior to the April 15, 2023 deadline for such payment. Additionally, we authorized such payment to be made from the Revolving Loan. As of the date of issuance of our consolidated financial statements included in this filing, such payment has not been processed by Webster. Report.



Because we believe that our sales in 2023 will be comparable to those of 2022, we believe our liquidity will remain stable, though our borrowing costs would increase if prevailing interest rates increased or we failed to meet our covenant in the Webster Facility. As a result of recent increases in the federal funds borrowing rate, interest rates and related expense under our Webster Facility are expected to increase from current levels, which could be significant. However, such increases are not expected to materially impact our liquidity. Nevertheless, our liquidity may be adversely impacted by various risks and uncertainties, including, but not limited to future and current impacts of global events such as a widespread health crisis, the continuation of the war in the Ukraine, the outbreak of another conflict and the ongoing tensions between the United States and China, increases in inflation, disruptions in the labor market and other risks detailed in Part 1, Item 1A of this Annual Report.

In addition to our loan with Webster and Subordinated Notes, we have various equipment leases and contractual obligations of an ongoing nature which we service in the ordinary course out of our cash flow from operations. Substantially all of these obligations are described in the notes to our financial statements included in this report.

Changes in our cash flow during fiscal 2022 are discussed further below.

#### Cash Flow

The following table summarizes our net cash flow from operating, investing and financing activities for the periods indicated (in thousands):

	Year Ended December 31,		Year Ended December 31,	
	2022	2021	2023	2022
Cash provided by (used in)				
Operating activities	\$ 448	\$ 4,064	\$ 4,862	\$ 448
Investing activities	(2,361)	(1,364)	(2,112)	(2,361)
Financing activities	1,567	(4,578)	(2,685)	1,567
Net (decrease) increase in cash and cash equivalents	<u>\$ (346)</u>	<u>\$ (1,878)</u>	<u>\$ 65</u>	<u>\$ (346)</u>
Net increase (decrease) in cash				

#### ***Cash Provided By Operating Activities***

Cash provided by or used in operating activities reflects our net income adjusted for the year ended December 31, 2023, we generated cash flows from operations of \$4,862,000 as compared to only \$448,000 for certain non-cash items and changes to working capital items, fiscal 2022.

For the year ended December 31, 2022, net loss of \$(1,076,000) and \$3,094,000 of non-cash items, consisting primarily of employee and director stock-based compensation of \$526,000, amortization of right-of-use assets of \$545,000, depreciation of property and equipment of \$2,522,000 and Impairment of Goodwill of \$163,000 were partially offset. The substantial increase in cash flows was driven by non-cash other income recognized in the amount of \$94,000, a significant reduction in bad debt expense in working capital required during fiscal 2023, primarily the amount reduction of \$313,000 both accounts receivable and accounts payable write-offs in the amount of \$317,000. Operating assets and liabilities used cash in the net amount of \$1,570,000, consisting primarily of the net increases in inventory deposits and other assets and prepaid expenses, taxes and other current assets of \$2,289,000, \$194,000 and \$87,000, respectively, and net decreases in operating lease liabilities, levels. We also benefited from increased customer deposits and deferred payroll tax expense-CARES ACT in the amounts of \$686,000, \$439,000 and \$314,000, which were partially offset primarily due to an advance payment by a decrease in accounts receivable customer to be used for the procurement of \$1,303,000 and an increase in accounts payable in the amount of \$1,136,000. long lead time raw materials expected to be utilized during 2024.

#### ***Cash Used In Investing Activities***

We continue to make significant investments to enhance our competitiveness and market position. Cash used in investing activities consists of cash used \$2,112,000 and \$2,361,000, in 2023 and 2022, respectively, was for capital expenditures for new property and equipment.

We continue to make strategic investments in capital equipment to enhance our competitiveness. The investments in 2023 and 2022 increased production efficiency and speed, while maintaining closer tolerances. They also expanded the year ended December 31, 2022, cash used size of products we can manufacture. We expect to invest approximately \$2,000,000 in investing activities was \$2,361,000. This was primarily 2024 for the purchase of state-of-the-art machinery.

new or upgraded equipment.

### **Cash Provided by Financing Activities**

Cash provided by For the year ended December 31, 2023, cash used in financing activities consists of the was \$2,685,000. During fiscal 2023, we reduced borrowings and repayments under our credit facilities with our senior lender, Webster, increases Current Credit Facility by \$2,921,000 (consisting of net reduction in Revolving Loan borrowings of \$2,548,000 and repayments a net decrease of finance \$373,000 against the Term Loan). We also made payments of \$123,000 pursuant to financing lease obligations and other notes \$9,000 on a loan payable. During fiscal 2023, we also took advances of \$393,000 against the Solar Facility including origination fees of \$25,000.

For the year ended December 31, 2022, cash provided by financing activities was \$1,567,000. This was comprised During fiscal 2022, we increased borrowings under our Current Credit Facility by \$2,130,000 (consisting of a net increase in Revolving Loan borrowings of \$916,000 on our Webster revolving loan, increased borrowings and a net increase of \$2,823,000 under \$1,214,000 against the Webster term loan, offset by repayments of \$1,609,000 on our Webster term loan, and Term loan). We also made payments on our financed lease obligations, related party notes and our financed asset note payables in the amounts of \$284,000 pursuant to financing lease obligations. \$250,000 of Related Loan principal repayments, and \$9,000 respectively.

**CONTRACTUAL OBLIGATIONS**On a loan payable. During fiscal 2022, we paid \$20,000 of amendment fees.

For a discussion of our contractual obligations see “Item 8. Financial Statements and Supplementary Data” – “Note 8. Debt” and “Note 9. Operating Lease Liabilities”.

## Critical Accounting Policies and Estimates

### Critical Accounting Estimates

A critical accounting policy estimate is one that is both important to the portrayal of a company's financial condition and results of operations and requires management's most difficult, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our consolidated Use of Estimates. The preparation of financial statements are presented in accordance with generally accepted accounting principles generally accepted in the United States of America ("U.S. GAAP"). All applicable U.S. GAAP accounting standards effective as of December 31, 2022 have been taken into consideration in preparing the consolidated financial statements. The preparation of consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The financial statements include estimates based on currently available information and related disclosures. Some of our judgment as to the outcome of those future conditions and circumstances. Significant estimates are subjective in these financial statements include, inventory valuation, useful lives and complex, impairment of long-lived assets, income tax provision, and consequently, allowance for credit losses. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of the financial statements and actual results could differ from those estimates. The following are the estimates and assumptions.

Below is a description of our critical accounting policies and estimates have been highlighted as significant because changes to certain judgements and assumptions inherent in these policies could affect our consolidated financial statements: estimates:

- Inventory Valuation, which includes the estimates and methodology used in accounting for the transition of production costs to inventory costs. In our consolidated financial statements, inventory is reflected at the lower of cost or net realizable value. The Company periodically evaluates inventory items not secured by backlog and establishes write-downs to estimated net realizable value including write-downs for excess quantities, slow-moving goods (defined as goods which do not have an open order and have not had movement for two years), obsolescence slow moving and excess inventory; and for other impairments of value.
- Impairment of Long-Lived Assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the corresponding asset group may not be realizable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset group are compared to the asset group's carrying amount to determine if an impairment of such asset is necessary. This requires us to make long-term forecasts of the future revenues and costs related to the asset groups subject to review. Forecasts require assumptions about demand for our products and future market conditions. Estimating future cash flows requires significant judgment, and our projections may vary from cash flows eventually realized. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period. The effect of any impairment would be reflected in operating income in the Consolidated Statements of Operations. In addition, we estimate the useful lives of our long-lived assets periodically review these estimates to determine whether these lives are appropriate.
- Income Taxes, Taxes. We account for income taxes under the asset and liability method, based on the income tax laws in the United States. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities using expected rates in effect for the tax year in which includes the differences are expected to reverse. Developing the provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. The Company has recorded a valuation allowance in the current and prior years to reduce deferred tax assets to zero. If we were to subsequently determine that we would be able to realize deferred tax assets in the future in excess of its net recorded amount, an adjustment to deferred tax assets would increase net income for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance for deferred on a quarterly basis. Our judgments and tax assets, strategies are subject to audit by various taxing authorities.
- Allowance for Credit Loss on Accounts Receivable. We account for Credit Losses on Accounts Receivable using ASU No 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Loss on Financial Instruments." Under this ASU, accounts receivable must be evaluated on a forward-looking "expected loss" model, which will generally result in the earlier recognition of allowances for credit losses.

See Note 2 of the notes to our consolidated financial statements included in this Annual Report on Form 10-K for a more complete description of our significant accounting policies.



## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

No disclosure is required in response to this Item.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Consolidated Financial Statements

The financial statements required by this item begin on page F-1 hereof.

## 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*

An evaluation was conducted under the supervision and with the participation of our management, including the Chief Executive Officer (“CEO”), our principal executive officer, and Chief Financial Officer (“CFO”), our principal financial officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act, as of December 31, 2022 December 31, 2023. Based on that evaluation, the CEO and CFO concluded for the reasons discussed below that our disclosure controls and procedures were not effective as of December 31, 2022, December 31, 2023 to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the required time periods, and that such information is accumulated and communicated to our management to allow timely decisions regarding when required.

### *Management’s Report on Internal Control over Financial Reporting*

Section 404 of the Sarbanes-Oxley Act of 2002 requires that management document and test the Company’s internal controls control over financial reporting and include in this Annual Report, as term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act, and include in this Form 10-K a report on management’s assessment of the effectiveness of our internal controls control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal controls control over financial reporting refers to those policies, procedures and processes that pertain to the maintenance of records that accurately and fairly reflect transactions with respect to 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 receipts and expenditures are made only in accordance with authorizations of our management; and provide reasonable assurance regarding the prevention and timely detection of unauthorized transactions with respect to our assets that could have a material effect on our financial statements.

Because of 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.

Our Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making this assessment, management relies upon the used criteria established in the Internal Control-Integrated Framework issued set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in designing a system intended to meet the needs of our Company and provide reasonable assurance for its assessment. Internal Control – Integrated Framework (2013).

In connection with their review of our internal controls control over financial reporting for the fiscal year ended December 31, 2022 as of December 31, 2023, our Chief Executive Officer and Chief Financial Officer have concluded that our internal controls over financial reporting were not effective as of December 31, 2022, December 31, 2023 as a result of certain material weaknesses discovered during the course of their review. weakness identified in 2022 that was considered to not yet be remediated because we have not completed our effectiveness testing.

In particular, Both in 2023 and 2022, we have outsourced certain IT information technology (“IT”) related functions to a third-party vendor and have vendor. In 2022, we identified a material weakness with respect to our IT systems in that we did not design and/or implement primary user access controls and program change management systems over key information technology IT systems to validate that data produced by the relevant IT systems were complete and accurate and to ensure appropriate segregation of duties to adequately restrict user and privileged access to the financially relevant systems and data to the Company’s personnel. Further, we have identified a material weakness with respect to the activities of such vendor in connection with the design and operation of our IT systems in that because this vendor is unable to provide a SOC 1 (Standard Operating Control) Report, we are were unable to verify and validate the effectiveness of the vendor’s control procedures when implementing changes to our IT systems, including systems affecting our financial IT applications and underlying data account records. We also identified a material weakness related to the effectiveness of management’s review controls over the determination if the methodology used in determining the appropriate reserves to be taken with respect to certain excess quantities and slow moving inventory was operating at a level to prevent or detect a potential material misstatement. The Company determined that the estimates used in prior periods could not be substantiated by actual results and updated it methodology. We have also identified a material weakness relating to the effectiveness of management’s review controls over the income tax provision in our financial footnotes, such that management’s review procedures were not operating at a level of precision to prevent or detect a potential material misstatement in our consolidated financial statements.

We are currently assessing the actions In fiscal 2023, we implemented new IT controls that need required our third-party vendor to be taken to remedy each of the material weaknesses identified above. With respect to those weaknesses related to the calculation of our inventory reserve and the review of our tax management provision, we intend to promptly establish written controls and operating procedures to address the issue. With respect to the material weaknesses related make only changes to our IT systems we intend to meet with specific authorization and a requirement that such change be monitored, in real-time by an employee of our company that is familiar with the changes that are being made by our third-party vendor to determine vendor. Although we implemented this change in the actions to be taken to address each second half of the weaknesses and consider what actions need to be taken if the issues cannot be adequately addressed. Each of the material weaknesses noted will only be deemed to fiscal 2023, we have been remediated after the new controls and procedures have been in place for not yet had a sufficient period and management has concluded through appropriate of time to perform testing to conclude that the controls are control was operating effectively. As such, because our testing of effectiveness is ongoing and not yet complete, we consider this material weakness not to be remediated as of December 31, 2023.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. The rules of the Securities and Exchange Commission do not require an attestation of the Management’s report by our registered public accounting firm in this annual report.

#### **Change in Internal Control over Financial Reporting**

There During the fourth quarter of 2023, we implemented several new changes in internal control over financial reporting including: (a) new IT controls that require our third-party vendor to make only changes to our IT systems with specific authorization by our IT department and a requirement that such changes be monitored, in real-time by an employee of our company that is familiar with the changes that are being made, (b) enhanced review of our inventory reserve policy to ensure that aged-inventory is appropriately reviewed for obsolescence and excess, and (c) we engaged a new third-party tax consulting firm and implemented new

company-level controls over our tax footnote preparation. Except for these items, there have not been any changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter ended December 31, 2022 December 31, 2023, which is the subject of this report, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

None

#### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTION**

Not Applicable

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

***Our directors and executive officers are:***

Name:	Age	Position
Luciano (Lou) Melluzzo	58	President and Chief Executive Officer
Michael E. Recca	72	Chief Financial Officer
Michael N. Taglich	57	Chairman of the Board
Robert F. Taglich	56	Director
David J. Buonanno	67	Director
Peter D. Rettaliata	72	Director
Michael Brand	65	Director
Michael D. Porcelain	54	Director

### ITEM 11. EXECUTIVE COMPENSATION

*Luciano (Lou) Melluzzo* has been our President and Chief Executive Officer since November 15, 2017. He joined our company on September 11, 2017 as Chief Executive Officer. From November 2003 to September 2011, Mr. Melluzzo was employed in various capacities by EDAC Technologies Corporation (“EDAC”) rising to the level of Chief Operating Officer in 2005. EDAC is a designer, manufacturer and distributor of precision aerospace components and assemblies, precision spindles and complex fixturing, tooling and gauging with design and build capabilities, whose shares were then listed on the Nasdaq Capital Market. From September 2011 to November 2015, Mr. Melluzzo was self-employed in the residential real estate redevelopment industry. From November 2015 to January 2017, he was general manager of Polar Corporation, a privately-held company specializing in computer numeric controlled milling and turning of small hardware components for the aerospace industry.

*Michael E. Recca* has been our Chief Financial Officer since October 1, 2016. Mr. Recca has been engaged by us since September 2008 in a variety of positions related to our capital finance and acquisition programs. Most recently he served as Chief of Corporate Development & Capital Markets, a position in which he directed our acquisition program and coordinated with our lenders. Mr. Recca received a Bachelor of Arts degree from the SUNY Stony Brook and an MBA from Columbia University.

*Michael N. Taglich* has been Chairman of our Board of Directors since September 22, 2008. He is Chairman and President of Taglich Brothers, a New York City based securities firm which he co-founded in 1992. Mr. Taglich is currently Chairman of the Board of Mare Island Dry Dock LLC, a company engaged in ship repair services. He also serves as a Director of two other public companies, Bridgeline Digital Inc. and Decision Point Systems Inc., as well as a number of private companies.

*Robert F. Taglich* has been a director of our Company since 2008. He is a Managing Director of Taglich Brothers, which he co-founded in 1992. Prior to founding Taglich Brothers, Mr. Taglich was a Vice President at Weatherly Securities. Mr. Taglich has served in various positions in the securities brokerage industry for the past 25 years. Mr. Taglich holds a Bachelor’s degree from New York University.

*David J. Buonanno* has been a director of our Company since 2008. He is the Founder and President of Buonanno Enterprises Consulting, providing strategic management, supply chain/operations and recruitment services to aerospace and defense industry clients. Mr. Buonanno has extensive experience in manufacturing, supply management and operations. He was employed by Sikorsky Aircraft, Inc., a subsidiary of United Technologies Corporation, as Vice President, Supply Management and International Offset (from January 1997 to July 2006) and as Director, Systems Subcontracts (from November 1992 to January 1997). From May 1987 to November 1992, he was employed by General Electric Company serving as Operations Manager and Manager, Program Materials Management of GE’s Astro-Space Division. From June 1977 to May 1987, he was employed by RCA and affiliated companies. Mr. Buonanno attended Lehigh University College of Electrical Engineering and holds a B.S. in Business Administration from Rutgers University. He completed the Program for Management Development at Harvard Business School in 1996.

26 The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

*Peter D. Rettaliata* has been a director of our Company since 2005. He served as our Acting President and Chief Executive Officer from March 2, 2017 to November 15, 2017 and served as our President and Chief Executive Officer from November 30, 2005 to December 31, 2014. He also served as the President of our wholly-owned subsidiary, AIM, from 1994 to 2008. Prior to his involvement at AIM, Mr. Rettaliata was employed by Grumman Aerospace Corporation for twenty-two years, as the Senior Procurement Officer. Professionally, Mr. Rettaliata has served as the Chairman of "ADDAPT", an organization of regional aerospace companies, as a member of the Board of Governors of the Aerospace Industries Association, and as a member of the Executive Committee of the AIA Supplier Council. He is a graduate of Niagara University where he received a B.A. in History and Harvard Business School where he completed the PMD Program.

*Michael Brand* has been a director of our Company since 2012. He enjoyed a successful 32-year career in aerospace manufacturing primarily focused on jet engines and landing gear. In 2005, he joined Goodrich as President of Goodrich Landing Gear. Prior to joining Goodrich, he had senior management roles at GE Aircraft Engines and Teleflex Aerospace. Mr. Brand has a BS from Clarkson University, with advanced degrees and certificates from Xavier University and the Wharton School.

*Michael Porcelain* has been a director of our Company since October 23, 2017. Mr. Porcelain has been a CPA since 1996 and is currently the President and CEO of The Independent Adviser Corporation, a privately held company which operates various internet websites including TheAdviser.com, 1800ADVISER.com and IRSADVISER.com, all of which relate to the financial planning and advisory industries. From 2006 through 2022, Mr. Porcelain served in several executive positions including service as a member of the Board of Directors of Comtech Telecommunications Corp., ("Comtech") a publicly traded company and a leading global provider of next-generation 911 emergency systems and secure wireless communications technologies. He was appointed Chief Executive Officer of Comtech in January 2022 and President of Comtech in January 2020. He also served as Comtech Chief Operating Officer from October 2018 to January 2022. Prior to holding these positions, he served as Comtech's Chief Financial Officer from 2006 through 2018, and from 2002 to March 2006, he served as Comtech's Vice President of Finance and Internal Audit.

From 1998 to 2002, Mr. Porcelain was Director of Corporate Profit and Business Planning for Symbol Technologies, a mobile wireless information solutions company. Previously, he spent five years in public accounting holding various positions, including Manager in the Transaction Advisory Services Group of PricewaterhouseCoopers. In March 2021, Mr. Porcelain was elected to the Board of Directors of The Fund for Modern Court, an independent court reform organization that advocates for the improvements of the New York State Court system to ensure a diverse, highly qualified, and independent judiciary. Since 1998, he has owned and operated The Independent Adviser Corporation, a privately held company which holds the rights to use certain intellectual properties and trademarks (including various Internet websites) related to the financial planning and advisory industry.

Mr. Porcelain has served as an Adjunct Professor at St. John's University located in New York where he taught graduate level accounting courses. Mr. Porcelain has a B.S. in Business Economics from State University of Oneonta, New York, a M.S. in Accounting and an M.B.A. degree from Binghamton University.

Michael N. Taglich and Robert F. Taglich are brothers.

All directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. Officers are elected by and serve at the discretion of the Board of Directors. Employee directors do not receive any compensation for their services as directors. Non-employee directors are entitled to receive compensation for serving as directors and may receive option or stock grants from our company.

Information Concerning the Board of Directors

#### **Board Leadership Structure and Risk Oversight**

The Board does not have a policy requiring separation of the roles of Chief Executive Officer and Chairman of the Board. The Board has determined that a non-employee director serving as Chairman is in the best interests of our stockholders at this time. This structure ensures a greater role of non-employee Directors in the active oversight of our business, including risk management oversight, and in setting agendas and establishing Board priorities and procedures. This structure also allows the Chief Executive Officer to focus to a greater extent on the management of our day-to-day operations.

The Board of Directors as a whole is responsible for consideration and oversight of the risks we face and is responsible for ensuring that material risks are identified and managed appropriately. Certain risks are overseen by committees of the Board of Directors and these committees make reports to the full Board of Directors, including reports on noteworthy risk-management issues. Members of the Company's senior management team regularly report to the full Board about their areas of responsibility and a component of these reports is the risks within their areas of responsibility and the steps management has taken to monitor and control such exposures. Additional review or reporting on risks is conducted as needed or as requested by the Board or one of its committees.

#### **Board Independence**

Our Board of Directors has determined that David Buonanno, Peter Rettaliata, Michael Brand and Michael Porcelain are "independent directors" within the meaning of NYSE American Rule 803A(2).

