Risk Factors Comparison 2023-07-18 to 2022-07-21 Form: 10-K

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Risks Related to Our Business and Industry We are affected by factors that adversely impact the commercial aviation industry. As a provider of products and services to the commercial aviation industry, we are greatly affected by overall economic conditions of that industry. The commercial aviation industry is historically cyclical and has been negatively affected in the past by geopolitical events, conflicts and wars, weather related events, natural disasters, pandemics, disruption to fuel and oil production and supply shortages, high fuel and oil prices, environmental concerns (including climate change), lack of capital, cost inflation, and weak economic conditions. As a result of these and other events, from time to time certain of our customers have filed for bankruptcy protection or ceased operation. The impact of instability in the global financial markets may lead airlines to reduce domestic or international capacity. In addition, certain of our airline customers have in the past been impacted by tight credit markets, which limited their ability to buy parts, services, engines, and aircraft. A reduction in the operating fleet of aircraft both in the U. S. and abroad will result in reduced demand for parts support and maintenance activities for the type of aircraft affected. A deteriorating airline environment may also result in **our inability** ~~additional airline bankruptcies, and in such circumstances we may not be able~~ to fully collect outstanding accounts receivable, which **we experienced** ~~was recently seen over the past two years~~ during **the height of** the COVID- 19 pandemic **in 2020 and 2021** . Reduced demand from customers caused by weak economic conditions, including tight credit conditions and customer bankruptcies, may adversely impact our financial condition or results of operations. In addition, an increase in energy costs and the price of fuel to the airlines could result in additional pressure on the operating costs of airlines, who comprise our largest customers. The market for jet fuel is inherently volatile and is subject to, among other things, changes in government policy on jet fuel production, fluctuations in the global supply of crude oil and disruptions in oil production or delivery caused by hostility in oil- producing areas. Airlines are sometimes unable to pass on increases in fuel prices to customers by increasing fares due to the competitive nature of the airline industry, and this compounds the pressure on operating costs, and in turn, airlines' ability to do business with us. In addition, our business depends on maintaining a sufficient supply of various products to meet our customers' demands. If we were to lose a key supplier, or were unable to obtain the same levels of deliveries from these suppliers and were unable to supplement those purchases with products obtained from other suppliers, it could have a material adverse effect on our business. Additionally, our key suppliers could also increase the pricing of their products, which would negatively affect our operating results if we were not able to pass these price increases through to our customers. Our business, financial condition, results of operations, and growth rates have been and may continue to be adversely affected by these and other events that impact the aviation industry, including the following: ● deterioration in the financial condition of our existing and potential customers; ● reductions in the need for, or the deferral of, aircraft maintenance and repair services and spare parts support; ● retirement of older generation aircraft, resulting in lower prices for spare parts and services for those aircraft; ● reductions in demand for used aircraft and engines; ● increased in- house maintenance by airlines; ● lack of parts in the marketplace; ● acts of terrorism; ● economic sanctions; ● inflationary pressures **and conditions** ; ● political, social and economic instability and disruptions; ● cost of labor shortages and other changes in labor conditions; ● future outbreaks of infectious diseases; and ● acts of God. **Pandemics and other disease outbreaks, such as COVID- 19, and similar public health threats that may arise in the future, may have a material adverse impact on our business, results of operations, financial condition, and liquidity. While commercial airline traffic recovered significantly from COVID- 19 over the last two years, pandemics, disease outbreaks or similar public health threats, continues to pose a range of risks to our business. The emergence of new variants or diseases, developments in the public health situation, the reimposition of regional or global travel restrictions, and other pandemic- related complications could have a negative impact on our business. 10Reduced numbers of aircraft flying or flight hours negatively impacts the demand for our aftermarket parts support and maintenance services, and any prolonged reduction in the future could materially and adversely affect our business, operating results, financial condition, and liquidity. From the COVID- 19 pandemic, some businesses have expanded remote working opportunities and continued to restrict non- essential travel for their employees, which has kept demand for business air travel below pre- pandemic levels. Consumer behavior related to traveling may continue to be negatively impacted by adverse changes in business travel patterns or adverse changes in the perceived or actual economic climate, including declines in income levels and / or loss of wealth resulting from the impact from economic conditions. We are unable to predict the extent to which disease outbreaks or other public health threats that may arise in the future may change air travel, which could have a material impact on our business. The degree to which any future disease outbreaks or public health threats may impact our business, results of operations, financial condition, and liquidity is uncertain and will depend on future developments.