

REFINITIV

DELTA REPORT

10-Q

AIRI - AIR INDUSTRIES GROUP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1149
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 CHANGES	100
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 DELETIONS	537
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 ADDITIONS	512
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **September 30, 2023** **March 31, 2024**

or

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

For the transition period from _____ to _____

Commission File No. 001-35927

AIR INDUSTRIES GROUP

(Exact name of registrant as specified 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)** **1(b)** of the Act

Title of Each Class	Trading Symbol(s)	Name of each Exchange on which Registered
Common Stock	AIRI	NYSE-American

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 ☐

Indicate by check mark whether the registrant has submitted 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. **(Check one):**

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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 3,303,045 3,324,785 shares of the registrant's common stock outstanding as of December 1, 2023 May 14, 2024.

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SPECIAL CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q filed by Air Industries Group (herein referred to as “Air Industries”, the “company”, “we”, “us”, or “our”) contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, or Exchange Act. 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. Certain Although we believe that these statements are based upon reasonable assumptions, including projections of the matters discussed herein concerning, among other items, our 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, cash flows, financial position and economic performance including, in particular, future sales, product demand, competition and the effect of general economic conditions, include forward-looking statements.

These 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. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, and elsewhere in this report and the risks discussed in our other filings with the Securities Security and Exchange Commission. Commission (“SEC”).

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 review any additional disclosures we make in our reports filed with the securities laws of the United States, SEC.

PART I

FINANCIAL INFORMATION

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Part I. Financial Information
Item 1. Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Balance Sheets

	March 31, 2024 (unaudited)	December 31, 2023
ASSETS		
Current Assets		
Cash	\$ 225,000	\$ 346,000
Accounts Receivable, Net of Allowance for Credit Losses of \$321,000 and \$344,000	8,035,000	7,892,000
Inventory	29,359,000	29,851,000
Prepaid Expenses and Other Current Assets	345,000	297,000
Contract Costs Receivable	296,000	296,000
Prepaid Taxes	37,000	37,000
Total Current Assets	<u>38,297,000</u>	<u>38,719,000</u>
Property and Equipment, Net	8,031,000	8,048,000
Finance Lease Right-of-Use Assets	932,000	970,000
Operating Lease Right-of-Use Assets	1,704,000	1,866,000
Deferred Financing Costs, Net, Deposits and Other Assets	<u>1,298,000</u>	<u>1,112,000</u>
TOTAL ASSETS	<u>\$ 50,262,000</u>	<u>\$ 50,715,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Debt	\$ 16,309,000	\$ 16,036,000
Accounts Payable and Accrued Expenses	6,275,000	6,091,000
Operating Lease Liabilities	907,000	880,000
Deferred Gain on Sale – Leaseback	38,000	38,000
Customer Deposits	<u>3,158,000</u>	<u>3,557,000</u>
Total Current Liabilities	<u>26,687,000</u>	<u>26,602,000</u>
Long Term Liabilities		
Debt	1,465,000	1,112,000
Subordinated Notes - Related Party	6,162,000	6,162,000
Operating Lease Liabilities	1,345,000	1,582,000
Deferred Gain on Sale – Leaseback	<u>57,000</u>	<u>67,000</u>
TOTAL LIABILITIES	<u>35,716,000</u>	<u>35,525,000</u>
Commitments and Contingencies (see Note 7)		
Stockholders' Equity		
Preferred Stock, par value \$.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both March 31, 2024 and December 31, 2023.	-	-
Common Stock - Par Value \$.001 - Authorized 6,000,000 shares, 3,315,368 and 3,303,045 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	3,000	3,000

Additional Paid-In Capital	82,990,000	82,928,000
Accumulated Deficit	(68,447,000)	(67,741,000)
TOTAL STOCKHOLDERS' EQUITY	<u>14,546,000</u>	<u>15,190,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 50,262,000</u>	<u>\$ 50,715,000</u>

See accompanying notes to condensed consolidated financial statements

AIR INDUSTRIES GROUP
Condensed Consolidated **Balance Sheets** **Statements of Operations**
For the Three Months Ended March 31,
(Unaudited)

	September 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Current Assets		
Cash	\$ 740,000	\$ 281,000
Accounts Receivable, Net of Allowance for Credit Loss of \$348,000 and \$281,000, at September 30, 2023 and December 31, 2022, respectively	5,221,000	9,483,000
Inventory	31,348,000	31,821,000
Prepaid Expenses and Other Current Assets	235,000	307,000
Contract Costs Receivable	296,000	296,000
Prepaid Taxes	28,000	28,000
Total Current Assets	37,868,000	42,216,000
Property and Equipment, Net	9,285,000	8,593,000
Operating Lease Right-Of-Use-Assets	2,024,000	2,473,000
Deferred Financing Costs, Net, Deposits and Other Assets	542,000	532,000
TOTAL ASSETS	\$ 49,719,000	\$ 53,814,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Debt - Current Portion	\$ 13,903,000	\$ 14,477,000
Accounts Payable and Accrued Expenses	7,290,000	7,542,000
Operating Lease Liabilities - Current Portion	854,000	778,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Customer Deposits	3,476,000	781,000
Total Current Liabilities	25,561,000	23,616,000
Long-Term Liabilities		
Debt - Net of Current Portion	1,156,000	4,629,000
Subordinated Notes Payable - Related Party	6,162,000	6,162,000
Operating Lease Liabilities - Net of Current Portion	1,815,000	2,463,000
Deferred Gain on Sale - Net of Current Portion	76,000	105,000
TOTAL LIABILITIES	34,770,000	36,975,000
Commitments and Contingencies (see Note 7)		

Stockholders' Equity		
Preferred Stock, Par Value \$.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both September 30, 2023 and December 31, 2022.	-	-
Common Stock - Par Value \$.001 - Authorized 6,000,000 shares, 3,289,827 and 3,247,937 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	3,000	3,000
Additional Paid-In Capital	82,868,000	82,446,000
Accumulated Deficit	(67,922,000)	(65,610,000)
TOTAL STOCKHOLDERS' EQUITY	14,949,000	16,839,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 49,719,000	\$ 53,814,000

	2024	2023
Net Sales	\$ 14,061,000	\$ 12,549,000
Cost of Sales	12,155,000	10,669,000
Gross Profit	1,906,000	1,880,000
Operating Expenses	2,165,000	2,038,000
Loss from Operations	(259,000)	(158,000)
Interest Expense	(344,000)	(358,000)
Interest Expense - Related Parties	(118,000)	(118,000)
Other Income, Net	15,000	16,000
Loss before Income Taxes	(706,000)	(618,000)
Provision for Income Taxes	-	-
Net Loss	<u>\$ (706,000)</u>	<u>\$ (618,000)</u>
Loss per share - Basic and diluted	<u>\$ (0.21)</u>	<u>\$ (0.19)</u>
Weighted Average Shares Outstanding - Basic and diluted	<u>3,314,420</u>	<u>3,258,478</u>

See [Notes accompanying notes to Condensed Consolidated Financial Statements](#), condensed consolidated financial statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Sales	\$ 12,293,000	\$ 13,278,000	\$ 38,047,000	\$ 39,348,000
Cost of Sales	11,065,000	11,036,000	32,769,000	32,606,000
Gross Profit	1,228,000	2,242,000	5,278,000	6,742,000
Operating Expenses	2,024,000	2,073,000	6,160,000	6,116,000
(Loss) Income from Operations	(796,000)	169,000	(882,000)	626,000
Interest and Financing Costs	(398,000)	(205,000)	(1,118,000)	(566,000)
Interest Expense - Related Parties	(118,000)	(118,000)	(354,000)	(369,000)
Other Income, Net	13,000	12,000	42,000	132,000
Loss before Provision For Income Taxes	(1,299,000)	(142,000)	(2,312,000)	(177,000)
Provision for Income Taxes	-	-	-	-
Net Loss	<u>\$ (1,299,000)</u>	<u>\$ (142,000)</u>	<u>\$ (2,312,000)</u>	<u>\$ (177,000)</u>
Loss per share - Basic and diluted	<u>\$ (0.40)</u>	<u>\$ (0.04)</u>	<u>\$ (0.71)</u>	<u>\$ (0.05)</u>
Weighted Average Shares Outstanding - Basic and diluted	<u>3,286,682</u>	<u>3,232,467</u>	<u>3,270,399</u>	<u>3,224,912</u>

See Notes to Condensed Consolidated Financial Statements.

