AIR INDUSTRIES GROUP
Form 10-Q
August 18, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

x

FOR THE QUARTERLY PERIOD ENDED June 30, 2017

OR

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

o

FOR THE TRANSITION PERIOD FROM _______ TO ________.

Commission file number 001-35927

Air Industries Group

(Exact name of Registrant as specified in its charter)

Nevada 80-0948413

(State or other jurisdiction of (IRS Employer

incorporation or organization) Identification No.)

360 Motor Parkway, Suite 100, Hauppauge, New York 11788

(Address of principal executive offices)

(631) 881-4920

(Issuer's telephone number)

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

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

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

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

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

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

As of August 10, 2017, the registrant had outstanding 14,252,820 shares of common stock.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Although we believe that these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flow, research and development costs, working capital, capital expenditures, distribution channels, profitability, new products, adequacy of funds from operations, and general economic conditions, these statements and other projections contained herein expressing opinions about future outcomes and non-historical information, are subject to uncertainties and, therefore, there is no assurance that the outcomes expressed in these statements will be achieved. Investors are cautioned that forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from the expectations expressed in forward-looking statements contained herein. Given these uncertainties, you should not place any reliance on these forward-looking statements which speak only as of the date hereof. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, as amended, and elsewhere in this report and the risks discussed in our other filings with the SEC, including our Registration Statement on Form S-1 (Registration No. 333-219490) declared effective August 4, 2017.

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

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PART I

FINANCIAL INFORMATION

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AIR INDUSTRIES GROUP
Condensed Consolidated Balance Sheets

	June 30, 2017 Unaudited	December 31, 2016
ASSETS		
Current Assets		
Cash and Cash Equivalents	$426,000	$1,304,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of $660,000 and $756,000, respectively	9,906,000	8,050,000
Inventory	39,589,000	39,851,000
Prepaid Expenses and Other Current Assets	431,000	557,000
Prepaid Taxes	49,000	409,000
Assets Held for Sale, Net	—	6,050,000
Total Current Assets	50,401,000	56,221,000
Property and Equipment, Net	11,112,000	12,219,000
Capitalized Engineering Costs - Net of Accumulated Amortization of $4,793,000 and $4,957,000, respectively	1,942,000	1,627,000
Deferred Financing Costs, Net, Deposits and Other Assets	1,355,000	1,096,000
Intangible Assets, Net	1,173,000	1,754,000
Goodwill	9,883,000	9,883,000
TOTAL ASSETS	$75,866,000	$82,800,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	$28,374,000	$32,913,000
Notes Payable – Related Party – Current Portion	3,576,000	1,086,000
Accounts Payable and Accrued Expenses	15,017,000	16,160,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	703,000	946,000
Liabilities Directly Associated with Assets Held for Sale	—	2,155,000
Income Taxes Payable	20,000	20,000
Total Current Liabilities	47,728,000	53,318,000
Long Term Liabilities		
Notes Payable and Capitalized Lease Obligations - Net of Current Portion	2,332,000	2,971,000
Deferred Gain on Sale - Net of Current Portion	314,000	333,000
Deferred Rent	1,305,000	1,288,000
TOTAL LIABILITIES	$51,679,000	$57,910,000

Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock - Par Value $.001 - Authorized 3,000,000 shares:		
Shares Designated as Series A Convertible Preferred Stock, Par Value $.001, Authorized 2,000,000 shares, 1,294,441 shares and 1,202,548 shares Issued and Outstanding at June 30 , 2017 and December 31, 2016, respectively, Aggregate liquidation preference $12,944,410 and $12,025,480, respectively	1,000	1,000
Common Stock - Par Value $. 001 - Authorized 25,000,000 Shares, 7,650,165 and 7,650,165 Shares Issued and Outstanding as of June 30, 2017 and December 31, 2016, respectively	7,000	7,000
Additional Paid-In Capital	58,286,000	55,862,000
Accumulated Deficit	(34,107,000)	(30,980,000)
TOTAL STOCKHOLDERS' EQUITY	24,187,000	24,890,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$75,866,000	$82,800,000

See Notes to Condensed Consolidated Financial Statements

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AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Sales	$17,084,000	$19,363,000	$33,237,000	$34,547,000
Cost of Sales	14,165,000	15,208,000	27,616,000	27,571,000
Gross Profit	2,919,000	4,155,000	5,621,000	6,976,000
Operating Expenses	4,117,000	4,182,000	7,338,000	8,594,000
Loss from Operations	(1,198,000)	(27,000)	(1,717,000)	(1,618,000)
Interest and Financing Costs	(875,000)	(372,000)	(1,768,000)	(877,000)
Gain (loss) on Sale of Subsidiary	(163,000)	—	288,000	—
Other Income (Expense), Net	65,000	21,000	(128,000)	31,000
Loss before Income Taxes	(2,171,000)	(378,000)	(3,325,000)	(2,464,000)
Benefit from Income Taxes	199,000	126,000	199,000	782,000
Net Loss	(1,972,000)	(252,000)	(3,126,000)	(1,682,000)
Less: Cumulative preferred stock dividends	(764,000)	(82,000)	(764,000)	(82,000)
Net Loss attributable to common stockholders	$(2,736,000)	$(334,000)	$(3,890,000)	$(1,764,000)
Loss per share - basic	$(0.36)	$(0.04)	$(0.51)	$(0.23)
Loss per share - diluted	$(0.36)	$(0.04)	$(0.51)	$(0.23)
Weighted average shares outstanding - basic	7,650,165	7,587,763	7,650,165	7,586,264
Weighted average shares outstanding - diluted	7,650,165	7,587,763	7,650,165	7,586,264

See Notes to Condensed Consolidated Financial Statements

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AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Cash Flows For the Six Months Ended June 30,
(Unaudited)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(3,126,000)	$(1,682,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation of property and equipment	1,442,000	1,851,000
Amortization of intangible assets	581,000	640,000
Amortization of capitalized engineering costs	168,000	198,000
Bad debt expense (Recovery)	(10,000)	29,000
Non-cash compensation expense/(forfeiture of unamortized stock compensation)	(73,000)	83,000
Amortization of deferred financing costs	114,000	285,000
Deferred gain on sale of real estate	(19,000)	(19,000)
Gain on sale of subsidiary	(288,000)	5,000
Deferred income taxes	—	(818,000)
Amortization of debt discount on convertible notes payable	603,000	—
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	(1,846,000)	2,300,000
Inventory	262,000	(3,840,000)
Prepaid expenses and other current assets	126,000	178,000
Prepaid Taxes	360,000	(151,000)
Deposits and other assets	(323,000)	—
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	(1,141,000)	754,000
Deferred rent	17,000	6,000
Deferred revenue	(243,000)	287,000
Income taxes payable	—	5,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(3,396,000)	111,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized engineering costs	(483,000)	(394,000)
Purchase of property and equipment	(298,000)	(1,229,000)
Proceeds from sale of fixed assets	—	1,671,000
Proceeds from sale of subsidiary	4,260,000	—
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,479,000	48,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable - revolver, net	(4,589,000)	(2,668,000)
Payments of note payable - term loans	(2,439,000)	(2,445,000)
Capital lease obligations	(620,000)	(604,000)
Proceeds from notes payable issuances - related party	2,553,000	1,400,000

Proceeds from notes payable issuances	4,184,000	—
Deferred financing costs	(50,000)	(199,000)
Expense for issuance of preferred stock	—	(663,000)
Proceeds from the issuance of preferred stock	—	5,250,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(961,000)	71,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(878,000)	230,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,304,000	529,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$426,000	$759,000
Supplemental cash flow information		
Cash paid during the period for interest	$992,000	$916,000
Cash paid during the period for income taxes	$—	$13,000
Preferred stock issued for notes payable-related party	$—	1,750,000
Acquisition of property and equipment financed by capital lease	$—	2,096,000
Supplemental disclosure of non-cash transactions		
Issuance of Convertible notes payable - related party	$1,885,000	$—
Placement agent warrants issued	$—	26,000

See Notes to Condensed Consolidated Financial Statements

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AIR INDUSTRIES GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

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

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

Going Concern

The Company suffered net losses from operations of $1,717,000 and $10,789,000 and net losses of $3,126,000 and $15,623,000, respectively, for the six months ended June 30, 2017, and the year ended December 31, 2016. The Company also had negative cash flows from operations for the six months ended June 30, 2017. In addition, in 2015 the Company ceased paying dividends on its common stock and in 2016 it disposed of the real estate on which one of its operating subsidiaries is located through a sale leaseback transaction, and in January 2017 sold of one of its operating subsidiaries to raise funds for operations. During the year ended December 31, 2016, and subsequent thereto, the Company has had to sell its debt and equity securities to secure funds to operate its business. Since September 2016 the Company has been issuing additional shares of its Series A Convertible Preferred Stock in lieu of cash payment of accrued dividends on its outstanding shares of Series A Convertible Preferred Stock and since February 2017 it has issued additional convertible notes in lieu of cash payment of accrued interest on its outstanding convertible notes.

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. Although no assurances can be given, management believes that the net proceeds derived from the public offering of 5,175,000 shares of our common stock completed in July 2017, together with borrowings under the Loan Facility and anticipated cash flow, should provide the necessary funding for us to continue as a going concern for the foreseeable future. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission.