** Our U. S. government contracts may not continue at present sales levels, which may have a material adverse effect on our financial condition and results of operations. Our sales to branches, agencies and departments of the U. S. government and their contractors were $ ~~620~~ **577** . 0 million (~~34~~ **29** . ~~1~~ **0** % of consolidated sales) in fiscal ~~2022~~ **2023** (See Note ~~15~~ **16** of Notes to Consolidated Financial Statements). The majority of our U. S. government sales is for products and services supporting DoD aircraft sustainment and mobility strategy and DoS flight operations and are, therefore, subject to changes in defense and other governmental agency funding and spending. Our contracts with the U. S. government and their contractors are typically agreements to provide products and services at a fixed price and have a term of one year or less, frequently subject to extension for one or more additional periods of one year at the option of the government customer. Sales to agencies of the U. S. government and their contractors are subject to a number of factors, including the level of troop and personnel deployment worldwide, competitive bidding, U. S. government funding, requirements generated by world events, and budgetary constraints. For example, in conjunction with the U. S. exit from Afghanistan in fiscal 2022, we concluded our activities in country under our ~~WASS~~ **DoS** and **DoD** ~~U. S. Department of Defense~~ contracts. U. S. government programs are subject to annual congressional budget authorization and appropriation processes. In recent years, U. S. government appropriations have been affected by larger U. S. government budgetary issues and related legislation, including the statutory limit on the amount of permissible federal debt. These issues could negatively affect the timely collection of our U. S. government invoices. Future congressional appropriation and authorization of defense spending and the application of sequestration remain marked by significant debate and an uncertain schedule. The federal debt limit continues to be actively debated as plans for long- term national fiscal policy are discussed. The outcome of these debates could have a significant impact on defense spending broadly and programs we support in particular. ~~9If~~ - **If** there are funding delays and constraints, we may be required to continue to perform for some period of time on certain of our U. S. government contracts even if the U. S. government is unable to make timely payments. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions could result in reductions, cancellations, and / or delays of existing contracts or programs which could adversely affect our results of operations and financial condition. In addition, U. S. government programs budgets could be negatively impacted **by** ~~under President Biden' s administration, including~~ possible policy changes on defense spending, spending priorities outside defense, reduction in military presence overseas and in general pressure to reduce U. S. defense spending. A significant reduction in defense spending could result in a reduction in the amount of our products and services furnished to the U. S. government ~~. In light of COVID- 19, the percentage of our revenue that comes from government contracts increased and became more important to our overall business, which heightens the possible adverse effects on our results of operations and financial condition of any reduction in the sales levels of our U. S. government contracts~~ . We use estimates when accounting for long- term contracts and face risks of cost overruns and losses on these contracts. We sell certain of our products and services to our commercial, government, and defense customers under firm contracts providing for fixed unit prices, regardless of costs incurred by us. The cost of providing products or services may be adversely affected by increases in the cost of labor, materials, fuel, overhead, and other unknown variants, including manufacturing and other operational ~~inefficiencies~~ **11inefficiencies** and differences between assumptions used by us to price a contract and actual results. Increased costs may result in cost overruns and losses on such contracts, which could adversely affect our results of operations and financial condition. We recognize revenue on our long- term contracts primarily over time as there is continuous transfer of control to the customer over the duration of the contract as the services are delivered, which generally requires estimates of total costs at completion, fees earned on the contract, or both. This estimation process is complex and involves significant judgment related to assumptions on flight hours, component repair costs, labor hours and rates, and contract penalties and incentives. Adjustments to estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in ~~estimate~~ **estimates** is recognized as events become known. Changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect our future financial results. If our subcontractors or suppliers fail to perform their contractual obligations, our contract profitability and our ability to win new contracts may be adversely affected. We rely on subcontractors to perform a portion of the services we agree to provide our customers, and our suppliers provide necessary inventory and component parts. A failure by one or more of our subcontractors or suppliers to satisfactorily provide on a timely basis the agreed- upon services or supplies may affect our ability to perform our contractual obligations. Deficiencies in the performance of our subcontractors and / or suppliers could result in liquidated damages or our customer terminating our contract for default. A termination for default could expose us to liability and adversely affect our financial performance and our ability to win new contract awards. Success at our airframe maintenance facilities is dependent upon continued outsourcing by the airlines **and our ability to maintain our operational footprint** . We currently perform airframe maintenance, repair, and overhaul activities at