AIR INDUSTRIES GROUP

Changes in Condensed Consolidated Statements of Changes in Stockholders' Equity

For the Three and Nine Months Ended **September 30, 2023** **March 31, 2024** and **2022** 2023

(Unaudited)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance, January 1, 2023	3,247,937	\$ 3,000	\$ 82,446,000	\$ (65,610,000)	\$ 16,839,000
Common Stock issued for directors fees	11,430	-	54,000	-	54,000
Stock Compensation Expense	-	-	45,000	-	45,000
Net Loss	-	-	-	(618,000)	(618,000)
Balance, March 31, 2023	3,259,367	\$ 3,000	\$ 82,545,000	\$ (66,228,000)	\$ 16,320,000
Common Stock issued for directors fees	15,230	-	54,000	-	54,000
Stock Compensation Expense	-	-	187,000	-	187,000
Net Loss	-	-	-	(395,000)	(395,000)
Balance, June 30, 2023	3,274,597	\$ 3,000	\$ 82,786,000	\$ (66,623,000)	\$ 16,166,000
Common Stock issued for directors fees	15,230	-	54,000	-	54,000
Stock Compensation Expense	-	-	28,000	-	28,000
Net Loss	-	-	-	(1,299,000)	(1,299,000)
Balance, September 30, 2023	3,289,827	\$ 3,000	\$ 82,868,000	\$ (67,922,000)	\$ 14,949,000
Balance January 1, 2022	3,212,801	\$ 3,000	\$ 81,920,000	\$ (64,534,000)	\$ 17,389,000
Common Stock issued for directors fees	5,522	-	54,000	-	54,000
Stock Compensation Expense	-	-	66,000	-	66,000
Net Loss	-	-	-	(28,000)	(28,000)
Balance, March 31, 2022	3,218,323	\$ 3,000	\$ 82,040,000	\$ (64,562,000)	\$ 17,481,000
Common Stock issued for directors fees	6,429	-	54,000	-	54,000
Stock Compensation Expense	-	-	141,000	-	141,000
Net Loss	-	-	-	(7,000)	(7,000)
Balance, June 30, 2022	3,224,752	\$ 3,000	\$ 82,235,000	\$ (64,569,000)	\$ 17,669,000
Common Stock issued for directors fees	7,715	-	54,000	-	54,000
Stock Compensation Expense	-	-	55,000	-	55,000
Net Loss	-	-	-	(142,000)	(142,000)
Balance, September 30, 2022	3,232,467	\$ 3,000	\$ 82,344,000	\$ (64,711,000)	\$ 17,636,000
	Common Stock		Additional	Accumulated	Total
			Paid-in		Stockholders'

	Shares	Amount	Capital	Deficit	Equity
Balance January 1, 2024	3,303,045	\$ 3,000	\$ 82,928,000	\$ (67,741,000)	\$ 15,190,000
Common Stock issued to directors	12,323	-	38,000	-	38,000
Stock-Based Compensation	-	-	24,000	-	24,000
Net Loss	-	-	-	(706,000)	(706,000)
Balance, March 31, 2024	<u>3,315,368</u>	<u>\$ 3,000</u>	<u>\$ 82,990,000</u>	<u>\$ (68,447,000)</u>	<u>\$ 14,546,000</u>
Balance, January 1, 2023	3,247,930	\$ 3,000	\$ 82,446,000	\$ (65,610,000)	16,839,000
Common Stock issued to directors	11,430	-	54,000	-	54,000
Stock-Based Compensation	-	-	45,000	-	45,000
Net Loss	-	-	-	(618,000)	(618,000)
Balance, March 31, 2023	<u>3,259,360</u>	<u>\$ 3,000</u>	<u>\$ 82,545,000</u>	<u>\$ (66,228,000)</u>	<u>\$ 16,320,000</u>

See **Notes** notes to **Condensed Consolidated Financial Statements**, accompanying condensed consolidated financial statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30,
(Unaudited)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (2,312,000)	\$ (177,000)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation of property and equipment	1,853,000	1,906,000
Non-cash employee compensation expense	260,000	262,000
Non-cash directors compensation	162,000	162,000
Non-cash other income recognized	-	(59,000)
Amortization of operating lease right-of-use assets	449,000	403,000
Deferred gain on sale of real estate	(29,000)	(29,000)
Bad debt expense (recovery)	38,000	(102,000)
Amortization of deferred financing costs	51,000	48,000
Changes in Operating Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	4,224,000	1,917,000
Inventory	473,000	(3,876,000)
Prepaid expenses and other current assets	72,000	(24,000)
Prepaid taxes	-	(3,000)
Deposits and other assets	(20,000)	(74,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	(251,000)	256,000
Operating lease liabilities	(572,000)	(504,000)
Customer deposits	2,695,000	(179,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>7,093,000</u>	<u>(73,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,867,000)	(1,980,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,867,000)</u>	<u>(1,980,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable - revolver - net - Webster Bank	(4,908,000)	1,641,000
Proceeds from term loan - Webster Bank	740,000	1,945,000
Proceeds from term loan - CT Green Bank	393,000	-
Payments of term loan - Webster Bank	(876,000)	(1,430,000)
Payments of deferred financing costs	(25,000)	(20,000)
Payment of subordinated note payable - related party	-	(250,000)
Payments of finance lease obligations	(84,000)	(263,000)
Payments of loan payable - financed asset	(7,000)	(5,000)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(4,767,000)</u>	<u>1,618,000</u>

NET INCREASE (DECREASE) IN CASH	459,000	(435,000)
CASH AT BEGINNING OF PERIOD	281,000	627,000
CASH AT END OF PERIOD	<u>\$ 740,000</u>	<u>\$ 192,000</u>

See Notes to Condensed Consolidated Financial Statements.

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31,
(Unaudited)

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (706,000)	\$ (618,000)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation of property and equipment	527,000	604,000
Stock-based compensation	62,000	99,000
Amortization of Finance Lease Right-of-Use Assets	38,000	13,000
Amortization of Operating Lease Right-of-Use Assets	162,000	146,000
Deferred gain on sale-leaseback	(10,000)	(10,000)
Allowance for credit losses	(23,000)	4,000
Allowance for inventory reserve	259,000	(50,000)
Amortization of deferred financing costs	17,000	17,000
Changes in Operating Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	(120,000)	2,206,000
Inventory	233,000	(573,000)
Prepaid expenses and other current assets	(48,000)	19,000
Prepaid taxes	-	(1,000)
Deposits and other assets	(198,000)	(105,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	184,000	146,000
Operating lease liabilities	(210,000)	(186,000)
Customer deposits	(399,000)	(273,000)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(232,000)</u>	<u>1,438,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(111,000)	(973,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(111,000)</u>	<u>(973,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable - revolver - net - Current Credit Facility	501,000	(132,000)
Proceeds from term loan - Current Credit Facility	-	740,000
Payments of term loan - Current Credit Facility	(236,000)	(208,000)
Payments of finance lease obligations	(41,000)	(20,000)
Payments of loan payable - financed asset	(2,000)	(1,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>222,000</u>	<u>379,000</u>
NET (DECREASE) INCREASE IN CASH	(121,000)	844,000
CASH AT BEGINNING OF PERIOD	<u>346,000</u>	<u>281,000</u>

CASH AT END OF PERIOD	\$ 225,000	\$ 1,125,000
See accompanying notes to condensed consolidated financial statements		

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Cash Flows (Continued)
For the **Nine** **Three** Months Ended **September 30**, (Continued)
March 31,
(Unaudited)

	<u>2023</u>	<u>2022</u>
Supplemental cash flow information		
Cash paid during the period for interest	\$ 1,472,000	\$ 895,000
	<u>2023</u>	<u>2022</u>
Supplemental Disclosure of non-cash investing and finance activities		
Acquisition of financed lease asset	\$ 679,000	\$ -

	<u>2024</u>	<u>2023</u>
Supplemental cash flow information		
Cash paid during the year for interest	\$ 456,000	\$ 476,000
Supplemental disclosure of non-cash investing and financing activities:		
Financing from Solar Credit Facility directly to contractor	\$ 399,000	\$ -

See **Notes** accompanying notes to **Condensed Consolidated Financial Statements**, condensed consolidated financial statements

AIR INDUSTRIES GROUP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. **FORMATION, ORGANIZATION AND BASIS OF PRESENTATION AND GOING CONCERN**

Organization

Air Industries Group is a Nevada corporation (“AIRI”). As of September 30, 2023, and for the three and nine months ended September 30, 2023 and 2022, the accompanying condensed 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”).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 December 31, 2024. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission on April 15, 2024, from which the accompanying condensed consolidated balance sheet dated December 31, 2022 December 31, 2023 was derived.

Going Concern

As of September 30, 2023, the Company had aggregate debt of \$13,715,000 payable to Webster Bank. For the nine months ended September 30, 2023, net cash provided by operating activities was \$7,093,000. Despite this year-to-date positive operating cash flow, as discussed in further detail in Note 5, the Company was in violation of two of its financial covenants, including the Fixed Charge Coverage Ratio, as a result of the losses incurred by the Company as well as the large increase in interest rates charged on our debt with Webster Bank.

In November 2023, we entered into an amended credit facility with Webster Bank to (a) waive such defaults including our failure to maintain a Fixed Charge Coverage Ratio of 0.95 to 1.00 for the fiscal quarter ended September 30, 2023 and (b) reduce the Fixed Charge Coverage Ratio compliance requirements for the fiscal quarters ending December 31, 2023, March 31 and June 30, 2024. This amended credit facility is intended to provide us with additional flexibility to meet future financial covenants.

Navigating the current business landscape poses significant challenges. Accurately projecting future financial periods and ensuring covenant compliance has become extremely difficult. We are grappling with supply chain issues, particularly in securing critical inventory essential for fulfilling specific orders. Additionally, the recent Middle East war has heightened geopolitical instability that we expect will cause fluctuations in our future business results.

Our future liquidity may be adversely impacted by various risks and uncertainties, including but not limited to the ongoing wars in Ukraine and Israel, other geopolitical volatility, deterioration in the financial markets or defense industries and other macroeconomic events. **Management’s Plan**

While we At each reporting period, management evaluates whether there are presently in full compliance with our Webster Facility, the Company has failed to meet its covenants, as amended, during two out of three of last fiscal quarters. Additionally, it is possible, conditions or events that the Company may not meet its financial covenants in one of the upcoming fiscal quarters over the next twelve months due to either future losses and/or raising interest rates. Therefore, we have classified the term loan that expires on December 30, 2025 as current as of September 30, 2023, in accordance with the guidance in ASC 470-10-45 related to the classification of callable debt. Failure to meet the revised covenants in future periods and secure any necessary waivers raises raise substantial doubt about the Company’s ability to continue as a going concern within one year after the issuance date that the condensed consolidated financial statements are issued. The Company is required to make certain additional disclosures if management concludes 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 balance and expectations regarding cash to be generated over the following year.

