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

FORM 10-Q

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

For the quarterly period ended: March 31, 2020

or

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

For the transition period from ______ to_______

Commission File No. 001-35927

AIR INDUSTRIES GROUP
(Exact name of registrant as specified in its charter)

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

1460 Fifth Avenue, Bay Shore, New York 11706
(Address of principal executive offices)

(631) 968-5000
(Registrant's telephone number, including area code)

Securities Registered pursuant to Section 1(b) of the Act

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

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

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

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

Large Accelerated Filer ☐	Non-Accelerated Filer ☐
Accelerated Filer ☐	Smaller Reporting Company ☒
	Emerging Growth Company ☐

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

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

There were a total of 30,579,075 shares of the registrant's common stock outstanding as of May 11, 2020.

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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.

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, 2019, 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

AIR INDUSTRIES GROUP
Condensed Consolidated Balance Sheets

	March 31, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 1,494,000	$ 1,294,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of $1,128,000 and $859,000	8,623,000	7,858,000
Inventory	29,808,000	28,646,000
Prepaid Expenses and Other Current Assets	453,000	447,000
Income Tax Receivable	1,416,000	-
Total Current Assets	41,794,000	38,245,000
Property and Equipment, Net	7,130,000	7,578,000
Operating Lease Right-Of-Use-Asset	3,501,000	3,623,000
Deferred Financing Costs, Net, Deposits and Other Assets	1,463,000	1,481,000
Goodwill	163,000	163,000
TOTAL ASSETS	$ 54,051,000	$ 51,090,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Finance Lease Obligations - Current Portion	$ 2,255,000	$ 3,139,000
Notes Payable - Related Party - Current Portion	5,923,000	6,862,000
Accounts Payable and Accrued Expenses	9,389,000	8,105,000
Operating Lease Liabilities - Current Portion	722,000	697,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	1,004,000	1,011,000
Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary - Current Portion	200,000	200,000
Income Taxes Payable	15,000	27,000
Total Current Liabilities	19,546,000	20,079,000
Long Term Liabilities		
Notes Payable and Finance Lease Obligations - Net of Current Portion	16,732,000	15,949,000
Operating Lease Liabilities - Net of Current Portion	4,043,000	4,235,000
Deferred Gain on Sale - Net of Current Portion	209,000	219,000
Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary - Net of Current Portion	338,000	402,000
TOTAL LIABILITIES	40,868,000	40,884,000
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, par value $.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both March 31, 2020 and December 31, 2019.	-	-
Common Stock - Par Value $.001 - Authorized 60,000,000 Shares, 30,531,949 and 29,478,338 Shares Issued and Outstanding as of March 31, 2020 and December 31, 2019, respectively	30,000	29,000
Additional Paid-In Capital	79,352,000	77,434,000
Accumulated Deficit	(66,199,000)	(67,257,000)
TOTAL STOCKHOLDERS' EQUITY	13,183,000	10,206,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 54,051,000	$ 51,090,000

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, 2020	Three Months Ended March 31, 2019
Net Sales	$ 13,447,000	$ 13,878,000
Cost of Sales	11,266,000	11,604,000
Gross Profit	2,181,000	2,274,000
Operating Expenses	2,262,000	2,062,000
Loss on abandonment of Leases	-	(275,000)
Loss from Operations	(81,000)	(63,000)
Interest and Financing Costs	(252,000)	(833,000)
Interest Expense - Related Parties	(128,000)	(130,000)
Other Income, Net	105,000	31,000
Loss before Benefit from Income Taxes	(356,000)	(995,000)
Benefit from Income Taxes	(1,414,000)	-
Income (Loss) from Continuing Operations	1,058,000	(995,000)
Income from Discontinued Operations, net of tax	-	72,000
Net Income (Loss)	$ 1,058,000	$ (923,000)
Net Income (Loss) per share - Basic		
Continuing Operations	$ 0.04	$ (0.03)
Discontinued Operations	$ -	$ 0.00
Net Income (Loss) per share - Diluted		
Continuing Operations	$ 0.03	$ (0.03)
Discontinued Operations	$ -	$ 0.00
Weighted Average Shares Outstanding - Basic	30,380,234	28,601,390
Weighted Average Shares Outstanding - Diluted	36,521,454	28,601,390

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Stockholders' Equity
For the Three Months Ended March 31, 2020 and 2019 (Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance, January 1, 2020	29,478,338	$ 29,000	$ 77,434,000	$ (67,257,000)	$ 10,206,000
Common stock issued for directors fees	43,771	-	55,000	-	55,000
Costs related to issuance of stock	-	-	(145,000)	-	(145,000)
Issuance of Common Stock	419,597	1,000	983,000	-	984,000
Common Stock Issued for Convertible Notes	590,243	-	885,000	-	885,000
Stock Compensation Expense	-	-	140,000	-	140,000
Net Income	-	-	-	1,058,000	1,058,000
Balance, March 31, 2020	30,531,949	$ 30,000	$ 79,352,000	$ (66,199,000)	$ 13,183,000
Balance, January 1, 2019	28,392,853	$ 28,000	$ 76,101,000	$ (64,523,000)	$ 11,606,000
Common stock issued for directors fees	147,830	-	131,000	-	131,000
Costs related to issuance of stock	-	-	(58,000)	-	(58,000)
Stock Compensation Expense	-	-	233,000	-	233,000
Other Adjustments - Shares Issued	144,899	-	-	-	-
Other Adjustments - Fair Value allocation	-	-	(185,000)	-	(185,000)
Net Loss	-	-	-	(923,000)	(923,000)
Balance, March 31, 2019	28,685,582	$ 28,000	$ 76,222,000	$ (65,446,000)	$ 10,804,000

See Notes to Condensed Consolidated Financial Statements

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ 1,058,000	$ (923,000)
Adjustments to reconcile net income (loss) to net cash used in in operating activities		
Depreciation of property and equipment	656,000	666,000
Non-cash employee compensation expense	140,000	233,000
Non-cash directors compensation	55,000	131,000
Non-cash other income recognized	(92,000)	(109,000)
Non-cash interest expense	28,000	33,000
Abandonment of lease	-	275,000
Amortization of Right-of-Use Asset	122,000	124,000
Deferred gain on sale of real estate	(10,000)	(10,000)
(Gain) loss on sale of equipment	16,000	(42,000)
Amortization of debt discount on convertible notes payable	78,000	194,000
Bad debt expense	268,000	-
Amortization of deferred financing costs	30,000	-
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	(1,033,000)	(1,669,000)
Inventory	(1,162,000)	364,000
Prepaid expenses and other current assets	(6,000)	(115,000)
Prepaid taxes	-	41,000
Income tax receivable	(1,416,000)	-
Deposits and other assets	(76,000)	(263,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	1,216,000	(517,000)
Operating lease liabilities	(167,000)	(136,000)
Income taxes payable	(12,000)	(20,000)
Deferred revenue	(7,000)	15,000
NET CASH USED IN OPERATING ACTIVITIES	(314,000)	(1,728,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(78,000)	(30,000)
Proceeds from sale of equipment	-	84,000
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(78,000)	54,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable - revolver - net - Sterling National Bank	1,033,000	-
Note payable - revolver - net - PNC	-	19,000
Payments of note payable - term notes - Sterling National Bank	(90,000)	-
Payments of note payable - term notes - PNC	-	(370,000)
Proceeds from sale of future proceeds from disposition of subsidiary	-	800,000
Transaction costs from sale of future proceeds from disposition of subsidiary	-	(3,000)
Payments of finance lease obligations	(7,000)	(284,000)
Proceeds from issuance of common stock	984,000	-
Costs related to issuance of stock	(145,000)	(58,000)
Payments of notes payable issuances- related party	(1,012,000)	-
Payments of notes payable - third party	(100,000)	-
Payments of loan payable - financed asset	(71,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	592,000	104,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	200,000	(1,570,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,294,000	2,012,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,494,000	$ 442,000

See Notes to Condensed Consolidated Financial Statements

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

	2020	2019
Supplemental cash flow information		
Cash paid during the period for interest	$ 205,000	$ 285,000
Cash paid during the period for income taxes	$ -	$ -
Supplemental disclosure of non-cash transactions		
Right of Use Asset additions under ASC 842	$ -	$ 4,368,000
Operating Lease Liabilities under ASC 842	$ -	$ 5,397,000
Write-off deferred rent under ASC 842	$ -	$ 1,165,000
Common Stock issued for conversion of notes payable and accrued interest	$ 885,000	$ -

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

Air Industries Group is a Nevada corporation (“AIRI”). As of and for the three months ending March 31, 2020, the accompanying condensed consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corp. (“AIM”), Nassau Tool Works, Inc. (“NTW”), and the Sterling Engineering Corporation (“Sterling”), (together, the “Company”). The results of Eur-Pac Corporation (“EPC”) and Electronic Connection Corporation (“ECC”) are included in loss from discontinued operations, since operations ceased on March 31, 2019. See Note 2 for details of discontinued operations.

Principal Business Activities

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. Sterling manufactures components and provides services for jet engines and ground-power turbines. The Company’s customers consist mainly of publicly traded companies in the aerospace industry.

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, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission, from which the accompanying condensed consolidated balance sheet dated December 31, 2019 was derived.

Reclassifications

Certain account balances in 2019 have been reclassified to conform to the current period presentation.

Closing of EPC and ECC

Management completed its shut-down plan of EPC and ECC and has closed related operations during the quarter ending March 31, 2019.

Impact of Covid-19

On March 11, 2020, the World Health Organization announced that infections caused by the coronavirus disease of 2019 (“COVID-19”) had become pandemic, and on March 13, 2020, the U.S. President announced a national emergency relating to the disease. National, state and local authorities have adopted various regulations and orders, including mandates on the number of people that may gather in one location and closing non-essential businesses. To date, the Company has been deemed an essential business and has not curtailed its operations.

The measures adopted by various governments and agencies, as well as the likelihood that many individuals and businesses will voluntarily shut down or self-quarantine, are expected to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts which may be adopted by governments is uncertain. The likely overall economic impact of the COVID-19 pandemic will be highly negative to the general economy.

In accordance with the Department of Defense guidance issued in March 2020 designating the Defense Industrial Base as a critical infrastructure workforce, the Company's facilities have continued to operate in support of essential products and services required to meet national security commitments to the U.S. government and the U.S. military, however, facility closures or work slowdowns or temporary stoppages could occur. Although the Company's facilities are open, we have been unable to operate at full capacity or achieve high levels of productivity due to the implementation of enhanced safety procedures and increased employee absenteeism.

Financial impacts related to COVID-19, including actions and costs in response to the pandemic, were not material to the Company's first quarter 2020 financial position, results of operations or cash flows. Going forward, the Company currently expects the COVID–19 crisis to result in a reduction to 2020 revenue and operating margins in portions of its business driven primarily by supplier disruption, changes in employee productivity, and related program delays or challenges. The Company and its employees, suppliers, customers and its global community are facing tremendous challenges and the Company cannot predict how this dynamic situation will evolve or the impact it will have.

The Company has implemented procedures to promote employee safety including more frequent and enhanced cleaning and adjusted schedules and work flows to support physical distancing. These actions will result in increased operating costs. In addition, a number of the Company's suppliers and customers have suspended or otherwise reduced their operations, and the Company is experiencing some supply chain shortages. Suppliers are also experiencing liquidity pressures and disruptions to their operations as a result of COVID-19. The Company also has large numbers of employees working from home.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law. The CARES Act provides aid to small businesses through programs administered by the Small Business Administration ("SBA"). The CARES Act includes, among other things, includes provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program ("PPP"), whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs.

In May 2020, AIM, NTW and Sterling (each a "Borrower") entered into government subsidized loans with Sterling National Bank ("SNB") as the lender in an aggregate principal amount of $2.4 million ("SBA Loans"). Each SBA Loan is evidenced by a promissory note ("Note"). Subject to the terms of the Note, the SBA Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the SBA. At least 75% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the "Loan Program"). The Borrower may apply to SNB for forgiveness of a portion of the SBA Loan in accordance the applicable provisions of the federal statute authorizing the Loan Program. Each Note provides for customary events of default including, among other things, cross-defaults on any other loan with SNB. Each SBA Loan may be accelerated upon the occurrence of an event of default.

