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

FORM 10-K/A (Amendment No. 2)

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

For the fiscal year ended: December 31, 2018

☐ **Transition Report Under 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
(Name of small business issuer in its charter)

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

1460 Fifth Avenue, Bay Shore, New York 11706
(Address of Principal Executive Offices

(631) 968-5000
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Name of Exchange on which Registered
NYSE AMERICAN

Title of Each Class
Common Stock, par value $0.001

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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 Act). Yes ☐ No ☒

As of June 30, 2018, the aggregate market value of our common stock held by non-affiliates was $30,045,613, based on 16,692,007 shares of outstanding common stock held by non-affiliates, and a price of $1.80 per share, which was the last reported sale price of our common stock on the NYSE American on that date.

There were a total of 28,655,572 shares of the registrant's common stock outstanding as of March 27, 2019.

DOCUMENTS INCORPORATED BY REFERENCE: None

Explanatory Note

This amendment is being filed in response to a letter of comment from the staff of the Division of Corporation Finance and revises the discussion of the going concern issue in Note 1 to the Company's financial statements.

AIR INDUSTRIES GROUP
FORM 10-K/A (Amendment No. 2)
For the Fiscal Year Ended December 31, 2018

PART I

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements

The financial statements required by this item begin on page F-1 hereof.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Air Industries Group

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Air Industries Group and subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, among other going concern matters discussed, the Company has suffered a net loss in 2018 and is dependent upon future issuances of equity or other financing to fund ongoing operations, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Change In Accounting Estimate Effected By A Change in Accounting Principal

As discussed in Note 3 to the financial statements, management has elected to change its method of accounting for pre-production engineering costs in the 2018 financial statements. Our opinion is not modified in respect to that matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities law and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

We have served as the Company's auditors since 2008.

Saddle Brook, NJ

April 1, 2019

AIR INDUSTRIES GROUP
Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 2,012,000	$ 630,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of $524,000 and $494,000, respectively	6,522,000	5,464,000
Inventory	29,051,000	31,141,000
Prepaid Expenses and Other Current Assets	414,000	214,000
Prepaid Taxes	49,000	49,000
Assets Held for Sale	-	10,082,000
Total Current Assets	38,048,000	47,580,000
Property and Equipment, Net	8,777,000	10,050,000
Capitalized Engineering Costs - Net of Accumulated Amortization of $0 and $5,380,000, respectively	-	2,188,000
Deferred Financing Costs, Net, Deposits and Other Assets	768,000	665,000
Goodwill	163,000	272,000
TOTAL ASSETS	$ 47,756,000	$ 60,755,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	$ 16,793,000	$ 23,131,000
Notes Payable – Related Party – Current Portion	2,552,000	262,000
Accounts Payable and Accrued Expenses	8,723,000	10,872,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	881,000	931,000
Liabilities Directly Associated with Assets Held for Sale	-	2,795,000
Income Taxes Payable	20,000	20,000
Total Current Liabilities	29,007,000	38,049,000
Long Term Liabilities		
Notes Payable and Capitalized Lease Obligations - Net of Current Portion	3,438,000	1,798,000
Notes Payable – Related Party – Net of Current Portion	2,283,000	1,650,000
Deferred Gain on Sale - Net of Current Portion	257,000	295,000
Deferred Rent	1,165,000	1,197,000
TOTAL LIABILITIES	36,150,000	42,989,000
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, par value $.001 - Authorized 3,000,000 shares, 0 outstanding at December 31, 2018 and 2017	-	-
Common Stock - Par Value $.001 - Authorized 50,000,000 Shares, 28,392,070 and 25,213,805 Shares Issued and Outstanding as of December 31, 2018 and December 31, 2017, respectively	28,000	25,000
Additional Paid-In Capital	76,101,000	71,272,000
Accumulated Deficit	(64,523,000)	(53,531,000)
TOTAL STOCKHOLDERS' EQUITY	11,606,000	17,766,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 47,756,000	$ 60,755,000

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Operations For the Years Ended December 31,

	2018	2017
Net Sales	$ 46,309,000	$ 49,869,000
Cost of Sales	40,895,000	45,002,000
Gross Profit	5,414,000	4,867,000
Operating Expenses	8,839,000	11,430,000
Impairment of goodwill	(109,000)	(6,195,000)
Impairment on abandonment of assets	(386,000)	-
Change in useful life of capitalized engineering costs	(2,043,000)	-
Loss from Operations	(5,963,000)	(12,758,000)
Interest and Financing Costs	(3,921,000)	(3,378,000)
Loss on Extinguishment of Debt	-	(112,000)
Other Income (Expense), Net	278,000	(22,000)
Loss before Provision for Income Taxes	(9,606,000)	(16,270,000)
(Benefit from) Provision for Income Taxes	3,000	(197,000)
Loss from Continuing Operations, net of taxes	(9,609,000)	(16,073,000)
Loss from Discontinued Operations, net of taxes		
Losses from discontinued operating activities	(1,042,000)	(6,678,000)
Loss (Gain) on Sale of Subsidiary	(341,000)	200,000
Total Loss from Discontinued Operations, net of tax	(1,383,000)	(6,478,000)
Net Loss	$ (10,992,000)	$ (22,551,000)
Net Loss per share – basic		
Continuing operations	(0.36)	$ (1.21)
Discontinued operations	$ (0.05)	$ (0.49)
Net Loss per share – diluted		
Continuing operations	(0.36)	(1.21)
Discontinued operations	$ (0.05)	$ (0.49)
Weighted average shares outstanding – basic	26,897,639	13,230,775
Weighted average shares outstanding – diluted	26,900,952	13,230,775

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2018 and 2017

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, January 1, 2017	1,202,548	$ 1,000	7,626,945	$ 7,000	$ 55,862,000	$ (30,980,000)	$ 24,890,000
Issuance of Preferred Stock	91,893	-	-	-	-	-	-
Fair Value Allocation of Warrants	-	-	-	-	2,500,000	-	2,500,000
Issuance of Common stock	-	-	5,900,390	6,000	7,621,000	-	7,627,000
Common stock issued for directors fees	-	-	154,463	-	232,000	-	232,000
Common stock issued for legal fees	-	-	92,000	-	200,000	-	200,000
Conversion of preferred to common	(1,294,441)	(1,000)	8,629,606	9,000	-	-	8,000
Common stock issued for convertible notes	-	-	2,810,401	3,000	4,525,000		4,528,000
Stock Compensation Expense	-	-	-	-	332,000	-	332,000
Net Loss	-	-	-	-	-	(22,551,000)	(22,551,000)
Balance, December 31, 2017	-	-	25,213,805	$ 25,000	$ 71,272,000	$ (53,531,000)	$ 17,766,000
Fair Value Allocation of Warrants	-	-	-	-	193,000	-	193,000
Issuance of Common stock	-	-	2,139,235	2,000	2,812,000	-	2,814,000
Common stock issued for directors fees	-	-	253,071	-	305,000	-	305,000
Common stock issued for legal fees	-	-	123,456	-	200,000	-	200,000
Common stock issued for convertible notes accrued interest payment	-	-	663,286	1,000	1,026,000	-	1,027,000
Stock Compensation Expense	-	-	-	-	293,000	-	293,000
Net Loss	-	-	-	-	-	(10,992,000)	(10,992,000)
Balance, December 31, 2018	-	-	28,392,853	$ 28,000	$ 76,101,000	$ (64,523,000)	$ 11,606,000

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Cash Flows For the Years Ended December 31,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (10,992,000)	$ (22,551,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation of property and equipment	2,877,000	2,723,000
Amortization of intangible assets	-	673,000
Amortization of capitalized engineering costs	668,000	423,000
Loss on impairment of goodwill – continuing operations	109,000	6,195,000
Loss on impairment of goodwill – discontinued operations	-	3,417,000
Bad debt expense	49,000	87,000
Non-cash employee compensation expense	292,000	332,000
Non-cash directors compensation expense	64,000	232,000
Amortization of deferred financing costs	212,000	267,000
Deferred gain on sale of real estate	(38,000)	(38,000)
(Gain) on sales of subsidiaries	340,000	(200,000)
Change in useful life of capitalized engineering costs	2,043,000	-
Loss on impairment of intangible assets – discontinued operations	-	1,085,000
Loss on Assets Held for Sale	386,000	1,563,000
Loss on extinguishment of debt	-	112,000
Amortization of convertible notes payable	941,000	2,301,000
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Assets held for sale - AMK Cash	-	39,000
Accounts receivable	(561,000)	1,004,000
Inventory	1,395,000	905,000
Prepaid expenses and other current assets	39,000	281,000
Prepaid taxes	-	360,000
Deposits and other assets	(1,112,000)	(113,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expense	(1,127,000)	(3,527,000)
Deferred rent	3,000	34,000
Deferred revenue	2,076,000	410,000
NET CASH USED IN OPERATING ACTIVITIES	(2,336,000)	(3,986,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized engineering costs	(523,000)	(985,000)
Purchase of property and equipment	(1,264,000)	(1,514,000)
Proceeds from sale of subsidiary	5,472,000	4,260,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,685,000	1,761,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable – revolver – net	(2,415,000)	(7,938,000)
Payments of note payable – term notes	(1,899,000)	(3,178,000)
Capital lease obligations	(1,286,000)	(1,397,000)
Proceeds from note payable – related party	2,803,000	2,660,000
Proceeds from notes payable – third parties	70,000	4,184,000
Payments of notes payable – third parties	-	(463,000)
Deferred financing costs	(125,000)	(50,000)
Proceeds from issuance of common stock	2,885,000	7,733,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	33,000	1,551,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,382,000	(674,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	630,000	1,304,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,012,000	$ 630,000