For the three months ended March 31, 2024, the Company used \$232,000 of cash for operating activities, compared to generating \$1,438,000 for the same period in 2023. The debt under the Current Credit Facility amounted to approximately \$16,119,000, reflecting an increase of \$265,000 since December 31, 2023. Although the Company made \$236,000 in required payments pursuant to the Current Credit Facility, as of the date of this report filing, it failed to meet or obtain a waiver for maintaining the required Fixed Charge Coverage Ratio of 1.10x for the six months cumulative period ending March 31, 2024. As of March 31, 2024, total outstanding debt was \$23,936,000, with the nature and terms of such debt further discussed in Note 5. Debt.

Management's plans expect net sales to increase in fiscal 2024 as compared to fiscal 2023 with increasing amounts into fiscal 2025 and thereafter. The Company believes that these plans are supported by the Company's existing backlog, which increased from \$98.1 million as of December 31, 2023 to \$99.3 million at March 31, 2024. Further, it anticipates receiving additional funded orders during 2024 and 2025 pursuant to Long-Term Agreements ("LTA") agreements from its key customers as well as from new customers. With this visibility, the Company expects that it will generate sufficient cash flow to make required principal payments (exclusive of any potential debt payment acceleration should the lender under the Current Credit Facility choose to exercise it) pursuant to the Current Credit Facility of approximately \$944,000 over the next twelve months. Additionally, the Company is working with its existing lender to obtain adjusted or new financing that better meets the Company's operating requirements and strategic goals.

Although the Company has begun discussions to obtain a waiver of the requirement 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 classified the term loan that expires on December 30, 2025 in the amount of \$4,814,000 and \$5,045,000 as current as of March 31, 2024 and December 31, 2023, respectively, 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 Webster Bank its lender into which substantially all of the Company’s cash receipts are remitted. If Webster it were to cease lending 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 Current Credit Facility and keep the funds remitted to the collection account, 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 operations, ability to continue as a going concern for the one year commencing as of the date of filing these interim condensed consolidated financial statements.

The accompanying condensed 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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable

Accounts receivable are carried at the original invoice amount less an estimate made for credit losses based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for 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 deemed uncollectible. Bad debt expenses are recorded in selling, general, and administrative expense, operating expenses on the condensed consolidated statements of operations.

The activity for the allowance for credit losses during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** is set forth in the table **below** **below**:

	September 30,	
	2023	2022
Balance, January 1,	\$ 281,000	\$ 594,000
Provision (Reversal)	67,000	(99,000)
Write-offs	—	—
Balance, September 30	\$ 348,000	\$ 493,000

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions from Reserves	Balance at End of Period
Three Months ended March 31, 2024 Allowance for Credit Losses	\$ 344,000	\$ 26,000	\$ (49,000)	\$ 321,000
Three Months ended March 31, 2023 Allowance for Credit Losses	\$ 281,000	\$ 4,000	\$ -	\$ 285,000

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 not secured by **purchase orders** **backlog** and establishes write-downs to estimated net realizable value for excess quantities, slow-moving goods, obsolescence and for other impairments of value.

Inventories consist of the following at:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Raw Materials	\$ 4,836,000	\$ 4,198,000	\$ 5,390,000	\$ 5,213,000
Work In Progress	16,337,000	20,488,000	13,164,000	13,502,000
Finished Goods	13,415,000	10,748,000		
Semi - Finished Goods			12,468,000	12,590,000
Final - Finished Goods			1,839,000	1,789,000
Reserve	(3,240,000)	(3,613,000)	(3,502,000)	(3,243,000)
Total Inventory	<u>\$ 31,348,000</u>	<u>\$ 31,821,000</u>	<u>\$ 29,359,000</u>	<u>\$ 29,851,000</u>

Credit and Concentration Risks

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

The composition of customers that represented 60.8% and two customers that represented 63.9% exceeded 10% of total net sales for in either the three months ended September 30, 2023 and 2022, respectively. This is set forth in the table below. March 31, 2024 or 2023 are shown below:

Customer	Percentage of Sales	
	September 30, 2023	September 30, 2022
1	31.9 %	**
2	18.0 %	**
3	10.9 %	**
4	*	40.7 %
5	*	23.2 %

Customer	Percentage of Net Sales	
	2024	2023
RTX ^(a)	30.7 %	22.8 %
Lockheed Martin	25.9 %	24.3 %
Northrop	11.0 %	3.7 %
Ruag	4.2 %	10.0 %

*(a) Customer was less than 10% of sales for the three months ended September 30, 2023

** Customer was less than 10% of sales for the three months ended September 30, 2022 RTX includes Collins Landing Systems and Collins Aerostructures

There were four The composition of customers that represented 62.9% and three customers that represented 68.9% exceed 10% of total sales for the nine months ended September 30, 2023 and 2022, respectively. This is set forth in the table below. accounts

receivable at either March 31, 2024 or December 31, 2023 are shown below:

Customer	Percentage of Sales	
	September 30, 2023	September 30, 2022
1	24.7 %	19.5 %
2	17.3 %	32.5 %
3	10.9 %	**
4	10.0 %	**
5	*	16.9 %

Customer	Percentage of Net Receivables	
	March 31, 2024	December 31, 2023
RTX (a)	52.6 %	45.5 %
Boeing	0.0 %	16.0 %

*(a) Customer was less than 10% of sales for the nine months ended September 30, 2023

** Customer was less than 10% of sales for the nine months ended September 30, 2022 RTX includes Collins Landing Systems and Collins Aerostructures

There were three customers that represented 56.7% and 70.3% of gross accounts receivable at September 30, 2023 and December 31, 2022, respectively. This is set forth in the table below.

Customer	Percentage of Accounts Receivables	
	September 30, 2023	December 31, 2022
1	23.2 %	33.1 %
2	20.0 %	23.6 %
3	13.5 %	**
4	*	13.6 %

* Customer was less than 10% of accounts receivable at September 30, 2023

** Customer was less than 10% of accounts receivable at September 30, 2022

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the three and nine month periods ending September 30, 2023 ended March 31, 2024 and 2022: 2023:

Product	Three Months Ended		Nine Months Ended		March 31, 2024	March 31, 2023
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022		
Military	\$ 10,144,000	\$ 11,266,000	\$ 31,513,000	\$ 33,399,000	\$ 10,385,000	\$ 10,032,000
Commercial	2,149,000	2,012,000	6,534,000	5,949,000	3,676,000	2,517,000
Total	\$ 12,293,000	\$ 13,278,000	\$ 38,047,000	\$ 39,348,000	\$ 14,061,000	\$ 12,549,000

Cash

During the period ended March 31, 2024, 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 utilizes sole-source suppliers of various to supply raw materials or other parts or services that are important for one or more of its products. used in production. These suppliers are its only source for such parts or services and, therefore, in the event any of them were to go out of business or be unable to provide parts or services for any reason, its the Company's business could would be severely harmed.

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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, customer deposits were \$3,476,000 \$3,158,000 and \$781,000 \$3,557,000 respectively. The Company recognized revenue of \$147,000 and \$461,000 \$399,000 during the three and nine months ended September 30, 2023 March 31, 2024 that was included in customer deposits balance as of December 31, 2023. The Company recognized revenue of \$273,000 during the three months ended March 31, 2023, respectively, that was included in the customer deposits balance as of December 31, 2022. The Company recognized revenue of \$73,000 and \$126,000 during the three and nine months ended September 30, 2022, respectively, that was included in the customer deposits balance as of December 31, 2021.

Backlog

Backlog represents executed non-cancellable contracts that represent firm the value of orders that are deliverable over the next 18-month period, received pursuant to our Long-Term Agreements (“LTA”) or spot orders pursuant to a purchase order. As of September 30, 2023 March 31, 2024, backlog relating to remaining performance obligations in on contracts was approximately \$66,900,000. We expect to recognize revenue amounts in future periods related to these remaining performance obligations \$99.3 million. The Company estimates that a substantial portion of this backlog will be recognized as follows: approximately \$11,900,000 to \$13,900,000 of our backlog net sales during the remainder of 2023, approximately \$48,500,000 from January 1, 2024 through December 31, 2024, and approximately \$3,000,000 to \$4,500,000 from January 1, 2025 through March 31, 2025, next twenty-four-months, with the rest thereafter. This expectation is based on the Company’s belief assumes that raw material will be supplies and outsourced processing is completed and delivered on time from its suppliers, and that its the Company’s customers will accept delivery as scheduled. The Company anticipates that sales during the aforementioned periods will also include sales from expected new orders that are not included in our backlog.

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 were \$296,000 at both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

Leases

The Company accounts for leases under ASC 842, “Leases.” All leases are required to be recorded on the balance sheet and are classified as either operating leases or finance leases. The lease classification affects the expense recognition in the condensed 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. See Note 4.

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

	Three and Nine Months Ended		Three Months Ended	
	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Stock options	462,870	305,350		
Stock Options			234,750	302,550
Warrants	-	76,000	-	28,000
	462,870	381,350	234,750	330,550

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: that period:

	Three and Nine Months Ended		Three Months Ended	
	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Stock options	-	-		
Stock Options			189,260	-
Convertible notes payable	405,800	405,800	405,800	405,800
	405,800	405,800	595,060	405,800

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. model and stock grants at their closing reported market value. Stock-based compensation expense for employees amounted to \$28,000 \$24,000 and \$55,000 \$45,000 for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively, and \$260,000 and \$262,000 for the nine months ended September 30, 2023 and 2022, 2023, respectively. Stock Stock-based compensation expense for directors amounted to \$54,000 \$38,000 and \$54,000 for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively, and \$162,000 and \$162,000 for the nine months ended September 30, 2023 and 2022, 2023, respectively. Stock compensation expense expenses for employees and directors was were included in operating expenses on in the accompanying Condensed Consolidated Statements condensed consolidated statements of Operations. operations.