In addition, as a result of the passage of the CARES Act, the Company filed a net operating loss carryback claim in the amount of $1,416,000. See Note 10.

We believe the Company will have enough cash on hand to support the Company's activities at least through June 1, 2021.

Subsequent Events

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

Note 2. DISCONTINUED OPERATIONS

As discussed in Note 1, the Company disposed of its EPC and ECC subsidiaries in March 2019. As required, the Company has retrospectively recast its condensed consolidated statements of operations for the 2019 period presented. As such, these businesses are reported as discontinued operations for the three months ended March 31, 2019. The Company has not segregated the cash flows of these businesses in the condensed consolidated statements of cash flows. Management was also required to make certain assumptions and apply judgment to determine historical expenses related to the discontinued operations presented in prior periods. Unless noted otherwise, discussion in the Notes to Condensed Consolidated Financial Statements refers to the Company's continuing operations.

The following table presents the results of discontinued operations presented separately in the condensed consolidated statement of operations for the three months ended March 31, 2019:

	Three Months Ended March 31, 2019
	(unaudited)
Net revenue	$ 132,000
Cost of goods sold	105,000
Gross profit	27,000
Operating expenses:	
Selling, general and administrative	96,000
Gain on impairment of assets	41,000
Total operating loss	(28,000)
Interest expense	(1,000)
Other income	101,000
Income from discontinued operations before income taxes	72,000
Provision for income taxes	-
Income from discontinued operations, net of income tax	$ 72,000

Non-cash operating amounts for discontinued operations for the three months ended March 31, 2019 include depreciation and amortization of $6,000. The Company did not incur any capital expenditures for discontinued operations for the three months ended March 31, 2019. There were no other significant non-cash operating amounts or investing items of the discontinued operations for the period.

Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventory Valuation

For annual periods, the Company values inventory at the lower of cost on a first-in-first-out basis or estimated net realizable value. The Company does not take physical inventories at interim quarterly reporting periods. As such, substantially all of the inventory value at March 31, 2020 and 2019 has been estimated using a gross profit percentage based on historical gross profit percentages of previous periods as applied 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, 2020 and 2019 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.

Credit and Concentration Risks

Net Sales and Accounts Receivable

There were three customers that represented 79.9% and 73.8% of total net sales for the three months ended March 31, 2020 and 2019, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	March 31, 2020	March 31, 2019
	(Unaudited)	(Unaudited)
1	36.20	28.80
2	31.50	31.40
3	12.20	*
4	*	13.60

* Customer was less than 10% of total net sales for the three months ended March 31, 2020 and 2019, respectively.

There were two customers that represented 60.0% of gross accounts receivable at March 31, 2020 and three customers that represented 67.8% of gross accounts receivable at December 31, 2019, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	March 31, 2020	December 31, 2019
	(Unaudited)	
1	43.60	32.70
2	16.40	25.10
3	*	10.00

* Customer was less than 10% of Gross Accounts Receivable at March 31, 2020.

Cash and Cash Equivalents

During the year, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC limit. The Company has not experienced any losses on these accounts.

Major Suppliers

The Company has several key 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.

Leases

The Company accounts for leases under ASC 842, "Leases". All leases are required to be recorded on the balance sheet and are classified as either operating leases or finance leases. The lease classification affects the expense recognition in the income statement. Operating lease charges are recorded entirely in operating expenses. Finance lease charges are split, where amortization of the right-of- use asset is recorded in operating expenses and an implied interest component is recorded in interest expense.

Earnings (Loss) per share

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

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

The following is the calculation of net income (loss) applicable to common stockholders utilized to calculate EPS:

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
	(Unaudited)	(Unaudited)
Net Income (loss) per statement of operations	$ 1,058,000	$ (923,000)
Add: Convertible Note Interest for Potential Note Conversion	170,000	-
Net income (loss) used to calculate earnings per share	$ 1,228,000	$ (923,000)

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

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
	(Unaudited)	(Unaudited)
Weighted average shares outstanding used to compute basic earnings per share	30,380,234	28,601,390
Effect of dilutive stock options and warrants	1,137,769	-
Effect of dilutive convertible notes payable	5,003,451	-
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	36,521,454	28,601,390

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

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
	(Unaudited)	(Unaudited)
Stock Options	234,000	861,000
Warrants	1,423,000	2,240,000
	1,657,000	3,101,000

The following securities have been excluded from the calculation even though the exercise price was less than the average market price of the common shares because the effect of including these potential shares was anti-dilutive due to the net loss incurred during that period:

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
	(Unaudited)	(Unaudited)
Stock Options	-	500,000
Warrants	-	-
	-	500,000

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 expense for employees amounted to $140,000 and $233,000 for the three months ended March 31, 2020 and 2019, respectively. Stock compensation expense for directors amounted to $55,000 and $131,000 for the three months ended March 31, 2020 and 2019, respectively. Stock compensation expenses for employees and directors were included in operating expenses on the accompanying Condensed Consolidated Statements of Income.

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 $163,000 at both March 31, 2020 and December 31, 2019 relates to the acquisition of NTW.

Goodwill is not amortized, but is tested at least 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 COVID-19 pandemic was a triggering event for testing whether goodwill has been impaired. The goodwill amounted to $163,000 at March 31, 2020. The Company performed a qualitative assessment and determined it is not more likely than not that the fair value was less than their carrying values as of March 31, 2020. We will continue to monitor the impacts of the COVID-19 pandemic in future quarters. Changes in our forecasts or further decreases in the value of our common stock could cause book values to exceed fair values which may result in goodwill impairment charges in future periods.

The Company has determined that there has been no impairment of goodwill at March 31, 2020 and 2019.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

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

Note 4. PROPERTY AND EQUIPMENT

The components of property and equipment at March 31, 2020 and December 31, 2019 consisted of the following:

	March 31, 2020	December 31, 2019	
	(unaudited)		
Land	$ 300,000	$ 300,000	
Buildings and Improvements	1,659,000	1,650,000	31.50 years
Machinery and Equipment	12,264,000	12,251,000	5 - 8 years
Finance Lease Machinery and Equipment	6,495,000	6,495,000	5 - 8 years
Tools and Instruments	11,219,000	11,021,000	1.50 - 7 years
Automotive Equipment	148,000	177,000	5 years
Furniture and Fixtures	290,000	290,000	5 - 8 years
Leasehold Improvements	530,000	530,000	Term of Lease
Computers and Software	428,000	425,000	4 - 6 years
Total Property and Equipment	33,333,000	33,139,000	
Less: Accumulated Depreciation	(26,203,000)	(25,561,000)	
Property and Equipment, net	$ 7,130,000	$ 7,578,000	

Depreciation expense for the three months ended March 31, 2020 and 2019 was approximately $656,000 and $660,000, respectively.

Assets held under finance lease obligations are depreciated over the shorter of their related lease terms or their estimated productive lives. Depreciation of assets under finance leases is included in depreciation expense for 2020 and 2019. Accumulated depreciation on these assets was approximately $6,156,000 and $5,936,000 as of March 31, 2020 and December 31, 2019, respectively.

Note 5. LEASES

The Company has operating and finance leases for leased office and manufacturing facilities and equipment leases. The Company leases certain machinery and equipment under finance leases and leases its offices and manufacturing facilities under operating leases. The leases have remaining lease terms of one to six years, some of which include options to extend or terminate the leases.

	March 31, 2020
Weighted Average Remaining Lease Term - in years	6.11
Weighted Average discount rate - %	9.50%

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

For the twelve months ended	Amount (unaudited)
December 31, 2020 (remaining nine months)	$ 854,000
December 31, 2021	1,118,000
December 31, 2022	868,000
December 31, 2023	895,000
December 31, 2024	923,000
Thereafter	1,681,000
Total future minimum lease payments	6,339,000
Less: discount	(1,574,000)
Total operating lease maturities	4,765,000
Less: current portion of operating lease liabilities	(722,000)
Total long term portion of operating lease maturities	$ 4,043,000

Note 6. NOTES PAYABLE, RELATED PARTY NOTES PAYABLE AND FINANCE LEASE OBLIGATIONS

Notes payable, related party notes payable and finance lease obligations consist of the following:

	March 31, 2020	December 31, 2019
	(unaudited)	
Revolving credit note payable to Sterling National Bank ("SNB")	$ 13,577,000	$ 12,543,000
Term loan, SNB	3,645,000	3,800,000
Finance lease obligations	15,000	22,000
Loan Payable - financed asset	313,000	385,000
Related party notes payable, net of debt discount	5,923,000	6,862,000
Convertible notes payable-third parties, net of debt discount	1,437,000	2,338,000
Subtotal	24,910,000	25,950,000
Less: Current portion of notes payable and finance lease obligations	(8,178,000)	(10,001,000)
Notes payable, related party notes payable and finance lease obligations, net of current portion	$ 16,732,000	$ 15,949,000

Sterling National Bank ("SNB")

On December 31, 2019, the Company entered into a new loan facility ("SNB Facility") with Sterling National Bank, ("SNB") expiring on December 30, 2022. The new Loan Facility provides for a $16,000,000 revolving loan ("SNB revolving line of credit") and a term loan ("SNB term loan") with a balance of $3,800,000 at December 31, 2019.

Proceeds from the SNB Facility repaid our outstanding loan facility ("PNC Facility") with PNC Bank N.A. ("PNC").

The formula to determine the amounts of revolving advances permitted to be borrowed under the SNB revolving line of credit is based on a percentage of the Company's eligible receivables and eligible inventory (as defined in the SNB Facility). Each day, the Company's cash collections are swept directly by SNB to reduce the SNB revolving loan balance and the Company then borrows according to a borrowing base formula. The Company's receivables are payable directly into a lockbox controlled by SNB (subject to the terms of the SNB Facility).

The repayment terms of the SNB term loan provide for monthly principal installments in the amount of $45,238, payable on the first business day of each month, beginning on February 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. In addition, for so long as the SNB term loan remains outstanding, if Excess Cash Flow (as defined) is a positive number for any fiscal year, beginning with the year ending December 31, 2020, the Company shall pay to SNB an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow for such Fiscal Year and (ii) the outstanding principal balance of the term loan. Such payment shall be made to SNB and applied to the outstanding principal balance of the term loan, on or prior to April 15 of the Fiscal Year immediately following such Fiscal Year.

The Company may voluntarily prepay balances under the SNB Facility. Any prepayment of less than all of the outstanding principal of the SNB term loan is applied to the principal of the SNB term loan.

The terms of the SNB Facility require that, among other things, the Company maintain a specified Fixed Charge Coverage Ratio of 1.25 to 1.00 at the end of each Fiscal Quarter beginning with the Fiscal Quarter ending March 31, 2020. In addition, the Company is limited in the amount of Capital Expenditures it can make. As of March 31, 2020 the Company was in compliance with all loan covenants. The SNB Facility also restricts the amount of dividends the Company may pay to its stockholders. Substantially all of the Company's assets are pledged as collateral under the SNB Facility.

As of March 31, 2020 the future minimum principal payments for the SNB term loan are as follows:

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	$ 406,000
December 31, 2021	543,000
December 31, 2022	2,760,000
SNB Term Loan payable	3,709,000
Less: debt issuance costs	(64,000)
Total SNB Term Loan payable, net of debt issuance costs	3,645,000
Less: Current portion	543,000
Long-term portion	$ 3,102,000

Under the terms of the SNB Facility, both the SNB revolving line of credit and the SNB term loan will bear an interest rate equal to 30-day LIBOR, (with a 1% floor), plus 2.5%. The average interest rate charged during the period ended March 31, 2020 was 4.0%.

As of March 31, 2020, our debt to SNB in the amount of $17,222,000 consisted of the SNB revolving line of credit note in the amount of $13,577,000 and the SNB term loan in the amount of $3,645,000. As of December 31, 2019, our debt to SNB in the amount of $16,343,000 consisted of the SNB revolving line of credit note in the amount of $12,543,000 and the SNB term loan in the amount of $3,800,000.