#### **Director Compensation**

Non-employee Directors are entitled to receive compensation for serving as directors and may receive option grants from our company. Each Director also is entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred in attending meetings of our Board of Directors or committees of our Board of Directors or stockholder meetings or otherwise in connection with the discharge of his duties as a Director. The compensation committee will assist the directors in reviewing and approving the compensation structure for our directors.

The following table sets forth certain information regarding the compensation paid to, earned by or accrued for, our directors during the fiscal year ended December 31, 2022.

#### **DIRECTOR COMPENSATION**

Name	Fees Earned or Paid In Cash (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Michael Taglich	—	63,254	3,763	—	—	—	67,017
Robert Taglich	—	63,254	3,763	—	—	—	67,017
David Buonanno	34,093	—	3,763	—	—	—	37,856
Michael Brand	34,093	—	3,763	—	—	—	37,856
Michael Porcelain	—	52,021	3,763	—	—	—	55,784
Peter Rettaliata	—	37,501	3,763	—	—	—	41,264

(1) Director fees paid in shares.

#### **Board Meetings; Committees and Membership**

The Board of Directors held four meetings during the fiscal year ended December 31, 2022 and each of the directors attended more than 75% of the aggregate of (i) the number of meetings of the Board of Directors and (ii) the number of meetings of all committees of the Board on which such director served.

We maintain the following committees of the Board of Directors: the Audit Committee, the Compensation Committee and the Nominating Committee. Each committee is comprised entirely of directors who are "independent" within the meaning of NYSE American Rule 803A(2). Each committee acts pursuant to a separate written charter, and each such charter has been adopted and approved by the Board of Directors. Copies of the committee charters are available on our website at [airindustriesgroup.com](http://airindustriesgroup.com) under the heading "Investor Relations."

**Audit Committee.** Messrs. Porcelain, Brand and Buonanno are members of the Audit Committee. Mr. Porcelain serves as Chairman of the Audit Committee and also qualifies as an "audit committee financial expert," as that term is defined in Item 407(d)(5) (ii) of Regulation S-K. The Board has determined that each member of our Audit Committee meets the financial literacy requirements under the Sarbanes-Oxley Act and SEC rules and the independence requirements under NYSE American Rule 803A(2).

Our Audit Committee is responsible for preparing reports, statements and charters of audit committees required by the federal securities laws, as well as:

- overseeing and monitoring the integrity of our consolidated financial statements, our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters, and our internal accounting and financial controls;
- preparing the report that SEC rules require be included in our annual proxy statement;
- overseeing and monitoring our independent registered public accounting firm's qualifications, independence and performance;
- providing the Board with the results of its monitoring and its recommendations; and
- providing to the Board additional information and materials as it deems necessary to make the Board aware of significant financial matters that require the attention of the Board.

The Audit Committee held four meetings during fiscal 2022.

**Compensation Committee.** Our Compensation Committee is composed of Messrs. Rettaliata, Brand and Buonanno.

The Compensation Committee is responsible for:

- establishing our company's general compensation policy, in consultation with senior management, and overseeing the development and implementation of compensation programs;
- reviewing and approving corporate goals and objectives relevant to the compensation of the CEO, and evaluating the performance of the CEO at least annually in light of those goals and objectives and communicating the results of such evaluation to the CEO and the Board, and determining the CEO's compensation level based on this evaluation, subject to ratification by the independent directors on the Board. In determining the incentive component of CEO compensation, the Committee will consider, among other factors, the performance of our company and relative stockholder return, the value of similar incentive awards to CEOs at comparable companies, the awards given to the CEO in past years, and such other factors as the Committee may determine to be appropriate;
- reviewing and approving the compensation of all other executive officers of our company, such other managers as may be directed by the Board, and the directors of our company;
- overseeing the Board's benefit and equity compensation plans, overseeing the activities of the individuals and committees responsible for administering these plans, and discharging any responsibilities imposed on the Committee by any of these plans;
- approving issuances under, or any material amendments to, any stock option or other similar plan pursuant to which a person not previously an employee or director of our company, as an inducement material to the individual's entering into employment with our company, will acquire stock or options;
- in consultation with management, overseeing regulatory compliance with respect to compensation matters, including overseeing the company's policies on structuring compensation programs to preserve related tax objectives;
- reviewing and approving any severance or similar termination payments proposed to be made to any current or former officer of our company; and
- preparing an annual report on executive compensation for inclusion in our proxy statement for the election of directors, if required under the applicable SEC rules.

The Compensation Committee held two meetings during fiscal 2022.

**Nominating Committee.** Our Nominating Committee is composed of Messrs. Rettaliata, Brand and Porcelain. The purpose of the Nominating Committee is to seek and nominate qualified candidates for election or appointment to our Board of Directors. The Nominating Committee held one meeting during fiscal 2022.

The Nominating Committee will seek candidates for election and appointment that possess the integrity, leadership skills and competency required to direct and oversee the Company's management in the best interests of its stockholders, customers, employees, communities it serves and other affected parties.

A candidate must be willing to regularly attend Committee and Board of Directors meetings, to develop a strong understanding of our company, its businesses and its requirements, to contribute his or her time and knowledge to our company and to be prepared to exercise his or her duties with skill and care. In addition, each candidate should have an understanding of all corporate governance concepts and the legal duties of a director of a public company.

Stockholders may contact the Nominating Committee Chairman, the Chairman of the Board or the Corporate Secretary in writing when proposing a nominee. This correspondence should include a detailed description of the proposed nominee's qualifications and a method to contact that nominee if the Nominating Committee so chooses.

#### **Stockholder Communications**

Any stockholder who desires to contact any of our Directors can write to Air Industries Group, 1460 Fifth Avenue, Bay Shore, New York 11706, Attention: Stockholder Relations. Your letter should indicate that you are an Air Industries Group stockholder. Depending on the subject matter, our stockholder relations personnel will:

- forward the communication to the Director(s) to whom it is addressed;
- forward the communication to the appropriate management personnel;
- attempt to handle the inquiry directly, for example where it is a request for information about the Company, or it is a stock-related matter; or
- not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

#### **Code of Ethics**

We have adopted a written code of ethics that applies to our principal executive officers, senior financial officers and persons performing similar functions. Our code of ethics is available on our website and upon written request to our corporate secretary, we will provide you with a copy, without cost.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The following summary compensation table shows, for the periods indicated, information regarding the compensation awarded to, earned by or paid to each individual that served as our principal executive officer during the fiscal year ended December 31, 2022 and each other executive officer whose compensation for the 2022 fiscal year exceeded \$100,000 for all services rendered in all capacities to our company and its subsidiaries. The individuals listed in the following table are referred to herein collectively as our "Named Executive Officers."

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option awards (\$)	Non-equity Incentive Plan Information (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Luciano Melluzzo President and CEO	2022	352,692	—	—	79,600	101,500	—	10,800 <sup>(1)</sup>	544,592
	2021	350,000	—	—	207,000	148,750	—	10,800 <sup>(1)</sup>	716,550
Michael Recca CFO	2022	251,921	—	—	39,800	43,500	—	5,400 <sup>(1)</sup>	340,621
	2021	249,998	—	—	124,000	67,750	—	5,400 <sup>(1)</sup>	447,148

(1) Represents car allowance.

Our executive officers named in the above table do not have employment agreements providing for a fixed term of employment. Both are employees at will, terminable at any time without any severance, other than that payable to employees generally.

#### Executive Compensation Policies as They Relate to Risk Management

The Compensation Committee and management have considered whether our compensation policies might encourage inappropriate risk taking by the Company's executive officers and other employees. The Compensation Committee has determined that the current compensation structure aligns the interests of the executive officers with those of the Company without providing rewards for excessive risk taking by awarding a mix of fixed and performance based or discretionary bonuses with the performance-based compensation focused on profits as opposed to revenue growth.

The Compensation Committee working with management adopts a plan each year intended to award members of our management including executive officers for meeting or exceeding targeted goals. The Committee believes the amounts to be paid to Messrs. Melluzzo and Recca for services rendered in fiscal 2022 are appropriate in light of the significant improvement in our financial performance 2022.

#### Equity Awards – 2022

The following table shows the grant of stock option awards to the Named Executive Officers during 2022.

#### GRANT OF PLAN-BASED AWARDS

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Grant Date Fair Value of Stock and Option Awards (\$)
Luciano Melluzzo	4/11/2022	20,000 <sup>(1)</sup>	\$ 79,600
Michael Recca	4/11/2022	10,000 <sup>(1)</sup>	\$ 39,800

Each named executive officer was granted options to purchase the number of shares indicated at a price of \$8.30 per share during a period ended March 31, 2027.

#### Outstanding Equity Awards at 2022 Year-End

The following table shows certain information regarding outstanding equity awards held by our Named Executive Officers as of December 31, 2022.

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Stock Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)	
Luciano Melluzzo	6,666	13,334	\$ 8.30	3/31/2027	—	—	—	
	18,000	6,000	12.20	7/31/2026	—	—	—	
	15,000	5,000	13.90	3/31/2026	—	—	—	

	20,000	—	10.30	3/31/2025	—	—
	20,000	—	8.80	1/31/2024	—	—
	27,000	—	15.00	9/30/2024	—	—
Michael Recca	3,333	6,667	8.30	3/31/2027	—	—
	12,500	4,166	12.20	7/31/2026	—	—
	7,500	2,500	13.90	3/31/2026	—	—
	10,000	—	10.30	3/31/2025	—	—
	9,000	—	8.80	1/31/2024	—	—
	5,000	—	14.20	7/24/2024	—	—

## Equity Incentive Plans

We have five equity incentive plans all of which are substantially identical except as to the number of awards which may be granted, pursuant to which we can grant awards with respect to an aggregate of 350,000 shares of our common stock. We have the right to grant awards pursuant to each plan until the tenth anniversary of the date on which it was approved by our stockholders. The 2022 Equity Incentive Plan authorizes grants as to 100,000 shares and was approved by our stockholders approved in June 22, 2022; the 2017 Equity Incentive Plan authorizes grants as to 120,000 shares and was approved by our stockholders in October 3, 2017; the 2016 Equity Incentive Plan authorizes grants as to 35,000 shares and was approved by our stockholders in November 2016, the 2015 Equity Incentive Plan authorizes grants as to 35,000 shares and was approved by our stockholders in June 2015, and the 2013 Equity Incentive Plan authorizes grants as to 60,000 shares and was approved by our stockholders approved in July 2013.

The Plans permit the Company to grant stock awards and non-qualified and incentive stock options to employees, directors and consultants. The Plans are administered by the Compensation Committee of the Board and each has a term of ten years from the date it was adopted by the Board.

We adopted the Plans to provide a means by which employees, directors, and consultants of our Company and those of our subsidiaries and other designated affiliates, which we refer to together as our affiliates, may be given an opportunity to purchase our common stock, to assist in retaining the services of such persons, to secure and retain the services of persons capable of filling such positions, and to provide incentives for such persons to exert maximum efforts for our success and the success of our affiliates.

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

The following table sets forth information known required by Item 403 of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to us regarding beneficial ownership be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our Common Stock as of May 10, 2023 by (i) each person known by us to own beneficially more than 5% of our outstanding Common Stock, (ii) each of our directors, (iii) our chief executive officer and the other Named Executive Officers, and (iii) all of our directors and executive officers as a group, fiscal year.

Except as otherwise indicated, we believe, based on information provided by each of the individuals named in the table below, that such individuals have sole investment and voting power with respect to such shares, subject to community property laws, where applicable. As of May 10, 2023, we had outstanding 3,259,367 shares of Common Stock. Except as stated in the table, the address of the holder is c/o our company, 1460 Fifth Avenue, Bay Shore, New York 11706

	Number of Shares Beneficially Owned	Percent
<b>Directors and Executive Officers:</b>		
Michael N. Taglich	678,642 <sup>(1)</sup>	19.37 %
Robert F. Taglich	464,240 <sup>(2)</sup>	13.45 %
Peter D. Rettaliata	31,954 <sup>(3)</sup>	*
David Buonanno	10,203 <sup>(4)</sup>	*
Michael Brand	16,651 <sup>(5)</sup>	*
Michael Porcelain	29,483 <sup>(6)</sup>	*
Luciano Melluzzo, President and CEO	117,334 <sup>(7)</sup>	3.49 %
Michael Recca, CFO	46,500 <sup>(8)</sup>	1.41 %
All Directors and Executive Officers as a group (8 persons owning shares)	1,369,262 <sup>(9)</sup>	35.29 %
<b>Beneficial Ownership of More Than 5% of Shares:</b>		
Richmond Brothers, Inc.	224,238 <sup>(10)</sup>	6.88 % <sup>(10)</sup>
David S. Richman	315,396 <sup>(10)</sup>	9.50 % <sup>(10)</sup>
Matthew J. Curfman	232,273 <sup>(10)</sup>	7.06 % <sup>(10)</sup>

\* Less than 1%

(1) Includes 410,690 shares owned by Mr. Taglich, 23,995 shares owned by Taglich Brothers, 236,907 shares he may acquire upon conversion of convertible notes (including 17,228 shares which may be acquired by Taglich Brothers), but excluding shares for accrued interest thereon, 1,750 shares he may acquire upon exercise of warrants (including 1,750 shares which may be acquired by Taglich Brothers) and 5,300 shares he may acquire upon exercise of options, in each case exercisable within 60 days.

(2) Includes 242,584 shares owned by Mr. Taglich, 23,995 shares owned by Taglich Brothers, 4,476 shares owned by custodial accounts for the benefit of his children under the NY UGMA, 186,135 shares he may acquire upon conversion of convertible notes (including 17,228 shares that may be acquired by Taglich Brothers), but excluding shares for accrued interest thereon, 1,750 shares he may acquire upon exercise of warrants (including 1,750 shares which may be acquired by Taglich Brothers, and 5,300 shares he may acquire upon exercise of options, in each case exercisable within 60 days.

(3) Includes 10,100 shares he may acquire upon exercise of options exercisable within 60 days.

(4) Includes 5,400 shares he may acquire upon exercise of options exercisable within 60 days.

(5) Includes 10,400 shares he may acquire upon exercise of options exercisable within 60 days.

(6) Includes 5,400 shares he may acquire upon exercise of options exercisable within 60 days.

(7) Includes 107,334 shares he may acquire upon exercise of options exercisable within 60 days.

(8) Represents shares he may acquire upon exercise of options exercisable within 60 days.

(9) Includes 423,042 shares that may be acquired upon conversion of convertible notes, 1,750 shares that may be acquired upon exercise of warrants and 195,734 shares that may be acquired upon exercise of options, in each case exercisable within 60 days.

(10) The information set forth below is based on the amended Schedule 13D filed with the SEC and the Company on October 22, 2021 reflecting ownership as of that date. By virtue of their Joint Filing Agreement, dated October 9, 2018, the persons and entities affirm their membership in a group under SEC Rule 13d-5(b) and the group is deemed to beneficially own all of the shares beneficially owned by the group members. The beneficial ownership of each of the group members was disclosed as follows, based upon 3,259,367 shares outstanding:

	<b>Sole Voting Power</b>	<b>Shared Voting Power</b>	<b>Sole Dispositive Power</b>	<b>Shared Dispositive Power</b>	<b>Total</b>	<b>Percent</b>
Richmond Brothers, Inc. <sup>(a)</sup>	—	—	—	224,238 #	224,238 #	6.88 %
RBI Private Investment II, LLC	1,534	—	1,534	—	1,534	*
RBI Private Investment III, LLC	82,506 +	—	82,506 +	—	82,506 +	2.53 %
RBI PI Manager, LLC <sup>(b)</sup>	84,040 +	—	84,040 +	—	84,040 +	2.58 %
Richmond Brothers 401(k) Profit Sharing Plan	7,120	—	7,120	—	7,120	*
David S. Richmond <sup>(c)</sup>	84,040 +	7,120	84,040 +	224,238 #	315,396 +#	9.68 %
Matthew J. Curfman <sup>(d)</sup>	916	7,120	916	224,238 #	232,273 #	7.13 %

(a) Held as investment advisor to certain separately managed accounts.

- (b) Includes the shares owned by RBI Private Investment II, LLC and RBI Private Investment III, LLC.
- (c) Sole voting and dispositive power includes shares owned by Mr. Richmond directly and by RBI Private Investment II, LLC and RBI Private Investment III, LLC. Shared voting and dispositive power includes shares owned by Richmond Brothers, Inc. and the Profit Sharing Plan.
- (d) Sole voting and dispositive power includes shares owned by Mr. Curfman. Shared voting and dispositive power includes shares owned by Richmond Brothers, Inc. and the Profit Sharing Plan.

# Includes 31,200 shares which may be acquired upon exercise of warrants.

+ Includes 28,000 shares which may be acquired upon exercise of warrants.

\* Less than 1 percent

The address for Richmond Brothers, Inc., RBI Private Investment I, LLC, RBI Private Investment II, LLC, RBI PI Manager, LLC, Richmond Brothers 401(k) Profit Sharing Plan, David S. Richmond and Matthew J. Curfman is 3568 Wildwood Avenue, Jackson, Michigan 49202.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

*Our Policy Concerning Transactions* The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with Related Personsthe SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES and SERVICES

Under

The information required by this Item 404 of is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation S-K, a related person transaction is any actual or proposed transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, including those involving indebtedness not in 14A within 120 days after the ordinary course of business, to which we or our subsidiaries were or are a party, or in which we or our subsidiaries were or are a participant, in which the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average close of our total assets at year-end for the last two completed fiscal years and in which any of our directors, nominees for director, executive officers, beneficial owners of more than 5% of any class of our voting securities (a "significant shareholder"), or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest. year.

We recognize that transactions between us and any of our Directors or Executives or with a third party in which one of our officers, directors or significant shareholders has an interest can present potential or actual conflicts of interest and create the appearance that our decisions are based on considerations other than the best interests of our Company and stockholders.

The Audit Committee of the Board of Directors is charged with responsibility for reviewing, approving and overseeing any transaction between the Company and any related person (as defined in Item 404 of Regulation S-K), including the propriety and ethical implications of any such transactions, as reported or disclosed to the Committee by the independent auditors, employees, officers, members of the Board of Directors or otherwise, and to determine whether the terms of the transaction are not less favorable to us than could be obtained from an unaffiliated party.

There were no transactions completed by us since January 1, 2022, in which the amount involved exceeded \$120,000 and in which any related person has a direct or indirect material interest, except that during 2022 we paid \$250,000 to Michael Taglich in respect of amounts due Mr. Taglich pursuant to a subordinated note. There are no transactions currently proposed by us in which a related party has a direct or indirect financial interest in which the amount involved exceeds \$120,000.

## Board Independence

Our Board of Directors has determined that David Buonanno, Peter Rettalata, Michael Brand and Michael Porcelain are "independent directors" within the meaning of NYSE American Rule 803A(2).

### Item 14. Principal Accountant Fees and Services

As required by our Audit Committee charter, our Audit Committee pre-approved the engagement of Marcum LLP for all audit and permissible non-audit services. The Audit Committee annually reviews the audit and permissible non-audit services performed by our principal accounting firm and reviews and approves the fees charged by our principal accounting firm. The Audit Committee considered the role of Rotenberg Meril Solomon Bertiger & Guttilla, P.C. in providing tax and audit services and other permissible non-audit services to us while it was serving as our auditor and concluded that the provision of such services, if any, was compatible with the maintenance of such firm's independence in the conduct of its auditing functions.

On March 28, 2022, we reported that Rotenberg Meril Solomon Bertiger & Guttilla, P.C., Certified Public Accountants ("Rotenberg") which had served as our independent registered public accounting firm since 2008, combined with Marcum LLP ("Marcum") and became a wholly-owned subsidiary of Marcum. We engaged Marcum to serve as our independent registered public accounting firm for the year ended December 31, 2022, and it began serving as our independent registered public accounting firm beginning with the review of our Report on Form 10-Q for the quarter ending June 30, 2022.

During fiscal year 2022, the aggregate fees which we were billed by Marcum for professional services were as follows:

	<b>Year Ended December 31, 2022</b>
Audit Fees <sup>(1)</sup>	\$ 340,000
Audit Related Fees <sup>(2)</sup>	21,000
Tax Fees <sup>(3)</sup>	<u>67,000</u>
	<u><u>\$ 428,000</u></u>

During fiscal year 2021 and the first quarter of fiscal year 2022, the aggregate fees which we were billed by Rotenberg for professional services were as follows:

	<b>Year Ended December 31, 2022</b>	<b>Year Ended December 31, 2021</b>
Audit Fees <sup>(1)</sup>	\$ 45,000	\$ 344,000
Audit Related Fees <sup>(2)</sup>	-	3,000
Tax Fees <sup>(3)</sup>	<u>-</u>	<u>65,000</u>
	<u><u>\$ 45,000</u></u>	<u><u>\$ 412,000</u></u>

(1) Fees for services to perform our annual audit of financial statements, review of financial statements included in our quarterly filings included in Form 10-Q, and fees for services that are normally provided by the accountant for statutory and regulatory filings. This category includes fees for services rendered that only the auditor reasonably can provide, including comfort letters, consents, assistance with and review of documents filed with the SEC and accounting and financial reporting consultations billed as audit services. The annual audit fee included in this category was \$250,000 and \$250,000 for 2022 and 2021, respectively. The balance of the fees in this category were for the reviews of our quarterly financial statements.

(2) Fees for assurance and related services that are traditionally performed by our independent registered public accounting firm, such as due diligence services related to mergers and acquisitions, accounting consultation and audits in connection with acquisitions, consultation concerning financial accounting and reporting standards not classified as audit fees and attest services not required by statute or regulation.

