

AIR INDUSTRIES GROUP  
Form PRE 14A  
July 26, 2017

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

AIR INDUSTRIES GROUP

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

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(3) Filing Party:

Date Filed:

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**AIR INDUSTRIES GROUP**

**360 Motor Parkway, Suite 100**

**Hauppauge, New York 11788**

August \_\_, 2017

Dear Stockholders:

On behalf of the Board of Directors, you are cordially invited to attend the 2017 Annual Meeting of Stockholders of Air Industries Group. The Annual Meeting will be held on Tuesday, September 26, 2017 at 10:00 a.m. Eastern Time at the offices of Air Industries Group, 360 Motor Parkway, Suite 100, Hauppauge, New York 11788. The formal Notice of Annual Meeting is set forth in the enclosed material.

The matters expected to be acted upon at the Annual Meeting are described in the attached Proxy Statement. At the Annual Meeting, stockholders will have the opportunity to ask questions and comment on our business operations.

It is important that your views be represented. If you request a proxy card, please mark, sign and date the proxy card when received and return it promptly in the self-addressed, stamped envelope we will provide. No postage is required if this envelope is mailed in the United States. You also have the option of voting your proxy via the Internet at [www.proxyvote.com](http://www.proxyvote.com) or by calling toll free via a touch-tone phone at 1-800-690-6903. Proxies submitted by telephone or over the Internet must be received by 11:59 p.m. Eastern Time on September 25, 2017. Although we encourage you to complete and return a proxy prior to the Annual Meeting to ensure that your vote is counted, you can attend the Annual Meeting and cast your vote in person. If you vote by proxy and also attend the Annual Meeting, there is no need to vote again at the Annual Meeting unless you wish to change your vote.

We appreciate your investment in Air Industries Group and urge you to cast your vote as soon as possible.

Sincerely,

/s/ Peter D. Rettaliata

*Acting President and Chief Executive Officer*



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Annual Report on Form 10-K for the Year Ended December 31, 2016

**AIR INDUSTRIES GROUP**

**360 Motor Parkway, Suite 100**

**Hauppauge, NY 11788**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

The 2017 Annual Meeting of Stockholders of Air Industries Group will be held at the offices of Air Industries Group, 360 Motor Parkway, Suite 100, Hauppauge, New York 11788 on Tuesday, September 26, 2017, beginning at 10:00 a.m. Eastern Time for the following purposes:

1. to elect seven directors;
2. to approve an amendment to our articles of incorporation increasing the number of shares of common stock we are authorized to issue from 25,000,000 shares to 50,000,000 shares;
3. to approve the restructuring transactions described in the accompanying proxy statement related to the public offering of our common stock completed July 12, 2017;
4. to ratify the appointment of Rotenberg Meril Solomon Bertiger & Guttilla, P.C. as our independent registered public accounting firm for the fiscal year ending December 31, 2017;
5. to approve the Air Industries Group 2017 Equity Incentive Plan; and
6. to transact such other business as may properly come before the Annual Meeting and at any adjournment or postponement thereof.

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The Board of Directors has fixed the close of business on August 22, 2017 as the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting.

By order of the Board of Directors,

/s/ Peter D. Rettaliata  
*Acting President and Chief Executive Officer*

August \_\_, 2017

Please mark, sign and date the enclosed proxy card and  
return it promptly in the enclosed self-addressed, stamped envelope.

**To vote via the Internet or telephone:**

Internet: [www.proxyvote.com](http://www.proxyvote.com)

Phone: 1-800-690-6903

**AIR INDUSTRIES GROUP**

**360 Motor Parkway, Suite 100**

**Hauppauge, NY 11788**

**PROXY STATEMENT**

**General Information**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Air Industries Group, a Nevada corporation (the “Company,” “we,” “our” or “us”), of proxies to be voted at our 2017 Annual Meeting of Stockholders (the “Annual Meeting” or the “Meeting”) and at any adjournment or postponement of the Meeting. The Annual Meeting will take place on Tuesday, September 26, 2017, beginning at 10:00 a.m., Eastern Time, at our offices, 360 Motor Parkway, Suite 100, Hauppauge, New York 11788.

This Proxy Statement, the Notice of Annual Meeting, our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and accompanying proxy are being furnished to holders of our Series A Convertible Preferred Stock, par value \$0.001 per share (“Series A Preferred Stock”), and holders of our common stock, par value \$0.001 per share, on or about August \_\_, 2017. Web links and addresses contained in this Proxy Statement are provided for convenience only, and the content on the referenced websites does not constitute a part of this Proxy Statement.

**Frequently Asked Questions About the Annual Meeting and Voting**

**1. Who is entitled to vote at the Annual Meeting?**

Holders of our Series A Preferred Stock and holders of our common stock as of August 22, 2017 (the “Record Date”) are entitled to receive the Notice of Annual Meeting and to vote their shares at the Meeting. Holders of our Series A Preferred Stock and holders of our common stock on the Record Date will vote together as a single class on each of the proposals described in this Proxy Statement to be submitted for consideration at the Annual Meeting, with holders of Series A Preferred Stock entitled to the number of votes equal to the number of shares of common stock into which the shares of Series A Preferred Stock owned of record by such shareholder could have been converted on the Record



Date (2.0325 times the number of shares of Series A Preferred Stock owned of record) and holders of common stock entitled to one vote for each share held of record on the Record Date. Only the votes cast by the holders of record of our common stock on the Record Date will be counted in determining whether Proposal Three has been approved in accordance with the applicable rules of the NYSE MKT. Further, the votes cast in respect of shares of common stock issued upon conversion of our subordinated convertible notes sold in a bridge financing in May 2017 (the “May 2018 Notes”) will not be counted in determining whether Proposal Three has been approved in accordance with the applicable rules of the NYSE MKT .

**2. How many shares of Series A Preferred Stock and Common Stock are “outstanding”?**

As of August 22, 2017, there were 1,294,441 shares of Series A Preferred Stock and 14,065,770 shares of common stock outstanding and entitled to be voted at the Annual Meeting. Holders of Series A Preferred Stock are entitled to a total of 2,630,951 votes, and holders of common stock are entitled to a total of 14,065,770 votes, on each of the proposals described in this Proxy Statement to be submitted for consideration at the Annual Meeting, except that in determining whether Proposal Three has been approved in accordance with the applicable rules of the NYSE MKT only the votes of the holders of our common stock (other than shares of common stock issued upon conversion of the May 2018 Notes) will be determinative, as discussed in Question 1 above and Question 11 below.

### **3. What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

If your shares are registered in your name with our transfer agent, Broadridge Corporate Issuer Solutions, Inc., you are the “stockholder of record” of those shares. This Notice of Annual Meeting and Proxy Statement and any accompanying materials have been provided directly to you by Air Industries Group.

If your shares are held through a broker, bank or other holder of record, you hold your shares in “street name” and you are considered the “beneficial owner” of those shares. This Notice of Annual Meeting and Proxy Statement and any accompanying documents have been provided to you by your broker, bank or other holder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote your shares by using the voting instruction card or by following their instructions for voting by telephone or on the Internet. Absent instructions from you, under applicable regulatory requirements, your broker may vote your shares on the ratification of the appointment of our independent registered public accounting firm for fiscal 2017, but may not vote your shares on the election of directors, the amendment to our articles of incorporation increasing the number of shares of common stock we are authorized to issue from 25,000,000 shares to 50,000,000 shares (the “Charter Amendment”), the approval of restructuring transactions related to our public offering in July 2017 (the “Restructuring Transactions”), the approval of our 2017 Equity Incentive Plan, or any of the other proposals to be voted on at the Annual Meeting.

### **4. Why did I receive a notice of internet availability of proxy materials instead of a full set of proxy materials?**

In accordance with the rules of the U.S. Securities and Exchange Commission (“SEC”), we are permitted to furnish proxy materials, including this proxy statement and our annual report, to stockholders by providing access to these documents on the internet instead of mailing printed copies. Most stockholders will not receive printed copies of the proxy materials unless they request so. Instead, the notice provides instructions on how to access and review the proxy materials on the internet. The notice also provides instructions on how to submit your proxy and voting instructions via the internet. If you would like to receive a printed copy or an electronic copy (via email) of our proxy materials, please follow the instructions for requesting the materials in the notice.