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Reclassifications

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

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

Inventory Valuation

The Company does not take physical inventories at interim quarterly reporting periods. Approximately 50% of the inventory value at June 30, 2017 has been estimated using a gross profit percentage based on sales of previous periods to the net sales of the current period, as management believes that the gross profit percentage on these items are materially consistent from period to period. The remainder of the inventory value at June 30, 2017 is estimated based on the Company's standard cost perpetual inventory system, as management believes the perpetual system computed value for these items provides a better estimate of value for that inventory. Adjustments to reconcile the annual physical inventory to the Company's books are treated as changes in accounting estimates and are recorded in the fourth quarter. The Company valued inventory at December 31, 2016 at the lower of cost on a first-in-first-out basis or market.

	June 30, 2017	December 31, 2016
	(Unaudited)	
Raw Materials	$7,134,000	$7,031,000
Work in Process	25,344,000	25,635,000
Finished Goods	12,112,000	11,751,000
Inventory Reserve	(5,001,000)	(4,566,000)
Total Inventory	$39,589,000	$39,851,000

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Credit and Concentration Risks

There were three customers that represented 57.2% and three customers that represented 42.4% of total sales for the three months ended June 30, 2017 and 2016, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	2017 (Unaudited)	2016 (Unaudited)
1	16.7	11.8
2	17.0	11.6
3	23.5	19.0

There were three customers that represented 53.5% and four customers that represented 54.0% of total sales for the six months ended June 30, 2017 and 2016, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	2017 (Unaudited)	2016 (Unaudited)
1	16.7	20.8
2	19.4	11.8
3	17.4	11.2
4	*	10.2

* Customer was less than 10% of sales for the six months ended June 30, 2017

There were two customers that represented 51.2% of gross accounts receivable and one customer that represented 19.9% of gross accounts receivable at June 30, 2017 and December 31, 2016, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	June 2017 (Unaudited)	December 2016

1	34.2	19.9
2	17.0	*

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

During the six months ended June 30, 2017 and 2016, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC limit. The Company has not experienced any losses on these accounts.

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

Earnings Per Share

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

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

	Three Months Ended		**Six Months Ended**	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Weighted average shares outstanding used to compute basic earnings per share	7,650,165	7,587,763	[illegible]	[illegible]
Effect of dilutive stock options and warrants			—	
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	7,650,165	7,587,763	[illegible]	[illegible]

The following table sets forth securities which were excluded from the diluted per share calculation because the conversion price or the exercise price was greater than the average market price of the common shares:

	Three and Six Months Ended	
	June 30, 2017	June 30, 2016
	(Unaudited)	(Unaudited)
Convertible Preferred Stock	2,630,953	1,422,750
Stock Options	516,342	202,964
Warrants	978,673	—
	4,125,968	1,625,444

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The following table sets forth securities which were excluded from the diluted per share calculation for the six months ended June 30, 2017 and 2016 even though the exercise price was less than the average market price of the common shares and unvested restricted stock because the effect of including these potential shares was anti-dilutive due to the net loss incurred during that period:

	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Stock Options	—	484,648
Warrants	85,175	278,405
Unvested Restricted Stock	—	27,000
	85,175	790,053

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model. Stock based compensation amounted to $0 and $56,000 for the three months ended June 30, 2017 and 2016, respectively and $(73,000) and $83,000 for the six months ended June 30, 2017 and 2016, respectively, and was included in operating expenses on the accompanying Condensed Consolidated Statements of Operations.

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of $9,883,000 at June 30, 2017 and December 31, 2016 relates to the acquisitions of Welding ($291,000), NTW ($162,000), Woodbine ($2,565,000), Eur-Pac ($1,656,000), ECC ($109,000), Sterling ($4,540,000) and Compac ($560,000). Goodwill is not amortized, but is tested annually for impairment, or if circumstances occur that more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company has determined that there has been no impairment of goodwill at June 30, 2017.

Debt Issuance Costs

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

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to interest rate, market, or foreign currency risks. The Company evaluates all of its financial instruments, including notes payable, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. Embedded derivatives must be separately measured from the host contract if all the requirements for bifurcation are met. The assessment of the conditions surrounding the bifurcation of embedded derivatives depends on the nature of the host contract. Bifurcated embedded derivatives are recognized at fair value, with changes in fair value recognized in the statement of operations each period. Bifurcated embedded derivatives are classified with the related host contract in the Company’s balance sheet.

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Recently Issued Accounting Pronouncements

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

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

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

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

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

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

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

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* The ASU allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted classified as liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, such as warrants, an entity will treat the value of the effect of the down round, when triggered, as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. The guidance in ASU 2017-11is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. The Company adopted this guidance in the current quarter, effective April 1, 2017. As a result, the warrants issued on May 12, 2017, in connection with the bridge financing, were equity-classified.

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

Subsequent Events

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

On 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 Notes (the "May 2018 Notes") sold together with warrants to purchase an aggregate of 501,039 shares of common stock, in May 2017 to 17 accredited investors (including Michael N. Taglich and Robert F. Taglich individually and a partnership of which they are partners) and $2,355,624 was added to the Company's working capital.

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In connection with the Public Offering, $1,860,908 aggregate principal amount of the May 2018 Notes were converted into an aggregate of 1,240,605 shares of the Company's common stock at a conversion price of $1.50 per share, the public offering price of the shares sold in the Public Offering.

In addition, the restructuring transactions described below, contemplated by the Public Offering, are to be effected at a conversion price of $1.50 per share following a stockholder vote thereon at the Company's 2017 Annual Meeting of Stockholders, which it expects to hold in October 2017:

- An additional $1,834,214 aggregate principal amount of May 2018 Notes will be converted into additional 1,222,809 shares of the Company's common stock.
- The entirety of our outstanding 1,294,441 shares of Series A Preferred Stock will automatically be converted into 8,629,606 shares of common stock.
- Notes in the original principal amount of $200,000 and $300,000 due to Michael N. Taglich and Robert F. Taglich, respectively, together with accrued interest thereon, will automatically be converted into approximately 346,944 shares of common stock.

The Company issued warrants to purchase 501,039 shares of common stock as part of the private placement of the May 2018 Notes. The warrants, when issued, were exercisable at an initial exercise price of $2.49 per share until May 12, 2022, and may be exercised on a cashless basis for a lesser number of shares based upon prevailing market prices when exercised. The exercise price of the warrants is subject to anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as recapitalizations, mergers and other business combination transactions. In accordance with the terms of the warrants, the exercise price was reduced to $1.50 per share, the public offering price of the shares of common stock sold in the Public Offering.

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, 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. 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. Holders of the Series A Preferred Stock now 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 our 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. At a meeting on July 24, 2017, our Board of Directors adopted a further amendment to the Certificate of Designation, subject to approval by holders of a majority of the outstanding shares of Series A Preferred Stock, to provide for the automatic conversion of the outstanding shares of Series A Preferred Stock into shares of common stock at a conversion price of $1.50 per share if stockholders do not approve the Restructuring Transactions at the Company's 2017 Annual Meeting of Stockholders.

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Note 3. PROPERTY AND EQUIPMENT

The components of property and equipment at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017 (Unaudited)	December 31, 2016	**Depreciable Lives**
Land	$300,000	$300,000	
Buildings and Improvements	1,650,000	1,650,000	31.5 years
Machinery and Equipment	13,428,000	13,340,000	5 - 8 years
Capital Lease Machinery and Equipment	6,265,000	6,265,000	3 - 5 years
Tools and Instruments	7,700,000	7,520,000	1.5 - 7 years
Automotive Equipment	195,000	195,000	5 years
Furniture and Fixtures	438,000	438,000	5 - 8 years
Leasehold Improvements	997,000	966,000	Term of Lease
Computers and Software	519,000	519,000	4 - 6 years
Total Property and Equipment	31,492,000	31,193,000	
Less: Accumulated Depreciation	(20,380,000)	(18,974,000)	
Property and Equipment, net	$11,112,000	$12,219,000	

Depreciation expense for the three months ended June 30, 2017 and 2016 was approximately $714,000 and $947,000, respectively. Depreciation expense for the six months ended June 30, 2017 and 2016 were approximately $1,442,000 and $1,851,000, respectively. Assets held under capitalized lease obligations are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2017 and 2016. Accumulated depreciation on these assets was approximately $2,944,000 and $2,320,000 as of June 30, 2017 and December 31, 2016, respectively.

Note 4. INTANGIBLE ASSETS

The components of intangibles assets consisted of the following:

	June 30, 2017 (Unaudited)	December 31, 2016	**Amortization Period**
Customer Relationships	6,115,000	$6,115,000	5 to 14 years

Trade Names	970,000	970,000	15 to 20 years
Technical Know-how	660,000	660,000	10 years
Non-Compete	150,000	150,000	5 years
Professional Certifications	15,000	15,000	.25 to 2 years
Total Intangible Assets	7,910,000	7,910,000	
Less: Accumulated Amortization	(6,737,000)	(6,156,000)	
Intangible Assets, net	$1,173,000	$1,754,000	

Amortization expense for the three months ended June 30, 2017 and 2016 was approximately $277,000 and $320,000, respectively. Amortization expense for the six months ended June 30, 2017 and 2016 was approximately $581,000 and $640,000, respectively.