(3) Fees for tax compliance, tax advice and planning. Tax compliance generally involves preparation of original and amended tax returns, claims for refunds and tax payment-planning services. Tax planning and tax advice encompass a diverse range of services, including assistance with tax audits and appeals, tax advice related to mergers and acquisitions and requests for rulings or technical advice from taxing authorities.



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) Consolidated Financial Statements of Air Industries Group for the Year ended **December 31, 2022** **December 31, 2023** and **2021**.
- (b) The following exhibits are included as part of this report. References to "the Company" in this Exhibit List mean Air Industries Group, a Nevada Corporation.

Exhibit No.	Description
3.1	<a href="#">Articles of Incorporation of Air Industries Group (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 30, 2013).</a>
3.2	<a href="#">Certificate of Amendment increasing number of authorized shares of preferred stock and Series A Preferred Stock (incorporated herein by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed on April 19, 2017).</a>
3.3	<a href="#">Amended and Restated By-Laws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 31, 2015).</a>
3.4	<a href="#">Certificate of Amendment increasing number of authorized shares of common stock to 60,000,000 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019 filed on August 8, 2019)</a>
3.5	<a href="#">Certificate of Change filed with the Secretary of State of Nevada to effectuate reverse stock split (incorporated herein by reference to Exhibit 3.01 to the Company's Report on Form 8-K filed October 18, 2022).</a>
4.1	<a href="#">Description of the Company's securities registered pursuant to Section 12 of the Exchange Act (incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed on March 27, 2020).</a>
10.1	<a href="#">Loan and Security Agreement dated as of December 31, 2019 with Sterling National Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 6, 2020)</a>
10.2	<a href="#">Guaranty Agreement dated as of December 31, 2019 with Sterling National Bank (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 6, 2020)</a>
10.3	<a href="#">Pledge Agreement dated as of December 31, 2019 with Sterling National Bank (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 6, 2020)</a>
10.4	<a href="#">First Amendment to Loan and Security Agreement with Sterling National Bank (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed November 9, 2020)</a>
10.5	<a href="#">Second Amendment to Loan and Security Agreement with Sterling National Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed August 5, 2021)</a>



10.6	<a href="#"><u>Third Amendment to Loan and Security Agreement with Sterling National Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 8, 2021)</u></a>
10.7	<a href="#"><u>Fourth Amendment to Loan and Security Agreement with Sterling National Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 18, 2022).</u></a>

10.8	<a href="#">Purchase Fifth Amendment to Loan and Security Agreement with the Purchasers dated January 15, 2019</a> Sterling National Bank (incorporated herein by reference to Exhibit 10.1 99.1 to the Company's Current Report on Form 8-K filed on January 17, 2019 August 10, 2023).
10.9	<a href="#">Sixth Amendment to Loan and Security Agreement with Sterling National Bank (incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed November 27, 2023).</a>
10.10	<a href="#">2015 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (Registration No. 333-206341) filed on August 13, 2015).</a>
10.10 10.11	<a href="#">2016 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016 filed on November 14, 2016).</a>
10.11 10.12	<a href="#">2017 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.79 to the Company's Registration Statement on Form S-1 (Registration No. 333-219490) filed July 26, 2017 and declared effective August 4, 2017).</a>
10.12 10.13	<a href="#">2022 Equity Incentive Plan As Amended and Restated as of May 23, 2023 (incorporated herein by reference to Exhibit 10.1 Appendix A to the Company's Registration Proxy Statement on Form S-8 (Registration No. 333-264738) Schedule 14A filed May 6, 2022 August 4, 2023).</a>
14.1	<a href="#">Code of Ethics (incorporated herein by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 2017 filed on April 30, 2018.</a>
19.1	<a href="#">Insider Trading Policies and Procedures</a>
21.1	<a href="#">Subsidiaries (incorporated herein by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 filed on April 1, 2019).</a>
23.1	<a href="#">Consent of Marcum LLP</a>
23.2	<a href="#">Consent of Rotenberg Meril Solomon Bertiger &amp; Guttilla, P.C.</a>
31.1 31.1*	<a href="#">Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Securities Exchange Act of 1934.</a>
31.2 31.2*	<a href="#">Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act of 1934.</a>
32.1 32.1**	<a href="#">Certification of principal executive officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).</a>
32.2 32.2**	<a href="#">Certification of principal financial officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).</a>
97.1	<a href="#">Policy Relating to Recovery of Erroneously Awarded Compensation</a>
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Filed herewith

\*\* Furnished herewith



## 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: May 16, 2023 April 15, 2024

### AIR INDUSTRIES GROUP

By: /s/ Luciano Melluzzo

Luciano Melluzzo  
President and Chief Executive Officer  
(principal executive officer)

By: /s/ Michael E. Recca Scott Glassman

Michael E. Recca Scott Glassman  
Chief Financial Officer  
(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 on May 16, 2023 April 15, 2024 in the capacities indicated.

Signature	Capacity
<u>/s/ Luciano Melluzzo</u> Luciano Melluzzo	President and CEO (principal executive officer)
<u>/s/ Michael E. Recca</u> <u>Scott Glassman</u> Michael E. Recca <u>Scott Glassman</u>	Chief Financial Officer (principal financial and accounting officer)
<u>/s/ Michael N. Taglich</u> Michael N. Taglich	Chairman of the Board
<u>/s/ Peter D. Rettaliata</u> Peter D. Rettaliata	Director
<u>/s/ Robert F. Taglich</u> Robert F. Taglich	Director
<u>/s/ David J. Buonanno</u> David J. Buonanno	Director
<u>/s/ Michael Brand</u> Michael Brand	Director
<u>/s/ Michael Porcelain</u>	Director



## AIR INDUSTRIES GROUP

### AIR INDUSTRIES GROUP

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December 31, 2022 2023 and 2021 2022

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Air Industries Group

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet sheets of Air Industries Group and subsidiaries (the "Company") as of December 31, 2022, December 31, 2023 and 2022, the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the year then two years in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the year then two years in the period ended December 31, 2023, in conformity with the accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the 2021 Explanatory Paragraph – Going Concern

The accompanying consolidated financial statements have been revised prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, for the period ending March 31, 2024, the Company was not in compliance with the financial covenants required under the terms of its current credit facility, and it is reasonably possible that the Company will not receive a waiver and may fail to correct certain previously issued disclosures related meet these financial covenants in future periods. The Company is required to the reconciliation maintain a collection account with its lender into which substantially all of the Company's income tax rate for the year ended December 31, 2021 and the components of cash receipts are remitted. If the Company's deferred tax assets lender were to cease lending and liabilities and valuation allowance as of December 31, 2021 and 2020. The financial statements of keep the funds remitted to the collection account, the Company for would lack the year ended December 31, 2021, before the effects of the adjustments funds to correct the errors discussed in Note 16 continue its operations. Failure to receive a waiver or meet the financial statements, were audited by other auditors whose report, dated March 25, 2022, expressed an unqualified opinion on those statements. We have covenants in future periods raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also audited the adjustments described in Note 16 that were applied to revise the 2021 1. The consolidated financial statements to correct the errors. In our opinion, such adjustments are appropriate and have been properly applied. Except for the corrections to revise the tax footnote we were not engaged to audit, review, or apply any procedures to the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, other than stated above and, accordingly, we do not express an opinion or include any other form adjustments that might result from the outcome of assurance on the 2021 financial statements taken as a whole. this uncertainty.

### Basis for Opinion

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

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

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

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of We determined that there are no critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

/s/ Marcum LLP

## **Revenue Recognition**

### **Description of the Matter**

The Company's revenue from contracts with customers is recognized at a point in time when the customer obtains control of the product, which is generally upon the delivery and acceptance by the customer. If the contracts, with customers in which the Company satisfies its promise to the customer to provide a service or product that has no alternative use to the Company and the Company has enforceable rights to payment for progress completed to date inclusive of profit, the Company would be required to recognize revenue over time as it satisfies the performance obligation.

The Company evaluates each revenue generating contract to determine whether or not they are entitled to a profit should the contract be terminated, whether or not there is an alternative use for the product upon contract termination and whether or not there are any contractual restrictions which would prohibit the Company from selling the product elsewhere (alternative use) upon contract termination.

### **How We Addressed the Matter in Our Audit**

Auditing management's evaluation of contracts with customers required extensive audit effort due to the judgment required to analyze the terms and conditions of the Company's various customer contracts given that such terms and conditions may be nonstandard. This included the identification and determination of the performance obligations and the assessment of whether a product has alternative use.

Our audit procedures included obtaining an understanding of the Company's revenue recognition process which included an analysis of the distinct performance obligations and a review of the conclusion as to whether revenue from such performance obligations should be recognized over time or at a point in time.

We performed procedures to test the identification and determination of the performance obligations and the timing of revenue recognition which included, among others, reading a sample of executed contracts and purchase orders to understand the contract and performing an independent assessment of the identification of distinct performance obligations.

We performed procedures to test whether or not the Company is entitled to a profit should the contract be terminated, whether or not there is an alternative use for the product upon contract termination and whether or not there are any contractual restrictions which would prohibit the Company from selling the product elsewhere (alternative use) upon contract termination.

## **Inventory Valuation Reserve**

### **Description of the Matter**

As described in Note 4 to the financial statements, the Company's net inventory balance of approximately \$31.8 million included a reserve for obsolete and excess inventory of approximately \$4.0 million at December 31, 2022. The Company maintains a reserve for inventory based on estimated losses that result from inventory that becomes obsolete or for which the Company has excess inventory levels. In determining this estimate, the Company performs an analysis on current demand and usage for each inventory item over historical time periods. Based on that analysis, the Company reserves a percentage of the inventory amount within each time period based on historical demand and usage patterns of specific items in inventory. This requires management to make significant estimates and assumptions in order to estimate the amount necessary to adjust to net realizable value as a result of obsolescence or slow-moving inventory. Changes in the assumptions could have a significant impact on the valuation of inventory.

### **How We Addressed the Matter in Our Audit**

Auditing management's inventory valuation process including its impairment procedures required extensive auditor effort due to the judgment required to analyze the Company's methodology in determining excess quantities and slow-moving goods.

Our audit procedures included obtaining an understanding of the Company's inventory valuation process including the identification of excess quantities and slow-moving goods and the potential impairment to net realizable value.

We performed procedures to test the identification and determination of excess quantities and slow-moving goods. We traced the movement of a sample of goods to the respective transaction history detail reports of such goods to ensure that excess quantities and slow-moving goods were properly identified and potentially impaired. We tested the completeness and accuracy of the Company's inventory reserve reports specifically related to the identification and determination of excess quantities and slow-moving goods and impairment. **Marcum LLP**

We have served as the Company's auditor since 2008 (such date takes into account the acquisition of Rotenberg Meril Solomon Bertiger & Guttilla, P.C., by Marcum LLP effective February 1, 2022).

/s/ Marcum LLP

**Marcum LLP**

Saddle Brook, New Jersey

May 16, 2023 April 15, 2024

## AIR INDUSTRIES GROUP

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Air Industries Group

#### Opinion on the Financial Statements

We have audited, before the effects of the adjustment for the correction of the errors described in Note 16, the accompanying consolidated balance sheet of Air Industries Group and subsidiaries (the "Company") as of December 31, 2021, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, except for the errors described in Note 16, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the adjustments for the correction of the errors described in Note 16, and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by Marcum LLP.

#### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities law 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 the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit 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 audit 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 audit provides a reasonable basis for our opinion.

We have served as the Company's auditors from 2008 to 2022.

/s/ Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Saddle Brook, New Jersey

March 25, 2022

**AIR INDUSTRIES GROUP**  
**Consolidated Balance Sheets**

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 281,000	\$ 627,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$281,000 and \$594,000	9,483,000	10,473,000
Inventory	31,821,000	29,532,000
Prepaid Expenses and Other Current Assets	307,000	226,000
Contract Costs Receivable	296,000	-
Prepaid Taxes	28,000	22,000
Total Current Assets	<u>42,216,000</u>	<u>40,880,000</u>
Property and Equipment, Net	8,593,000	8,404,000
Operating Lease Right-Of-Use-Assets	2,473,000	3,018,000
Deferred Financing Costs, Net, Deposits and Other Assets	532,000	960,000
Goodwill	-	163,000
<b>TOTAL ASSETS</b>	<b><u>\$ 53,814,000</u></b>	<b><u>\$ 53,425,000</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Debt - Current Portion	\$ 14,477,000	\$ 14,112,000
Accounts Payable and Accrued Expenses	7,542,000	6,723,000
Operating Lease Liabilities - Current Portion	778,000	686,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Customer Deposits	781,000	1,470,000
Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary	-	59,000
Deferred payroll tax liability - CARES Act	-	314,000
Total Current Liabilities	<u>23,616,000</u>	<u>23,402,000</u>
Long Term Liabilities		
Debt - Net of Current Portion	4,629,000	2,838,000
Subordinated Notes Payable - Related Party	6,162,000	6,412,000
Operating Lease Liabilities - Net of Current Portion	2,463,000	3,241,000
Deferred Gain on Sale - Net of Current Portion	105,000	143,000
<b>TOTAL LIABILITIES</b>	<b><u>36,975,000</u></b>	<b><u>36,036,000</u></b>
Commitments and Contingency (see Note 13)		
Stockholders' Equity		
Preferred Stock, par value \$.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both December 31, 2022 and December 31, 2021.	-	-
Common Stock - Par Value \$.001 - Authorized 6,000,000 Shares, 3,247,937 and 3,212,801 Shares Issued and Outstanding as of December 31, 2022 and December 31, 2021, respectively	3,000	3,000
Additional Paid-In Capital	82,446,000	81,920,000

Accumulated Deficit	(65,610,000)	(64,534,000)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>16,839,000</b>	<b>17,389,000</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 53,814,000</b>	<b>\$ 53,425,000</b>
	<b>December</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 346,000	\$ 281,000
Accounts Receivable, Net of Allowance for Credit Loss of \$344,000 and \$281,000	7,892,000	9,483,000
Inventory	29,851,000	31,821,000
Prepaid Expenses and Other Current Assets	297,000	307,000
Contract Costs Receivable	296,000	296,000
Prepaid Taxes	37,000	28,000
Total Current Assets	38,719,000	42,216,000
Property and Equipment, Net	8,048,000	8,218,000
Finance Lease Right-of-Use-Assets	970,000	375,000
Operating Lease Right-of-Use-Assets	1,866,000	2,473,000
Deferred Financing Costs, Net, Deposits and Other Assets	1,112,000	532,000
<b>TOTAL ASSETS</b>	<b>\$ 50,715,000</b>	<b>\$ 53,814,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Debt	\$ 16,036,000	\$ 14,477,000
Accounts Payable and Accrued Expenses	6,091,000	7,542,000
Operating Lease Liabilities	880,000	778,000
Deferred Gain on Sale - Leaseback	38,000	38,000
Customer Deposits	3,557,000	781,000
Total Current Liabilities	26,602,000	23,616,000
Long Term Liabilities		
Debt	1,112,000	4,629,000
Subordinated Notes - Related Party	6,162,000	6,162,000
Operating Lease Liabilities	1,582,000	2,463,000
Deferred Gain on Sale – Leaseback	67,000	105,000
<b>TOTAL LIABILITIES</b>	<b>35,525,000</b>	<b>36,975,000</b>
Commitments and Contingencies (see Note 12)		
Stockholders' Equity		
Preferred Stock, par value \$.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both December 31, 2023 and December 31, 2022.	-	-
Common Stock - Par Value \$.001 - Authorized 6,000,000 shares, 3,303,045 and 3,247,937 shares issued and outstanding at December 31, 2023 and December 31, 2022, respectively	3,000	3,000

Additional Paid-In Capital	82,928,000	82,446,000
Accumulated Deficit	(67,741,000)	(65,610,000)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>15,190,000</u></b>	<b><u>16,839,000</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 50,715,000</u></b>	<b><u>\$ 53,814,000</u></b>

See Notes to Consolidated Financial Statements

**AIR INDUSTRIES GROUP**  
**Consolidated Statements of Operations**  
For the Years Ended December 31,

	<b>2022</b>	<b>2021</b>
Net Sales	\$ 53,238,000	\$ 58,939,000
Cost of Sales	<u>45,786,000</u>	<u>48,686,000</u>
Gross Profit	7,452,000	10,253,000
Operating Expenses	<u>7,646,000</u>	<u>7,766,000</u>
(Loss) Income from Operations	(194,000 )	2,487,000
Interest and Financing Costs	(851,000 )	(805,000 )
Interest Expense - Related Parties	(487,000 )	(460,000 )
Other Income, Net	139,000	405,000
Gain on write-off of accounts payable	317,000	-
(Loss) Income before Provision for Income Taxes	<u>(1,076,000 )</u>	<u>1,627,000</u>
Provision for Income Taxes	-	-
Net (Loss) Income	<u><u>\$ (1,076,000 )</u></u>	<u><u>\$ 1,627,000</u></u>
(Loss) Income per share – Basic	\$(0.33 )	\$ 0.51
(Loss) Income per share – Diluted	<u><u>\$(0.33 )</u></u>	<u><u>\$ 0.45</u></u>
Weighted Average Shares Outstanding – basic	3,227,116	3,204,937
Weighted Average Shares Outstanding – diluted	3,227,116	3,642,418

See Notes to Consolidated Financial Statements

**AIR INDUSTRIES GROUP**  
**Consolidated Statements of Stockholders' Equity**  
**For the Years Ended December 31, 2022 and 2021**

	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>			
Balance, January 1, 2021	3,190,698	\$ 3,000	\$ 81,267,000	\$ (66,161,000)	\$ 15,109,000
Common Stock issued for directors fees	16,981	-	210,000	-	210,000
Stock Options exercised	5,122	-	-	-	-
Stock Compensation Expense	-	-	443,000	-	443,000
Net Income	-	-	-	1,627,000	1,627,000
Balance, December 31, 2021	<u>3,212,801</u>	<u>\$ 3,000</u>	<u>\$ 81,920,000</u>	<u>\$ (64,534,000)</u>	<u>\$ 17,389,000</u>
Common Stock issued for directors fees	27,849	-	216,000	-	216,000
Common Stock issued in conjunction with reverse split	7,287	-	-	-	-
Stock Compensation Expense	-	-	310,000	-	310,000
Net Loss	-	-	-	(1,076,000)	(1,076,000)
Balance, December 31, 2022	<u>3,247,937</u>	<u>\$ 3,000</u>	<u>\$ 82,446,000</u>	<u>\$ (65,610,000)</u>	<u>\$ 16,839,000</u>

See Notes to Consolidated Financial Statements

**AIR INDUSTRIES GROUP**  
**Consolidated Statements of Cash Flows For the Years Ended December 31,**

	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Loss) Income	\$ (1,076,000)	\$ 1,627,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation of property and equipment	2,522,000	2,803,000
Non-cash employee compensation expense	310,000	443,000
Non-cash directors compensation	216,000	210,000
Non-cash other income recognized	(94,000)	(326,000)
Non-cash interest expense	35,000	98,000
Non-cash gain on accounts payable write-off	(317,000)	-
Amortization of Right-of-Use Assets	545,000	492,000
Deferred gain on sale of real estate	(38,000)	(38,000)
Bad debt recovery	(313,000)	(86,000)
Loss on impairment of goodwill	163,000	-
Amortization of deferred financing costs	65,000	150,000
Changes in Operating Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	1,303,000	(1,589,000)
Inventory	(2,289,000)	2,588,000
Prepaid expenses and other current assets	(81,000)	(53,000)
Prepaid taxes	(6,000)	(7,000)
Deposits and other assets	(194,000)	(193,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	1,136,000	(1,594,000)
Operating lease liabilities	(686,000)	(701,000)
Customer deposits	(439,000)	553,000
Deferred payroll tax liability - CARES Act	(314,000)	(313,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>448,000</u>	<u>4,064,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(2,361,000)	(1,364,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,361,000)</u>	<u>(1,364,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from (payments for) revolving loan - Webster Bank	916,000	(3,193,000)
Proceeds from note payable - term note - Webster Bank	2,823,000	-
Payments of term note - Webster Bank	(1,609,000)	(1,371,000)
Payment of deferred finance costs	(20,000)	-
Payment of subordinated notes payable - related party	(250,000)	-
Payments of finance lease obligations	(284,000)	(5,000)
Payments of loan payable - financed asset	(9,000)	(9,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>1,567,000</u>	<u>(4,578,000)</u>
<b>NET DECREASE IN CASH</b>	<b>(346,000)</b>	<b>(1,878,000)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>627,000</b>	<b>2,505,000</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 281,000</b>	<b>\$ 627,000</b>

See Notes to Consolidated Financial Statements

**AIR INDUSTRIES GROUP**  
**Consolidated Statements of Cash Flows Operations**  
**For the Years Ended December 31, (Continued)**

	<b>2022</b>	<b>2021</b>
Supplemental cash flow information		
Cash paid during the year for interest	\$ 1,295,000	\$ 1,206,000
Cash paid during the year for taxes	<u>\$ 6,000</u>	<u>\$ 7,000</u>
Supplemental disclosure of non-cash investing and financing activities		
Acquisition of financed lease asset	\$ 350,000	\$ -
Capitalization of related party note interest to principal	<u>\$ -</u>	<u>\$ 400,000</u>
	<b>2023</b>	<b>2022</b>
Net Sales	\$ 51,516,000	\$ 53,238,000
Cost of Sales	<u>44,088,000</u>	<u>45,786,000</u>
Gross Profit	7,428,000	7,452,000
Operating Expenses	<u>7,723,000</u>	<u>7,646,000</u>
Loss from Operations	(295,000)	(194,000)
Interest Expense	(1,448,000)	(851,000)
Interest Expense - Related Parties	(472,000)	(487,000)
Other Income, Net	84,000	139,000
Gain on write-off of accounts payable	<u>-</u>	<u>317,000</u>
Loss before Benefit From Income Taxes	(2,131,000)	(1,076,000)
Provision for Income Taxes	<u>-</u>	<u>-</u>
Net Loss	<u>\$ (2,131,000)</u>	<u>\$ (1,076,000)</u>
Loss per share - Basic and diluted	<u>\$ (0.65)</u>	<u>\$ (0.33)</u>
Weighted-Average Shares Outstanding - Basic and diluted	3,278,513	3,227,116