### **5. How do I vote?**

You may vote using any of the following methods:

*By mail*

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Complete, sign and date the accompanying proxy or voting instruction card and return it in the prepaid envelope. If you are a stockholder of record and return your signed proxy card but do not indicate your voting preferences, the persons named in the proxy card will vote the shares represented by your proxy card as recommended by the Board of Directors.

***By telephone or on the Internet***

Air Industries Group has established telephone and Internet voting procedures for stockholders of record. These procedures are designed to authenticate your identity, to allow you to give your voting instructions and to confirm that those instructions have been properly recorded. Telephone and Internet voting facilities for stockholders of record will be available 24 hours a day until 11:59 p.m., Eastern Time, on September 25, 2017.

The availability of telephone and Internet voting for beneficial owners will depend on the voting processes of your broker, bank or other holder of record. We therefore recommend that you follow the voting instructions in the materials you receive.

If you vote by telephone or on the Internet, you do not have to return your proxy or voting instruction card.

*Telephone.* You can vote by calling the toll-free telephone number on your proxy card. Please have your proxy card handy when you call. Easy-to-follow voice prompts will allow you to vote your shares and confirm that your instructions have been properly recorded.

*Internet.* The website for Internet voting is [www.proxyvote.com](http://www.proxyvote.com). Please have your proxy card handy when you go to the website. As with telephone voting, you can confirm that your instructions have been properly recorded. If you vote on the Internet, you also can request electronic delivery of future proxy materials.

### ***In person at the Annual Meeting***

Stockholders who attend the Annual Meeting may vote in person at the Meeting. You may also be represented by another person at the Meeting by executing a proper proxy designating that person. If you are a beneficial owner of shares, you must obtain a legal proxy from your broker, bank or other holder of record and present it to the inspector of election with your ballot to be able to vote at the Annual Meeting.

Your vote is important. Please complete your proxy card promptly to ensure that your vote is received timely.

### **6. What can I do if I change my mind after I vote?**

If you are a stockholder of record, you can revoke your proxy before it is exercised by:

- giving written notice to the Corporate Secretary of the Company;
- delivering a valid, later-dated proxy, or a later-dated vote by telephone or on the Internet, in a timely manner; or
- voting by ballot at the Annual Meeting.

If you are a beneficial owner of shares, you may submit new voting instructions by contacting your broker, bank or other holder of record. All shares for which proxies have been properly submitted and not revoked will be voted at the

Annual Meeting.

**7. How will your proxy vote your shares?**

Your proxy will vote according to your instructions. If you vote by mail and complete, sign, and return the proxy card but do not indicate your vote, your proxy will vote “FOR” each of the director nominees, “FOR” approval of an amendment to our articles of incorporation increasing the number of shares of common stock we are authorized to issue from 25,000,000 shares to 50,000,000 shares (the “Charter Amendment”), “FOR” approval of the restructuring transactions (the “Restructuring Transactions”) related to the public offering of our common stock completed July 12, 2017 (the “Public Offering”), “FOR” ratification of the appointment of Rotenberg Meril Solomon Bertiger & Guttilla, P.C. as our independent registered public accounting firm for the fiscal year ending December 31, 2017, and “FOR” the approval of our 2017 Equity Incentive Plan, which votes represent the recommendations of the Board with respect to such matters. The Board does not intend to bring any other matter for a vote at the Annual Meeting, and neither we nor the Board knows of anyone else who intends to do so. However, on any other business that properly comes before the Annual Meeting, your proxies are authorized to vote on your behalf using their best judgment.

**8. Where can you find the voting results?**

We intend to announce the preliminary voting results at the Annual Meeting and will publish the final results in a Current Report on Form 8-K, which we will file with the SEC no later than four business days following the Annual Meeting. If the final voting results are unavailable in time to file a current report on Form 8-K with the SEC within four business days after the Annual Meeting, we intend to file a Form 8-K to disclose the preliminary results and, within four business days after the final results are known, will file an additional current report on Form 8-K with the SEC to disclose the final voting results.

**9. What is a broker non-vote?**

If you are a beneficial owner whose shares are held of record by a broker, you must instruct the broker how to vote your shares. If you do not provide voting instructions, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a “broker non-vote.” In these cases, the broker can register your shares as being present at the Annual Meeting for purposes of determining the presence of a quorum but will not be able to vote on those matters for which specific authorization is required under the rules of the New York Stock Exchange (“NYSE”).

If you are a beneficial owner whose shares are held of record by a broker, your broker has discretionary voting authority under NYSE rules to vote your shares on the ratification of Rotenberg Meril Solomon Bertiger & Guttilla, P.C. as our independent registered public accounting firm, even if the broker does not receive voting instructions from you. However, your broker does not have discretionary authority to vote on the election of directors, the approval of the Charter Amendment, the approval of the Restructuring Transactions or the approval of our 2017 Equity Incentive Plan, in which case a broker non-vote will occur and your shares will not be voted on these matters.

**10. What is a quorum for the Annual Meeting?**

The presence of the holders of shares of Series A Preferred Stock and Common Stock representing a majority of the voting power of all shares of Series A Preferred Stock and Common Stock issued and outstanding and entitled to vote at the Annual Meeting, or holders of shares of Series A Preferred Stock and Common Stock entitled to cast at least 8,348,361 votes, in person or represented by proxy, is necessary to constitute a quorum. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum.

**11. What are the voting requirements to elect the directors and to approve each of the proposals discussed in this Proxy Statement?**

***Election of Directors***

Directors are elected by a plurality of the votes cast at the Annual Meeting. This means that the seven persons receiving the highest number of affirmative "for" votes at the Annual Meeting will be elected. Abstentions and broker non-votes are not counted as votes "for" or "against" a director nominee.

***Approval of Charter Amendment***

The affirmative vote of majority of the total voting power of the Series A Preferred Stock and Common Stock, or a total of 8,348,361 votes, is required to approve the Charter Amendment proposal. Abstentions and broker non-votes will be counted as votes "against" this proposal.

***Approval of Restructuring Transactions***

The votes cast "for" must exceed the votes cast "against" to approve the Restructuring Transactions. Abstentions are not counted as votes "for" or "against" this proposal. Although we have determined to allow all stockholders of the Company to cast a vote on this proposal, only the votes cast by holders of our common stock, other than shares of common stock issued upon conversion of the May 2018 Notes, will be determinative as to whether the Restructuring Transactions have been approved in accordance with the applicable rules of the NYSE MKT. Consequently, the votes of the holders of only 12,825,165 shares of common stock will determine whether the Restructuring Transactions are approved in accordance with the applicable rules of the NYSE MKT. The votes cast "for" by the holders of these shares must exceed the votes cast "against" by the holders of these shares to approve the Restructuring Transactions in accordance with the applicable rules of the NYSE MKT. Abstentions are not counted as votes "for" or "against" this proposal.

***Ratification of Rotenberg Meril Solomon Bertiger & Guttilla, P.C as our independent registered public accounting firm***

The votes cast “for” must exceed the votes cast “against” to approve the ratification of Rotenberg Meril Solomon Bertiger & Guttilla, P.C as our independent registered public accounting firm. Abstentions are not counted as votes “for” or “against” this proposal.

***Approval of Air Industries Group 2017 Equity Incentive Plan***

The votes cast “for” must exceed the votes cast “against” to approve the Air Industries Group 2017 Equity Incentive Plan. Abstentions are not counted as votes “for” or “against” this proposal.