Recently Issued Accounting Pronouncements

Effective January 1, 2023 In December 2023, the FASB issued ASU 2023-09 “Income Taxes (Topic 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 the Company adopted ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326) (“ASU 2016-13”), which significantly changes how entities will account effective tax rate reconciliation and income taxes paid. The amendments in this update are effective for credit losses for most financial assets and certain other instruments that are 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 on the financial asset. 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, fiscal years beginning after December 15, 2024. The adoption of ASU 2016-13 did this pronouncement is not expected to have a material effect impact on the Company’s condensed 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 condensed consolidated financial statements.

Note 3. PROPERTY AND EQUIPMENT

The components of property and equipment at **September 30, 2023**, **March 31, 2024** and **December 31, 2022**, **December 31, 2023** consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023	
Land	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	
Buildings and Improvements	2,206,000	1,789,000	2,605,000	2,206,000	31.5 years
Machinery and Equipment	24,681,000	23,566,000	24,509,000	24,552,000	5 - 8 years
Finance Lease Right-of-Use Assets - Machinery and Equipment	1,054,000	375,000			
Tools and Instruments	13,972,000	13,744,000	14,368,000	14,314,000	1.5 - 7 years
Automotive Equipment	266,000	266,000	266,000	266,000	5 years
Furniture and Fixtures	310,000	290,000	299,000	299,000	5 - 8 years
Leasehold Improvements	1,025,000	941,000	1,125,000	1,025,000	Term of lease
Computers and Software	605,000	604,000	605,000	605,000	4 - 6 years
Total Property and Equipment	44,419,000	41,875,000	44,077,000	43,567,000	
Less: Accumulated Depreciation	(35,134,000)	(33,282,000)	(36,046,000)	(35,519,000)	
Property and Equipment, net	\$ 9,285,000	\$ 8,593,000	\$ 8,031,000	\$ 8,048,000	

Depreciation expense for the three months ended **September 30, 2023**, **March 31, 2024** and **2022**, **2023** was **\$614,000**, approximately **\$527,000** and **\$598,000**, **\$604,000**, respectively. Depreciation expense for the nine months ended September 30, 2023 and 2022 was **\$1,853,000** and **\$1,906,000**, respectively.

Assets held under **financed**, **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. Accumulated depreciation on these assets was approximately \$46,000 and \$0 as of September 30, 2023 and December 31, 2022, respectively.

Note 4. **LEASES**, **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.

Three Months Ended	Nine Months Ended	Three Months Ended
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	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Operating lease cost:	\$ 295,000	\$ 271,000	\$ 839,000	\$ 834,000	\$ 321,000	\$ 271,000
Total lease cost	\$ 295,000	\$ 271,000	\$ 839,000	\$ 834,000	\$ 321,000	\$ 271,000
Other Information						
Cash paid for amounts included in the measurement lease liability:	\$ 258,000	\$ 250,000	\$ 773,000	\$ 750,000	265,000	249,000
Operating cash flow from operating leases	\$ 258,000	\$ 250,000	\$ 773,000	\$ 750,000	\$ 265,000	\$ 249,000

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Weighted Average Remaining Lease Term - in years	2.91	3.64	2.44	2.66
Weighted Average discount rate - %	9.06 %	8.89 %	9.14 %	9.10 %

The aggregate undiscounted cash flows of operating lease payments for leases as of March 31, 2024, with remaining terms greater than one year are as follows:

	Amount	Amount
December 31, 2023 (remainder of year)	\$ 265,000	
December 31, 2024	1,070,000	
December 31, 2024 (remainder of year)		\$ 805,000
December 31, 2025	992,000	992,000
December 31, 2026	730,000	729,000
Total future minimum lease payments	3,057,000	2,526,000
Less: discount	(388,000)	(274,000)
Total operating lease maturities	2,669,000	2,252,000
Less: current portion of operating lease liabilities	(854,000)	(907,000)
Total long-term portion of operating lease maturities	\$ 1,815,000	
Total long term portion of operating lease maturities		\$ 1,345,000

Note 5. DEBT

Notes payable, related party notes payable Total debt outstanding as of March 31, 2024 is \$23,936,000 and finance lease obligations consist was \$23,310,000 at December 31, 2023.
Indebtedness to third parties consists of the following:

	September 30, 2023	December 31, 2022
Revolving loan to Webster Bank	\$ 8,444,000	\$ 13,352,000
Term loan, Webster	5,275,000	5,396,000
Connecticut Green Bank loan	393,000	-
Finance lease obligations	923,000	328,000
Loans payable - financed assets	24,000	30,000
Related party notes payable	6,162,000	6,162,000
Subtotal	21,221,000	25,268,000
	(13,	
Less: Current portion	903,000)	(14,477,000)
Long Term Portion	\$ 7,318,000	\$ 10,791,000
	March 31, 2024	December 31, 2023

Current Credit Facility - Revolver	\$ 11,305,000	\$ 10,804,000
Current Credit Facility - Term Loan	4,814,000	5,045,000
Solar Credit Facility	792,000	393,000
Finance lease obligations	843,000	884,000
Loans Payable - financed assets	20,000	22,000
Subtotal	17,774,000	17,148,000
Less: Current portion	(16,309,000)	(16,036,000)
Long-Term Portion	<u>\$ 1,465,000</u>	<u>\$ 1,112,000</u>

Webster 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 first 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 capital expenditure line of Credit, credit, which as it is drawn upon is added to the balance of the Term Loan. The loan is secured by a lien on substantially all of the assets of the Company.

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 September 30, 2023 March 31, 2024, there is currently \$8,444,000 \$11,305,000 outstanding under the Webster Revolving Loan Line of Credit and \$5,275,000 \$4,814,000 under the Webster term loan, Term Loan, inclusive of amounts drawn under the Equipment Line of Credit. Additionally, there is \$382,000 was \$383,000 remaining available under the equipment line Equipment Line of credit. The below table shows the timing of payments due under the Term Loan: Credit.

For the year ending	Amount
December 31, 2023 (remainder of the year)	\$ 236,000
December 31, 2024	945,000
December 31, 2025	4,143,000
Webster Term Loan payable	5,324,000
Less: debt issuance costs	(49,000)
Total Webster Term Loan payable, net of debt issuance costs	5,275,000
Less: Current portion of Webster Term Loan payable	5,275,000
Total long-term portion of Webster Term Loan payable	\$ -

As of December 31, 2022, our debt to Webster in the amount of \$18,748,000 consisted 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 included \$878,000 drawn on the equipment line of credit. As discussed in Note 1, there 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 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 September 30,2023, March 31, 2024.

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

For the year ending	Amount
December 31, 2024 (remainder of year)	\$ 709,000
December 31, 2025	4,143,000
Term Loan payable	4,852,000
Less: debt issuance costs	(38,000)
Total Term Loan payable, net of debt issuance costs	4,814,000
Less: Current portion of Term Loan payable	(4,814,000)
Total long-term portion of Term Loan payable	\$ -

Interest expense related to the Webster Current Credit Facility amounted to approximately \$380,000 \$321,000 and \$204,000 \$332,000 for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively, 2023, respectively. Interest expense includes the amortization of deferred finance costs of \$17,000 and \$1,084,000 and \$506,000 \$17,000 for the nine three months ended September 30, 2023 ending March 31, 2024 and 2022, 2023, respectively.

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 March 31, 2024, the Company achieved a Fixed Charge Coverage Ratio of 0.86 as compared to the 1.10x required, for the six months cumulative period ending March 31, 2024.
- 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. For the fiscal year ended December 31, 2023, based on the calculation there was no Excess Cash Flow payment required.
- 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 7.85% and 7.04% for the three months ended March 31, 2024 and 2023, 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 certain historical amendments to the Webster Current Credit Facility and various terms:

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. The Company made an Excess Cash Flow payment of \$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 \$195,000 for fiscal year ended December 31, 2022 to Webster prior to the April 15, 2023 deadline for such payment and authorized such payment to be made from the Revolving Loan. On June 13, 2023, Webster applied this payment to the term loan.

- 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 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.

Under the terms of the Webster Facility, both the Webster revolving line of credit and the Webster 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 7.78% and 4.70% the three months ended September 30, 2023 and 2022, respectively and was 7.44% and 3.94% for the nine months ended September 30, 2023 and 2022, respectively.

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.

- 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 and are amortized over the term of the loan.

The Webster Facility required that As of March 31, 2024, subject to having the requisite collateral and the discretion of the lender, the Company maintain a defined Fixed Charge Coverage Ratio has borrowing capacity of 1.25 approximately \$9,078,000 under the Revolving Loan (including \$383,000 pursuant to 1.00 at the end of each Fiscal Quarter. On August 4, 2023, the Company entered into the Fifth Amendment to the Webster Facility ("Fifth Amendment"). The amendment waived the default caused by the failure to achieve the required Fixed Charge Coverage Ratio for the Fiscal Quarter ended March 31, 2023 and decreased the required Fixed Charge Coverage Ratio to 0.95 to 1.00 for the Fiscal Quarters ending June 30, 2023 and September 30, 2023. Additionally, the Fifth Amendment increased the amount of purchase money secured Debt (including Finance Leases) the Company is allowed to have outstanding at any time to \$2,000,000. In connection with these changes, the Company paid an amendment fee of \$10,000. On November 20, 2023, the Company entered into the Sixth Amendment to the Webster Facility ("Sixth Amendment"). The amendment waived the default caused by the failure to achieve the required Fixed Charge Coverage Ratio for the Fiscal Quarter ended September 30, 2023 and the fact that the Company's Capital Expenditures were in excess of the amount permitted in the Webster Facility. The Sixth Amendment allows for the Fixed Charge Coverage Ratio to be calculated on a rolling basis (w) for the Fiscal Quarter Ending December 31, 2023, three month basis, (x) for the Fiscal Quarter Ending March 31, 2024, six month basis, (y) for the Fiscal Quarter Ending June 30, 2024, nine month basis, and (z) for all other Fiscal Quarters, twelve month basis. Additionally, the Fixed Charge Coverage Ratio shall not be less than (i) 0.95 to 1.00 for the Fiscal Quarters ending June 30, 2023, September 30, 2023, and December 31, 2023, (ii) 1.10 to 1.00 for the Fiscal Quarter ending March 31, 2024, (iii) 1.20 to 1.00 for the Fiscal Quarter ending June 30, 2024, and (iv) 1.25 to 1.00 for all other Fiscal Quarters. The Sixth Amendment has increased the Capital Expenditure limit to \$2,500,000 in any Fiscal Year. In connection with these changes, the Company paid an amendment for of \$20,000.Line).