See Notes to Consolidated Financial Statements

**AIR INDUSTRIES GROUP**  
**Consolidated Statements of Changes in Stockholders' Equity**  
For the Years Ended December 31, 2023 and 2022

	Common Stock		Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance January 1, 2022	3,212,801	\$ 3,000	\$ 81,920,000	\$ (64,534,000)	\$ 17,389,000
Common Stock issued for directors fees	27,849	-	216,000	-	216,000
Common Stock issued in conjunction with reverse split	7,287	-	-	-	-
Stock-based-compensation-employees	-	-	310,000	-	310,000
Net Loss	-	-	-	(1,076,000)	(1,076,000)
Balance, December 31, 2022	3,247,937	\$ 3,000	\$ 82,446,000	\$ (65,610,000)	\$ 16,839,000
Common Stock issued for directors fees	55,108	-	200,000	-	200,000
Stock-based-compensation-employees	-	-	282,000	-	282,000
Net Loss	-	-	-	(2,131,000)	(2,131,000)
Balance, December 31, 2023	3,303,045	\$ 3,000	\$ 82,928,000	\$ (67,741,000)	\$ 15,190,000

See Notes to Consolidated Financial Statements

**AIR INDUSTRIES GROUP**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2023**

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (2,131,000)	\$ (1,076,000)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation of property and equipment	2,268,000	2,522,000
Stock-based compensation	482,000	526,000
Non-cash other income recognized	-	(94,000)
Non-cash interest expense	-	35,000
Non-cash gain on accounts payable write-off	-	(317,000)
Amortization of Finance Lease Right-of-Use Assets	84,000	-
Amortization of Operating Lease Right-of-Use Assets	607,000	545,000
Deferred gain on sale-leaseback	(38,000)	(38,000)
Loss on sale of equipment	14,000	-
Allowance for Credit Loss	63,000	(313,000)
Loss on impairment of goodwill	-	163,000
Amortization of deferred financing costs	68,000	65,000
Changes in Operating Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	1,528,000	1,303,000
Inventory	1,970,000	(2,289,000)
Prepaid expenses and other current assets	10,000	(81,000)
Prepaid taxes	(9,000)	(6,000)
Deposits and other assets	(600,000)	(194,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	(1,451,000)	1,136,000
Operating lease liabilities	(779,000)	(686,000)
Customer deposits	2,776,000	(439,000)
Deferred payroll tax liability - CARES Act	-	(314,000)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>4,862,000</b>	<b>448,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(2,119,000)	(2,361,000)
Proceeds from sale of property and equipment	7,000	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,112,000)</b>	<b>(2,361,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Note payable - revolver - net - Current Credit Facility	(2,548,000)	916,000
Proceeds from term loan - Current Credit Facility	740,000	2,823,000
Proceeds from term loan - Solar Facility	393,000	-
Payments of term loan - Current Credit Facility	(1,113,000)	(1,609,000)
Payments of deferred Financing Costs	(25,000)	(20,000)
Payment of subordinated note payable - related party	-	(250,000)
Payments of finance lease obligations	(123,000)	(284,000)
Payments of loan payable - financed asset	(9,000)	(9,000)
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(2,685,000)</b>	<b>1,567,000</b>

NET INCREASE (DECREASE) IN CASH	65,000	(346,000)
CASH AT BEGINNING OF YEAR	281,000	627,000
CASH AT END OF YEAR	<b>\$ 346,000</b>	<b>\$ 281,000</b>

See Notes to Consolidated Financial Statements

**AIR INDUSTRIES GROUP**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, (Continued)**

	<b>2023</b>	<b>2022</b>
Supplemental cash flow information		
Cash paid during the year for interest	\$ 1,913,000	\$ 1,295,000
Cash paid during the year for income taxes	<u><u>\$ 6,100</u></u>	<u><u>\$ 6,000</u></u>
	<b>2023</b>	<b>2022</b>
Supplemental Disclosure of non-cash investing and finance activities		
Acquisition of financed lease asset	<u><u>\$ 679,000</u></u>	<u><u>\$ 350,000</u></u>

See Notes to Consolidated Financial Statements

## AIR INDUSTRIES GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1. ORGANIZATION AND BASIS OF PRESENTATION

##### Organization

##### Organization

Air Industries Group is a Nevada corporation (“AIRI”). As of and for the **years** ended **December 31, 2022** **December 31, 2023** and **2021, 2022**, the accompanying consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corp. (“AIM”), Nassau Tool Works, Inc. (“NTW”), and the Sterling Engineering Corporation (“Sterling”), (together, the “Company”).

##### Principal Business Activity

The Company is a **Tier 1 or Tier 2** leading manufacturer of precision assemblies and components for **mission-critical** **large** aerospace and defense **applications** prime contractors. Its products include landing gears, flight controls, engine mounts and **a** components for aircraft jet engines, ground turbines and other complex machines. Most of its machined components and assemblies are integral to high-profile platforms and named programs including the F-18 Hornet, the E2D Hawkeye, the UH-60 Black Hawk Helicopter, the Geared Turbo-Fan Engine, the CH-53 Helicopter, the F-35 Lightning II (also known as the Joint Strike Fighter) and the F-15 Eagle Tactical Fighter.

Our direct customers are primarily large aerospace and defense prime contractor to contractors. The ultimate end-users for most of our products are the U.S. Department of Defense. The Company’s AIM and NTW subsidiaries manufacture flight critical or flight safety aircraft components including landing gear, arresting gear, flight controls, primarily for military aircraft, including the UH-60 Helicopter, the E2-D, and F-35, F-18 fighter aircraft, and the Pratt & Whitney Geared Turbofan jet engine. Sterling manufactures components used in jet engines of military **Government, international governments, and commercial aircraft and ground power turbine engines**. The Company’s primary customers are large publicly traded companies including the four largest suppliers to the US Department of Defense, **global airlines**.

##### Basis of Presentation

The accompanying consolidated financial statements of the Company **included in this report** have been prepared in accordance with generally accepted accounting principles **generally accepted** (“GAAP”) in the United States of America and the rules and regulations of the Securities and Exchange Commission.

Historically Since 2022, the Company **operated its businesses** **makes decisions about resources to be allocated** and **reported** **assesses** performance based on one integrated business and reports its results as **two separate segments** with AIM and NTW comprising the Complex Machining segment (“CMS”) and Sterling as the Turbine & Engine Component segment (“TEC”). The CMS segment specialized in flight critical components including flight controls and landing gear. The TEC segment focused on manufacturing components for jet engines. Along with its operating subsidiaries, the Company reported the results of its corporate division as an independent **one** segment.

In recent years the Company **integrated** and **consolidated** the business of AIM and NTW into one facility on Long Island and the operations of its CMS and TEC segments have become increasingly integrated. The Company also made significant capital expenditures and all **All** of its operations **now are integrated**, **share the same** manufacturing facilities and use most, if not all, of the same sales and marketing functions. The Company made these changes to take advantage of the long-term growth opportunities it sees in the aerospace

Going Concern and defense market. In early fiscal 2022, the Company further changed its management approach and is now making decisions about resources to be allocated and **assesses** performance based on one integrated business rather than two reporting segments. As such, effective with the fiscal quarter ended March 31, 2022, the Company is presenting its operations as one reportable operating segment. Management’s Plan

##### Liquidity

At each reporting period, management evaluates whether there are conditions or events that raise **any** substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the **consolidated** financial statements are issued. The Company is required to make certain additional disclosures if management concludes **that** if substantial doubt exists about the Company’s ability to continue as a going concern provided that such doubt is not alleviated by the Company’s plans or when the Company’s plans **do not** alleviate substantial doubt about its ability to continue as a going concern. This evaluation entails analyzing prospective operating budgets and forecasts for expectations regarding cash needs and comparing those needs to the current cash **and** cash equivalent balance and expectations regarding cash to be generated over the following year.

The global outbreak of COVID-19 negatively impacted the Company’s revenues, earnings and operating cash flows in 2020. While operations substantially returned to normal in fiscal 2021 and 2022, there remains some substantial issues and problems receiving raw

materials and prompt processing of its products.

With fiscal 2022 now completed and the Company continuing to see the benefits from its recent investments in machinery and equipment, management believes the Company will continue to improve its liquidity. During 2022, the Company generated \$448,000 of cash from operating activities. Based on the Company's current best estimates of fiscal 2023 and first half of fiscal 2024 sales, confirmed orders from existing backlog and expected orders from existing and new customers expected timing of future cash receipts and expenditures and the Company's ability to access additional liquidity, if needed, the Company firmly believes it will have adequate cash to support operations through at least one year from the date of the accompanying financial statements are issued.

During 2023, the Company generated \$4,862,000 of cash from operating activities as compared to only \$448,000 in fiscal 2022. It also made \$1,113,000 of required payments pursuant to its Current Credit Facility and reduced total debt in 2023 by \$1,958,000.

As of December 31, 2023, the Company met all the financial and business covenants required under the terms of its Current Credit Facility including achieving a Fixed Charge Coverage Ratio of 1.31x compared to the required ratio of 0.95x. The terms of all outstanding indebtedness are discussed further in "Note 8. Debt". For the period ending March 31, 2024 the Company was not in compliance with the required ratio of 1.10x.

Management's plans are to increase net sales for fiscal 2024 as compared to fiscal 2023. The Company believes that these plans are supported by the Company's backlog which, as of December 31, 2023, stood at \$98.3 million. Further, it anticipates receiving additional funded orders in 2024 pursuant to Long-Term Agreements ("LTA") agreements from its key customers as well as new customers. With this visibility, the Company is confident in its ability to generate sufficient cash flow to make required principal payments of \$944,000 to its lender.

Although the Company has begun discussions to obtain a waiver of the failure to meet the Fixed Coverage Charge Ratio at March 31, 2024, it is reasonably possible that it will not be granted. Even if such waiver is granted, the Company may fail to achieve the Fixed Charge Coverage Ratio in the future or otherwise fail to meet covenants in the Current Credit Facility. Therefore, the Company has classified the term loan that expires on December 30, 2025 as current as of December 31, 2023, in accordance with the guidance in Accounting Standards Codification ("ASC") 470-10-45, "Debt – Other Presentation Matters", related to the classification of callable debt. The Company is required to maintain a collection account with its lender into which substantially all cash receipts are remitted. If we were to default under the Current Credit Facility, the Company's lender could choose to increase the rate of interest or refuse to make loans under the revolving portion of the Facility and keep the funds remitted to the collection account. If the lender were to raise the rate of interest, it would adversely impact the Company's operating results. If the lender were to cease making new loans under the revolving facility, the Company would lack the funds to continue operations. The rights granted to the lender under the Current Credit Facility combined with the reasonable possibility that the Company might fail to meet covenants in the future raise substantial doubt about its ability to continue as a going concern for the one year commencing as of the date of issuance of this report.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

### **Reverse Stock Split**

On October 4, 2022, the Company announced a reverse stock split of its authorized, issued and outstanding shares of common stock at a ratio of 1-for-10. The reverse stock split was effective on October 18, 2022, and its common stock began trading on a post-split-adjusted basis at that time. All share and per share amounts of its common stock presented have been retroactively adjusted to reflect the 1-for-10 reverse stock split. As result of the reverse stock split there were no fractional shares issued and all holders were rounded up to the next whole share. See Note 11 10 – Stockholders' Equity for more information.

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Principles of Consolidation**

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

#### **Accounts Receivable**

Accounts receivable are reported carried at their outstanding unpaid principal balances net of allowances the original invoice amount less an estimate made for uncollectible accounts. The Company provides for allowances for uncollectible receivables credit losses based on management's estimate a review of uncollectible all outstanding amounts considering age, collection history, and any other factors considered appropriate. The Company writes off accounts receivable against on a quarterly basis. Management determines the allowance for doubtful accounts credit losses by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, current economic conditions and other relevant factors, including specific reserves for certain accounts. Accounts receivable are written off when a balance is determined to be deemed uncollectible. Bad debt expenses are recorded in operating expenses on the consolidated statements of operations.

#### **Inventory Valuation**

## **Inventory Valuation**

The Company values inventory at the lower of cost on a first-in-first-out basis or an estimated net realizable value. The Company generally purchases raw materials and supplies uniquely suited to the production of larger more complex parts, such as landing gear, only when non-cancellable contracts for orders have been received for finished goods. It occasionally produces larger more complex products, such as landing gear, in excess of purchase order quantities in anticipation of future purchase order demand, when it is economically advantageous to do so, since historically this excess has been used in fulfilling future purchase orders. The Company purchases supplies and materials useful in a variety of products as deemed necessary even though orders have not been received. The Company periodically evaluates inventory items that are not secured by purchase orders backlog and establishes write-downs to estimated net realizable value. The Company writes-down inventory to estimated net realizable value for excess quantities, slow-moving goods, obsolescence and for other impairments of value.

## Property and Equipment

Property and equipment are carried at cost net of accumulated depreciation and amortization. Repair and maintenance charges are expensed as incurred. Property, equipment, and improvements are depreciated using the straight-line method over the estimated useful lives of the assets or the particular improvements. Expenditures for repairs and improvements in excess of \$10,000 that add to the productive capacity or extend the useful life of an asset are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings.

## Long-Lived and Intangible Assets

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit.

Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value.

## Deferred Financing Costs

Costs incurred with obtaining and executing revolving debt arrangements are capitalized and recorded in other current assets and amortized using the effective interest method over the term of the related debt. Costs incurred with obtaining and executing other debt arrangements are presented as a direct deduction from the carrying value of the associated debt and also amortized using the effective interest method over the term of the related debt. The amortization of financing costs is included in interest and financing costs expense in the Consolidated Statements of Operations.

## Contract Costs Receivable

Contract costs receivable represent costs to be reimbursed from a terminated contract. The Company expects to collect the receivable in the next twelve months. Contract costs receivable totals \$296,000 at both December 31, 2023 and \$0 as of December 31, 2022 and 2021, respectively. 2022.

## Revenue Recognition

The Company recognizes revenue to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

Revenue is recognized as the customer obtains control of the goods and services promised in the contract (i.e., performance obligations). In evaluating our contracts with our customers, we have determined that there is no future performance obligation once delivery has occurred.

Our revenue is generated from fixed-price contracts. Under fixed-price contracts, we agree to perform the specified work for a pre-determined price, which we estimate during the bidding process before the contract is awarded. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss.

We evaluate the products promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. Our contracts are typically accounted for as one performance obligation. We classify net sales as products on our consolidated statements of operations based on the predominant attributes of the performance obligations.

We determine the transaction price for each contract based on the consideration we expect to receive for the products being provided under the contract.

At the inception of a contract, we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts can be subsequently modified to include changes in specifications, requirements or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract. Therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue. We recognize revenue at the point in time in which the performance obligation is fully satisfied. This is fully satisfied when the product has shipped, which is the point in time the customer obtains control of the product and we no longer maintain control of the product.

The Company's rights to payments for goods transferred to customers are conditional only on the passage of time and not on any other criteria. Payment terms and conditions vary by contract, although terms generally include a requirement of payment within 30 to 75 days.

Payments received in advance from customers are recorded as customer deposits until earned, at which time revenue is recognized. The Terms and Conditions contained in our customer purchase orders often provide for liquidated damages in the event that a stop work or contract termination order is issued prior to final delivery. While the products we manufacture are specific to the type of aircraft that they are used on, there are alternate customers that can acquire and utilize these products. The Company utilizes a Returned Merchandise Authorization or RMA process for determining whether to accept returned products. Customer requests to return products are reviewed by the contracts department and if the request is approved, a credit is issued upon receipt of the product. Net sales represent gross sales less these returns and allowances.

#### **Customer Deposits**

The Company receives advance payments on certain contracts with the remainder of the contract balance due upon the shipment of the final product once the customer inspects and approves the product for shipment. At that time, the entire amount will be recognized as revenue and the deposit will be applied to the customer's invoice.

At December 31, 2022 December 31, 2023 and 2021, 2022, customer deposits were \$781,000 \$3,557,000 and \$1,470,000 \$781,000, respectively. The Company recognized revenue of \$461,000 during year ended December 31, 2023, that was included in the customer deposits balance as of December 31, 2022. The Company recognized revenue of \$440,000 during the year ended December 31, 2022, that was included in the customer deposits balance of \$1,470,000 as of December 31, 2021. The Company recognized revenue of \$507,000 during the year ended December 31, 2021, that was included in the customer deposits balance of \$917,000 as of December 31, 2020.

#### **Backlog**

##### **Backlog**

Backlog represents executed non-cancellable contracts that represent firm the value of orders received pursuant to our Long-Term Agreements ("LTA") or spot orders pursuant to a customer purchase orders that are deliverable over the next 18-month period. As of December 31, 2022 December 31, 2023, backlog relating to remaining performance obligations in on contracts was approximately \$60,000,000. \$98.3 million. The Company expects to recognize revenue amounts in future periods related to these remaining performance obligations estimates that a substantial portion of this backlog will be recognized as follows: approximately \$22,500,000 to \$26,500,000 from January 1, 2023 - June 30, 2023, and approximately \$15,000,000 to \$18,000,000 from July 1, 2023 through December 31, 2023, net sales during the next twenty-four-months, with the rest thereafter. This expectation assumes that raw material suppliers and outsourced processing is completed and delivered on-time on time and that the Company's customers will accept delivery as scheduled. The Company anticipates that sales during the aforementioned periods will also include sales pursuant to contracts from expected new orders that are not currently in our backlog.

#### **Use of Estimates**

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant management estimates are inventory valuation, useful lives and impairment of long-lived assets, income tax provision and the allowance for doubtful accounts, useful lives of property and equipment, provisions for obsolescence, excess and slow moving inventory, accrued expenses and income taxes, which includes the determination of the valuation allowance for deferred tax assets, credit losses. Actual results could differ from those estimates. Changes in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known.

## Credit and Concentration Risks

A large percentage of the Company's revenues are derived directly from a small number large aerospace and defense prime contractors for which the ultimate end-user is the U.S. Government, international governments or commercial airlines.

The composition of customers for U.S. Military Aviation that exceeded 10% of net sales in either 2023 or 2022 are shown below:

Customer	Percentage of Net Sales	
	2023	2022
RTX (a)	27.3 %	40.6 %
Lockheed Martin	24.7 %	21.4 %
Boeing	12.2 %	0.0 %
United States Government	3.6 %	14.3 %

There were four

(A) RTX includes Collins Landing Systems and Collins Aerostructures

The composition of customers that represented 76.5% exceed 10% of total sales, and three customers that represented 75.4% of total sales for the years ended December 31, 2022 and 2021, respectively. This is set forth accounts receivable in the table below, either 2023 or 2022 are shown below:

Customer	Percentage of Sales	
	2022	2021
1	29.3 %	37.2 %
2	21.4 %	25.7 %
3	14.3 %	12.5 %
4	11.5 %	*

Customer	Percentage of Net Receivables	
	2023	2022
RTX	45.5 %	56.7 %
Boeing	16.0 %	0.0 %
Lockheed Martin	3.7 %	13.6 %

(A) Customer was less than 10% of sales for the year-ended December 31, 2021

RTX includes Collins Landing Systems and Collins Aerostructures

There were three customers that represented 70.3% of gross accounts receivable and three customers that represented 74.7% of gross accounts receivable at December 31, 2022 and 2021, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	December 31, 2022	December 31, 2021
1	33.1 %	50.3 %
2	23.6 %	12.7 %
3	13.6 %	**
4	*	11.7 %

(\*) Customer was less than 10% of accounts receivable at December 31, 2022

(\*\*) Customer was less than 10% of accounts receivable at December 31, 2021

### Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the years ended December 31, 2022 December 31, 2023 and 2021: 2022:

Product	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Military	\$ 43,993,000	\$ 51,559,000	\$ 42,394,000	\$ 43,993,000
Commercial	9,245,000	7,380,000	9,122,000	9,245,000
Total	\$ 53,238,000	\$ 58,939,000	\$ 51,516,000	\$ 53,238,000

Cash

Cash

During

For the year years ended December 31, 2023 and 2022, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC limit. The Company has not experienced any losses on these accounts.

## Major Suppliers

The Company has several key utilized sole-source suppliers of various to supply raw materials or other parts that are important for one or more of its products. These suppliers are its only source for such parts and, therefore, in the event any of them were to go out of business or be unable to provide parts for any reason, its business could be severely harmed.

## Income Taxes

The Company accounts for income taxes in accordance with accounting guidance now codified as FASB ASC Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "Income Taxes," which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse.

The provision for, or benefit from, income taxes includes deferred taxes resulting from the temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from the differences in the carrying value of assets and liabilities. Future realization of deferred income tax assets requires sufficient taxable income within the carryback, carryforward period available under tax law. We evaluate, on a quarterly basis whether, based on all available evidence, it is probable that the deferred income tax assets are realizable. Valuation allowances are established when it is more likely than not that the tax benefit of the deferred tax asset will not be realized. The evaluation, as prescribed by ASC 740-10, "Income Taxes," includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused.

