

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

FORM 10-Q

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

For the quarterly period ended: June 30, 2018

or

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

For the transition period from _____ to _____

Commission File No. 001-35927

AIR INDUSTRIES GROUP

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

80-0948413

(I.R.S. Employer
Identification No.)

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

(631) 881-4920

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 13(a) of the Exchange Act.

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

As of July 31, 2018, there were a total of 26,427,594 shares of the registrant's common stock outstanding.

INDEX

	<u>Page No.</u>
PART I. FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 4. Controls and Procedures	34
PART II. OTHER INFORMATION	35
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 2. Sales of Unregistered Equity Securities	35
Item 6. Exhibits	36
SIGNATURES	38

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

These statements and other projections contained herein expressing opinions about future outcomes and non-historical information, are subject to uncertainties and, therefore, there is no assurance that the outcomes expressed in these statements will be achieved. Investors are cautioned that forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from the expectations expressed in forward-looking statements contained herein. Given these uncertainties, you should not place any reliance on these forward-looking statements which speak only as of the date hereof. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, as amended, and elsewhere in this report and the risks discussed in our other filings with the SEC.

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

PART I
FINANCIAL INFORMATION

	<u>Page No.</u>
Item 1. Financial statements	
Condensed Consolidated Financial Statements:	
Condensed Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017	2
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017 (unaudited)	3
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017 (unaudited)	4
Notes to Condensed Consolidated Financial Statements	6

AIR INDUSTRIES GROUP
Condensed Consolidated Balance Sheets

	June 30, 2018	December 31, 2017
	Unaudited	
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 405,000	\$ 630,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$656,000 and \$560,000, respectively	9,863,000	7,681,000
Inventory	39,045,000	39,205,000
Prepaid Expenses and Other Current Assets	414,000	332,000
Prepaid Taxes	49,000	49,000
Total Current Assets	49,776,000	47,897,000
Property and Equipment, Net	9,996,000	10,928,000
Capitalized Engineering Costs - Net of Accumulated Amortization of \$5,692,000 and \$5,380,000, respectively	2,193,000	2,188,000
Deferred Financing Costs, Net, Deposits and Other Assets	1,165,000	1,032,000
Intangible Assets, Net	-	-
Goodwill	272,000	272,000
TOTAL ASSETS	\$ 63,402,000	\$ 62,317,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	\$ 25,432,000	\$ 23,143,000
Notes Payable – Related Party – Current Portion	1,242,000	262,000
Accounts Payable and Accrued Expenses	12,858,000	14,571,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	929,000	1,452,000
Income Taxes Payable	20,000	20,000
Total Current Liabilities	40,519,000	39,486,000
Long Term Liabilities		
Notes Payable and Capitalized Lease Obligations - Net of Current Portion	1,237,000	1,798,000
Notes Payable – Related Party – Net of Current Portion	1,783,000	1,650,000
Deferred Gain on Sale - Net of Current Portion	276,000	295,000
Deferred Rent	1,325,000	1,322,000
TOTAL LIABILITIES	45,140,000	44,551,000
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, par value \$.001 - Authorized 3,000,000 shares, outstanding: 0 at June 30, 2018 and December 31, 2017.	—	—
Common Stock - Par Value \$.001 - Authorized 50,000,000 Shares, 26,427,594 and 25,213,805 Shares Issued and Outstanding as of June 30, 2018 and December 31, 2017, respectively	26,000	25,000
Additional Paid-In Capital	73,050,000	71,272,000
Accumulated Deficit	(54,814,000)	(53,531,000)
TOTAL STOCKHOLDERS' EQUITY	18,262,000	17,766,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 63,402,000	\$ 62,317,000

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Sales	\$ 15,817,000	\$ 17,084,000	\$ 30,602,000	\$ 33,237,000
Cost of Sales	13,506,000	14,165,000	25,900,000	27,616,000
Gross Profit	2,311,000	2,919,000	4,702,000	5,621,000
Operating expenses	(2,901,000)	(4,117,000)	(5,998,000)	(7,338,000)
Gain on Change to Plan to Assets Held for Sale	1,563,000	-	1,563,000	-
Income (loss) from Operations	973,000	(1,198,000)	267,000	(1,717,000)
Interest and Financing Costs	(861,000)	(875,000)	(1,638,000)	(1,768,000)
Gain (loss) on Sale of Subsidiary	-	(163,000)	-	288,000
Other Income (Expense), Net	73,000	65,000	90,000	(128,000)
Income (loss) before Income Taxes	185,000	(2,171,000)	(1,281,000)	(3,325,000)
(Benefit from) Provision for Income Taxes	-	(199,000)	2,000	(199,000)
Net Income (loss)	185,000	(1,972,000)	(1,283,000)	(3,126,000)
Less: Cumulative preferred stock dividends	-	(764,000)	-	(764,000)
Net Income (loss) attributable to common stockholders	<u>\$ 185,000</u>	<u>\$ (2,736,000)</u>	<u>\$ (1,283,000)</u>	<u>\$ (3,890,000)</u>
Net Income (loss) per Share - Basic	<u>\$ 0.01</u>	<u>\$ (0.36)</u>	<u>\$ (0.05)</u>	<u>\$ (0.51)</u>
Net Income (loss) per Share	<u>\$ 0.01</u>	<u>\$ (0.36)</u>	<u>\$ (0.05)</u>	<u>\$ (0.51)</u>
Weighted average shares outstanding - Basic	<u>26,013,426</u>	<u>7,650,165</u>	<u>26,057,062</u>	<u>7,650,165</u>
Weighted average shares outstanding- Diluted	<u>26,079,377</u>	<u>7,650,165</u>	<u>26,057,062</u>	<u>7,650,165</u>

