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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED March 31, 2017

OR

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _______ TO ________.

Commission file number 001-35927

Air Industries Group

(Exact name of Registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	80-0948413 (IRS Employer Identification No.)

360 Motor Parkway, Suite 100, Hauppauge, New York 11788
(Address of principal executive offices)

(631) 881-4920
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer" "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o

Non-accelerated filer (do not check if smaller reporting company) o Smaller reporting company x

Emerging growth company x

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

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

As of May 1, 2017, the registrant had outstanding 7,651,945 shares of common stock.

INDEX

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, or Exchange Act. Forward-looking statements are predictive in nature and can be identified by the fact that they do not relate strictly to historical or current facts and generally include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions. Certain of the matters discussed herein concerning, among other items, our operations, cash flows, financial position and economic performance including, in particular, future sales, product demand, competition and the effect of economic conditions, include forward-looking statements.

Although we believe that these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flow, research and development costs, working capital, capital expenditures, distribution channels, profitability, new products, adequacy of funds from operations, and general economic conditions, these statements and other projections contained herein expressing opinions about future outcomes and non-historical information, are subject to uncertainties and, therefore, there is no assurance that the outcomes expressed in these statements will be achieved. Investors are cautioned that forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from the expectations expressed in forward-looking statements contained herein. Given these uncertainties, you should not place any reliance on these forward-looking statements which speak only as of the date hereof. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, as amended, and elsewhere in this report and the risks discussed in our other filings with the SEC.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required under the securities laws of the United States.

PART I

FINANCIAL INFORMATION

Item 1. Financial statements

AIR INDUSTRIES GROUP
Condensed Consolidated Balance Sheets

	March 31, 2017	December 31, 2016
	Unaudited	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 1,043,000	$ 1,304,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of $672,000 and $756,000, respectively	7,486,000	8,050,000
Inventory	38,132,000	39,851,000
Prepaid Expenses and Other Current Assets	659,000	557,000
Prepaid Taxes	231,000	409,000
Assets Held for Sale, Net	—	6,050,000
Total Current Assets	47,551,000	56,221,000
Property and Equipment, Net	11,580,000	12,219,000
Capitalized Engineering Costs - Net of Accumulated Amortization of $5,038,000 and $4,957,000, respectively	1,791,000	1,627,000
Deferred Financing Costs, Net, Deposits	1,372,000	1,096,000
Intangible Assets, Net	1,450,000	1,754,000
Goodwill	9,883,000	9,883,000
TOTAL ASSETS	$ 73,627,000	$ 82,800,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	$ 26,496,000	$ 32,913,000
Notes Payable - Related Party - Current Portion	1,846,000	1,086,000
Accounts Payable and Accrued Expenses	15,333,000	16,160,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	722,000	946,000
Liabilities Directly Associated with Assets Held for Sale	—	2,155,000
Income Taxes Payable	20,000	20,000
Total Current Liabilities	44,455,000	53,318,000
Long Term Liabilities		
Notes Payable and Capitalized Lease Obligations - Net of Current Portion	2,644,000	2,971,000
Deferred Gain on Sale - Net of Current Portion	323,000	333,000
Deferred Rent	1,294,000	1,288,000
TOTAL LIABILITIES	$ 48,716,000	$ 57,910,000
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock - Par Value $.001 - Authorized 3,000,000 shares:		
Shares Designated as Series A Convertible Preferred Stock, Par Value $.001, Authorized 2,000,000 shares, 1,247,668 shares and 1,202,548 shares Issued and Outstanding at March 31, 2017 and December 31, 2016, respectively, Aggregate liquidation preference $12,476,680 and $12,025,480, respectively	1,000	1,000
Common Stock - Par Value $. 001 - Authorized 25,000,000 Shares, 7,626,945 and 7,651,945 Shares Issued and Outstanding as of March 31, 2017 and December 31, 2016, respectively	7,000	7,000
Additional Paid-In Capital	57,038,000	55,862,000
Accumulated Deficit	(32,135,000)	(30,980,000)
TOTAL STOCKHOLDERS' EQUITY	24,911,000	24,890,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 73,627,000	$ 82,800,000

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Operations for the Three Months Ended March 31,
(Unaudited)

	Three Months Ended March 31, 2017	2016
Net Sales	$ 16,153,000	$ 15,184,000
Cost of Sales	13,451,000	12,363,000
Gross Profit	2,702,000	2,821,000
Operating Expenses	3,221,00	4,412,000
Loss from Operations	(519,000)	(1,591,000)
Interest and Financing Costs	(893,000)	(505,000)
Gain on Sale of Subsidiary	451,000	—
Other (Expense) Income, Net	(193,000)	10,000
Loss before Income Taxes	(1,154,000)	(2,086,000)
Benefit from Income Taxes	—	656,000
Net Loss	$ (1,154,000)	$ (1,430,000)
Loss per share - basic	$ (0.15)	$ (0.19)
Loss per share - diluted	$ (0.15)	$ (0.19)
Weighted average shares outstanding - basic	7,650,165	7,584,765
Weighted average shares outstanding - diluted	7,650,165	7,584,765

See Notes to Condensed Consolidated Financial Statements

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (1,154,000)	$ (1,430,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation of property and equipment	728,000	904,000
Amortization of intangible assets	304,000	320,000
Amortization of capitalized engineering costs	81,000	105,000
Bad debt recoveries	(14,000)	—
Non-cash compensation expense/(forfeiture of unamortized stock compensation)	(73,000)	27,000
Amortization of deferred financing costs	55,000	170,000
Deferred gain on sale of real estate	(10,000)	(10,000)
Gain on sale of subsidiary	(451,000)	—
Deferred income taxes	—	(691,000)
Amortization of convertible notes payable	176,000	—
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	578,000	3,850,000
Inventory	1,719,000	(3,826,000)
Prepaid expenses and other current assets	(102,000)	139,000
Prepaid taxes	178,000	—
Deposits and other assets	(276,000)	35,000
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	(621,000)	941,000
Deferred rent	6,000	3,000
Deferred revenue	(224,000)	352,000
Income taxes payable	—	11,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	900,000	900,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized engineering costs	(245,000)	(212,000)
Purchase of property and equipment	(89,000)	(355,000)
Proceeds from sale of subsidiary	4,260,000	—
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,926,000	(567,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable - revolver, net	(5,545,000)	458,000
Payments of note payable - term loans	(2,069,000)	(563,000)
Capital lease obligations	(173,000)	(313,000)
Proceeds from notes payable issuances - related party	850,000	—
Proceeds from notes payable issuances	1,850,000	—
Deferred financing costs	—	(75,000)
NET NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(5,087,000)	(493,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(261,000)	(160,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,304,000	529,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,043,000	$ 369,000

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

	2017	2016
Supplemental cash flow information		
Cash paid during the period for interest	$ 643,000	$ 505,000
Cash paid during the period for income taxes	$ —	$ 13,000
Supplemental disclosure of non-cash transactions		
Issuance of Convertible notes payable - related party	$ 382,000	$ —

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

On August 30, 2013, Air Industries Group, Inc. (“Air Industries Delaware”) changed its state of incorporation from Delaware to Nevada as a result of a merger with and into its newly formed wholly-owned subsidiary, Air Industries Group, a Nevada corporation (“Air Industries Nevada” or “AIRI”) and the surviving entity, pursuant to an Agreement and Plan of Merger. The reincorporation was approved by the stockholders of Air Industries Delaware at its 2013 Annual Meeting of Stockholders. Air Industries Nevada is deemed to be the successor.

The accompanying consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corp. (“AIM”), Welding Metallurgy, Inc. ("WMI" or “Welding”), Miller Stuart, Inc. (“Miller Stuart”), Nassau Tool Works, Inc. (“NTW”), Woodbine Products, Inc. (“Woodbine” or “WPI”), Decimal Industries, Inc. ("Decimal"), Eur-Pac Corporation (“Eur-Pac” or “EPC”), Electronic Connection Corporation (“ECC”), AMK Welding, Inc. (“AMK”), until sold in January 2017, Air Realty Group, LLC ("Air Realty"), The Sterling Engineering Corporation ("Sterling"), and Compac Development Corporation (“Compac”), (together, the “Company”).

Going Concern

The Company suffered net losses from operations of $519,000 and $10,789,000 and a net loss of $1,154,000 and $15,623,000, respectively, for the three months ended March 31, 2017, and the year ended December 31, 2016. The Company also had negative cash flows from operations for the year ended December 31, 2016. In addition, in 2015 the Company ceased paying dividends on its common stock and in 2016 it disposed of the real estate on which one of its operating subsidiaries is located through a sale leaseback transaction, and in January 2017 sold of one of its operating subsidiaries to raise funds for operations. During the year ended December 31, 2016, and subsequent thereto, the Company has had to sell its debt and equity securities to secure funds to operate its business. Since September 2016 the Company has been issuing additional shares of its Series A Convertible Preferred Stock in lieu of cash payment of accrued dividends on its outstanding shares of Series A Convertible Preferred Stock and since February 2017 it has issued additional convertible notes in lieu of cash payment of accrued interest on its outstanding convertible notes. Furthermore, as of March 31, 2017, the Company was not in compliance with its debt covenants under the Company's loan facility with PNC Bank.

The continuation of the Company's business is dependent upon future issuances of equity or other financing to fund ongoing operations. Management of the Company plans to obtain additional financing during the second quarter and the remainder of 2017 through the issuance of common or preferred stock, securities convertible into common stock, or secured or unsecured debt. These possibilities, to the extent available, may be on terms that result in dilution to the Company's existing shareholders. Although no assurances can be given, management of the Company believes that potential additional issuances of equity or other potential financing transactions as discussed above should provide the necessary funding for the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission.

Reclassifications

Certain account balances in 2016 have been reclassified to conform to the current period presentation.