Interest expense related to the SNB Facility amounted to approximately $120,000 for the three months ended March 31, 2020.

PNC Bank N.A. ("PNC")

The Company previously maintained the PNC Facility. Under the PNC Facility, substantially all of the Company's assets were pledged as collateral. The PNC Facility provided for a $15,000,000 revolving line of credit ("PNC revolving line of credit") and a term loan ("PNC term loan").

Interest expense related to the PNC Facility amounted to approximately $512,000 for the three months ended March 31, 2019.

On December 31, 2019, both the PNC revolving line of credit and PNC term loan were paid in full and all assets that were previously pledged as collateral were released.

Loan Payable – Financed Asset

The Company is committed to a loan for manufacturing equipment purchased during 2019. The loan payable obligation totaled $313,000 and $385,000 as of March 31, 2020 and December 31, 2019, respectively. The loan bears interest at 3% per annum.

The future minimum loan payments, are as follows:

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	$ 216,000
December 31, 2021	97,000
Loan Payable - Financed Asset	313,000
Less: Current portion	(289,000)
Long-term portion	$ 24,000

Related Party Notes Payable

Taglich Brothers, Inc. is a corporation co-founded by two directors of the Company, Michael and Robert Taglich. In addition, a third director of the Company is a vice president of Taglich Brothers, Inc.

Taglich Brothers, Inc. has acted as placement agent for various debt and equity financing transactions and has received cash and equity compensation for its services.

On January 15, 2019, the Company issued its 7% senior subordinated convertible promissory notes due December 31, 2020, each in the principal amount of $1,000,000 (together, the "7% Notes"), to Michael Taglich and Robert Taglich, each for a purchase price of $1,000,000. The 7% Notes bear interest at the rate of 7% per annum, are convertible into shares of the Company's common stock at a conversion price of $0.93 per share, subject to the anti-dilution adjustments set forth in the 7% Notes and are subordinate to the Company's indebtedness under the SNB Facility.

In connection with the 7% Notes, the Company paid Taglich Brothers, Inc. a fee of $80,000 (4% of the purchase price of the 7% Notes), paid in the form of a promissory note having terms substantially identical to the 7% Notes.

On June 26, 2019, the Company was advanced $250,000 from each of Michael and Robert Taglich. These notes bear interest at a rate of 12% per annum. In connection with these notes, the Company issued 37,500 shares of stock to each of Michael and Robert Taglich. The maturity date of these notes was June 30, 2020 but have been extended to December 31, 2020.

On October 21, 2019, the Company was advanced $1,000,000 from Michael Taglich. This advance was repaid on January 2, 2020. The interest rate on this advance was 12% per annum.

Private Placement of Subordinated Notes due May 31, 2019, together with Shares of Common Stock

On March 29, 2018 and April 4, 2018, Michael Taglich and Robert Taglich advanced $1,000,000 and $100,000, respectively, to the Company for use as working capital. The Company subsequently issued its Subordinated Notes originally due May 31, 2019 to Michael Taglich and Robert Taglich, together with shares of common stock, in the financing described below, to evidence its obligation to repay the foregoing advances.

In May 2018, the Company issued $1,200,000 of Subordinated Notes due May 31, 2019 (the "2019 Notes"), together with a total of 214,762 shares of common stock to Michael Taglich, Robert Taglich and another accredited investor. As part of the financing, the Company issued to Michael Taglich $1,000,000 principal amount of 2019 Notes and 178,571 shares of common stock for a purchase price of $1,000,000 and to Robert Taglich $100,000 principal amount of 2019 Notes and 17,857 shares of common stock. The Company issued and sold a 2019 Note in the principal amount of $100,000, plus 18,334 shares of common stock to the other accredited investor for a purchase price of $100,000. This additional note was paid in full on January 2, 2020.

Interest on the 2019 Notes is payable on the outstanding principal amount thereof at the rate of one percent (1%) per month, payable monthly commencing June 30, 2018. Upon the occurrence and continuation of a failure to pay accrued interest, interest shall accrue and be payable on such amount at the rate of 1.25% per month; provided that upon the occurrence and continuation of a failure to timely pay the principal amount of the 2019 Note, interest shall accrue and be payable on such principal amount at the rate of 1.25% per month and shall no longer be payable on interest accrued but unpaid. The 2019 Notes are subordinate to the Company's obligations to SNB.

Taglich Brothers acted as placement agent for the offering and received a commission in the aggregate amount of 4% of the amount invested which was paid in kind.

During the second quarter of 2019, the maturity date of the 2019 Notes was extended to June 30, 2020. The interest rate of the notes remains at 12% per annum. In connection with the extension, 180,000 shares of common stock were issued on a pro-rata basis to each of the note holders, including 150,000 shares to Michael Taglich and 15,000 shares to Robert Taglich at $1.01 per share or $182,000. The costs have been recorded as a debt discount, and are being accreted over the revised term. In connection with the SNB Loan facility, Michael and Robert Taglich agreed to extend the maturity date of the 2019 Notes to December 31, 2020.

<u>Private Placements of 8% Subordinated Convertible Notes</u>

From November 23, 2016 through March 21, 2017, the Company received gross proceeds of $4,775,000, of which $1,950,000 were received from Robert and Michael Taglich, 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 383,080 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. Payment of the principal and accrued interest on the 8% Notes are junior and subordinate in right of payment to our indebtedness under the SNB Facility.

Interest on the 8% 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 8% Notes, provided that if accrued interest payable on $1,269,000 principal amount of the 8% Notes issued in December 2016 is paid in additional 8% 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.

Related party advances and notes payable, net of debt discounts to Michael and Robert Taglich, and their affiliated entities, totaled $5,923,000 and $6,862,000, as of March 31, 2020 and December 31, 2019, respectively. Unamortized debt discounts related to these notes amounted to $153,000 and $226,000 as of March 31, 2020 and December 31, 2019, respectively. Interest incurred on these related party notes amounted to approximately $128,000 and $130,000 for the three months ended March 31, 2020 and 2019, respectively. Amortization of debt discount incurred on these related party notes amounted to approximately $73,000 and $130,000 for the three months ended March 31, 2020 and 2019. The amortization of the debt discount is included in interest and financing costs in the Condensed Consolidated Statement of Operations.

All related party notes are due on December 31, 2020. There are no principal payments due on these notes until such time.

Convertible Notes Payable – Third Parties

In January 2020, the third party holders of $805,000 principal of the 8% Notes with accrued interest thereon of $80,000 converted their notes into approximately 590,243 shares of common stock at a per share price of $1.50.

8% Notes payable to third parties totaled $1,437,000 and $2,338,000, as of March 31, 2020 and December 31, 2019, respectively. Interest incurred on the 8% Notes amounted to approximately $42,000 and $40,000 for the three months ended March 31, 2020 and 2019, respectively. Unamortized debt discounts related to these notes amounted to $3,000 and $7,000 as of March 31, 2020 and December 31, 2019, respectively. Amortization of debt discount on the 8% Notes amounted to approximately $4,000 and $120,000 for the three months ended March 31, 2020 and 2019, respectively. These costs are included in interest and financing costs in the Condensed Consolidated Statement of Operations.

All convertible notes with third parties are due on December 31, 2020. There are no principal payments due on these notes until such time.

NOTE 7. LIABILITY RELATED TO THE SALE OF FUTURE PROCEEDS FROM DISPOSITION OF SUBSIDIARY

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

As of December 31, 2018, the Company received an aggregate of $363,000 under the Meyer Agreement.

In order to increase liquidity, on January 15, 2019, the Company entered into a “Purchase Agreement” with 15 accredited investors (the “Purchasers”), including Michael and Robert Taglich, pursuant to which the Company assigned to the Purchasers all of their rights, title and interest to the remaining $1,137,000 of the $1,500,000 in payments due from Meyer for the sale of AMK (the “Remaining Amount”) for an immediate payment of $800,000, including $100,000 from each of Michael and Robert Taglich, and $75,000 for the benefit of the children of Michael Taglich. The timing of the payments is based upon the net sales of AMK. If the Purchasers have not received the entire Remaining Amount by March 31, 2023, they have the right to demand payment of their pro rata portion of the unpaid Remaining Amount from the Company (“Put Right”). To the extent the Purchasers exercise their Put Right, the remaining payments from Meyer will be retained by the Company.

The Purchasers have agreed to pay Taglich Brothers, Inc. a fee equal to 2% per annum of the purchase price paid by such Purchasers, payable quarterly, to be deducted from the payments of the Remaining Amount, for acting as paying agent in connection with the payments from Meyer.

Although the Company sold all of its rights to retain the Remaining Amount, as a result of its obligation to the Purchasers, the Company is required to account for the Remaining Amount or portion thereof as income when earned. The Company recorded the $800,000 in proceeds as a liability on its condensed consolidated balance sheet, net of transaction costs of $3,000. Transaction costs will be amortized to interest expense over the estimated life of the Purchase Agreement.

As payments are remitted to the Purchasers, the balance of the recorded liability will be effectively repaid over the life of the Purchase Agreement. To determine the amortization of the recorded liability, the Company is required to estimate the total amount of future payment to be received by the Purchasers. The Company estimates that the entire Remaining Amount will be received, and accordingly, the Remaining Amount less the $800,000 purchase price received (the “Discount”) will be amortized into the liability balance and recorded as interest expense. The Discount will be amortized through the earliest date that the purchasers can exercise their Put Right, using the straight line method (which is not materially different than the effective interest method) over the estimated life of the Purchase Agreement with the Purchasers. Periodically the Company will assess the estimated payments to be made to the Purchasers related to the Meyer Agreement, and to the extent the amount or timing of the payments is materially different from their original estimates, the Company will prospectively adjust the amortization of the liability. The amount or timing of the payments from Meyer are not within the Company’s control. Since the inception of the Purchase Agreement, the Company estimates the effective annual interest rate over the life of the agreement to be approximately 18%.

The liability is classified between the current and non-current portion of liability related to sale of future proceeds from disposition of subsidiary based on the estimated recognition of the payments to be received by the purchasers in the next 12 months from the financial statements reporting date.

The Company recognized $92,000 and $109,000 of non-cash income reflected in “other income, net” on the condensed consolidated statement of operations and recorded $28,000 and $33,000 of related non-cash interest expense related to the Purchase Agreement, for the three months ended March 31, 2020 and 2019, respectively.

The table below shows the activity within the liability account for the three months ended March 31, 2020:

Liabilities related to sale of future proceeds from disposition of subsidiaries - as of December 31, 2019	$	602,000
Non-Cash other income recognized		(92,000)
Non-Cash interest expense recognized		28,000
Liabilities related to sale of future proceeds from disposition of subsidiary - as of March 31, 2020		538,000
Less: unamortized transaction costs		(3,000)
Liability related to sale of future proceeds from disposition of subsidiary, net	$	535,000

Note 8. STOCKHOLDERS' EQUITY

Common Stock – Sale of Securities

In January 2020, we issued and sold 419,597 shares of our common stock for gross proceeds of $984,000 pursuant to our Form S-3 filed on October 10, 2019 as updated on January 15, 2020. Costs of the sale amounted to $145,000.

The Company issued 43,771 and 147,830 shares of common stock in lieu of cash payments for director fees for the three months ended March 31, 2020 and 2019, respectively.

Note 9. CONTINGENCIES

A number of actions have been 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.