six leased locations. If our maintenance facilities become unavailable either temporarily or permanently due to **our inability to extend our leases on commercial reasonable terms,** labor disruptions or circumstances beyond our control, such as geopolitical developments or logistical complications arising from acts of war, cyber- attacks, weather, global climate change, earthquakes or other natural disasters including public health crises, we may be unable to shift such work to other facilities or to make up for lost work. Revenues at these facilities fluctuate based on demand for maintenance which, in turn, is driven by the number of aircraft operating and the extent of outsourcing of maintenance activities by airlines. In addition, certain airlines operate certain new fleet types and / or newer generation aircraft and we may not have contractual arrangements to service these aircraft nor technicians trained and certified to perform the required airframe maintenance, repair, and overhaul activities. If either the number of aircraft operating or the level of outsourcing of maintenance activities declines, we may not be able to execute our operational and financial plans at our maintenance, repair, and overhaul facilities, which could adversely affect our results of operations and financial condition. ~~10Our~~ -- **Our** operations ~~would~~ **may** be adversely affected by a shortage of skilled personnel or work stoppages. Our business has historically been dependent on educated and skilled aviation mechanics because of the complex nature of many of our products and services. We face competition for management and qualified technical personnel from other companies and organizations. Furthermore, we have a collective bargaining agreement covering approximately 200 employees ~~(5 % of employees)~~ in our Expeditionary Services segment **(approximately 5 % of our total workforce)** . Our ability to operate successfully and meet our customers' demands could be jeopardized if we are unable to attract and retain a sufficient number of skilled personnel, including aviation mechanics, to conduct our business, or we experience a significant or prolonged work stoppage in such an environment **. In such case** , our ability to secure new work and our results of operations and financial condition could be adversely affected. There is significant competition for such personnel in the industries in which we operate. We may be impacted by higher labor costs and / or labor shortages due to wage and salary inflationary pressures in the economy, a tightening labor market and increased rates of employee resignations generally throughout the U. S. economy. ~~We~~

Employees in certain locations have shown increased interest in unionization. If a significant portion of our employees were to become unionized, our labor costs could increase and our business could be negatively affected by other requirements and expectations that could increase our costs, change our employee culture, decrease our flexibility and disrupt our business. Additionally, our responses to any union organizing efforts could negatively impact how we are perceived and have adverse effects on our business, including on our financial results. These responses could also expose us to legal risk, causing us to incur costs to defend legal and regulatory actions, potential penalties and restrictions or reputational harm. 12We operate in highly competitive markets, and competitive pressures may adversely affect us. The markets for our products and services to our commercial, government, and defense customers are highly competitive, and we face competition from a number of sources, both domestic and international. Our competitors include aircraft manufacturers, aircraft component and parts manufacturers, airline and aircraft service companies, other companies providing maintenance, repair and overhaul services, other aircraft spare parts distributors and redistributors. Some of our competitors have substantially greater financial and other resources than we have and others may price their products and services below our selling prices. These competitive markets also create pressure on our ability to hire and retain qualified technicians and other skilled labor needs. We believe that our ability to compete depends on superior customer service and support, on- time delivery, sufficient inventory availability, competitive pricing, and effective quality assurance programs. Our government customers, including the DoD and DoS, may turn to commercial contractors, rather than traditional defense contractors, for certain work, or may utilize set asides such as small business, women- owned, or minority- owned contractors or determine to source work internally rather than use us. We are also impacted by bid protests from unsuccessful bidders on new program awards and task orders. Bid protests could result in significant expense for us, contract modifications, or the award decision being overturned and loss of the contract award. Even where a bid protest does not result in the loss of an award, the resolution can extend the time until the contract activity can begin, and delay earnings. These competitive pressures, with potential impacts on both our commercial and government business, could adversely affect our results of operations and financial condition. We are exposed to risks associated with operating internationally. We conduct our business in a number of foreign countries, some of which are politically unstable or subject to military or civil conflicts. Consequently, we are subject to a variety of risks that are specific to international operations, including the following: ● military conflicts, civil strife, and political risks; ● export regulations that could erode profit margins or restrict exports; ● export controls and financial and economic sanctions imposed on certain industry sectors, including the aviation sector, and parties in Russia by the U. S., the U. K., the European Union and others; ● compliance with the U. S. Foreign Corrupt Practices Act, United Kingdom (" UK ") Bribery Act 2010, and other