AIR INDUSTRIES GROUP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

The Company through its AIM subsidiary is primarily engaged in manufacturing aircraft structural parts, and assemblies for prime defense contractors in the aerospace industry in the United States. NTW is a manufacturer of aerospace components, principally landing gear for F-16 and F-18 fighter aircraft. Welding is a specialty welding and products provider whose significant customers include the world's largest aircraft manufacturers, subcontractors, and original equipment manufacturers and upon the merger of Miller-Stuart into Welding, is a manufacturer of aerospace components specializing in electromechanical systems, harness and cable assemblies, electronic equipment and printed circuit boards. Woodbine is a manufacturer of aerospace components whose customers include major aircraft component suppliers. Decimal is a manufacturer of aerospace components specializing in welded and brazed chassis structures housing electronics in aircraft whose customers include major aircraft component suppliers. Eur-Pac specializes in military packaging and supplies. Eur-Pac’s primary business is “kitting” of supplies for all branches of the United States Defense Department including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies. Sterling manufactures components for aircraft and ground turbine engines. Compac specializes in the manufacture of RFI/EMI (Radio Frequency Interference – Electro-Magnetic Interference) shielded enclosures for electronic components. The Company’s customers are primarily publicly traded companies in the aerospace and other industries.

Inventory Valuation

The Company does not take physical inventories at interim quarterly reporting periods. Approximately 85% of the inventory value at March 31, 2017 has been estimated using a gross profit percentage based on sales of previous periods to the net sales of the current period, as management believes that the gross profit percentage on these items are materially consistent from period to period. The remainder of the inventory value at March 31, 2017 is estimated based on the Company's standard cost perpetual inventory system, as management believes the perpetual system computed value for these items provides a better estimate of value for that inventory. Adjustments to reconcile the annual physical inventory to the Company’s books are treated as changes in accounting estimates and are recorded in the fourth quarter. The Company valued inventory at December 31, 2016 at the lower of cost on a first-in-first-out basis or market.

	March 31, 2017 (Unaudited)	December 31, 2016
Raw Materials	$ 7,358,000	$ 7,031,000
Work in Process	20,939,000	25,635,000
Finished Goods	14,454,000	11,751,000
Inventory Reserve	(4,619,000)	(4,566,000)
Total Inventory	$ 38,132,000	$ 39,851,000

Credit and Concentration Risks

There were four customers that represented 60.5% and 58.4% of total sales for the three months ended March 31, 2017 and 2016, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	2017 (Unaudited)	2016 (Unaudited)
1	16.6	23.2
2	17.1	12.7
3	14.1	11.9
4	12.7	10.6

There were three customers that represented 41.8% of gross accounts receivable and one customer that represented 19.9% of gross accounts receivable at March 31, 2017 and December 31, 2016, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	March 2017 (Unaudited)	December 2016
1	19.1	19.9
2	12.1	*
3	10.6	*
4	*	*

* Customer was less than 10% of Gross Accounts Receivable at March 31, 2017 and December 31, 2016.

During the three months ended March 31, 2017 and 2016, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC limit. The Company has not experienced any losses on these accounts.

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

Basic earnings per share is computed by dividing the net income applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Potentially dilutive shares, using the treasury stock method, are included in the diluted per-share calculations for all periods when the effect of their inclusion is dilutive.

The following is a reconciliation of the denominators of basic and diluted earnings per share computations:

	Three Months Ended	
	March 31, 2017 (Unaudited)	**March 31, 2016** (Unaudited)
Weighted average shares outstanding used to compute basic earnings per share	7,650,165	7,584,765
Effect of dilutive stock options and warrants	—	—
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	7,650,165	7,584,765

The following table sets forth shares issuable upon conversion or exercise of Convertible Preferred Stock, options and warrants which were excluded from the diluted per share calculation because the exercise price was greater than the average market price of the common shares:

	Three Months Ended	
	March 31, 2017 (Unaudited)	**March 31, 2016** (Unaudited)
Stock Options	513,000	252,000
Warrants	520,000	56,800
	1,033,000	308,800

The following table sets forth options and warrants which were excluded from the diluted per share calculation for the three months ended March 31, 2017 even though the exercise price was less than the average market price of the common shares and unvested restricted stock because the effect of including these potential shares was anti-dilutive due to the net loss incurred during that period:

	March 31, 2017 (Unaudited)	**March 31, 2016** (Unaudited)
Convertible Preferred Stock	2,517,013	—
Stock Options	3,000	312,342
Warrants	321,000	107,785
Unvested Restricted Stock	—	27,000
	2,841,033	447,127

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model. Stock based compensation amounted to $(73,000) and $27,000 for the three months ended March 31, 2017 and 2016, respectively, and was included in operating expenses on the accompanying Condensed Consolidated Statements of Operations.

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of $9,883,000 at March 31, 2017 and December 31, 2016 relates to the acquisitions of Welding ($291,000), NTW ($162,000), Woodbine ($2,565,000), Eur-Pac ($1,656,000), ECC ($109,000), Sterling ($4,540,000) and Compac ($560,000). Goodwill is not amortized, but is tested annually for impairment, or if circumstances occur that more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company has determined that there has been no impairment of goodwill at March 31, 2017.

Debt Issuance Costs

Effective January 1, 2016, the Company adopted FASB ASU 2015-15 “Interest-Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting”. The amendments to the SEC paragraphs in this update state that given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of this amended guidance did not have a significant impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)” (“ASU 2016-01”).The main objective of ASU 2016-01 is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of ASU 2016-01 to have a significant impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The main objective of ASU 2016-02 is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB is amending the FASB Accounting Standards Codification and creating Topic 842, Leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect the adoption of ASU 2016-02 to have a significant impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment” (“ASU 2016-09”). ASU 2016-09 is part of the FASB Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. ASU 2016-09 will affect all entities that issue share-based payment awards to their employees. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this ASU during the first quarter of 2017, and the adoption did not materially impact its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10 “Revenue from Contracts with Customers (Topic 606)” (“ASU 2016-10”). The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2016-10 affect the guidance in ASU 2014-09, “Revenue from Contracts with Customers”, which is not yet effective. The effective date and transition requirements of ASU 2016-10 are the same as the effective date and transition requirements of ASU 2014-09. They are effective prospectively for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The Company is currently assessing the impact of the adoption of these amendments on its consolidated financial statements.

In May 2016, the FASB issued Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain arrow areas and add some practical expedients. These amendments are effective at the same date that Topic 606 is effective. Topic 606 is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Topic 606 is effective for nonpublic entities one year later. The Company is currently assessing the impact of the adoption of the amendments to Topic 606 and these amendments on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash, which clarifies the presentation requirements of restricted cash within the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one-line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees to the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. This standard is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company is currently in the process of evaluating the impact of the adoption of this standard on our financial statements.

In January 2017, the FASB issued ASU 2017-01 (“ASU 2017-01”), Business Combinations, which clarifies the definition of a business, particularly when evaluating whether transactions should be accounted for as acquisitions or dispositions of assets or businesses. The first part of the guidance provides a screen to determine when a set is not a business; the second part of the guidance provides a framework to evaluate whether both an input and a substantive process are present. The guidance will be effective after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted for transactions that have not been reported in issued financial statements. The Company is currently assessing the impact of this update on the presentation of these financial statements.

In January 2017, FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment, Step 2 of the goodwill impairment test, which requires determining the implied fair value of goodwill and comparing it with its carrying amount has been eliminated. Thus, the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount (i.e., what was previously referred to as Step 1). In addition, ASU No. 2017-04 requires entities having one or more reporting units with zero or negative carrying amounts to disclose (1) the identity of such reporting units, (2) the amount of goodwill allocated to each, and (3) in which reportable segment the reporting unit is included. ASU No. 2017-04 is effective as follows: (1) for a public business entity that is an SEC filer for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently in the process of evaluating the impact of the adoption of this standard on our financial statements.

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

Subsequent Events

Management has evaluated subsequent events through the date of this filing.

On May 2, and May 10, 2017, we borrowed an aggregate of $750,000 from each of Michael Taglich and Robert Taglich. The two loans totaled $1,500,000.

On May 12, 2017, we issued and sold to seven accredited investors, including Michael Taglich and Robert Taglich, an aggregate of $3,089,186 principal amount of our Subordinated Convertible Notes due May 12, 2018 (the "Bridge Notes"), together with warrants to purchase a total of 372,191 shares of common stock, for a total purchase price of $2,999,198, resulting in gross proceeds of $1,495,870, net of the cancellation of $1,503,328 of indebtedness we owed to Michael Taglich and Robert Taglich for working capital advances made on May 2 and 10, 2017 together with accrued interest.

On May 19, 2017 we issued and sold to ten accredited investors, including a partnership in which Michael Taglich and Robert Taglich are partners, an aggregate of $1,069,438 principal amount of Bridge Notes, together with warrants to purchase a total of 128,848 shares of common stock, for a total purchase price of $1,038,286. The Bridge Notes and warrants are substantially identical to those sold by the Company on May 12, 2017.

The Bridge Notes and warrants were issued for a purchase price equal to 97% of the principal amount of the Bridge Notes purchased. The principal amount of each Bridge Note will be increased by 2% for each 30 days it remains outstanding commencing August 1, 2017. Upon the occurrence of, and during the continuance of an Event of Default (as defined in the Bridge Notes), the Bridge Notes will accrue late interest at the rate of 10% per annum. Payment of the principal and accrued interest, if any, on the Bridge Notes is junior and subordinate in right of payment to the Company's indebtedness under the Loan Agreement.

The principal amount, together with accrued interest, if any (together, the "Conversion Amount"), of the Bridge Notes are convertible into shares of common stock until November 12, 2017 at an initial conversion price of $2.49 per share, subject to anti-dilution and other adjustments for stock splits and certain fundamental transactions, including recapitalizations, mergers and other business combination transactions (the "Fixed Conversion Price"), and thereafter at the lower of the Fixed Conversion Price and 75% of the five (5) Weighted Average Prices (as defined in the Bridge Notes) of the common stock during the five consecutive trading day period ending on the trading immediately preceding the day of a request by the holder for conversion of the Bridge Note. The Company has the right to redeem all, or a portion of (on a pro rata basis), the Bridge Notes upon three trading days to the holders. Subject to the subordination provisions of the Bridge Notes, holders of the Bridge Notes have the right to request the redemption of their Notes at any time, and following an Event of Default or in advance of a Change of Control (as defined in the Bridge Notes).