The Company accounts for uncertainties in income taxes under the provisions of FASB ASC 740 which clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Subtopic provides guidance on the de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

## Earnings (Loss) per share

Basic earnings (loss) per share ("EPS") is computed by dividing the net income loss applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

For purposes of calculating diluted earnings (loss) per common share, the numerator includes net income (loss) plus interest on convertible notes payable assumed converted as of the first day of the period. The denominator includes both the weighted-average number of shares of common stock outstanding during the period and the number of common stock equivalents if the inclusion of such common stock equivalents is dilutive. Dilutive common stock equivalents potentially include stock options and warrants using the treasury stock method and convertible notes payable using the if-converted method.

The following is the calculation of income applicable to common stockholders utilized to calculate the numerator for EPS:

	December 31, 2022	December 31, 2021
Net (Loss) Income – Basic	\$ (1,076,000)	\$ 1,627,000
Add: Convertible Note Interest for Potential Note Conversion	-	322,000
Add: Convertible Note debt discount for Potential Note Conversion	-	-
 Net (Loss) Income used to calculate diluted earnings per share	 \$ (1,076,000)	 \$ 1,949,000

The following is a reconciliation of the denominators of basic and diluted EPS computations:

	December 31, 2022	December 31, 2021
Weighted average shares outstanding used to compute basic earnings per share	3,227,116	3,204,937
Effect of dilutive stock options and warrants	-	31,737
Effect of dilutive convertible notes payable	-	405,743
 Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	 3,227,116	 3,642,417
 Per share amount – basic	 \$ (0.33)	 \$ 0.51
Per share amount – diluted	\$ (0.33)	\$ 0.45

The following securities have been excluded from the calculation as the exercise price was greater than the average market price of the common shares:

	December 31, 2023	December 31, 2022
Stock Options	461,870	245,446
Warrants	-	28,000
 Stock Options	 461,870	 273,446
	December 31, 2022	December 31, 2021
Stock Options	245,466	118,350
Warrants	28,000	122,721
 Stock Options	 273,466	 241,071

The following securities have been excluded from the calculation because the effect of including these potential shares was anti-dilutive due to the net loss incurred during these periods:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Stock Options	-	-
Convertible notes payable	405,800	405,800
	<b>405,800</b>	<b>405,800</b>

#### **Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model and stock grants at their closing reported market value. Stock compensation expense for employees amounted to \$310,000 \$283,000 and \$443,000 \$310,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. Stock compensation expense for directors amounted to \$216,000 \$200,000 and \$210,000 \$216,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. Stock compensation expenses for employees and directors were included in operating expenses in the accompanying Consolidated Statements consolidated statements of Operations. operations.

## Goodwill

### Goodwill

Goodwill represented the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of \$163,000 at December 31, 2021 related to the acquisition of NTW.

The Company accounts for the impairment of goodwill under In accordance with the provisions of ASU Accounting Standards Update (“ASU”) 2017-04 (“ASU 2017-04”), “Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 gives companies Impairment”, the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

The Company performed impairment testing for goodwill annually, or more frequently when indicators of impairment existed.

The Company determined that the goodwill was fully impaired at December 31, 2022. The and recorded an impairment charge of \$163,000 is which included in operating expenses in the Consolidated Statement consolidated statements of Operations. operations.

### Freight Out

Freight out is included in operating expenses and amounted to \$162,000 \$87,000 and \$135,000 \$162,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

## Leases

### Leases

In accordance with FASB ASC 842, “Leases” (“ASC 842”), the Company records a right-of-use (ROU) asset and a lease liability on the balance sheet for all leases with terms longer than 12 months and classifies them as either operating or finance leases. The lease classification affects the expense recognition in the income statement consolidated statement of operations. Operating lease charges are recorded entirely in operating expenses. Finance lease charges are split, where amortization of the right-of- use asset is recorded in operating expenses and an implied interest component is recorded in interest expense.

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present and the classification of the lease including whether the contract involves the use of a distinct identified asset, whether the Company obtains the right to substantially all of the economic benefit from the use of the asset, and whether the Company has the right to direct the use of the asset. Leases with a term greater than one year are recognized on the balance sheet as ROU assets, lease liabilities and, if applicable, long-term lease liabilities. The Company has elected not to recognize on the balance sheet leases with terms of one year or less under the practical expedient. For contracts with lease and non-lease components, the Company has elected not to allocate the contract consideration, and to account for the lease and non-lease components as a single lease component.

Lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected lease term. The implicit rate within our operating leases are generally not determinable and, therefore, the Company uses the incremental borrowing rate at the lease commencement date to determine the present value of lease payments. The determination of the Company's incremental borrowing rate requires judgment. The Company determines the incremental borrowing rate for each lease using our estimated borrowing rate, adjusted for various factors including level of collateralization, term and currency to align with the terms of the lease. The operating lease ROU asset also includes any lease prepayments, offset by lease incentives.

An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain we will exercise that option. An option to terminate is considered unless it is reasonably certain we will not exercise the option.

#### Reclassification

Certain amounts in the consolidated notes to the financial statements have been reclassified to conform to the current year presentation. The Right of use asset - finance lease has been reclassified from the classification of Fixed Assets at December 31, 2022.

Such reclassifications do not impact the Company's previously reported financial position or results of operations.

#### Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No 2016-13, "Financial Instruments - Credit Losses: ("ASU No. 2016-13") to improve information on credit losses for financial assets and investment in leases that are not accounted for at fair value through net income (loss). ASU 2016-13 replaces the previous incurred loss impairment methodology with a methodology that reflects expected credit losses. Effective January 1, 2022 January 1, 2023, the Company adopted ASU No. 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06), 2016-13 which is intended to address issues identified as a result of the complexity associated with applying accounting principles generally accepted in the United States of America for certain financial instruments with characteristics of liabilities and equity. For convertible instruments, ASU 2020-06 reduces the number of accounting models for convertible debt instruments and convertible preferred stock, and enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance on the basis of feedback from financial statement users. The adoption of ASU 2020-06 did not have a material effect on the Company's consolidated financial statements.

In June 2016, December 2023, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses 2023-09 "Income Taxes (Topic 326) ("ASU 2016-13"), which significantly changes how entities will account 740: Improvements to Income Tax Disclosures" related to improvements to income tax disclosures. The amendments in this update require enhanced jurisdictional and other disaggregated disclosures for credit losses the effective tax rate reconciliation and income taxes paid. The amendments in this update are effective for most financial assets and certain other instruments that are fiscal years beginning after December 15, 2024. The adoption of this pronouncement is not measured at fair value through net income. ASU 2016-13 replaces the existing incurred loss model with an expected credit loss model that requires entities to estimate an expected lifetime credit loss on most financial assets and certain other instruments. Under ASU 2016-13 credit impairment is recognized as an allowance for credit losses, rather than as a direct write-down of the amortized cost basis of a financial asset. The impairment allowance is a valuation account deducted from the amortized cost basis of financial assets to present the net amount expected to be collected have a material impact on the financial asset. Once the new pronouncement is adopted by the Company, the allowance for credit losses must be adjusted for management's current estimate at each reporting date. The new guidance provides no threshold for recognition of impairment allowance. Therefore, entities must also measure expected credit losses on assets that have a low risk of loss. For instance, trade receivables that are either current or not yet due may not require an allowance reserve under currently generally accepted accounting principles, but under the new standard, the Company will have to estimate an allowance for expected credit losses on trade receivables under ASU 2016-13. ASU 2016-13 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2022 for smaller reporting companies. The Company is currently assessing the impact ASU 2016-13 will have on its Company's consolidated financial statements.

The Company does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated financial statements.

#### Note 3. ACCOUNTS RECEIVABLE

The components of accounts receivable at December 31, are detailed as follows:

	December 31, 2023	December 31, 2022
Accounts Receivable Gross	\$ 8,236,000	\$ 9,764,000
Allowance for Credit Losses	(344,000)	(281,000)
Accounts Receivable Net	\$ 7,892,000	\$ 9,483,000
	December 31, 2022	December 31, 2021
Accounts Receivable Gross	\$ 9,764,000	\$ 11,067,000
Allowance for Doubtful Accounts	(281,000)	(594,000)
Accounts Receivable Net	\$ 9,483,000	\$ 10,473,000

The allowance for doubtful accounts credit losses for the years ended December 31, 2022 December 31, 2023 and 2021 2022 is as follows:

Charged

	Balance at Beginning of Year	to Costs and Expenses	Deductions from Reserves	Balance at End of Year
Year ended December 31, 2023 Allowance for Credit Losses	\$ 281,000	\$ 88,000	\$ 25,000	\$ 344,000
Year ended December 31, 2022 Allowance for Credit Losses	\$ 594,000	\$ 16,000	\$ 329,000	\$ 281,000
	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions from Reserves	Balance at End of Year
Year ended December 31, 2022 Allowance for Doubtful Accounts	\$ 594,000	\$ 16,000	\$ 329,000	\$ 281,000
Year ended December 31, 2021 Allowance for Doubtful Accounts	\$ 964,000	\$ 134,000	\$ 504,000	\$ 594,000

#### Note 4. INVENTORY

The components of inventory at December 31, consisted of the following:

	December	December		
	31,	31,	December	December
	2022	2021	31,	31,
Raw Materials	\$ 4,198,000	\$ 3,410,000	\$ 5,213,000	\$ 4,198,000
Work In Progress	20,848,000	20,926,000	13,502,000	20,488,000
Finished Goods	10,748,000	8,350,000		
Semi - Finished Goods			12,590,000	9,642,000
Final - Finished Goods			1,789,000	1,106,000
Reserve	(3,973,000)	(3,154,000)	(3,243,000)	(3,613,000)
Total Inventory	<u>\$ 31,821,000</u>	<u>\$ 29,532,000</u>	<u>\$ 29,851,000</u>	<u>\$ 31,821,000</u>

#### Note 5. PROPERTY AND EQUIPMENT

The components of property and equipment at December 31, consisted of the following:

	December	December		
	31,	31,	December	December
	2023	2022	31,	31,
Land	\$ 300,000	\$ 300,000		
Buildings and Improvements	2,206,000	1,789,000	31.5 years	
Machinery and Equipment	24,552,000	23,566,000	5 - 8 years	
Tools and Instruments	14,314,000	13,744,000	1.5 - 7 years	
Automotive Equipment	266,000	266,000	5 years	
Furniture and Fixtures	299,000	290,000	5 - 8 years	
Leasehold Improvements	1,025,000	941,000	Term of lease	
Computers and Software	605,000	604,000	4 - 6 years	
Total Property and Equipment	<u>43,567,000</u>	<u>41,500,000</u>		
Less: Accumulated Depreciation	(35,519,000)	(33,282,000)		
Property and Equipment, net	<u>\$ 8,048,000</u>	<u>\$ 8,218,000</u>		
	December	December		
	31,	31,	December	December
	2022	2021	31,	31,
Land	\$ 300,000	\$ 300,000		
Buildings and Improvements	1,789,000	1,723,000		
Machinery and Equipment	23,566,000	22,013,000		
Finance Lease ROU Assets - Machinery and Equipment	375,000	375,000		
Tools and Instruments	13,744,000	12,866,000		
Automotive Equipment	266,000	200,000		
Furniture and Fixtures	290,000	290,000		
Leasehold Improvements	941,000	882,000		
Computers and Software	604,000	583,000		

Total Property and Equipment	41,875,000	39,232,000
Less: Accumulated Depreciation	(33,282,000)	(30,828,000)
Property and Equipment, net	<u><u>\$ 8,593,000</u></u>	<u><u>\$ 8,404,000</u></u>

Depreciation expense for the years ended December 31, 2022 December 31, 2023 and 2021 was approximately \$2,522,000 \$2,268,000 and \$2,803,000, \$2,522,000, respectively. Assets held under finance lease obligations are depreciated over the shorter of their related lease terms or their estimated productive lives. Depreciation of assets under finance leases is included in depreciation expense for 2022 and 2021. Accumulated depreciation on these assets was approximately \$0 and \$36,000 as of December 31, 2022 and 2021, respectively.

#### Note 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The components of accounts payable and accrued expenses at December 31, are detailed as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Accounts Payable	\$ 5,461,000	\$ 6,442,000
Accrued Payroll	373,000	674,000
Accrued Expenses – other	257,000	426,000
Accounts Payable and accrued expenses	<u><u>\$ 6,091,000</u></u>	<u><u>\$ 7,542,000</u></u>
	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Accounts Payable	\$ 6,442,000	\$ 5,460,000
Accrued Payroll	674,000	852,000
Accrued Expenses - other	426,000	411,000
Accounts Payable and accrued expenses	<u><u>\$ 7,542,000</u></u>	<u><u>\$ 6,723,000</u></u>

During the year **ending** **ended** December 31, 2022, the Company reviewed all old outstanding payables that were not paid and based on the statute of limitations **a claim** concluded that **certain claims** would no longer be enforceable. The Company determined that approximately \$317,000 of **old aged** payables fell into this category. This adjustment is recorded as **Write-off** **write-off** of accounts payable **on in** the accompanying **Statement** **consolidated statement** of **Operations**. **operations**.

## Note 7. SALE AND LEASEBACK SALE-LEASEBACK TRANSACTION

On October 24, 2006, the Company consummated a Sale - Leaseback Arrangement, whereby the Company sold the buildings and real property located in Bay Shore, New York (the “Bay Shore Property”) for a purchase price of \$6,200,000. The Company realized a gain on the sale of \$1,051,000 of which \$300,000 was recognized during the year ended December 31, 2006. The remaining \$751,000 is being recognized ratably over the remaining term of the twenty - year lease at approximately \$38,000 per year. The gain is included in Other Income in the accompanying Consolidated Statements of Operations. The unrecognized portion of the gain in the amount of \$143,000 \$105,000 and \$181,000 \$143,000 as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively, is classified as Deferred Gain on Sale in the accompanying Consolidated Balance Sheets.

The Company accounted for these transactions under the provisions of FASB ASC 840-40, “Leases-Sale-Leaseback Transactions.” Simultaneous with the closing of the sale of the Bay Shore Property, the Company entered into a 20-year triple- net lease (the “Lease”) expiring in September 2026 with the purchaser for the property. Base annual rent is approximately \$540,000 for the first five years, \$560,000 for the sixth year, and thereafter increases 3% per year. The Lease grants the Company an option to renew the Lease for an additional period of five years. The Company has on deposit with the purchaser landlord \$89,000 as security for the performance of its obligations under the Lease. In addition, at December 31, 2021, the Company had on deposit \$150,000 with the purchaser as security for the completion of certain repairs and upgrades to the Bay Shore Property. In 2020, the landlord utilized the amounts on deposit to install air conditioning throughout the manufacturing facility. At December 31, 2022, this amount was included in the caption Deferred Finance costs, Net, Deposit and Other Assets in the accompanying Consolidated Balance Sheets. Pursuant to the terms of the Lease, the Company is required to pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance. The lease also contains customary representations, warranties, obligations, conditions and indemnification provisions and grants the purchaser landlord customary remedies upon a breach of the lease by the Company, including the right to terminate the Lease and hold the Company liable for any deficiency in future rent. See Note 9 – Operating Lease Liabilities.

## Note 8. DEBT

Debt Indebtedness to third parties consists of the following:

	December 31, 2023	December 31, 2022
Current Credit Facility – Revolving loan	\$ 10,804,000	\$ 13,352,000
Current Credit Facility – Term loan	5,045,000	5,396,000
Solar Credit Facility	393,000	-
Finance lease obligations	884,000	328,000
Loans Payable - financed assets	22,000	30,000
Subtotal	<u>17,148,000</u>	<u>19,106,000</u>
Less: Current portion	(16,036,000)	(14,477,000)
Long-Term Portion	<u>\$ 1,112,000</u>	<u>\$ 4,629,000</u>
	December 31, 2022	December 31, 2021
Revolving loan to Webster Bank (“Webster”)	\$ 13,352,000	\$ 12,456,000
Term loan, Webster	5,396,000	4,192,000
Finance lease obligations	328,000	263,000
Loans payable - financed assets	30,000	39,000
Related party notes payable	6,162,000	6,412,000
Subtotal	<u>25,268,000</u>	<u>23,362,000</u>
Less: Current portion	(14,477,000)	(14,112,000)
Long Term Portion	<u>\$ 10,791,000</u>	<u>\$ 9,250,000</u>

**Webster Bank (F/K/A Sterling National Bank) (“Webster”) Current Credit Facility**

The Company has a loan credit facility (“Webster Current Credit Facility”) with Webster Bank that expires on December 30, 2025. The Webster Facility, This facility, which was entered into on December 31, 2019, was amended several times, and now provides for a \$20,000,000 revolving loan (“Revolving Line of Credit”), a \$5,000,000 term loan (“Term Loan”) and a \$2,000,000 Equipment Line of Credit, which as it is drawn upon is added to the balance of the Term Loan.

As of December 31, 2022, there was \$1,122,000 remaining available under the equipment line of credit. The below table shows the timing of payments due under the Term Loan:

For the year ending	Amount
December 31, 2023	\$ 1,037,000
December 31, 2024	840,000
December 31, 2025	3,584,000
Webster Term Loan payable	5,461,000
Less: debt issuance costs	(65,000)
Total Webster Term Loan payable, net of debt issuance costs	5,396,000
Less: Current portion of Webster Term Loan payable	(1,037,000)
Total long-term portion of Webster Term Loan payable	\$ 4,359,000

As of December 31, 2022, our debt to Webster in the amount of \$18,748,000 consisted loan is secured by a lien on substantially all of the Webster Revolving Loan in the amount of \$13,352,000 and the Webster term loan in the amount of \$5,396,000 which includes \$878,000 of what was drawn on the equipment line of credit.

Interest expense related to the Webster Facility amounted to approximately \$780,000 and \$704,000 for the years ended December 31, 2022 and 2021, respectively.

The below summarizes historical amendments to the Webster Facility and various terms:

In 2020, the Company entered into the First Amendment to the Webster Facility which increased the Term Loan to \$5,685,000 and required the Company to make monthly principal installments in the amount of \$67,679 beginning on December 1, 2020. Other minor modifications were made and the Company paid an amendment fee of \$20,000.

In June 2021, the Company entered into the Second Amendment to the Webster Facility, which clarified the definition and calculation of Excess Cash Flow, and to confirm the due date assets of the required payment of the Excess Cash Flow. For so long as the Webster term loan remains outstanding, if Excess Cash Flow (as defined) is a positive number for any fiscal year the Company shall pay to Webster an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow for such fiscal year and (ii) the outstanding principal balance of the term loan. Such payment shall be made to Webster and applied to the outstanding principal balance of the term loan, on or prior to the April 15 immediately following such fiscal year. In connection with these changes, the Company paid an amendment fee of \$10,000. The Company made Excess Cash Flow payments of \$558,750 in 2021 (for the fiscal year ended December 31, 2020) and \$854,000 in April 2022 (for fiscal year ended December 31, 2021). As required, the Company provided the calculation for the Excess Cash Flow payment of \$208,000 for fiscal year ended December 31, 2022 to Webster prior to the April 15, 2023 deadline for such payment. Additionally, the Company authorized such payment to be made from the Revolving Loan. As of the date of this filing such payment has not been processed by Webster Company.

On December 7, 2021, the Company entered into the Third Amendment to the Webster Facility ("Third Amendment"). The purpose of the amendment was to provide a maturity date for the Webster Facility of December 30, 2025 as compared to the original maturity date of December 30, 2022. Such amendment also increased the Revolving Line of Credit to its current limit of \$20,000,000 (up from the original \$16,000,000) and also provided for a similar increase in the inventory sublimit to \$14,000,000 (up from the original \$11,000,000). The Third Amendment, also allows the Company, subject to certain limitations, to begin amortizing \$250,000 of its related party subordinated notes payable each quarter as long as certain conditions are met. In connection with these changes, the Company paid an amendment fee of \$75,000.

On May 17, 2022, the Company entered into the Fourth Amendment to the Webster Facility ("Fourth Amendment"). The purpose of the amendment was to increase the Term Loan to \$5,000,000, generating proceeds of \$1,945,000, reduce the monthly principal installments to be made in respect to the term loan, and establish a capital expenditure line of credit in the amount of \$2,000,000 which the Company can draw upon from time to time to finance purchases of machinery and equipment, thereby increasing the amount of capital expenditures that the Company may make each year. The principal payments are \$59,524 per month commencing in June 2022 with a balloon payment due on December 30, 2025. In connection with these changes, the Company paid an amendment fee of \$20,000.

On December 15, 2022, the Company made a draw against the capital expenditure line of credit in the amount of \$877,913. The principal payments are \$10,451 per month commencing in February 2023 with a balloon payment due of \$512,000 required on December 30, 2025.

On January 4, 2023, the Company made an additional draw against the capital expenditure line of credit in the amount of \$739,500. The principal payments are \$8,804 per month commencing in March 2023 with a balloon payment due of \$440,000 required on December 30, 2025.

As of December 31, 2023, there is \$10,804,000 outstanding under the Revolving Line of Credit and \$5,045,000 under the Term Loan, inclusive of amounts drawn under the Equipment Line of Credit. Additionally, there was \$382,000 remaining available under the

## Equipment Line of Credit

As discussed in Note 1, the Company was not in compliance with a required covenant as of March 31, 2024. There is no assurance that the Company will be able to obtain a waiver of its failure to meet this covenant or will be able to meet its financial covenants in one of the upcoming fiscal quarters over the next twelve months, therefore, in accordance with the guidance in ASC 470-10-45, related to the classification of callable debt, the entire term loan has been classified as short term as of December 31, 2023.