See Notes to Condensed Consolidated Financial Statements

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

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (1,283,000)	\$ (3,126,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation of property and equipment	1,444,000	1,442,000
Amortization of intangible assets	-	581,000
Amortization of capitalized engineering costs	312,000	168,000
Bad debt expense (recovery)	137,000	(10,000)
Non-cash employee compensation expense/(forfeiture of unamortized stock compensation)	225,000	(73,000)
Amortization of deferred financing costs	69,000	114,000
Deferred gain on sale of real estate	(19,000)	(19,000)
Gain on sale of subsidiary	—	(288,000)
Gain on change to plan of assets held for sale	(1,563,000)	—
Amortization of debt discount on convertible notes payable	588,000	603,000
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	(2,319,000)	(1,846,000)
Inventory	160,000	262,000
Prepaid expenses and other current assets	(82,000)	126,000
Prepaid taxes	—	360,000
Deposits and other assets	(202,000)	(323,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expense	(21,000)	(1,141,000)
Deferred rent	3,000	17,000
Deferred revenue	(523,000)	(243,000)
NET CASH USED IN OPERATING ACTIVITIES	<u>(3,074,000)</u>	<u>(3,396,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized engineering costs	(317,000)	(483,000)
Purchase of property and equipment	(512,000)	(298,000)
Proceeds from sale of subsidiary	—	4,260,000
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(829,000)</u>	<u>3,479,000</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable – revolver – net	2,798,000	(4,589,000)
Payments of note payable – term notes	(739,000)	(2,439,000)
Proceeds from issuance of common stock	1,425,000	—
Payments of capital lease obligations	(646,000)	(620,000)
Proceeds from notes payable issuances– related party	770,000	2,553,000
Deferred financing costs	—	(50,000)
Proceeds from notes payable issuances - third party	70,000	4,184,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>3,678,000</u>	<u>(961,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(225,000)	(878,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>630,000</u>	<u>1,304,000</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 405,000</u>	<u>\$ 426,000</u>

See Notes to Condensed Consolidated Financial Statements

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

	2018	2017
Supplemental cash flow information		
Cash paid during the period for interest	\$ 840,000	\$ 992,000
Cash paid during the period for income taxes	\$ 2,000	\$ —
Supplemental schedule of non-cash investing and financing activities		
Issuance of notes payable – related party	\$ 34,000	\$ —
Issuance of Convertible notes payable – related party	\$ —	\$ 1,885,000

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

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; (collectively, "the Company") Air Industries Machining Corp. ("AIM"), Welding Metallurgy, Inc. ("WMI" or "Welding"), Miller Stuart, Inc. ("Miller Stuart"), Nassau Tool Works, Inc. ("NTW"), Woodbine Products, Inc. ("Woodbine" or "WPI"), Decimal Industries, Inc. ("Decimal"), Eur-Pac Corporation ("Eur-Pac" or "EPC"), Electronic Connection Corporation ("ECC"), AMK Welding, Inc. ("AMK"), Air Realty Group, LLC ("Air Realty") The Sterling Engineering Corporation ("Sterling"), and Compac Development Corporation ("Compac").

Going Concern

The Company incurred income (loss) from operations of \$1,274,000 and (\$12,758,000) and net (losses) of (\$276,000) and (\$22,551,000) for the six months ended June 30, 2018 and the year ended December 31, 2017, respectively. The Company also had negative cash flows from operations for the six months ended June 30, 2018 and for the years ended December 31, 2017 and 2016. In 2016, the Company disposed of the real estate on which an operating subsidiary was located through a sale leaseback transaction. Since January 1, 2016, the Company has sold in excess of \$31,000,000 in debt and equity securities to fund its operations. In January 2017, the Company sold one of its operating subsidiaries, AMK Welding Inc. Furthermore, at December 31, 2017, the Company was not in compliance with financial covenants under its Amended and Restated Revolving Credit, Term Loan and Security Agreement with PNC Bank (the "Loan Facility"). On May 30, 2018 the Company entered into a Sixteenth Amendment of its Loan Agreement with PNC Bank which provided for an extension of the Loan Facility to December 31, 2018 and that, among other things, waived the covenant violation at December 31, 2017 and March 31, 2018 and instituted new Covenants. The Company is in compliance with these covenants at March 31, 2018 and June 30, 2018.

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. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017, as filed with the Securities and Exchange Commission.

Reclassifications

Certain account balances in 2017 have been reclassified to conform to the current period presentation.

Sale of AMK

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

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

Terminated Sale of Welding Metallurgy Inc.

In June 2018, the Company terminated its previously announced sale of WMI and its wholly owned subsidiaries Miller Stuart, Woodbine, Decimal and Compac Development Corp ("WMI Group") to CPI Aerostructures Inc ("CPI"). The Company has also determined that WMI Group will not be held for sale, but rather held as a continuing operation. The Company has reclassified WMI Group operations from discontinued operations to continuing operations for the three and six months ended June 30, 2018.

Subsequent Events

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

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

Assets Held for Sale

The Company classifies assets as held for sale and suspends depreciation and amortization when approval at the appropriate level has been provided, the assets can be immediately removed from operations, an active program has begun to locate a buyer, the assets are being actively marketed for sale at or near their current fair value, significant changes to the plan of sale are not likely and the sale is probable within one year. Upon classification as held for sale, long-lived assets are no longer depreciated, and an assessment of impairment is performed to identify and expense any excess of carrying value over fair value less costs to sell. Subsequent changes to the estimated fair value less costs to sell will impact the measurement of assets held for sale. To the extent fair value increases, any impairment previously recorded is reversed. If the carrying value of the assets held for sale exceeds the fair value less costs to sell, the Company will record a loss for the amount of the excess.

If the Company decides not to sell previously classified assets held for sale, the asset is reclassified back to their original asset group in the period that it's determined to no longer be held for sale. The assets are recorded at the lower of the carrying value before being classified as held for sale adjusted for depreciation that would have been recognized during the time they were classified as held for sale or fair value at the date the Company decided not to sell.

As of December 31, 2017 the Company held for sale WMI Group. In June 2018, upon the termination of its agreement to sell the WMI Group to CPI Aerostructures, Inc., management of the Company decided not to hold for sale the WMI Group. Upon the change in plan of sale, the Company reclassified the assets held for sale at the lower of the carrying value before being classified as held for sale adjusted for depreciation that would have been recognized during the time they were classified as held for sale or fair value at the date the Company decided not to sell and liabilities held for sale were also reclassified to their liability group. For presentation purposes, the assets and liabilities previously held for sale as of December 31, 2017 were reclassified in the December 31, 2017 balance sheet in the accompanying financial statements back to their original asset and liability groups at their previous carrying values. In connection with this reclassification, the Company recorded a gain of \$1,563,000 during the quarter ended June 30, 2018 and for the six months then ended, relating to the reversal of the reserve that was recorded as of December 31, 2017 for the excess of the carrying value of assets held for sale over the disposal group's fair value, less costs to sell. For presentation purposes in the December 31, 2017 balance sheet in the accompanying financial statements, the \$1,563,000 reserve has been included in Accounts Payable and Accrued Expenses.