The warrants are 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 addition, the exercise price of the warrants will be reset, if a lower exercise price would result, (x) to the public offering price of the shares of common stock sold in this offering or (y) the Weighted Average Price (as defined) of the common stock on the first date on which none of the Notes are outstanding, whichever event first occurs.

Taglich Brothers, Inc. and another third party entity acted as placement agents in connection with the sale of the Bridge Notes and warrants for which they are to be paid a fee of $191,155.

Note 3. PROPERTY AND EQUIPMENT

The components of property and equipment at March 31, 2017 and December 31, 2016 consisted of the following:

	March 31, 2017 (Unaudited)	December 31, 2016	
Land	$ 300,000	$ 300,000	
Buildings and Improvements	1,672,000	1,650,000	31.5 years
Machinery and Equipment	14,062,000	14,032,000	5 - 8 years
Capital Lease Machinery and Equipment	5,573,000	5,573,000	3 - 5 years
Tools and Instruments	7,554,000	7,520,000	1.5 - 7 years
Automotive Equipment	195,000	195,000	5 years
Furniture and Fixtures	438,000	438,000	5 - 8 years
Leasehold Improvements	969,000	966,000	Term of Lease
Computers and Software	519,000	519,000	4 - 6 years
Total Property and Equipment	31,282,000	31,193,000	
Less: Accumulated Depreciation	(19,702,000)	(18,974,000)	
Property and Equipment, net	$ 11,580,000	$ 12,219,000	

Depreciation expense for the three months ended March 31, 2017 and 2016 was approximately $768,000 and $904,000, respectively.

Assets held under capitalized lease obligations are depreciated over the shorter of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2017 and 2016. Accumulated depreciation on these assets was approximately $2,630,000 and $2,320,000 as of March 31, 2017 and December 31, 2016, respectively.

Note 4. INTANGIBLE ASSETS

The components of intangibles assets consisted of the following:

	March 31, 2017	December 31, 2016	
	(Unaudited)		
Customer Relationships	6,115,000	$ 6,115,000	5 to 14 years
Trade Names	970,000	970,000	15 to 20 years
Technical Know-how	660,000	660,000	10 years
Non-Compete	150,000	150,000	5 years
Professional Certifications	15,000	15,000	.25 to2 years
Total Intangible Assets	7,910,000	7,910,000	
Less: Accumulated Amortization	(6,460,000)	(6,156,000)	
Intangible Assets, net	$ 1,450,000	$ 1,754,000	

Amortization expense for the three months ended March 31, 2017 and 2016 was approximately $304,000 and $320,000, respectively.

Note 5. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Notes payable and capital lease obligations consist of the following:

	March 31, 2017	December 31, 2016
	(Unaudited)	
Revolving credit note payable to PNC Bank N.A. ("PNC")	$ 18,847,000	$ 24,393,000
Term loans, PNC	4,580,000	6,649,000
Capital lease obligations	3,902,000	4,215,000
Related party note payable, net of debt discount	1,846,000	1,086,000
Notes Payable (private placement), net of debt discount	1,811,000	627,000
Subtotal	30,986,000	36,970,000
Less: Current portion of notes and capital obligations	(28,342,000)	(33,999,000)
	$ 2,644,000	$ 2,971,000

PNC Bank N.A. ("PNC")

The Company has a credit facility with PNC (the “Loan Facility”) secured by substantially all of its assets. The Loan Facility has been amended many times during its term. The Loan Facility was amended in June 2016 (the “Twelfth Amendment”) and September 2016 (the “Thirteenth Amendment”). In connection with the Twelfth Amendment, the Company paid PNC a fee of $100,000 and reimbursed it for the fees and expenses of its counsel. The Twelfth Amendment provides for a $33,000,000 revolving loan. In addition, in the Twelfth Amendment the four term loans (Term Loan A, Term Loan B, Term Loan C and Term Loan D) then outstanding were consolidated into a single term loan with the initial principal amount of $7,387,854. Further, in the Twelfth Amendment the Company acknowledged that there were then outstanding excess advances under the revolving loan in the amount of $12,500,000.

Under the terms of the Loan Facility, as amended, the revolving loan now bears interest at (a) the sum of the Alternate Base Rate plus one and three-quarters of one percent (1.75%) with respect to Domestic Rate Loans; and (b) the sum of the LIBOR Rate plus four and one-half of one percent (4.50%) with respect to LIBOR Rate Loans. The amount outstanding under the revolving loan, exclusive of the excess advance, was $18,847,000 and $24,393,000, as of March 31, 2017 and December 31, 2016, respectively.

The Loan Facility was further amended pursuant to the Thirteenth Amendment, to modify the advance rate with respect to our inventory to be the lesser of (i) 75% of the eligible inventory, an increase from 50%, and (ii) 90% of the liquidation value of the eligible inventory, an increase from 85%, subject to the inventory sublimit of $12,500,000 and such reserves as PNC may deem proper. In addition, in the Thirteenth Amendment the lender waived any default resulting from the Company’s obligation to comply with the minimum EBITDA covenant for the period ended June 30, 2016, consented to the issuance of the Company’s 12% Subordinated Convertible Notes and the amendment to the Company’s Articles of Incorporation to increase the authorized number of shares of Preferred Stock and Series A Preferred Stock.

The repayment terms of the Term Loan provided for in the Twelfth Amendment consist of sixty (60) consecutive monthly principal installments, the first fifty-nine (59) of which shall be in the amount of $123,133 commencing on the first business day of July, 2016, and continuing on the first business day of each month thereafter, with a sixtieth (60th) and final payment of any unpaid balance of principal and interest payable on the last business day of June, 2021.

At the closing of the Twelfth Amendment the Company paid $1,500,000 to reduce the outstanding excess under the revolving loan from $12,500,000 to $11,000,000. It also agreed that the excess advances will be paid down by $100,000 each week commencing the second week after the closing of the Twelfth Amendment.

To the extent that the Company disposes of collateral used to secure the Loan Facility, other than inventory, the Company must promptly repay the draws on the credit facility in the amount equal to the net proceeds of such sale.

The terms of the Loan Facility require that among other things, the Company maintain a specified Fixed Charge Coverage Ratio and maintain a minimum EBITDA. In addition, the Company is limited in the amount of Capital Expenditures it can make. The Company is also limited to the amount of dividends it can pay its shareholders as defined in the Loan Facility. As of March 31, 2017 , the Company was not in compliance with the Fixed Charge Coverage Ratio covenant. The failure to maintain the requisite Fixed Charge Coverage Ratio constitutes a default under the Loan Facility and PNC at its option may give notice to the Company that all amounts under the Loan Facility are immediately due and payable consequently , all amounts due under the Term Loans are also classified as current. As of March 31, 2017, the Company was not in compliance with the minimum EBITDA requirement. The Company has requested a waiver from PNC for the failure to meet the minimum EBITDA covenant. Because the revolving loans contain a subjective acceleration clause which could permit PNC to require repayment prior to maturity, all of the loans outstanding with PNC are classified with the current portion of notes and capital lease obligations.

As of March 31, 2017, our debt to PNC in the amount of $23,427,000 consisted of the revolving credit note due to PNC in the amount of $18,847,000 and the term loans due to PNC in the amount of $ 4,580,000. And as of December 31, 2016, our debt to PNC in the amount of $31,042,000 consisted of the revolving credit note due to PNC in the amount of $24,393,000 and the term loans due to PNC in the amount of $ 6,649,000.

Each day, the Company’s cash collections are swept directly by the bank to reduce the revolving loans and the Company then borrows according to a borrowing base formula. The Company's receivables are payable directly into a lockbox controlled by PNC (subject to the terms of the Loan Facility). PNC may use some elements of subjective business judgment in determining whether a material adverse change has occurred in the Company's condition, results of operations, assets, business, properties or prospects allowing it to demand repayment of the Loan Facility.

As of March 31, 2017, the scheduled future minimum principal payments for the term loans are as follows, however as discussed above, the balance of the term loans have been classified as current:

For the twelve months ending		Amount
March 31, 2018	$	1,478,000
March 31, 2019		1,478,000
March 31, 2020		1,478,000
March 31, 2021		146,000
March 31, 2022		4,580,000
Thereafter		(4,580,000)
Long-term portion	$	—

Interest expense related to these credit facilities amounted to approximately $720,000 and $435,000 for the three months ended March 31, 2017 and 2016, respectively.

Capital Leases Payable – Equipment

The Company is committed under several capital leases for manufacturing and computer equipment. All leases have bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled $3,902,000 and $4,215,000 as of March 31, 2017 and December 31, 2016, respectively, with various interest rates ranging from approximately 4% to 14%.

As of March 31, 2017, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

For the twelve months ending		Amount
March 31, 2018	$	1,442,000
March 31, 2019		1,359,000
March 31, 2020		1,160,000
March 31, 2021		282,000
March 31, 2022		—
Thereafter		—
Total future minimum lease payments		4,243,000
Less: imputed interest		(337,000)
Less: current portion		(1,262,000)
Total Long Term Portion	$	2,644,000

Related Party Notes Payable

On March 17, 2017, the Company borrowed $200,000 and $300,000 from each of Michael Taglich and Robert Taglich, respectively, directors and principal stockholders of our company, and issued 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 notes bear interest at the rate of 7% per annum and are payable on September 17, 2017. Michael and Robert Taglich have the option to convert the unpaid principal amount and accrued interest on the promissory notes into shares of common stock or other securities of the company which the Company may offer and sell in any public or private financing (each a "Financing"), on the same terms and conditions as are offered to purchasers in such Financing, or, if more favorable to us, on such other terms as may be required under the rules of the NYSE MKT, which option they must exercise by notice to the Company within three business days following the completion of such Financing. Upon completion of any Financing, upon notice to Michael and Robert Taglich, the Company has the right to convert the unpaid principal amount of those promissory notes and accrued interest thereon into shares of common stock or other of our securities sold in the Financing on the same terms and conditions as are offered to purchasers in the Financing, or if more favorable to the Company, on such other terms as may be required under the rules of the NYSE MKT, which right the Company must exercise within three business days following the completion of such Financing.