anti- bribery and anti- corruption laws; see Note ~~16~~ **17** of Notes to Consolidated Financial Statements for information about certain pending proceedings; ● the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations; ● contract award and funding delays; ● potential restrictions on transfers of funds; ~~11~~ ● import and export duties and value added taxes; ● foreign exchange risk; ● transportation delays and interruptions ~~, including those related to COVID- 19 travel restrictions~~ ; ● uncertainties arising from foreign local business practices and cultural considerations; and ● changes in U. S. policies on trade relations and trade policy, including implementation of or changes in trade sanctions, tariffs, and embargoes. Any measures adopted to reduce the potential impact of losses resulting from the risks of doing business internationally, may not be adequate, and the regions in which we operate might not continue to be stable enough to allow us to operate profitably or at all. ~~Acquisitions~~ **13Acquisitions** expose us to risks, including the risk that we may be unable to effectively integrate acquired businesses. We have completed acquisitions in the past and we have discussions with third parties regarding acquisitions on a regular basis. Acquisitions involve risks, including difficulties in integrating the operations and personnel, the effects of amortization of any acquired intangible assets and the potential impairment of goodwill, and the potential loss of key employees of the acquired business. In addition, acquisitions often require substantial management resources and have the potential to divert our attention from our existing business. For any businesses we may acquire in the future, we may not be able to execute our operational, financial, or integration plans for the acquired businesses, which could adversely affect our results of operations and financial condition. **We may not realize the anticipated benefits of the Trax acquisition, and may face difficulties integrating Trax' s operations. We expect the acquisition of Trax, as a provider of comprehensive MRO and airline fleet management software, to expand our proprietary technology and digital portfolio and accelerate our strategy to offer digital solutions to our customers. However, we may not realize the anticipated benefits of the Trax acquisition or our digital solutions strategy, including any synergies, cross- selling opportunities, cost savings or growth opportunities. These benefits may not be achieved within the anticipated time frame, or at all. Further, we may not be able to execute our integration plans for Trax and may face diversion of management attention from our existing business, unanticipated costs and risks associated with expanding further into the digital solutions market. Failing to realize the anticipated benefits and difficulties integrating Trax could have a material adverse effect on business, operating results and financial condition.** Market values for our aviation products fluctuate and we may be unable to recover our costs incurred on engines, rotable components and other aircraft parts. We make a number of assumptions when determining the recoverability of rotable components, engines, and other assets which are on lease, available for lease, or supporting our long- term programs. These assumptions include historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Reductions in demand for these assets or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the recoverability of our aircraft, engines, and other assets, could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition. Our business could be negatively affected by cyber or other security threats or other disruptions. Our business depends heavily on information technology and computerized systems to communicate and operate effectively. We store sensitive data including proprietary business information, intellectual property and confidential employee or other personal data on our servers and databases. Our systems and technologies, or those of third parties on which we rely, could fail or become unreliable due to equipment failures, software viruses, cyber threats, ransomware attacks, terrorist acts, natural disasters, power failures, political or social unrest, pandemics or other public health issues or other causes. These threats arise in some cases as a result of our role as a defense contractor. Cyber security threats are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to our sensitive information, business e- mail compromises, ransomware attacks, and other electronic security breaches, including at our customers, suppliers, subcontractors, and joint venture partners, that could lead to disruptions in mission critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. ~~12A~~ **14A** theft, loss, fraudulent use or misuse of customer, stockholder, employee or our proprietary data by cybercrime or otherwise, noncompliance with our contractual or other legal obligations regarding such data or a violation of our privacy and security policies with respect to such data could adversely impact our reputation and could result in costs, fines, litigation or regulatory action against us. Security breaches can create system disruptions and shutdowns that could result in disruptions to our operations. We cannot be certain that advances in criminal capabilities, new vulnerabilities or other developments will not compromise or breach the security solutions protecting our information technology, networks and systems. A failure of or cyber - attack on our information systems technology or those of our partners, customers, vendors, or suppliers could adversely affect our ability to process orders, maintain proper levels of inventory, collect accounts receivable and pay expenses; all of which could have an adverse effect on our results of operations, financial condition and cash flows. Such serious harm can involve, among other things, misuse of our assets, business disruptions, loss of data, unauthorized access to trade secrets and confidential business information, unauthorized