Based on the Company's change in plan to sell WMI Group, the Company's December 31, 2017 balance sheet was adjusted to reflect a reduction in assets held for sale of \$10,082,000 and a reduction of liabilities directly associated to assets held for sale of \$2,795,000, with an increase in the following asset groups: Accounts Receivable, net of allowance for doubtful accounts \$ 2,217,000; Inventory, net of reserves \$8,065,000; Prepaid and other assets \$485,000; Property and equipment, net of accumulated depreciation \$878,000; and an increase in the following liability groups: Accounts payable and accrued expenses \$3,701,000; Deferred Revenue \$521,000; Notes Payable & Capital lease obligations \$11,000; Deferred rent \$125,000.

Inventory Valuation

For annual periods, the Company values inventory at the lower of cost on a first-in-first out basis or net realizable value. The Company does not take physical inventories at interim quarterly reporting periods. As such, approximately 50% of the inventory value at June 30, 2018 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, 2018 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. Inventories consist of the following at:

	June 30, 2018	December 31, 2017
	(unaudited)	
Raw Materials	\$ 14,383,000	\$ 13,936,000
Work In Progress	19,715,000	20,504,000
Finished Goods	10,963,000	10,636,000
Inventory Reserve	(6,016,000)	(5,871,000)
Total Inventory	\$ 39,045,000	\$ 39,205,000

Credit and Concentration Risks

There were two customers that represented 45.7% and three customers represented 57.2% of total net sales for the three months ended June 30, 2018 and 2017, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	June 2018	June 2017
	(Unaudited)	(Unaudited)
1	26.1	16.7
2	19.6	23.5
3	*	17.0

* Customer was less than 10% of sales at June 30, 2018.

There were two customers that represented 49.2% of total sales, and three customers that represented 53.5% of total sales for the six months ended June 30, 2018 and 2017, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	June 2018	June 2017
	(Unaudited)	(Unaudited)
1	26.6	19.4
2	22.6	16.7
3	*	17.4

* Customer was less than 10% of sales at June 30, 2018.

There were two customers that represented 49.8% of gross accounts receivable and three customers that represented 55.5% of gross accounts receivable at June 30, 2018 and December 31, 2017, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	June 2018	December 2017
	(Unaudited)	
1	38.5	30.3
2	11.3	10.5
3	*	14.7

* Customer was less than 10% of gross accounts receivable at June 30, 2018.

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

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

Earnings per share

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Weighted average shares outstanding used to compute basic earnings per share	26,013,426	7,650,165	26,057,062	7,650,165
Effect of dilutive stock options and warrants	65,951	-	—	—
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	26,079,377	7,650,165	26,057,062	7,650,165

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

	Six Months Ended	
	June 30, 2018	June 30, 2017
	(Unaudited)	(Unaudited)
Stock Options	695,000	-
Warrants	480,000	85,000
	<u>1,175,000</u>	<u>85,000</u>

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

	June 30, 2018	June 30, 2017
	(Unaudited)	(Unaudited)
Convertible Preferred Stock	—	2,631,000
Stock Options	349,000	516,000
Warrants	1,480,000	979,000
	<u>1,829,000</u>	<u>4,126,000</u>

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 \$225,000 and (\$73,000) for the six months ended June 30, 2018 and 2017, 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 \$272,000 at June 30, 2018 and December 31, 2017 relates to the acquisitions of NTW \$163,000 and ECC \$109,000.

Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances occur that more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company has determined that there has been no impairment of goodwill at June 30, 2018.

Recently Issued Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing revenue recognition guidance, including ASC 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts, and outlines a single set of comprehensive principles for recognizing revenue under U.S. GAAP. Among other things, it requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time. On July 9, 2015, the FASB approved a one year deferral of the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. The Company will adopt the New Revenue Standard effective January 1, 2019, as allowed under the Company's Emerging Growth Status designation.

The new guidance allows for two transition methods in application - (i) retrospective to each prior reporting period presented, or (ii) prospective with the cumulative effect of adoption recognized on January 1, 2019 (also known as the modified retrospective approach). The Company is still assessing which transition method to adopt. This guidance requires additional disclosures of the amount by which each financial statement line item affected in the current reporting period during 2019 as compared to the guidance that was in effect before the change, and an explanation of the reasons for the significant changes.

The Company currently recognizes the majority of its revenues based on shipment of products (at a point in time). Currently, some contracts the Company enters into with customers are accounted for on a percentage of completion or milestone basis. For contracts with a significant amount of development and/or requiring the delivery of a minimal number of units, revenue and profit are recognized using the percentage-of-completion cost-to-cost method or a milestone to measure progress. For contracts that require the Company to produce a substantial number of similar items without a significant level of development, the Company currently records revenue and profit using the units-of-delivery method as the basis for measuring progress on the contract.

Under ASC 606, revenue will be recognized as the customer obtains control of the goods and services promised in the contract (i.e., performance obligations). The Company may also have more performance obligations in our contracts under ASC 606, which may impact the timing of recording sales and operating profit, including those where sales recognition is deferred pending the incurrence of costs.

The Company has not completed its assessment of the effects of the New Revenue Standard, and has not determined whether adopting ASU 2014-09 will have a material effect on its consolidated financial statements.

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

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11 “Leases (Topic 842): Targeted Improvements” (ASU 2018-11). ASU 2018-10 clarifies certain areas within ASU 2016-02. Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt the provisions of ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. ASU 2018-11 also allows a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are present. An entity that elects to use the practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. ASU 2016-02, ASU 2018-10 and ASU 2018-11 will be effective for the Company’s fiscal year beginning April 1, 2019 and subsequent interim periods. The Company’s current lease arrangements expire through 2021 and the Company is currently evaluating the impact the adoption of these ASUs will have on the Company’s condensed 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 narrow 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 September 2017, the FASB issued ASU 2017-13, “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842),” which provides additional implementation guidance on the previously issued ASU 2016-02 Leases (Topic 842). The revenue standard is effective for annual periods beginning after December 15, 2017. ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. The Company is currently assessing the impact of the adoption of this guidance on its consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update will be effective for all interim and annual reporting periods beginning after December 15, 2018. The Company is currently assessing the impact of the adoption of these amendments on its consolidated financial statements.