Related Party Notes Payable – Subsequent Events

On May 2, and May 10, 2017, the Company borrowed an aggregate of $750,000 from each of Michael Taglich and Robert Taglich. This indebtedness, together with accrued interest, were converted into Bridge Notes on May 12, 2017.

Private Placements of 8% Subordinated Convertible Notes

From November 23, 2016 through March 21, 2017, the Company received gross proceeds of $4,775,000 from the sale of an equal principal amount of our 8% Subordinated Convertible Notes (the 8% Notes"), together with warrants to purchase a total of 383,032 shares of our common stock, in private placement transactions with accredited investors (the "8% Note Offerings"). In connection with the offering of the 8% Notes, the Company issued 8% Notes in the aggregate principal amount of $382,000 to Taglich Brothers, Inc., placement agent for the 8% Note Offerings, in lieu of payment of cash compensation for sales commissions, together with warrants to purchase a total of 180,977 shares of our common stock. Of the $5,147,000 principal amount of 8% Notes issued in connection with the Note Offerings, $2,781,000 principal amount is due November 30, 2018 (the "2018 Notes") and $2,366,000 principal amount is due January 31, 2019 (the "2019 Notes"). Payment of the principal and accrued interest on the 8% Notes are junior and subordinate in right of payment to our indebtedness under the Loan Facility.

Interest on the 2018 Notes is payable on the outstanding principal amount thereof at the annual rate of 8%, payable quarterly commencing February 28, 2017, in cash, or at our option, in additional 2018 Notes, provided that if accrued interest payable on $1,269,000 principal amount of the 2018 Notes issued in December 2016 is paid in additional 2018 Notes, interest for that quarterly interest payment shall be calculated at the rate of 12% per annum. Upon the occurrence and continuation of an event of default, interest shall accrue at the rate of 12% per annum.

On February 28, 2017, the Company issued an additional $61,596 principal amount of 2018 Notes in payment of accrued interest. As of March 1, 2017, the Company had $5,262,596 principal amount of 8% Notes outstanding, consisting of $2,842,596 principal amount of 2018 Notes and $2,420,000 principal amount of 2019 Notes.

The outstanding principal amount plus accrued interest on the 8% Notes is convertible at the option of the holder into shares of common stock conversion prices ranging from $2.25 to $4.45 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.

An event of default under the 8% Notes will occur (i) if the Company fail to make any payment under the 8% Notes within ten (10) days after the date first due, or (ii) if the Company file a petition in bankruptcy or under any similar insolvency law, make an assignment for the benefit of its creditors, or if any voluntary petition in bankruptcy or under any similar insolvency law is filed against the Company and such petition is not dismissed within sixty (60) days after the filing thereof. Upon the occurrence and continuation of an event of default, holders of a majority of the outstanding principal amount of the 8% Notes then outstanding, upon notice to the Company and the holders of the Senior Indebtedness (as defined in the 8% Notes), may demand immediate payment of the unpaid principal amount of the 8% Notes, together with accrued interest thereon and all other amounts payable under the 8% Notes, subject to the subordination provisions of the 8% Notes.

The exercise price of the warrants issued in connection with the 8% Note Offerings ranges from $3.00 to $4.53 per share, 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, and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise. Of these warrants, 320,702 warrants may be exercised until November 30, 2021 and 243,307 warrants may be exercised until January 31, 2022.

Note 6. STOCKHOLDERS' EQUITY

Issuance of Series A Preferred Stock and Related Financings

On May 25, 2016, and June 1, 2016, the Company completed a private placement of 700,000 shares of our Series A Preferred Stock for $10.00 per share and received gross cash proceeds of $5,250,000, net of $1,750,000 principal amount of our promissory notes exchanged by Michael Taglich and Robert Taglich, two of our principal stockholders, for shares of Series A Preferred Stock. The Company had issued the promissory notes to Michael Taglich and Robert Taglich for amounts borrowed from September 2015 through May 2016. The September 2015 loan bore interest at the rate of 4% per annum and was to be paid on September 7, 2016. The other loans bore interest at the rate of 7% per annum and were to be repaid on June 30, 2016, or, if earlier, upon the sale of the Company's equity from which it derived proceeds of $1,800,000 or $2,000,000 depending upon the promissory notes issued.

Preferred Stock

The shares of Series A Preferred Stock have a stated value of $10.00 per share and are initially convertible into shares of common stock at a price of $4.92 per share (subject to adjustment upon the occurrence of certain events). The dividend rate on the Series A Preferred Stock is 12% per annum, payable quarterly. The dividend rate increases to 15% per annum if we issue PIK Shares in lieu of payment of cash dividends payable until June 15, 2018. The number of outstanding shares of Series A Preferred Stock as of June 15, 2018 would increase from 700,000 shares to approximately 1,500,000 shares if we elected to pay all dividends due on the Series A Preferred Stock by issuing PIK Shares. The dividend rate on the Series A Preferred Stock increases to 16% per annum after June 2018, 19% per annum to the extent dividends are paid in PIK Shares.

Dividends payable in respect of the Series A Preferred Stock will reduce the amount of net income, if any, or increase the amount of net loss attributable to holders of common stock. While the issuance of PIK Shares in payment of all or a portion of the dividends payable in respect of any dividend period preserves our cash, the increase in the rate of dividend which must be paid when we choose to issue PIK Shares in lieu of cash dividends further reduces the amount of net income, if any, or increases the amount of net loss attributable to holders of common stock. In addition, the issuance of PIK Shares will dilute the interests of our common stockholders. Although holders of Series A Preferred Stock may convert their shares into common stock they are unlikely to convert if the Company are unable to pay cash dividends and the price of the common stock does not increase significantly above $4.92 per share, the conversion price, for a sustained period. The Company has the right to redeem the Series A Preferred Stock after May 26, 2018 for a redemption price of $10.00, plus accrued and unpaid dividends; however, the Company may not have sufficient cash available to effect such redemption.

In connection with the placement we incurred approximately $606,000 of direct offering costs and $57,000 in legal expenses and granted to the placement agents warrants to purchase 8% of the number of shares of our common stock (113,820 shares) issuable upon conversion of the Series A Preferred Stock sold in the offering. The warrants are exercisable in whole or in part, at an initial exercise price per share of $6.15, and are exercisable for cash or on a cashless basis commencing on November 26, 2016 and expiring on May 26, 2021. The exercise price and number of shares of common stock issuable under the warrants are subject to adjustments for stock dividends, splits, combinations and similar events.

Of the proceeds generated by the sale of our shares of Series A Preferred Stock, $1,500,000 was paid to PNC to reduce the amount outstanding under our Loan Facility.

In August 2016, the Company completed the private placement of $2,720,000 principal amount of our 12% Subordinated Convertible Notes due December 31, 2017 (the "12% Notes"), together with warrants to purchase an aggregate of 110,658 shares of common stock, for a total purchase price of $2,720,000, from which we derived net proceeds of approximately $2,319,800, which was used to pay down the Company's indebtedness under the Loan Facility and for working capital. The Company also issued to Michael Taglich a 12% Note 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. The Company had issued the promissory notes to Michael Taglich for amounts borrowed in August 2016. The promissory notes bore interest at the rate of 7% per annum and were to be repaid on December 31, 2016, or, if earlier, upon the sale of our equity securities from which we derived proceeds of $2,000,000. In addition, the Company issued to Robert Taglich a 12% Note 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.

The 12% Notes provided for the automatic conversion of the principal and accrued interest of the 12% Notes into shares of Series A Preferred Stock at a price of $10.00 per share, the stated value of the Series A Preferred Stock, upon the filing of an amendment to the Company's Articles of Incorporation increasing the number of shares of preferred stock we are authorized to issue from 1,000,000 shares to 3,000,000 shares, including 2,000,000 shares of Series A Preferred Stock (the "Charter Amendment"). The Company issued 438,770 shares of Series A Preferred Stock to the holders of the 12% Notes on November 30, 2016, the date the Company's stockholders approved the Charter Amendment and the Company filed the certificate of amendment effecting the Charter Amendment with the Office of the Secretary of State of Nevada. As a result of the automatic conversion of the 12% Notes into shares of Series A Preferred Stock, no 12% Notes are outstanding.

As compensation for its services as placement agent for the offering of the 12% Notes, the Company paid Taglich Brothers, Inc. a fee of $295,400 and issued to Taglich Brothers, Inc. 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.

As of December 31, 2016, the Company had outstanding 1,202,548 shares of Series A Preferred Stock, including 62,684 shares issued in lieu of payment of cash dividends on December 15, 2016. We issued an additional 46,010 shares of Series A Preferred Stock on March 15, 2017 in lieu of payment of cash dividends.

Note 7. INCOME TAXES

The Company recorded no income tax for the three months ended March 31, 2017 because the estimated annual effective tax rate was zero. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, their ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives. As of March 31, 2017 and December 31, 2016, the Company provided a valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized.

The provision for income taxes for the three months ended March 31, 2016 is set forth below:

	2016
	(Unaudited)
Current	
Federal	$ —
State	22,000
Prior Year Under Accrual	
Federal	13,000
Total Current Expense	35,000
Deferred Tax (Benefit)	(691,000)
Net (Benefit from) Provision for Income Taxes	$ (656,000)

Note 8. SALE OF AMK

On January 27, 2017, the Company sold all of the outstanding shares of AMK to Meyer Tool, Inc., pursuant to a Stock Purchase Agreement dated January 27, 2017 for a purchase price of $4,500,000, subject to a working capital adjustment, plus additional quarterly payments, not to exceed $ 1,500,000, equal to five percent (5%) of Net Revenues of AMK commencing April 1, 2017. The Company recorded a $451,000 gain on the sale of AMK.

Note 9 LOSS CONTINGENCIES

During 2016, a number of actions were commenced against the Company by vendors, landlords and former landlords, including a third party claim as a result of an injury suffered on a portion of a leased property not occupied by the Company. As certain of these claims represent amounts included in accounts payable they are not specifically discussed herein.