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Cash Flows For the Years Ended December 31, (Continued)

	2018	2017
Supplemental cash flow information		
Cash paid during the period for interest	$ 1,509,000	$ 2,035,000
Cash paid during the period for income taxes	$ 2,000	$ 8,000
Supplemental schedule of non-cash investing and financing activities		
Common Stock issued for notes payable - related party	330,000	2,254,000
Common Stock issued for notes payable - third parties	30,000	1,941,000
Common Stock issued in lieu of accrued interest	1,027,000	-
Placement agent warrants issued	-	85,000
Preferred stock issued for PIK dividends	$ -	$ 913,000
Acquisition of property and equipment financed by capital leases	$ -	$ 225,000
Classification of assets held for sale	$ -	$ 10,082,000
Liabilities directly associated with assets held for sale	$ -	$ (2,795,000)

See Notes to Consolidated Financial Statements

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

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

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

Going Concern

The Company suffered losses from operations of $5,963,000 and $12,758,000 for the years ended December 31, 2018 and 2017, and net losses of $10,992,000 and $22,551,000 for the years ended December 31, 2018 and 2017, respectively. The Company also had negative cash flows from operations for the year ended December 31, 2017. The foregoing results raise substantial doubt about the Company’s ability to continue as a going concern. To maintain its operations, in January 2017, the Company sold one of its operating subsidiaries and in December 2018, the Company sold a majority of its Aerostructures & Electronics segment. During the year ended December 31, 2016 and subsequent thereto, the Company sold in excess of $29,856,000 in debt and equity securities to secure funds to operate its business.

In late fiscal 2017, the Company initiated a repositioning of its business to obtain profitability and improve its liquidity position. The continuation of the Company’s business is dependent upon its ability to achieve profitability and positive cash flow and, pending such achievement, future issuances of equity or other financing to fund ongoing operations, of which there can be no assurance. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Sale of AMK

On January 27, 2017, the Company sold all of the outstanding shares of AMK to Meyer Tool, Inc., pursuant to a Stock Purchase Agreement dated January 27, 2017 for a purchase price of $4,500,000, net of a working capital adjustment of ($163,000), plus additional quarterly payments, not to exceed $ 1,500,000, equal to five percent (5%) of Net Revenues of AMK commencing April 1, 2017. The Company recorded a $200,000 gain on the sale of AMK. The gain on sale was the difference between the non-contingent payments and the carrying value of the disposed business. The Company has made an accounting policy decision to record the contingent consideration as it is determined to be realizable.

The proceeds of the sale of AMK were applied as follows: $1,700,000 to the payment of the Term Loan (as defined in the PNC Loan Agreement), $1,800,000 to the payment of outstanding Revolving Advances (as defined in the PNC Loan Agreement), and $500,000 to the payment of existing accounts payable. The remaining $500,000 later was applied to the payment of the Revolving Advance.

Sale of Welding Metallurgy Inc.

On December 20, 2018, the Company sold all of the outstanding shares of WMI including its wholly owned subsidiaries Miller Stuart, Woodbine, Decimal and Compac Development Corp to CPI Aerostructures, Inc., pursuant to a Stock Purchase Agreement (SPA) for a purchase price of $9,000,000, reduced by a working capital adjustment of ($1,093,000). The sale required an escrow deposit of $2,000,000 to cover the working capital adjustment and our obligation to indemnify CPI against damages arising out of the breach of our representations and warranties and obligations under the SPA. The amount of the working capital deficit has been contested by CPI and the discrepancy will likely be resolved through arbitration in accordance with the terms of the Stock Purchase Agreement.

At December 31, 2017, WMI Group's assets and liabilities had been reclassified as Assets Held for Sale and Liabilities Directly Associated with Assets Held for Sale, respectively.

Closing EPC and ECC

On April 30, 2018 Eur Pac Corporation ("EPC") received a "Notice of Proposed Debarment" from the Department of the Navy – its principal customer. Immediately after receiving this notice, EPC and AIRI retained counsel to appeal the proposed debarment, and submitted information in opposition to the proposed debarment, and EPC representatives met with the Navy to discuss the matter.

On November 8, 2018 EPC received formal notice from the Department of the Navy that EPC's opposition to debarment was rejected and that EPC was debarred from future government contracts until October 29, 2020. Management implemented its plan to complete existing contracts that had already been awarded and closed EPC by March 31, 2019.

The Company recognized a loss on abandoned assets of $386,000 in connection with the shutdown of EPC. Additionally, the Company determined that goodwill for ECC in the amount of $109,000 had been impaired and is included in the loss from continuing operations.

Subsequent Events

On January 15, 2019, the Company entered into a Purchase Agreement with 15 accredited investors (the "Purchasers"), pursuant to which the Company assigned to the Purchasers all of its right, title and interest to the remaining $1,136,710 of the $1,500,000 in payments due from Meyer Tool, Inc. for the sale of AMK Welding, Inc. (the "Remaining Amount") for an aggregate purchase price 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 payments are based upon the net sales of AMK Welding, Inc., which the Company sold to Meyer Tool in January 2017. The Purchasers have the right to demand payment of their pro rata portion of the unpaid Remaining Amount from us commencing March 31, 2023 ("Put Right"). To the extent the Purchasers exercise their Put Right, the remaining payments from Meyer will be made to 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 assignment of the Company's rights to the payments from Meyer Tool. Michael and Robert Taglich, directors of the Company, are the principals of Taglich Brothers, Inc.

On January 15, 2019, the Company issued its 7% senior subordinate convertible promissory notes due December 31, 2020, each in the principal amount of $1,000,000 (together the "Notes" and each a "Note"), to Michael Taglich and Robert Taglich, each for a purchase of $1,000,000. Each Note bears interest at the rate of 7% per annum, is convertible to 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% Note, is subordinated to the Company's indebtedness under its credit facility with PNC Bank, National Association, and matures at December 31, 2020, or earlier upon an Event of Default (as defined in the Note).

The Company will pay Taglich Brothers, Inc. a fee of $80,000 (4% of the purchase price of the Notes), payable in the form of a promissory note having terms similar to the Notes, in connection with the purchase of the Notes.

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

Note 2. DISCONTINUED OPERATIONS

As discussed in Note 1, the Company sold WMI Group in December 2018. As such, this business is reported as discontinued operations for the years ended December 31, 2018 and 2017. As required, the Company has retrospectively recast its consolidated statements of operations and balance sheets for all periods presented. The Company has not segregated the cash flows of this business in the 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 Consolidated Financial Statements refers to the Company's continuing operations.

The following table presents a reconciliation of the major financial lines constituting the results of operations for discontinued operations to the net income (loss) from discontinued operations presented separately in the consolidated statement of operations:

	December 31,	
	2018	**2017**
Net revenue	$ 13,852,000	$ 13,129,000
Cost of goods sold	13,596,000	11,245,000
Gross profit	256,000	1,884,000
Operating expenses:		
Selling, general and administrative	1,306,000	2,488,000
Loss on assets held for sale	-	2,648,000
Impairment of Goodwill	-	3,417,000
Total operating expenses	1,306,000	8,553,000
Interest income (expense)	1,000	(12,000)
Other income	7,000	3,000
Loss from discontinued operations before income taxes	(1,042,000)	(6,678,000)
Provision for income taxes	-	-
Net loss from discontinued operations	$ (1,042,000)	$ (6,678,000)

The following table presents a reconciliation of WMI Group net cash flow from operating, investing and financing activities for the periods indicated below:

	2018	**2017**
Net cash used in operating activities - discontinued operations	$ (439,000)	$ (2,765,000)
Net cash used in investing activities - discontinued operations	$ 49,000	$ (33,000)
Net cash provided by financing activities - discontinued operations	$ 475,000	$ 2,665,000
Depreciation and amortization	$ 156,000	$ 375,000
Capital expenditures	$ -	$ (33,000)

See Note 8 for a reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operations to the total assets and liabilities of the disposal group classified as held for sale that are presented separately in the consolidated balance sheets.

Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

The Company through its AIM subsidiary is primarily engaged in manufacturing aircraft structural parts, and assemblies for prime defense contractors in the aerospace industry in the United States. NTW is a manufacturer of aerospace components, principally landing gear for F-16 and F-18 fighter aircraft. Welding Metallurgy is a specialty welding and products provider whose significant customers include the world's largest aircraft manufacturers, subcontractors, and original equipment manufacturers. Miller Stuart is a manufacturer of aerospace components whose customers include major aircraft manufacturers and the US Military. Miller Stuart specializes in electromechanical systems, harness and cable assemblies, electronic equipment and printed circuit boards. Woodbine is a manufacturer of aerospace components whose customers include major aircraft component suppliers. Eur-Pac specializes in military packaging and supplies. Eur-Pac s primary business is "kitting" of supplies for all branches of the United States Defense Department including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies. Compac specializes in the manufacture of RFI/EMI (Radio Frequency Interference Electro-Magnetic Interference) shielded enclosures for electronic components. The Company's customers consist mainly of publicly traded companies in the aerospace industry.