In March 2018, the FASB issued Accounting Standards Update No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (“ASU 2018-05”). ASU 2018-05 adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB No. 118”), which was effective immediately. SAB No.118 provides for a provisional one year measurement period for entities to finalize their accounting for certain income tax effects related to the Tax Cuts and Jobs Act. The adoption of ASU 2018-05 had no material impact on the Company’s consolidated financial statements as of and for the six months ended June 30, 2018. See Note 8, Income Taxes, for disclosures related to this amended guidance.

In June 2018, the FASB issued ASU No. 2018-07, Compensation Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share based compensation. The guidance is effective for the Company for the fiscal year beginning January 1, 2020. While the exact impact of this standard is not known, the guidance is not expected to have a material impact on the Company’s consolidated financial statements, as non-employee stock compensation is nominal relative to the Company's total expenses as of June 30, 2018.

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

Note 3. PROPERTY AND EQUIPMENT

The components of property and equipment at June 30, 2018 and December 31, 2017 consisted of the following:

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	
	(unaudited)		
Land	\$ 300,000	\$ 300,000	
Buildings and Improvements	1,650,000	1,650,000	31.5 years
Machinery and Equipment	13,430,000	13,414,000	5 - 8 years
Capital Lease Machinery and Equipment	6,534,000	6,534,000	5 - 8 years
Tools and Instruments	9,029,000	8,538,000	1.5 - 7 years
Automotive Equipment	172,000	172,000	5 years
Furniture and Fixtures	443,000	438,000	5 - 8 years
Leasehold Improvements	997,000	997,000	Term of Lease
Computers and Software	519,000	519,000	4 - 6 years
Total Property and Equipment	<u>33,074,000</u>	<u>32,562,000</u>	
Less: Accumulated Depreciation	<u>(23,078,000)</u>	<u>(21,634,000)</u>	
Property and Equipment, net	<u>\$ 9,996,000</u>	<u>\$ 10,928,000</u>	

Depreciation expense for the three months ended June 30, 2018 and 2017 was \$722,000 and \$714,000, respectively. Depreciation expense for the six months ended June 30, 2018 and 2017 was \$1,444,000 and \$1,442,000, respectively.

Assets held under capitalized lease obligations are depreciated over the shorter of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2018 and 2017. Accumulated depreciation on these assets was approximately \$4,246,000 and \$3,595,000 as of June 30, 2018 and December 31, 2017, respectively.

Note 4. INTANGIBLE ASSETS

The components of intangible assets consisted of the following:

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	
	(unaudited)		
Customer Relationships	\$ 4,925,000	\$ 4,925,000	5 to 14 years
Non-Compete	50,000	50,000	5 years
Total Intangible Assets	<u>4,975,000</u>	<u>4,975,000</u>	
Less: Accumulated Amortization	<u>(4,975,000)</u>	<u>(4,975,000)</u>	
Intangible Assets, net	<u>\$ -</u>	<u>\$ -</u>	

The expense for amortization of the intangibles for the six months ended June 30, 2018 and 2017 was approximately \$457,000 and \$581,000, respectively.

Note 5. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Notes payable and capital lease obligations consist of the following:

	June 30, 2018	December 31, 2017
	(unaudited)	
Revolving credit note payable to PNC Bank N.A. ("PNC")	\$ 19,253,000	\$ 16,455,000
Term loans, PNC	2,733,000	3,471,000
Capital lease obligations	2,439,000	3,085,000
Related party notes payable, net of debt discount	3,025,000	1,912,000
Convertible notes payable-third parties, net of debt discount	2,244,000	1,930,000
Subtotal	<u>29,694,000</u>	<u>26,853,000</u>
Less: Current portion of notes and capital obligations	<u>(26,674,000)</u>	<u>(23,405,000)</u>
Notes payable and capital lease obligations, net of current portion	<u>\$ 3,020,000</u>	<u>\$ 3,448,000</u>

PNC Bank N.A. ("PNC")

The Company has a Loan Facility with PNC secured by substantially all of its assets which has been amended many times since 2013.

The Loan Facility was amended on May 30, 2018 (the "Sixteenth Amendment") in connection with the Sixteenth Amendment; the Company paid PNC a fee of \$125,000 in two instalments and reimbursed it for the fees and expenses of its counsel. The Sixteenth Amendment provides for a \$20,000,000 revolving loan and a Term Loan with a balance at May 31, 2018 of \$2,856,000.

Under the terms of the Loan Facility, as amended, the revolving loan and the term loan now bear interest at (a) the sum of the Alternate Base Rate plus three percent (3%) with respect to Domestic Rate Loans, and (b) the sum of the Eurodollar rate plus four and one-half percent (4.5%) with respect to Eurodollar Rate Loans. Both the revolving loan and the term loan mature on December 31, 2018 and are classified with the current portion of notes and capital lease obligations.

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

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 months and that we maintain EBITDA of not less than \$345,000 for the period ending September 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. In addition, the Fifteenth Amendment reduced 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. At December 31, 2017, the over-advance had been paid in full. We paid \$50,000 to PNC in connection with the amendment and reimbursed PNC's counsel fees.

As of June 30, 2018, our debt to PNC in the amount of \$21,986,000 consisted of the revolving credit loan in the amount of \$19,253,000 and the term loan in the amount of \$2,733,000. As of December 31, 2017, our debt to PNC in the amount of \$19,926,000 consisted of the revolving credit note due to PNC in the amount of \$16,455,000 and the term loan due to PNC in the amount of \$3,471,000.

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

As of June 30, 2018 the future minimum principal payments for the term loans are as follows:

For the twelve months ending	Amount
June 30, 2019	\$ 1,478,000
June 30, 2020	1,255,000
	2,733,000
PNC Term Loans payable	2,733,000
Less: Current portion	(2,733,000)
Long-term portion	\$ —

Interest expense related to these credit facilities amounted to \$693,000 and \$986,000 for the six months ended June 30, 2018 and 2017, respectively.

Capital Leases Payable – Equipment

The Company is committed under several capital leases for manufacturing and computer equipment. All leases have bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled \$2,439,000 and \$3,073,000 as of June 30, 2018 and December 31, 2017, respectively, with various interest rates ranging from approximately 4% to 14%.

As of June 30, 2018, 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, 2019	\$ 1,344,000
June 30, 2020	1,050,000
June 30, 2021	151,000
June 30, 2022	39,000
June 30, 2023	—
Thereafter	—
	Total future minimum lease payments 2,584,000
	Less: imputed interest (145,000)
	Less: current portion (1,244,000)
	Total Long Term Portion \$ 1,195,000

Related Party Notes Payable

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

Taglich Brothers, Inc. has acted as placement agent for various debt and equity financing transactions and has received cash and equity compensation for their services. In addition, Michael and Robert Taglich have also invested as individuals in the Company a total of \$ 8,860,000 through various debt and equity financings.