As a result of the Company's entry into the Sixth Amendment, the Company was in compliance with all financial covenants of the Webster Solar Credit Facility for the Fiscal Quarter ended September 30, 2023. Connecticut Green Bank ("Green Bank")

On August 16, 2023, the Company entered into a Financing Agreement 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 September 30, 2023 March 31, 2024, an advance of \$393,233 cumulative advances totaling \$792,157 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. Interest expense related to the Solar Credit Facility amounted to approximately \$7,000 and \$0 for the three months ended March 31, 2024 and 2023, respectively.

Finance Lease Obligations

The Company has 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 \$962,000 \$843,000 and \$328,000 \$884,000 as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The leases have an average imputed interest rate of 7.32% 7.31% per annum and are payable monthly with the final payments due between September of 2026 and May of 2030.

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Finance Lease cost:						
Amortization of Right-of-Use assets	\$ 39,000	\$ -	\$ 84,000	\$ -		
Amortization of ROU assets					\$ 38,000	\$ 13,000
Interest on lease liabilities	17,000	-	33,000	-	16,000	6,000
Total lease Costs	<u>\$ 56,000</u>	<u>\$ -</u>	<u>\$ 117,000</u>	<u>\$ -</u>	<u>\$ 54,000</u>	<u>\$ 19,000</u>
Other Information:						
Cash Paid for amounts included in the measurement lease liabilities:						
Financing cash flow from finance lease obligations	<u>\$ 39,000</u>	<u>\$ 9,000</u>	<u>\$ 84,000</u>	<u>\$ 9,000</u>	<u>\$ 41,000</u>	<u>\$ 20,000</u>
Supplemental disclosure of non-cash activity						
Acquisition of finance lease asset	<u>\$ 679,000</u>	<u>\$ -</u>	<u>\$ 679,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	March 31, 2024	December 31, 2023
Weighted Average Remaining Lease Term - in years	5.3	5.4
Weighted Average Discount rate - %	7.31 %	7.31 %

As of **September 30, 2023** **March 31, 2024**, the aggregate future minimum finance lease payments, including imputed interest are as follows:

For the year ending	Amount
December 31, 2023 (remainder of the year)	\$ 56,000
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	1,128,000
Less: imputed interest	(205,000)
Less: Current portion	(162,000)
Long-term portion	\$ 761,000
For the year ending	Amount
December 31, 2024 (remainder of year)	\$ 168,000
December 31, 2025	224,000
December 31, 2026	199,000
December 31, 2027	124,000
December 31, 2028	124,000
Thereafter	176,000
Total future minimum finance lease payments	1,015,000
Less: imputed interest	(172,000)
Less: Current portion	(168,000)
Long-term portion	\$ 675,000

Loan Payable – Financed Asset

The Company financed the purchase of a delivery vehicle in July 2020. The loan obligation totaled **\$24,000** **\$20,000** and **\$30,000** **\$22,000** as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively. The loan bears no interest and a final payment is due and payable for all unpaid principal on July 20, 2026.

The future minimum Annual maturities of this loan payments are as follows:

For the year ending	Amount	Amount
December 31, 2023 (remainder of the year)	\$ 3,000	
December 31, 2024	9,000	
December 31, 2024 (remainder of year)		\$ 7,000

December 31, 2025	9,000	9,000
December 31, 2026	4,000	4,000
Loans Payable - financed assets	25,000	20,000
Less: Current portion	(9,000)	(9,000)
Long-term portion	\$ 16,000	\$ 11,000

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, Michael and Robert were issued a total of 355,082 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 fees

The Related Party Notes outstanding as of the notes of March 31, 2024 and December 31, 2023 consist 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%, \$2,080,000 bears an annual rate of 7% and \$1,350,000 bears an annual interest rate of 12%. Interest expense for the three months ended March 31, 2024 and 2023 on all related party notes payable totaled \$6,012,000 was \$118,000 and accrued interest totaled \$400,000. \$118,000, 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 the outstanding principal amount of the notes and any accrued but unpaid interest is 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, and bears interest at a rate of 6% per annum, 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 and bears interest rate of 7% per annum, share. The subordinated notes which are remaining \$1,350,000 is not convertible bear interest at the rate of 12% per annum, convertible. There are no periodic principal payments due prior to July 1, 2026.

The Related Party Notes are subordinate to outstanding debt pursuant to the Current Credit Facility and mature on the subordinated notes payable and convertible subordinated notes payable. Under the terms of the Webster Facility, as amended, the July 1, 2026. The Company is now allowed, subject to certain limitations, limitation, to make principal payments of \$250,000 per quarter to reduce the value of this subordinated debt, the outstanding Related Party Notes.

For the three and nine months ended September 30, 2023 March 31, 2024 and 2023, no principal payments have been made on these notes. For the three and nine months ended September 30, 2022, a principal payment of \$250,000 was made against the Subordinated Notes due to Michael Taglich. This payment was made pursuant to the conditions set forth in the Webster Facility, as amended.

The note holders and the principal balance of the notes of September 30, 2023 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	\$ 3,666,000	\$ 2,255,000	\$ 241,000	\$ 6,162,000

Interest expense on all related party notes payable for the three months ended September 30, 2023 and 2022 was \$118,000 and \$118,000, respectively, and \$354,000 and \$369,000 for the nine months ended September 30, 2023 and 2022, respectively.

Note 6. STOCKHOLDERS’ EQUITY

Common Stock – Issuance Issuances of Securities

The Company issued 15,230 12,323 and 7,715 11,340 shares of common stock in payment of director fees totaling \$54,000 \$38,000 and \$54,000 for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively, and 41,890 and 19,666 shares totaling \$162,000 and \$162,000 for the nine months ended September 30, 2023 and 2022, 2023, respectively.

During the fourth second quarter of 2023, 2024, the Company issued 13,218 7,942 shares of common stock in payment of directors’ fees totaling \$54,000, \$38,000.

2022 Equity Incentive Plan

At During the 2023 annual meeting second quarter of shareholders, an amendment to 2024, the Air Industries Group 2022 Equity Incentive Plan, was approved. The amendment increased the number of Company issues 1,475 shares of the Company’s common stock par value \$.001 per share, that are available for issuance by 250,000 shares from 100,000 shares to 350,000. the exercise of stock options.

Note 7. COMMITMENTS AND CONTINGENCIES

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 alleged violation of the terms of the subject sublease, specifically the failure to make the entire premises available by the Sublease commencement date. The validity of the action is extremely suspect in that the subject sublease had no specific commencement date and Contract Pharmacal ultimately received all the space. Discovery was conducted and the Plaintiff moved for summary judgement and to amend its complaint to add a new cause of action all of which the company opposed. On July 8, 2021, the Court denied Contract Pharmacal’s motion for summary judgement, judgement and to add an additional cause of action. In the Order, the court 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 and \$700,000 both of which benefit the Court denied Company. Following the request to amend the Complaint, Court’s decision, Contract Pharmacal filed a Motion to reargue its original motion which the Company again opposed. The Court denied that motion on November 30, 2021. On and then on March 10, 2022, Contract Pharmacal filed an appeal to of the Court’s decision with the Appellate Division which of the State of New York. Once again, the Company has opposed, opposed that action. The argument of the appeal filed by Contract Pharmacal Company was heard by again successful as the Appellate Division on November 9, 2023. The upheld the lower court’s denial of Contract Pharmacal’s motion for summary judgement and its motion to amend its Complaint. Contract Pharmacal has now submitted a motion to the Appellate Division has yet requesting leave to render a decision with respect to Contract Pharmacal’s reargue the court’s denial of its original appeal. The Company disputes will oppose that motion to reargue. The Company continues to dispute the validity of the claims asserted by Contract Pharmacal and intends to contest them vigorously. We anticipate that due to this newest action by Contract Pharmacal nothing of consequence will happen over the next twelve months.

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 8. INCOME TAXES

The Company recorded no income tax expense for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 because the estimated annual effective tax rate was zero, zero. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company’s annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

As of September 30, 2023 March 31, 2024, and December 31, 2022 December 31, 2023, the Company provided a full valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized.

Note 9. SUBSEQUENT EVENTS

On November 21, 2023, the Company 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 November 20, 2023, its Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 (the “Form 10-Q”).

In accordance with Section 1007 of the Company Guide, the Company will have six months from the date of the filing delinquency, or until May 20, 2024 (the “Initial Cure Period”), to file the Form 10-Q with the Securities and Exchange Commission. If the Company fails to file the Form 10-Q 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-Q, the Company will cure this delinquency.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OPERATION

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes to those statements included elsewhere in this Form 10-Q and with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K, for the year ended December 31, 2022 December 31, 2023 (the "2022 "2023 Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in this report and our 2023 Form 10-K 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 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, foreign 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. defense and aerospace prime contractors, we have 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 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 Embraer E2), the CH-53 Helicopter, the F-35 Lighting II and the F-15 Eagle Tactical Fighter. In many cases, we are the sole or single supplier of certain parts and components and receive LTAs from our customers, both demonstrating their commitment to us.