Principles of Consolidation

The accompanying consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Discontinued Operations

Prior to its sale, WMI Group was classified as a discontinued operation (see "Note 2 - Discontinued Operations"). As required, the Company has retrospectively recast its consolidated statements of operations and balance sheets for all periods presented to reflect these businesses as discontinued operations. The Company has not segregated the cash flows of these businesses in the 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 Consolidated Financial Statements refers to the Company's continuing operations.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid instruments with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are reported at their outstanding unpaid principal balances net of allowances for uncollectible accounts. The Company provides for allowances for uncollectible receivables based on management's estimate of uncollectible amounts considering age, collection history, and any other factors considered appropriate. The Company writes off accounts receivable against the allowance for doubtful accounts when a balance is determined to be uncollectible.

Inventory Valuation

The Company values inventory at the lower of cost on a first-in-first-out basis or an estimated net realizable value. The Company does not take physical inventories at interim quarterly reporting periods. The value of the majority of the items in inventory has been estimated using a gross profit percentage based on sales of previous periods compared 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 is 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.

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

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets include purchase deposits, miscellaneous prepaid expenses and cash in escrow less a reserve. The changes in the reserve are shown below.

Description	Balance at Beginning of Year	Charges to Loss on Sale of Subsidiary	Deductions	Balance at end of year
Valuation reserve deducted from Prepaid Expenses and Other Current Assets:				
Year ended December 31, 2018	$ -	$ 1,770,000	$ -	$ 1,770,000
Year ended December 31, 2017	$ -	$ -	$ -	$ -

Assets Held for Sale and Liabilities Directly Associated

Assets held for sale are reported at the lower of their carrying amount or fair value less cost to sell and included in current assets. Liabilities associated to business units held for sale are classified as a current liability.

Capitalized Engineering Costs

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

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

Based on various technological advances by our customer's and the rapid pace of innovation including change in future production methodologies and systems, it has become more complicated to estimate the future life and recoverability of the assets we are currently capitalizing. It is the belief of the Company that it would be preferable and therefore justifiable to expense these costs as incurred through cost of goods sold, rather than continue to capitalize these costs and amortize them through operating expense.

As of December 31, 2018, the Company has changes its policy to no longer capitalize engineering costs and to write off the capitalized engineering balance of $2,043,000.

Property and Equipment

Property and equipment are carried at cost net of accumulated depreciation and amortization. Repair and maintenance charges are expensed as incurred. Property, equipment, and improvements are depreciated using the straight-line method over the estimated useful lives of the assets or the particular improvements. Expenditures for repairs and improvements in excess of $10,000 that add to the productive capacity or extend the useful life of an asset are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings.

Long-Lived and Intangible Assets

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit.

Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. There has been no impairment as of December 31, 2018 and 2017.

Deferred Financing Costs

Costs incurred with obtaining and executing revolving debt arrangements are capitalized and amortized using the effective interest method over the term of the related debt. The amortization of such costs are included in interest and financing costs. Costs incurred with obtaining and executing other debt arrangements are presented as a direct deduction from the carrying value of the associated debt.

Derivative Liabilities

In connection with the issuances of equity instruments or debt, the Company may issue options or warrants to purchase common stock. In certain circumstances, these options or warrants may be classified as liabilities, rather than as equity. In addition, the equity instrument or debt may contain embedded derivative instruments, such as conversion options or listing requirements, which in certain circumstances may be required to be bifurcated from the associated host instrument and accounted for separately as a derivative liability instrument. The Company accounts for derivative liability instruments under the provisions of FASB ASC 815, Derivatives and Hedging.

Revenue Recognition

On January 1, 2018, the Company adopted ASC 606 "Revenue from Contracts with Customers", as amended regarding revenue from contracts with customers using the modified retrospective approach, which was applied to all contracts with Customers. Under the new standard an entity is required to recognize revenue to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods.

There was no cumulative financial statement effect of initially applying the new revenue standard because an analysis of our contracts supported the recognition of revenue consistent with our historical approach. In accordance with the modified retrospective approach, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company does not expect the adoption of the new revenue standard to have a material impact on the Company's revenues or net income on an ongoing basis.

The Company's revenues are primarily derived from consideration paid by customers for tangible goods. The Company analyzes its different goods by segment to determine the appropriate basis for revenue recognition, as described below. Revenue is not generated from sources other than contracts with customers and revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. There are no material upfront costs for operations that are incurred from contracts with customers.

Our rights to payments for goods transferred to customers are conditional only on the passage of time and not on any other criteria. Payment terms and conditions vary by contract, although terms generally include a requirement of payment within 30 to 75 days.

For 2017 the Company recognized revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." The Company recognizes revenue when products are shipped and/or the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

For 2018 and 2017, the Company recognized certain revenues under a bill and hold arrangement with two of its large customers. For any requested bill and hold arrangement, the Company made an evaluation as to whether the bill and hold arrangement qualified for revenue recognition. The customer would initiate the request for the bill and hold arrangement. The customer must have made its request in writing in addition to their fixed commitment to purchase the item. The risk of ownership has passed to the customer, payment terms were not modified and payment would be made if the goods had shipped.

The Company had approximately $89,000 and $619,000 of net sales that were billed but not shipped under such bill and hold arrangements as of December 31, 2018 and 2017, respectively.

Payments received in advance from customers are recorded as deferred revenue until earned, at which time revenue is recognized. The Terms and Conditions contained in our customer purchase orders often provide for liquidated damages in the event that a stop work order is issued prior to the final delivery.

The Company utilizes a Returned Merchandise Authorization or RMA process for determining whether to accept returned products. Customer requests to return products are reviewed by the contracts department and if the request is approved, a credit is issued upon receipt of the product. Net sales represent gross sales less returns and allowances.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant management estimates are the allowance for doubtful accounts, useful lives of property and equipment, provisions for inventory obsolescence, accrued expenses and whether to accrue for various contingencies. Actual results could differ from those estimates. Changes in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known.

Credit and Concentration Risks

There were three customers that represented 70.0% of total sales, and three customers that represented 62.0% of total sales for the years ended December 31, 2018 and 2017, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	2018	2017
1	30.7	20.5
2	27.4	25.5
3	11.9	*
4	*	16.0

* Customer was less than 10% of sales at December 31, 2018 and 2017, respectively.

There were two customers that represented 64.5% of gross accounts receivable and three customers that represented 68.7% of gross accounts receivable at December 31, 2018 and 2017, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	December 2018	December 2017
1	38.3	41.9
2	26.2	14.6
3	*	12.2

* Customer was less than 10% of gross accounts receivable at December 31, 2018.

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.

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.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance now codified as FASB ASC 740, “Income Taxes,” which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse.

The provision for, or benefit from, income taxes includes deferred taxes resulting from the temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from the differences in the carrying value of assets and liabilities. Future realization of deferred income tax assets requires sufficient taxable income within the carryback, carryforward period available under tax law. We evaluate, on a quarterly basis whether, based on all available evidence, it is probable that the deferred income tax assets are realizable. Valuation allowances are established when it is more likely than not that the tax benefit of the deferred tax asset will not be realized. The evaluation, as prescribed by ASC 740-10, "Income Taxes," includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused.

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

The Company adopted FASB Accounting Standards Update 2015 - 17, Balance Sheet Classification of Deferred Taxes. The ASU is part of the Board's simplification initiative aimed at reducing complexity in accounting standards. To simplify presentation, the new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. Importantly, the guidance does not change the existing requirement that only permits offsetting within a jurisdiction - that is, companies are still prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. If an entity applies the guidance prospectively, the entity should disclose in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and a statement that prior periods were not retrospectively adjusted. If an entity applies the guidance retrospectively, the entity should disclose in the first interim and first annual period of change the nature of and reason for the change in accounting principle and quantitative information about the effects of the accounting change on prior periods. The Company has applied this guidance prospectively and has not restated prior period balances.

Earnings per share

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

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

	2018	2017
Weighted average shares outstanding used to compute basic earnings per share	26,897,639	13,230,775
Effect of dilutive stock options and warrants	3,313	-
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	26,900,952	13,230,775

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

	December 31, 2018	December 31, 2017
Stock Options	568,000	354,000
Warrants	1,960,000	1,480,000
	2,528,000	1,834,000

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 the years:

	December 31, 2018	December 31, 2017
Stock Options	3,000	146,000
Warrants	7,000	41,000
	10,000	187,000

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.

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 December 31, 2018 relates to the acquisition of NTW. The goodwill amount of $272,000 at December 31, 2017 relates to the acquisitions of NTW $163,000 and ECC $109,000.

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

The Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist. As discussed above, the Company adopted ASU 2011-08 and performs a qualitative assessment in the fourth quarter of each year to determine whether it was more likely than not that the fair value of a reporting unit is less than its carting amount.

During 2018 the company determined that goodwill for ECC in the amount of $109,000 had been impaired and is included in the loss from continuing operations.

During 2017, the Company determined that goodwill for Eur-Pac and Sterling in the amounts of $1,655,000 and $4,540,000, respectively, had been impaired. The total of $6,195,000 was included in the loss from continuing operations.

Also, during 2017, the Company determined that goodwill for Welding, Woodbine and Compac in the amounts of $292,000, $2,565,000, $560,000, respectively, had been impaired. The total of $3,417,000 was included in loss from discontinued operations.

Freight Out

Freight out is included in operating expenses and amounted to $151,000 and $196,000 for the years ended December 31, 2018 and 2017, respectively.