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Note 5. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Notes payable and capital lease obligations consist of the following:

	June 30, 2017 (Unaudited)	December 31, 2016
Revolving credit note payable to PNC Bank N.A. ("PNC")	$19,804,000	$24,393,000
Term loans, PNC	4,210,000	6,649,000
Capital lease obligations	3,595,000	4,215,000
Related party note payable, net of debt discount	3,576,000	1,086,000
Notes Payable (private placement), net of debt discount	3,097,000	627,000
Subtotal	34,282,000	36,970,000
Less: Current portion of notes and capital lease obligations	(31,950,000)	(33,999,000)
	$2,332,000	$2,971,000

PNC Bank N.A. ("PNC")

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

Under the terms of the Loan Facility, as amended, the revolving loan now bears interest at (a) the sum of the Alternate Base Rate plus one and three- quarters of one percent (1.75%) with respect to Domestic Rate Loans; and (b) the sum of the LIBOR Rate plus four and one-half of one percent (4.50%) with respect to LIBOR Rate Loans. The amount outstanding under the revolving loan, inclusive of the excess advance, was $19,804,000 and $24,393,000, as of June 30, 2017 and December 31, 2016, respectively. Because the revolving loans contain a subjective acceleration clause which could permit PNC to require repayment prior to maturity, all of the loans outstanding with PNC are classified with the current portion of notes and capital lease obligations.

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

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

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

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

The terms of the Loan Facility require that among other things, the Company maintain a specified Fixed Charge Coverage Ratio and maintain a minimum EBITDA. In addition, the Company is limited in the amount of capital expenditures it can make. The Company also is limited as to the amount of dividends it can pay its shareholders, as defined in the Loan Facility.

As of June 30, 2017, our debt to PNC in the amount of $24,014,000 consisted of the revolving credit loan in the amount of $19,804,000 (inclusive of the excess advance) and the term loan in the amount of $4,210,000. As of December 31, 2016, our debt to PNC in the amount of $31,042,000 consisted of the revolving credit note due to PNC in the amount of $24,393,000 and the term loan due to PNC in the amount of $6,649,000.

On June 19, 2017, we entered into the Fifteenth Amendment to the Loan Facility, which waived the failure to comply with the minimum EBITDA covenant for the periods ended December 31, 2016 and March 31, 2017 and the Capital Expenditures covenant for the period ended December 31, 2016. The amendment also requires that we maintain at all times a Fixed Charge Coverage Ratio, tested quarterly on a consolidated basis beginning September 30, 2017, as follows: (i) 1.00 to 1.00 for the quarter ending September 30, 2017, tested based upon the prior three (3) months, (ii) 1.05 to 1.00 for the quarter ending December 31, 2017, tested based upon the prior six (6) months and (iii) 1.05 to 1.00 for the quarter ending March 31, 2018, tested based upon the prior nine (9) months and that we maintain EBITDA of not less than $345,000 for the period ending June 30, 2017. The amendment also provided that we were not required to maintain a Fixed Charge Coverage Ratio and that no testing was required to the Fixed Charge Coverage Ratio for the periods ending December 31, 2016 and June 30, 2017 and that we are not required to maintain a Fixed Charge Coverage Ratio and that no testing will be required of the Fixed Charge Coverage Ratio for the period ending June 30, 2017. The failure to satisfy the foregoing covenants would constitute a default under the Loan Facility and PNC at its option could give notice to the Company that all amounts under the Loan Facility are immediately due and payable. In addition, the amendment reduces the weekly payments we are required to make to reduce our $2,244,071 over-advance under the revolving credit facility as of June 19, 2017 from $100,000 to $25,000 per week during the period commencing May 22, 2017 through and including July 10, 2017. We paid $50,000 to PNC in connection with the amendment and reimbursed PNC's counsel fees.

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

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As of June 30, 2017, the scheduled future minimum principal payments for the term loan are as follows, however as discussed above, the balance of the term loan has been classified as current:

For the twelve months ending	Amount
June 30, 2018	$1,478,000
June 30, 2019	1,478,000
June 30, 2020	1,254,000
June 30, 2021	112,000
PNC Term Loans Payable	4,210,000
Short term portion	(4,210,000)
Long-term portion	$—

Interest expense related to these credit facilities amounted to approximately $986,000 and $945,000 for the six months ended June 30, 2017 and 2016, respectively.

Capital Leases Payable – Equipment

The Company is committed under several capital leases for manufacturing and computer equipment. All leases have bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled $3,595,000 and $4,215,000 as of June 30, 2017 and December 31, 2016, respectively, with various interest rates ranging from approximately 4% to 14%.

As of June 30, 2017, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

For the twelve months ending	Amount
June 30, 2018	$1,441,000
June 30, 2019	1,311,000
June 30, 2020	1,017,000
June 30, 2021	112,000
Total future minimum lease payments	3,881,000
Less: imputed interest	(286,000)
Less: current portion	(1,263,000)
Total Long Term portion	$2,322,000

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Related Party Transactions and Notes Payable

Related party notes payable to Michael and Robert Taglich, and their affiliated entities, totaled $3,576,000 and $1,086,000, as of June 30, 2017 and December 31, 2017, respectively.

On March 17, 2017, the Company borrowed $200,000 and $300,000 from each of Michael Taglich and Robert Taglich, respectively, directors and principal stockholders of our company, and issued promissory notes in the principal amounts of $200,000 and $300,000 to Michael Taglich and Robert Taglich, respectively, to evidence our obligation to repay that indebtedness. The notes bear interest at the rate of 7% per annum and are payable on September 17, 2017.

On May 2, and May 10, 2017, the Company borrowed an aggregate of $750,000 from each of Michael Taglich and Robert Taglich. This indebtedness, together with accrued interest, were converted into May 2018 Notes on May 12, 2017.

Taglich Brothers acted as a placement agent in connection with the sale of the May 2018 Notes and warrants discussed below for which they are to be paid commissions in the aggregate amount of $176,000.

As compensation for its services as placement agent for the offering of the 12% Notes discussed below, the Company paid Taglich Brothers a fee of $295,400 and issued to Taglich Brothers five-year warrants to purchase 68,617 shares of common stock at an initial exercise price of $6.15, subject to certain anti-dilution and other adjustments.

Private Placements of 8% Subordinated Convertible Notes

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

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

On February 28, 2017, the Company issued an additional $61,596 principal amount of 2018 Notes in lieu of cash payment of accrued interest for the interest period then ended, and on May 31, 2017 the Company issued 2018 Notes and 2019 Notes in the aggregate principal amounts of $68,872 and $72,285, respectively, in lieu of cash payment of accrued interest for the interest period then ended. As of June 30, 2017, the Company had outstanding $5,359,420 principal amount of 8% Notes, including $2,911,135 principal amount of 2018 Notes and $2,448,285 principal amount of 2019 Notes.

The outstanding principal amount plus accrued interest on the 8% Notes is convertible at the option of the holder into shares of common stock conversion prices ranging from $2.25 to $4.45 per share, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations.

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

The exercise price of the warrants issued in connection with the 8% Note Offerings ranges from $3.00 to $4.53 per share, subject to certain anti-dilution and other adjustments, including stock splits, distributions in respect of the common stock and in the event of certain fundamental transactions such as mergers and other business combinations, and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise. Of these warrants, 320,702 warrants may be exercised until November 30, 2021 and 243,307 warrants may be exercised until January 31, 2022.

May Note Financing

On May 12 and May 19, 2017, the Company issued and sold to 17 accredited investors (including Michael N. Taglich and Robert F. Taglich individually and a partnership of which they are partners), its "May 2018 Notes" in the aggregate principal amount of $4,158,624, together with warrants to purchase an aggregate of 501,039 shares of common stock, for gross proceeds (net of the exchange of indebtedness totaling $1,503,288 due to Michael N. Taglich and Robert F. Taglich for working capital advances made on May 2 and 10, 2017) of $2,534,196. Roth Capital LLC and Taglich Brothers acted as placement agents in connection with the sale of the May 2018 Notes and warrants for which they are to be paid commissions in the aggregate amount of $191,155.

The May 2018 Notes and warrants were issued for a purchase price equal to 97% of the principal amount of the May 2018 Notes purchased. The principal amount of each May 2018 Note will be increased by 2% for each 30 days it remains outstanding commencing August 1, 2017. Upon the occurrence of, and during the continuance of an Event of Default (as defined in the May 2018 Notes), the May 2018 Notes will accrue late interest at the rate of 10% per annum. Payment of the principal and accrued interest, if any, on the May 2018 Notes is junior and subordinate in right of payment to the Company's indebtedness under the Loan Facility.

The principal amount, together with accrued interest, if any, of the May 2018 Notes, when issued, were convertible into shares of common stock until November 12, 2017 at a conversion price of $2.49 per share, subject to anti-dilution and other adjustments for stock splits and certain fundamental transactions, including recapitalizations, mergers and other business combination transactions (the "Fixed Conversion Price"), and thereafter at the lower of the Fixed Conversion Price and 75% of the five (5) Weighted Average Prices (as defined in the May 2018 Notes) of the common stock during the five consecutive trading day period ending on the trading day immediately preceding the day of a request by the holder for conversion of the May 2018 Note. The Company has the right to redeem all, or a portion of (on a pro rata basis), of the May 2018 Notes upon written notice to the holders not less than three trading days prior to the applicable redemption date.