**12. How will my shares be voted at the Annual Meeting?**

At the Meeting, the Board of Directors (the persons named in the proxy card or, if applicable, their substitutes) will vote your shares as you instruct. If you sign your proxy card and return it without indicating how you would like to vote your shares, your shares will be voted as the Board of Directors recommends, which is:

- **FOR** the election of each of the director nominees named in this Proxy Statement;
- **FOR** the approval of the Charter Amendment;
- **FOR** the approval of the Restructuring Transactions Related to the Public Offering;
- **FOR** the ratification of the appointment of Rotenberg Meril Solomon Bertiger & Guttilla, P.C as our independent registered public accounting firm for the fiscal year ending December 31, 2017; and
- **FOR** the approval of the Air Industries Group 2017 Equity Incentive Plan.

**13. Could other matters be decided at the Annual Meeting?**



As of the date of this Proxy Statement, we did not know of any matters to be presented at the Annual Meeting, other than those referred to in this Proxy Statement.

If you return your signed and completed proxy card or vote by telephone or on the Internet and other matters are properly presented at the Annual Meeting for consideration, the individuals named as proxies on the enclosed proxy card will have the discretion to vote on your behalf.

**14. Who will pay for the cost of the Annual Meeting and this proxy solicitation?**

The Company will pay the costs associated with the Annual Meeting and solicitation of proxies, including the costs of transmitting the proxy materials. In addition to solicitation by mail, our directors, officers and regular employees (who will not be specifically compensated for such services) may solicit proxies by telephone or otherwise. Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries to forward proxies and proxy materials to their principals, and we will reimburse them for their expenses. We have retained Broadridge Issuer Corporate Solutions, Inc. to assist in the mailing, collection and administration of proxies. We have not retained a soliciting agent to assist in the solicitation of proxies.

**MATTERS TO COME BEFORE THE ANNUAL MEETING**

**PROPOSAL ONE:**

**Election of Directors**

*Nominees*

At the Annual Meeting, seven directors, who have been nominated by the Nominating Committee of the Board of Directors, are to be elected, each to hold office (subject to our By-Laws) until the next annual meeting and until his successor has been elected and qualified. All of the nominees for director currently serve as directors.

Each nominee has consented to being named as a nominee in this proxy statement and to serve if elected. If any nominee listed in the table below should become unavailable for any reason, which the Board of Directors does not anticipate, the proxy will be voted for any substitute nominee or nominees who may be selected by the Board of Directors prior to or at the Annual Meeting, or, if no substitute is selected by the Board of Directors prior to or at the Annual Meeting, for a motion to reduce the membership of the Board of Directors to the number of nominees available. The seven nominees receiving the highest number of affirmative "for" votes at the Annual Meeting will be elected. The information concerning the nominees and their security holdings has been furnished by them to us.

Directors are nominated by our Board of Directors, based on the recommendations of the Nominating Committee. As discussed elsewhere in this proxy statement, in evaluating director nominees, the Nominating Committee considers characteristics that include, among others, integrity, business experience, financial acumen, leadership abilities, familiarity with our businesses and businesses similar or analogous to ours, and the extent to which a candidate's knowledge, skills, background and experience are already represented by other members of our Board of Directors. Listed below are our director nominees with their biographies.

<b>Nominee</b>	<b>Age</b>	<b>Director Since</b>
Michael N. Taglich	52	2008
Peter D. Rettaliata	66	2005
Seymour G. Siegel	74	2005
Robert F. Taglich	50	2008
David J. Buonanno	61	2008
Robert C. Schroeder	50	2008
Michael Brand	59	2012

*Michael N. Taglich* has been Chairman of our Board of Directors since September 22, 2008. He is Chairman and President of Taglich Brothers, a New York City based securities firm which he co-founded in 1992 and which is focused on public and private micro-cap companies. Mr. Taglich is currently Chairman of the Board of Mare Island Dry Dock LLC, a company engaged in ship repair services, and BioVentrix, Inc., a privately held medical device company whose products are directed at heart failure. He also serves as a Director of Bridgeline Digital Inc., a publicly traded company, Icagen Inc., a reporting but not trading company engaged in early stage pharmaceutical research, Decision Point Systems Inc., a private company engaged in Field service automation, Dilon Technologies, a private medical device company and Autonet Mobile Inc., a private company focused on connecting automobiles to the internet. Mr. Taglich's extensive experience in the capital markets and his knowledge of the general industry qualify him to serve as a Director.

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

*Seymour G. Siegel* has been a director of our company since 2005. A Certified Public Accountant no longer in practice, he was a principal emeritus at Rothstein Kass (now KPMG), an international firm of accountants and consultants until July 2014. Mr. Siegel was a founder of Siegel Rich & Co., CPAs, which eventually merged with what is now known as WeiserMazars LLP, where he was a senior partner until January 1995, when he sold his interest in the firm and co-founded a business advisory firm which later became a part of Rothstein Kass. In addition to serving as a Director and Chairman of the Audit Committees of our Board, Mr. Siegel also serves as a Director and Chairman of the Audit Committee of Root 9B Technologies Inc. Mr. Siegel received his Bachelor of Business Administration from the Bernard M. Baruch School of the City College of New York. Mr. Siegel's extensive knowledge and experience in accounting matters and familiarity with the issues of manufacturing businesses qualify him to serve as a Director.

*Robert F. Taglich* has been a director of our company since 2008. He is a Managing Director of Taglich Brothers, which he co-founded in 1992. Prior to founding Taglich Brothers, Mr. Taglich was a Vice President at Weatherly Securities. Mr. Taglich has served in various positions in the brokerage securities industry for the past 25 years. Mr. Taglich is a Director of Bridgeline Digital, Inc., a publicly traded company. He also serves on the board of privately held BioVentrix, Inc., a medical device company whose products are directed at heart failure. Mr. Taglich holds a Bachelor's degree from New York University. Mr. Taglich's extensive experience in the capital markets and his knowledge of the aerospace industry qualify him to serve as a Director.

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

*Robert C. Schroeder* has been a director of our company since 2008. He is Vice President - Investment Banking of Taglich Brothers and specializes in advisory services and capital raising for small public and private companies. Mr. Schroeder joined Taglich Brothers in April 1993 as an Equity Analyst publishing sell-side research. Prior to joining Taglich Brothers, he served in various positions in the brokerage and public accounting industry. Mr. Schroeder also serves as a director of the following publicly traded companies: DecisionPoint Systems, Inc., a leading provider and integrator of Enterprise Mobility, Wireless Applications and RFID solutions, and Intellinetics, Inc., a provider of cloud-based enterprise content management solutions. Mr. Schroeder received a B.S. degree in accounting and economics from New York University. He is a Chartered Financial Analyst and a member of the Association for Investment Management and Research and a member of the New York Society of Security Analysts. Mr. Schroeder's extensive experience in the capital markets qualify him to serve as a Director.

*Michael Brand* has been a director of our company since 2012, and since March 2017 has served as a consultant to our company focused on day to day production issues, scheduling of the products to be manufactured and related operational issues such as the maintenance of appropriate inventory levels. He was the President of Goodrich Landing Gear, a unit of Goodrich Corporation, from July 2005 to June 2012. Prior to joining Goodrich for over 25 years he held senior management positions in the Aerospace industry. He began his career at General Electric Corporation and rose to senior management in its jet engine manufacturing operations. Mr. Brand is a graduate of Clarkson University, with advanced degrees and certificates from Xavier University and the Wharton School. Mr. Brand's extensive experience in the aerospace and defense industries and familiarity with the operations of companies in the industry qualify him to serve as a Director.

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

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

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR  
THE ELECTION OF EACH NOMINEE UNDER PROPOSAL ONE**

**Information Concerning the Board of Directors**

**Information Concerning the Board of Directors**

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

The Board does not have a policy requiring separation of the roles of Chief Executive Officer and Chairman of the Board. Nevertheless, Michael N. Taglich is Chairman of the Board and Peter D. Rettaliata is Acting Chief Executive Officer of the Company.

The Board has determined that a non-employee director serving as Chairman is in the best interests of our stockholders at this time. This structure ensures a greater role of non-employee Directors in the active oversight of our business, including risk management oversight, and in setting agendas and establishing Board priorities and procedures. This structure also allows the Chief Executive Officer to focus to a greater extent on the management of our day-to-day operations.

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

reporting on risks is conducted as needed or as requested by the Board or one of its committees.