JOBS Act

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. An "emerging growth company," may, under Section 7(a)(2)(B) of the Securities Act, delay adoption of new or revised accounting standards applicable to public companies until such standards would otherwise apply to private companies. An "emerging growth company" is one with less than $1.0 billion in annual sales, that has less than $700 million in market value of its shares of common stock held by non-affiliates and issues less than $1.0 billion of non-convertible debt over a three year period. A company may take advantage of this extended transition period until the first to occur of the date that it (i) is no longer an "emerging growth company" or (ii) affirmatively and irrevocably opts out of this extended transition period. The Company has elected to take advantage of the benefits of this extended transition period until December 31, 2018, the date that it was no longer an "emerging growth company".

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements. The Company has been gathering the lease agreement data and has begun to analyze the financial impact to the consolidated financial statements.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11 "Leases (Topic 842): Targeted Improvements" (ASU 2018-11). ASU 2018-10 clarifies certain areas within ASU 2016-02. Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt the provisions of ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. ASU 2018-11 also allows a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are present. An entity that elects to use the practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. ASU 2016-02, ASU 2018-10 and ASU 2018-11 will be effective for the Company's fiscal year beginning April 1, 2019 and subsequent interim periods. The Company's current lease arrangements expire through 2021 and the Company is currently evaluating the impact the adoption of these ASUs will have on the Company's consolidated financial statements.

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

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

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update will be effective for all interim and annual reporting periods beginning after December 15, 2018. The Company does not believe that the adoption of these amendments have an impact on its consolidated financial statements.

In March 2018, the FASB issued Accounting Standards Update No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (“ASU 2018-05”). ASU 2018-05 adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB No. 118”), which was effective immediately. SAB No.118 provides for a provisional one year measurement period for entities to finalize their accounting for certain income tax effects related to the Tax Cuts and Jobs Act. The adoption of ASU 2018-05 had no material impact on the Company’s consolidated financial statements as of and for the year ending December 31, 2018. See Note 15, Income Taxes, for disclosures related to this amended guidance.

In June 2018, the FASB issued ASU No. 2018-07, Compensation Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share based compensation. The guidance is effective for the Company for the fiscal year beginning January 1, 2020. While the exact impact of this standard is not known, the guidance is not expected to have a material impact on the Company’s consolidated financial statements, as non-employee stock compensation is nominal relative to the Company’s total expenses as of December 31, 2018.

In October 2018, the FASB issued ASU No. 2018-17, “Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities” (“ASU 2018-17”). This ASU reduces the cost and complexity of financial reporting associated with consolidation of variable interest entities (VIEs). A VIE is an organization in which consolidation is not based on a majority of voting rights. The new guidance supersedes the private company alternative for common control leasing arrangements issued in 2014 and expands it to all qualifying common control arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently assessing the impact the adoption of ASU 2018- 17 will have on the Company’s consolidated financial statements.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11 “Leases (Topic 842): Targeted Improvements” (ASU 2018-11). ASU 2018-10 clarifies certain areas within ASU 2016-02. Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt the provisions of ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. ASU 2018-11 also allows a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are present. An entity that elects to use the practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. ASU 2016-02, ASU 2018-10 and ASU 2018-11 will be effective for the Company’s fiscal year beginning April 1, 2019 and subsequent interim periods. The Company’s current lease arrangements expire through 2021 and the Company is currently evaluating the impact the adoption of these ASUs will have on the Company’s consolidated financial statements.

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

Reclassifications

Reclassifications occurred to certain 2017 amounts to conform to the 2018 classification.

Note 4. ACCOUNTS RECEIVABLE

The components of accounts receivable at December 31, are detailed as follows:

	December 31, 2018	December 31, 2017
Accounts Receivable Gross	$ 7,046,000	$ 5,958,000
Allowance for Doubtful Accounts	(524,000)	(494,000)
Accounts Receivable Net	$ 6,522,000	$ 5,464,000

The allowance for doubtful accounts for the years ended December 31, 2018 and 2017 is as follows:

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions from Reserves	Balance at End of Year
Year ended December 31, 2018				
Allowance for Doubtful Accounts	$ 494,000	$ 30,000	$ -	$ 524,000
Year ended December 31, 2017				
Allowance for Doubtful Accounts	$ 403,000	$ 91,000	$ -	$ 494,000

Note 5. INVENTORY

The components of inventory at December 31, consisted of the following:

	December 31, 2018	December 31, 2017
Raw Materials	$ 4,622,000	$ 5,346,000
Work In Progress	17,530,000	19,947,000
Finished Goods	10,915,000	10,122,000
Inventory Reserve	(4,016,000)	(4,274,000)
Total Inventory	$ 29,051,000	$ 31,141,000

The Company periodically evaluates inventory and establishes reserves for obsolescence, excess quantities, slow-moving goods, and for other impairment of value.

	Balance at Beginning of Year	Additions to Reserve	Deductions from Reserves	Balance at End of Year
Year ended December 31, 2018				
Reserve for Inventory	$ (4,274,000)	$ (163,000)	$ 421,000	$ (4,016,000)
Year ended December 31, 2017				
Reserve for Inventory	$ (3,776,000)	$ (503,000)	$ 5,000	$ (4,274,000)

Note 6. PROPERTY AND EQUIPMENT

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

	December 31, 2018	December 31, 2017	
Land	$ 300,000	$ 300,000	
Buildings and Improvements	1,708,000	1,650,000	31.5 years
Machinery and Equipment	11,579,000	11,554,000	5 - 8 years
Capital Lease Machinery and Equipment	6,495,000	6,534,000	5 - 8 years
Tools and Instruments	9,882,000	8,538,000	1.5 - 7 years
Automotive Equipment	177,000	172,000	5 years
Furniture and Fixtures	303,000	311,000	5 - 8 years
Leasehold Improvements	520,000	528,000	Term of Lease
Computers and Software	425,000	406,000	4 - 6 years
Total Property and Equipment	31,389,000	29,993,000	
Less: Accumulated Depreciation	(22,612,000)	(19,943,000)	
Property and Equipment, net	$ 8,777,000	$ 10,050,000	

Depreciation expense for the years ended December 31, 2018 and 2017 was approximately $2,720,000 and $2,548,000, respectively. Assets held under capitalized lease obligations are depreciated over the shorter of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2018 and 2017. Accumulated depreciation on these assets was approximately $4,827,000 and $3,595,000 as of December 31, 2018 and 2017, respectively.

Note 7. INTANGIBLE ASSETS

The components of the intangibles assets at December 31, consisted of the following:

	December 31, 2018	December 31, 2017	
Customer Relationships	$ 4,925,000	$ 4,925,000	5 to 14 years
Non-Compete	50,000	50,000	5 years
Total Intangible Assets	4,975,000	4,975,000	
Less: Accumulated Amortization	(4,975,000)	(4,975,000)	
Intangible Assets, net	$ -	$ -	

The expense for amortization of the intangibles for the years ended December 31, 2018 and 2017 was approximately $0 and $471,000, respectively. As of December 31, 2017 intangible assets had been fully amortized.

Note 8. ASSETS HELD FOR SALE AND LIABILITES DIRECTLY ASSOCIATED

WMI

As discussed in Note 1, on December 20, 2018, the Company sold all of its outstanding shares of WMI and its subsidiaries to CPI for a purchase price of $9,000,000, reduced by a working capital adjustment of ($1,093,000). At December 31, 2017, the Company reclassified its assets held for sale and the liabilities directly associated to these assets. The components of these assets and liabilities are as follows:

Components of Assets Held for Sale and Liabilities Directly Associated

		December 31, 2017
Assets Held for Sale		
Accounts Receivable, net of allowance for doubtful accounts	$	2,217,000
Inventory, net of reserves		8,065,000
Prepaid and other assets		485,000
Property and equipment, net of accumulated depreciation		878,000
Impairment of Assets Held for Sale		(1,563,000)
Assets Held for Sale	$	10,082,000
Accounts payable and accrued expenses		2,138,000
Deferred Revenue		521,000
Notes Payable & Capital lease obligations		11,000
Deferred rent		125,000
Liabilities directly associated to Assets Held for Sale	$	2,795,000

Additionally, WMI's operations were previously reported in the Company's Aerostructures & Electronics segment. The amounts below represent WMI's operations that have been excluded from this segment for the years ended December 31, 2018 and 2017, respectively:

Segment Data	**2018**	**2017**
Aerostructures & Electronics		
Net Sales	$ 13,853,000	$ 13,129,000
Gross Profit	256,000	1,884,000
Pre Tax (Loss) Income	(1,042,000)	(6,678,000)
Assets	-	10,082,000

Note 9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The components of accounts payable at December 31, are detailed as follows:

	December 31, 2018	**December 31, 2017**
Accounts Payable	$ 6,782,000	$ 8,634,000
Accrued Expenses	1,941,000	2,238,000
	$ 8,723,000	$ 10,872,000

Note 10. SALE AND LEASEBACK TRANSACTION

On April 11, 2016, the Company executed a Sale - Leaseback Arrangement, whereby the Company sold the building and real property located in South Windsor, Connecticut (the "South Windsor Property") for a purchase price of $1,700,000. The net proceeds from the sale of the property were applied to the amounts owed to PNC Bank.