On December 20, 2018, pursuant to a Stock Purchase Agreement dated as of March 21, 2018 ("SPA"), the Company completed the sale of all of the outstanding shares of its subsidiary, Welding Metallurgy, Inc. to CPI Aerostructures. On March 19, 2019, in accordance with the procedures set forth in the SPA with CPI Aerostructures, the Company received a notice from CPI claiming that the working capital deficit used to compute the purchase price was understated. The issue of the amount of the working capital deficit was submitted to BDO USA, LLP ("BDO"), acting as an expert, and it issued a report dated September 3, 2019, where it determined that the amount of the working capital deficit was approximately $4,145,870. On September 9, 2019 the Company received a demand from CPI for payment of such amount. The Company advised CPI that the determination of BDO is void because, among other things, it believes BDO exceeded the scope of its authority as set forth in the SPA. On September 27, 2019, CPI filed a notice of motion in the Supreme Court of the State of New York, County of New York, against the Company seeking, among other things, an order of specific performance requiring delivery of the funds deposited in escrow, together with the balance of the working capital deficit which it claimed, and a judgment against the Company in the amount of approximately $4,200,000 of which $2,000,000 would be satisfied by delivery of the funds in escrow. On October 7, 2019, the Company agreed to the release of $619,316 of the funds held in escrow in respect of claims related to the working capital deficit not related to the value of WMI's inventory. As of December 31, 2018, the Company has placed a reserve against substantially all of the escrowed amount and cannot estimate the amount of loss. For, among others, the reasons stated above the Company intends to contest vigorously any claim CPI may make for payment based on the BDO Report. Outside counsel for the company has advised that at this stage in the proceedings, it cannot offer an opinion as to the probable outcome. As of March 31, 2020, there has been no new developments.

Contract Pharmacal Corp. commenced an action on October 2, 2018, relating to a Sublease entered into between the Company and Contract Pharmacal in May 2018 with respect to the property at 110 Plant Avenue, Hauppauge, New York. In the action Contract Pharmacal seeks damages for an amount in excess of $1,000,000 for our failure to make the entire premises available by the Sublease commencement date. The Company disputes the validity of the claims asserted by Contract Pharmacal and believes it has meritorious defenses to those claims and have recently submitted a motion in opposition to its motion for summary judgement. As of March 31, 2020, it is not possible to estimate if a loss will be incurred, as such there has been no accrual.

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

Note 10. INCOME TAXES

The Company recorded no income tax expense for the three months ended March 31, 2020 and 2019 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 the Company's annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

As a result of the passage of the CARES Act, the Company filed a net operating loss carryback claim in the amount of $1,416,000. The Company is currently evaluating the impact of other provisions of the CARES Act on its accounting for income taxes and does not believe it has a material impact at this time.

The Company recorded no other federal income tax benefit for both of the three months ended March 31, 2020 and 2019.

As of March 31, 2020 and December 31, 2019, the Company provided a full valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized.

Note 11. 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 two operating segments: Complex Machining, which consists of AIM and NTW; and Turbine Engine Components, which consists of Sterling. Along with its operating subsidiaries, the Company reports the results of our corporate division as an independent segment.

For reporting purposes, EPC and ECC have been classified as discontinued operations for the three months ending March 31, 2019.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. Intersegment transfers are recorded at the transferors cost, and there is no intercompany profit or loss on intersegment transfers. We evaluate performance based on revenue, gross profit contribution and assets employed.

Financial information about the Company's reporting segments for the three months ended March 31, 2020 and 2019 are as follows:

	For the Three Months Ended March 31,	
	2020	2019
	(unaudited)	(unaudited)
COMPLEX MACHINING		
Net Sales	$ 12,064,000	$ 12,418,000
Gross Profit	2,168,000	2,213,000
Pre Tax Income from continuing operations	1,170,000	1,443,000
Assets	48,732,000	45,554,000
TURBINE ENGINE COMPONENTS		
Net Sales	1,383,000	1,460,000
Gross Profit	13,000	61,000
Pre Tax Loss from continuing operations	(126,000)	(170,000)
Assets	4,569,000	5,235,000
CORPORATE		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss from continuing operations	(1,400,000)	(2,268,000)
Assets	750,000	507,000
CONSOLIDATED		
Net Sales	13,447,000	13,878,000
Gross Profit	2,181,000	2,274,000
Pre Tax Loss from continuing operations	(356,000)	(995,000)
Benefit from Income Taxes	(1,414,000)	-
Income from Discontinued Operations, net of taxes	-	72,000
Net Income (Loss)	1,058,000	(923,000)
Assets	$ 54,051,000	$ 51,296,000

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

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes to those statements included elsewhere in this Form 10-Q and with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2019 (the "2019 Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in this report that could cause actual results to differ materially from those anticipated in these forward-looking statements.

Business Overview

The financial statements contained in this report as well as the discussion below principally reflect the status of our business and the results of our operations as of March 31, 2020.

We are an aerospace company operating primarily in the defense industry. Our Complex Machining segment manufactures structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, and other components. 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 the Sikorsky UH-60 Blackhawk, Lockheed Martin F-35 Joint Strike Fighter, Northrop Grumman E2D Hawkeye, the US Navy F-18 and USAF F-16 fighter aircraft, Boeing 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. In response to recent operating losses and their impact on our working capital, we have repositioned our business through the sale and liquidation of certain subsidiaries we acquired since becoming a public company. We also consolidated our headquarters and the operations of our subsidiaries, AIM and Nassau Tool Works, Inc. ("NTW"), at our primary location in Bay Shore, New York, allowing us to re-focus our operations on our core competencies. In December 2018 we sold WMI Group, and in March 2019 we closed our subsidiaries Eur-Pac Corporation ("EPC") and Electronic Connection Corporation ("ECC"). As a result of our restructuring, Complex Machining and Turbine Engine Components constitute all of our operations.

In addition to repositioning our business to obtain profitability and positive cash flow, we remain resolute on meeting customers' needs and continue to align production schedules to meet the needs of customers. We believe that an unyielding focus on our customers will allow us to execute on our existing backlog in a timely fashion and take on additional commitments. We are pleased with our progress and the positive responses received from our customers.

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. Our operations have a large percentage of fixed factory overhead. As a result, our profit margins are also highly variable with sales volumes as under-absorption of factory overhead decreases profits.

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

COVID -19

On March 11, 2020, the World Health Organization announced that infections caused by the coronavirus disease of 2019 (“COVID-19”) had become pandemic, and on March 13, 2020, the U.S. President announced a national emergency relating to the disease. National, state and local authorities have adopted various regulations and orders, including mandates on the number of people that may gather in one location and closing non-essential businesses. To date, we have been deemed an essential business and has not curtailed its operations.

The measures adopted by various governments and agencies, as well as the likelihood that many individuals and businesses will voluntarily shut down or self-quarantine, are expected to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts which may be adopted by governments is uncertain. The likely overall economic impact of the COVID-19 pandemic will be highly negative to the general economy.

In accordance with the Department of Defense guidance issued in March 2020 designating the Defense Industrial Base as a critical infrastructure workforce, our facilities have continued to operate in support of essential products and services required to meet national security commitments to the U.S. Government and the U.S. military, however, facility closures or work slowdowns or temporary stoppages could occur. Currently, our facilities are not operating under full staffing as a result of COVID-19, which could have a longer-term impact.

Financial impacts related to COVID-19, including our actions and costs in response to the pandemic, were not material to our first quarter 2020 financial position, results of operations or cash flows. Going forward, we currently expect the COVID–19 crisis to result in a reduction to 2020 revenue and operating margins in portions of our business driven primarily by supplier disruption, changes in employee productivity, and related program delays or challenges. Our Company, employees, suppliers and customers, and our global community are facing tremendous challenges and we cannot predict how this dynamic situation will evolve or the impact it will have.

We have implemented procedures to promote employee safety including more frequent and enhanced cleaning and adjusted schedules and work-flows to support physical distancing. These actions will result in increased operating costs. In addition, a number of our suppliers and customers have suspended or otherwise reduced their operations, and we are experiencing some supply chain shortages. Suppliers are also experiencing liquidity pressures and disruptions to their operations as a result of COVID-19. We also have large numbers of employees working from home.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law. The CARES Act provides aid to small businesses through programs administered by the Small Business Administration (“SBA”). The CARES Act, among other things, includes provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program (“PPP”), whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs.

In May 2020, AIM, NTW and Sterling (each a “Borrower”) entered into government subsidized loans with Sterling National Bank (“SNB”) as the lender in an aggregate principal amount of $2.4 million (“SBA Loans”). Each SBA Loan is evidenced by a promissory note (“Note”). Subject to the terms of the Note, the SBA Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the SBA. At least 75% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the “Loan Program”). The Borrower may apply to SNB for forgiveness of a portion of the SBA Loan in accordance the applicable provisions of the federal statute authorizing the Loan Program. Each Note provides for customary events of default including, among other things, cross-defaults on any other loan with SNB. Each SBA Loan may be accelerated upon the occurrence of an event of default.

In addition, as a result of the passage of the CARES Act, the Company filed a net operating loss carryback claim in the amount of $1,416,000. The Company expects to receive the carryback claim in the third quarter of this year.

<u>Segment Data</u>

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, ASC 280 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 two operating segments: Complex Machining and Turbine Engine Components. Along with our operating subsidiaries, we report the results of our corporate office as an independent segment.

For reporting purposes, EPC and ECC have been classified as discontinued operations for the three months ending March 31, 2019.

The accounting policies of our 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-CONTINUING OPERATIONS

The operations of EPC and its subsidiary ECC were closed on March 31, 2019. For purposes of the following discussion of our selected financial information and operating results, we have presented our financial information based on our continuing operations unless otherwise noted.

Selected Financial Information:

	For the Three Months Ended March 31,	
	2020	**2019**
	(unaudited)	(unaudited)
Net sales	$ 13,447,000	$ 13,878,000
Cost of sales	11,266,000	11,604,000
Gross profit	2,181,000	2,274,000
Operating expenses and interest and financing costs	2,642,000	3,025,000
Loss on abandonment of leases	-	(275,000)
Other income, net	105,000	31,000
Benefit from income taxes	(1,414,000)	-
Income (Loss) from continuing operations	$ 1,058,000	$ (995,000)

Balance Sheet Data:

	March 31, 2020	**December 31, 2019**
	(unaudited)	
Cash and cash equivalents	$ 1,494,000	$ 1,294,000
Working capital	22,248,000	18,166,000
Total assets	54,051,000	51,090,000
Total stockholders' equity	$ 13,183,000	$ 10,206,000

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

	For the Three Months Ended March 31,	
	2020	**2019**
	(unaudited)	(unaudited)
COMPLEX MACHINING		
Net Sales	$ 12,064,000	$ 12,418,000
Gross Profit	2,168,000	2,213,000
Pre Tax Income from continuing operations	1,170,000	1,443,000
Assets	48,732,000	45,554,000
TURBINE ENGINE COMPONENTS		
Net Sales	1,383,000	1,460,000
Gross Profit	13,000	61,000
Pre Tax Loss from continuing operations	(126,000)	(170,000)
Assets	4,569,000	5,235,000
CORPORATE		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss from continuing operations	(1,400,000)	(2,268,000)
Assets	750,000	507,000
CONSOLIDATED		
Net Sales	13,447,000	13,878,000
Gross Profit	2,181,000	2,274,000
Pre Tax Loss from continuing operations	(356,000)	(995,000)
Benefit from Income Taxes	(1,414,000)	-
Income from Discontinued Operations, net of taxes	-	72,000
Net Income (Loss)	1,058,000	(923,000)
Assets	$ 54,051,000	$ 51,296,000

Net Sales:

Consolidated net sales for the three months ended March 31, 2020 were $13,447,000, a decrease of $431,000, or 3.1%, compared with $13,878,000 for the three months ended March 31, 2019. Net sales of our Complex Machining segment were $12,064,000, a decrease of $354,000, or 2.9%, from $12,418,000 in the prior year. Net sales in our Turbine Engine Components segment were $1,383,000, a decrease of $77,000, or 5.3% compared with $1,460,000 for the three months ended March 31, 2019.

As indicated in the table below, three customers represented 79.9% and 73.8% of total net sales for the three months ended March 31, 2020 and March 31, 2019, respectively.

Customer	**Percentage of Sales**	
	2020	**2019**
	(unaudited)	(unaudited)
Sikorsky Aircraft	36.20%	28.80%
Goodrich Landing Gear Systems	31.50%	31.40%
United States Department of Defense	12.20%	*
Rohr Inc.	*	13.60%

* Customer was less than 10% of total net sales for the three months ended March 31, 2020 and 2019, respectively.

Gross Profit:

Consolidated gross profit from operations for the three months ended March 31, 2020 was $2,181,000, a decrease of $93,000, or 4.1%, as compared to gross profit of $2,274,000 for the three months ended March 31, 2019. Consolidated gross profit as a percentage of sales was 16.2% and 16.4% for the three months ended March 31, 2020 and 2019, respectively.