The Company issued warrants to purchase 501,039 shares of common stock as part of the private placement of the May 2018 Notes. The warrants, when issued, were exercisable at an initial exercise price of $2.49 per share until May 12, 2022, and may be exercised on a cashless basis for a lesser number of shares based upon prevailing market prices when exercised. The exercise price of the warrants is subject to anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as recapitalizations, mergers and other business combination transactions. In accordance with the terms of the warrants, the exercise price was reduced to $1.50 per share, the public offering price of the shares of common stock sold in the Public Offering.

The Company early adopted the provisions of ASU 2017-11 in recognizing the warrants. As a result, the exercise price reset provisions were excluded from the assessment of whether the warrants are considered indexed to the Company's own stock. The warrants otherwise meet the requirements for equity classification, as such were initially classified in Stockholders' Equity. The Company will recognize the value of the exercise price reset provision if and when it becomes triggered, by recognizing the value of the effect of the exercise price reset as a deemed dividend and a reduction of income available to common shareholders in computing basic earnings per share.

The proceeds received upon issuing the May 2018 Notes and warrants was allocated to each instrument on a relative fair value basis. The allocation resulted in an effective conversion price for the May 2018 Notes that was below the quoted market price of the Company's common stock. As such, the Company recognized a beneficial conversion feature equal to the intrinsic value of the conversion feature on each issuance date, resulting in an additional discount to the initial carrying value of the May 2018 Notes with a corresponding credit to additional paid-in capital.

The Company recognized an aggregate debt discount on the May 2018 Notes of approximately $2.5 million, comprised of the allocation of proceeds to the warrants and recognition of the beneficial conversion feature. The debt discount is presented net of the May 2018 Note balance in the Condensed Consolidated Balance Sheets and is amortized to interest expense over the term of the May 2018 Notes using the effective interest method. The Company amortized approximately $220,000 to interest expense in the three months ended June 30, 2017.

Note 6. STOCKHOLDERS' EQUITY

Issuance of Series A Preferred Stock and Related Financings

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

Preferred Stock

The shares of Series A Preferred Stock have a stated value of $10.00 per share and are initially convertible into shares of common stock at a price of $4.92 per share (subject to adjustment upon the occurrence of certain events). 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 PIK Shares in lieu of payment of cash dividends payable until June 15, 2018. The dividend rate on the Series A Preferred Stock was originally to increase to 16% per annum after June 2018, 19% per annum to the extent dividends were paid in 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, 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. 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. Holders of the Series A Preferred Stock now 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. At a meeting on July 24, 2017, the Company's Board of Directors adopted a further amendment to the Certificate of Designation, subject to approval by holders of a majority of the outstanding shares of Series A Preferred Stock, to provide for the automatic conversion of the outstanding shares of Series A Preferred Stock into shares of common stock at a conversion price of $1.50 per share if stockholders do not approve the Restructuring Transactions at the Company's 2017 Annual Meeting of Stockholders.

The Company has the right to redeem the Series A Preferred Stock after May 26, 2018 for a redemption price of $10.00, plus accrued and unpaid dividends; however, the Company may not have sufficient cash available to effect such redemption.

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

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

In August 2016, the Company completed the private placement of $2,720,000 principal amount of our 12% Subordinated Convertible Notes due December 31, 2017 (the "12% Notes"), together with warrants to purchase an

aggregate of 110,658 shares of common stock, for a total purchase price of $2,720,000, from which we derived net proceeds of approximately $2,319,800, which was used to pay down the Company's indebtedness under the Loan Facility and for working capital. The Company also issued to Michael Taglich a 12% Note in the principal amount of $1,520,713, together with warrants to purchase 61,817 shares of common stock, upon surrender for cancellation of promissory notes in the aggregate principal amount of $1,500,000, together with accrued interest thereon and on notes previously exchanged for Series A Preferred Stock of $20,713. The Company had issued the promissory notes to Michael Taglich for amounts borrowed in August 2016. The promissory notes bore interest at the rate of 7% per annum and were to be repaid on December 31, 2016, or, if earlier, upon the sale of our equity securities from which we derived proceeds of $2,000,000. In addition, the Company issued to Robert Taglich a 12% Note in the principal amount of $4,373, together with warrants to purchase 177 shares of common stock, in consideration of the forgiveness of interest of $4,373 accrued on notes previously exchanged for Series A Preferred Stock.

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

As compensation for its services as placement agent for the offering of the 12% Notes, the Company paid Taglich Brothers, Inc. a fee of $295,400 and issued to Taglich Brothers, Inc. five-year warrants to purchase 68,617 shares of common stock at an initial exercise price of $6.15, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations.

As of December 31, 2016, the Company had outstanding 1,202,548 shares of Series A Preferred Stock. As of June 30, 2017, we had outstanding 1,294,441 shares of Series A Preferred Stock, including 45,106 shares issued as pay-in-kind dividends ("PIK Shares") on March 15, 2017 and 46,787 PIK Shares issued on June 15, 2017.

Note 7. INCOME TAXES

The Company recorded no income tax expense for the six months ended June 30, 2017 because the estimated annual effective tax rate was zero. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, their ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives. As of June 30, 2017 and December 31, 2016, the Company provided a valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized.

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The benefit from income taxes for the six months ended June 30, 2017 and 2016 is set forth below:

	2017 (Unaudited)	2016 (Unaudited)
Current		
Federal	$—	
State	(21,000)	23,000
Prior Year (over)/under Accrual		
Federal	(178,000)	13,000
Total Current Expense	(199,000)	36,000
Deferred Tax Benefit	—	(818,000)
Net Benefit from Income Taxes	$ (199,000)	(782,000)

Note 8. SALE OF AMK

On January 27, 2017, the Company sold all of the outstanding shares of AMK to Meyer Tool, Inc. pursuant to a Stock Purchase Agreement dated January 27, 2017 for a purchase price of $4,500,000, net of a working capital adjustment of $(240,000), 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 $451,000 gain on the sale of AMK.

In June 2017, the Company agreed to a final working capital adjustment with the buyer reducing the gain on sale from $ 451,000 to $288,000 for the six months ended June 30, 2017.

Note 9. LOSS CONTINGENCIES

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

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

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

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Note 10. SEGMENT REPORTING

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

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

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

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

Financial information about the Company’s operating segments for the three months ended June 30, 2017 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
COMPLEX MACHINING				
Net Sales	$10,473,000	$10,301,000	$20,364,000	$17,768,000
Gross Profit	939,000	2,564,000	3,840,000	4,422,000
Pre Tax Income	(1,378,000)	507,000	(293,000)	107,000
Assets	44,222,000	52,689,000	44,222,000	52,689,000
AEROSTRUCTURES & ELECTRONICS				

Net Sales	4,733,000	6,041,000	9,053,000	11,201,000
Gross Profit	1,934,000	1,446,000	1,960,000	2,394,000
Pre Tax Income (Loss)	348,000	(167,000)	(931,000)	(939,000)
Assets	19,458,000	19,268,000	19,458,000	19,268,000
TURBINE ENGINE COMPONENTS				
Net Sales	1,878,000	3,021,000	3,820,000	5,578,000
Gross Profit	46,000	145,000	(179,000)	160,000
Pre Tax Loss	(669,000)	(738,000)	(1,496,000)	(1,652,000)
Assets	11,541,000	17,441,000	11,451,000	17,441,000
CORPORATE				
Net Sales	—	—	—	—
Gross Profit	—	—	—	—
Pre Tax Income	(472,000)	20,000	(605,000)	20,000
Assets	645,000	653,000	645,000	653,000
CONSOLIDATED				
Net Sales	17,084,000	19,363,000	33,237,000	34,547,000
Gross Profit	2,919,000	4,155,000	5,621,000	6,976,000
Pre Tax Loss	(2,171,000)	(378,000)	(3,325,000)	(2,464,000)
Benefit from Income Taxes	199,000	126,000	199,000	782,000
Net Loss	(1,972,000)	(252,000)	(3,126,000)	(1,682,000)
Assets	$75,866,000	$90,051,000	$75,866,000	$90,051,000

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

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and the notes to those statements included elsewhere in this Form 10-Q and with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016. This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed on April 19, 2017, and our Registration Statement on Form S-1 (Registration No. 333- 219490) filed on July 26, 2017 and declared effective on August 4, 2017, that could cause actual results to differ materially from those anticipated in these forward-looking statements.

Business Overview

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

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

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

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

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

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

Public Offering

On July 12, 2017, we sold 5,175,000 shares of common stock at a price of $1.50 per for gross proceeds of $7,762,500 in a firm commitment underwritten public offering (the “Public Offering”). We received net proceeds of approximately $6,819,125 from the sale of our shares in the Public Offering. For additional information concerning the Public Offering and the related restructuring transactions (the “Restructuring Transactions”), see the discussion under the caption “Liquidity,” below.

Segment Data

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

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

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

Results of Operations

The following discussion of our results of operations constitutes management's review of the factors that affected our financial and operating performance for the three and six months ended June 30, 2017 and 2016. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report. The results of operations of the businesses we have acquired are included in our financial results from their respective dates of acquisition.