Simultaneous with the closing of the sale of the South Windsor Property, the Company entered into a 15-year lease (the "Lease") with the purchaser for the property. Base annual rent is approximately $155,000 for the first year and increases approximately 3% per year, each year thereafter. The Lease grants the Company an option to renew the Lease for an additional period of five years. Pursuant to the terms of the Lease, the Company is required to pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance. The Lease also contains representations, warranties, obligations, conditions and indemnification provisions in favor of the purchaser and grants the purchaser remedies upon a breach of the Lease by the Company, including the right to terminate the Lease and hold the Company liable for any deficiency in future rent.

On October 24, 2006, the Company consummated a Sale - Leaseback Arrangement, whereby the Company sold the buildings and real property located in Bay Shore, New York (the "Bay Shore Property") for a purchase price of $6,200,000. The Company realized a gain on the sale of $1,051,000 of which $300,000 was recognized during the year ended December 31, 2006. The remaining $751,000 is being recognized ratably over the remaining term of the twenty - year lease at approximately $38,000 per year. The gain is included in Other Income in the accompanying Consolidated Statements of Operations. The unrecognized portion of the gain in the amount of $295,000 and $333,000 as of December 31, 2018 and 2017, respectively, is classified as Deferred Gain on Sale in the accompanying Consolidated Balance Sheets.

Simultaneous with the closing of the sale of the Bay Shore Property, the Company entered into a 20-year triple- net lease (the "Lease") with the purchaser for the property. Base annual rent is approximately $540,000 for the first five years, $560,000 for the sixth year, and thereafter increases 3% per year. The Lease grants the Company an option to renew the Lease for an additional period of five years. The Company has on deposit with the purchaser $89,000 as security for the performance of its obligations under the Lease. In addition, the Company has on deposit $150,000 with the landlord as security for the completion of certain repairs and upgrades to the Bay Shore Property. This amount is included in the caption Deferred Finance costs, Net, Deposit and Other Assets in the accompanying Consolidated Balance Sheets. Pursuant to the terms of the Lease, the Company is required to pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance. The lease also contains customary representations, warranties, obligations, conditions and indemnification provisions and grants the purchaser customary remedies upon a breach of the lease by the Company, including the right to terminate the Lease and hold the Company liable for any deficiency in future rent. See Note 14 Commitments and Contingencies.

The Company accounted for these transactions under the provisions of FASB ASC 840-40, “Leases-Sale-Leaseback Transactions”.

Note 11. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Notes payable and capital lease obligations consist of the following:

	December 31, 2018	December 31, 2017
Revolving credit note payable to PNC Bank N.A. (“PNC”)	$ 14,043,000	$ 16,455,000
Term loans, PNC	1,572,000	3,471,000
Capital lease obligations	1,786,000	3,073,000
Related party notes payable, net of debt discount	4,835,000	1,912,000
Other notes payable	2,830,000	1,930,000
Subtotal	25,066,000	26,841,000
Less: Current portion of notes and capital obligations	(19,345,000)	(23,393,000)
Notes payable and capital lease obligations, net of current portion	$ 5,721,000	$ 3,448,000

PNC Bank N.A. (“PNC”)

The Company has a Loan Facility with PNC that has been amended many times during its term. Substantially all of its assets are pledged as collateral under the Loan Facility. The Company is required to maintain a lockbox account with PNC, into which substantially all of its cash receipts are paid. The Loan Facility provides for a $15,000,000 revolving loan and a term loan with a balance of $1,572,000 at December 31, 2018 (the “Term Loan”). The repayment terms of the Term Loan provide for monthly principal installments in the amount of $123,133, payable on the first business day of each month, with a final payment of any unpaid balance of principal and interest payable on the scheduled maturity date.

The terms of the Loan Facility require, among other things, that the Company maintain a specified Fixed Charge Coverage Ratio and maintain a minimum EBITDA (as defined in the Loan Facility) for specified periods. In addition, we are limited in the amount of Capital Expenditures it can make. The Company is also limited to the amount of dividends it can pay as defined in the Loan Facility.

The Loan Facility has been amended many times during its term, most recently on May 30, 2018 (the “Sixteenth Amendment”), January 2, 2019 (the “Seventeenth Amendment”) and February 8, 2019 (the “Eighteenth Amendment”).

The Sixteenth Amendment waived Fixed Charge Coverage Ratio covenant violations for the periods ending September 30, 2017, December 31, 2017 and March 31, 2018. The Sixteenth Amendment imposes minimum EBITDA (as defined in the Loan Agreement) covenants of not less than (i) $75,000 for the three-month period ending March 31, 2018, (ii) $485,000 for the six month period ending June 30, 2018, and (iii) $1,200,000 for the nine-month period ending September 30, 2018. The Company complied with these new covenants for the three-months ended March 31, 2018, the six-month period ended June 30, 2018 and the nine-month period ended September 30, 2018. In addition, the Company is prohibited from paying dividends to its stockholders and limits capital expenditures.

Under the terms of the Seventeenth Amendment, the revolving loan and the Term Loan bear interest at a rate equal to the sum of the Alternate Base Rate (as defined in the Loan Agreement) plus four percent (4%). In addition to the amounts available as revolving loans secured by inventory and receivables pursuant to the formula set forth in the Loan Agreement, PNC has agreed to permit the revolving advances to exceed the formula amount by $1,000,000 as of December 31, 2018, provided that we reduce the “Out-of-Formula Loan” by $25,000 per week commencing April 1, 2019, with the unpaid balance payable in full on December 31, 2019. The indebtedness under the revolving loan and the Term Loan are classified with the current portion of notes and capital lease obligations.

Both the revolving loan, inclusive of the Out-of Formula Loan, and the Term Loan mature on December 31, 2019. As a condition to its agreement to extend the maturity of the obligations due under the Loan Agreement (the “Obligations”), we are obligated to pay PNC an extension fee of (i) $250,000 on the earlier of (a) the date the Obligations are indefeasibly paid in full or (b) June 30, 2019, (ii) $125,000 on the earlier of (a) the date the Obligations are indefeasibly paid in full or (b) December 31, 2019, which amount is deemed earned in full if the Obligations have not been satisfied as of July 1, 2019, (iii) $125,000 on the earlier of (a) the date the Obligations are indefeasibly paid in full or (b) December 31, 2019, which amount is deemed earned in full if the Obligations have not been satisfied as of October 1, 2019 (iv) $500,000 on December 31, 2019, which amount is deemed earned in full if the Obligations have not been satisfied as of December 31, 2019. As a further condition to PNC’s agreement to extend the maturity of the Obligations, Michael and Robert Taglich purchased $2,000,000 principal amount of our Senior Subordinated Convertible Notes and arranged a financing giving purchasers a right to receive a pro rata portion of the AMK Revenue Stream Payments resulting in gross proceeds of $800,000, including $275,000 from Michael and Robert Taglich.

The Eighteenth Amendment requires us to maintain a minimum EBITDA of not less than (i) $1,500,000 for the twelve-month period ending December 31, 2018, (ii) $655,000 for the three-month period ending March 31, 2019, (iii) $1,860,000 for the six-month period ending June 30, 2019 and (iv) $3,110,000 for the nine-month period ending September 30, 2019. At December 31, 2018 we were in compliance with the minimum EBIDA covenant.

As of December 31, 2018, our debt to PNC in the amount of $15,615,000 consisted of the revolving credit loan in the amount of $14,043,000 and the term loan in the amount of $1,572,000. The revolver balance was increased to include the Company's negative general ledger balances of its controlled disbursement cash accounts. As of December 31, 2017, our debt to PNC in the amount of $19,926,000 consisted of the revolving credit note due to PNC in the amount of $16,455,000 and the term loan due to PNC in the amount of $3,471,000. In addition, as of December 31, 2018 we had capitalized lease obligations to third parties of $1,786,000, as compared to capitalized lease obligations to third parties of $3,073,000 as of December 31, 2017.

As of December 31, 2018 the future minimum principal payments for the term loans are as follows:

For the year ending	**Amount**
December 31, 2019	$ 1,478,000
December 31, 2020	94,000
PNC Term Loans payable	1,572,000
Less: Current portion	1,572,000
Long-term portion	$ -

Interest expense related to these credit facilities amounted to approximately $1,775,000 and $2,122,000 for the years ended December 31, 2018 and 2017, respectively.

Capital Leases Payable – Equipment

The Company is committed under several capital leases for manufacturing and computer equipment. All leases have bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled $1,786,000 and $3,073,000 as of December 31, 2018 and 2017, respectively, with various interest rates ranging from approximately 4% to 14%.

As of December 31, 2018, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

For the year ending	**Amount**
December 31, 2019	$ 1,264,000
December 31, 2020	542,000
December 31, 2021	52,000
December 31, 2022	15,000
Thereafter	-
Total future minimum lease payments	1,873,000
Less: imputed interest	(87,000)
Less: current portion	(1,196,000)
Total Long Term Portion	$ 590,000

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 their services. In addition, Michael and Robert Taglich have also invested as individuals in the Company a total of $ 8,860,000 through various debt and equity financings.

From November 23, 2016 through March 21, 2017, the Company received gross proceeds of $1,950,000 from Robert and Michael Taglich, from the sale of an equal principal amount of our 8% Subordinated Convertible Notes (the "8% Notes"). See "Private Placements of 8% Subordinated Convertible Notes" below.