Interest and Financing Costs

Interest and financing costs for the three months ended March 31, 2020 were $380,000 a decrease of $583,000 or 60.5% compared to $963,000 for the three months ended March 31, 2019. This decrease was due to lower interest rates and finance costs under the Company's new credit facility ("SNB Facility") with SNB, which replaced the Company's previous credit facility ("PNC Facility") with PNC Bank N.A. ("PNC") as of December 31, 2019.

Operating Expense

Consolidated operating expenses for the three months ended March 31, 2020 totaled $2,262,000 and increased by $200,000 or 9.7% compared to $2,062,000 for the three months ended March 31, 2019.

Net Income (Loss)

Net income for the three months ended March 31, 2020 was $1,058,000, an improvement of $1,981,000, compared to a net loss $923,000 for the three months ended March 31, 2019, for the reasons discussed above. The improvement in net income reflects the reduction in our net loss from continuing operations as a result of the reduction in interest expense due to the refinancing of our Loan Facility and an income tax benefit of $1,414,000. Net loss for 2019 included a gain from discontinued operations in the amount of $72,000. Excluding discontinued operations, our net loss in 2019 would have been $995,000.

LIQUIDITY AND CAPITAL RESOURCES

Financial impacts related to COVID-19 were not material to our first quarter 2020 financial position, results of operations or cash flows. Going forward, we currently expect the COVID–19 crisis to result in a reduction to 2020 revenue and operating margins in portions of our business driven primarily by supplier disruption, changes in employee productivity, and related program delays or challenges. Our Company, employees, suppliers and customers, and our global community are facing tremendous challenges and we cannot predict how this dynamic situation will evolve or the impact it will have.

With respect to the remainder of 2020, the negative impact COVID-19 may have on the broader global economy and the pace of the economic recovery and the aerospace industry is unknown. Given the unknown magnitude of the depth and duration of this crisis, we anticipate a more challenging macroeconomic environment in the remainder of the year.

The CARES Act established a program with provisions to allow U.S. companies to defer the employer's portion of social security taxes between March 27, 2020 and December 31, 2020 and pay such taxes in two installments in 2021 and 2022. In addition, the U.S. Department of Defense ("DoD") has, to date, taken steps to increase the rate for certain progress payments from 80 percent to 90 percent for costs incurred and worked performed on relevant contracts. We expect both of these actions should help mitigate COVID-19 related negative impacts to our operating cash flows for the remainder of the year.

Significant Transactions Which Have Impacted Our Liquidity

Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic and other risks detailed in Part II, Item 1A, “Risk Factors” of this Quarterly Report. However, based on our confirmed orders, we believe that funds generated from operations, amounts received under government subsidized loan programs and amounts available under our credit facility, will be sufficient to finance our operations and meet our foreseeable cash requirements. However, no assurance can be given that will be the case.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law. The CARES Act provides aid to small businesses through programs administered by the Small Business Administration (“SBA”). The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualifies improvement property. The CARES Act also established a Paycheck Protection Program (“PPP”), whereby certain small businesses are eligible for a loan to fund payroll expenses, rent and related costs.

In May 2020, AIM, NTW and Sterling (each a “Borrower”) entered into government subsidized loans with SNB in an aggregate principal amount of $2.4 million (“SBA Loans”). Subject to the terms of the Note, the SBA Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the SBA. At least 75% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the Federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the “Loan Program”). The Borrower may apply to SNB for forgiveness of a portion of the SBA Loan in accordance the applicable provisions of the federal statute authorizing the Loan Program. Each Note provides for customary events of default including, among other things, cross-defaults on any other loan with SNB. Each SBA Loan may be accelerated upon the occurrence of an event of default.

The foregoing summary is qualified in its entirety by reference to the Notes, a copy of which are filed with this report as Exhibits 10.1, 10.2 and 10.3 and are incorporated herein by reference.

As discussed above, we filed a net operating loss carryback claim for $1,416,000 which it expects to receive in the third quarter of this year.

On December 31, 2019, we entered into the SNB Facility with SNB expiring on December 30, 2022. The SNB Facility provides for a $16,000,000 revolving loan (“SNB revolving line of credit”) and a term loan (“SNB term loan”) of $3,800,000 at December 31, 2019.

Proceeds from the SNB Facility repaid our outstanding PNC Facility.

The formula to determine the amounts of revolving advances permitted to be borrowed under the SNB revolving line of credit is based on a percentage of eligible receivables and inventory (as defined in the SNB Facility).

The repayment terms of the SNB term loan provide for monthly principal installments in the amount of $45,238, payable on the first business day of each month, beginning on February 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. In addition, for so long as the SNB term loan remains outstanding, if Excess Cash Flow (as defined) is a positive number for any fiscal year, beginning with the year ending December 31, 2020, we shall pay to SNB an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow for such Fiscal Year and (ii) the outstanding principal balance of the term loan. Such payment shall be made to Lender and applied to the outstanding principal balance of the term loan, on or prior to April 15 of the Fiscal Year immediately following such Fiscal Year.

The terms of the SNB Facility require that, among other things, we maintain a specified Fixed Charge Coverage Ratio of 1.25 to 1.00 at the end of each Fiscal Quarter beginning with the Fiscal Quarter ending March 31, 2020. In addition, we are limited in the amount of Capital Expenditures we can make. As of March 31, 2020 we were in compliance with all loan covenants. The SNB Facility also restricts the amount of dividends we may pay to our stockholders. Substantially all of our assets are pledged as collateral under the SNB Facility.

As of March 31, 2020, our debt to SNB in the amount of $17,222,000 consisted of the SNB revolving line of credit note in the amount of $13,577,000 and the SNB term loan in the amount of $3,645,000.

Cash Flow

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

	Three Months Ended March 31,	
	2020	**2019**
	(unaudited)	(unaudited)
Cash provided by (used in)		
Operating activities	$ (314,000)	$ (1,728,000)
Investing activities	(78,000)	54,000
Financing activities	592,000	104,000
Net increase (decrease) in cash and cash equivalents	$ 200,000	$ (1,570,000)

Cash Used in Operating Activities

Cash used in operating activities primarily consists of our net income adjusted for certain non-cash items and changes to operating assets and liabilities.

For the three months ended March 31, 2020, net cash was impacted by net income of $1,058,000, increased by $1,291,000 of non-cash items consisting primarily of depreciation of property and equipment of $656,000, bad-debt expense of $268,000, amortization of debt discount of convertible notes payable of $78,000, compensation expense of $140,000, and other non-cash items totaling $149,000.

Operating assets and liabilities used cash in the net amount of $2,663,000 consisting primarily of the net increases in accounts receivable, inventory, deposits and other assets, and prepaid expenses and other current assets, and income taxes receivable in the amounts of $1,033,000, $1,162,000, $76,000, $6,000 and $1,416,000, respectively and a decrease in operating lease liabilities, income taxes payable and deferred revenue of $167,000, $12,000 and $7,000, respectively, partially offset by an increase in accounts payable and accrued expenses in the amount of $1,216,000.

Cash Used in Investing Activities

Cash used in investing activities consists of capital expenditures for property and equipment and capitalized engineering costs.

For the three months ended March 31, 2020, cash used in investing activities was $78,000. This was for the purchase of property and equipment.

Cash Provided By Financing Activities

Cash provided by financing activities consists of the borrowings and repayments under our credit facilities with our senior lender, increases in and repayments of financing lease obligations and other notes payable, and the proceeds from the sale of our equity.

For the three months, ended March 31, 2020, net cash provided by financing activities was $592,000. This was primarily comprised of proceeds from our SNB revolving loan and the sale of common stock in the amounts of $1,033,000 and $984,000, respectively, partially offset by repayments of $1,012,000 on our notes payable-related parties, $100,000 on our notes payable – third party, $90,000 on our term loan and $7,000 on our finance lease obligations.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of March 31, 2020.

Critical Accounting Policies and Estimates

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

Our condensed consolidated financial statements are presented in accordance with U.S. GAAP, and all applicable U.S. GAAP accounting standards effective as of March 31, 2020 have been taken into consideration in preparing the condensed consolidated financial statements. The preparation of condensed consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Some of those estimates are subjective and complex, and, consequently, actual results could differ from those estimates. The following accounting policies and estimates have been highlighted as significant because changes to certain judgments and assumptions inherent in these policies could affect our condensed consolidated financial statements:

- Revenue recognition;
- Inventory valuation
- Lease accounting;
- Legal contingencies; and
- Stock-based compensation.

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

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

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.

Item 4. Controls and Procedures

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 as of the end of the period covered by this Report under the supervision of and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

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.

Prospective investors are encouraged to consider the risks described in our 2019 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. The following risk factor supplements the risk factors described in our 2019 Form 10-K, and should be read in conjunction with the other risk factors presented in our Annual Report which are incorporated herein by reference.

The COVID-19 pandemic and the resulting macroeconomic disruption have affected how we, our customers and our suppliers are operating our businesses, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

COVID -19

In March 2020, the World Health Organization announced that infections caused by the coronavirus disease of 2019 ("COVID-19") had become pandemic and the U.S. President announced a National Emergency relating to the disease. National, state and local authorities, including those in which our offices and manufacturing facilities are located, have adopted various regulations and orders, including "shelter in place" rules, restrictions on travel, mandates on the number of people that may gather in one location and closing non-essential businesses. The global impact of the outbreak is continually evolving.

The measures adopted by various governments and agencies, as well as the likelihood that many individuals and businesses will voluntarily shut down or self-quarantine, are expected to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts which may be adopted by governments is uncertain. The likely overall economic impact of the COVID-19 pandemic will be highly negative to the general economy. While we continue to operate substantially in the normal course, we have implemented procedures to promote employee safety including more frequent and enhanced cleaning and adjusted schedules and work-flows to support physical distancing and our facilities are not operating under full staffing. These actions will result in increased operating costs. Further, we may be forced to close or reduce operations for reasons such as the health of our employees or because of disruptions in the continued operation of our supply chain and sources of supply.

While the potential economic impact brought by COVID-19 may be difficult to assess or predict, the pandemic has resulted in significant disruption of global financial markets, and a recession or long-term market correction resulting from the spread of COVID-19 could cause severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions, which could make it difficult for us to access debt and equity capital on attractive terms, or at all, and impact our ability to fund business activities and repay debt on a timely basis.

At this time, we cannot forecast with any certainty whether and to what degree the disruptions caused by the COVID-19 pandemic will increase, or the extent to which the disruption may materially impact our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

Exhibit 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 Amendment increasing number of authorized shares of preferred stock and Series A Preferred Stock (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed on April 19, 2017).
3.3	Amended and Restated By-Laws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 31, 2015).
10.1	Promissory Note dated May 6, 2020, between Sterling National Bank and Air Industries Machining Corp.
10.2	Promissory Note dated May 4, 2020, between Sterling National Bank and Nassau Tool Works Inc..
10.3	Promissory Note dated May 6, 2020, between Sterling National Bank and Sterling Engineering Corporation.
	Certifications
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).
	XBRL Presentation
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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 15, 2020

AIR INDUSTRIES GROUP

By: /s/ Michael Recca

Michael Recca
Chief Financial Officer
(principal financial and accounting officer)

U.S. Small Business Administration
PAYCHECK PROTECTION PROGRAM
Promissory Note (the "Note")

Lender	Sterling National Bank (a subsidiary of Sterling Bancorp.), a national banking association
Lender Address	One Jericho Plaza, 3'd Floor, Jericho, New York 11753
Borrower'	AIR INDUSTRIES MACHINING, CORP.
Borrower Address	1460 5TH AVE, BAY SHORE, NY 11706-4147
Date of Note	5/6/2020
Borrower's Tax ID # *(EIN/SSN)*	112056757
Loan Disbursement Date *(To be Completed by Bank at time of Disbursement)*	
Loan Amount	1,531,400.00
Loan Interest Rate	1.00%
Loan Number/SBA Guaranty Number	202375647309 / 2375647309

1. PROMISE TO PAY:

In return for the Loan, Borrower promises to pay to the order of Lender the principal amount of $ 1,531,400.00, together with interest on the unpaid principal balance from "Loan Disbursement Date", calculated at the interest rate of 1.00%, and all other amounts· required by this Note, until paid in full.