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

In November 2017, Michael Taglich and Robert Taglich purchased 144,927 shares and 72,463 shares, respectively, of common stock, together with warrants to purchase an additional 48,000 shares and 24,000 shares, respectively, of common stock, for a purchase price of \$200,000 and \$100,000, respectively, in a private placement of the Company's equity securities completed in January 2018 from which the Company received gross proceeds of \$2,000,000. Taglich Brothers, Inc., which as placement agent for the sale of the shares and warrants, received a placement agent fee equal to \$160,000 (8% of the amounts invested), payable at the Company's option, in cash or additional shares of common stock and warrants having the same terms and conditions as the shares and warrants issued in the offering. See Note 6 below.

Private Placement of Subordinated Notes due May 31, 2018, together with Shares of Common Stock

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

In May 2018, the Company issued \$1,200,000 of Subordinated Notes due May 31, 2019 (the "2019 Notes"), together with a total of 215,062 shares of common stock (the "Shares"), to Michael Taglich, Robert Taglich and another accredited investor. As part of the financing, the Company issued to Michael Taglich \$1,000,000 principal amount of 2019 Notes and 178,571 shares of common stock for a purchase price of \$1,000,000 and the Company issued to Robert Taglich \$100,000 principal amount of 2019 Notes and 17,857 shares of common stock. The Company issued and sold a 2019 Note in the principal amount of \$100,000, plus 18,634 shares of common stock, to the other accredited investor for a purchase price of \$100,000. Seventy percent (70%) of the total purchase price for the 2019 Notes and Shares purchased by each investor has been allocated to the 2019 Notes with the remaining thirty percent (30%) allocated to the Shares purchased with the 2019 Notes. The number of Shares purchased by Michael Taglich and Robert Taglich was calculated based upon \$1.68, the closing price of the common stock on May 20, 2018, the trading day immediately preceding the date they purchased the 2019 Notes and shares of common stock.

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

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

Related party advances and notes payable, net of debt discounts to Michael and Robert Taglich, and their affiliated entities, totaled \$3,025,000 and \$1,912,000, as of June 30, 2018 and December 31, 2017, respectively.

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

<u>Date</u>	<u>Gross Proceeds</u>	<u>Promissory Note</u>	<u>\$</u>	<u>Common Stock Price</u>	<u>Shares</u>
3/29/2108	1,000,000	700,000	300,000	1.68	178,571
4/4/2018	100,000	70,000	30,000	1.68	17,857
5/21/2018	100,000	70,000	30,000	1.64	18,334
5/21/2018	48,000	48,000	14,400	1.68	8,571
Total	1,248,000	888,000	374,400		223,333

Private Placements of 8% Subordinated Convertible Notes

From November 23, 2016 through March 21, 2017, the Company received gross proceeds of \$4,775,000, of which \$1,950,000 were received from Robert and Michael Taglich, from the sale of an equal principal amount of our 8% Subordinated Convertible Notes (the "8% Notes"), together with warrants to purchase a total of 383,080 shares of our common stock, in private placement transactions with accredited investors (the "8% Note Offerings"). In connection with the offering of the 8% Notes, the Company issued 8% Notes in the aggregate principal amount of \$382,000 to Taglich Brothers, Inc., placement agent for the 8% Note Offerings, in lieu of payment of cash compensation for sales commissions, together with warrants to purchase a total of 180,977 shares of our common stock. Payment of the principal and accrued interest on the 8% Notes are junior and subordinate in right of payment to our indebtedness under the Loan Facility.

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

During the six months ended June 30, 2018, we issued \$196,940 principal amount of 8% Notes in lieu of cash payment of accrued interest. As of June 30, 2018, we had outstanding \$4,775,000 principal amount of 8% Notes, of which \$2,575,000 principal amount is due on November 30, 2018 and \$2,200,000 principal amount is due on February 28, 2019.

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 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.

Note 6. STOCKHOLDERS' EQUITY

Common Stock -- Sale of Unregistered Equity Securities

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

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

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

In connection with the Offering, Taglich Brothers, Inc., a related party, which acted as placement agent for the sale of the Shares and Warrants, is entitled to a placement agent fee equal to \$104,000 (8% of the amounts invested), payable at the Company's option, in cash or additional shares of common stock and warrants having the same terms and conditions as the Shares and Warrants. Michael Taglich and Robert Taglich, directors of the Company, are principals of Taglich Brothers, Inc. The placement agent fee was \$85,200 and \$0 for the three months ended March 31, 2018 and 2017, respectively.

The Offering commenced November 29, 2017 and was completed in four closings for gross proceeds of \$2,000,000 as follows:

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

During the six months ended June 30, 2018, the Company issued 123,456 shares of common stock in lieu of cash payment for various services provided to the Company.

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

For acting as placement agent of the offering, Taglich Brothers, Inc. is entitled to a placement agent fee equal to \$27,627.60 (6% of the gross proceeds of the offering), payable at the Company's option, in cash or shares of Common Stock on the terms sold to the purchasers.

Note 7. COMMITMENTS AND CONTINGENCIES

Loss Contingencies

On July 5, 2018, CPI Aerostructures, Inc. (the "CPI") filed a complaint in the Supreme Court of the State of New York, County of New York, against the Company relating to the previously announced Stock Purchase Agreement dated as of March 21, 2018 (the "Agreement") between the Company and CPI, pursuant to which the Company agreed to sell to CPI all of the shares of capital stock of its subsidiary, WMI. On July 2, 2018, the Company notified CPI that it was terminating the Agreement due to CPI's failure to close on a timely basis.

The complaint alleges that the Company willfully breached its contractual obligation to provide financial information required to fulfill key conditions for closing under the Agreement. CPI is seeking, among other things, an order of specific performance requiring the Company to comply with its obligations under the Agreement, monetary damages, and attorneys' fees and costs.

On July 30, 2018, the Company filed its answer and asserted counterclaims against CPI. The Company denied the allegations made by CPI in the complaint and alleged that CPI breached the Agreement and the covenant of good faith and fair dealing. The Company is seeking a declaration that the Agreement has terminated, along with monetary damages, attorneys' fees, and costs.