In November 2017, Michael Taglich and Robert Taglich purchased 144,927 shares and 72,463 shares, respectively, of common stock, together with warrants to purchase an additional 48,000 shares and 24,000 shares, respectively, of common stock, for a purchase price of $200,000 and $100,000, respectively, in a private placement of the Company's equity securities completed in January 2018 from which the Company received gross proceeds of $2,000,000. Taglich Brothers, Inc., which as placement agent for the sale of the shares and warrants, received a placement agent fee equal to $160,000 (8% of the amounts invested), payable at the Company's option, in cash or additional shares of common stock and warrants having the same terms and conditions as the shares and warrants issued in the offering. See Note 12 below.

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 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 (the "Shares"), 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 the Company issued 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. Seventy percent (70%) of the total purchase price for the 2019 Notes and Shares purchased by each investor has been allocated to the 2019 Notes with the remaining thirty percent (30%) allocated to the Shares purchased with the 2019 Notes. The number of Shares purchased by Michael Taglich and Robert Taglich was calculated based upon $1.68, the closing price of the common stock on May 20, 2018, the trading day immediately preceding the date they purchased the 2019 Notes and shares of common stock.

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 PNC.

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.

Related party advances and notes payable, net of debt discounts to Michael and Robert Taglich, and their affiliated entities, totaled $4,835,000 and $1,912,000, as of December 31, 2018 and December 31, 2017, respectively.

The gross proceeds of $1,200,000 was completed in the following closings:

Date	Gross Proceeds	Promissory Note	$	Common Stock Price	Shares
3/29/2018	1,000,000	700,000	300,000	1.68	178,571
4/4/2018	100,000	70,000	30,000	1.68	17,857
5/21/2018	100,000	70,000	30,000	1.64	18,334
Total	1,200,000	840,000	360,000		214,762

Private Placements of 8% Subordinated Convertible Notes and Amendments Thereto

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 Loan Facility.

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

During the year ended December 31, 2018, we issued $297,000 principal amount of 8% Notes in lieu of cash payment of accrued interest. As of September 30, 2018, we had outstanding $4,775,000 principal amount of 8% Notes, of which $2,575,000 principal amount was due on November 30, 2018 and $2,200,000 principal amount was due on February 28, 2019.

In September 2018, holders of a majority of the outstanding principal amount of the 8% Notes consented to an amendment to the terms of the 8% Notes to extend the maturity date to December 31, 2020 and to provide that interest on the 8% Notes, as amended (the “Amended Notes”), shall accrue and be paid on the due date of the Amended Notes or, if earlier, upon conversion of the Amended Notes into shares of common stock.

At September 30, 2018, Michael Taglich, Robert Taglich and Taglich Brothers (collectively, the “Taglich Parties”) owned $1,300,000, $650,000 and $382,000, respectively, principal amount of 8% Notes, with accrued interest thereon from the date of issuance through September 30, 2018 of $203,613, $120,097 and $68,294, respectively. In consideration for waiving all defaults in payment of principal and accrued interest on the 8% Notes through the date of the amendment, the conversion price of the Amended Notes owned by the Taglich Parties and the other holders of the Amended Notes has been reduced to $1.50 per share, subject to the anti-dilution adjustments set forth in the Amended Notes and the 8% Notes, and the Company issued to the Taglich Parties and the other holders of the 8% Notes such number of shares of common stock calculated based upon a value of $1.39 per share, the closing market price of common stock on the NYSE American on September 28, 2018, the date immediately prior to the date the holders of a majority of the outstanding principal amount of the 8% Notes approved the amendment as is equal to the interest accrued on their 8% Notes from the date of issuance through September 30, 2018. As a result, the Company issued to Michael Taglich, Robert Taglich and Taglich Brothers 146,484 shares, 86,401 shares and 49,132 shares, respectively, of common Stock. From and after September 30, 2018, interest on the unpaid principal amount of the Amended Notes shall accrue and be paid at the rate of six (6%) percent per annum, if paid in cash, or at the rate of eight (8%) percent per annum if converted into common stock.

For soliciting noteholders in connection with the adoption of the amendments, the Company agreed to pay Taglich Brothers $95,550, representing a fee equal to 2% of the outstanding principal amount of Notes whose registered holders (other than Taglich Brothers) received shares of common stock in lieu of cash payment of accrued interest on the 8% Notes as of September 30, 2018.

Note 12. STOCKHOLDERS’ EQUITY

Issuance of Series A Preferred Stock and Related Financings.

Preferred Stock

During 2016 we issued shares of our Series A Convertible Preferred Stock (“Series A Preferred Stock”) in a series of private financings. The shares were converted into shares of our common stock in connection with the public offering of our common stock in July 2017 (the “Public Offering”).

The shares of Series A Preferred Stock had a stated value of $10.00 per share and are were initially convertible into shares of common stock at a price of $4.92 per share (subject to adjustment upon the occurrence of certain events). When issued, the dividend rate on the Series A Preferred Stock was 12% per annum, payable quarterly and was to increase to 15% per annum if we were to issue additional shares of Series A Preferred Stock (“PIK Shares”) in lieu of payment of cash dividends payable until June 15, 2018, and to 16% per annum after June 2018, 19% per annum to the extent dividends were paid in additional shares of Series A Preferred Stock (“PIK Shares”). In July 2017, the Company amended the Certificate of Designation authorizing the issuance of the Series A Preferred Stock to provide for the automatic conversion of the outstanding shares of Series A Preferred Stock into common stock at a conversion price of $1.50 per share (a conversion rate of 6.6667 shares of common stock per share of Series A Preferred Stock), the offering price of the shares of common stock in the Public Offering, subject to stockholder approval in accordance with the applicable rules of the NYSE MKT, which was subsequently obtained on October 3, 2017 at the Company’s 2017 Annual Meeting of Stockholders., In addition, the amendment to the Certificate of Designation eliminated the liquidation preference and quarterly dividend payable to holders of the Series A Preferred Stock. Under the terms of the amendment, holders of the Series A Preferred Stock were to share ratably with the holders of the common stock on an as-converted basis (2.0325 shares of common stock for each share of Series A Preferred Stock held of record) with respect to dividends declared, paid or set aside for payment, assets available for distribution to stockholders upon the liquidation, dissolution or winding up of the Company’s affairs, in addition to voting upon the election of directors and other matters submitted to stockholders for approval, except for matters requiring a class vote of the holders of the Series A Preferred Stock specified in the Certificate of Designation or under applicable law.

On October 3, 2017, holders of 1,294,551 outstanding shares of the Company's Series A Preferred Stock automatically converted into 8,629,606 shares of common stock.

As of December 31, 2018 and 2017, the Company had no outstanding shares of Series A Preferred Stock.

Common Stock

On July 12, 2017, the Company sold 5,175,000 shares of common stock at a price of $1.50 per for gross proceeds of $7,762,500 in an underwritten public offering ("Public Offering") from which it derived net proceeds of $6,819,125, of which approximately $4,000,000 was used to pay outstanding trade payables, $463,501 was used to redeem an equal principal amount of the $4,158,624 principal amount of the May 2018 Notes and $2,355,624 was added to the Company's working capital.

On November 29, 2017, Company entered into a Placement Agency Agreement with Taglich Brothers, Inc. as placement agent (the "Placement Agent"), pursuant to which the Placement Agent agreed to offer on behalf of the Company, on a best efforts basis, up to 1,600,000 shares of the Company's common stock (the "Shares") to accredited investors (the "Offering"), together with five-year warrants to purchase 24,000 shares of common stock for each $100,000 of shares purchased (the Warrants"), in a private placement exempt from the registration requirements of the Securities Act. The Offering was completed in four closings for gross proceeds of $2,000,000 as follows:

	Total	Shares		Warrants	
Date	**Investment**	**# of shares**	**Price**	**# of warrants**	**Ex Price**
11/29/2017	$ 300,000	217,390	$ 1.38	72,000	$ 1.50
12/5/2017	400,000	320,000	$ 1.25	96,000	$ 1.50
12/29/2017	235,000	188,000	$ 1.25	56,400	$ 1.50
Subtotal- 2017	935,000	725,390		224,400	
1/9/2018	1,065,000	852,000	$ 1.25	255,600	$ 1.50
Total Offering	$ 2,000,000	1,577,390		480,000	

On January 9, 2018 the Company issued and sold to 35 accredited investors an aggregate of 852,000 Shares and Warrants to purchase an additional 255,600 shares of common stock, for gross proceeds of $1,065,000 pursuant to the Offering. The purchase price for the Shares and Warrants was $1.25 per Share. The Company had previously sold a total of 725,390 Shares and Warrants to purchase an additional 224,400 shares of common stock for gross proceeds of $935,000 on November 29, 2017, December 5, 2017 and December 29, 2017 pursuant to the Offering.

The Warrants have an exercise price of $1.50 per share, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations, and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise. The Warrants may be exercised until November 30, 2022.

In connection with the Offering completed from November 2017 through January 2018, Taglich Brothers, Inc., a related party, which acted as placement agent for the sale of the Shares and Warrants, is entitled to a placement agent fee equal to $104,000 (8% of the amounts invested), payable at the Company's option, in cash or additional shares of common stock and warrants having the same terms and conditions as the Shares and Warrants. Michael Taglich and Robert Taglich, directors of the Company, are principals of Taglich Brothers, Inc.

On July 19, 2018, the Company issued and sold a total of 322,000 shares of common stock for gross proceeds of $460,460, or a $1.43 per share, to four accredited investors pursuant to subscription agreements.

For acting as placement agent of the offering, Taglich Brothers, Inc. is entitled to a placement agent fee equal to $27,627 (6% of the gross proceeds of the offering), payable at the Company's option, in cash or shares of Common Stock on the terms sold to the purchasers.