2. DEFINITIONS:

"Loan" means the loan evidenced by this Note.
"Loan Documents" means the documents related to this Loan signed by Borrower, Lender and/or SBA.
"Loan Disbursement Date" means the date the loan was funded to Borrower.
"SBA" means the Small Business Administration, an Agency of the United States of America.
"CARES Act" means the federal Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136).

3. PAYMENT AND LOAN TERMS:

Borrower must make all payments at the place Lender designates. The terms for this Note are:

A. The term of this Loan shall be for a period of two (2) years from the Loan Disbursement Date. The "Maturity Date" of this loan shall be twenty four (24) months from the Loan Disbursement Date.
B. Payments under the Loan shall be due and payable monthly. The first payment under the Loan shall be due seven (7) months from the date of this Note and shall be due on the same day of each month thereafter. Monthly Loan payments shall be for principal plus interest. The first six (6) monthly payments due under the Loan shall be deferred. This initial six (6) month period shall be referred to as the "Deferral Period".
C. Interest will accrue from the Loan Disbursement Date (including during the Deferral Period) at the Interest Rate set forth above until the Loan is paid in full.
D. Borrower agrees to make repayment of the Loan pursuant to the following terms: (i) upon expiration of the Deferral Period, the first Loan payment shall be for the then owing accrued interest, plus 1/18th of Loan principal, (ii) thereafter, monthly Loan payments shall consist of 1/17th of equal Loan principal, plus then owing accrued interest; (iii) Loan payments shall continue monthly until the Loan is paid in full or on the Maturity Date, whichever is sooner; (iv) any Loan Forgiveness (as defined herein) received by Lender shall be first applied as a payment against all accrued interest and any late fees due under the Loan, and then to principal.
E. There are no prepayment penalties for the Loan. Borrower may repay all or a portion of this Loan at any time without penalty.

F. Borrower understands that this Loan is originated by Lender to Borrower under the guidelines of the Small Business Association Paycheck Protection Program ("PPP" or the "Program"). The guidelines for the Program issued by the SBA, currently and as same may be revised or amended from time to time, are hereby incorporated by reference into this Note.
G. Borrower understands that at least 75% of the Loan proceeds MUST be used for payroll costs and payroll related costs, and that after the application of same, the use of any remaining Loan proceeds may only be used pursuant to the terms and conditions of the Program.
H. Any monthly statement sent by the Lender during the Deferral Period will be for informational purposes only and will not be a demand for payment. Borrower agrees that such statement(s) may be delivered by Lender by mail or electronic means including via email.
I. If any required payment due hereunder is 10 days or more late, Borrower will be charged 6% of the unpaid portion of the regularly scheduled payment. The late charge shall be paid to Lender by Borrower to compensate Lender for Lender's extra costs and expenses caused by the late payment.
J. Payments will be applied in the following order (i) unpaid interest accrued to the date of payment; and (ii) the unpaid principal Loan balance. At Lender's option, any unpaid late charges, Loan fees or other sums due Lender may be satisfied from the payment received either (i) before the application of the payment in the foregoing manner, or (ii) after the application of the payment to the unpaid principal then due. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

4. DEFAULT:

Borrower is in default under this Note if Borrower does not make a payment when due under this Note, or if Borrower:

A. Fails to do anything required by this Note and other Loan Documents;
B. Defaults on any other loan or obligation between Borrower and Lender or between Borrower and SBA;
C. Does not disclose, or anyone acting on Borrower's behalf does not disclose, any material fact to Lender or SBA;
D. Makes, or anyone acting on Borrower's behalf makes, a materially false or misleading representation to Lender or SBA;
E. Fails to pay any taxes when due;
F. Becomes the subject of a proceeding under any bankruptcy or insolvency law;
G. Has a receiver or liquidator appointed for any part of Borrower's business or property;
H. Makes an assignment for the benefit of creditors;
I. Has any adverse change in financial condition or business operation that Lender believes may materially affect Borrower's ability to pay this Note;
J. Reorganizes, merges, consolidates, or otherwise changes ownership or business structure without Lenders prior written consent; or
K. Becomes the subject of a civil or criminal action that Lender believes may materially affect Borrower's ability to pay this Note.

5. LENDER'S RIGHTS IF THERE IS A DEFAULT:

Upon default, and without giving up any of its rights, Lender may:

A. Require immediate payment from Borrower of all amounts owing under this Note:
B. Collect all amounts owing from Borrower; or
C. File suit and obtain judgment against Borrower.

6. LENDER'S GENERAL POWERS:

Upon default, Lender may:

A. Incur reasonable expenses to collect amounts due under this Note or enforce the terms of this Note or any other Loan Document, including reasonable attorneys' fees and costs. If Lender incurs such expenses, it may demand immediate payment from Borrower or add the expenses to the principal balance; and
B. Release anyone obligated to pay this Note; and
C. Exercise any rights and remedies that it may have in law or equity to enforce Borrower's obligations to Lender under this Note and with respect to this transaction.

7. WHEN FEDERAL LAW APPLIES:

When SBA is the holder, this Note will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax, or liability. As to this Note, Borrower may not claim or assert against SBA any local or state law or deny any obligation, defeat any claim of SBA, or preempt federal law. Prior to the SBA becoming the holder, this Note will be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely with such state, without regard to its conflict of law pdnciples.

8. SUCCESSORS AND ASSIGNS:

Under this Note, the term Borrower includes its successors, and the term Lender includes its successors and assigns.

9. GENERAL PROVISIONS:

A. All individuals and entities signing this Note are jointly and severally liable.
B. Borrower waives all suretyship defenses and any trial by jury.
C. Borrower must sign all documents necessary at any time to comply with the Loan Documents.
D. Lender may exercise any of its rights separately or together, as many times and in any order it chooses. Lender may delay or forgo enforcing any of its rights without giving up any rights.
E. Lender may sell, assign or transfer this Note, and the obligations of Borrower hereunder, to any third party for any reason, without the prior written consent of Borrower. Borrower may not assign or transfer this Note without the written consent of Lender.
E. Borrower may not use an oral statement of Lender or SBA to contradict or alter the written terms of this Note.
F. **If** any part of this Note is unenforceable, **all** other parts remain in full force and effect.
G. To the extent allowed by law, Borrower waives **all** demands and notices in connection with this Note, including presentment, demand, protest, and notice of dishonor.
H. By executing this Note, the undersigned represents and warrants they are an authorized representative of Borrower and have the authority to obtain the Loan and accept the terms of this Note on behalf of Borrower. The undersigned's signature, on behalf of Borrower, constitutes the Borrower's consent to the terms and conditions of this Note and to the valid execution of this Note and no further action or approvals on behalf of Borrower pursuant to its organizational or formation documents shall be required in connection with the obtaining of this Loan and the execution of this Note.
I. Any notices required or permitted to be given hereunder shall be: (i) personally delivered or (ii) given by registered or certified mail, postage prepaid, return receipt requested, or (iii) forwarded by overnight courier service, in each instance addressed to the addresses set forth at the head of this Note, or such other addresses as the parties may for themselves designate in writing as provided herein for the purpose of receiving notices hereunder. All notices shall be in writing and shall be deemed given, in the case of notice by personal delivery, upon actual delivery, and in the case of appropriate mail or courier service, upon deposit with the U.S. Postal Service or delivery to the courier service.

10. LOAN FORGIVENESS:

The following provisions shall apply to the Loan:

A. The Loan and the Borrower's obligations for repayment of the Loan shall be strictly subject to the limited loan forgiveness provisions of Section 1106 of the CARES Act, and the SBA Interim Final Rule dated April 2, 2020 and any amendments thereto (the "Loan Forgiveness").
B. The amount of any Loan Forgiveness under this Note shall be determined by and is strictly subject to the approval of Lender and/or the SBA. To the extent any Loan Forgiveness for amounts loaned hereunder is not granted, in whole or in part, for any reason, Borrower shall thereafter remain fully obligated to make any and all payments due under this Note and to fulfill any and all obligations of Borrower until satisfied in full.
C. Borrower shall be required to make application with Lender and/or the SBA to receive any potential Loan Forgiveness. The Borrower shall be required to submit a Loan Forgiveness application, which application must include proper supporting documentation verifying the number of full-time employees and the pay rates for the period described, including payroll tax filings to the IRS and applicable state, income, payroll, and unemployment insurance filings, cancelled checks, payment receipts, transcript of accounts, or other documents verifying payments on covered mortgage loan obligations, lease obligations and utility payments, plus any other documentation which Lender and/or the SBA deems necessary. Any potential Loan Forgiveness hereunder cannot occur without the Borrower's submission of a complete Loan Forgiveness application.

D. Borrower agrees to supply additional information or documentation requested by Lender during the term of this Note, and Borrower further agrees to cooperate fully with Lender and/or the SBA to verify eligibility for any Loan Forgiveness.
E. Lender makes no representations or promises to Borrower with respect to any Loan Forgiveness.

11. INDEMNIFICATION:

Borrower acknowledges and agrees that Lender is making this Loan to Borrower in order to provide relief to Borrower under the CARES Act. Borrower hereby indemnifies and holds harmless Lender from and against any claim, loss, liability, damage, obligations, penalty, action, judgment, cost, disbursement or expense of any kind (including, without limitation, attorneys' fees and disbursements) that may at any time be imposed on, incurred by, expended by or asserted against Lender in connection with, or arising out of, or in any way related to the making of this Loan to Borrower.

12. BORROWER'S NAME(S) AND SIGNATURE(S):

Electronic acknowledgment of this Note (this "Acknowledgment") shall be deemed to be valid execution and delivery as though an original ink or electronic signature. Borrower and Lender explicitly consent to the electronic delivery of the terms of the transaction evidenced by this Note and affirm that this Acknowledgement evidences Borrower's signature and indicates a present intent to be bound by the terms of this Note. An electronic image of this Agreement and the Acknowledgement shall be as effective as an original for all purposes. Borrower shall be required to provide Lender with an original copy of the Note signed with a "wet" signature if requested by Lender. Failure to provide the original Note to Lender will delay or void any potential Loan Forgiveness.

PRIOR TO SIGNING THIS NOTE, BORROWER HAS READ AND UNDERSTOOD ALL OF THE TERMS AND PROVISIONS OF THIS NOTE. BORROWER FURTHER ACKNOWLEDGES RECEIPT OF A COPY OF THIS NOTE.

BY SIGNING BELOW, THE UNDERSIGNED HEREBY CERTIFIES AND ATTESTS THAT THE INFORMATION CONTAINED IN THE PAYCHECK PROTECTION PROGRAM APPLICATION PROVIDED BY BORROWER IN CONNECTION WITH THIS LOAN AND IN ANY OTHER CERTIFICATION OR DOCUMENT PROVIDED TO THE LENDER IN CONNECTION THEREWITH ARE ACCURATE AND THAT THE BORROWER IS ACTIVE AND IN GOOD STANDING AS OF THE DATE HEREOF.

BORROWER: AIR INDUSTRIES MACHINING, CORP.

By: **/s/ Luciano Melluzzo**
Name: **Luciano Melluzzo**
Its: **President & CEO**

By: **/s/ Luciano Melluzzo**
Name: **Luciano Melluzzo**
Its: **President & CEO**

U.S. Small Business Administration
PAYCHECK PROTECTION PROGRAM
Promissory Note (the "Note")

Lender	Sterling National Bank (a subsidiary of Sterling Bancorp.), a national banking association
Lender Address	One Jericho Plaza, 3'd Floor, Jericho, New York 11753
Borrower'	NASSAU TOOL WORKS, INC.
Borrower Address	1479 N. CLINTON AVE, BAY SHORE, NY 11706
Date of Note	5/4/2020
Borrower's Tax ID # *(EIN/SSN)*	455357188
Loan Disbursement Date *(To be Completed by Bank at time of Disbursement)*	
Loan Amount	349,800.00
Loan Interest Rate	1.00%
Loan Number/SBA Guaranty Number	207944427208/7944427208

1. PROMISE TO PAY:

In return for the Loan, Borrower promises to pay to the order of Lender the principal amount of $ 349,800, together with interest on the unpaid principal balance from "Loan Disbursement Date", calculated at the interest rate of 1.00%, and all other amounts· required by this Note, until paid in full.