Westbury Park Associates, LLC commenced an action on or about January 11, 2017 against Air Industries Group in the NYS Supreme Court, County of Suffolk, seeking the recovery of approximately $31,000 for past rent arrears, and for an unidentified sum representing all additional rent due under a commercial lease through the end of its term, plus attorneys fees. The additional rent due through the end of the term is approximately $105,000. The litigation is in the discovery stage and the Company believes there is a meritorious defense to the claim or that the landlord can and will mitigate its future damages by finding a new tenant.

On January 18, 2017, REP B-2, LLC filed a petition for a warrant of eviction and a money judgment of approximately $56,000 against Air Industries Group arising from rent arrears on commercial space. On January 18, 2017, 360 Motor Parkway, LLC filed a petition for a warrant of eviction and a money judgment of approximately $12,000 against Air Industries Group arising from rent arrears on commercial space. Each proceeding has resulted in a stipulation of settlement providing monthly repayment schedules to bring those rent arrears current, the last of which are due on May 1, 2017, at which time the proceedings may be dismissed.

An employee of the Company commenced an action against, among others, Rechler Equity B-2, LLC and Air Industries Group, in the Supreme Court State of New York, Suffolk County, seeking compensation in an undetermined amount for injuries suffered while leaving the premises occupied by Welding Metallurgy, Inc. Rechler Equity B-2, LLC, has served a Third Party Complaint in this action against Air Industries Group, Inc. , and Welding Metallurgy, Inc. The action remains in the early pleading stage. The Company believes it is not liable to the employee and any amount it might have to pay would be covered by insurance.

Note 10. SEGMENT REPORTING

In accordance with FASB ASC 280, “Segment Reporting” ("ASC 280"), the Company discloses financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company follows ASC 280, which establishes standards for reporting information about operating segments in annual and interim financial statements, and requires that companies report financial and descriptive information about their reportable segments based on a management approach. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers.

The Company currently divides its operations into three operating segments: Complex Machining which consists of AIM and NTW; Aerostructures and Electronics which consists of WMI, WPI, Miller Stuart (until merged into WMI in May 2017), Eur-Pac, ECC and Compac; and Turbine Engine Components which consists of Sterling and for the period January 1, 2016, to January 27, 2017, AMK.

The accounting policies of each segment are the same as those described in the Summary of Significant Accounting Policies. The Company evaluates performance based on revenue, gross profit contribution and assets employed.

Financial information about the Company's operating segments for the three months ended March 31, 2017 and 2016 are as follows:

	Three Months Ended March 31, 2017 (Unaudited)	Three Months Ended March 31, 2016 (Unaudited)
COMPLEX MACHINING		
Net Sales	$ 9,891,000	$ 7,467,000
Gross Profit	2,901,000	1,858,000
Pre Tax (Loss) Income	1,085,000	(400,000)
Assets	41,940,000	51,076,000
AEROSTRUCTURES & ELECTRONICS		
Net Sales	4,320,000	5,160,000
Gross Profit	26,000	948,000
Pre Tax (Loss) Income	(1,279,000)	(772,000)
Assets	19,669,000	19,263,000
TURBINE ENGINE COMPONENTS		
Net Sales	1,942,000	2,557,000
Gross Profit	(224,000)	15,000
Pre Tax (Loss) Income	(827,000)	(914,000)
Assets	11,233,000	17,247,000
CORPORATE		
Net Sales	—	—
Gross Profit	—	—
Pre Tax (Loss) Income	(133,000)	—
Assets	785,000	534,000
CONSOLIDATED		
Net Sales	16,153,000	15,184,000
Gross Profit	2,703,000	2,821,000
Pre Tax (Loss) Income	(1,154,,000)	(2,086,000)
Benefit from Income Taxes	—	656,000
Net (Loss) Income	(1,154,000)	(1,430,000)
Assets	$ 73,627,000	$ 88,120,000

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

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and the notes to those statements included elsewhere in this Form 10-Q and with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”). This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in our 2016 Form 10-K that could cause actual results to differ materially from those anticipated in these forward-looking statements.

Business Overview

We are an aerospace company operating primarily in the defense industry, though the proportion of our business represented by the commercial and industrial sector is increasing. We manufacture and design structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, and other components. We also provide sheet metal fabrication of aerostructures, tube bending, welding and kitting services. Our Turbine Engine Components segment makes components and provides services for jet engines and ground-power turbines. Our products are currently deployed on a wide range of high profile military and commercial aircraft including Sikorsky's UH-60 Blackhawk and CH-47 Chinook helicopters, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2D Hawkeye, the US Navy F-18 and USAF F-16 fighter aircraft, Boeing’s 777 and Airbus' 380 commercial airliners. Our Turbine Engine segment makes components for jet engines that are used on the USAF F-15 and F-16, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground-power turbine applications.

Air Industries Machining, Corp. (“AIM”) became a public company in 2005 when its net sales were approximately $30 million. AIM has manufactured components and subassemblies for the defense and commercial aerospace industry for over 45 years and has established long-term relationships with leading defense and aerospace manufacturers. Since becoming public, we have completed a series of acquisitions of defense aerospace and recently commercial aerospace businesses which have enabled us to broaden the range of products and services beyond those which were provided by AIM. For example, where AIM was primarily a machining shop, as a result of acquisitions, Air Industries Group now has capabilities and expertise in metal fabrication, welding and tube bending; the production of electromechanical systems, harness and cable assemblies; the fabrication of electronic equipment and printed circuit boards; the machining of turbine engine components, and the assembly of packages or “kits” containing supplies for all branches of the United States Defense Department, including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies.

The aerospace market is highly competitive in both the defense and commercial sectors and we face intense competition in all areas of our business. Nearly all of our revenues are derived by producing products to customer specifications after being awarded a contract through a competitive bidding process. As the commercial aerospace and defense industries continue to consolidate and major contractors seek to streamline supply chains by buying more complete sub-assemblies from fewer suppliers, we have sought to remain competitive not only by providing cost-effective world class service but also by increasing our ability to produce more complex and complete assemblies for our customers.

Our ability to operate profitably is determined by our ability to win new contracts and renewals of existing contracts, and then fulfill these contracts on a timely basis at costs that enable us to generate a profit based upon the agreed upon contract price. Winning a contract generally requires that we submit a bid containing a fixed price for the product or products covered by the contract for an agreed upon period of time. Thus, when submitting bids, we are required to estimate our future costs of production and, since we often rely upon subcontractors, the prices we can obtain from our subcontractors.

While our revenues are largely determined by the number of contracts we are awarded, the volume of product delivered and price of product under each contract, our costs are determined by a number of factors. The principal factors impacting our costs are the cost of materials and supplies, labor, financing and the efficiency at which we can produce our products. The cost of materials used in the aerospace industry is highly volatile. In addition, the market for the skilled labor we require to operate our plants is highly competitive. The profit margin of the various products we sell varies based upon a number of factors, including the complexity of the product, the intensity of the competition for such product and, in some cases, the ability to deliver replacement parts on short notice. Thus, in assessing our performance from one period to another, a reader must understand that changes in profit margin can be the result of shifts in the mix of products sold factory overhead expense of many of our facilities is a large percentage of cost of sales. These expenses are largely fixed, especially over short periods of time. As a result our profit margins are also highly variable with sales volumes as under-absorption of factory overhead can decrease profits.

A very large percentage of the products we produce are used on military as opposed to civilian aircraft. These products can be replacements for aircraft already in the fleet of the armed services or for the production of new aircraft. Reductions to the Defense Department budget and decreased usage of aircraft have reduced the demand for both new production and replacement spares. This has reduced our sales, particularly in our complex machining segment. In response to the reduction in military sales, we are focusing greater efforts on the civilian aircraft market though we still remain dependent upon the military for an overwhelming portion of our revenues.

Segment Data

We follow Financial Accounting Standards Board ("FASB") ASC 280, “Segment Reporting” (“ASC 280”), which establishes standards for reporting information about operating segments in annual and interim financial statements, and requires that companies report financial and descriptive information about their reportable segments based on a management approach. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers.

We currently divide our operations into three operating segments: Complex Machining; Aerostructures and Electronics; and Turbine Engine Components. We separately report our corporate overhead (which was comprised of certain operating costs that were not directly attributable to a particular segment). Effective January 1, 2015, all operating costs are allocated to the Company’s three operating segments. As our businesses continue to develop and evolve, and we acquire additional companies, we may deem it appropriate to reallocate our companies into different operating segments and, once we achieve sufficient integration among our businesses, report as a unified company.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. We evaluate performance based on revenue, gross profit contribution and assets employed.

Results of Operations

The following discussion of our results of operations constitutes management's review of the factors that affected our financial and operating performance for the three months ended March 31, 2017 and 2016. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report. The results of operations of the businesses we have acquired are included in our financial results from their respective dates of acquisition.