### ***Board Independence***

Our Board of Directors has determined that Robert Schroeder, Seymour G. Siegel, David Buonanno and Michael Brand are “independent directors” within the meaning of NYSE MKT Rule 803A(2).

### ***Director Compensation***

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

The following table sets forth certain information regarding the compensation paid to, earned by or accrued for, our directors during the fiscal year ended December 31, 2016.

## DIRECTOR COMPENSATION

Name	Fees Earned or Paid In Cash	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Michael N. Taglich	\$57,500	—	\$1,276	—	—	—	\$58,776
Robert F. Taglich	\$57,500	—	\$1,276	—	—	—	\$58,776
Robert Schroeder	\$31,000	—	\$1,276	—	—	—	\$32,276
David Buonanno	\$31,000	—	\$1,276	—	—	—	\$32,276
Seymour G. Siegel	\$43,000	—	\$1,276	—	—	—	\$44,276
Michael Brand	\$31,000	—	\$1,276	—	—	\$36,400	(1) \$68,676
Peter D. Rettaliata	\$50,000	—	\$—	—	—	—	\$50,000

(1) Consulting/advisory fees.

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

The Board of Directors held four meetings during the fiscal year ended December 31, 2016 (“fiscal 2016”). During fiscal 2016, each of the directors then in office attended more than 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings of all committees of the Board on which such director served.

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



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

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

overseeing and monitoring the integrity of our consolidated financial statements, our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters, and our internal accounting and financial controls;

preparing the report that SEC rules require be included in our annual proxy statement;

overseeing and monitoring our independent registered public accounting firm’s qualifications, independence and performance;

providing the Board with the results of its monitoring and its recommendations ; and

providing to the Board additional information and materials as it deems necessary to make the Board aware of significant financial matters that require the attention of the Board.

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The Audit Committee held five meetings during fiscal 2016.

Compensation Committee. Our Compensation Committee is composed of Messrs. Siegel, Buonanno and Brand. The Compensation Committee is responsible for:

- establishing the Company's general compensation policy, in consultation with the Company's senior management, and overseeing the development and implementation of compensation programs;

- reviewing and approving corporate goals and objectives relevant to the compensation of the CEO, and evaluating the performance of the CEO at least annually in light of those goals and objectives and communicating the results of such evaluation to the CEO and the Board, and determining the CEO's compensation level based on this evaluation, subject to ratification by the independent directors on the Board. In determining the incentive component of CEO compensation, the Committee will consider, among other factors, the Company's performance and relative stockholder return, the value of similar incentive awards to CEOs at comparable companies, the awards given to the CEO in past years, and such other factors as the Committee may determine to be appropriate;

- reviewing and approving the compensation of all other executive officers of the Company, such other managers as may be directed by the Board, and the directors of the Company;

- overseeing the Board's benefit and equity compensation plans, overseeing the activities of the individuals and committees responsible for administering these plans, and discharging any responsibilities imposed on the Committee by any of these plans;

- approving issuances under, or any material amendments to, any stock option or other similar plan pursuant to which a person not previously an employee or director of the Company, as an inducement material to the individual's entering into employment with the Company, will acquire stock or options;

- in consultation with management, overseeing regulatory compliance with respect to compensation matters, including overseeing the Company's policies on structuring compensation programs to preserve related tax objectives;

- reviewing and approving any severance or similar termination payments proposed to be made to any current or former officer of the Company; and

- preparing an annual report on executive compensation for inclusion in our proxy statement for the election of directors, if required under the applicable SEC rules.

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The Compensation Committee held two meetings during fiscal 2016.

**Nominating Committee.** Our Nominating Committee is composed of Messrs. Schroeder, Siegel and Brand. The purpose of the Nominating Committee is to seek and nominate qualified candidates for election or appointment to our Board of Directors. The Nominating Committee held one meeting during fiscal 2016.

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

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

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

### ***Stockholder Communications***

Any stockholder who desires to contact any of our Directors can write to Air Industries Group, 360 Motor Parkway, Suite 100, Hauppauge, NY 11788 Attention: Stockholder Relations. Your letter should indicate that you are an Air Industries Group stockholder. Depending on the subject matter, our stockholder relations personnel will:

• forward the communication to the Director(s) to whom it is addressed;

• forward the communication to the appropriate management personnel;

• attempt to handle the inquiry directly, for example where it is a request for information about the Company, or it is a stock-related matter; or

• not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

### ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Securities Exchange Act of 1934 requires our Directors, Executive Officers and beneficial owners of more than 10% of our common stock to file with the SEC reports of their holdings of, and transactions in, our common stock. Based solely upon our review of copies of such reports and written representations from reporting persons that were provided to us, we believe that our officers, directors and 10% stockholders complied with these reporting requirements with respect to 2016, except that Form 4s reporting the indirect beneficial ownership by Michael N. Taglich and Robert F. Taglich of subordinated convertible promissory notes issued to Taglich Brothers, Inc., of which they are the principals, in lieu of payment of sales commissions for acting as placement agent for the private placement of those notes in August, November and December of 2016 was not timely filed.

### ***Policy Regarding Attendance of Directors at Annual Meetings of Stockholders***

We have not established a formal policy regarding director attendance at our annual meetings of stockholders, although we encourage our directors to attend the annual meeting.

### ***Code of Ethics***

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

### **Information Concerning Executive Officers**

Our Executive Officers are set forth in the table below along with their ages and positions. Each Executive Officer holds the offices set forth opposite his or her name until his successor is chosen and qualified.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Peter D. Rettaliata	66	Acting Chief Executive Officer and President
Michael E. Recca	66	Chief Financial Officer

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

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

## Summary Compensation Table

The following summary compensation table shows, for the periods indicated, information regarding the compensation awarded to, earned by or paid to our principal executive officer and our chief accounting officer (our only other executive officer whose compensation exceeded \$100,000), for all services rendered in all capacities to our company and its subsidiaries. The individuals listed in the following table are referred to herein collectively as our “named executive officers.”

### Executive Compensation Table

Name and principal Position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option awards (\$)	Non-equity Nonqualified		All other compensation (\$)	Total (\$)
						Incentive Plan Information (\$)	deferred compensation earnings (\$)		
Daniel R. Godin <sup>(1)</sup> President and CEO	2016	244,995	—	—	—	—	—	\$ 9,600 <sup>(3)</sup>	\$254,595
	2015	232,115	125,000	—	—	—	—	9,600 <sup>(3)</sup>	366,715
Marianne Giglio <sup>(2)</sup> Chief Accounting Officer	2016	121,896	—	—	—	—	—	\$ 4,500 <sup>(3)</sup>	\$120,396

(1) Mr. Godin resigned as our President and CEO effective as of March 24, 2017.

(2) Ms. Giglio joined our company on March 7, 2016, became our Chief Accounting Officer on April 22, 2016 and served in that capacity until October 1, 2016.

(3) Represents car allowance.

None of our executive officers or key employees named in the above table has an employment agreement providing for a fixed term of employment. All are employees at will terminable at any time without any severance, other than that payable to employees generally.

Peter D. Rettaliata receives \$50,000 per annum for serving as a director of, and consultant to, our company. We have not yet reached agreement on the compensation he is to receive for serving as our Acting President and Chief Executive Officer.

Michael E. Recca receives a salary of \$200,000 per annum for serving as our Chief Financial Officer.

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

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

During the years ended December 31, 2016 and 2015, less than 1% of the total compensation paid to employees was paid in performance-based compensation, including commissions and bonuses.

### Equity Awards – 2016

We did not grant any equity awards in the form of shares to any of the named Executive Officers during 2016 and consequently have omitted the table which would have described such awards.

### Outstanding Equity Awards at 2016 Year-End

The following table shows certain information regarding outstanding equity awards held by our named Executive Officers as of December 31, 2016.

Name	Option Awards		Option Exercise Price (\$)	Option Expiration Date	Stock Awards	Equity Incentive Plan
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable			Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Daniel R. Godin	120,000*	—	\$10.12	11/30/2021	—	—
Marianne Giglio	—	—	—	—	—	—

\* Options expired unexercised upon termination of employment in March 2017.