access to personal information, legal claims or proceedings, reporting errors, processing inefficiencies, negative media attention, reputational harm, loss of sales, remediation and increased insurance costs, and interference with regulatory compliance. We have experienced and expect to continue to experience some of these types of cybersecurity threats and incidents, which could be material in the future. The procedures and controls we utilize to monitor and mitigate these threats may not be sufficient to prevent security threats from materializing. If any of these events were to materialize, the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified and could have a material adverse effect on our reputation, operating results, and financial condition. Moreover, expenditures incurred in implementing and maintaining cyber security and other procedures and controls could adversely affect our results of operations and financial condition. We may need to make significant capital expenditures to keep pace with technological developments in our industry. The industries in which we participate are constantly undergoing development and change, and it is likely that new products, equipment, and methods of repair and overhaul services will be introduced in the future. We may need to make significant expenditures to purchase new equipment and to train our employees to keep pace with any new technological developments. These expenditures could adversely affect our results of operations and financial condition. ~~Risk~~ **Risks** Related to Financial MattersWe may need to reduce the carrying value of our assets. We own and distribute a significant amount of engines, aircraft parts and components, as well as own manufacturing facilities and joint venture investments. Recurring losses in certain operations could require us to evaluate the recoverability of the carrying value of the related assets and recognize an impairment charge through earnings to reduce the carrying value ~~. During fiscal 2020, we recognized impairment charges of $ 11. 8 million related to our COCO business which is classified as a discontinued operation. In addition, we recognized impairment charges over the last three years of $ 2. 6 million related to our Malaysian joint venture~~ . In addition, if aircraft or engines for which we offer replacement parts or supply repair and overhaul services are retired and there are fewer aircraft that require these parts or services, our revenues may decline. We make a number of assumptions when determining the recoverability of our assets, including historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Differences between actual results and the assumptions utilized by us when determining the recoverability of our assets could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition. We have recorded goodwill and other intangible assets related to acquisitions **, including $ 122. 3 million associated with our acquisition of Trax in fiscal 2023** . If we are unable to achieve the projected levels of operating results, it may be necessary to record an impairment charge to reduce the carrying value of goodwill and related intangible assets. Similarly, if we were to lose a key customer or if a regulator were to terminate any of our repair certificates at our airframe maintenance or landing gear facilities, we might be required to record an impairment charge if we were unable to operate. ~~13We~~ **We** may not be able to fully execute our stock repurchase program and may not otherwise return capital to our stockholders in the foreseeable future. In 2021, we announced a stock repurchase program **with authorization to** ~~in which we may~~ repurchase up to $ 150 million of our common stock **, of which $ 92. 4 million has been repurchased under the program as of May 31, 2023** . There is no guarantee as to the exact number of shares or value that will be repurchased under the stock repurchase program and we may discontinue purchases at any time. Whether ~~we~~ **15we** make any further repurchases will depend on many factors, including but not limited to our business and financial performance, the business and market conditions at the time, including the price of our shares, and other factors that management considers relevant. Additionally, we expect to fund repurchases under our stock repurchase program through cash on hand, which may impact our ability to pursue potential strategic opportunities. Although our stock repurchase program is intended to enhance long- term stockholder value, short- term stock price fluctuations could reduce the program' s effectiveness and there can be no assurance that any stock repurchases will enhance stockholder value. Our credit agreement prohibits payment of a dividend or repurchase of our stock if a default exists under the agreement. In addition, we have not declared a dividend on our common stock since 2020, and there can be no assurance that we will do so in the foreseeable future. **The declaration and payment of cash dividends is at the discretion of our Board of Directors and will be dependent upon our future earnings, cash flows, financial condition, capital requirements and strategy and any future government restrictions.