Selected Financial Information:

	Three Months Ended March 31, 2017 and 2016:	
	2017	**2016**
	(Unaudited)	(Unaudited)
Net sales	$ 16,153,000	$ 15,184,000
Cost of sales	13,451,000	12,363,000
Gross profit	2,702,000	2,821,000
Operating expenses and interest costs	(4,114,000)	(4,917,000)
Other income, net	(193,000)	10,000
Gain on Sale of Subsidiary	451,000	—
Benefit from income taxes	—	656,000
Net Loss	$ (1,154,000)	$ (1,430,000)

Balance Sheet Data:	**March 31, 2017 (Unaudited)**	**December 31, 2016**
Cash and cash equivalents	$ 1,043,000	$ 1,304,000
Working capital	3,096,000	2,903,000
Total assets	73,627,000	82,800,000
Total stockholders' equity	$ 24,911,000	$ 24,890,000

The following sets forth the results of operations for each of our segments individually and on a consolidated basis for the periods indicated:

	Three Months Ended March 31, 2017 (Unaudited)	Three Months Ended March 31, 2016 (Unaudited)
COMPLEX MACHINING		
Net Sales	$ 9,891,000	$ 7,467,000
Gross Profit	2,901,000	1,858,000
Pre Tax (Loss) Income	1,085,000	(400,000)
Assets	41,940,000	51,076,000
AEROSTRUCTURES & ELECTRONICS		
Net Sales	4,320,000	5,160,000
Gross Profit	26,000	948,000
Pre Tax (Loss) Income	(1,279,000)	(772,000)
Assets	19,669,000	19,263,000
TURBINE ENGINE COMPONENTS		
Net Sales	1,942,000	2,557,000
Gross Profit	(224,000)	15,000
Pre Tax (Loss) Income	(827,000)	(914,000)
Assets	11,233,000	17,247,000
CORPORATE		
Net Sales	—	—
Gross Profit	—	—
Pre Tax (Loss) Income	(133,000)	—
Assets	785,000	534,000
CONSOLIDATED		
Net Sales	16,153,000	15,184,000
Gross Profit	2,703,000	2,821,000
Pre Tax (Loss) Income	(1,154,000)	(2,086,000)
Benefit from Income Taxes	—	656,000
Net (Loss) Income	(1,154,000)	(1,430,000)
Assets	$ 73,627,000	$ 88,120,000

Net Sales:

Consolidated net sales for the three months ended March 31, 2017 were approximately $16,153,000, an increase of $969,000, or 6.4% compared with $15,184,000 for the three months ended March 31, 2016. The increase in sales resulted from an increase in our Complex Machining segment of approximately $2,424,000 or 32.5%. This increase in sales was partially offset by decreases in our Turbine Engine Components and Aerostructure & Electronics segments of approximately $615,000 and $840,000, respectively. The decrease in our Turbine Engine Segment in 2017 largely result from the inclusion of AMK for three months in 2016 and only one month in 2017. AMK was sold on January 27, 2017. Without AMK revenues of this segment were essentially flat, declining just $38,000 for the quarter.

As indicated in the table below, four customers represented 60.5% and 58.4% of total sales for the three months ended March 31, 2017 and 2016, respectively.

Customer	Percentage of Sales **2017** (unaudited)	Percentage of Sales 2016 (unaudited)
Sikorsky Aircraft	16.6	23.2
United States Department of Defense	17.1	12.7
Goodrich Landing Gear Systems	14.1	11.9
Northrop Grumman Corporation	12.7	10.6

Gross Profit:

Consolidated gross profit from operations for the three months ended March 31, 2017 was $ 2,702,000, a decrease of approximately $119,000, or 4.2%, as compared to gross profit of $2,821,000 for the three months ended March 31, 2016. Consolidated gross profit as a percentage of sales was 16.7 % and 18.6 % for the three months ended March 31, 2017 and 2016, respectively. Gross profit from operations increased by approximately $1,043,000 in our Complex Machining segment. This increase was offset by declines in gross profit in our Turbine & Engine and Aerostructures & Engineering segments of approximately $239,000 and $922,000, respectively.

Operating Expenses:

Consolidated Operating Expenses for the three months ended March 31, 2017 were $3,221,000 and decreased by $1,191,000, or 27.0%, compared to $4,412,000 for the three months ended March 31, 2016. The decrease resulted primarily from a reduction in corporate expense and to a lesser degree the elimination of operating costs for AMK for two months of 2017.

Interest and financing costs for the three months ended March 31, 2017 were approximately $893,000, an increase of approximately $388,000, or 76.8%, compared to $505,000 for the three months ended March 31, 2016. The increase results from increases in debt in the form of subordinated notes bearing interest at higher rates than debt under the PNC Loan Facility and to a lesser degree higher interest rates on the PNC loan facility, offset in part by less principal outstanding on the PNC loans.

Loss before income taxes for the three months ended March 31, 2017 was $(1,154,000), a decrease in the loss of $932,000, or a 44.7% improvement, compared to the loss before income taxes of $(2,086,000) for the three months ended March 31, 2016. Our Complex Machining segment had a pre-tax profit of approximately $1,085,000. Our Aerostructures & Electronics segment experienced a pre-tax loss of approximately $(1,279,000). Our Turbine & Engine segment experienced a pre tax loss of approximately $(827,000) consolidated pre tax loss.

Net loss for the three months ended March 31, 2017 was $(1,154,000), an increase of $276,000, or 19.3%, compared to net loss of $(1,430,000) for the three months ended March 31, 2016 for the reasons discussed above.

LIQUIDITY AND CAPITAL RESOURCES

The Loan Facility has been amended many times during its term. The Loan Facility was amended in June 2016 (the “Twelfth Amendment”) and September 2016 (the “Thirteenth Amendment”). In connection with the Twelfth Amendment, we paid a fee of $100,000 and reimbursed PNC for the fees and expenses of its counsel. The Twelfth Amendment provides for a $33,000,000 revolving loan. In addition, in the Twelfth Amendment the four term loans (Term Loan A, Term Loan B, Term Loan C and Term Loan D) then outstanding were consolidated into a single term loan with the initial principal amount of $7,387,854. Further, in the Twelfth Amendment we acknowledged that there were then outstanding excess advances under the revolver in the amount of $12,500,000. At the closing of the Twelfth Amendment we paid $1,500,000 to reduce the outstanding excess under the revolving loan. We also agreed to reduce the excess advances by $100,000 each week commencing the second week after the closing of the Twelfth Amendment.

Under the terms of the Loan Facility, as amended, the revolving loan now bears interest at (a) the sum of the Alternate Base Rate plus one and three-quarters of one percent (1.75%) with respect to Domestic Rate Loans; and (b) the sum of the LIBOR Rate plus four and one-half of one percent (4.50%) with respect to LIBOR Rate Loans. The amount outstanding under the revolving loan (including excess advances) was $24,393,000 and $29,604,000, as of December 31, 2016 and December 31, 2015, respectively.

The Loan Facility was further amended pursuant to the Thirteenth Amendment, to modify the advance rate with respect to our inventory to be the lesser of (i) 75% of the eligible inventory, an increase from 50%, and (ii) 90% of the liquidation value of the eligible inventory, an increase from 85%, subject to the inventory sublimit of $12,500,000 and such reserves as PNC may deem proper. In addition, in the Thirteenth Amendment the lender waived any default resulting from our obligation to comply with the minimum EBITDA covenant for the period ended June 30, 2016, consented to the issuance of our 12% Subordinated Convertible Notes and the amendment to our Articles of Incorporation to increase the authorized number of shares of Preferred Stock and Series A Preferred Stock.

The repayment terms of the Term Loan provided for in the Twelfth Amendment consist of sixty (60) consecutive monthly principal installments, the first fifty-nine (59) of which are in the amount of $123,133 commencing on the first business day of July, 2016, and continuing on the first business day of each month thereafter, with a sixtieth (60th) and final payment of any unpaid balance of principal and interest payable on the last business day of June, 2021.

The terms of the Loan Facility require that, among other things, we maintain a specified Fixed Charge Coverage Ratio and maintain a minimum EBITDA. In addition, we are limited in the amount of Capital Expenditures we can make. We are also limited to the amount of dividends we can pay our shareholders as defined in the Loan Facility. As of December 31, 2016 and March 31, 2017, we were not in compliance with the Fixed Charge Coverage Ratio covenant. The failure to maintain the requisite Fixed Charge Coverage Ratio constitutes a default under the Loan Facility and PNC at its option may give notice to us that all amounts under the Loan Facility are immediately due and payable. Consequently, all amounts due under the Term Loans are also classified as current. We have requested a waiver from PNC for the failure to satisfy the Fixed Charge Coverage Ratio covenant. As of December 31, 2016 and March 31, 2017, we were not in compliance with the minimum EBITDA requirement. We have requested a waiver from PNC for the failure to meet the minimum EBITDA covenant.

In connection with the sale of AMK to Meyer Tool, Inc., on January 27, 2017 we, together with our wholly-owned subsidiaries, entered into the Fourteenth Amendment to the Loan Facility which amends certain terms and conditions of the Loan facility and releases AMK from its obligations under the Loan Facility.

The proceeds of the sale of AMK were applied as follows: $1,700,000 to the payment of the Term Loan (as defined in the Loan Facility), $1,800,000 to the payment of outstanding Revolving Advances (as defined in the Loan Facility), and $500,000 to the payment of existing accounts payable. The remaining $500,000 will be applied to outstanding accounts payable on a future date to be determined by PNC or used to reduce the amount of the Revolving Advance. The amendment also waives the non-compliance at September 30, 2016 with the Fixed Charge Coverage Ratio and the Minimum EBITDA covenants for the period then ended, and requires that we maintain a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00, tested quarterly on a consolidated rolling twelve (12) month basis; however, for the quarter ending June 30, 2017, which will be tested based upon the prior six (6) months, the Fixed Charge Coverage Ratio shall not be less than 1.00 to 1.00 and for the quarter ending September 30, 2017, which will be tested based upon the prior nine (9) months, the Fixed Charge Coverage Ratio shall not be less than 1.10 to 1.00. The amendment also reduces the amount to be paid weekly in repayment of excess advances in the amount of $5,294,071 under the revolving credit facility from $100,000 to $50,000 for each Monday during the months of January, February and March of 2017. Thereafter, the weekly payments will return to $100,000 until such excess advances have been repaid in full.

As of March 31, 2017, our debt to PNC in the amount of $23,947,469 consisted of the revolving credit note due to PNC in the amount of $18,367,814 (including excess advances) and the term loans due to PNC in the amount of $4,579,655, as compared to as of December 31, 2016, when our debt to PNC in the amount of $31,042,000 consisted of the revolving credit note due to PNC in the amount of $24,393,000 (including excess advances) and the term loans due to PNC in the amount of $6,649,000. In addition, as of March 31, 2017 we had capitalized lease obligations to third parties of $3,902,017, as compared to capitalized lease obligations of $4,215,000 as of December 31, 2016.

Significant Transactions Since January 1, 2016 Which Have Impacted Our Liquidity

Dispositions

On April 11, 2016 we sold our South Windsor, Connecticut property for a purchase price of $1,700,000, less closing adjustments of approximately $200,000, pursuant to a Real Estate Purchase and Sale Contract dated as of December 7, 2015, as amended, and entered into a lease with the purchaser of the property for an initial term of 15 years, with an option to renew the lease for an additional five years. In addition to rent, initially $155,000 per annum, subject to annual escalation increase of 3%, we also will be responsible for real estate taxes and the maintenance of the buildings and the property. The net proceeds from the sale of the property were applied to the amounts owed to PNC.