### Equity Incentive Plans



We have four equity incentive plans, the 2017 Equity Incentive Plan (the “2017 Plan”), which our Board of Directors adopted on July 24, 2017 and which will be submitted to stockholders for approval at the Annual Meeting, the 2016 Equity Incentive Plan (“the “2016 Plan”), which our Board of Directors adopted in June 2016 and our stockholders approved on November 30, 2016, the 2015 Equity Incentive Plan (the “2015 Plan”), which our Board of Directors adopted in March 2015 and our stockholders approved in June 2015, and the 2013 Equity Incentive Plan (the “2013 Plan”), which our Board of Directors adopted in May 2013 and our stockholders approved in July 2013. The Plans are virtually identical, except that the 2017 Plan authorizes the issuance of 1,200,000 shares of common stock, the 2016 Plan and the 2015 Plan authorizes the issuance of 350,000 shares of common stock and the 2013 Plan authorizes the issuance of 600,000 shares. As of June 30, 2017, options to purchase 138,000 shares had been granted and remained outstanding under the 2015 Plan, and 212,000 shares remained available for grant, and options to purchase 564,342 shares remained outstanding and 33,000 shares remained available for issuance under the 2013 Plan. As of June 30, 2017, no stock awards had been made or options granted under the 2016 Plan. On July 24, 2017, we granted options to purchase a total of 525,000 shares under the 2013 Plan, 2015 Plan and 2016 Plan.

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

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

## **Transactions with Related Persons**

### ***Our Policy Concerning Transactions with Related Persons***

Under Item 404 of SEC Regulation S-K, a related person transaction is any actual or proposed transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, including those involving indebtedness not in the ordinary course of business, to which we or our subsidiaries were or are a party, or in which we or our subsidiaries were or are a participant, in which the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years and in which any of our directors, nominees for director, executive officers, beneficial owners of more than 5% of any class of our voting securities (a “significant shareholder”), or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest.

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

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

### ***Transactions***

The following includes a summary of transactions since January 1, 2014, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest.

From time to time when needed, we have borrowed funds from Michael Taglich and Robert F. Taglich, as discussed below. In addition, as discussed below, Taglich Brothers, of which Michael Taglich and Robert F. Taglich are principals, has acted as placement agent for offerings of our securities and provided us with other investment banking and advisory services.

On January 1, 2014, we entered into a Capital Market Advisory Agreement with Taglich Brothers pursuant to which Taglich Brothers provided us, on a non-exclusive basis, business advisory services for a monthly fee of \$7,000 and a warrant to purchase 10,000 shares of our common stock at an exercise price of \$8.72 per share. This agreement renewed annually until terminated in October 2016. We paid Taglich Brothers \$1,500 per month for posting its research reports on our company on its website pursuant to a research distribution agreement, or a total of \$18,000 for each of 2014 and 2015 and \$9,000 for 2016.

In connection with our public offering of 1,170,000 shares of common stock completed on June 3, 2014, we paid Taglich Brothers, which acted as placement agent for the offering, \$842,400, representing 8% of the gross proceeds of the offering as a sales commission, plus an additional \$75,000 in reimbursement of counsel fees. In addition, we granted Taglich Brothers placement agent warrants to purchase 46,800 shares of common stock, representing 4% of the shares sold in the offering as additional compensation. The warrants are exercisable for cash or on a cashless basis at a per share exercise price equal to \$11.25, commencing May 29, 2015 and expiring May 28, 2019.

On September 8, 2015, we borrowed \$350,000 from Michael N. Taglich and issued our promissory note in the principal amount of \$350,000 to evidence our obligation to repay that indebtedness. The note bore interest at the rate of 4% per annum and was payable on September 7, 2016.

On April 8, 2016, we borrowed \$350,000 from each of Michael N. Taglich and Robert F. Taglich and issued our promissory notes in the principal amount of \$350,000 to evidence our obligation to repay that indebtedness. The notes bore interest at the rate of 7% per annum and were payable on June 30, 2016, or earlier upon our receipt of proceeds from the sale of our equity securities in the aggregate amount of \$1,000,000.

On May 6, 2016, we borrowed \$400,000 from Michael N. Taglich and \$300,000 from Robert F. Taglich and issued our promissory notes in the principal amount of \$400,000 to Michael N. Taglich and \$300,000 to Robert F. Taglich to evidence our obligation to repay that indebtedness. The notes bore interest at the rate of 7% per annum and were payable on June 30, 2016, or earlier upon our receipt of proceeds from the sale of our equity securities in the aggregate amount of \$2,000,000.

On May 26, 2016, we issued 110,000 shares of our Series A Preferred Stock to Michael N. Taglich and 65,000 shares of our Series A Preferred Stock to Robert F. Taglich, with a stated value of \$10.00 per share, upon exchange of the aforementioned promissory notes in connection with the private placement of 700,000 shares of our Series A Preferred Stock, for which Taglich Brothers acted as co-placement agent.

As compensation for its services as co-placement agent for the private placement of our Series A Preferred Stock completed in June 2016, we paid Taglich Brothers a fee of \$326,000 and issued to Taglich Brothers five-year warrants to purchase 56,910 shares of common stock at an initial exercise price of \$6.15, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations.

In August 2016, we borrowed a total of \$1,500,000 from Michael N. Taglich and issued two promissory notes to Michael N. Taglich in principal amounts of \$500,000 and \$1,000,000 to evidence our obligation to repay that indebtedness. The notes bore interest at the rate of 7% per annum. The principal and interest were payable on December 31, 2016, or earlier upon our receipt of proceeds from the sale of our equity securities in the aggregate amount of \$2,000,000.

On August 19, 2016, we issued to Michael N. Taglich our 12% Subordinated Convertible Note due December 31, 2017 in the principal amount of \$1,520,713, together with warrants to purchase 61,817 shares of common stock, upon surrender for cancellation of promissory notes in the aggregate principal amount of \$1,500,000, together with accrued interest thereon and on notes previously exchanged for Series A Preferred Stock of \$20,713. In addition, we issued to Robert F. Taglich our 12% Subordinated Convertible Note due December 31, 2017 in the principal amount of \$4,373,

together with warrants to purchase 177 shares of common stock, in consideration of the forgiveness of interest of \$4,373 accrued on notes previously exchanged for Series A Preferred Stock. On November 30, 2016, upon the automatic conversion of the 12% Notes, we issued 157,191 shares of Series A Preferred Stock to Michael N. Taglich and 21,125 shares of Series A Preferred Stock to Robert F. Taglich.

As compensation for its services as placement agent for the private placement in August 2016 of our 12% Notes, we paid Taglich Brothers a fee of \$295,400 and issued to Taglich Brothers five-year warrants to purchase 68,617 shares of common stock at an initial exercise price of \$6.15, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations. The warrants may be exercised until July 31, 2021 and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise.

On November 23, 2016, we issued and sold to Michael N. Taglich and Robert F. Taglich our 8% Subordinated Convertible Notes due November 30, 2018 (the "2018 Notes") in the principal amounts of \$1,000,000 and \$100,000, respectively, together with five-year warrants to purchase 88,889 and 8,889 shares of common stock, respectively, for a purchase price of \$1,000,000 and \$100,000, respectively. The 2018 Notes have a conversion price of \$2.25 per share and the warrants have an exercise price of \$3.00 per share. The conversion price of the 2018 Notes and the exercise price of the warrants, as well as the number of shares issuable upon conversion of the 2018 Notes and the exercise of the warrants, are subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations. The warrants may be exercised until November 30, 2021 and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise.

As compensation for its services as placement agent for the private placement in November 2016 of the 2018 Notes, we issued to Taglich Brothers, in lieu of cash payment of sales commissions, 2018 Notes in the principal amount of \$112,000. We also issued to Taglich Brothers a five-year warrant to purchase 62,222 shares of common stock. The warrants may be exercised until November 30, 2021, have an exercise price of \$3.00, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations, and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise.