2. DEFINITIONS:

"Loan" means the loan evidenced by this Note.
"Loan Documents" means the documents related to this Loan signed by Borrower, Lender and/or SBA.
"Loan Disbursement Date" means the date the loan was funded to Borrower.
"SBA" means the Small Business Administration, an Agency of the United States of America.
"CARES Act" means the federal Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136).

3. PAYMENT AND LOAN TERMS:

Borrower must make all payments at the place Lender designates. The terms for this Note are:

A. The term of this Loan shall be for a period of two (2) years from the Loan Disbursement Date. The "Maturity Date" of this loan shall be twenty four (24) months from the Loan Disbursement Date.
B. Payments under the Loan shall be due and payable monthly. The first payment under the Loan shall be due seven (7) months from the date of this Note and shall be due on the same day of each month thereafter. Monthly Loan payments shall be for principal plus interest. The first six (6) monthly payments due under the Loan shall be deferred. This initial six (6) month period shall be referred to as the "Deferral Period".
C. Interest will accrue from the Loan Disbursement Date (including during the Deferral Period) at the Interest Rate set forth above until the Loan is paid in full.
D. Borrower agrees to make repayment of the Loan pursuant to the following terms: (i) upon expiration of the Deferral Period, the first Loan payment shall be for the then owing accrued interest, plus 1/18th of Loan principal, (ii) thereafter, monthly Loan payments shall consist of 1/17th of equal Loan principal, plus then owing accrued interest; (iii) Loan payments shall continue monthly until the Loan is paid in full or on the Maturity Date, whichever is sooner; (iv) any Loan Forgiveness (as defined herein) received by Lender shall be first applied as a payment against all accrued interest and any late fees due under the Loan, and then to principal.
E. There are no prepayment penalties for the Loan. Borrower may repay all or a portion of this Loan at any time without penalty.

F. Borrower understands that this Loan is originated by Lender to Borrower under the guidelines of the Small Business Association Paycheck Protection Program (“PPP” or the “Program”). The guidelines for the Program issued by the SBA, currently and as same may be revised or amended from time to time, are hereby incorporated by reference into this Note.
G. Borrower understands that at least 75% of the Loan proceeds MUST be used for payroll costs and payroll related costs, and that after the application of same, the use of any remaining Loan proceeds may only be used pursuant to the terms and conditions of the Program.
H. Any monthly statement sent by the Lender during the Deferral Period will be for informational purposes only and will not be a demand for payment. Borrower agrees that such statement(s) may be delivered by Lender by mail or electronic means including via email.
I. If any required payment due hereunder is 10 days or more late, Borrower will be charged 6% of the unpaid portion of the regularly scheduled payment. The late charge shall be paid to Lender by Borrower to compensate Lender for Lender’s extra costs and expenses caused by the late payment.
J. Payments will be applied in the following order (i) unpaid interest accrued to the date of payment; and (ii) the unpaid principal Loan balance. At Lender’s option, any unpaid late charges, Loan fees or other sums due Lender may be satisfied from the payment received either (i) before the application of the payment in the foregoing manner, or (ii) after the application of the payment to the unpaid principal then due. Borrower will pay Lender at Lender’s address shown above or at such other place as Lender may designate in writing.

4. DEFAULT:

Borrower is in default under this Note if Borrower does not make a payment when due under this Note, or if Borrower:

A. Fails to do anything required by this Note and other Loan Documents;
B. Defaults on any other loan or obligation between Borrower and Lender or between Borrower and SBA;
C. Does not disclose, or anyone acting on Borrower’s behalf does not disclose, any material fact to Lender or SBA;
D. Makes, or anyone acting on Borrower’s behalf makes, a materially false or misleading representation to Lender or SBA;
E. Fails to pay any taxes when due;
F. Becomes the subject of a proceeding under any bankruptcy or insolvency law;
G. Has a receiver or liquidator appointed for any part of Borrower’s business or property;
H. Makes an assignment for the benefit of creditors;
I. Has any adverse change in financial condition or business operation that Lender believes may materially affect Borrower’s ability to pay this Note;
J. Reorganizes, merges, consolidates, or otherwise changes ownership or business structure without Lenders prior written consent; or
K. Becomes the subject of a civil or criminal action that Lender believes may materially affect Borrower’s ability to pay this Note.

5. LENDER’S RIGHTS IF THERE IS A DEFAULT:

Upon default, and without giving up any of its rights, Lender may:

A. Require immediate payment from Borrower of all amounts owing under this Note:
B. Collect all amounts owing from Borrower; or
C. File suit and obtain judgment against Borrower.

6. LENDER’S GENERAL POWERS:

Upon default, Lender may:

A. Incur reasonable expenses to collect amounts due under this Note or enforce the terms of this Note or any other Loan Document, including reasonable attorneys’ fees and costs. If Lender incurs such expenses, it may demand immediate payment from Borrower or add the expenses to the principal balance; and
B. Release anyone obligated to pay this Note; and
C. Exercise any rights and remedies that it may have in law or equity to enforce Borrower’s obligations to Lender under this Note and with respect to this transaction.

7. WHEN FEDERAL LAW APPLIES:

When SBA is the holder, this Note will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax, or liability. As to this Note, Borrower may not claim or assert against SBA any local or state law or deny any obligation, defeat any claim of SBA, or preempt federal law. Prior to the SBA becoming the holder, this Note will be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely with such state, without regard to its conflict of law pdnciples.

8. SUCCESSORS AND ASSIGNS:

Under this Note, the term Borrower includes its successors, and the term Lender includes its successors and assigns.

9. GENERAL PROVISIONS:

A. All individuals and entities signing this Note are jointly and severally liable.
B. Borrower waives all suretyship defenses and any trial by jury.
C. Borrower must sign all documents necessary at any time to comply with the Loan Documents.
D. Lender may exercise any of its rights separately or together, as many times and in any order it chooses. Lender may delay or forgo enforcing any of its rights without giving up any rights.
E. Lender may sell, assign or transfer this Note, and the obligations of Borrower hereunder, to any third party for any reason, without the prior written consent of Borrower. Borrower may not assign or transfer this Note without the written consent of Lender.
E. Borrower may not use an oral statement of Lender or SBA to contradict or alter the written terms of this Note.
F. **If** any part of this Note is unenforceable, **all** other parts remain in full force and effect.
G. To the extent allowed by law, Borrower waives **all** demands and notices in connection with this Note, including presentment, demand, protest, and notice of dishonor.
H. By executing this Note, the undersigned represents and warrants they are an authorized representative of Borrower and have the authority to obtain the Loan and accept the terms of this Note on behalf of Borrower. The undersigned's signature, on behalf of Borrower, constitutes the Borrower's consent to the terms and conditions of this Note and to the valid execution of this Note and no further action or approvals on behalf of Borrower pursuant to its organizational or formation documents shall be required in connection with the obtaining of this Loan and the execution of this Note.
I. Any notices required or permitted to be given hereunder shall be: (i) personally delivered or (ii) given by registered or certified mail, postage prepaid, return receipt requested, or (iii) forwarded by overnight courier service, in each instance addressed to the addresses set forth at the head of this Note, or such other addresses as the parties may for themselves designate in writing as provided herein for the purpose of receiving notices hereunder. All notices shall be in writing and shall be deemed given, in the case of notice by personal delivery, upon actual delivery, and in the case of appropriate mail or courier service, upon deposit with the U.S. Postal Service or delivery to the courier service.

10. LOAN FORGIVENESS:

The following provisions shall apply to the Loan:

A. The Loan and the Borrower's obligations for repayment of the Loan shall be strictly subject to the limited loan forgiveness provisions of Section 1106 of the CARES Act, and the SBA Interim Final Rule dated April 2, 2020 and any amendments thereto (the "Loan Forgiveness").
B. The amount of any Loan Forgiveness under this Note shall be determined by and is strictly subject to the approval of Lender and/or the SBA. To the extent any Loan Forgiveness for amounts loaned hereunder is not granted, in whole or in part, for any reason, Borrower shall thereafter remain fully obligated to make any and all payments due under this Note and to fulfill any and all obligations of Borrower until satisfied in full.
C. Borrower shall be required to make application with Lender and/or the SBA to receive any potential Loan Forgiveness. The Borrower shall be required to submit a Loan Forgiveness application, which application must include proper supporting documentation verifying the number of full-time employees and the pay rates for the period described, including payroll tax filings to the IRS and applicable state, income, payroll, and unemployment insurance filings, cancelled checks, payment receipts, transcript of accounts, or other documents verifying payments on covered mortgage loan obligations, lease obligations and utility payments, plus any other documentation which Lender and/or the SBA deems necessary. Any potential Loan Forgiveness hereunder cannot occur without the Borrower's submission of a complete Loan Forgiveness application.

D. Borrower agrees to supply additional information or documentation requested by Lender during the term of this Note, and Borrower further agrees to cooperate fully with Lender and/or the SBA to verify eligibility for any Loan Forgiveness.
E. Lender makes no representations or promises to Borrower with respect to any Loan Forgiveness.

11. INDEMNIFICATION:

Borrower acknowledges and agrees that Lender is making this Loan to Borrower in order to provide relief to Borrower under the CARES Act. Borrower hereby indemnifies and holds harmless Lender from and against any claim, loss, liability, damage, obligations, penalty, action, judgment, cost, disbursement or expense of any kind (including, without limitation, attorneys' fees and disbursements) that may at any time be imposed on, incurred by, expended by or asserted against Lender in connection with, or arising out of, or in any way related to the making of this Loan to Borrower.

12. BORROWER'S NAME(S) AND SIGNATURE(S):

Electronic acknowledgment of this Note (this "Acknowledgment") shall be deemed to be valid execution and delivery as though an original ink or electronic signature. Borrower and Lender explicitly consent to the electronic delivery of the terms of the transaction evidenced by this Note and affirm that this Acknowledgement evidences Borrower's signature and indicates a present intent to be bound by the terms of this Note. An electronic image of this Agreement and the Acknowledgement shall be as effective as an original for all purposes. Borrower shall be required to provide Lender with an original copy of the Note signed with a "wet" signature if requested by Lender. Failure to provide the original Note to Lender will delay or void any potential Loan Forgiveness.

PRIOR TO SIGNING THIS NOTE, BORROWER HAS READ AND UNDERSTOOD ALL OF THE TERMS AND PROVISIONS OF THIS NOTE. BORROWER FURTHER ACKNOWLEDGES RECEIPT OF A COPY OF THIS NOTE.

BY SIGNING BELOW, THE UNDERSIGNED HEREBY CERTIFIES AND ATTESTS THAT THE INFORMATION CONTAINED IN THE PAYCHECK PROTECTION PROGRAM APPLICATION PROVIDED BY BORROWER IN CONNECTION WITH THIS LOAN AND IN ANY OTHER CERTIFICATION OR DOCUMENT PROVIDED TO THE LENDER IN CONNECTION THEREWITH ARE ACCURATE AND THAT THE BORROWER IS ACTIVE AND IN GOOD STANDING AS OF THE DATE HEREOF.

BORROWER: NASSAU TOOL WORKS, INC.

By: **/s/ Luciano Melluzzo**
Name: **Luciano Melluzzo**
Its: **CEO & President**

By: **/s/ Luciano Melluzzo**
Name: **Luciano Melluzzo**
Its: **CEO & President**

Exhibit 10.3

U.S. Small Business Administration
PAYCHECK PROTECTION PROGRAM
Promissory Note (the "Note")

Lender	Sterling National Bank (a subsidiary of Sterling Bancorp.), a national banking association
Lender Address	One Jericho Plaza, 3'd Floor, Jericho, New York 11753
Borrower'	STERLING ENGINEERING CORPORATION
Borrower Address	236 NEW HARTFORD ROAD, BARKHAMSTEAD, CT 06098
Date of Note	5/6/2020
Borrower's Tax ID # *(EIN/SSN)*	472805309
Loan Disbursement Date *(To be Completed by Bank at time of Disbursement)*	
Loan Amount	532,600.00
Loan Interest Rate	1.00%
Loan Number/SBA Guaranty Number	207944427208/7944427208

1. PROMISE TO PAY:

In return for the Loan, Borrower promises to pay to the order of Lender the principal amount of $ 532,600.00, together with interest on the unpaid principal balance from "Loan Disbursement Date", calculated at the interest rate of 1.00%, and all other amounts· required by this Note, until paid in full.