Selected Financial Information:

	Three Months Ended June 30,:		Six Months Ended June 30,:	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	$17,084,000	$19,363,000	$33,237,000	$34,547,000
Cost of sales	14,165,000	15,208,000	27,616,000	27,571,000
Gross profit	2,919,000	4,155,000	5,621,000	6,976,000
Operating expenses and interest costs	4,992,000	4,554,000	9,106,000	9,471000
Other income, net	65,000	21,000	(128,000)	31,000
Gain (loss) on Sale of Subsidiary	(163,000)	—	288,000	—
Benefit from income taxes	199,000	126,000	199,000	782,000
Net Loss	$(1,972,000)	$(252,000)	$(3,126,000)	$(1,682,000)

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Balance Sheet Data:

	June 30, 2017	December 31, 2016
	(Unaudited)	
Cash and cash equivalents	$426,000	$1,304,000
Working capital	2,673,000	2,903,000
Total assets	75,866,000	82,800,000
Total stockholders' equity	$24,187,000	$24,890,000

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
COMPLEX MACHINING				
Net Sales	$10,473,000	$10,301,000	$20,364,000	$17,768,000
Gross Profit	939,000	2,564,000	3,840,000	4,422,000
Pre Tax Income (Loss)	(1,378,000)	507,000	(293,000)	107,000
Assets	44,222,000	52,689,000	44,222,000	52,689,000
AEROSTRUCTURES & ELECTRONICS				
Net Sales	4,733,000	6,041,000	9,053,000	11,201,000
Gross Profit	1,934,000	1,446,000	1,960,000	2,394,000
Pre Tax Income (Loss)	348,000	(167,000)	(931,000)	(939,000)
Assets	19,458,000	19,268,000	19,458,000	19,268,000
TURBINE ENGINE COMPONENTS				
Net Sales	1,878,000	3,021,000	3,820,000	5,578,000
Gross Profit	46,000	145,000	(179,000)	160,000
Pre Tax Income (Loss)	(669,000)	(738,000)	(1,496,000)	(1,652,000)
Assets	11,541,000	17,441,000	11,541,000	17,441,000
CORPORATE				
Net Sales	—	—	—	—
Gross Profit	—	—	—	—
Pre Tax Income (Loss)	(472,000)	20,000	(605,000)	20,000
Assets	645,000	653,000	645,000	653,000

CONSOLIDATED				
Net Sales	17,084,000	19,363,000	33,237,000	34,547,000
Gross Profit	2,919,000	4,155,000	5,621,000	6,976,000
Pre Tax Income (Loss)	(2,171,000)	(378,000)	(3,325,000)	(2,464,000)
Benefit from Income Taxes	199,000	126,000	199,000	782,000
Net Loss	(1,972,000)	(252,000)	(3,126,000)	(1,682,000)
Assets	$75,866,000	$90,051,000	$75,866,000	$90,051,000

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Results of Operations for the three months ended June 30, 2017

Net Sales:

Consolidated net sales for the three months ended June 30, 2017 were approximately $17,084,000, a decrease of $2,279,000, or 11.8%, compared with $19,363,000 for the three months ended June 30, 2016. The three months ended June 30, 2016 included approximately $1,314,000 of revenue of AMK which was sold in January 2017. Without AMK the decline in revenue was $965,000 or 5.3%.

As indicated in the table below, three customers represented 57.2% and 42.4% of total sales for the three months ended June 30, 2017 and 2016, respectively.

Customer	Percentage of Sales	
	2017 (unaudited)	2016 (unaudited)
Goodrich Landing Gear	16.7	11.8
United States Department of Defense	17.0	11.6
Sikorsky Aircraft	23.5	19.0

Gross Profit:

Consolidated gross profit from operations for the three months ended June 30, 2017 was $2,919,000 a decrease of approximately $1,236,000, or 29.7%, as compared to gross profit of $4,155,000 for the three months ended June 30, 2016. Consolidated gross profit as a percentage of sales was 17.1% and 21.5% for the three months ended June 30, 2017 and 2016, respectively. All segments reported declines in gross profit. The decline in gross profit as a percentage of sales was caused by inventory adjustments during the quarter.

Operating Expenses:

Consolidated operating expenses for the three months ended June 30, 2017 were $4,117,000 and decreased by $65,000, or 1.6%, compared to $4,182,000 for the three months ended June 30, 2016. The modest decrease in operating costs reflected an increase in professional fees, offsetting cost reduction programs undertaken during 2017. Interest and financing costs for the three months ended June 30, 2017 were approximately $875,000, an increase of approximately $503,000, or 135.2%, compared to $372,000 for the three months ended June 30, 2016. The increase resulted from increases in debt in the form of subordinated notes bearing interest at higher rates than debt under the PNC Loan Facility and to a lesser degree higher interest rates on the PNC loan facility, offset in part by lower principal balances outstanding on the PNC loans.

Loss before income taxes for the three months ended June 30, 2017 was $2,171,000, an increase in the loss of $1,793,000, or 474.3% compared to the loss before income taxes of $378,000 for the three months ended June 30, 2016

Net Loss:

Net loss for the three months ended June 30, 2017 was $1,972,000, an increase in the loss of $1,720,000, or 682.5%, compared to net loss of $252,000 for the three months ended June 30, 2016 for the reasons discussed above.

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Results of Operations for the six months ended June 30, 2017

Net Sales:

Consolidated net sales for the six months ended June 30, 2017 were approximately $33,237,000, a decrease of $1,310,000, or 3.8%, compared with $34,547,000 for the six months ended June 30, 2016. The decrease resulted from an increase at our Complex Machining segment of $ 2,596,000 or 14.6% offset by decreases at Aerostructures and Electronics, and Turbine and Engine of $ 2,148,000 or 19.2% and $ 1,758,000 or 31.5% respectively. Excluding AMK which was sold in January 2017, consolidated net sales for the six months ended June 30, 2017 were approximately $32,820,000, an increase of $571,000, or 1.8%, compared with $32,249,000 for the six months ended June 30, 2016, with revenue in the Turbine & Engine segment essentially flat year-over-year.

As indicated in the table below, three customers represented 53.5% and four customers represented 54.0% of total sales for the six months ended June 30, 2017 and 2016, respectively.

Customer	Percentage of Sales	
	2017	2016
	(Unaudited)	(Unaudited)
Sikorsky Aircraft	16.7	20.8
Goodrich Landing Gear	19.4	11.8
Northrop Grumman Corporation	*	11.2
United States Department of Defense	17.4	*
GKN Aerospace	*	10.2

Gross Profit:

Consolidated gross profit from operations for the six months ended June 30, 2017 was $5,621,000 a decrease of approximately $1,355,000, or 19.4%, as compared to gross profit of $6,976,000 for the six months ended June 30, 2016. Consolidated gross profit as a percentage of sales was 16.9% and 20.2% for the six months ended June 30, 2017 and 2016, respectively.

- Gross profit at our Complex Machining decreased by 582,000 for the six months ended June 30, 2017. The decline in gross profit results from a decline of gross profit percentage resulting from inventory adjustments and changes in product mix.

- Gross Profit at our Aerostructures & Electronics segment decreased by $434,000 for the six months ended June 30, 2017. The reduction was roughly equal to and caused by the decline in sales.
- Gross profit at our Turbine Engine Component segment declined by $339,000 for the six months ended June 30, 2017 due the sale of AMK in January 2017 and the loss of its gross profit in 2017. Sterling Engineering, the sole operating company in the Turbine & Engine segment, operated at a negative gross profit for the period due to the under absorption of factory overhead due to low sales volume.

Operating Expenses:

Consolidated Operating Expenses for the six months ended June 30, 2017 totaled approximately $7,338,000 and decreased by $1,256,000, or 14.6%, compared to $8,594,000 for the six months ended June 30, 2016. Operating costs decreased due to cost control measures undertaken by management offset by higher professional fees in the last three months of the half.

Interest and financing costs for the six months ended June 30, 2017 were approximately $1,768,000 an increase of approximately $891,000, or 101.6%, compared to $877,000 for the six months ended June 30, 2016. The increase in interest expense resulted from increases in debt in the form of subordinated notes bearing interest at higher rates than debt under the PNC Loan Facility and to a lesser degree higher interest rates on the PNC loan facility, offset in part by lower principal balances outstanding on the PNC loans.

Loss before income taxes for the six months ended June 30, 2017 was $3,325,000, increase of $861,000, or 34.9%, compared to net loss before taxes of $2,464,000 for the six months ended June 30, 2016.

The Company recognized a benefit for income taxes of approximately $199,000 for six months ended June 30, 2017 compared to a provision for taxes of approximately $782,000 for six months ended June 30, 2016, a change of $583,000.

Net loss for the six months ended June 30, 2017 was $3,126,000, a decrease in performance of $1,444,000, or 85.9%, compared to net loss of $1,682,000 for the six months ended June 30, 2016. The decrease in net income results primarily from the impact of the loss incurred at our Turbine Engine Components segment and the tax effects discussed above.

Impact of Inflation

Inflation has not had a material effect on our results of operations.

LIQUIDITY AND CAPITAL RESOURCES

We are highly leveraged and rely upon our ability to continue to borrow under our Loan Facility with PNC or to raise debt and equity from third parties to support operations and acquisitions. Substantially all of our assets are pledged as collateral under our Loan Facility. We are required to maintain a lockbox account with PNC, into which substantially all of our cash receipts are paid. If PNC were to cease providing revolving loans to us under the Loan Facility, we would lack funds to continue our operations. Over the past twelve months we have also relied upon our ability to borrow money from certain stockholders and raise debt and equity capital to support our operations. Should we continue to need to borrow funds from our principal stockholders or raise debt or equity, there is no assurance that we will be able to do so or that the terms on which we borrow funds or raise equity will be favorable to us or our existing shareholders.