The below table shows the timing of payments due under the Term Loan:

For the year ending	Amount
December 31, 2024	\$ 945,000
December 31, 2025	4,143,000
Term Loan payable	5,088,000
Less: debt issuance costs	(43,000)
Total Term Loan payable, net of debt issuance costs	5,045,000
Less: Current portion of Term Loan payable	(5,045,000)
Total long-term portion of Term Loan payable	\$ -

Interest expense related to the Current Credit Facility amounted to approximately \$1,391,000 and \$780,000 for the years ended December 31, 2023 and 2022, respectively. Interest expense includes the amortization of deferred finance costs of \$68,000 and \$65,000 in 2023 and 2022, respectively.

As of December 31, 2023, the Company was in full compliance with all financial covenants. The below summarizes various terms of the Current Credit Facility (all of which are described in full in various SEC filings):

- The Company is required to maintain a defined Fixed Charge Coverage Ratio at the end of each Fiscal Quarter on a rolling basis. As of December 31, 2023, the Company achieved a Fixed Charge Coverage Ratio of 1.31x compared to the required 0.95x.
- For so long as the Term Loan remains outstanding, if Excess Cash Flow (as defined) is a positive number for any fiscal year the Company shall pay an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow for such fiscal year and (ii) the outstanding principal balance of the term loan. Such payment shall be applied to the outstanding principal balance of the Term Loan, on or prior to the April 15 immediately following such fiscal year. The Company made an Excess Cash Flow \$195,000 for fiscal year ended December 31, 2022. For the Fiscal year ended December 31, 2023, based on the calculation there is no Excess Cash Flow payment required.

Under the terms of the Webster Facility, both the Webster revolving line of credit and the Webster term loan

- Both the Revolving Line of Credit and the Term Loan will bear an interest rate equal to the greater of (i) 3.50% and (ii) a rate per annum equal to the rate per annum published from time to time in the “Money Rates” table of the Wall Street Journal (or such other presentation within The Wall Street Journal as may be adopted hereafter for such information) as the base or prime rate for corporate loans at the nation’s largest commercial bank, less sixty-five hundredths (-0.65%) of one percent per annum. The average interest rate charged was 7.55% and 4.50% for the years ended December 31, 2023 and 2022, respectively.
- The Current Credit Facility limits the amount of capital expenditures and dividends the Company can pay to its stockholders. Substantially all of the Company’s assets are pledged as collateral.

The below summarizes historical amendments to the greater of (i) 3.50% and (ii) a rate per annum equal to the rate per annum published from time to time in the “Money Rates” table of the Wall Street Journal (or such other presentation within The Wall Street Journal as may be adopted hereafter for such information) as the base or prime rate for corporate loans at the nation’s largest commercial bank, less sixty-five hundredths (-0.65%) of one percent per annum. The average interest rate charged was 4.50% and 3.50% for the years ended December 31, 2022 and 2021, respectively. Current Credit Facility

- On May 17, 2022, the Company entered into a Fourth Amendment that increased the Term Loan to \$5,000,000 and reduced monthly principal repayments requirements. It also provided for the establishment of a Capital Expenditure Line in the amount of \$2,000,000 which the Company can draw upon to purchase machinery and equipment. In 2022, the Company borrowed \$878,000, and in 2023, it borrowed \$739,500 against the Capital Expenditure Line. In connection with this amendment, the Company paid an amendment fee of \$20,000.
- On August 4, 2023, the Company entered into a Fifth Amendment that waived a default caused by the failure by the Company to meet the required Fixed Charge Coverage Ratio for the fiscal quarter ended March 31, 2023. Additionally, the amendment provided for a revised Fixed Charge Ratio for the fiscal quarters ending June 30, 2023, and September 30, 2023, and increased the amount of purchase money secured debt (such as finance leases) the Company is allowed to have outstanding at any time to \$2,000,000. In connection with this amendment, the Company paid an amendment fee of \$10,000.
- On November 20, 2023, the Company entered into a Sixth Amendment that waived defaults caused by our failure to achieve the required Fixed Charge Coverage Ratio of the Fifth Amendment and because we purchased capital expenditures (as defined) in excess of permitted amounts. This amendment further revised the Fixed Charge Coverage Ratio by requiring it to be calculated on a rolling period basis and not be less than, (a) 1.10x (as calculated on a six-months basis) for the fiscal quarter ending March 31, 2024 (b) 1.20x (as calculated on a nine-months basis) for the fiscal quarter ending June 30, 2024, and (iv) 1.25 (as calculated on a twelve-months basis) for all other fiscal quarters. This amendment also increased the Capital Expenditure limit to \$2,500,000 in any fiscal year. In connection with these changes, the Company paid an amendment of \$20,000.

All amendment fees paid in connection with the Webster Current Credit Facility that are for a future benefit of the Company are included in Deferred Financing Costs, Net, Deposits and Other Assets, in the accompanying Condensed Consolidated Balance Sheets consolidated balance sheets and are amortized over the term of the loan.

As of December 31, 2023, the Company has borrowing capacity of approximately \$9,830,000 under the Revolving Loan (including \$383,000 pursuant to the Capital Expenditure Line).

#### Solar Credit Facility

On August 16, 2023, the Company entered into a financing agreement (“Solar Credit Facility”) with Green Bank, a quasi-public agency of the State of Connecticut, for the installation of solar energy systems including replacing the existing roof (“Project”) at its Sterling facility. Advances are made by Green Bank upon its approval of costs incurred on the Project up to \$934,553. As of December 31, 2023, an advance of \$393,233 had been made including the payment of Green Bank’s closing costs of \$25,233. Interest accrues at the rate of 5% on advances and is capitalized and added to the outstanding principal of the loan. Upon project completion, the cumulative total of the advances and capitalized interest will convert to a 20-year level payment term loan with interest accruing at the rate of 5.75%. Semi-annual payments are projected to be approximately \$41,000 inclusive of interest over the 20-year term.

In connection with the Webster Facility, the Company is required to maintain a defined Fixed Charge Coverage Ratio of 1.25 to 1.00 at the end of each Fiscal Quarter. The Webster Facility limits the amount of Capital Expenditures and dividends the Company can pay to its stockholders. Substantially all of the Company’s assets are pledged as collateral under the Webster Facility.

As of December 31, 2022, the Company was in compliance with all financial loan covenants. However, the Company was in default of its covenant to provide its audited financial statements to Webster bank within ninety (90) days of its fiscal year end. The Company has subsequently received a waiver from the bank for this default.

#### Finance Lease Obligations

The Company entered into a finance lease in November of 2022 for the purchase of new manufacturing equipment. Additionally, during May of 2023, the Company entered into an additional finance lease for the purchase of additional manufacturing equipment. The obligations for the finance leases totaled \$884,000 and \$328,000 as of December 31, 2022, December 31, 2023 and 2022, respectively. The leases have an average imputed interest rate of 7.48% per annum and are payable monthly with the final payment due between September of 2026 and May of 2030.

	Year Ended	
	December 31, 2023	December 31, 2022
Finance Lease cost:		
Amortization of ROU assets	\$ 123,000	\$ -
Interest on lease liabilities	50,000	2,182
Total lease Costs	<u><u>\$ 173,000</u></u>	<u><u>\$ 2,182</u></u>
Other Information:		
Cash Paid for amounts included in the measurement lease liabilities:		
Financing cash flow from finance lease obligations	<u><u>\$ 123,000</u></u>	<u><u>\$ 284,000</u></u>
Supplemental disclosure of non-cash activity		
Acquisition of finance lease asset	<u><u>\$ 679,000</u></u>	<u><u>\$ 350,000</u></u>
The Company entered into a finance lease in December of 2021 for the purchase of new manufacturing equipment. The obligation for the finance lease totaled \$0 and \$263,000 as of December 31, 2022 and 2021, respectively. The lease had an imputed interest rate of 4.2% per annum and was payable monthly with the final payment due on December 17, 2026. In connection with the Fourth Amendment to the Webster Facility, this finance lease was paid in full.		
	December 31, 2023	December 31, 2022
Weighted Average Remaining Lease Term - in years	5.4	4.0
Weighted Average Discount rate - %	7.31 %	7.48 %
	Year Ended December 31, 2022	Year Ended December 31, 2021
Finance Lease cost:		
Amortization of ROU assets	\$ -	\$ 36,000
Interest on lease liabilities	2,182	-
Total Lease Costs	<u><u>\$ 2,182</u></u>	<u><u>\$ 36,000</u></u>
Other Information:		
Cash Paid for amounts included in the measurement lease liabilities:		
Financing cash flow from finance lease obligations	<u><u>\$ 284,000</u></u>	<u><u>\$ 5,000</u></u>

Supplemental disclosure of non-cash activity

Acquisition of finance lease ROU asset	\$ 350,000	\$ -
	<u>December 31, 2022</u>	<u>December 31, 2021</u>

Weighted Average Remaining Lease Term - in years	3.9	5.0
Weighted Average Discount rate - %	7.48 %	4.20 %

As of **December 31, 2022** **December 31, 2023**, the aggregate future minimum **Finance** lease payment, including imputed interest are as follows:

<b>For the year ending</b>	<b>Amount</b>
December 31, 2024	\$ 224,000
December 31, 2025	224,000
December 31, 2026	199,000
December 31, 2027	124,000
December 31, 2028	124,000
Thereafter	177,000
Total future minimum finance lease payments	1,072,000
Less: imputed interest	(188,000)
Less: Current portion	(165,000)
Long-term portion	\$ 719,000
<b>For the year ending</b>	<b>Amount</b>
December 31, 2023	\$ 100,000
December 31, 2024	100,000
December 31, 2025	100,000
December 31, 2026	77,000
Total future minimum finance lease payments	377,000
Less: imputed interest	(49,000)
Less: Current portion	(79,000)
Long-term portion	\$ 249,000

### **Loans Payable – Financed Assets**

The Company financed the purchase a delivery vehicle in July 2020. The loan obligation totaled \$30,000 \$22,000 and \$39,000 \$30,000 as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively. The loan bears no interest and a final payment is due and payable for all unpaid principal on July 20, 2026.

Annual maturities of this loan are as follows:

For the year ending	Amount	Amount
December 31, 2023	\$ 9,000	
December 31, 2024	9,000	\$ 9,000
December 31, 2025	9,000	9,000
December 31, 2026	3,000	4,000
Loans Payable - financed assets	30,000	22,000
Less: Current portion	(9,000)	(9,000)
Long-term portion	\$ 21,000	\$ 13,000

#### Related Party Notes Payable Indebtedness

Taglich Brothers, Inc. is a corporation co-founded by two directors of the Company, Michael and Robert Taglich. Taglich Brothers, Inc. has acted as placement agent for various debt and equity financing transactions and has received cash and equity compensation for their services.

From 2016 through 2020, the Company entered into various subordinated notes payable and convertible subordinated notes payable (together referred to as "Related Party Notes") with Michael and Robert Taglich. These notes resulted in Taglich which generated proceeds to the Company totaling \$6,550,000. In connection with these notes, issuance, Michael and Robert were issued a total of 35,508 shares of common stock and Taglich Brothers, Inc. was issued promissory notes totaling \$554,000 for placement agency fees.

At December 31, 2020

The Related Party Notes outstanding as of December 31, 2023 consists of:

	Michael Taglich, Chairman	Robert Taglich, Director	Taglich Brothers, Inc.	Total
Convertible Subordinated Notes	\$ 2,666,000	\$ 1,905,000	\$ 241,000	\$ 4,812,000
Subordinated Notes	1,000,000	350,000	-	1,350,000
Total	\$ 3,666,000	\$ 2,255,000	\$ 241,000	\$ 6,162,000

Of the \$6,162,000, approximately \$2,732,000 bears an annual rate of interest of 6%, related party notes payable totaled \$6,012,000 \$2,080,000 bears an annual rate of 7% and accrued \$1,350,000 bears an annual interest totaled \$400,000. rate of 12%. Interest expense for the years ended December 31, 2023 and 2022 was \$472,000 and \$487,000, respectively.

On January 1, 2021, the related party subordinated notes due to Michael and Robert Taglich and Taglich Brothers, Inc., were amended to include all accrued interest through December 31, 2020 in the principal balance of the notes. Per the terms of the Webster Facility, these notes remain subordinate to the Webster Facility and are due on July 1, 2026. Approximately \$2,732,000 of the related party convertible subordinated notes can be converted at the option of the holder into Common Stock of the Company at \$15.00 per share, while the remaining \$2,080,000 of the related party convertible subordinated notes can be converted at the option of the holder into common stock of the Company at \$9.30 per share. The remaining \$1,350,000 is not convertible. There are no principal payments due on these notes. Under the terms of the Third Amendment notes prior to July 1, 2026.

The Related Party Notes are subordinate to outstanding debt pursuant to the Webster Current Credit Facility the and mature on July 1, 2026.

The Company is now allowed, subject to certain limitations, to make principal payments of \$250,000 per quarter to reduce the value of this subordinated debt.

outstanding Related Party Notes payable. During the year ended December 31, 2022, a principal payment of \$250,000 was made against the Subordinated Related Party Notes due to Michael Taglich. This payment was No payments were made pursuant to the conditions set forth in the Third Amendment to the Webster Facility.

The note holders and the principal balance of the notes of December 31, 2022 are shown below:

	Michael Taglich, Chairman	Robert Taglich, Director	Taglich Brothers, Inc.	Total
Convertible Subordinated Notes	\$ 2,666,000	\$ 1,905,000	\$ 241,000	\$ 4,812,000
Subordinated Notes	1,000,000	350,000	-	1,350,000

Total	<u><u>\$ 3,666,000</u></u>	<u><u>\$ 2,255,000</u></u>	<u><u>\$ 241,000</u></u>	<u><u>\$ 6,162,000</u></u>
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fiscal 2023.

Interest expense for the years ended December 31, 2022 and 2021 on all related party notes payable was \$487,000 and \$460,000, respectively. Approximately \$2,732,000 of these notes have an annual rate of interest of 6%, \$2,080,000 have an annual interest rate of 7% and \$1,600,000 have an annual interest rate of 12%.

## Note 9. OPERATING LEASE LIABILITIES

The Company has operating leases for leased office and manufacturing facilities. The leases have remaining lease terms of one to five years, some of which include options to extend or terminate the leases.

	Year Ended	
	December 31, 2023	December 31, 2022
Operating lease cost:	\$ 1,156,000	\$ 972,000
Total lease cost	<u><u>\$ 1,156,000</u></u>	<u><u>\$ 972,000</u></u>
Other Information		
Cash paid for amounts included in the measurement lease liability:	1,038,000	1,006,000
Operating cash flow from operating leases	\$ 1,038,000	\$ 1,006,000
	Year Ended	Year Ended
	December 31, 2022	December 31, 2021
Operating lease cost:	\$ 972,000	\$ 1,069,000
Total lease cost	<u><u>\$ 972,000</u></u>	<u><u>\$ 1,069,000</u></u>
Other Information		
Cash paid for amounts included in the measurement lease liability:	\$ 1,006,000	\$ 977,000
Operating cash flow from operating leases	<u><u>\$ 1,006,000</u></u>	<u><u>\$ 977,000</u></u>
	December 31, 2023	December 31, 2022
Weighted Average Remaining Lease Term - in years	2.66	3.64
Weighted Average discount rate - %	9.10 %	8.89 %
	December 31, 2022	December 31, 2021
Weighted Average Remaining Lease Term - in years	3.64	4.53
Weighted Average discount rate - %	8.89 %	8.89 %
The aggregate undiscounted cash flows of operating lease payments, with remaining terms greater than one year are as follows:		
	Amount	Amount
December 31, 2023	\$ 1,038,000	
December 31, 2024	1,070,000	\$ 1,070,000
December 31, 2025	992,000	992,000
December 31, 2026	729,000	730,000
Total future minimum lease payments	3,829,000	2,792,000
Less: discount	<u><u>(588,000)</u></u>	<u><u>(330,000)</u></u>

Total operating lease maturities	3,241,000	2,462,000
Less: current portion of operating lease liabilities	(778,000)	(880,000)
Total long term portion of operating lease maturities	<u>\$ 2,463,000</u>	
Total long-term portion of operating lease maturities		<u>\$ 1,582,000</u>

**Note 10. LIABILITY RELATED TO THE SALE OF FUTURE PROCEEDS FROM DISPOSITION OF SUBSIDIARY**

In connection with the sale of the Company's wholly-owned subsidiary, AMK Welding, Inc. ("AMK") to Meyer Tool, Inc., ("Meyer") in 2017, Meyer was obligated to pay the Company within 30 days after the end of each calendar quarter, commencing April 1, 2017, an amount equal to five (5%) percent of the net sales of AMK for that quarter until the aggregate payments made to the Company (the "Meyer Agreement") equals \$1,500,000 (the "Maximum Amount").

In order to increase liquidity, on January 15, 2019, the Company entered into a "Purchase Agreement" with 15 accredited investors (the "Purchasers"), including Michael and Robert Taglich, pursuant to which the Company assigned to the Purchasers all of its rights, title and interest to the remaining \$1,137,000 of the \$1,500,000 in payments due from Meyer for the sale of AMK (the "Remaining Amount") for an immediate payment of \$800,000, including \$100,000 from each of Michael and Robert Taglich, and \$75,000 for the benefit of the children of Michael Taglich. The timing of the payments is based upon the net sales of AMK.

The Company recognized \$94,000 and \$326,000 of non-cash income for the years ended December 31, 2022 and 2021, respectively, reflected in “other income, net” on the Consolidated Statements of Operations and recorded \$35,000 and \$98,000 of related non-cash interest expense related to the Purchase Agreement for the years ended December 31, 2022 and 2021, respectively.

The table below shows the activity within the liability account for the years ended December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Liabilities related to sale of future proceeds from disposition of subsidiaries - beginning balance	\$ 59,000	\$ 322,000
Non-Cash other income recognized	(94,000)	(360,000)
Non-Cash interest expense recognized	35,000	97,000
Liabilities related to sale of future proceeds from disposition of subsidiary - ending balance	-	59,000
Less: unamortized transaction costs	-	(3,000)
Liability related to sale of future proceeds from disposition of subsidiary, net	<u><u>\$ -</u></u>	<u><u>\$ 56,000</u></u>

#### Note 11. STOCKHOLDERS' EQUITY

On October 4, 2022 the Company announced a reverse stock split of its authorized, issued and outstanding shares of common stock at a ratio of 1-for-10. The reverse stock split was effective on October 18, 2022, and its common stock began trading on a post-split-adjusted basis at that time. As result of the reverse stock split there were no fractional shares issued and all holders were rounded up to the next whole share. An additional 7,287 shares were issued to account for this. As such all references to shares and per share price has been adjusted to retrospectively account for this transaction.

#### Common Stock – Issuances of Securities

The Company issued 55,108 and 27,849 shares of common stock totaling \$200,000 and 16,981 shares totaling \$216,000 and \$210,000 in payment of Director's fees for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. Additionally, Such expense is included in Operating Expenses in the Company issued 5,122 shares consolidated statements of common stock upon the cashless exercise of stock options during the year ended December 30, 2022, operations.

During the first quarter of 2023, 2024, the Company issued 12,331 12,323 shares of common stock in payment of directors' Director's fees totaling \$54,000. \$38,000.

## Note 12.11. EMPLOYEE BENEFITS PLANS

The Company employs both union and non-union employees and maintains several benefit plans.

### Union

#### Union

Substantially the entire workforce at

Our AIM is subject to subsidiary has a union contract collective bargaining agreement with the United Service Workers, Union TUJAT IUJAT, Local 355 EIN 11-1772919 (the "Union"). The Agreement was renewed as of December 31, 2021 and expires on This agreement is effective until December 31, 2024 and covers all the majority of AIM's production personnel, of which there are approximately 131 people. AIM 125 personnel. The Company is not required to make a monthly contribution to each of the Union's United Welfare Fund and the United Services Worker's Security Fund. This is Fund, the only sole pension benefit required by the Agreement and the for covered employees. The Company is not obligated for to provide any future defined benefit to retirees, benefits. The Agreement contains a "no-strike" clause, whereby, during the term of the Agreement, the Union will not strike and AIM will not lockout its employees. Medical benefits for union employees are provided through a policy with Insperity Services, Inc. ("Insperity"), the costs of which are substantially borne by the Company. In addition, the Company is obligated to make contributions for union dues and a security fund (defined contribution plan) for the benefit of each union employee. Contributions to the security fund amounted to \$155,000 \$147,000 and \$147,000 \$155,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

The Union's retirement plan is a defined contribution plan. As such, the Company is not responsible for the obligations of other companies in the Union's retirement plan.

### Others

Medical benefits for union employees are provided through a policy with Insperity Services, Inc. ("Insperity"), a professional employer organization that provides out-sourced human resource services. The cost of such benefits are substantially borne by the Company.

The collective bargaining agreement contains a "no-strike" clause and a "no-lock-out" clause. The Company believes it maintains good relationships with the Union and expects to renew the collective bargaining agreement before it expires.

### Others

All of the Company's employees are covered under a co-employment agreement with Insperity, a professional employer organization that provides out-sourced human resource services.

The Company has defined contribution plans under Section 401(k) of the Internal Revenue Code (the "Plans"). Pursuant to the Plans, qualified employees may contribute a percentage of their pre-tax eligible compensation to the Plan. The Company does not match any contributions that employees may make to the Plans.