** If we do not pay dividends or continue to execute on our stock repurchase program, investors will have to rely on the possibility of stock appreciation and sell their shares to realize a return on their investment. We are dependent upon continued availability of financing to manage our business and to execute our business strategy, and additional financing may not be available on terms acceptable to us. Our ability to manage our business and to execute our business strategy is dependent, in part, on the continued availability of debt and equity capital. Access to the debt and equity capital markets may be limited by various factors, including the condition of overall credit markets, general economic factors **, interest rates** , state of the aviation industry, our financial performance, and credit ratings. Debt and equity capital may not continue to be available to us on favorable terms, or at all. Our inability to obtain financing on favorable terms could adversely affect our results of operations and financial condition. ~~LIBOR, the London interbank offered rate, is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. Interest rates under our Revolving Credit Facility (as defined below) are based partly on LIBOR. On March 5, 2021, the UK Financial Conduct Authority, which regulates LIBOR, announced that it would cease publication of all tenors of LIBOR immediately after June 30, 2023. Additionally, the Federal Reserve Board has advised banks to stop entering into new U. S. dollar LIBOR based contracts. The U. S. Federal Reserve has begun publishing a Secured Overnight Funding Rate which is currently intended to serve as an alternative reference rate to LIBOR. If lenders have increased costs due to changes in LIBOR, we may suffer from potential increases in interest rates on our borrowings. We may in the future pursue amendments to our LIBOR- based debt transactions to provide for a transaction mechanism or other reference rate in anticipation of LIBOR' s discontinuation, but we may not be able to reach agreement with our lenders on any such amendments.~~ Our existing debt includes restrictive and / or financial covenants. Certain financing arrangements, including our Revolving Credit Facility and our accounts receivable financing program, require us to comply with various restrictive covenants and some contain financial covenants that require us to comply with specified financial ratios and tests. Our failure to meet these covenants could result in default under these loan and debt agreements and may result in a cross- default under other debt agreements. In the event of a default and our inability to obtain a waiver of the default, all amounts outstanding under our debt agreements could be declared immediately due and payable. Our failure to comply with these covenants could adversely affect our results of operations and financial condition ~~. 14Risks Related to COVID- 19The COVID- 19 pandemic has had a material adverse impact on our business, results of operations, financial condition, and liquidity, and the duration and extent of the pandemic is uncertain. The COVID- 19 pandemic prompted governments and businesses to take unprecedented measures in response that have included international and domestic travel restrictions or advisories, restrictions on business operations, limitations on public gatherings, social distancing recommendations, temporary closures of businesses, remote work arrangements, closures of tourist destinations and attractions as well as quarantine and shelter- in- place orders. Even in the absence of formal restrictions and prohibitions, contagious illness and fear of contagion adversely affected travel demand and travel behavior although passenger airline traffic has been improving recently. With the roll- out of the COVID- 19 vaccines, many countries have started to lift their states of emergency and restrictions on air travel. With the easing of these restrictions, passenger airline traffic has started to pick- up in the United States, but business travel in particular remains well below pre-pandemic levels. In addition, we have seen and expect to continue to see reduced demand in our non- cargo commercial businesses in certain markets. In some cases, airlines have reduced their operating fleet of aircraft both in the U. S. and abroad which results in reduced demand for parts support and maintenance activities for the type of aircraft affected. Moreover, if the COVID- 19 pandemic continues to result in decreased worldwide commercial activity, it could also adversely affect the demand for airline cargo services. Reduced numbers of aircraft flying or flight hours has and will continue to negatively impact the demand for our services, and any prolonged reduction could materially and adversely affect our business, operating results, financial condition, and liquidity. As the situation surrounding the COVID- 19 pandemic remains fluid, the pandemic has continued to negatively impact travel demand and our business. It remains difficult to reasonably predict the full extent of the ongoing impact of the COVID- 19 pandemic on our longer- term operational and financial performance, which will depend on a number of future developments, many of which are outside our control, such as the ultimate duration of and factors impacting the recovery from the pandemic including the introduction and spread of new variants of the virus that may be resistant to currently approved vaccines or treatment options and the continuation of existing or implementation of new government travel restrictions. In addition, we source parts and components for our business from various suppliers around the world. Disruptions to our supply chain and business operations, or to our suppliers' or customers' supply chains and business operations, could have adverse effects on our ability to provide aftermarket support and services. Moreover, a prolonged epidemic or pandemic, or the threat thereof, could result in worker absences, lower productivity, voluntary closure of our offices and facilities, travel restrictions for our employees and other disruptions to our business. These impacts could have a material adverse effect on our business, financial condition or results of operations~~ . Risks Related to Legal and Regulatory MattersIf we fail to comply with government procurement laws and regulations, we could lose business and be liable for various penalties or sanctions. We must comply with laws and regulations relating to the formation, administration, and performance of government contracts. In the U. S., these laws and regulations include the Federal Acquisition Regulations, Defense Federal Acquisition Regulations, the Truth in Negotiations Act, Cost Accounting Standards, and laws, regulations, and orders restricting the use and dissemination of classified information under the U. S. export control laws and the export of certain products and technical information and safeguarding of contractor information systems. In addition, we are