On December 22, 2016, we issued and sold to Michael N. Taglich and Robert F. Taglich 2018 Notes in the principal amounts of \$300,000 and \$200,000, respectively, together with warrants to purchase 22,815 shares and 15,209 shares, respectively, of common stock for a purchase price of \$300,000 and \$200,000, respectively. The outstanding principal amount plus accrued interest on the 2018 Notes are convertible at the option of the holder into shares of common stock at an initial conversion price of \$2.63, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations. The warrants may be exercised until November 30, 2021 and have an exercise price of \$3.00 per share, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations, and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise.

As compensation for its services as placement agent for the private placement in December 2016 of the 2018 Notes, we issued to Taglich Brothers, in lieu of cash payment of sales commissions, 2018 Notes in the principal amount of \$94,000. We also issued to Taglich Brothers five-year placement agent warrants to purchase 44,677 shares of common stock at an exercise price of \$3.00 per share and having the same terms as the warrants issued to purchasers of the 2018 Notes in the December 2016 private placement.

On February 7, 2017, we issued and sold to Robert F. Taglich our 8% Subordinated Convertible Notes due January 31, 2019 in the principal amount of \$250,000 (one of a series of our 8% Subordinated Convertible Notes due January 31, 2019, hereinafter referred to as the "2019 Notes"), together with a five year warrant to purchase 19,230 shares of common stock for a purchase price of \$250,000. The 2019 Note issued to Robert F. Taglich has a conversion price of \$3.71 per share, and the warrant issued to Robert F. Taglich has an exercise price of \$3.71 per share. The conversion price of the 2019 Notes and the exercise price of the warrants, as well as the number of shares issuable upon conversion of the 2019 Notes and the exercise of the warrants, are subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations. The warrants may be exercised until January 31, 2022 and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise.

As compensation for its services as placement agent for the private placement in February 2017 of the 2019 Notes, we issued to Taglich Brothers, in lieu of cash payment of sales commissions, 2019 Notes in the principal amount of \$80,000 (of which a 2019 Note in the principal amount of \$20,000 has a conversion price of \$3.71 per share and a 2019 Note in the principal amount of \$60,000 has a conversion price of \$4.45 per share). We also issued to Taglich Brothers five-year placement agent warrants to purchase 29,816 shares of common stock at an exercise price of \$4.45

per share having the same terms as the warrants issued to purchasers of the 2019 Notes in the February 2019 private placement.

On March 8, 2017, we issued and sold to Robert F. Taglich a 2019 Note in the principal amount of \$100,000, together with a five year warrant to purchase 7,692 shares of common stock for a purchase price \$100,000. The 2019 Note issued to Robert F. Taglich has a conversion price of \$3.30 per share, and the warrant issued to Robert F. Taglich has an exercise price of \$3.30 per share. The conversion price of the 2019 Notes and the exercise price of the warrants, as well as the number of shares issuable upon conversion of the 2019 Notes and the exercise of the warrants, are subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations. The warrants may be exercised until January 31, 2022 and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise.

As compensation for its services as placement agent for the private placement in March 2017 of the 2019 Notes, we issued to Taglich Brothers, in lieu of cash payment of sales commissions, 2019 Notes in the principal amount of \$96,000 (of which a 2019 Note in the principal amount of \$44,400 has a conversion price of \$3.30 per share, a 2019 Note in the principal amount of \$43,600 has a conversion price of \$3.78 per share and a 2019 Note in the principal amount of \$8,000 has a conversion price of \$3.25 per share) and five-year warrants to purchase a total of 7,386 shares of common stock (of which warrants to purchase 3,416 shares have an exercise price of \$3.30 per share, warrants to purchase 3,354 shares have an exercise price of \$3.78 and warrants to purchase 616 shares have an exercise price of \$4.00). We also issued to Taglich Brothers placement agent warrants to purchase a total of 36,877 shares of common stock, of which warrants to purchase 17,030 shares have an exercise price of \$3.30 per share, warrants to purchase 16,770 shares have an exercise price of \$3.78 and warrants to purchase 3,077 shares have an exercise price of \$4.00, and having the same terms as the warrants issued to purchasers of the 2019 Notes in the March 2019 private placement.

On March 8, 2017, we issued and sold to Robert F. Taglich a 2019 Note in the principal amount of \$100,000, together with a five year warrant to purchase 7,692 shares of common stock for a purchase price \$100,000. The 2019 Note issued to Robert F. Taglich has a conversion price of \$3.30 per share, and the warrant issued to Robert F. Taglich has an exercise price of \$3.30 per share. The conversion price of the 2019 Notes and the exercise price of the warrants, as well as the number of shares issuable upon conversion of the 2019 Notes and the exercise of the warrants, are subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations. The warrants may be exercised until January 31, 2022 and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise.

As compensation for its services as placement agent for the private placement in March 2017 of the 2019 Notes, we issued to Taglich Brothers, in lieu of cash payment of sales commissions, 2019 Notes in the principal amount of \$96,000 (of which a 2019 Note in the principal amount of \$44,400 has a conversion price of \$3.30 per share, a 2019 Note in the principal amount of \$43,600 has a conversion price of \$3.78 per share and a 2019 Note in the principal amount of \$8,000 has a conversion price of \$3.25 per share) and five-year warrants to purchase a total of 7,386 shares of common stock (of which warrants to purchase 3,416 shares have an exercise price of \$3.30 per share, warrants to purchase 3,354 shares have an exercise price of \$3.78 and warrants to purchase 616 shares have an exercise price of \$4.00). We also issued to Taglich Brothers placement agent warrants to purchase a total of 36,877 shares of common stock, of which warrants to purchase 17,030 shares have an exercise price of \$3.30 per share, warrants to purchase 16,770 shares have an exercise price of \$3.78 and warrants to purchase 3,077 shares have an exercise price of \$4.00, and having the same terms as the warrants issued to purchasers of the 2019 Notes in the March 2019 private placement.

On March 17, 2017, we borrowed \$200,000 and \$300,000 from each of Michael N. Taglich and Robert F. Taglich, respectively, directors and principal stockholders of our company, and issued our promissory notes in the principal amounts of \$200,000 and \$300,000 to Michael N. Taglich and Robert F. Taglich, respectively, to evidence our obligation to repay that indebtedness (the “Taglich Notes”). The Taglich Notes bear interest at the rate of 7% per annum and are payable on March 17, 2018. The Taglich Notes have been amended to provide for the automatic conversion of the indebtedness evidenced thereby into shares of common stock at a conversion price of \$1.50 per share, the public offering price of the shares of our common stock sold in the Public Offering, following the stockholder vote upon the



Restructuring Transactions at our 2017 Annual Meeting of Stockholders, even if stockholders do not approve the Restructuring Transactions.

On May 2, 2017, we borrowed \$500,000 from each of Michael N. Taglich and Robert F. Taglich, and on May 10, 2017 we borrowed an additional \$250,000 from each of Michael N. Taglich and Robert F. Taglich (collectively, the “Taglich Loans”). The Taglich Loans were exchanged for May 2018 Notes in the same principal amount of indebtedness.

On May 12, 2017 each of Michael N. Taglich and Robert F. Taglich acquired \$774,217 principal amount of our May 2018 Notes, together with warrants to purchase 93,279 shares of our common stock, in consideration for the cancellation of the indebtedness related to the Taglich Loans. For a discussion of the terms of the May 2018 Notes, see the section of this prospectus captioned “Description of Securities – May 2018 Notes”. On May 19, 2017, a partnership of which Michael N. Taglich and Robert F. Taglich are partners, acquired \$205,780 principal amount of May 2018 Notes and warrants to purchase 24,792 shares of our common stock for a purchase price of \$199,786. The warrants, when issued, were exercisable at an initial exercise price of \$2.49 per share until May 12, 2022, and may be exercised on a cashless basis for a lesser number of shares based upon prevailing market prices when exercised. The exercise price of the warrants is subject to anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as recapitalizations, mergers and other business combination transactions. In accordance with the terms of the warrants, the exercise price has been reduced to \$1.50 per share, the public offering price of the shares of common stock sold in the Public Offering.. We have agreed to pay Taglich Brothers \$176,155 in sales commissions in connection with the May 2018 Note financing.