On October 1, 2018, the Company sold 800,000 shares of common stock and warrants to purchase 280,000 additional shares of common stock for gross proceeds of $1,000,000 to an accredited investor within the meaning of Rule 501(a) of Regulation D under the Securities Act ("Regulation D"), in a private offering exempt from the registration requirements of the Securities Act under Rule 506 of Regulation D and Section 4(a)(2) of the Securities Act. The Company agreed to pay Taglich Brothers $70,000 (7% of the gross proceeds of the offering) for acting as placement agent for the offering.

During year ended December 31, 2018, the Company issued 123,456 shares of common stock in lieu of cash payment for various services provided to the Company and 253,071 shares of common stock in payment of directors' fees.

Note 13. EMPLOYEE BENEFITS PLANS

The Company employs both union and non-union employees and maintains several benefit plans.

Union

Substantially the entire workforce at AIM is subject to a union contract with the United Service Workers Union TUJAT Local 355, EIN 11-1772919 (the "Union"). The Agreement was renewed as of December 31, 2018 and expires on December 31, 2021 and covers all of AIM's production personnel, of which there are approximately 104 people. AIM is required to make a monthly contribution to each of the Union's United Welfare Fund and the United Services Worker's Security Fund. This is the only pension benefit required by the Agreement and the Company is not obligated for any future defined benefit to retirees. The Agreement contains a "no-strike" clause, whereby, during the term of the Agreement, the Union will not strike and AIM will not lockout its employees. Medical benefits for union employees are provided through a policy with Extensis, the costs of which are substantially borne by the Company. In addition, the Company is obligated to make contributions for union dues and a security fund (defined contribution plan) for the benefit of each union employee. Contributions to the security fund amounted to $172,000 and 136,000 for the years ended December 31, 2018 and 2017, respectively.

The Company adopted ASU No. 2011-09, "Compensation - Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan" ("ASU 2011-09"). ASU 2011-09 requires additional disclosures about an employer's participation in a multiemployer pension plan. Previously, disclosures were limited primarily to the historical contributions made to the plans. ASU 2011-09 applies to nongovernmental entities that participate in multiemployer plans. The Union's retirement plan is a defined contribution plan. As such, the Company is not responsible for the obligations of other companies in the Union's retirement plan and no further disclosures are required.

Others

All other Company employees, are covered under a co-employment agreement with Extensis.

The Company has two defined contribution plans under Section 401(k) of the Internal Revenue Code (the "Plans"). Pursuant to the Plans, qualified employees may contribute a percentage of their pre-tax eligible compensation to the Plan. The Company does not match any contributions that employees may make to the Plans.

Note 14. COMMITMENTS AND CONTINGENCIES

Real Estate Leases

The Company leases its facilities under various operating lease agreements, which contain renewal options and escalation provisions. Rent expense was $1,668,000 and $1,544,000 for the years ended December 31, 2018 and 2017, respectively. The Company is responsible for paying all operating costs under the terms of the leases. As of December 31, 2018, the aggregate future minimum lease payments are as follows:

For the year ending	Fifth Avenue Annual Rent	Lamar Street Annual Rent	Motor Parkway Annual Rent	Porter Street Annual Rent	Total Rents
December 31, 2019	$ 792,000	$ 196,000	$ 113,000	$ 48,000	$ 1,149,000
December 31, 2020	817,000	202,000	116,000	-	1,135,000
December 31, 2021	842,000	173,000	103,000	-	1,118,000
December 31, 2022	868,000	-	-	-	868,000
December 31, 2023	895,000	-	-	-	895,000
Thereafter	2,604,000	-	-	-	2,604,000
Total Rents	$ 6,818,000	$ 571,000	$ 332,000	$ 48,000	$ 7,769,000

The leases provide for scheduled increases in base rent. Rent expense is charged to operations using the straight-line method over the term of the lease which results in rent expense being charged to operations at inception of the lease in excess of required lease payments. This excess is shown as deferred rent in the accompanying consolidated balance sheets.

On December 20, 2018, the Company sold all of the stock of WMI and WMI has relocated from this facility. The facility has been sublet and payments are to be made by the new tenant directly to the landlord.

Loss Contingencies

A number of actions have been commenced against us 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 us. As certain of these claims represent amounts included in accounts payable they are not specifically discussed herein.

Westbury Park Associates, LLC commenced an action on or about January 11, 2017 against Air Industries Group in the NYS Supreme Court, County of Suffolk, seeking the recovery of approximately $31,000 for past rent arrears, and for an unidentified sum representing all additional rent due under an alleged commercial lease through the end of its term, plus attorney's fees. We believes that we have a meritorious defense, and there was no lease on the property and that our subsidiary Compac Development Corp was a hold-over tenant occupying the space on month-to-month tenancy. We recently submitted our response to plaintiff's motion for summary judgement.

An employee of our company commenced an action against, among others, Rechler Equity B-2, LLC and Air Industries Group, in the Supreme Court State of New York, Suffolk County, seeking compensation in an undetermined amount for injuries suffered while leaving the premises occupied by Welding Metallurgy, Inc. Rechler Equity B-2, LLC, has served a Third Party Complaint in this action against Air Industries Group, Inc. and Welding Metallurgy, Inc. We believe we are not liable to the employee and any amount we might have to pay in excess of our deductible would be covered by insurance.

An employee of our company commenced an action against, among others, Sterling Engineering and Air Industries Group, in Connecticut Commission on Human Rights and Opportunities, seeking lost wages in an undetermined amount for the employee's termination. The action remains in the early pleading stage. We believe we are not liable to the employee and any amount we might have to pay would be covered by insurance.

Contract Pharmacal Corp. commenced an action on October 2, 2018, relating to a Sublease entered into between us and Contract Pharmacal in May 2018 with respect to the property we 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. We dispute the validity of the claims asserted by Contract Pharmacal and believe we have has meritorious defenses to those claims and have recently submitted a motion in opposition to its motion for summary judgement.

On October 15, 2018, a complaint was filed by a stockholder of our company in the United States District Court for the Eastern District of New York (Michael Kishmoian vs. Air Industries et al Case No. 18cv5757) naming the Company and certain of its directors and a former director. The Complaint alleges that the proxy statement for our 2017 Annual Meeting contained false and misleading misstatements relating to whether brokers had discretionary authority to vote the shares of their customers in connection with the proposal to increase the number of shares we are authorized to issue (the "2017 Charter Amendment"). In the Complaint the plaintiff seeks to void the amendment and rescind any shares issued using the shares authorized by the amendment. Our Board of Directors has adopted an amendment to further increase the number of shares of Common Stock we are authorized to issue (the "2019 Charter Amendment"), subject to stockholder approval at our 2019 Annual Meeting of Stockholders, which we anticipate will be held in May or June of 2019. Counsel to our insurance carrier has advised counsel to the plaintiff of the proposed amendment. We believe that approval of the 2019 Charter Amendment will remove any issues concerning our ability to issue shares of Common Stock, or the validity of shares issued in excess of the 25,000,000 authorized pursuant to the adoption of the 2017 Charter Amendment and that any amount we may pay to resolve this action will not be material.

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. We, however, have had claims brought against us by a number of vendors due to our liquidity constraints. 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 adverse to our interest.

Note 15. INCOME TAXES

The provision for (benefit from) income taxes as of December 31, is set forth below:

	2018	2017
Current		
Federal tax refund	$ -	$ (178,000)
State	3,000	8,000
Prior Year overaccruals		
Federal	-	-
State	-	(27,000)
Total Expense (Benefit)	3,000	(197,000)
Deferred Tax Benefit	(921,000)	(2,025,000)
Valuation Allowance	921,000	2,025,000
Net Provision for (Benefit from) Income Taxes	$ 3,000	$ (197,000)

The following is a reconciliation of our income tax rate computed using the federal statutory rate to our actual income tax rate as of December 31,

	2018	2017
U.S. statutory income tax rate	21.00%	34.00%
State taxes	-0.12%	0.09%
Permanent differences, overaccruals and non-deductible items	5.71%	-0.22%
Rate change and provision to return true-up	-18.36%	-22.60%
Expired stock options	0.00%	-0.19%
Deferred tax valuation allowance	-8.38%	-10.09%
Total	-0.15%	0.99%

The components of net deferred tax assets at December 31, 2018 and December 31, 2017 are set forth below:

	December 31, 2018	December 31, 2017
Deferred tax assets		
Current:		
Net operating losses	$ 6,811,000	$ 7,730,000
Bad debts	124,000	135,000
Inventory - 263A adjustment	248,000	591,000
Accounts payable, accrued expenses and reserves	-	-
Total current deferred tax assets before valuation allowance	7,183,000	8,456,000
Valuation allowance	(7,183,000)	(8,456,000)
Total current deferred tax assets after valuation allowance	-	-
Non-current:		
Stock based compensation - options and restricted stock	161,000	124,000
Capitalized engineering costs	809,000	281,000
Deferred rent	248,000	299,000
Amortization - NTW Transaction	810,000	519,000
Inventory reserves	942,000	960,000
Deferred gain on sale of real estate	80,000	80,000
Accrued Expenses	49,000	-
Disallowed interest	918,000	-
Other	314,000	114,000
Total non-current deferred tax assets before valuation allowance	4,331,000	2,377,000
Valuation allowance	(2,952,000)	(758,000)
Total non-current deferred tax assets after valuation allowance	1,379,000	1,619,000
Deferred tax liabilities:		
Property and equipment	(1,379,000)	(1,619,000)
Amortization – NTW Goodwill	-	-
Amortization – Welding Transaction	-	-
Total non-current deferred tax liabilities	(1,379,000)	(1,619,000)
Net non-current deferred tax asset	$ -	$ -

During the years ended December 31, 2018 and December 31, 2017, the Company recorded a valuation allowance equal to its net deferred tax assets. The Company determined that due to a recent history of net losses, that at this time, sufficient uncertainty exists regarding the future realization of these deferred tax assets through future taxable income. If, in the future, the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reduced or eliminated. With a full valuation allowance, any change in the deferred tax asset or liability is fully offset by a corresponding change in the valuation allowance. At December 31, 2018 and 2017, the Company provided a valuation allowance on its deferred tax assets of $10,135,000 and $9,214,000, respectively.