subject to U. S. government inquiries and investigations, including periodic audits of costs that we determine are reimbursable under government contracts. U. S. government agencies routinely audit government contractors, including the Company, to review performance under contracts, cost structure and compliance with applicable laws, regulations, and standards, as well as the adequacy of and compliance with internal control systems and policies, including the contractor' s purchasing, property, estimating, compensation and management information systems. Any costs found to be misclassified or inaccurately allocated to a specific contract are not reimbursable, and to the extent already reimbursed, must be refunded. Also, any inadequacies in our systems and policies could result in payments being withheld, penalties and reduced future business. ~~15U~~ **U** . S. government rules allow contracting officers to impose contractual withholdings at no less than certain minimum levels if a contracting officer determines that one or more of a contractor' s business systems have one or more significant deficiencies. If a contracting officer were to impose such a withholding on us or even ~~one~~ - **on a** ~~of our~~ prime ~~contractors~~ - **contractor where we are the subcontractor** , it would ~~increase~~ **16increase** the risk that we would not be paid in full or paid timely. If future audit adjustments exceed our estimates, our profitability could be adversely affected. If a government inquiry or investigation uncovers improper or illegal activities, we could be subject to civil or criminal penalties or administrative sanctions, including contract termination, fines, forfeiture of fees, suspension of payment and suspension or debarment from doing business with government agencies, any of which could materially adversely affect our reputation, business, financial condition and results of operations. ~~See Note 16 of Notes to Consolidated Financial Statements for information about certain pending proceedings.~~ We are subject to significant government regulation and may need to incur significant expenses to comply with new or more stringent governmental regulation. The aviation industry is highly regulated by the FAA in the ~~United States~~ **U. S.** and equivalent regulatory agencies in other countries. Before we sell any of our products that are to be installed in an aircraft, such as engines, engine parts and components, and airframe and accessory parts and components, they must meet certain standards of airworthiness established by the FAA or the equivalent regulatory agencies in certain other countries. We operate repair stations that are licensed by the FAA and the equivalent regulatory agencies in certain other countries, and hold certificates to operate aircraft. Specific regulations vary from country to country; although regulatory requirements in other countries are generally satisfied by compliance with FAA requirements. New and more stringent governmental regulations may be adopted in the future that, if enacted, may have an adverse impact on us. If any of our material licenses, certificates, authorizations, or approvals were revoked or suspended by the FAA or equivalent regulatory agencies in other countries, our results of operations and financial condition may be adversely affected. Our industry is susceptible to product and other liability claims, and claims not adequately covered by insurance may adversely affect our financial condition. Our business exposes us to possible claims for property damage and bodily injury or death, which may result if an engine, engine part or component, airframe part or accessory, or any other aviation product that we have sold, manufactured, or repaired fails, or if an aircraft we operated, serviced, or in which our products are installed, has an accident. Claims may arise in the future, and our insurance coverage may not be adequate to protect us in all circumstances. Additionally, we might not be able to maintain adequate insurance coverage in the future at an acceptable cost. Any liability claim not covered by adequate insurance could adversely affect our results of operations and financial condition. We could be negatively impacted by stakeholder and market focus on Environmental, Social and Governance (“ ESG ”) matters. There has been an increasing focus on corporate ESG practices and disclosures over the past few years, and expectations in this area are rapidly evolving. The criteria used to evaluate ESG practices may continue to evolve, which could result in greater expectations and may cause us to undertake costly initiatives to satisfy new criteria **and abide by any new disclosure requirements** . The increasing attention to sustainability could also result in reduced demand for certain of our products and / or reduced profits. If we are unable to respond effectively, investors may conclude that our ESG policies and / or actions are inadequate **and decide not to invest in our stock** . If we are perceived to have failed to achieve our ESG initiatives or accurately disclose our progress on such matters, our reputation, business, financial condition and results of operations could be adversely impacted. We must comply with extensive environmental requirements, and any exposure to environmental liabilities may adversely affect us. Federal, state, and local requirements relating to the discharge and emission of substances into the environment, the disposal of hazardous wastes, the remediation and abatement of contaminants, and other activities affecting the environment have had and may continue to have an impact on our operations. Management cannot assess the possible effect of compliance with future environmental requirements or of future environmental claims for which we may not have adequate indemnification or insurance coverage. If we were required to pay the expenses related to any future environmental claims for which neither indemnification nor insurance coverage were available, these expenses could have an adverse impact on our results of operations and financial condition. ~~16~~ **17**