On July 31, 2018, CPI filed a motion for a preliminary injunction against the Company. The motion argued that the Company's failure to provide financial data and other information necessary to close the transaction contemplated by the Agreement will cause irreparable injury to CPI. CPI is seeking an order directing the Company to furnish CPI with all previously requested financial, operating, and other data and information relating to WMI.

The Company disputes the validity and applicability of the claims asserted by CPI and believes that it has meritorious defenses to those claims and intends to contest the action vigorously.

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

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

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.

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

Note 8. INCOME TAXES

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017, and permanently reduces the U.S. federal corporate rate from 35% to 21%, effective January 1, 2018.

SAB No. 118 allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law during the measurement period. As of June 30, 2018, the Company has not completed its accounting for the tax effects of the enactment of the Tax Act; however, the Company has made a reasonable estimate of the effects on its existing deferred tax balances. The Company is still analyzing the Tax Act and refining its calculations, which could potentially impact the measurement of its tax balances. The Company expects to complete its analysis within the measurement period.

The Company recorded no Federal income tax benefit for the six months ended June 30, 2018. A tax benefit of approximately \$690,000 would have been recorded for the six months ended June 30, 2018, had there not been a full valuation allowance recorded against incremental deferred tax assets created during the period. 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, 2018 and December 31, 2017, the Company provided a valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized.

The provision for (benefit from) income taxes as of June 30, is set forth below:

	2018	2017
	(unaudited)	(unaudited)
Current		
Federal	\$ —	\$ —
State	2,000	(21,000)
Prior Year Under accrual		
Federal	—	(178,000)
State	—	—
Total Current Expense	2,000	(199,000)
Deferred Tax Benefit	—	—
Valuation Allowance	—	—
Net Provision for (Benefit from) Income Taxes	\$ 2,000	\$ (199,000)

Note 9. 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 (including WPI, MSI and Compac), Eur-Pac, with ECC; and Turbine Engine Components which consists of Sterling and AMK, for the period January 1, 2017 until it was disposed of on January 27, 2017. Along with our operating subsidiaries, we report the results of our corporate division as an independent segment.

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

Financial information about the Company's operating segments for the three and six months ended June 30, 2018 and 2017 are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
COMPLEX MACHINING				
Net Sales	\$ 9,705,000	\$ 10,473,000	\$ 20,332,000	\$ 20,364,000
Gross Profit	1,469,000	939,000	3,492,000	3,840,000
Pre Tax Income (Loss)	657,000	(1,378,000)	773,000	(293,000)
Assets	44,077,000	44,222,000	44,077,000	44,222,000
AEROSTRUCTURES & ELECTRONICS				
Net Sales	4,844,000	4,733,000	7,720,000	9,053,000
Gross Profit	787,000	1,934,000	1,203,000	1,960,000
Pre Tax Income (Loss)	417,000	348,000	(147,000)	(931,000)
Assets	13,276,000	19,458,000	13,276,000	19,458,000
TURBINE ENGINE COMPONENTS				
Net Sales	1,268,000	1,878,000	2,550,000	3,820,000
Gross Profit	55,000	46,000	7,000	(179,000)
Pre Tax Loss	(115,000)	(669,000)	(572,000)	(1,496,000)
Assets	5,761,000	11,541,000	5,761,000	11,541,000
CORPORATE				
Net Sales	—	—	—	—
Gross Profit	—	—	—	—
Pre Tax Loss	(2,337,000)	(472,000)	(2,898,000)	(605,000)
Assets	288,000	645,000	288,000	645,000
CONSOLIDATED				
Net Sales	15,817,000	17,084,000	30,602,000	33,237,000
Gross Profit	2,311,000	2,919,000	4,702,000	5,621,000
Gain on Change to Plan of Assets Held for Sale	1,563,000	-	1,563,000	-
Pre Tax Income (Loss)	185,000	(2,171,000)	(1,281,000)	(3,325,000)
Provision for (Benefit from) Income Taxes	-	(199,000)	2,000	(199,000)
Net Income (Loss)	185,000	(1,972,000)	(1,283,000)	(3,126,000)
Assets	\$ 63,402,000	\$ 75,866,000	\$ 63,402,000	\$ 75,866,000

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

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and notes to those statements included elsewhere in the is 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, 2017 (the "2017 Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in this report that could cause actual results to differ materially from those anticipated in these forward-looking statements.

Business Overview

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. 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 commercial aerospace businesses which have enabled us to broaden the range of products and services beyond those which were provided by AIM.

Since January 1, 2018, we have received gross proceeds of \$2,725,460 from the issuance and sale of our debt and equity securities in the following private placements:

- a) In January 2018, we issued and sold 852,000 shares of common stock and warrants to purchase an additional 255,600 shares of common stock, for gross proceeds of \$1,065,000;
- b) In May 2018, we issued and sold \$1,200,000 of Subordinated Notes due May 31, 2019, together with a total of 215,062 shares of Common Stock for gross proceeds of \$1,200,000; and
- c) In July 2018, we issued and sold 322,000 shares of common stock for gross proceeds of \$460,460.

In addition to repositioning our business to obtain profitability and positive cash flow, we remain resolute on meeting customers' needs and have and continue to align production schedules to meet the needs of customers in our Complex Machining and Turbine Engine segments. We believe that an unyielding focus on our customers will allow us to execute on our existing backlog in a timely fashion and take on additional commitments. We are pleased with our progress and the positive responses received from our customers. As we focused on and devoted our finances to our customers in our Complex Machining and Turbine Engine segments, we inadvertently failed to timely perform under various contracts undertaken by our Eur-Pac subsidiary. As a result, we recently received a Notice of Proposed Debarment which, if granted, would prevent Eur-Pac from bidding on Federal Government contracts. We have appealed the Debarment and are awaiting the Government's response.

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 low sales volumes can result in the under-absorption of factory overhead which 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 remain dependent upon the military for an overwhelming portion of our revenues.

Segment Data

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).