The Loan Facility has been amended many times during its term. The Loan Facility was amended in June 2016 (the “Twelfth Amendment”), September 2016 (the “Thirteenth Amendment”), January 2017 (the “Fourteenth Amendment”) and June 2017 (the “Fifteenth Amendment”).

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

Under the terms of the Loan Facility, as amended, the revolving loan now bears interest at (a) the sum of the Alternate Base Rate plus one and three-quarters of one percent (1.75%) with respect to Domestic Rate Loans; and (b) the sum of the LIBOR Rate plus four and one-half of one percent (4.50%) with respect to LIBOR Rate Loans. The amount outstanding under the revolving loan (including excess advances) was $19,804,000 and $24,393,000, as of June 30, 2017 and December 31, 2016, respectively.

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

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

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The terms of the Loan Facility require that, among other things, we maintain a specified Fixed Charge Coverage Ratio and maintain a minimum EBITDA for specified periods. In addition, we are limited in the amount of Capital Expenditures we can make. We are also limited to the amount of dividends we can pay our shareholders as defined in the Loan Facility. As of December 31, 2016, we were not in compliance with the minimum EBITDA covenant, the Fixed Charge Coverage Ratio and the Capital Expenditures covenant.

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

The proceeds of the sale of AMK, net of a working adjustment in the amount of ($240,000), were applied as follows: $1,700,000 to the payment of the Term Loan, $1,800,000 to the payment of outstanding revolving loans, and $500,000 to the payment of existing accounts payable. The remaining $260,000 will be applied to outstanding accounts payable on a future date to be determined by PNC or used to reduce the revolving loans. The Fourteenth Amendment to the Loan Facility also waived the noncompliance at September 30, 2016 with the Fixed Charge Coverage Ratio and the minimum EBITDA covenants for the period then ended, and required that we maintain a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00, tested quarterly on a consolidated rolling twelve (12) month basis however, for the quarter ending June 30, 2017, which was to be tested based upon the prior six (6) months, we were required to maintain a Fixed Charge Coverage Ratio of not less than 1.00 to 1.00 and for the quarter ending September 30, 2017, which was to be tested based upon the prior nine (9) months, we were required to maintain a Fixed Charge Coverage Ratio of not less than 1.10 to 1.00. The amendment also reduced the amount to be paid weekly in repayment of excess advances under the revolving credit facility from $100,000 to $50,000 for each Monday during the months of January, February and March of 2017. Thereafter, the weekly payments were to return to $100,000 until such excess advances were repaid in full.

On June 19, 2017, we entered into the Fifteenth Amendment to the Loan Facility, which waived the failure to comply with the minimum EBITDA covenant for the periods ended December 31, 2016 and March 31, 2017 and the Capital Expenditures covenant for the period ended December 31, 2016. The amendment also requires that we maintain at all times a Fixed Charge Coverage Ratio, tested quarterly on a consolidated basis beginning September 30, 2017, as follows: (i) 1.00 to 1.00 for the quarter ending September 30, 2017, tested based upon the prior three (3) months, (ii) 1.05 to 1.00 for the quarter ending December 31, 2017, tested based upon the prior six (6) months and (iii) 1.05 to 1.00 for the quarter ending March 31, 2018, tested based upon the prior nine (9) months and that we maintain EBITDA of not less than $345,000 for the period ending June 30, 2017. The amendment also provided that we were not required to maintain a Fixed Charge Coverage Ratio and that no testing was required to the Fixed Charge Coverage Ratio for the periods ending December 31, 2016 and March 31, 2017 and that we are not required to maintain a Fixed Charge Coverage Ratio and that no testing will be required of the Fixed Charge Coverage Ratio for the period ending June 30, 2017. In addition, the amendment reduces the weekly payments we are required to make to reduce our $2,244,071 over-advance under the revolving credit facility as of June 19, 2017 from $100,000 to $25,000 per week during the period commencing May 22, 2017 through and including July 10, 2017. We paid $50,000 to PNC in connection with the amendment and reimbursed PNC’s counsel fees.

As of June 30, 2017, our outstanding indebtedness to PNC was $24,014,000 and consisted of revolving loans in the amount of $19,804,000 and the term loan of $4,210,000, as compared to December 31, 2016, when our debt to PNC was $31,042,000 and consisted of revolving loans of $24,393,000 and the term loan of $6,649,000. In addition, as of June 30, 2017 we had capitalized lease obligations to third parties of $3,595,000, as compared to capitalized lease obligations of $4,215,000 as of December 31, 2016.

Significant Transactions Since January 1, 2017 Which Have Impacted Our Liquidity

Dispositions

On January 27, 2017, we sold all of the outstanding shares of AMK to Meyer Tool, Inc., pursuant to a Stock Purchase Agreement dated January 27, 2017, for a purchase price of $4,500,000, net of a working capital adjustment of $(240,000), plus additional quarterly payments, not to exceed $1,500,000, equal to five percent (5%) of Net Revenues of AMK commencing April 1, 2017. In June 2017, we agreed to a final working capital adjustment with the buyer reducing the gain on sale from $451,000 to $288,000. The proceeds of the sale were applied in accordance with the terms of the Fourteenth Amendment to the Loan Facility, as discussed above.

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

Series A Preferred Stock

As of June 30, 2017, we had outstanding 1,294,441 shares of Series A Preferred Stock, including 45,106 shares issued as pay-in-kind dividends ("PIK Shares") on March 15, 2017 and 46,787 PIK Shares issued on June 15, 2017.

In July 2017, we amended the Certificate of Designation authorizing the issuance of the Series A Preferred Stock to provide for the automatic conversion of the outstanding shares of Series A Preferred Stock into common stock at a conversion price of $1.50, the offering price of the shares of common stock in the public offering of our shares of common stock consummated on July 12, 2017, subject to stockholder approval in accordance with the applicable rules of the NYSE MKT. 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. Holders of the Series A Preferred Stock now 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 our 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. At a meeting on July 24, 2017, our Board of Directors adopted a further amendment to the Certificate of Designation, subject to approval by holders of a majority of the outstanding shares of Series A Preferred Stock, to provide for the automatic conversion of the outstanding shares of Series A Preferred Stock into shares of common stock at a conversion price of $1.50 per share if stockholders do not approve the Restructuring Transactions at our 2017 Annual Meeting of Stockholders.

Private Placements of 8% Subordinated Convertible Notes

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

Interest on the outstanding principal of the 2018 Notes is payable quarterly commencing February 28, 2017 at the annual rate of 8%, in cash, or if we are prohibited by applicable law or PNC, our principal lender under our Loan Facility, from paying interest in cash, or we otherwise elect to do so, we may pay accrued interest, in additional 2018 Notes ("PIK Notes"), provided that if accrued interest with respect to the 2018 Notes issued in December 2018 (which represented approximately$1,269,000 in principal amount when issued in December 2016, and as of May 31, 2017, represented approximately $1,336,770 in principal amount after giving effect to the issuance of PIK Notes) is paid in additional 2018 Notes, interest for that quarterly interest payment will 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.

Interest on the 2019 Notes is payable on the outstanding principal amount thereof at the annual rate of 8%, payable quarterly commencing May 31, 2017, in cash, or if we are prohibited by applicable law or PNC, our principal lender under our Loan Facility, from paying interest in cash, or we otherwise elect to do so, we may pay accrued interest, in additional 2019 Notes. Upon the occurrence and continuation of an event of default, interest shall accrue at the rate of 12% per annum.

Since covenant defaults under our Loan Facility have prohibited us from paying accrued interest in cash on our 8% Notes, we have paid accrued interest on the 8% Notes through the issuance of additional Notes.

On February 28, 2017, we issued an additional $61,596 principal amount of 2018 Notes in lieu of cash payment of accrued interest for the period then ended and on May 31, 2017 we issued 2018 Notes and 2019 Notes in the aggregate principal amounts of $68,871 and $72,285, respectively, in lieu of cash payment of accrued interest for the period then ended. As of June 30, 2017, we had outstanding $5,359,420 principal amount of our 8% Notes, including $2,911,135 principal amount of 2018 Notes and $2,448,285 principal amount of 2019 Notes.

The outstanding principal amount plus accrued interest on the 8% Notes is convertible at the option of the holder into shares of common stock at conversion prices ranging from $2.25 to $4.00 per share, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations.

The exercise price of the warrants issued in connection with the 8% Note Offerings ranges from $3.00 to $4.53 per share, subject to certain anti-dilution and other adjustments, including stock splits, distributions in respect of the common stock and in the event of certain fundamental transactions such as mergers and other business combinations, and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise. Of these warrants, 320,702 warrants may be exercised until November 30, 2021 and 243,307 warrants may be exercised until January 31, 2022.

Loans from Principal Stockholders

Recent Loans from Principal Stockholders

On March 17, 2017, we borrowed $200,000 and $300,000 from each of Michael N. Taglich and Robert F. Taglich, respectively, directors and principal stockholders of our company, and issued our promissory notes in the principal amounts of $200,000 and $300,000, respectively, to evidence our obligation to repay that indebtedness (the “Taglich Notes”). The Taglich Notes bear interest at the rate of 7% per annum and are payable on March 17, 2017. The Taglich Notes have been amended to provide for the automatic conversion of the indebtedness evidenced thereby into shares of common stock at a conversion price of $1.50 per share, the public offering price of the shares of our common stock sold in the Public Offering, following the stockholder vote on the Restructuring Transactions at our 2017 Annual Meeting of Stockholders, even if the Restructuring Transactions are not approved by stockholders in accordance with applicable rules of the NYSE MKT.