2. DEFINITIONS:

"Loan" means the loan evidenced by this Note.
"Loan Documents" means the documents related to this Loan signed by Borrower, Lender and/or SBA.
"Loan Disbursement Date" means the date the loan was funded to Borrower.
"SBA" means the Small Business Administration, an Agency of the United States of America.
"CARES Act" means the federal Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136).

3. PAYMENT AND LOAN TERMS:

Borrower must make all payments at the place Lender designates. The terms for this Note are:

A. The term of this Loan shall be for a period of two (2) years from the Loan Disbursement Date. The "Maturity Date" of this loan shall be twenty four (24) months from the Loan Disbursement Date.
B. Payments under the Loan shall be due and payable monthly. The first payment under the Loan shall be due seven (7) months from the date of this Note and shall be due on the same day of each month thereafter. Monthly Loan payments shall be for principal plus interest. The first six (6) monthly payments due under the Loan shall be deferred. This initial six (6) month period shall be referred to as the "Deferral Period".
C. Interest will accrue from the Loan Disbursement Date (including during the Deferral Period) at the Interest Rate set forth above until the Loan is paid in full.
D. Borrower agrees to make repayment of the Loan pursuant to the following terms: (i) upon expiration of the Deferral Period, the first Loan payment shall be for the then owing accrued interest, plus 1/18th of Loan principal, (ii) thereafter, monthly Loan payments shall consist of 1/17th of equal Loan principal, plus then owing accrued interest; (iii) Loan payments shall continue monthly until the Loan is paid in full or on the Maturity Date, whichever is sooner; (iv) any Loan Forgiveness (as defined herein) received by Lender shall be first applied as a payment against all accrued interest and any late fees due under the Loan, and then to principal.
E. There are no prepayment penalties for the Loan. Borrower may repay all or a portion of this Loan at any time without penalty.

F. Borrower understands that this Loan is originated by Lender to Borrower under the guidelines of the Small Business Association Paycheck Protection Program ("PPP" or the "Program"). The guidelines for the Program issued by the SBA, currently and as same may be revised or amended from time to time, are hereby incorporated by reference into this Note.
G. Borrower understands that at least 75% of the Loan proceeds MUST be used for payroll costs and payroll related costs, and that after the application of same, the use of any remaining Loan proceeds may only be used pursuant to the terms and conditions of the Program.
H. Any monthly statement sent by the Lender during the Deferral Period will be for informational purposes only and will not be a demand for payment. Borrower agrees that such statement(s) may be delivered by Lender by mail or electronic means including via email.
I. If any required payment due hereunder is 10 days or more late, Borrower will be charged 6% of the unpaid portion of the regularly scheduled payment. The late charge shall be paid to Lender by Borrower to compensate Lender for Lender's extra costs and expenses caused by the late payment.
J. Payments will be applied in the following order (i) unpaid interest accrued to the date of payment; and (ii) the unpaid principal Loan balance. At Lender's option, any unpaid late charges, Loan fees or other sums due Lender may be satisfied from the payment received either (i) before the application of the payment in the foregoing manner, or (ii) after the application of the payment to the unpaid principal then due. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

4. DEFAULT:

Borrower is in default under this Note if Borrower does not make a payment when due under this Note, or if Borrower:

A. Fails to do anything required by this Note and other Loan Documents;
B. Defaults on any other loan or obligation between Borrower and Lender or between Borrower and SBA;
C. Does not disclose, or anyone acting on Borrower's behalf does not disclose, any material fact to Lender or SBA;
D. Makes, or anyone acting on Borrower's behalf makes, a materially false or misleading representation to Lender or SBA;
E. Fails to pay any taxes when due;
F. Becomes the subject of a proceeding under any bankruptcy or insolvency law;
G. Has a receiver or liquidator appointed for any part of Borrower's business or property;
H. Makes an assignment for the benefit of creditors;
I. Has any adverse change in financial condition or business operation that Lender believes may materially affect Borrower's ability to pay this Note;
J. Reorganizes, merges, consolidates, or otherwise changes ownership or business structure without Lenders prior written consent; or
K. Becomes the subject of a civil or criminal action that Lender believes may materially affect Borrower's ability to pay this Note.

5. LENDER'S RIGHTS IF THERE IS A DEFAULT:

Upon default, and without giving up any of its rights, Lender may:

A. Require immediate payment from Borrower of all amounts owing under this Note:
B. Collect all amounts owing from Borrower; or
C. File suit and obtain judgment against Borrower.

6. LENDER'S GENERAL POWERS:

Upon default, Lender may:

A. Incur reasonable expenses to collect amounts due under this Note or enforce the terms of this Note or any other Loan Document, including reasonable attorneys' fees and costs. If Lender incurs such expenses, it may demand immediate payment from Borrower or add the expenses to the principal balance; and
B. Release anyone obligated to pay this Note; and
C. Exercise any rights and remedies that it may have in law or equity to enforce Borrower's obligations to Lender under this Note and with respect to this transaction.

7. WHEN FEDERAL LAW APPLIES:

When SBA is the holder, this Note will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax, or liability. As to this Note, Borrower may not claim or assert against SBA any local or state law or deny any obligation, defeat any claim of SBA, or preempt federal law. Prior to the SBA becoming the holder, this Note will be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely with such state, without regard to its conflict of law pdnciples.

8. SUCCESSORS AND ASSIGNS:

Under this Note, the term Borrower includes its successors, and the term Lender includes its successors and assigns.

9. GENERAL PROVISIONS:

A. All individuals and entities signing this Note are jointly and severally liable.
B. Borrower waives all suretyship defenses and any trial by jury.
C. Borrower must sign all documents necessary at any time to comply with the Loan Documents.
D. Lender may exercise any of its rights separately or together, as many times and in any order it chooses. Lender may delay or forgo enforcing any of its rights without giving up any rights.
E. Lender may sell, assign or transfer this Note, and the obligations of Borrower hereunder, to any third party for any reason, without the prior written consent of Borrower. Borrower may not assign or transfer this Note without the written consent of Lender.
E. Borrower may not use an oral statement of Lender or SBA to contradict or alter the written terms of this Note.
F. **If** any part of this Note is unenforceable, **all** other parts remain in full force and effect.
G. To the extent allowed by law, Borrower waives **all** demands and notices in connection with this Note, including presentment, demand, protest, and notice of dishonor.
H. By executing this Note, the undersigned represents and warrants they are an authorized representative of Borrower and have the authority to obtain the Loan and accept the terms of this Note on behalf of Borrower. The undersigned's signature, on behalf of Borrower, constitutes the Borrower's consent to the terms and conditions of this Note and to the valid execution of this Note and no further action or approvals on behalf of Borrower pursuant to its organizational or formation documents shall be required in connection with the obtaining of this Loan and the execution of this Note.
I. Any notices required or permitted to be given hereunder shall be: (i) personally delivered or (ii) given by registered or certified mail, postage prepaid, return receipt requested, or (iii) forwarded by overnight courier service, in each instance addressed to the addresses set forth at the head of this Note, or such other addresses as the parties may for themselves designate in writing as provided herein for the purpose of receiving notices hereunder. All notices shall be in writing and shall be deemed given, in the case of notice by personal delivery, upon actual delivery, and in the case of appropriate mail or courier service, upon deposit with the U.S. Postal Service or delivery to the courier service.

10. LOAN FORGIVENESS:

The following provisions shall apply to the Loan:

A. The Loan and the Borrower's obligations for repayment of the Loan shall be strictly subject to the limited loan forgiveness provisions of Section 1106 of the CARES Act, and the SBA Interim Final Rule dated April 2, 2020 and any amendments thereto (the "Loan Forgiveness").
B. The amount of any Loan Forgiveness under this Note shall be determined by and is strictly subject to the approval of Lender and/or the SBA. To the extent any Loan Forgiveness for amounts loaned hereunder is not granted, in whole or in part, for any reason, Borrower shall thereafter remain fully obligated to make any and all payments due under this Note and to fulfill any and all obligations of Borrower until satisfied in full.
C. Borrower shall be required to make application with Lender and/or the SBA to receive any potential Loan Forgiveness. The Borrower shall be required to submit a Loan Forgiveness application, which application must include proper supporting documentation verifying the number of full-time employees and the pay rates for the period described, including payroll tax filings to the IRS and applicable state, income, payroll, and unemployment insurance filings, cancelled checks, payment receipts, transcript of accounts, or other documents verifying payments on covered mortgage loan obligations, lease obligations and utility payments, plus any other documentation which Lender and/or the SBA deems necessary. Any potential Loan Forgiveness hereunder cannot occur without the Borrower's submission of a complete Loan Forgiveness application.

D. Borrower agrees to supply additional information or documentation requested by Lender during the term of this Note, and Borrower further agrees to cooperate fully with Lender and/or the SBA to verify eligibility for any Loan Forgiveness.
E. Lender makes no representations or promises to Borrower with respect to any Loan Forgiveness.

11. INDEMNIFICATION:

Borrower acknowledges and agrees that Lender is making this Loan to Borrower in order to provide relief to Borrower under the CARES Act. Borrower hereby indemnifies and holds harmless Lender from and against any claim, loss, liability, damage, obligations, penalty, action, judgment, cost, disbursement or expense of any kind (including, without limitation, attorneys' fees and disbursements) that may at any time be imposed on, incurred by, expended by or asserted against Lender in connection with, or arising out of, or in any way related to the making of this Loan to Borrower.

12. BORROWER'S NAME(S) AND SIGNATURE(S):

Electronic acknowledgment of this Note (this "Acknowledgment") shall be deemed to be valid execution and delivery as though an original ink or electronic signature. Borrower and Lender explicitly consent to the electronic delivery of the terms of the transaction evidenced by this Note and affirm that this Acknowledgement evidences Borrower's signature and indicates a present intent to be bound by the terms of this Note. An electronic image of this Agreement and the Acknowledgement shall be as effective as an original for all purposes. Borrower shall be required to provide Lender with an original copy of the Note signed with a "wet" signature if requested by Lender. Failure to provide the original Note to Lender will delay or void any potential Loan Forgiveness.

PRIOR TO SIGNING THIS NOTE, BORROWER HAS READ AND UNDERSTOOD ALL OF THE TERMS AND PROVISIONS OF THIS NOTE. BORROWER FURTHER ACKNOWLEDGES RECEIPT OF A COPY OF THIS NOTE.

BY SIGNING BELOW, THE UNDERSIGNED HEREBY CERTIFIES AND ATTESTS THAT THE INFORMATION CONTAINED IN THE PAYCHECK PROTECTION PROGRAM APPLICATION PROVIDED BY BORROWER IN CONNECTION WITH THIS LOAN AND IN ANY OTHER CERTIFICATION OR DOCUMENT PROVIDED TO THE LENDER IN CONNECTION THEREWITH ARE ACCURATE AND THAT THE BORROWER IS ACTIVE AND IN GOOD STANDING AS OF THE DATE HEREOF.

BORROWER: STERLING ENGINEERING CORPORATION

By: **/s/ Luciano Melluzzo**
Name: **Luciano Melluzzo**
Its: **President & CEO**

By: **/s/ Luciano Melluzzo**
Name:
Its:

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT

I, Luciano Melluzzo, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: May 15, 2020

/s/ Luciano Melluzzo
Luciano Melluzzo
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 15, 2020

/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, 2020 as filed with the Securities and Exchange Commission (the "Report"), Luciano Melluzzo, Chief Executive Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

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

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

Dated: May 15, 2020

/s/ Luciano Melluzzo
Luciano Melluzzo
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, 2020, 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 15, 2020

/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.]