The May 2018 Notes beneficially owned by Michael N. Taglich and Robert F. Taglich have been amended to require stockholder approval for the conversion thereof to comply with applicable rules of the NYSE MKT. At a meeting on July 24, 2017, the Board of Directors adopted a resolution authorizing the conversion of the May 2018 Notes at a conversion price of \$1.50 per share following the stockholder vote upon the Restructuring Transactions at our 2017 Annual Meeting of Stockholders, even if stockholders do not approve the Restructuring Transactions.

In connection with the Public Offering, on July 12, 2017, we amended the Certificate of Designation authorizing the issuance of the Series A Preferred Stock, to provide for the automatic conversion of the outstanding shares of Series A Preferred Stock into shares of common stock at a conversion price of \$1.50 per shares, the public offering price of the shares sold in the Public Offering, subject to stockholder approval in accordance with the applicable rules of the NYSE MKT, including the automatic conversion of 298,968 shares of Series A Preferred Stock beneficially owned by Michael N. Taglich and 105,696 shares of Series A Preferred Stock beneficially owned by Robert F. Taglich, principal partners of Taglich Brothers and principal stockholders and directors of our company, into 1,993,120 shares and 704,640 shares, respectively, of common stock. At a meeting on July 24, 2017, the Board of Directors adopted a further amendment to the Certificate of Designation, subject to approval by a majority of the holders of the Series A Preferred Stock, authorizing the automatic conversion of the outstanding shares of Series A Preferred Stock at a conversion price of \$1.50 per share following the stockholder vote upon the Restructuring Transactions at our 2017 Annual Meeting of Stockholders, even if stockholders do not approve the Restructuring Transactions.

Taglich Brothers or its affiliates may in the future provide investment banking, commercial banking and/or other services to us from time to time, for which they may in the future receive customary fees and expenses.

The foregoing transactions were reviewed and approved by the Audit Committee or our Board of Directors. We believe that the terms of each transaction were not less favorable to us than those terms that could be obtained from an unaffiliated third party.

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information known to us regarding beneficial ownership of our Series A Preferred Stock and our common stock as of August 22, 2017 (the “Record Date”), by (i) each person known by us to own beneficially more than 5% of our outstanding Series A Preferred Stock or common stock, (ii) each of our directors, (iii) our chief executive officer, and (iii) all of our directors and executive officers as a group. Except as otherwise indicated, we believe, based on information provided by each of the individuals named in the table below, that such individuals have sole investment and voting power with respect to such shares, subject to community property laws, where applicable. As of August 22, 2017 we had outstanding 1,294,441 shares of our Series A Preferred Stock and 14,065,770 shares of our common stock. Each share of Series A Preferred Stock is convertible into 2.0325 shares of common stock (at the current conversion price of \$4.92) and holders of Series A Preferred Stock vote together with holders of common stock as a single class, except on certain matters specified in the Certificate of Designation authorizing the issuance of the Series A Preferred Stock and as required under applicable law. Holders of Series A Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which the shares of Series A Preferred Stock owned of record by such shareholder could have been converted on August 22, 2017 (2.0325 times the number of shares of Series A Preferred Stock owned of record) and each share of common stock entitled to one vote. Except as stated in the table, the address of the holder is c/o our company, 360 Motor Parkway, Suite 100, Hauppauge, New York 11788.

Name	Number of Shares		Percent of Class	
	Series A Preferred	Common	Series A Preferred	Common
Directors and Executive Officers:				
Michael N. Taglich	298,968	2,530,282 <sup>(1)</sup>	23.10%	15.61%
Robert F. Taglich	105,696 <sup>(2)</sup>	1,675,383 <sup>(3)</sup>	8.17%	10.93%
Peter D. Rettaliata	0	67,035 <sup>(4)</sup>	—	*
Seymour G. Siegel	0	19,039 <sup>(5)</sup>	—	*
David Buonanno	2,797	26,550 <sup>(6)</sup>	*	*
Robert Schroeder	0	122,207 <sup>(7)</sup>	—	*
Michael Brand	0	15,250 <sup>(8)</sup>	—	*
Daniel Godin	0	0 <sup>(9)</sup>	—	—
All Directors and Executive Officers as a group (9 persons)	407,461	4,302,571 <sup>(10)</sup>	31.48%	24.54%

\*Less than 1%

(1) Includes 30,736 shares owned by Taglich Brothers and other entities controlled by Mr. Taglich, 607,652 shares he may acquire upon conversion of the Series A Preferred Stock, 727,340 shares he may acquire upon conversion of 8% Notes (including 144,281 shares that may be acquired by Taglich Brothers upon conversion of 8% Notes), 393,572 shares he may acquire upon conversion of May 2018 Notes (including 82,642 shares which may be acquired by a partnership of which he is a partner), 395,245 shares he may acquire upon exercise of warrants (including 17,385 shares which may be acquired by Taglich Brothers and 24,792 shares which may be acquired by a partnership of which he is a partner) and 15,250 shares he may acquire upon exercise of options, in each case exercisable within 60 days.

(2) Includes 6,478 shares owned as custodian for his children.

(3) Includes 30,736 shares owned by Taglich Brothers and other entities controlled by Mr. Taglich, 214,827 shares he may acquire upon conversion of the Series A Preferred Stock (13,646 of which are owned as custodian for his children), 371,698 shares he may acquire upon conversion of 8% Notes (including 144,281 shares that may be acquired by Taglich Brothers upon conversion of 8% Notes), 393,572 shares he may acquire upon conversion of May 2018 Notes (including 82,642 shares which may be acquired by a partnership of which he is a partner), 271,397 shares he may acquire upon exercise of warrants (including 17,385 shares which may be acquired by Taglich Brothers, 24,792 shares which may be acquired by a partnership of which he is a partner and 2,436 shares which may be acquired as custodian for his children) and 15,250 shares he may acquire upon exercise of options, in each case exercisable within 60 days.

(4) Includes 64,216 shares he may acquire upon exercise of options exercisable within 60 days.

(5) Includes 15,250 shares he may acquire upon exercise of options exercisable within 60 days.

(6) Includes 5,684 shares he may acquire upon conversion of Series A Preferred Stock, 1,016 shares he may acquire upon exercise of warrants and 15,250 shares he may acquire upon exercise of options, in each case exercisable within 60 days.

(7) Includes 70,520 shares he may acquire upon exercise of warrants and 15,250 shares he may acquire upon exercise of options, in each case exercisable within 60 days.

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

(9) Mr. Godin resigned as President and CEO effective March 24, 2017. Options to purchase 100,000 shares of common stock expired unexercised as of that date.

(10) Includes 828,163 shares that may be acquired upon conversion of Series A Preferred Stock, 954,757 shares that may be acquired upon conversion of 8% Notes, 393,572 shares that may be acquired upon conversion of May 2018 Notes, 624,465 shares that may be acquired upon exercise of warrants and 401,768 shares that may be acquired upon exercise of options, in each case exercisable within 60 days.

## **Audit Committee Report to Stockholders**

*Pursuant to rules adopted by the SEC designed to improve disclosures related to the functioning of corporate audit committees and to enhance the reliability and credibility of financial statements of public companies, the Audit Committee of our Board of Directors submits the following report:*

The Audit Committee of the Board of Directors is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. The Audit Committee is composed of three directors, each of whom is independent within the meaning of NYSE MKT Rule 803A(2). The Audit Committee operates under a written charter approved by the Board of Directors.

Management is responsible for the Company's internal controls over financial reporting, disclosure controls and procedures and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with Public Company Accounting Oversight Board (PCAOB) standards and to issue reports thereon. The Audit Committee's responsibility is to monitor and oversee these processes. The Audit Committee has established a mechanism to receive, retain and process complaints on auditing, accounting and internal control issues, including the confidential, anonymous submission by employees, vendors, customers and others of concerns on questionable accounting and auditing matters.