The aerospace market Winning a new contract award 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 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 and service but also by increasing our competitive. Our ability to produce win new contract awards generally requires us to deliver superior quality products, more complex quickly and complete assemblies for with lower pricing than our customers.

We are focused on attaining profitability competitors. Accordingly, we must continually invest in process improvements and maintaining 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 equipment. Recent investments in new equipment. We believe these investments will increase equipment have improved the velocity productive capacity of our employees, increased our efficiency and efficiency of production, increase speed, and expanded the size of product products we can

make manufacture. We strategically operate two state-of-the-art manufacturing centers in the U.S. This allows for rigorous oversight of production and allow us the adherence to offer additional services stringent quality standards. Although there is currently a shortage of skilled workers, we maintain a highly trained and close knit team of over 180 professionals committed to our customers. Some driving excellence and precision in every aspect 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 from our customers about these initiatives. operations.

Our ability to operate profitably period-to-period net sales and generate positive cash flows from operating activities results are significantly impacted by timing. In addition, our gross profit 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 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.

While our revenues are largely determined by the number of contracts we are awarded, the volume of product delivered and price of product under each contract, our costs are determined affected by a number of factors. The principal factors impacting our variable costs are the cost of materials and supplies, labor, financing and the efficiency at which we can produce our products. The cost of materials used 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 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 and seeking to qualify new suppliers with our customers. 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.

In addition, the market for the skilled labor we require to operate our plants is highly competitive. Changes in the available pool of labor caused 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 of factory overhead decreases profits. volumes.

Our revenues 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 overall progress and positioning for growth. During the first quarter of 2024 and looking forward, our business strategy is geared towards achieving sustainable and profitable business growth. We are principally determined by orders from firmly focused on securing new contract awards, improving operations and successful execution. We are also working with 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 existing lender to reflect a portion of the impact of inflation, though over the term of LTAs prices often increase obtain adjusted or new financing that better meets our operational requirements and not all of the increase is covered by agreed upon price protection clauses in our agreements. Our direct costs of production include costs for material, labor, and significant factory overhead; all of these costs may vary based on the efficiency of 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. strategic goals.

Beyond these direct costs With total unfilled contract values amounting to \$179.1 million (including our \$99.3 million in backlog and all potential orders against LTA agreements previously awarded to us), as of production, March 31, 2024, we incur general are confident in our ability to boost sales during the remainder of 2024, attain profitability and administrative costs termed Operating Expenses and financing costs for borrowed money, income taxes and miscellaneous income and expense. improve our financial position.

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

Selected Financial Information:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net sales	\$ 12,293,000	\$ 13,278,000	\$ 38,047,000	\$ 39,348,000
Cost of sales	11,065,000	11,036,000	32,769,000	32,606,000
Gross profit	1,228,000	2,242,000	5,278,000	6,742,000
Operating expenses	2,024,000	2,073,000	6,160,000	6,116,000
Interest and financing costs	516,000	323,000	1,472,000	935,000
Other income, net	13,000	12,000	42,000	132,000
Provision for income taxes	-	-	-	-
Net loss	\$ (1,299,000)	\$ (142,000)	\$ (2,312,000)	\$ (177,000)

	Three Months Ending March 31, 2024	2024 Percentage of Net Sales	Three Months Ending March 31, 2023	2023 Percentage of Net Sales	Change 2024 vs 2023	Percent Change 2024 vs 2023
Net sales	\$ 14,061,000	100.0 %	\$ 12,549,000	100.0 %	\$ 1,512,000	12.05 %
Cost of sales	12,155,000	86.4 %	10,669,000	85.0 %	1,486,000	13.93 %
Gross profit	1,906,000	13.6 %	1,880,000	15.0 %	26,000	1.38 %
Operating expenses	2,165,000	15.4 %	2,038,000	16.2 %	127,000	6.23 %
Interest expense	462,000	3.3 %	476,000	3.8 %	(14,000)	-2.94 %
Other income, net	15,000	0.1 %	16,000	0.1 %	(1,000)	-6.25 %
Provision for income taxes	-	0.0 %	-	0.0 %	-	-
Net loss	\$ (706,000)	-5.0 %	\$ (618,000)	-4.9 %	\$ (88,000)	14.24 %

Balance Sheet Data:

	September 30, 2023	December 31, 2022
Cash	\$ 740,000	\$ 281,000
Working capital	\$ 12,307,000	\$ 18,600,000
Total assets	\$ 49,719,000	\$ 53,814,000
Total stockholders' equity	\$ 14,949,000	\$ 16,839,000
Results of Operations for the three months ended September 30, 2023		

	March 31, 2024	December 31, 2023	Change	Percent Change
Cash	\$ 225,100	\$ 346,000	(120,900)	-34.94 %
Working capital	\$ 11,610,000	\$ 12,117,000	(507,000)	-4.18 %
Total assets	\$ 50,262,000	\$ 50,715,000	(453,000)	-0.89 %
Total stockholders' equity	\$ 14,546,000	\$ 15,190,000	(644,000)	-4.24 %

Net Sales:

Consolidated net sales for the three months ended September 30, 2023 March 31, 2024 were \$12,293,000, a decrease \$14,061,000, an increase of \$985,000, \$1,512,000, or 7.4% 12.0%, compared with \$13,278,000 for \$12,549,000 that we achieved in the three months ended September 30, 2022 March 31, 2023. The decrease period-over-period increase in net sales was primarily due to overall changes in the timing mix of certain shipments of large high dollar components and a supply chain issue related to securing raw material for a specific product. products requested by customers, which are discussed further below.

As indicated The composition of customers that exceeded 10% of our net sales in the table below, three customers represented 60.8% and two customers represented 63.9% either 2024 or 2023 are shown below:

Customer	Percentage of Net Sales	
	2024	2023
RTX (a)	30.7 %	22.8 %
Lockheed Martin	25.9 %	24.3 %

Northrop	11.0 %	3.7 %
RUAG	4.2 %	10.0 %

(a) RTX includes Collins Landing Systems and Collins Aerostructures

The composition of total our net sales by platform or program profiles for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022, respectively, 2023 are shown below:

Customer	Percentage of Sales	
	2023	2022
Sikorsky Aircraft	31.9 %	**
Boeing	18.0 %	**
Collins Aerostructures	10.9 %	**
Goodrich Landing Gear Systems	*	40.7 %
United States Department of Defense	*	23.2 %

* Customer was less than 10% of sales for the three months September 30, 2023

** Customer was less than 10% of sales for the three months September 30, 2022

Platform or Program	Percentage of Net Sales	
	2024	2023
F-18 Hornet	6.9 %	18.0 %
E2-D Hawkeye	23.3 %	12.8 %
UH-60 Black Hawk Helicopter	26.0 %	13.9 %
GTF	19.0 %	11.2 %
CH-53 Helicopter	2.1 %	17.0 %
F-35 Lightning II	5.0 %	6.3 %
F-15 Eagle Tactical Fighter	0.0 %	6.0 %
All other platforms	17.7 %	14.8 %
Total	100.0 %	100.0 %

Gross Profit:

Consolidated gross profit for the three months ended September 30, 2023 was \$1,228,000, a decrease of \$1,014,000, or 45.2%, as compared to gross profit of \$2,242,000 for the three months ended September 30, 2022. Consolidated gross profit as a percentage of sales was 10.0% Period-to-period changes in customer mix and 16.9% for the three months ended September 30, 2023 related platforms and 2022, respectively. The decrease in gross profit percentage was programs are largely attributable to lower sales which led to the under absorption customer requirements, availability of manufacturing overhead. The decrease in sales for the quarter was primarily the result of a delay in the receipt of raw materials from one of our suppliers related to a specific product which delayed production. Additionally, during 2023 the mix of product that was sold had lower margins than what was sold during 2022.

Operating Expense

Consolidated operating expenses for the three months ended September 30, 2023 totaled \$2,024,000 parts, production capacity and decreased by \$49,000 or 2.4% compared to \$2,073,000 for the three months ended September 30, 2022. The decrease was caused by reductions in compensation and shipping expense. These decreased costs were partially offset by an increase in amounts spent on information technology. timing.

Gross Profit: Gross profit for the three months ended March 31, 2024, was \$1,906,000 as compared to \$1,880,000 for the three months ended March 31, 2023. Our gross profit percentage for the three months ended March 31, 2024 decreased to 13.6% from the 15.0% for the three months ended March 31, 2023. The decrease in margin can be attributable to changes in the sales across our major platforms, shifts in product mix, and overall operating efficiencies.

Operating Expenses: Operating expenses was \$2,165,000, for the three months ended March 31, 2024, an increase of \$127,000, from \$2,038,000 for the three months ended March 31, 2023. As a percentage of consolidated net sales, operating expenses decreased to 15.4%, compared to the 16.2% achieved during the three months ended March 31, 2023. The dollar increase was primarily driven by the increases in professional fees as well as costs associated with the continued improvement of our information technology system and hardening our cyber-security defenses. We continue to look for ways to reduce our costs and improve our operating performance and financial results.

Interest and Financing Costs Expense:

Interest and expense (which includes amortization of deferred financing costs for costs) was \$462,000 during the three months ended September 30, 2023 were \$516,000, an increase March 31, 2024, a decrease of \$193,000 \$14,000 or 59.8% compared to \$323,000 for 2.9% from \$476,000 during the three months ended September 30, 2022 March 31, 2023. This increase was related The decrease is primarily attributable to lower borrowing levels partially offset by an increase in debt related to new equipment and higher interest rates charged during the period. The average interest rate charged was 7.78% and 4.70% for the three months ended September 30 2023 and 2022, respectively.