On January 27, 2017, we sold all of the outstanding shares of AMK to Meyer Tool, Inc., pursuant to a Stock Purchase Agreement dated January 27, 2017 for a purchase price of $4,500,000, subject to a working capital adjustment, plus additional quarterly payments, not to exceed $1,500,000, equal to five percent (5%) of Net Revenues of AMK commencing April 1, 2017. The proceeds of the sale were applied in accordance with the terms of the Fourteenth Amendment to the Loan Facility as discussed above.

AMK, based in South Windsor, Connecticut, is a provider of sophisticated welding and machining services for diversified aerospace and industrial customers which we acquired in October 2014.

Recent Loans from Principal Stockholders

On March 17, 2017, we borrowed $200,000 and $300,000 from each of Michael Taglich and Robert 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 notes bear interest at the rate of 7% per annum and are payable on September 17, 2017. Michael and Robert Taglich have the option to convert the unpaid principal amount and accrued interest on the promissory notes into shares of common stock or other securities of our company which we may offer and sell in any public or private financing (each a “Financing”), on the same terms and conditions as are offered to purchasers in such Financing, or, if more favorable to us, on such other terms as may be required under the rules of the NYSE MKT, which option they must exercise by notice to us within three business days following the completion of such Financing. Upon completion of any Financing, upon notice to Michael and Robert Taglich, we have the right to convert the unpaid principal amount of those promissory notes and accrued interest thereon into shares of common stock or other of our securities sold in the Financing on the same terms and conditions as are offered to purchasers in the Financing, or if more favorable to us, on such other terms as may be required under the rules of the NYSE MKT, which right we must exercise within three business days following the completion of such Financing.

On May 2 and 10, 2017, we borrowed an aggregate of $750,000 from each of Michael Taglich and Robert Taglich.

Public Offering and Bridge Financing

We have filed a registration statement with the Securities and Exchange Commission for a firm commitment underwritten public offering of shares of our common stock to increase our equity base and provide financing to grow our sales and reduce our backlog. The offering is subject to a capital restructuring which will require an amendment to the terms of our Series A Preferred Stock, as well as waivers from PNC Bank with respect to the covenant defaults referred to above, an amendment to the Loan Facility acceptable to the underwriters of the offering and the consent of PNC Bank to the capital restructuring as part of the offering. We intend to solicit the consent of holders of the Series A Preferred Stock to an amendment to the terms of the Series A Preferred Stock. We cannot assure you that the offering will be consummated, or that if consummated, that the net proceeds of the offering will be sufficient to satisfy our needs.

In anticipation of the public offering, on May 12 and May 19, 2017, we issued and sold to a total of 17 accredited investors (including Michael Taglich and Robert Taglich individually and a partnership of which they are partners), our Subordinated Convertible Notes due May 12, 2018 (the “Bridge Notes”) in the aggregate principal amount of $4,158,624, together with warrants to purchase an aggregate of 501,039 shares of common stock, for gross proceeds (net of cancellation of indebtedness totaling $1,503,288 due Michael and Robert Taglich for working capital advances made on May 2 and 10, 2017) of $2,534,196. Roth Capital LLC and Taglich Brothers, Inc. acted as Placement Agent in connection with the sale of the Bridge Notes and warrants for which they are to be paid commissions in the aggregate amount of $191,155.

The Bridge Notes and warrants were issued for a purchase price equal to 97% of the principal amount of the Bridge Notes purchased. The principal amount of each Bridge Note will be increased by 2% for each 30 days it remains outstanding commencing August 1, 2017. Upon the occurrence of, and during the continuance of an Event of Default (as defined in the Bridge Notes), the Bridge Notes will accrue late interest at the rate of 10% per annum. Payment of the principal and accrued interest, if any, on the Bridge Notes is junior and subordinate in right of payment to the Company’s indebtedness under the Loan Agreement.

The principal amount, together with accrued interest, if any (together, the “Conversion Amount”), of the Bridge Notes are convertible into shares of common stock until November 12, 2017 at an initial conversion price of $2.49 per share, subject to anti-dilution and other adjustments for stock splits and certain fundamental transactions, including recapitalizations, mergers and other business combination transactions (the “Fixed Conversion Price”), and thereafter at the lower of the Fixed Conversion Price and 75% of the five (5) Weighted Average Prices (as defined in the Bridge Notes) of the common stock during the five consecutive trading day period ending on the trading immediately preceding the day of a request by the holder for conversion of the Bridge Note. The Company has the right to redeem all, or a portion of (on a pro rata basis), the Bridge Notes upon three trading days to the holders. Subject to the subordination provisions of the Bridge Notes, holders of the Bridge Notes have the right to request the redemption of their Notes at any time, and following an Event of Default or in advance of a Change of Control (as defined in the Bridge Notes).

The warrants are 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 addition, the exercise price of the warrants will be reset, if a lower exercise price would result, (x) to the public offering price of the shares of common stock sold in this offering or (y) the Weighted Average Price (as defined) of the common stock on the first date on which none of the Notes are outstanding, whichever event first occurs.

Anticipated Uses of Cash

As a requirement of our Loan Facility substantially all of our cash receipts from operations are deposited into our lockbox account at PNC. These cash receipts are used to reduce our indebtedness under our revolving credit note and are then borrowed according to a borrowing base to support our operations.

Cash Flow

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

	Three Months Ended March 31,2017	Three Months Ended March 31,2016
	(Unaudited)	(Unaudited)
Cash provided by (used in)		
Operating activities	$ 900,000	$ 900,000
Investing activities	3,926,000	(567,000)
Financing activities	(5,087,000)	(493,000)
Net (decrease) increase in cash and cash equivalents	$ (261,000)	$ (160,000)

Cash Provided By Operating Activities

Cash provided by operating activities primarily consists of our net income (loss) adjusted for certain non-cash items and changes to working capital.

For the three months ended March 31, 2017, our net cash provided by operating activities of $900,000 was comprised of a net loss of $1,154,000 offset by $1,258,000 of cash provided by changes in operating assets and liabilities, plus adjustments for non-cash items of $796,000. Adjustments for non-cash items consisted primarily of depreciation of property and equipment of $728,000, amortization of capitalized engineering costs, intangibles and other items of $616,000. These non-cash items were offset by $10,000 of deferred gain on the sale of real estate, forfeiture of non-cash compensation of $73,000, bad debt recovery of $14,000 and $451,000 from gain on sale of our AMK subsidiary. The net decrease in operating assets and liabilities consisted of a net decrease in operating assets of $2,097,000 and a net decrease in operating liabilities of $839,000. The net decrease in operating assets was comprised of a decrease in accounts receivable of $578,000 due to the timing of shipments to and cash receipts from customers, an increase in prepaid expenses and other assets of $102,000, an increase in deposits and other assets of $276,000, a decrease in prepaid taxes of 178,000 and an decrease in inventory of $1,719,000. The net decrease in operating liabilities was comprised of decreases in accounts payable and accrued expenses of $621,000 due to the timing of the receipt and payment of invoices, and increases in deferred rent of $6,000 and a decrease of deferred revenue of $224,000.

Cash Used in Investing Activities

Cash used in investing activities consists of capital expenditures for property and equipment, capitalized engineering costs and the cash received from the businesses we sold. A description of capitalized engineering costs can be found below and in Note 3 Summary of Significant Accounting Policies in our Consolidated Financial Statements for the year ended December 31, 2016.

For the three months ended March 31, 2017, cash provided by investing activities was $3,926,000. This was comprised of the proceeds from the sale of the AMK subsidiary of $4,260,000 offset by $245,000 for capitalized engineering costs and $89,000 for the purchase of property and equipment.

Cash Provided By (Used In) Financing Activities

Cash provided by (used in) financing activities consists of the borrowings and repayments under our credit facilities with our senior lender, increases in and repayments of capital lease obligations and other notes payable..

For the three months ended March 31, 2017, cash used by financing activities was $5,087,000. This was comprised of repayments of $2,069,000 on our term loans, $5,545,000 on our revolver loans, $173,000 on our capital lease obligations, offset by proceeds from notes payable issuances of $850,000 and $1,850,000.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of March 31, 2017.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our financial results.

Inventory Valuation

The Company does not take physical inventories at interim quarterly reporting periods. Approximately 85% of the inventory value at March 31, 2017 has been estimated using a gross profit percentage based on sales of previous periods to the net sales of the current period. The remainder of the inventory value at March 31, 2017 is estimated based on the Company's standard cost perpetual inventory system. Adjustments to reconcile the annual physical inventory to the Company’s books are treated as changes in accounting estimates and are recorded in the fourth quarter. The Company valued inventory at December 31, 2016 at the lower of cost on a first-in-first-out basis or market.

We generally purchase raw materials and supplies uniquely suited to the production of larger more complex parts, such as landing gear, only when non-cancellable contracts for orders have been received for finished goods. We occasionally produce larger more complex products, such as landing gear, in excess of purchase order quantities in anticipation of future purchase order demand. Historically this excess has been used in fulfilling future purchase orders. We purchase supplies and materials useful in a variety of products as deemed necessary even though orders have not been received. The Company periodically evaluates inventory items that are not secured by purchase orders and establishes reserves for obsolescence accordingly. The Company also reserves for excess quantities, slow-moving goods, and for other impairments of value.

The Company presents inventory net of progress billings in accordance with the specified contractual arrangements with the United States Government, which results in the transfer of title of the related inventory from the Company to the United States Government, when such progress payments are received.

Capitalized Engineering Costs

The Company has contractual agreements with customers to produce parts, which the customers design. Though the Company has not designed and thus has no proprietary ownership of the parts, the manufacturing of these parts requires pre-production engineering and programming of our machines. The pre-production costs associated with a particular contract are capitalized and then amortized beginning with the first shipment of product pursuant to such contract. These costs are amortized on a straight line basis over the shorter of the estimated length of the contract, or three years.