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

Selected Financial Information:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$ 15,817,000	\$ 17,084,000	\$ 30,602,000	\$ 33,237,000
Cost of sales	13,506,000	14,165,000	25,900,000	27,616,000
Gross profit	2,311,000	2,919,000	4,702,000	5,621,000
Operating expenses and interest and financing costs	3,762,000	4,992,000	7,636,000	9,106,000
Gain on Change to Plan of Asset Held for Sale	1,563,000	-	1,563,000	-
Other income, net	73,000	65,000	90,000	(128,000)
Gain (loss) on Sale of Subsidiary	-	(163,000)	-	288,000
Provision for (benefit from) income taxes	-	(199,000)	2,000	(199,000)
Net income (loss)	\$ 185,000	\$ (1,972,000)	\$ (1,283,000)	\$ (3,126,000)

Balance Sheet Data:

	June 30,	December 31,
	2018	2017
	(unaudited)	
Cash and cash equivalents	\$ 405,000	\$ 630,000
Working capital	9,257,000	8,411,000
Total assets	63,402,000	62,317,000
Total stockholders' equity	\$ 18,282,000	\$ 17,766,000

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
COMPLEX MACHINING				
Net Sales	\$ 9,705,000	\$ 10,473,000	\$ 20,332,000	\$ 20,364,000
Gross Profit	1,469,000	939,000	3,492,000	3,840,000
Pre Tax Income (Loss)	657,000	(1,378,000)	773,000	(293,000)
Assets	44,077,000	44,222,000	44,077,000	44,222,000
AEROSTRUCTURES & ELECTRONICS				
Net Sales	4,844,000	4,733,000	7,720,000	9,053,000
Gross Profit	787,000	1,934,000	1,203,000	1,960,000
Pre Tax Income (Loss)	417,000	348,000	(147,000)	(931,000)
Assets	13,276,000	19,458,000	13,276,000	19,458,000
TURBINE ENGINE COMPONENTS				
Net Sales	1,268,000	1,878,000	2,550,000	3,820,000
Gross Profit	55,000	46,000	7,000	(179,000)
Pre Tax Loss	(115,000)	(669,000)	(572,000)	(1,496,000)
Assets	5,761,000	11,541,000	5,761,000	11,541,000
CORPORATE				
Net Sales	—	—	—	—
Gross Profit	—	—	—	—
Pre Tax Loss	(2,337,000)	(472,000)	(2,898,000)	(605,000)
Assets	288,000	645,000	288,000	645,000
CONSOLIDATED				
Net Sales	15,817,000	17,084,000	30,602,000	33,237,000
Gross Profit	2,311,000	2,919,000	4,702,000	5,621,000
Gain on Change to Plan of Assets Held for Sale	1,563,000	-	1,563,000	-
Pre Tax Income (Loss)	185,000	(2,171,000)	(1,281,000)	(3,325,000)
Provision for (Benefit from) Income Taxes	-	(199,000)	2,000	(199,000)
Net Income (Loss)	185,000	(1,972,000)	(1,283,000)	(3,126,000)
Assets	\$ 63,402,000	\$ 75,866,000	\$ 63,402,000	\$ 75,866,000

Results of Operations for the three months ended June 30, 2018

Net Sales:

Consolidated net sales for the three months ended June 30, 2018 were \$15,817,000, a decrease of \$1,267,000, or 7.4%, compared with \$17,084,000 for the three months ended June 30, 2017. Net sales of our Complex Machining segment were \$9,705,000, a decrease of \$768,000, or 7.3%, from \$10,473,000 in the prior year. Net sales of our Aerostructures & Electronics segment were \$4,844,000, an increase of \$111,000, or 2.3%, from \$4,733,000 in the prior year. Net sales in our Turbine Engine Components segment were \$1,268,000, a decrease of \$610,000, compared with \$1,878,000 for the three months ended June 30, 2017. This decrease at Complex Machining resulted from production disruptions from the ongoing consolidation of NTW and AIM. The increase at Aerostructures and Electronics resulted from increases at WMI offsetting a decline at EPC. The increase at WMI resulted from increased bookings and improvements in production. The decrease in net sales at Turbine Engine Components resulted from a lack of new bookings. As a result, the General Manager at Sterling Engineering was replaced in February 2018.

As indicated in the table below, two customers represented 45.7% and three customers represented 57.2% of total sales for the three months ended June 30, 2018 and June 30, 2017, respectively.

Customer	Percentage of Sales	
	2018	2017
	(unaudited)	(unaudited)
Goodrich Landing Gear Systems	26.1%	16.7%
Sikorsky Aircraft	19.6%	23.5%
United States Department of Defense	*	17.0%

* Customer was less than 10% of sales at June 30, 2018.

Gross Profit:

Consolidated gross profit from operations for the three months ended June 30, 2018 was \$2,311,000, a decrease of \$608,000, or 20.8%, as compared to gross profit of \$2,919,000 for the three months ended June 30, 2017. Consolidated gross profit as a percentage of sales was 14.6% and 17.1% for the three months ended June 30, 2018 and 2017, respectively. Our gross profit percentage during the three months ended June 30, 2018, was most notably impacted by lower gross margins in our Complex Machine and Aerostructures segments due to different product mix. We believe in future periods, we can improve our gross margins as compared to our most recent period.

Interest and Financing Costs

Interest and financing costs for the three months ended June 30, 2018 were \$861,000 a decrease of \$14,000 or 1.6% compared to \$875,000 for the three months ended June 30, 2017.

Operating Expense

Consolidated operating expenses for the three months ended June 30, 2018 totaled \$2,901,000 and decreased by \$1,216,000 or 29.5% compared to \$4,117,000 for the three months ended June 30, 2017. The decrease in operating expenses is primarily due to reduced salary and amortization expenses.

Net Income (Loss)

Net income for the three months ended June 30, 2018 was \$185,000, an improvement of \$2,157,000 compared to a net loss \$1,972,000 for the three months ended June 30, 2017. The improvement in net income is due primarily to the gain resulting from the Company's decision to not to sell WMI and to not hold the WMI assets for sale ("Gain on Change to Plan to Assets Held for Sale" – reference Note 2 to the Condensed Consolidated Financial Statements). For the year ended December 31, 2017, approximately \$1,563,000 had been recorded as an impairment loss from discontinued operations. This amount reflected the deficit of the net assets of WMI compared to the expected net proceeds of sales.

Results of Operations for the six months ended June 30, 2018

Net Sales:

Consolidated net sales for the six months ended June 30, 2018 were \$30,602,000, a decrease of \$2,635,000, or 7.9%, compared with \$33,237,000 for the six months ended June 30, 2017. Net sales of our Complex Machining segment were \$20,332,000, a decrease of \$32,000, or 0.2%, from \$20,364,000 in the prior year. Net sales of our Aerostructures & Electronics segment were \$7,720,000, a decrease of \$1,133,000, or 14.7%, from \$9,053,000 in the prior year. The decrease results primarily from reduced sales at EPC. In 2017 EPC delivered the preponderance of a single \$3,000,000 order. Net sales in our Turbine Engine Components segment were \$2,550,000, a decrease of \$1,270,000, compared with \$3,820,000 for the six months ended June 30, 2017. This decrease was partially due to the sale of AMK in January 2017, which had sales of \$417,000 in 2017. The balance of the decrease resulted from a lack of new billings at Sterling Engineering.