Net Loss

Net loss for the three months ended September 30, 2023 was \$1,299,000, on outstanding debt pursuant to our Current Credit Facility which increased to 7.85% in 2024 as compared to a net loss of \$142,000 for the three months ended September 30, 2022 due to the reasons stated above.

Results of Operations for the nine months ended September 30, 2023 7.04% in 2023.

Net Sales: Loss:

Consolidated net sales Net loss for the nine three months ended September 30, 2023 were \$38,047,000, a decrease of \$1,301,000, or 3.3%, compared with \$39,348,000 for the nine months ended September 30, 2022. The decrease in net sales March 31, 2024 was primarily due to the timing of certain shipments of large high dollar components and a supply chain issue related to securing raw material for a specific product.

As indicated in the table below, four customers represented 62.6% and three customers represented 68.9% of total sales for the nine months ended September 30, 2023 and September 30, 2022, respectively.

Customer	Percentage of Sales	
	2023	2022
Sikorsky Aircraft	24.4 %	19.5 %
Goodrich Landing Gear Systems	17.3 %	32.5 %
RUAG	10.9 %	**
Boeing	10.0 %	**
United States Department of Defense	*	16.9 %

* Customer was less than 10% of sales for the nine months September 30, 2023

** Customer was less than 10% of sales for the nine months September 30, 2022

Gross Profit:

Consolidated gross profit from operations for the nine months ended September 30, 2023 was \$5,278,000, a decrease of \$1,464,000, or 21.7%, as \$706,000, compared to gross profit of \$6,742,000 for the nine months ended September 30, 2022. Consolidated gross profit as a percentage of sales was 13.9% and 17.1% for the nine months ended September 30, 2023 and 2022, respectively. The decrease in gross profit percentage was attributable to lower sales which led to the under absorption of manufacturing overhead. The decrease in sales in 2023 was partially the result of a delay in the receipt of raw materials from one of our suppliers related to a specific product which delayed production. Additionally, during 2023 the mix of product that was sold had lower margins than what was sold during 2022.

Operating Expenses

Consolidated operating expenses for the nine months ended September 30, 2023 totaled \$6,160,000 and increased by \$44,000 or 0.7% compared to \$6,116,000 for the nine months ended September 30, 2022. The increase was caused by increases in stock compensation expense and an increase in amounts spent on information technology. These increased costs were partially offset by decreases in compensation and shipping expense.

Interest and Financing Costs

Interest and financing costs for the nine months ended September 30, 2023 were \$1,472,000 an increase of \$537,000 or 57.4% compared to \$935,000 for the nine months ended September 30, 2022. This increase was related to increase in debt related to new equipment and higher interest rates charged during the period. The average interest rate was 7.44% and 3.94% for the nine month periods ending September 30, 2023 and 2022, respectively

Net Loss

Net Loss for the nine months ended September 30, 2023 was \$2,312,000, compared to net loss of \$177,000 \$618,000 for the nine three months ended September 30, 2022 March 31, 2023, 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 September 30, 2023 March 31, 2024, we have debt service requirements related to:

- 1) Our Webster Outstanding indebtedness under our Current Credit Facility of \$13,719,000 consisting \$16,119,000 (consisting of a Revolving Loan of \$8,444,000 \$11,305,000 and a term loan Term Loan in the amount of \$5,275,000. During the remainder of fiscal 2023, we are required \$4,814,000). This debt matures on December 30, 2025, and requires us to pay \$236,000 of principal under make monthly payments on the term loan. loan of approximately \$79,000 until the loan matures.
- 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. Under Pursuant to the Webster Current Credit Facility we are permitted to make principal payments against this debt in the amount of \$250,000 per quarter, as long as certain conditions are met.
- 3) Various equipment leases and contractual obligations related to our normal business, including advances under the facility with Connecticut Green Bank our Solar Facility for the installation of solar energy systems including the replacement of the existing roof at our Sterling Facility. Facility

We Under the terms of the Current Credit Facility, we are required to meet our cash requirements with funds provided by a combination Fixed Charge Coverage Ratio (as defined) that is determined at the end of cash generated from operating activities and from our Webster credit facility. Based on our current revenue visibility and strength of our backlog, we believe each fiscal quarter. This ratio is a financial metric that we have sufficient liquidity use to meet measure our short-term cash requirements over ability to cover fixed charges such as interest and leases expenses as divided by EBITDA (as defined in the next twelve months. On May 17, 2022 Current Credit Facility) which represents net income (loss) before interest, taxes, depreciation and amortization. As of March 31, 2024, we entered into the Fourth Amendment achieved a Fixed Charge Coverage Ratio of 0.86 as compared to the Loan and Security Agreement with Webster Bank ("Webster"). The purpose of 1.10x required, for 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 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. six months cumulative period ending March 31, 2024.

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 March 31, 2024, 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 these condensed consolidated financial statements.

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

- 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 \$2,000,000 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 March 31, 2024, we have borrowing capacity of approximately \$9,078,000 under the Revolving Loan (including \$383,000 pursuant to the Capital Expenditure Line).

In addition to required Term Loan payments of approximately \$709,000 for the remainder of fiscal 2024, we may have to make additional payments. For so long as the Webster term loan Term Loan under the Current Credit Facility remains outstanding, if Excess Cash Flow (as defined) is a positive amount for any Fiscal Year, 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, Term Loan. Such payment shall be made to Webster and applied to the outstanding principal balance of the term Term loan, on or prior to the April 15 immediately following such Fiscal Year. As required, we provided fiscal year. For the fiscal year ended December 31, 2023, based on the calculation for the there was no Excess Cash Flow payment of \$195,000 for fiscal year ended December 31, 2022 to Webster prior to the April 15, 2023 deadline and authorized such payment to be made from the Revolving Loan. On June 13, 2023, Webster applied this payment to the term loan, required.

On August 4, 2023, we entered into the Fifth Amendment to the Webster Facility ("Fifth Amendment"). The purpose of the amendment was to waive the default caused by the failure to achieve the required Fixed Coverage Charge Ratio for the Fiscal Quarter ended March 31, 2023 and decrease the required Fixed Coverage Charge Ratio to 0.95 to 1.00 for the Fiscal Quarters ending June 30, 2023 and September 30, 2023. Additionally, the Fifth Amendment increased the amount of purchase money secured debt (finance leases) the Company is allowed to have outstanding at any time to \$2,000,000. In connection with these changes, we paid an amendment fee of \$10,000.

On November 20, 2023, we entered into the Sixth Amendment to the Webster Facility (“Sixth Amendment”). The amendment waived the default caused by the failure to achieve the required Fixed Charge Coverage Ratio for the Fiscal Quarter ended September 30, 2023 and the fact that our Capital Expenditures were in excess of the amount permitted in the Webster Facility. The Sixth Amendment allows for the Fixed Charge Coverage Ratio to be calculated on a rolling basis (w) for the Fiscal Quarter Ending December 31, 2023, three month basis, (x) for the Fiscal Quarter Ending March 31, 2024, six month basis, (y) for the Fiscal Quarter Ending June 30, 2024, nine month basis, and (z) for all other Fiscal Quarters, twelve month basis. Additionally, the Fixed Charge Coverage Ratio shall not be less than (i) 0.95 to 1.00 for the Fiscal Quarters ending June 30, 2023, September 30, 2023, and December 31, 2023, (ii) 1.10 to 1.00 for the Fiscal Quarter ending March 31, 2024, (iii) 1.20 to 1.00 for the Fiscal Quarter ending June 30, 2024, and (iv) 1.25 to 1.00 for all other Fiscal Quarters. The Sixth Amendment has increased the Capital Expenditure limit to \$2,500,000 in any Fiscal Year. In connection with these changes, the Company paid an amendment fee of \$20,000.

As a result of recent increases in the federal funds and prime borrowing rates, interest rates and related expense under our Webster Facility increased in 2023 compared to 2022 and if rates remain stable or increase in 2023, our interest expense will further increase in 2023 due to the timing of rate increases in 2022. 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, or the conflict in Israel, the outbreak of another conflict or the expansion of the conflict in Israel to other countries, the ongoing tensions between the United States and China, the Russian Federation and certain countries in the Middle East, increases in inflation, disruptions in the labor market and other risks detailed in Part 1, Item 1A of our 2022 Annual Report on Form 10-K.

Navigating the current business landscape poses significant challenges. Accurately projecting future financial periods and ensuring covenant compliance has become extremely difficult. We are grappling with supply chain issues, particularly in securing critical inventory essential for fulfilling specific orders. Additionally, the recent Middle East war has heightened geopolitical instability that we expect will cause fluctuations in our future business results.

Our future liquidity may be adversely impacted by various risks and uncertainties, including but not limited to the ongoing wars in Ukraine and Israel, other geopolitical volatility, deterioration in the financial markets or defense industries and other macroeconomic events.

While we are presently in full compliance with our Webster Facility, we have failed to meet our covenants, as amended, during two out of three of the last fiscal quarters. Additionally, it is possible, that we may not meet our financial covenants in one of the upcoming fiscal quarters over the next twelve months due to either future losses and /or raising interest rates. Therefore, due to the aforementioned issues, we have classified the term loan that expires on December 30, 2025 as current as of September 30, 2023, in accordance with the guidance in ASC 470-10-45 related to the classification of callable debt. Failure to meet the revised covenants in future periods and secure any necessary waivers raises substantial doubt about the Company’s ability to continue as a going concern within one year after the issuance date of this report. The Company is required to maintain a collection account with Webster Bank into which substantially all of the Company’s cash receipts are remitted. If Webster were to cease lending and keep the funds remitted to the collection account, the Company would lack the funds to continue its operations.