At December 31, 2018 and 2017, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company does not expect that its unrecognized tax benefits will materially increase within the next twelve months. The Company recognizes interest and penalties related to uncertain tax positions in interest expense. As of December 31, 2018 and 2017, the Company has not recorded any provisions for accrued interest and penalties related to uncertain tax positions.

In certain cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. The Company files federal and state income tax returns in jurisdictions with varying statutes of limitations. The 2015 through 2018 tax years generally remain subject to examination by federal and state tax authorities.

Note 16. STOCK OPTIONS AND WARRANTS

Stock-Based Compensation

Stock Options

In July 2017, the Board of Directors adopted the Company's 2017 Equity Incentive Plan ("2017 Plan") which authorized the grant of rights with respect to up to 1,200,000 shares. The 2017 Plan was approved by affirmative vote of the Company's stockholders on October 3, 2017.

During the year ended December 31, 2018, the Company granted options to purchase 88,000 shares of common stock to certain of its employees and directors. The weighted average fair value of the granted options was estimated using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 2.69%; expected volatility factor of 66%; expected dividend yield of 0%; and estimated option term of 5 years.

During the year ended December 31, 2017, the Company granted options to purchase 695,000 shares of common stock to certain of its employees and directors. The weighted average fair value of the granted options was estimated using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 1.72% to 1.81%; expected volatility factors of 82% to 85%; expected dividend yield of 0%; and estimated option term of 5 years.

The Company recorded stock based compensation expense of $293,000 and $323,000 in its consolidated statement of operations for the years ended December 31, 2018 and 2017, respectively, and such amounts were included as a component of general and administrative expense.

The fair values of stock options granted were estimated using the Black-Scholes option-pricing model with the following assumptions for the years ended December 31:

	2018	2017
Risk-free interest rates	2.69%	1.72% - 1.81%
Expected life (in years)	4.9	4.9
Expected volatility	66%	82% - 85%
Dividend yield	0.0%	0.0%
Weighted-average grant date fair value per share	$ 0.72	$ 0.90

The expected life is the number of years that the Company estimates, based upon history, that the options will be outstanding prior to exercise or forfeiture. Expected life is determined using the "simplified method" permitted by Staff Accounting Bulletin No. 107. In addition to the inputs referenced above regarding the option pricing model, the Company adjusts the stock-based compensation expense for estimated forfeiture rates that are revised prospectively according to forfeiture experience. The stock volatility factor is based on the Company's experience.

A summary of the status of the Company's stock options as of December 31, 2018 and 2017, and changes during the two years then ended are presented below.

	Options	Wtd. Avg. Exercise Price
Balance, January 1, 2017	636,342	$ 7.01
Granted during the period	695,000	1.45
Exercised during the period	-	-
Terminated/Expired during the period	(282,715)	7.66
Balance, December 31, 2017	1,048,627	3.20
Granted during the period	88,000	1.56
Exercised during the period	-	-
Terminated/Expired during the period	(298,478)	3.04
Balance, December 31, 2018	838,149	$ 3.08
Exercisable at December 31, 2018	598,149	$ 3.73

The following table summarizes information about stock options at December 31, 2018:

Range of Exercise Prices	Number Outstanding	Wtd. Avg. Life	Wtd. Avg. Exercise Price
$ 0.00 - $5.00	646,000	5.2 years	$ 8.18
$ 5.01 - $20.00	192,149	1.6 years	1.56
$ 0.00 - $20.00	838,149	4.4 years	$ 3.08

As of December 31, 2018, there was $98,000 of unrecognized compensation cost related to non-vested stock option awards, which is to be recognized over the remaining weighted average vesting period of 1.3 years.

The aggregate intrinsic value at December 31, 2018 was based on the Company's closing stock price of $0.72 was $0. The aggregate intrinsic value was calculated based on the positive difference between the closing market price of the Company's Common Stock and the exercise price of the underlying options. The total number of in-the-money options exercisable as of December 31, 2018 was 0.

The weighted average fair value of options granted during the years ended December 31, 2018 and 2017 was $0.72 and $0.90 per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2018 and 2017 was $0 and $0, respectively. The total fair value of shares vested during the years ended December 31, 2018 and 2017 was $224,718 and $235,550, respectively.

Warrants

During the year ended December 31, 2018 and 2017, the Company issued 535,600 and 971,611 warrants, respectively, in connection with convertible notes payable and common stock issuances.

The following tables summarize the Company's outstanding warrants as of December 31, 2018 and changes during the two years then ended:

	Warrants	Wtd. Avg. Exercise Price	Wtd. Ave. Remaining Contractual Life (years)
Balance, January 1, 2017	840,276	$ 5.13	4.01
Granted during the period	971,611	2.61	4.42
Exercised during the period	-	-	-
Terminated/Expired during the period	(107,785)	3.62	-
Balance, December 31, 2017	1,704,102	2.66	4.04
Granted during the period	535,600	1.45	4.35
Terminated/Expired during the period	-	-	-
Balance, December 31, 2018	2,239,702	$ 3.10	3.35
Exercisable at December 31, 2018	2,239,702	$ 3.10	3.35

The fair values of warrants granted were estimated using the Black-Scholes option-pricing model with the following assumption for the years ended December 31:

	2018	2017
Risk-free interest rates	2.33%	1.85% - 2.20%
Expected life (in years)	4.9	5
Expected volatility	116%	63% - 115%
Dividend yield	-%	-%
Weighted-average grant date fair value per share	$ 1.24	$1.10 - $2.89

Note 17. 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 and AMK for the period January 1, 2017 until AMK was disposed of on January 27, 2017. We also separately report our corporate segment (which was comprised of certain operating costs that were not directly attributable to a particular segment).

Along with our operating subsidiaries, we report the results of our corporate division as an independent segment.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. The Company evaluates performance based on revenue, gross profit contribution and assets employed. Corporate level operating costs were allocated to segments through March 31, 2018. These costs include corporate costs such as legal, audit, tax and other professional fees including those related to being a public company.

Financial information about the Company's reporting segments for the years ended December 31, 2018 and December 31, 2017 are as follows:

	Year Ended December 31,	
	2018	**2017**
COMPLEX MACHINING		
Net Sales	$ 39,745,000	$ 38,489,000
Gross Profit	5,871,000	4,906,000
Pre Tax Loss	(75,000)	(2,839,000)
Assets	41,947,000	43,207,000
AEROSTRUCTURES & ELECTRONICS		
Net Sales	1,779,000	4,574,000
Gross (Loss) Profit	(31,000)	507,000
Pre Tax Loss	(1,380,000)	(4,233,000)
Assets	110,000	1,021,000
TURBINE ENGINE COMPONENTS		
Net Sales	4,785,000	6,806,000
Gross Loss	(426,000)	(546,000)
Pre Tax Loss	(1,385,000)	(7,599,000)
Assets	5,243,000	6,157,000
CORPORATE		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss	(6,766,000)	(1,599,000)
Assets	456,000	288,000
CONSOLIDATED		
Net Sales	46,309,000	49,869,000
Gross Profit	5,414,000	4,867,000
Pre Tax Loss	(9,606,000)	(16,270,000)
(Benefit from) provision for Income Taxes	3,000	(197,000)
Loss from Discontinued Operations	(1,383,000)	(6,478,000)
Assets Held for Sale	-	10,082,000
Net Loss	(10,992,000)	(22,551,000)
Assets	$ 47,756,000	$ 50,673,000

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits are included as part of this amendment to this report. References to "the Company" in this Exhibit List mean Air Industries Group, a Nevada corporation.

Exhibit No.	Description
31.1	Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Securities Exchange Act of 1934.
31.2	Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act of 1934.
32.1	Certification of principal executive officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2	Certification of principal financial officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.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 amendment to this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: June 4, 2019

AIR INDUSTRIES GROUP

By: /s/ Michael E. Recca
Michael E. Recca
Chief Financial Officer
(principal financial and accounting officer)

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 annual report on Form 10-K/A (Amendment No. 2) 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: June 4, 2019

/s/ Luciano Melluzzo
Luciano Melluzzo
Chief Executive Officer
(Principal Executive Officer)

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 annual report on Form 10-K/A (Amendment No. 2) 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: June 4, 2019

/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 Annual Report of Air Industries Group, a Nevada corporation (the “Company”), on Form 10-K/A (Amendment No. 2) for the year ended December 31, 2018, 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: June 4, 2019

/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 Annual Report of Air Industries Group, a Nevada corporation (the “Company”), on Form 10-K/A (Amendment No. 2) for the year ended December 31, 2018, 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: June 4, 2019

/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.]