On May 2 and May 10, 2017, we borrowed an aggregate of $1,500,000 from Michael N. Taglich and Robert F. Taglich, each of whom loaned us $750,000. The demand loans were exchanged for May 2018 Notes in the same principal amount of indebtedness.

May Note Financing

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

The May 2018 Notes and warrants were issued for a purchase price equal to 97% of the principal amount of the May 2018 Notes purchased. The principal amount of each May 2018 Note will be increased by 2% for each 30 days it remains outstanding commencing August 1, 2017. Upon the occurrence of, and during the continuance of an Event of Default (as defined in the May 2018 Notes), the May 2018 Notes will accrue late interest at the rate of 10% per annum. Payment of the principal and accrued interest, if any, on the May 2018 Notes is junior and subordinate in right of payment to our indebtedness under the Loan Facility.

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The principal amount, together with accrued interest, if any, of the May 2018 Notes, when issued, were convertible into shares of common stock until November 12, 2017 at a conversion price of $2.49 per share, subject to anti-dilution and other adjustments for stock splits and certain fundamental transactions, including recapitalizations, mergers and other business combination transactions (the “Fixed Conversion Price”), and thereafter at the lower of the Fixed Conversion Price and 75% of the five (5) Weighted Average Prices (as defined in the May 2018 Notes) of the common stock during the five consecutive trading day period ending on the trading day immediately preceding the day of a request by the holder for conversion of the May 2018 Note. We have the right to redeem all, or a portion of (on a pro rata basis), the May 2018 Notes upon written notice to the holders not less than three trading days prior to the applicable redemption date.

We issued warrants to purchase 501,039 shares of common stock as part of the private placement of the May 2018 Notes. The warrants, when issued, were exercisable at an initial exercise price of $2.49 per share until May 12, 2022, and may be exercised on a cashless basis for a lesser number of shares based upon prevailing market prices when exercised. The exercise price of the warrants is subject to anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as recapitalizations, mergers and other business combination transactions. In accordance with the terms of the warrants, the exercise price was reduced to $1.50 per share, the public offering price of the shares of common stock sold in the Public Offering.

Effect of Public Offering and Restructuring Transactions on our Capitalization

On July 12, 2017, we sold 5,175,000 shares of common stock at a price of $1.50 per for gross proceeds of $7,762,500 in the Public Offering. We received net proceeds of approximately $6,819,125 from the sale of our shares in the Public Offering, of which approximately $4,000,000 was used to pay outstanding trade payable, $463,501 was used to redeem an equal principal amount of May 2018 Notes at a redemption price of 100% of the principal amount thereof and approximately $2,355,624 was added to our working capital.

In connection with the Public Offering, approximately $1,860,908 aggregate principal amount of the May 2018 Notes were converted into an aggregate of 1,240,605 shares of our common stock at a conversion price of $1.50 per share, the public offering price of the shares sold in the Public Offering.

In addition, the Restructuring Transactions, described below, contemplated by the Public Offering, are to be effected at a conversion price of $1.50 per share, the public offering price of the shares sold in the Public Offering, following a stockholder vote thereon at our 2017 Annual Meeting of Stockholders, which we expect to hold in October 2017:

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Holders of an additional $1,834,214 aggregate principal amount of May 2018 Notes have agreed to convert their 2018 Notes into additional 1,222,809 shares of common stock.

- Holders of our outstanding 1,294,441 shares of Series A Preferred Stock will be automatically converted into 8,629,606 shares of common stock.

- The Taglich Notes in the principal amount of $500,000, together with accrued interest thereon, will automatically be converted into approximately 346,944 shares of common stock.

Upon consummation of the Restructuring Transactions, we will have outstanding approximately 24,452,179 shares of common stock and no shares of preferred stock. In addition, other than the indebtedness under our Loan Facility, which as of June 30 2017, was approximately $24,014,000, our only other indebtedness for money borrowed is the indebtedness for our 8% Notes, which as of June 30, 2017 was $5,359,420.

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Anticipated Uses of Cash

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

Cash Flow

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

	Six Months Ended June 30, 2017 (Unaudited)	**Year Ended December 31, 2016**
Cash provided by (used in)		
Operating activities	$ (3,396)	$ (692)
Investing activities	3,479	(924)
Financing activities	(961)	2,391
Net (decrease) increase in cash and cash equivalents	$ (878)	$ 775

Cash Provided By (Used In) Operating Activities

Cash used in operating activities primarily consists of our net loss adjusted for certain non-cash items and changes to working capital items.

For the six months ended June 30, 2017, our net cash used by operating activities of $3,396,000 was comprised of a net loss of $3,126,000 offset by a negative adjustment of $2,788,000 provided by changes in operating assets and liabilities, plus a net positive adjustment for non-cash items of 2,518,000. Adjustments for non-cash items consisted primarily of depreciation of property and equipment of $1,442,000, amortization of capitalized engineering costs, intangibles and other items of $1,466,000. These non-cash items were offset by $19,000 of deferred gain on the sale of real estate, forfeiture of non-cash compensation of $73,000, bad debt recovery of $10,000. The net decrease in operating assets and liabilities consisted of a net increase in operating assets of $1,421,000 and a net decrease in operating liabilities of $1,367,000. The net increase in operating assets was comprised of an increase in accounts receivable of $1,846,000 due to the timing of shipments to and cash receipts from customers, an decrease in prepaid expenses and other assets of $126,000, an increase in deposits and other assets of $323,000, a decrease in prepaid taxes of 360,000 and decrease in inventory of $262,000. The net decrease in operating liabilities was comprised of decreases in accounts payable and accrued expenses of $1,141,000 due to the timing of the receipt and payment of invoices, and increases in deferred rent of $17,000 and a decrease of deferred revenue of $243,000.

For the year ended December 31, 2016, our net cash used in operating activities of $692,000 was comprised of a net loss of $15,623,000 offset by a $6,712,000 positive adjustment provided by changes in operating assets and liabilities plus a net positive adjustment for non-cash items of $8,219,000. Adjustments for non-cash items consisted primarily of depreciation of property and equipment of $3,347,000, amortization of capitalized engineering costs, intangibles and other items of $2,229,000, bad debt expense of $274,000, representing amounts reserved for as potentially uncollectible, and non-cash compensation of $167,000, deferred income taxes of $2,063,000, loss on sale of fixed assets held for sale of $5,000, loss on extinguishment of debt of $172,000, and prepaid taxes of $126,000. These non-cash items were offset by $38,000 of deferred gain on the sale of real estate. The increase in operating assets and liabilities consisted of a net decrease in operating assets of $2,045,000 and a net increase in operating liabilities of $4,667,000. The increase in operating assets was comprised of an increase in inventory of $2,902,000, and a net decrease in prepaid expenses and other current assets, and deposits and other assets of $394,000, partially offset by a decrease in accounts receivable of $4,616,000. The net increase in operating liabilities was comprised of increases in accounts payable and accrued expenses of $4,495,000 due to the timing of the receipt and payment of invoices, an increase in deferred rent of $82,000, and an increase in deferred revenue of $84,000, partially offset by, an increase in income taxes payable of $6,000.

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Cash Provided By (Used in) Investing Activities

Cash provided by investing activities consists of capital expenditures for property and equipment, capitalized engineering costs and the cash received from the businesses we sold. A description of capitalized engineering costs can be found below and in Note 2 Summary of Significant Accounting Policies in our Consolidated Financial Statements for the year ended December 31, 2016.

For the six months ended June 30, 2017, cash provided by investing activities was $3,479,000. This was comprised of the proceeds from the sale of the AMK subsidiary of $4,260,000 offset by $483,000 for capitalized engineering costs and $298,000 for the purchase of property and equipment.

For the year ended December 31, 2016 net cash used in investing activities was $924,000. This was comprised of $963,000 for capitalized engineering costs, $1,632,000 for the purchase of property and equipment, partially offset by $1,671,000 in proceeds from the sale of fixed assets.

Cash Provided By (Used In) Financing Activities

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

For the six months ended June 30, 2017, cash used by financing activities was $961,000. This was comprised of repayments of $2,439,000 on our term loan, $4,589,000 on our revolving loans, $620,000 on our capital lease obligations, as well as the PNC Amendment fee of $50,000, offset by proceeds from notes payable issuances of $2,553,000 and $4,184,000.

For the year ended December 31, 2016, net cash provided by financing activities was $2,391,000. This was comprised of proceeds of $4,500,000 and $3,695,000 from the issuance of notes, proceeds from the issuance of Series A Preferred Stock of $5,250,000, reduced by repayments of $5,211,000 under our revolving credit facility, repayments on our term loans of $3,184,000, repayments under our capital leases of $1,226,000, expense for issuance of preferred stock of $663,000, expense for issuance of debt offering of $547,000 and deferred financing costs of $223,000.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of June 30, 2017 and December 31, 2016.