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.

In addition to our loan with Webster the outstanding indebtedness under the Current Credit Facility and Subordinated 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. Substantially all

Our material cash requirements are for debt service, capital expenditures and funding working capital. We have historically met these requirements with funds provided by a combination of these obligations 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 cash requirements. However, if we are described in 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 for the notes to next twelve months from the date of issuance of our condensed consolidated financial statements included in this report.

Changes in our cash flow are discussed further below.

Quarterly Report.

Cash Flow

Cash Flows

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

			Three months ended	
			March 31,	
	Nine months ended September 30,		2024	2023
	2023	2022		
Cash provided by (used in)				
Operating activities	\$ 7,093	\$ (73)	\$ (232)	\$ 1,438
Investing activities	(1,867)	(1,980)	(111)	(973)
Financing activities	(4,767)	1,618	222	379
Net increase (decrease) in cash	\$ 459	\$ (435)		
Net (decrease) increase in cash			\$ (121)	\$ 844

Cash (Used in) Provided by (Used in) Operating Activities

Cash provided by (used in) operating activities For the three months ended March 31, 2024, we used \$232,000 in operations as compared to cash flow generation of \$1,438,000 for the three months ended March 31, 2023. The reduction was due primarily consists of our to the net loss adjusted for certain non-cash items and changes to working capital items.

For the nine months ended September 30, 2023, our net loss use of \$2,312,000 was offset by \$2,784,000 a portion of non-cash items consisting primarily of depreciation of property and equipment of \$1,853,000, employee and director stock compensation expense of \$422,000 and amortization of right-of-use assets of \$449,000 which were partially offset by a deferred gain on the sale of real estate in the amount of \$29,000.

Operating assets and liabilities provided cash during the nine months ended September 30 in the net amount of \$6,621,000 consisting primarily of net decreases in accounts receivable, inventory and prepaid expense in the amounts of \$4,224,000, \$473,000 and \$72,000, respectively, and a net increase in customer deposits which had been advanced in the amount of \$2,695,000, which were partially offset by an increase in deposits in the amount of \$20,000, and decreases in operating lease liabilities and accounts payable and accrued expenses in the amounts of \$572,000 and \$251,000, respectively. The increase in customer deposits is related to an advance payment by a customer to be used 2023 for the procurement of long lead time raw materials this amount will expected to be disbursed utilized during the remainder of 2023 and early 2024.

For the three months ended March 31, 2023, we generated \$1,438,000 in operations as compared to cash generation of \$1,285,000 for the three months ended March 31, 2022. The increase was mainly attributable to the decrease in accounts receivable off set by an increase in inventory.

Cash Used in Investing Activities

During our most recent quarter, we continued to make investments to enhance our competitiveness and market position. Cash used in investing activities consists of capital expenditures \$111,000 and \$973,000, during the three months ended March 31, 2024 and 2023, respectively, was for new property and equipment. Investments in 2024 and 2023 increased our production efficiency and speed, while enabling us to maintain closer tolerances. They also expanded the size of products we can manufacture.

For During fiscal 2024, we expect to continue to make strategic investments in capital equipment to enhance our competitiveness. We expect to invest approximately \$2,000,000 during the nine months ended September 30, 2023, cash used in investing activities was \$1,867,000. This was primarily remainder of 2024 for the purchase of state-of-the-art machinery, new or upgraded equipment.

Cash Used in Provided by Financing Activities

Cash used in For the three months ended March 31, 2024, cash provided by financing activities consists of the borrowing and repayments was \$222,000. During this period, we increased borrowings under our credit facilities with our senior lender, Webster, increases Current Credit Facility by \$265,000 (consisting of net increase in Revolving Loan borrowings of \$501,000 and repayments a net decrease of finance \$236,000 against the Term Loan). We also made payments of \$41,000 pursuant to financing lease obligations and other notes \$2,000 on a loan payable.

For the nine three months ended September 30, 2023 March 31, 2023, cash used in provided by financing activities was \$4,767,000. This was comprised \$379,000. During this period, we increased borrowings under our Current Credit Facility by \$400,000 (consisting of a net payments on our Webster revolving loan decrease in Revolving Loan borrowings of \$132,000, and a net increase of \$532,000 in the amounts of \$4,908,000 and Term Loan. We also made payments of \$876,000 on our Webster term loan, \$84,000 on our \$20,000 pursuant to financing lease obligations and \$7,000 \$1,000 on our a loan payable – financed asset, partially offset by borrowings of \$740,000 on our Webster term loan and advances totaling \$393,000 on our financing agreement from CT Green Bank, payable.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of September 30, 2023 March 31, 2024.

Critical Accounting Policies and 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 judgments, judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our condensed 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"), and all applicable U.S. GAAP accounting standards effective as of September 30, 2023 have been taken into consideration in preparing the condensed consolidated financial statements. The preparation of condensed 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 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 the estimates and assumptions.

There have been no material changes to the Company's critical accounting policies estimates as compared to the estimates described in the 2023 Annual Report which we believe are the most critical to our business and understanding of our results of operations and affect the more significant judgments and estimates have been highlighted as significant because changes to certain judgments and assumptions inherent that we use in these policies could affect preparation of our condensed consolidated financial statements:

- Inventory Valuation, which includes the estimates and methodology used in accounting for the transition of production costs to inventory costs. In our financial statements, inventory is reflected at the lower of cost or net realizable value including write-downs for obsolescence, slow moving and excess inventory; and
- Income Taxes, which includes the determination of the valuation allowance for deferred tax assets.

We base our estimates, to the extent possible, on historical experience. Historical information is modified as appropriate based on current business factors and various assumptions that we believe are necessary to form a basis for making judgments about the carrying value of assets and liabilities. We evaluate our estimates on an on-going basis and make changes when necessary. Actual results could differ from our estimates.

statements. Recently Issued Accounting Pronouncements

See Note 2 of the Condensed Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Internal controls over financial reporting as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, refers to those policies, and 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 relies upon the criteria established in the Internal Control-Integrated Framework issued 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.

Based on an evaluation In connection with their review of our internal controls over financial reporting for the nine three months ended September 30, 2023 March 31, 2024, our Chief Executive Officer and Chief Financial Officer concluded that our internal controls over financial reporting were not effective as of September 30, 2023 March 31, 2024. In As reported in our 2022 2023 Form 10-K, we reported certain in connection with their review of our internal controls as of and for the year ended December 31, 2023, our management identified a material weaknesses weakness in our internal controls over financial reporting as of December 31, 2022, related to our IT systems which have yet to be remediated. During the nine months of fiscal 2023, we have established written implemented new controls and operating procedures intended to address eliminate this weakness but have not yet had sufficient time to test their effectiveness. Tests of such controls and procedures are ongoing and the issues reported related to determining the appropriate reserves to be taken with respect to our inventory and management's review controls over the income tax provision in the notes to our financial statements; however, these material weaknesses weakness noted will only be deemed to have been remediated after the new controls and procedures have been in place for a sufficient period of time and management has concluded through appropriate testing that the controls are operating effectively. We are For more information, see Item 9A. Controls and Procedures, included in the process of remediating the material weakness in the design flaw related to a granting access to our IT system. We believe that this remediation will be completed late in the fourth quarter of 2023 or in the first quarter of 2024. Annual Report on Form 10-K.

During 2024, the Company is continuing to test such controls and procedures designed to remediate the aforementioned material weakness.

Changes in Internal Control over Financial Reporting

Except as discussed for the ongoing changes described above intended to remediate the material weakness with respect to our IT System, 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 which is the subject of this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1A. Risk Factors.

Investors are encouraged to consider the risks described in our 2022 2023 Form 10-K, our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report and other information publicly disclosed or contained in documents we file with the Securities and Exchange Commission before purchasing our securities.

Item 6. Exhibits

Exhibit No.	Description
10.1	<u>Sixth Amendment to Loan and Security Agreement with Webster Bank National Association, successor by merger to Sterling National Bank, (incorporated herein by reference to by reference to Exhibit 99.1 to the Company's Report on Form 8-K filed on November 27, 2023.</u>
31.1*	<u>Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Securities Exchange Act of 1934.</u>
31.2*	<u>Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act of 1934.</u>
32.1**	<u>Certification of principal executive officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).</u>
32.2**	<u>Certification of principal financial officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).</u>
	XBRL Presentation
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. 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.

* * 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: December 6, 2023 May 15, 2024

AIR INDUSTRIES GROUP

By: /s/ Scott Glassman

Scott Glassman

Chief Financial Officer

(principal financial and accounting officer)

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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 quarterly report on Form 10-Q 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 15, 2024

Dated: December 6, 2023

/s/ Luciano Melluzzo

Luciano Melluzzo

Chief Executive Officer (Principal

/s/ Luciano Melluzzo

Luciano Melluzzo

Principal Executive Officer)

Officer

Exhibit 31.2

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

I, Scott Glassman, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q 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 15, 2024

Dated: December 6, 2023

/s/ Scott Glassman

Scott Glassman

Chief Financial Officer (Principal

/s/ Scott Glassman

Scott Glassman

Principal Financial Officer)

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 Quarterly Report of Air Industries Group, a Nevada corporation (the “Company”), on Form 10-Q for the period ended September 30, 2023 March 31, 2024, 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
- (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.
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: December 6, 2023 May 15, 2024

/s/ Luciano Melluzzo

Luciano Melluzzo

Chief Executive Officer (Principal Executive Officer) Officer

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

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Air Industries Group, a Nevada corporation (the “Company”), on Form 10-Q for the period ended September 30, 2023 March 31, 2024, 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
- (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.
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: December 6, 2023 May 15, 2024

/s/ Scott Glassman
Scott Glassman

Chief Financial Officer (Principal Financial Officer) Officer

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

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