## Note 12. COMMITMENTS AND CONTINGENCIES

### Note 13. CONTINGENCY

On October 2, 2018, Contract Pharmacal Corp. ("Contract Pharmacal") commenced an action, relating to a Sublease entered into between the Company and Contract Pharmacal in May 2018 with respect to the property that was formerly occupied by the Company's former subsidiary WMI, at 110 Plant Avenue, Hauppauge, New York. In the action Contract Pharmacal sought damages for an amount in excess of \$1,000,000 for the Company's failure to make the entire premises available by the Sublease commencement date. On July 8, 2021, the Court denied Contract Pharmacal's motion for summary judgement. In the Order, the court granted Contract Pharmacal's Motions to drop its claim for specific performance and to amend its Complaint to reduce its claim for damages to \$700,000. Subsequently, Contract Pharmacal moved to amend its Complaint. The Company opposed this and the Court denied the request to amend the Complaint. Contract Pharmacal filed a Motion to reargue which the Court denied on November 30, 2021. On March 10, 2022, Contract Pharmacal filed an appeal to the Court's decision with the Appellate. The Appellate Division which upheld the Company has opposed. denial of Contract Pharmacal's motion for summary judgement and upheld the denial of its motion to amend its Complaint. The Company disputes the validity of the claims asserted by Contract Pharmacal and intends to contest them vigorously.

From time to time the Company may be engaged in various lawsuits and legal proceedings in the ordinary course of business. The Company is currently not aware of any legal proceedings the ultimate outcome of which, in its judgment based on information currently available, would have a material adverse effect on its business, financial condition or operating results. There are no proceedings in which any of the Company's directors, officers or affiliates, or any registered or beneficial stockholder of its common stock, is an adverse party or has a material interest adverse to our interest.

#### Note 14.13. INCOME TAXES

The provision for income taxes for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, is set forth below:

	Year Ended December 31, 2022	Year Ended December 31, 2021
<b>Current and Deferred</b>		
Federal	\$ -	\$ -
States	- -	- -
Total Provision for Income Taxes	<b>\$ -</b>	<b>\$ -</b>
 <b>Current</b>		
Federal	\$ -	\$ -
State	- -	- -
Total Provision for Income Taxes	<b>\$ -</b>	<b>\$ -</b>

The following is a reconciliation of our income tax rate computed using the federal statutory rate to our actual income tax rate for the years ended December 31, 2022 December 31, 2023 and 2021 2022 is set forth below:

	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2023	Year Ended December 31, 2022
U.S. statutory income tax rate	21.0 %	21.0 %	21.00 %	21.00 %
State taxes, net of federal benefit	4.1 %	4.1 %	2.43 %	4.10 %
Permanent difference, overaccruals, and non-deductible items	(6.9) %	6.3 %		
Permanent difference and non-deductible items			-2.71 %	-6.90 %
Change in state rate	0.7 %	8.3 %	-15.20 %	0.70 %
Deferred tax valuation allowance	(18.4) %	(38.7) %	-10.13 %	-18.40 %
Other	(.5) %	(1.0) %	4.61 %	-0.50 %
Total	<b>0.00 %</b>	<b>0.00 %</b>	<b>0.00 %</b>	<b>0.00 %</b>

The components of net deferred tax assets at December 31, are set forth below:

	<b>December 31, 2022</b>	<b>2021</b>	<b>December 31, As Revised</b>
<b>Deferred tax assets:</b>			
Current:			
Net operating loss	\$ 5,075,000	\$ 4,959,000	
Allowance for doubtful accounts	71,000	149,000	
Inventory - IRC 263A adjustment	411,000	377,000	
Stock based compensation - options and restricted stock	183,000	183,000	
Capitalized engineering costs	331,000	430,000	
Amortization - NTW Transaction	359,000	445,000	
Inventory reserve	932,000	790,000	
Deferred gain on sale of real estate	36,000	45,000	
Accrued expenses	30,000	18,000	
Disallowed interest	1,663,000	1,576,000	
Operating lease liabilities	814,000	984,000	
Total deferred tax asset before valuation allowance	<u>9,905,000</u>	<u>9,956,000</u>	
Valuation allowance	(7,701,000)	(7,503,000)	
<b>Total deferred tax asset after valuation allowance</b>	<b><u>2,204,000</u></b>	<b><u>2,453,000</u></b>	
 <b>Deferred tax liabilities:</b>			
Property and equipment	(1,583,000)	(1,697,000)	
Operating Lease ROU assets	(621,000)	(756,000)	
<b>Total deferred tax liabilities</b>	<b><u>(2,204,000)</u></b>	<b><u>(2,453,000)</u></b>	
 <b>Net deferred tax asset</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	

During the year ended December 31, 2022, the Company determined that certain attributes of Deferred Tax Assets and Liabilities were incorrect for December 31, 2021 and 2020. See Note 16 for further information.

	December 31, 2023	December 31, 2022
Deferred tax assets:		
Current:		
Net operation loss carryforwards	\$ 4,996,000	\$ 5,075,000
Allowance for credit loss	133,000	71,000
Inventory - IRC 263A adjustment	336,000	411,000
Stock-based compensation - options and restricted stock	159,000	183,000
Capitalized engineering costs	211,000	331,000
Amortization - NTW Transaction	251,000	359,000
Inventory reserve	715,000	932,000
Deferred gain on sale of real estate	23,000	36,000
Accrued expenses	37,000	30,000
Disallowed interest	2,024,000	1,663,000
Operating lease liabilities	546,000	814,000
Total deferred tax asset, before valuation allowance	<u>9,431,000</u>	<u>9,905,000</u>
Valuation allowance	(7,903,000)	(7,701,000)
Total deferred tax asset, net of valuation allowance	<u>1,528,000</u>	<u>2,204,000</u>
Deferred tax liabilities	(1,114,000)	(1,583,000)
Property and equipment	(414,000)	(621,000)
Total deferred tax liabilities	<u>(1,528,000)</u>	<u>(2,204,000)</u>
Net deferred tax asset	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

During the years ended December 31, 2022 December 31, 2023 and 2021, 2022, the Company recorded a valuation allowance equal to its net deferred tax assets. The Company determined that due to a recent history of net losses, at this time sufficient uncertainty exists regarding the future realization of these deferred tax assets through future taxable income. If, in the future, the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reduced or eliminated. With a full valuation allowance, any change in the deferred tax asset or liability is fully offset by a corresponding change in the valuation allowance. At December 31, 2022 December 31, 2023 and 2021, 2022, the Company provided a valuation allowance on its net deferred tax assets of \$7,903,000 and \$7,701,000, respectively. The Company's valuation allowance increased by \$202,000 and \$7,503,000, \$198,000 for the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2022 December 31, 2023, the Company had a Federal net operating loss carry forward of approximately \$22,420,000, \$22,363,000, of which approximately \$12,220,000 \$14,719,000 expires from 2023 2024 through 2037 and \$10,200,000 \$7,643,000 does not expire. In addition, the Company has net operating loss carry forwards carryforwards from various states of approximately \$22,600,000 \$4,7783,000 which expire from 2035 through 2042, starting in 2035.

The utilization of the Company's net operating losses may be subject to a U.S. federal limitation due to the "change in ownership provisions" under Section 382 of the Internal Revenue Code and other similar limitations in various state jurisdictions. Such limitations may result in a reduction of the amount of net operating loss carryforwards in future years and possibly the expiration of certain net operating loss carryforwards before their utilization.

At December 31, 2022 December 31, 2023 and 2021, 2022, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company does not expect that its unrecognized tax benefits will materially increase within the next twelve months. The Company recognizes interest and penalties related to uncertain tax positions in interest expense. As of December 31, 2022 December 31, 2023, and 2021, 2022, the Company has not recorded any provisions for accrued interest and penalties related to uncertain tax positions.

In certain cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. The Company files federal and state income tax returns in jurisdictions with varying statutes of limitations. The 2019 2020 through 2022 2023 tax years generally remain subject to examination by federal and state tax authorities. In August 2022, the Inflation Reduction Act of 2022 (the "IRA"), was signed into law which includes a stock buyback excise tax of 1% on share repurchases, which will apply to net stock buybacks after December 31, 2022. We do not expect this to have a material impact if and when share repurchases occur.

#### Note 15.14. STOCK OPTIONS AND WARRANTS

##### Stock-Based Compensation

###### Stock Options

In June 2022, September 2023, the shareholders of the Company approved the adoption of amendment to the Company's 2022 Equity Incentive Plan ("2022 Plan") which to increase the number of shares authorized to be issued under the plan by 250,000 shares, from 100,000 shares to 350,000 shares. Additionally, this amendment to the 2022 Plan specified that the Company may grant of rights with respect to up to 100,000 shares, Restricted Stock Units under the 2022 Plan.

During the years ended December 31, 2022 December 31, 2023 and 2021, 2022, the Company granted options to purchase 62,000 190,000 and 84,750 62,000 shares of common stock, respectively, to certain of its employees and directors.

The Company recorded stock based stock-based compensation expense for certain employees and members of \$310,000 the Company's Board of Directors of \$482,000 and \$443,000 \$526,000 in its Consolidated Statements consolidated statements of Operations operations for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively, and such amounts were included as a component of operating expenses.

The fair values of stock options granted were estimated using the Black-Sholes option-pricing model with the following assumptions for the years ended December 31:

	<b>2023</b>	<b>2022</b>
Risk-free interest rates	3.70% - 3.97%	1.38% - 2.73%
Expected life (in years)	2.50 - 3.5	2.50 - 4.00
Expected volatility	61%	71.6% - 72.0%
Dividend yield	0.00%	0.00%
Weighted-average grant date fair value per share	\$ 3.46	\$ 3.97
	<b>2022</b>	<b>2021</b>
Risk-free interest rates	1.38% - 2.73%	0.31% - 0.83%
Expected life (in years)	2.50 - 4.00	2.50 - 4.00
Expected volatility	71.6% - 72.0%	73.2% - 75.2%
Dividend yield	0.00%	0.00%
Weighted-average grant date fair value per share	\$ 3.97	\$ 6.01

The expected life is the number of years that the Company estimates, based upon history, that the options will be outstanding prior to exercise or forfeiture. Expected life is determined using the "simplified method" permitted by Staff Accounting Bulletin No. 107. In addition to the inputs referenced above regarding the option pricing model, the Company adjusts the stock-based compensation expense for estimated forfeiture rates that are revised prospectively according to forfeiture experience. The stock volatility factor is based on the Company's experience.

A summary of the status of the Company's stock options as of December 31, 2022 December 31, 2023 and 2021, and changes during the two years then ended are presented below.

	Options	Wtd. Avg. Exercise Price
Balance, January 1, 2021	185,900	\$ 15.60
Granted during the year	84,750	13.00
Exercised during the year	(11,000)	10.41
Terminated/Expired during the year	(12,800)	61.70
Balance, December 31, 2021	<u>246,850</u>	<u>\$ 12.54</u>
Granted during the year	62,000	8.40
Exercised during the year	-	-
Terminated/Expired during the year	(5,800)	12.04
Balance, December 31, 2022	<u><u>303,050</u></u>	<u><u>\$ 11.70</u></u>
 Exercisable at December 31, 2022	 245,466	 \$ 12.07

	Options	Wtd. Avg. Exercise Price
Balance, January 1, 2022	246,850	\$ 12.54
Granted during the period	62,000	8.40
Exercised during the period	-	-
Terminated/Expired during the period	(5,800)	12.04
Balance, December 31, 2022	<u>303,050</u>	<u>\$ 11.70</u>
Granted during the period	189,620	3.46
Exercised during the period	-	-
Terminated/Expired during the period	(30,800)	13.60
Balance, December 31, 2023	<u><u>461,870</u></u>	<u><u>\$ 8.34</u></u>
 Exercisable at December 31, 2023	 397,539	 \$ 8.94

### Issuance of Stock Options

#### Issued in 2023

On May 23, 2023, the Company granted options to its directors and certain members of management and employees, stock options to purchase an aggregate of 108,620 shares of the Company's common stock at a price of \$3.43 per share. The options expire on the June 30, 2028 and vested immediately.

On June 2, 2023, the Company granted to its directors, stock options to purchase an aggregate of 6,000 shares of the Company's common stock at a price of \$3.50 per share. The options expire on the fifth anniversary of the grant date and vest over a term of one year.

On June 2, 2023, the Company granted to certain members of management and employees, stock options to purchase an aggregate of 75,000 shares of the Company's common stock at a price of \$3.50 per share. The options expire on the fifth anniversary of the grant date and vest over a term of three year.

#### Issued in 2022

On January 31, 2022, the Company granted certain employees, stock options to purchase an aggregate of 3,000 shares of the Company's common stock at a price of \$8.50 per share. The options expire on the fifth anniversary of the grant date and vest over a

term of three years.

On April 6, 2022, the Company granted to its directors, stock options to purchase an aggregate of 6,000 shares of the Company's common stock at a price of \$8.40 per share. The options expire on the fifth anniversary of the grant date and vest over a term of one year.

On April 11, 2022, the Company granted to certain members of management and certain employees, stock options to purchase an aggregate of 53,000 shares of the Company's common stock at a price of \$8.40 per share. The options expire on the fifth anniversary of the grant date and vest over a term of three years.

#### Issued in 2021

On January 11, 2021, the Company granted to its directors, stock options to purchase an aggregate of 7,000 shares of the Company's common stock at a price of \$13.20 per share. The options expire on the seventh anniversary of the grant date and vested over a term of one year.

On March 24, 2021, the Company granted to certain members of management and certain employees, stock options to purchase an aggregate of 32,750 shares of the Company's common stock at a price of \$13.90 per share. The options expire on the fifth anniversary of the grant date and vest over a term of three years.

On July 30, 2021, the Company granted to certain members of management and certain employees, stock options to purchase an aggregate of 41,500 shares of the Company's common stock at a price of \$12.20 per share. The options expire on the fifth anniversary of the grant date and vest over a term of one to three years.

On January 11, 2021, the Company granted to its directors, stock options to purchase an aggregate of 7,000 shares of the Company's common stock at a price of \$13.20 per share. The options expire on the seventh anniversary of the grant date and vested over a term of one year.

The following table summarizes information about outstanding stock options at December 31, 2022:

Range of Exercise Price	Number Outstanding	Wtd. Avg, Life	Wtd. Avg. Exercise Price
\$8.40 - \$15.60	303,050	2.7 years	\$ 11.70

The following table summarizes information about outstanding stock options at December 31, 2023:

Range of Exercise Price	Number Outstanding	Wtd. Avg. Life	Wtd. Avg. Exercise Price
\$3.46 - \$15.60	461,870	2.7 years	\$ 8.94

The following table summarizes information about exercisable stock options at December 31, 2022:

Range of Exercise Price	Number			Wtd. Avg.		
	Number Exercisable	Wtd. Avg. Life	Wtd. Avg. Exercise Price	Exercisable	Wtd. Avg. Life	Exercise Price
\$8.40 - \$15.60	246,466	2.4 years	\$ 12.07	303,050	2.5 years	\$ 11.70

As of December 31, 2022 December 31, 2023, there was \$95,000 of unrecognized compensation cost related to non-vested stock option awards, which is to be recognized over the remaining weighted average vesting period of 1.3 years.

The aggregate intrinsic value at December 31, 2023 was based on the Company's closing stock price of \$3.25 was \$0. The aggregate intrinsic value at December 31, 2022 was based on the Company's closing stock price of \$4.25 was \$0. The aggregate intrinsic value at December 31, 2021 was based on the Company's closing stock price of \$9.10 \$4.25 was approximately \$12,000. \$0. The aggregate intrinsic value was calculated based on the positive difference between the closing market price of the Company's Common Stock and the exercise prices of the underlying options.

The weighted average fair value of options granted during the years ended December 31, 2022 December 31, 2023 and 2021 2022 was \$8.40 and \$6.00 \$8.40 per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2022 December 31, 2023 and 2021 2022 was \$0 and \$100,000 respectively \$0. The total fair value of shares vested during the years ended December 31, 2022 December 31, 2023 and 2021 2022 was \$316,000 \$417,000 and \$339,000, \$316,000, respectively.

#### Warrants

#### Warrants

During both the years ended December 31, 2022 December 31, 2023 and 2021, 2022, the Company did not issue any warrants.

The following tables summarize the Company's outstanding warrants as of December 31, 2022 December 31, 2023 and changes during the two years then ended:

	Wtd. Avg.			Remaining Contractual Life (years)
	Warrants	Wtd. Avg. Exercise Price	Remaining Contractual Life (years)	
Balance, January 1, 2022	150,722	\$ 21.94	0.75	
Granted during the period	-	-	-	
Terminated/Expired during the period	(122,722)	23.75	-	
Balance, December 31, 2022	28,000	\$ 14.00	0.75	
Granted during the period	-	-	-	
Terminated/Expired during the period	(28,000)	\$ 14.00	-	
Balance, December 31, 2023	-	\$ -	-	
Exercisable at December 31, 2023	-	\$ -	-	
	Wtd. Avg.			Remaining Contractual Life (years)
	Warrants	Wtd. Avg. Exercise Price	Remaining Contractual Life (years)	

Balance, January 1, 2021	218,290	\$ 29.00	1.43
Granted during the period	-	-	-
Terminated/Expired during the period	(67,569)	-	-
Balance, December 31, 2021	150,721	\$ 21.94	0.75
Granted during the period	-	-	-
Terminated/Expired during the period	(122,721)	\$ 23.75	-
Balance, December 31, 2022	28,000	\$ 14.00	0.75

Exercisable at December 31, 2022 28,000 \$ 14.00 0.75

The aggregate intrinsic value at both December 31, 2022 December 31, 2023 and 2021 2022 was \$0 based on the Company's closing stock price of \$4.15 \$3.25 and \$9.10, \$4.25, respectively.

#### Note 16. Revision of Previously Issued Consolidated Financial Statement

Due to errors discovered in the Company's 2020 tax return, the Company revised certain previously issued disclosures related to the components of its deferred tax assets and liabilities and valuation allowance as of December 31, 2021 and 2020. Additionally, the Company has revised the reconciliation of its income tax rate computed using the federal statutory rate for the year ended December 31, 2021. The errors related primarily to the misapplication of the carryback of net operating losses under the CARES Act provision and mathematical errors related to the Company's inventory reserve. Since the Company provided a full valuation allowance on its net deferred tax assets, there was no impact to the Consolidated Balance Sheet as of December 31, 2021 and the Consolidated Statements of Operations, Cash Flows and Stockholders' Equity for the year ended December 31, 2021. As a result of the errors, the Company will be amending its 2020 and 2021 income tax returns.

The Company had previously disclosed that its net operating loss carry forward as of December 31, 2021 was \$29,100,000. The proper amount that should have been disclosed was \$21,971,000. Along with this finding, the Company further reviewed its disclosure of the rate reconciliation and deferred tax calculation along with the valuation allowance of its net deferred tax assets. Other items that were corrected in the disclosure included disallowed interest, stock based compensation and operating lease liability along with the associated operating lease ROU assets.

The below table summarizes the revisions to the reconciliation of our income tax rate computed using the federal statutory rate to our actual income tax rate for the year ended December 31, 2021:

	Year Ended December 31, 2021		Year Ended December 31, 2021
	As Reported	Adjustment	As Revised
U.S. statutory income tax rate	21.0%	0.0%	21.0%
State taxes, net of federal benefit	5.1%	(1.0)%	4.1%
Permanent difference, overaccruals, and non-deductible items	(40.4)%	46.7%	6.3%
Change in state rate	0.0%	8.3%	8.3%
Deferred tax valuation allowance	14.3%	(53.0)%	(38.7)%
Other	0.0%	(1.0)%	(1.0)%
Total	0.0%	0.0%	0.0%

The table below summarizes the revisions to the attributes of the Deferred Tax Assets as of December 31, 2021:

Deferred tax assets:	December 31, 2021		December 31, 2021
	As Reported	Adjustment	As Revised
Net operating loss	\$ 6,737,000	\$ (1,778,000)	\$ 4,959,000
Allowance for doubtful accounts	155,000	(6,000)	149,000
Inventory - IRC 263A adjustment	394,000	(17,000)	377,000

Stock based compensation - options and restricted stock	393,000	(210,000)	183,000
Capitalized engineering costs	449,000	(19,000)	430,000
Amortization - NTW Transaction	442,000	3,000	445,000
Inventory reserve	824,000	(34,000)	790,000
Deferred gain on sale of real estate	47,000	(2,000)	45,000
Accrued expenses	204,000	(186,000)	18,000
Disallowed interest	1,286,000	290,000	1,576,000
Operating lease liability	235,000	749,000	984,000
Capital loss carryforward	88,000	(88,000)	-
Total non-current deferred tax asset before valuation allowance	<u>11,254,000</u>	<u>(1,298,000)</u>	<u>9,956,000</u>
Valuation allowance	<u>(9,628,000)</u>	<u>2,125,000</u>	<u>(7,503,000)</u>
Total non-current deferred tax asset after valuation allowance	<u><u>1,626,000</u></u>	<u><u>827,000</u></u>	<u><u>2,453,000</u></u>
Deferred tax liabilities:			
Property and equipment	(1,626,000)	(71,000)	(1,697,000)
Operating lease ROU assets	-	(756,000)	(756,000)
Total deferred tax liabilities	<u>(1,626,000)</u>	<u>(827,000)</u>	<u>(2,453,000)</u>
Net deferred tax asset	\$ -	\$ -	\$ -

The table below summarizes the revisions to the attributes of the Deferred Tax Assets as of December 31, 2020:

	<b>December 31, 2020</b>	<b>December 31, 2020</b>	
	<b>As Reported</b>	<b>Adjustment</b>	<b>2020 As Revised</b>
<b>Deferred tax assets:</b>			
Net operating loss	\$ 6,594,000	\$ (1,422,000)	\$ 5,172,000
Allowance for doubtful accounts	252,000	(3,000)	249,000
Inventory - IRC 263A adjustment	341,000	(3,000)	338,000
Stock based compensation - options and restricted stock	277,000	(73,000)	204,000
Capitalized engineering costs	336,000	228,000	564,000
Deferred Rent	4,000	-	4,000
Amortization - NTW Transaction	495,000	(73,000)	422,000
Inventory reserve	1,250,000	(579,000)	671,000
Deferred gain on sale of real estate	132,000	(1,000)	131,000
Accrued expenses	158,000	(158,000)	-
Disallowed interest	1,813,000	(18,000)	1,795,000
Operating lease liability	292,000	905,000	1,197,000
Total non-current deferred tax asset before valuation allowance	<u>11,944,000</u>	<u>(1,197,000)</u>	<u>10,747,000</u>
Valuation allowance	(9,394,000)	1,262,000	(8,132,000)
Total non-current deferred tax asset after valuation allowance	<u>2,550,000</u>	<u>65,000</u>	<u>2,615,000</u>
 <b>Deferred tax liabilities:</b>			
Property and equipment	(2,150,000)	443,000	(1,707,000)
Operating lease ROU assets	-	(908,000)	(908,000)
Other	(400,000)	400,000	-
Total deferred tax liabilities	<u>(2,550,000)</u>	<u>(65,000)</u>	<u>(2,615,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

#### Note 17. Subsequent Events

On April 18, 2023, we received a notice from NYSE American (the "Exchange") stating that the Company is not in compliance with the continued listing standards of the Exchange under the timely filing criteria included in Section 1007 of the NYSE American Company Guide because the Company failed to file by the extended due date of April 17, 2023, its Annual Report on Form 10-K for the year ended December 31, 2022 (the "Form 10-K").