Going Concern

We suffered net losses from operations of $1,717,000 and $10,789,000 and net losses of $3,126,000 and $15,623,000, respectively, for the six months ended June 30, 2017 and the year ended December 31, 2016. We also had negative cash flows from operations for the six months ended June 30, 2017. In addition, in 2015 we ceased paying dividends on our common stock and in 2016 disposed of the real estate on which one of our operating subsidiaries was located through a sale leaseback transaction, and in January 2017 sold this operating subsidiary. During the year ended December 31, 2016 and subsequent thereto, we sold debt and equity securities to secure funds to operate. Since September 2016, we have been issuing additional shares of Series A Preferred Stock in lieu of cash payment of accrued dividends on outstanding shares of Series A Preferred Stock and since February 2017 have issued additional convertible notes in lieu of cash payment of accrued interest on outstanding convertible notes.

On June 19, 2017, we entered into the Fifteenth Amendment to the Loan Facility, which waived the failure to comply with the minimum EBITDA covenant for the periods ended December 31, 2016 and March 31, 2017 and the Capital Expenditures covenant for the period ended December 31, 2016. The amendment also requires that we maintain at all times a Fixed Charge Coverage Ratio, tested quarterly on a consolidated basis beginning September 30, 2017, as follows: (i) 1.00 to 1.00 for the quarter ending September 30, 2017, tested based upon the prior three (3) months, (ii) 1.05 to 1.00 for the quarter ending December 31, 2017, tested based upon the prior six (6) months and (iii) 1.05 to 1.00 for the quarter ending March 31, 2018, tested based upon the prior nine (9) months and that we maintain EBITDA of not less than $345,000 for the period ending June 30, 2017. The amendment also provided that we were not required to maintain a Fixed Charge Coverage Ratio and that no testing was required to the Fixed Charge Coverage Ratio for the periods ending December 31, 2016 and March 31, 2017 and that we are not required to maintain a Fixed Charge Coverage Ratio and that no testing will be required of the Fixed Charge Coverage Ratio for the period ending June 30, 2017.

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The continuation of our business is dependent upon our ability to achieve profitability and positive cash flow and, pending such achievement, future issuances of equity or other financing to fund ongoing operations. Although no assurances can be given, management believes that the net proceeds derived from the public offering of 5,175,000 shares of our common stock completed in July 2017, together with borrowings under the Loan Facility and anticipated cash flow, should provide the necessary funding for us to continue as a going concern for the foreseeable future. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Critical Accounting Policies

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

Inventory Valuation

For annual reporting, the Company values inventory at the lower of cost on a first-in-first-out basis or market.

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

The Company does not take physical inventories at interim quarterly reporting periods. Approximately 50% of the inventory value at June 30, 2017 has been estimated using a gross profit percentage based on sales of previous periods to the net sales of the current period. The remainder of the inventory value at June 30, 2017 is estimated based on the Company’s standard cost perpetual inventory system. Adjustments to reconcile the annual physical inventory to the Company’s books are treated as changes in accounting estimates and are recorded in the fourth quarter. The Company valued inventory at December 31, 2016 at the lower of cost on a first-in-first-out basis or market.

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

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

Capitalized Engineering Costs

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

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

Revenue Recognition

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

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

Income Taxes

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

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

Stock-Based Compensation

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

Goodwill

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

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

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

Long-Lived and Intangible Assets

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit. Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. There has been no impairment as of June 30, 2017 and December 31, 2016.

Recently Issued Accounting Pronouncements

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

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

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

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

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

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

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

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

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. As an “emerging growth company,” we 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. We may take advantage of this extended transition period until the first to occur of the date that we (i) are no longer an “emerging growth company” or (ii) affirmatively and irrevocably opt out of this extended transition period. We have elected to take advantage of the benefits of this extended transition period. Our consolidated financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Until the date that we are no longer an “emerging growth company” or affirmatively and irrevocably opt out of the exemption provided by Securities Act Section 7(a)(2)(B), upon issuance of a new or revised accounting standard that applies to our consolidated financial statements and that has a different effective date for public and private companies, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting standard.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

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

PART II

OTHER INFORMATION

Item 1A. Risk Factors.

Reference is made to the risks and uncertainties disclosed in Item 1A ("Risk Factors") of our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K") and in the section entitled "Risk Factors" in our Registration Statement on Form S-1 (Registration No. 333- 219490) filed on July 26, 2017 and declared effective on August 4, 2017 (the "Resale registration Statement"), which sections are incorporated by reference into this report. Prospective investors are encouraged to consider the risks described in our 2016 Form 10-K and the Resale Registration Statement, our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report and other information publicly disclosed or contained in documents we file with the Securities and Exchange Commission before purchasing our securities.

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Item 2. Sales of Unregistered Equity Securities.

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

On August 9, 2017, we issued 67,000 shares of common stock to Eaton & Van Winkle LLP, our attorneys, having a value of $93,800 based upon the closing price of our common stock on August 8, 2017, $1.40, the trading date immediately preceding the date the shares were issued in satisfaction of a portion of our indebtedness to Eaton & Van Winkle LLP. The shares were issued pursuant to an exemption from registration afforded by Section 4(a) (2) of the Securities Act and were endorsed with a customary Securities Act legend.

On August 3, 2017, we issued 6,000 shares of our common stock to an employee pursuant to an agreement entered into concurrent with the acquisition of Sterling Engineering. The shares had a value of $8,400 based upon a closing price of $1.40 on the day immediately preceding their issuance. The shares were issued pursuant to an exemption from registration afforded by Section 4(a) (2) of the Securities Act and were endorsed with a customary Securities Act legend

Item 6. Exhibits

Exhibit No.	**Description**
1.1	Underwriting Agreement dated July 7, 2017 with Roth Capital Partners, LLC (incorporated herein by reference to Exhibit 1.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-219490) filed on July 26, 2017 and declared effective on August 4, 2017).
2.1	Agreement and Plan of Merger dated July 29, 2013 between Air Industries Group, Inc. and Air Industries Group (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed August 30, 2013).
2.2	Articles of Merger between Air Industries Group and Air Industries Group, Inc. filed with the Secretary of State of Nevada on August 28, 2013 (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed August 30, 2013).
2.3	Certificate of Merger between Air Industries Group and Air Industries Group, Inc. filed with the Secretary of State of Nevada on August 29, 2013 (incorporated herein by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed August 30, 2013).

3.1	Articles of Incorporation of Air Industries Group (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 30, 2013).
3.2	Certificate of Designation authorizing the issuance of the Series A Preferred Stock (incorporated herein by reference to exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 1, 2016).
3.3	Certificate of Amendment to Certificate of Designation increasing number of authorized shares of preferred stock and Series A Preferred Stock (incorporated herein by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 2016 filed on May 1, 2017).
3.4	Certificate of Amendment to Certificate of Designation providing for the automatic conversion of the outstanding shares of Series A Preferred Stock upon completion of Public Offering, subject to stockholder approval in accordance with the applicable rule of the NYSE MKT, and eliminating liquidation preference and preferential dividend payable to holders of the Series A Stock filed with the Secretary of state of Nevada on July 12, 2017 (incorporated herein by reference to Exhibit 3 to the Company's Current Report on Form 8-K filed July 13, 2017).

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3.5	Amended and Restated By-Laws of the Registrant (incorporated herein by reference to Exhibit 3.4 to the Company’s Quarterly Report on Form 10-Q/A for the period ended March 31, 2017 filed on June 2, 2017).
4.16	Form of warrant issued to purchasers of the Company’s Subordinated Convertible Notes due May 12, 2018 (incorporated herein by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on May 15, 2017).
10.20	Fifteenth Amendment to PNC Loan Agreement (incorporated herein by reference to Exhibit 10.20 to Amendment No. 1 to the Company’s Registration Statement on Form S-1 (Registration No. 333-217582) filed on June 19, 2017).
	Agreements With Officers, Directors and Related Persons
10.54	Amended promissory note in the principal amount of $200,000 payable to Michael N. Taglich (incorporated herein by reference to Exhibit 10.54 to the Company’s Registration Statement on Form S-1 (Registration No. 333-219490) filed on July 26, 2017 and declared effective on August 4, 2017).
10.55	Amended promissory note in the principal amount of $300,000 payable to Robert Taglich (incorporated herein by reference to Exhibit 10.55 to the Company’s to the Company’s Registration Statement on Form S-1 (Registration No. 333-219490) filed on July 26, 2017 and declared effective on August 4, 2017).
	Agreements Relating to Issuance of Securities
10.73	Securities Purchase Agreement dated May 12, 2017 by and among the Company and the Buyers of the Company’s Subordinated Convertible Notes due May 10, 2017 and Warrants (incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on May 15, 2017).
10.74	Form of Subordinated Convertible Note due May 12, 2017 (incorporated herein by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on May 15, 2017).
	Equity Incentive Plans
10.79	2017 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.79 to the Company’s Registration Statement on Form S-1 (Registration No. 333-219490) filed on July 26, 2017 and declared effective on August 4, 2017).
	Certifications
31.1	Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Exchange Act.
31.2	Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act.
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).

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XBRL Presentation

101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation*
101.DEF	XBRL Taxonomy Extension Definition*
101.LAB	XBRL Taxonomy Extension Label*
101.PRE	XBRL Taxonomy Extension Presentation*

* To be filed by amendment

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SIGNATURES

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

Dated: August 18, 2017

By: /s/ Michael Recca
Michael Recca

Chief Financial Officer

(Principal Financial Officer)