If the Company is reimbursed for all or a portion of the pre-production expenses associated with a particular contract, only the unreimbursed portion would be capitalized. The Company may also progress bill customers for certain engineering costs being incurred. Such billings are recorded as progress billings (a reduction of the associated inventory) until the appropriate revenue recognition criteria have been met. The Terms and Conditions contained in customer purchase orders may provide for liquidated damages in the event that a stop-work order is issued prior to the final delivery of the product.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." The Company recognizes revenue when products are shipped and/or the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Payments received in advance from customers for products delivered are recorded as customer deposits until earned, at which time revenue is recognized. The Terms and Conditions contained in our customer purchase orders often provide for liquidated damages in the event that a stop work order is issued prior to the final delivery. The Company utilizes a Returned Merchandise Authorization or RMA process for determining whether to accept returned products. Customer requests to return products are reviewed by the contracts department and if the request is approved, a credit is issued upon receipt of the product. Net sales represent gross sales less returns and allowances. Freight out is included in operating expenses.

The Company recognizes certain revenues under a bill and hold arrangement with two of its large customers. For any requested bill and hold arrangement, the Company makes an evaluation as to whether the bill and hold arrangement qualifies for revenue recognition. The customer must initiate the request for the bill and hold arrangement. The customer must have made this request in writing in addition to their fixed commitment to

purchase the item. The risk of ownership has passed to the customer, payment terms are not modified and payment will be made as if the goods had shipped.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance now codified as FASB ASC 740, "Income Taxes," which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The Company accounts for uncertainties in income taxes under the provisions of FASB ASC 740-10-05, "Accounting for Uncertainty in Income Taxes." The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Stock-Based Compensation

The Company accounts for stock-based compensation expense in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model.

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company accounts for the impairment of goodwill under the provisions of ASU 2011-08 (“ASU 2011-08”), “Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment.” ASU 2011-08 updated the guidance on the periodic testing of goodwill for impairment. The updated guidance gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

The Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist, using a three-step approach. Step "zero" is a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Step one compares the fair value of the net assets of the relevant reporting unit (calculated using a discounted cash flow method) to its carrying value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

Long-Lived and Intangible Assets

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit. Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. There has been no impairment as of March 31, 2017 and December 31, 2016.

Recently Issued Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)" ("ASU 2016-01").The main objective of ASU 2016-01 is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of this amended to have a significant impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The main objective of ASU 2016-02 is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB is amending the FASB Accounting Standards Codification and creating Topic 842, Leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect the adoption of this amended to have a significant impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment" ("ASU 2016-09"). ASU 2016-09 is part of the FASB Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. ASU 2016-09 will affect all entities that issue share-based payment awards to their employees. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this ASU during the first quarter of 2017, and the adoption did not materially impact its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10 "Revenue from Contracts with Customers (Topic 606)" ("ASU 2016-10"). The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2016-10 affect the guidance in ASU 2014-09, "Revenue from Contracts with Customers", which is not yet effective. The effective date and transition requirements of ASU 2016-10 are the same as the effective date and transition requirements of ASU 2014-09. They are effective prospectively for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The Company is currently assessing the impact of the adoption of these amendments on its consolidated financial statements.

In May 2016, the FASB issued Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain arrow areas and add some practical expedients. These amendments are effective at the same date that Topic 606 is effective. Topic 606 is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Topic 606 is effective for nonpublic entities one year later. The Company is currently assessing the impact of the adoption of the amendments to Topic 606 and these amendments on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash, which clarifies the presentation requirements of restricted cash within the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one-line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees to the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. This standard is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company is currently in the process of evaluating the impact of the adoption of this standard on our financial statements.

In January 2017, the FASB issued ASU 2017-01 (“ASU 2017-01”), Business Combinations, which clarifies the definition of a business, particularly when evaluating whether transactions should be accounted for as acquisitions or dispositions of assets or businesses. The first part of the guidance provides a screen to determine when a set is not a business; the second part of the guidance provides a framework to evaluate whether both an input and a substantive process are present. The guidance will be effective after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted for transactions that have not been reported in issued financial statements. The Company is currently assessing the impact of this update on the presentation of these financial statements.

In January 2017, FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment, Step 2 of the goodwill impairment test, which requires determining the implied fair value of goodwill and comparing it with its carrying amount has been eliminated. Thus, the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount (i.e., what was previously referred to as Step 1). In addition, ASU No. 2017-04 requires entities having one or more reporting units with zero or negative carrying amounts to disclose (1) the identity of such reporting units, (2) the amount of goodwill allocated to each, and (3) in which reportable segment the reporting unit is included. ASU No. 2017-04 is effective as follows: (1) for a public business entity that is an SEC filer for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently in the process of evaluating the impact of the adoption of this standard on our financial statements.

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our senior management is responsible for establishing and maintaining a system of disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the "Exchange Act") designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision of and with the participation of management, including our Acting Chief Executive Officer and our Chief Financial Officer as of the end of the period covered by this Report. Based on that evaluation, our Acting Chief Executive Officer and our Chief Accounting Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were not effective. This was due to certain deficiencies in our controls over financial reporting, described below. In particular, certain portions of our inventory control system have not been integrated into the system used by the balance of our company which could result in a failure to properly account for the costs associated with work in process, slow moving inventory and the value of inventory on hand and the enterprise reporting system used to track employee hours and, hence, costs to be included in work in process, is not sufficiently automated to ensure compliance at all times, In addition, our Acting Chief Executive Officer and Chief Financial Officer concluded that our quarterly closing process was deficient at our subsidiaries and that our consolidating process and period end reporting and disclosure procedures were materially weak. They also concluded that our system for administering and disclosing stock compensation was deficient and that we lacked the accounting personnel necessary to account for complex accounting matters and unusual and non-standard transactions.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter which is the subject of this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1A. Risk Factors.

Reference is made to the risks and uncertainties disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”), which is incorporated by reference into this report. Prospective investors are encouraged to consider the risks described in our 2016 Form 10-K, our Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in this Report and other information publicly disclosed or contained in documents we file with the Securities and Exchange Commission before purchasing our securities.

Item 2. Sales of Unregistered Equity Securities.

Except as previously disclosed on our Exchange Act reports, we did not issue or sell any unregistered equity securities during the period covered by this Report.

Item 6. Exhibits

No.	Description
2.1	Agreement and Plan of Merger dated July 29, 2013 between Air Industries Group, Inc. and Air Industries Group (incorporated herein by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed August 30, 2013).
2.2	Articles of Merger between Air Industries Group and Air Industries Group, Inc. filed with the Secretary of State of Nevada on August 28, 2013 (incorporated herein by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed August 30, 2013).
2.3	Certificate of Merger between Air Industries Group and Air Industries Group, Inc. filed with the Secretary of State of Nevada on August 29, 2013 (incorporated herein by reference to Exhibit 3.3 to the Company’s Current Report on Form 8-K filed August 30, 2013).
3.1	Articles of Incorporation of Air Industries Group (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 30, 2013).
3.2	Certificate of Designation authorizing the issuance of the Series A Preferred Stock (incorporated herein by reference to exhibit 3.1 to the Company’s Current Report on Form 8-K filed on June 1, 2016).
3.3	Certificate of Amendment increasing number of authorized shares of preferred stock and Series A Preferred Stock ((incorporated herein by reference to Exhibit 3.3 to Amendment No. 2 to the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2016 filed on May 1, 2017).
3.4	Amended and Restated By-Laws of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 31, 2015).
4.12	Placement Agent Warrant issued to Taglich Brothers, Inc. in connection with the 2019 Note Offering (incorporated herein by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on February 16, 2017).
4.13	Form of 8% Subordinated Convertible Note due January 31, 2019 (incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on February 16, 2017).

4.14	Form of Warrant issued to purchasers of 2019 Notes in connection with the 8% Note Offering (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on February 16, 2017).
4.15	Form of Placement Agent Warrant issued to Taglich Brothers, Inc. in connection with the 2019 Note Offering (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on February 16, 2017).
4.16	Form of warrant issued to purchasers of the Company's Subordinated Convertible Notes due May 12, 2018 (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 15, 2017).
10.65	Form of Subscription Agreement for the 2019 Notes (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 16, 2017).
10.66	Placement Agency Agreement with Taglich Brothers, Inc. for the offering of the 2019 Notes issued in February 2017 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 16, 2017).
10.67	Form of Subscription Agreement for the 2019 Notes (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 16, 2017).
10.68	Placement Agency Agreement with Taglich Brothers, Inc. for the offering of the 2019 Notes issued in March 2017 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 22, 2017).
10.69	Securities Purchase Agreement dated May 12, 2017 for the offering of the Company's Subordinated Convertible Notes due May 10, 2017 and warrants (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 15, 2017).
10.70	Form of Subordinated Convertible Note due May 12, 2017 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 15, 2017).
31.1	Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Securities Exchange Act of 1934.
31.2	Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act of 1934.
32.1	Certification of principal executive officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2	Certification of principal financial officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation*
101.DEF	XBRL Taxonomy Extension Definition*
101.LAB	XBRL Taxonomy Extension Label*
101.PRE	XBRL Taxonomy Extension Presentation*

*To be filed by amendment

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 30, 2017

By: /s/ Michael Recca
Michael Recca
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

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

I, Peter D. Rettaliata, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: May 30, 2017

/s/ Peter D. Rettaliata
Peter D. Rettaliata
Acting Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

I, Michael E. Recca, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: May 30, 2017

/s/ Michael E. Recca
Michael E. Recca
Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-Q for the period ended March 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), Peter D. Rettaliata, Acting Chief Executive Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 30, 2017

/s/ Peter D. Rettaliata
Peter D. Rettaliata
Acting Chief Executive Officer (Principal Executive Officer)

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

Exhibit 32.2

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

In connection with the Quarterly Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-Q for the period ended March 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), Michael E. Recca, Chief Financial Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 30, 2017

/s/ Michael E. Recca
Michael E. Recca
Chief Financial Officer (Principal Financial Officer)

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