In connection with these responsibilities, the Audit Committee met with management and the independent registered public accounting firm to review and discuss the December 31, 2016 audited consolidated financial statements. The Audit Committee also discussed with the independent registered public accounting firm the matters required by Statement on Auditing Standards Update No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the PCAOB in Rule 3200T. In addition, the Audit Committee received the written disclosures from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence, and the Audit Committee has discussed the independent registered public accounting firm's independence from the Company and its management.

Based upon the Audit Committee's discussions with management and the independent registered public accounting firm, and the Audit Committee's review of the representations of management and the independent registered public accounting firm, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for fiscal 2016 filed with the SEC.

The Audit Committee also has appointed, subject to stockholder ratification, Rotenberg Meril Solomon Bertiger & Guttilla, P.C. as the Company's independent registered public accounting firm for the fiscal year ending December 31,

2017.

Respectfully submitted,

THE AUDIT COMMITTEE

Seymour G. Siegel, Chairman

Robert C. Schroeder

David J. Buonanno

The Report of the Audit Committee should not be deemed filed or incorporated by reference into any other filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the Report of the Audit Committee therein by reference.

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**PROPOSAL TWO:**

**APPROVAL OF AN AMENDMENT TO OUR ARTICLES OF INCORPORATION**

**INCREASING THE NUMBER OF SHARES OF COMMON STOCK**

**WE ARE AUTHORIZED TO ISSUE**

**Introduction**

Under our Articles of Incorporation we are authorized to issue 3,000,000 shares of preferred stock, par value \$0.001 per share, and 25,000,000 shares of common stock, par value \$0.001 per share. As of August 22, 2017 we had authorized the issuance of 2,000,000 shares of Series A Convertible Preferred Stock (the “Series A Preferred Stock”), of which 1,294,441 shares were issued and outstanding, and we had 14,065,770 shares of common stock issued and outstanding. At a meeting of our Board of Directors on July 24, 2017, for the reasons discussed below, our Board of Directors adopted, subject to approval of our stockholders at the Annual Meeting, an amendment to our Articles of Incorporation increasing the number of shares of common stock we are authorized to issue from 25,000,000 shares to 50,000,000 shares (the “Charter Amendment”). A copy of the Certificate of Amendment to the Articles of Incorporation is annexed as Appendix A to this Proxy Statement.

Shares of Series A Preferred Stock are convertible into shares of our common stock at the rate of 2.0325 shares of common stock for each share of Series A Preferred Stock (equivalent to an initial conversion price of approximately \$4.92 per share of common stock), subject to certain anti-dilution and other adjustments, including stock splits, distributions in respect of the common stock and in the event of certain fundamental transactions such as mergers and other business combinations. If the Restructuring Transactions described in Proposal Three are consummated following the stockholder vote thereon at the Annual Meeting, we will be obligated to issue a total of 10,187,082 shares of common stock, including 8,629,606 shares upon the automatic conversion of the Series A Preferred Stock, 1,222,809 shares upon conversion of \$1,834,214 aggregate principal amount of May 2018 Notes and 334,667 shares upon the automatic conversion of the Taglich Notes. In addition, we are obligated to issue a total of 1,950,148 shares of common stock upon conversion of our outstanding 8% Subordinated Convertible Notes, a total of approximately a total of 1,469,530 shares of common stock upon exercise of outstanding warrants and 1,041,342 shares of common stock upon exercise of options granted to our non-employee directors, officers, employees and consultants under our incentive equity plans .

The Charter Amendment gives our Board of Directors authority to issue up to 50,000,000 shares of common stock. Our Board of Directors believes that it is necessary, and in the best interests of our company and its stockholders, to increase the number of authorized shares of common stock we may issue to enable it to respond quickly to opportunities to raise capital in public or private offerings, as well as to enable it to act with flexibility to issue shares of common stock in connection with strategic acquisitions, debt restructurings, equity compensation and incentives to



employees and officers, and other favorable opportunities that may arise to enhance our capital structure.

Other than as specified above, and upon conversion of shares of Series A Preferred Stock and other securities convertible into shares of our common stock, upon exercise of outstanding options and warrants, we have no present arrangements, agreements or understandings for the use of the additional shares proposed to be authorized. No additional action or authorization by the stockholders would be necessary prior to the issuance of any additional shares, unless required by applicable law. We reserve the right to seek a further increase in authorized shares, from time to time in the future as appropriate.

### **Effect of Proposal Two on Current Stockholders**

None of the rights of the holders of our common stock are being changed as a result of the adoption of the Charter Amendment and, therefore, the rights of the holders of our common stock will remain unchanged, including the right of holders of Series A Preferred Stock to vote on an as-converted basis, together with holders of common stock who will continue to have one vote for each share of common stock in voting upon any action requiring a vote of the holders of common stock, including the election of directors, and the right of holders of Series A Preferred Stock to vote as a separate class on certain matters specified in the certificate of designation for the Series A Preferred Stock and as required under applicable law, except that the voting rights of holders of our common stock as to particular matters, the right to receive the net proceeds of any liquidation of our company and the right to receive dividends when and if declared by our Board of Directors are subject to and may be limited by, the preferential rights of holders of any series of preferred stock which may be issued by resolution of our Board of Directors.

The issuance of any additional shares of common stock may, depending on the circumstances under which those shares are issued, reduce stockholders' equity per share and, unless additional shares are issued to all stockholders on a pro rata basis, will reduce the percentage ownership of common stock of existing stockholders. In addition, if our Board of Directors elects to issue additional shares of common stock, such issuance could have a dilutive effect on the earnings per share, voting power and shareholdings of current stockholders. We expect, however, to receive consideration for any additional shares of common stock issued, thereby reducing or eliminating any adverse economic effect to each stockholder of such dilution.

We have not entered into any agreements and do not have any understanding or arrangements for any particular business combination and we do not have any plans, arrangements or understandings, written or oral, to issue any of the shares that will be newly available as a result of the adoption of the Amendment. The issuance in the future of such additional authorized shares of our common stock as a result of the adoption of the Amendment may have the effect of diluting the earnings per share and book value per share, as well as the stock ownership and voting rights of the currently outstanding shares of common stock. The effective increase in the number of authorized but unissued shares of our common stock may be construed as having an anti-takeover effect by permitting the issuance of such securities to purchasers who might oppose a hostile takeover bid or oppose any efforts to amend or repeal certain provisions our Articles of Incorporation, as amended, or bylaws.

### **Anti-Takeover Effects**

Although the adoption of the Charter Amendment is not motivated by anti-takeover concerns and is not considered by our Board of Directors to be an anti-takeover measure, the availability of additional authorized shares of common stock could enable the Board of Directors to issue shares defensively in response to a takeover attempt or to make an attempt to gain control of our company more difficult or time-consuming. For example, shares of common stock could be issued to purchasers who might side with management in opposing a takeover bid that the Board of Directors determines is not in our best interests, thus diluting the ownership and voting rights of the person seeking to obtain control of our company. In certain circumstances, the issuance of preferred Stock or common stock without further action by the stockholders may have the effect of delaying or preventing a change in control of our company, may discourage bids for our common stock at a premium over the prevailing market price and may adversely affect the market price of our common stock. As a result, increasing the authorized number of shares of our common stock could render more difficult and less likely a hostile takeover, tender offer or proxy contest, assumption of control by a holder of a large block of our stock, and the possible removal of our incumbent management. We are not aware of any proposed attempt to take over our company or of any present attempt to acquire a large block of our common stock.

***No Dissenter or Appraisal Rights***

Stockholders do not have any dissenter or appraisal rights in connection with the Charter Amendment under Nevada law.

**Required Vote**

Approval of the Charter Amendment requires the receipt of the affirmative vote of a majority of the outstanding shares of Series A Preferred Stock, voting on an as converted basis (2.0325 votes times the number of shares of Series A Preferred Stock owned of record), together with the outstanding shares of common stock as a single class.

**Consequences if Charter Amendment Is Not Approved by Stockholders**

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