In accordance with Section 1007 of the Company Guide, the Company will have six months from the date of the filing delinquency, or until October 17, 2023 (the "Initial Cure Period"), to file the Form 10-K with the Securities and Exchange Commission. If the Company fails to file the Form 10-K during the Initial Cure Period, the Exchange may, in its sole discretion, provide an additional six-month cure period depending on the Company's specific circumstances.

Upon filing of the Form 10-K the Company will cure this delinquency.

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Exhibit 19.1

**AIR INDUSTRIES GROUP**  
**CONTROL AND USE OF INSIDE INFORMATION**  
**INSIDER TRADING POLICY**  
(As Adopted March 28, 2024)

In this policy, each reference to Air Industries Group or the "Company" shall mean both Air Industries Group and its wholly-owned subsidiaries, and the word "employee" shall include each employee of the Company or of any of its wholly-owned subsidiaries and the members of the Board of Directors of Air Industries Group.

The term “inside information” includes any material non-public information relating to Air Industries Group and its wholly-owned subsidiaries, as well as any information relating to companies with which Air Industries Group has business dealings, such as an acquisition, joint venture or substantial contract award or modification, and even day to day business matters to the extent they might be deemed material to an investor in securities of Air Industries Group or a company with which Air Industries Group has business dealings.

The Insider Trading and Securities Fraud Enforcement Act of 1988 (“the Act”) enforces the legal prohibition on insider trading. The Act imposes substantial liabilities and penalties on persons who trade in securities while in possession of inside information relating to those securities or who communicate (“tip”) the inside information to others. Under certain circumstances, the Act also imposes penalties on employers and supervisors of individuals who commit insider-trading violations. The Act applies to trading in securities of Air Industries Group as well as the securities of any other company as to which the Company’s employees, directors or agents gain inside information in the course of their employment.

It is the Company’s policy that - - if you become aware of any inside information relating to the Company, an entity doing business with the Company, or an entity the Company is considering acquiring that has not yet been made available to the general public by press release or otherwise - - you and your family members and relatives are strictly prohibited from buying or selling securities of the Company or such other entity or directly or indirectly disclosing such information to any other person who may trade in stock of the Company or other entity. This prohibition continues until the third business day following the day the Company makes such information available to the general public. It is difficult to describe exhaustively what constitutes inside information, but you should assume that any information, positive or negative, that might affect the price of the stock of the Company or another entity or otherwise might be of significance to an investor in determining whether to purchase, sell or hold stock of the Company or another entity would be considered inside information. Some examples of information that would typically be considered inside information include:

- earnings information (favorable or unfavorable), including annual, quarterly or monthly financial results and guidance or projections relating to future earnings;
- potential mergers, joint ventures or acquisitions or dispositions of a business or a line of business;
- new products or services, or developments regarding new products or services, clients or suppliers;
- changes in senior management; and
- pending litigation or a change in the status of litigation.

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This list includes just a few examples of inside information and is not intended to be all-inclusive.

The Company's Code of Ethics has long prohibited employees from making use of inside Company information. The Company has adopted this additional formal procedure to re-emphasize to employees that they have an obligation not to engage in insider trading. There are no exceptions for transactions that an employee believes may be necessary or justifiable for independent reasons (such as the need to raise money for an emergency expenditure). **You should expect that any violation of this Policy Statement will result in the Company imposing serious sanctions, up to and including dismissal for cause of the person(s) involved and civil or criminal liability as mentioned above.** These procedures are effective immediately and are set forth as follows:

1. Officers, Assistant Officers, or Directors may not trade in Company stock at any point without clearance in advance from the Chief Financial Officer. Clearance will be granted or denied solely on the basis of whether there exists, or is expected to exist, any inside information the public release of which has not occurred or is not expected to occur by the time of the contemplated transaction. During periods when such unreleased information exists, or when it is anticipated that unreleased information will exist at the time of the contemplated transaction, clearance for employee purchases and sales of Company stock will be withheld. In addition, purchases and sales of Company stock by directors and senior officers are subject to quarterly "black-out" periods, as discussed below.
2. Employees can cause serious problems for the Company and themselves by disclosing internal information about the Company without authorization, whether or not for the purpose of facilitating improper trading in the Company's stock. It is our policy that you should not discuss internal Company matters or developments with anyone outside of the Company, except as required in your performance of regular employment duties.
3. Written and oral communications to fellow employees regarding inside information should be limited to instances in which the information transmitted is essential for the performance of their job responsibilities, i.e., where there is a "need to know". Oral communications should take place only in "secure" circumstances where they are not likely to be overheard by others, and letters, memos and other documents should be handled in a confidential manner.
4. Transaction in securities by the Company, including the names of the companies involved, are to be kept confidential. They are not to be discussed with persons who are not employees of the Company, other than brokerage or other firms acting on the Company's behalf with respect to the transactions.
5. Access to files relating to inside information is to be restricted (kept under lock and key, or the on-line equivalent) and unnecessary records promptly destroyed by shredding.
6. Code names should be used to mask the identity of sensitive securities or other transactions or projects.
7. Access to computer (including word processor) files pertaining to inside information should require a password, the knowledge of which should be as limited as possible.
8. Internal written reports should, where feasible, refer in only a general way to inside information, rather than identify the specifics relating to it. Communications containing inside information should be transmitted by sealed envelope marked to indicate confidentiality and "open by addressee only" language.

## **BLACKOUT PERIODS**

The Company has also adopted blackout periods during which certain employees ("Covered Person") are automatically barred from trading securities of the Company, except when such trades are in accordance with an individually established plan that meets the requirements of Rule 10B5-1 of the Securities Act of 1933, as amended. The blackout periods, and any exceptions thereto, are in addition to, and not in lieu of, the requirement to pre-clear trades as discussed above. A copy of any Rule 10B5-1 Plan established by a Covered Person for the purposes of trading the Company's securities during a blackout period must be filed with the Chief Financial Officer prior to a sale of the Company's securities and during an open window period. Failure to file such plan may result in the inability of the Covered Person from effectuating trades in accordance with his or her established Rule 10B5-1 Plan.

A Rule 10B5-1 plan must be entered into in good faith, which means that the Covered Person cannot establish a plan to facilitate trading of the Company's stock based on inside information. A Covered Person may face insider trading allegations where the plan is established, modified or terminated shortly before (30 to 60 days) or otherwise in anticipation of the occurrence of a material Company event.

Who is subject to the Quarterly Blackout Periods?

- Directors, officers and assistant officers of Company;
- Divisional Vice-Presidents/General Managers;
- All individuals reporting directly to the CEO and CFO;
- All individuals involved with a possible merger, sale of significant assets, sale of stock or any other financing transaction;

- Any other individual who by virtue of his or her position is routinely in possession of material nonpublic information; and
- Family members or others living in the same household, family members whose transactions in Company securities are directed by, or are subject to the influence or control of, the individuals listed above, and any entities that the individuals listed above influence or control.

Blackout periods are limited to those periods during which it would be difficult to prove that Company insiders are not in possession of insider information, whether or not they in fact are in possession of such information. A black-out period begins one week before the end of each fiscal quarter and ends on (and includes) the second business date after the Company's earnings for such quarter are released to the public. Once a blackout period begins, you will not be allowed to trade until the Blackout period closes regardless of employment status. Blackout dates are subject to change from time to time at the discretion of the Company's Board of Directors and you should check with the Chief Financial Officer if there is any question as to when a black-out period begins and ends. In addition to the usual quarterly blackout periods, a special blackout may be implemented at other times, such as during the pendency of certain Company transactions or when some other extraordinary Company event is pending.

There are very limited exceptions to quarterly or special blackout periods, such as the expiration of stock options and/or the vesting of restricted or performance stock. Exceptions shall be considered on a case by case basis. You should consult the Company's Chief Financial Officer for further guidance if you believe an exception applies to you, and a person wishing to act under such an exception must request authorization from the Company. With respect to the vesting of shares or other forms of awards, the Company does not permit stock option exercise activity or the sale of vesting restricted or performance equity awards by Covered Persons except in the case of a sell to cover program initiated by the Company to pay individual tax obligations on the vesting award.

The restrictions set forth in this Policy will apply to any securities account in the name of the employee and to any account over which the employee has control or in which the employee has a beneficial interest. It is presumed, for purposes of this Policy Statement, that an employee has control over the account of the employee's spouse, minor children or other person residing with the employee or to whose support the employee contributes.

#### **INDIVIDUAL RESPONSIBILITY**

Employees subject to this Policy have ethical and legal obligations to maintain the confidentiality of information about the Company and to not trade in Company securities (or the securities of another entity) while in possession of material nonpublic information. In all cases, the ultimate responsibility for adhering to this Policy and avoiding improper trading rests with you, and any action on the part of the Company or any employee or director pursuant to this Policy (or otherwise) does not in any way constitute legal advice or insulate an individual from liability under applicable securities laws. If you violate this Policy, the Company may take disciplinary action, including dismissal for cause. You may also be subject to severe legal penalties under applicable securities laws.

Questions regarding the applicability or interpretation of these procedures should be directed to the Chief Financial officer of the Company. Moreover, any violations of the procedures should be promptly brought to the attention of the Chief Financial Officer General Counsel, who may be contacted at the Company's headquarters.

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Exhibit 23.1

#### **CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT**

We consent to the incorporation by reference in the Registration Statements of Air Industries Group and Subsidiaries (the "Company") subsidiaries on Form S-8 (Registration Nos. 333-264738, 333-191560, 333-206341, 333-217393 and 333-219487) of our report dated ~~May 16, 2023~~ April 15, 2024, which includes an explanatory paragraph as to the Company's ability to continue as a going concern, with respect to our audit audits of the consolidated financial statements of the Company Air Industries Group and subsidiaries as of December 31, 2022 December 31, 2023 and 2022 and for each of the year then two years in the period ended December 31, 2023, which report is included in this Annual Report on Form 10-K of the Company Air Industries Group and subsidiaries for the year ended December 31, 2022 December 31, 2023.

Our report on the consolidated financial statements contain an explanatory paragraph regarding adjustments described in Note 16 to the consolidated financial statements that were applied to restate the 2021 financial statements to correct errors. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2021 financial statements taken as a whole.

/s/ Marcum LLP

Marcum LLP

Saddle Brook, New Jersey

May 16, 2023

April 15, 2024

Exhibit 23.2

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference of our report dated March 25, 2022 on our audit of the consolidated financial statements of Air Industries Group and Subsidiaries (the "Company") as of and for the year ended December 31, 2021, which report was included in the Annual Report on Form 10-K of the Company filed May 16, 2023, in the Company's Registration Statements on Form S-8 (Registration Nos. 333-264738, 333-191560, 333-206341, 333-217393 and 333-219487).

Our report on the 2021 consolidated financial statements indicates that we were not engaged to audit, review, or apply any procedures to the adjustments for the correction of the errors described in Note 16 to the financial statements, and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by Marcum LLP.

/s/ Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Certified Public Accountants

Saddle Brook, New Jersey

May 16, 2023

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a) 13A-14(a) UNDER THE EXCHANGE ACT**

I, Luciano Melluzzo, certify that:

1. I have reviewed this annual report on Form 10-K of Air Industries Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: **May 16, 2023** April 15, 2024

/s/ Luciano Melluzzo

Luciano Melluzzo  
Chief Executive Officer  
Principal Executive Officer

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Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT**

I, Michael E. Recca, certify that:

1. I have reviewed this annual report on Form 10-K of Air Industries Group;  
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 16, 2023

/s/ Michael Recca

Michael Recca

Chief Financial Officer

Principal Financial Officer

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

**PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

**(18 U.S.C. SECTION 1350)**

In connection with the Annual Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission (the "Report"), Luciano Melluzzo, Chief Executive Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 16, 2023

/s/ Luciano Melluzzo

Luciano Melluzzo

Chief Executive Officer

Principal Executive Officer

Exhibit 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**  
**PURSUANT TO RULE 13A-14(a) UNDER THE EXCHANGE ACT**

I, Scott Glassman, certify that:

1. I have reviewed this annual report on Form 10-K of Air Industries Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected,

or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 15, 2024

/s/ Scott Glassman

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Scott Glassman

Chief Financial Officer

Principal Financial Officer

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

**PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

**(18 U.S.C. SECTION 1350)**

In connection with the Annual Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-K for the year ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), Michael E. Recca, Luciano Melluzzo, Chief Executive Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: April 15, 2024

/s/ Luciano Melluzzo

\_\_\_\_\_  
Luciano Melluzzo  
Chief Executive Officer  
Principal Executive Officer

Exhibit 32.2

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

**PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

**(18 U.S.C. SECTION 1350)**

In connection with the Annual Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), Scott Glassman, Chief Financial Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: April 15, 2024

/s/ Michael Recca Scott Glassman

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Michael Recca Scott Glassman  
Chief Financial Officer  
Principal Financial Officer

[A signed original of this written statement required by Section 906 has been provided to Air Industries Group and will be retained by Air Industries Group and furnished to the Securities and Exchange Commission or its staff upon request.]

Exhibit 97.1

**AIR INDUSTRIES GROUP**  
**EXECUTIVE COMPENSATION CLAWBACK POLICY**

Adopted as of December 1, 2023

The Board of Directors (the “**Board**”) of Air Industries Group (the “**Company**”) has adopted the following executive compensation clawback policy (this “**Policy**”). This Policy shall supplement any other clawback or compensation recovery policy or policies adopted by the Company or included in any agreement between the Company, or any subsidiary of the Company, and a person covered by this Policy. If any such other policy or agreement provides that a greater amount of compensation shall be subject to clawback, such other policy or agreement shall apply to the amount in excess of the amount subject to clawback under this Policy.

This Policy shall be interpreted to comply with Securities and Exchange Commission (“**SEC**”) Rule 10D-1 and Rule 811 of the NYSE American Company Guide (the “**Rule**”). To the extent this Policy is any manner deemed inconsistent with the Listing Rule, this Policy shall be treated as having been amended to be compliant with the Listing Rule.

**1. Definitions.** Unless the context clearly requires otherwise the following definitions apply for purposes of this Policy:

(a) **Executive Officer.** An executive officer of the Company includes the Company’s chief executive officer, president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president or other officer of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance) provided such officer performs a policy-making function for the Company, or any other person who performs similar policy-making functions for the Company. Executive officers of the Company’s parent(s) or subsidiaries are deemed executive officers of the Company if they perform such policy making functions for the Company. Policy-making function is not intended to include policy-making functions that are not significant. Executive officers for purposes of the Rule would include at a minimum executive officers identified in the Listing Rule.

(b) **Financial Reporting Measures.** Financial reporting measures are measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return are also financial reporting measures. A financial reporting measure need not be presented within the financial statements or included in a filing with the SEC and may be such financial measures as may be determined by the Board or the Compensation Committee thereof (the “**Compensation Committee**”).

(c) **Incentive-Based Compensation.** Incentive-based compensation is any compensation that is granted, earned or vested based wholly or in part upon the attainment of a financial reporting measure.

(d) **Received.** Incentive-based compensation is deemed “received” in the Company’s fiscal period during which the financial reporting measure specified in the incentive-based compensation award is attained, even if the payment or grant of the incentive-based compensation occurs after the end of that period.

**2. Application of this Policy.** The recovery of Incentive-Based Compensation from an Executive Officer as provided for in this Policy shall apply only in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of Company with any financial reporting requirement under the United States securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.<sup>1</sup>

**3. Recovery Period.**

(a) The Incentive-Based Compensation subject to recovery is the Incentive-Based Compensation received by an Executive Officer during the three (3) completed fiscal years immediately preceding the date that the Company is required to prepare an accounting restatement as described in Section 2 above, provided that the person served as an Executive Officer during such period and received Incentive-Based Compensation for services during such period. The date that the Company is required to prepare an accounting restatement shall be determined pursuant to the Rule.

(b) Notwithstanding the foregoing, this Policy shall only apply if the Incentive-Based Compensation is Received while the Company has a class of securities listed on a National Securities Exchange Nasdaq and on or after October 2, 2023.

(c) The provisions of the Rule shall apply with respect to Incentive-Based Compensation received during a transition period arising due to a change in the Company's fiscal year.

**4. Erroneously Awarded Compensation.** The amount of Incentive-Based Compensation subject to recovery from Executive Officers under this Policy ("Erroneously Awarded Compensation") shall be equal to the amount of Incentive-Based Compensation Received that exceeds the amount of Incentive Based-Compensation that otherwise would have been Received had it been determined based on the restated amounts and shall be computed without regard to any taxes paid. For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an accounting restatement: (a) the amount shall be based on a reasonable estimate by the Company's Chief Financial Officer (or principal accounting officer, if the office of Chief Financial Officer is not then filled) of the effect of the accounting restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received, which estimate shall be subject to the review and approval of the Compensation Committee; and (b) the Company must maintain reasonable documentation of the determination of that reasonable estimate and provide such documentation to the NYSE American if requested. Notwithstanding the foregoing, if the proposed Incentive-Based Compensation recovery would affect compensation paid to the Company's Chief Financial Officer, the determination shall be made by the Compensation Committee.

<sup>1</sup> NOTE: questions as to "materiality" will be determined by the Compensation Committee in coordination with the Audit Committee.

**5. Timing of Recovery.** The Company shall recover any Erroneously Awarded Compensation reasonably promptly except to the extent that the conditions of paragraphs (a), (b), or (c) below apply and the Company's Compensation Committee has made a determination that recovery would be impracticable. The Compensation Committee shall determine the repayment schedule for each amount of Erroneously Awarded Compensation in a manner that complies with this "reasonably promptly" requirement. Such determination shall be consistent with any applicable legal guidance by the SEC, Nasdaq, judicial opinion, or otherwise. The determination of "reasonably promptly" may vary from case to case and the Compensation Committee is authorized to adopt additional rules or policies to further describe what repayment schedules satisfy this requirement.

(a) Erroneously Awarded Compensation need not be recovered if the direct expense paid to a third party to assist in enforcing (or making determinations in connection with the enforcement of) this Policy would exceed the amount to be recovered and the Compensation Committee has made a determination that recovery would be impracticable. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Company shall (i) make a reasonable attempt to recover such Erroneously Awarded Compensation, (ii) document such reasonable attempt or attempts to recover, and (iii) provide appropriate documentation to the Compensation Committee or NYSE American, if requested.

(b) Erroneously Awarded Compensation need not be recovered if recovery would violate home country law where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on a violation of home country law, the Company shall obtain an opinion of home country counsel, in form and substance that would be reasonably acceptable to NYSE American, that recovery would result in such a violation and shall provide such opinion to NYSE American, if requested.

(c) Erroneously Awarded Compensation need not be recovered if recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and the regulations thereunder (as such provision may be amended, modified or supplemented).

**6. Compensation Committee Decisions.** Decisions of the Compensation Committee with respect to this Policy shall be final, conclusive and binding on all Executive Officers subject to this Policy.

**7. No Indemnification.** Notwithstanding anything to the contrary in any other policy of the Company or any agreement between the Company and an Executive Officer, no Executive Officer shall be indemnified by the Company against the loss arising from the recovery of any Erroneously Awarded Compensation.

**8. Agreement to Policy by Executive Officers.** The Company shall take reasonable steps to inform Executive Officers of this Policy and obtain their express agreement to this Policy, which steps may constitute the inclusion of this Policy as an attachment to any award that is accepted by an Executive Officer. This Policy shall be deemed to apply to each employment or grant agreement between the Company or any of its subsidiaries and any Executive Officer subject to this Policy.

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