As indicated in the table below, two customers represented 49.2% and three customers represented 53.5% of total sales for the six months ended June 30, 2018 and June 30, 2017, respectively.

Customer	Percentage of Sales	
	2018	2017
	(unaudited)	(unaudited)
Goodrich Landing Gear Systems	26.6%	19.4%
Sikorsky Aircraft	22.6%	16.7%
United States Department of Defense	*	17.4%

* Customer was less than 10% of sales at June 30, 2018.

Gross Profit:

Consolidated gross profit from operations for the six months ended June 30, 2018 was \$4,702,000, a decrease of \$919,000, or 16.3%, as compared to gross profit of \$5,621,000 for the six months ended June 30, 2017. Consolidated gross profit as a percentage of sales was 15.4% and 16.9% for the six months ended June 30, 2018 and 2017, respectively. Our gross profit percentage during the six months ended was most notably impacted by lower gross margins in our Complex Machine segment due to different product mix. We believe in future periods, we can improve our gross margins as compared to our most recent period.

Interest and Financing Costs

Interest and financing costs for the six months ended June 30, 2018 were \$1,638,000 a decrease of \$130,000 or 7.4% compared to \$1,768,000 for the six months ended June 30, 2017.

Operating Expense

Consolidated operating expenses for the six months ended June 30, 2018 totaled \$5,998,000 and decreased by \$1,340,000 or 18.3% compared to \$7,338,000 for the six months ended June 30, 2017. The decrease in operating expenses is primarily due to reduced salary and amortization expenses.

Net Loss

Net loss for the six months ended June 30, 2018 was \$1,283,000, compared to a net loss \$3,126,000 for the six months ended June 30, 2017. The improvement is due primarily to the gain resulting from the Company's decision to not to sell WMI and to not hold the WMI assets for sale ("Gain on Change to Plan to Assets Held for Sale" – reference Note 2 to the Condensed Consolidated Financial Statements). For the year ended December 31, 2017, approximately \$1,563,000 had been recorded as an impairment loss from discontinued operations. This amount reflected the deficit of the net assets of WMI compared to the expected net proceeds of sales.

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 our principal stockholders and third parties to support operations and acquisitions. Substantially all of our assets are pledged as collateral under our Loan Facility. The Loan Facility was amended on May 30, 2018 with a new expiration date of December 31, 2018.

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 eighteen 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 was amended on May 30, 2018 (the "Sixteenth Amendment") In connection with the Sixteenth Amendment; the Company paid PNC a fee of \$125,000 in two instalments and reimbursed it for the fees and expenses of its counsel. The Sixteenth Amendment provides for a \$20,000,000 revolving loan and a Term Loan with a balance at May 31, 2018 of \$2,856,000.

Under the terms of the Loan Facility, as amended, the revolving loan and the term loan now bear interest at (a) the sum of the Alternate Base Rate plus three percent (3%) with respect to Domestic Rate Loans, and (b) the sum of the Eurodollar rate plus four and one-half percent (4.5%) with respect to Eurodollar Rate Loans. Both the revolving loan and the term loan mature on December 31, 2018 and are classified with the current portion of notes and capital lease obligations.

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

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 months and that we maintain EBITDA of not less than \$345,000 for the period ending September 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. In addition, the Fifteenth Amendment reduced 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. At December 31, 2017, the over-advance had been paid in full. We paid \$50,000 to PNC in connection with the amendment and reimbursed PNC's counsel fees.

As of June 30, 2018, our debt to PNC in the amount of \$21,986,000 consisted of the revolving credit loan in the amount of \$19,253,000 and the term loan in the amount of \$2,733,000. As of December 31, 2017, our debt to PNC in the amount of \$19,926,000 consisted of the revolving credit note due to PNC in the amount of \$16,455,000 and the term loan due to PNC in the amount of \$3,471,000.

As of June 30, 2018, our outstanding indebtedness to PNC was \$21,986,000 and consisted of revolving loans in the amount of \$19,253,000 and the term loan of \$2,733,000, as compared to December 31, 2017, when our debt to PNC was \$19,926,000 and consisted of revolving loans of \$16,455,000 and the term loan of \$3,471,000. In addition, as of June 30, 2018 we had capitalized lease obligations to third parties of \$2,439,000, as compared to capitalized lease obligations to third parties of \$3,073,000 as of December 31, 2017.

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 383,080 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. 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 8% Notes is payable quarterly 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 8% Notes ("PIK Notes"), provided that if accrued interest with respect to the 8% Notes is paid in additional 8% 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.

During the six months ended June 30, 2018, we issued \$196,940 principal amount of 8% Notes in lieu of cash payment of accrued interest. As of June 30, 2018, we had outstanding \$4,775,000 principal amount of 8% Notes, of which \$2,575,000 principal amount is due on November 30, 2018 and \$2,200,000 principal amount is due on February 28, 2019.

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 \$4.45 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.

Private Placement of Subordinated Notes due May 31, 2018, together with Shares of Common Stock

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

In May 2018, we issued \$1,200,000 of Subordinated Notes due May 31, 2019 (the “2019 Notes”), together with a total of 215,062 shares of common stock (the “Shares”), to Michael Taglich, Robert Taglich and another accredited investor. As part of the financing, we issued to Michael Taglich \$1,000,000 principal amount of 2019 Notes and 178,571 shares of common stock for a purchase price of \$1,000,000 and we issued to Robert Taglich \$100,000 principal amount of 2019 Notes and 17,857 shares of common stock. We issued and sold a 2019 Note in the principal amount of \$100,000, plus 18,634 shares of common stock, to the other accredited investor for a purchase price of \$100,000. Seventy percent (70%) of the total purchase price for the 2019 Notes and Shares purchased by each investor has been allocated to the 2019 Notes with the remaining thirty percent (30%) allocated to the Shares purchased with the 2019 Notes. The number of Shares purchased by Michael Taglich and Robert Taglich was calculated based upon \$1.68, the closing price of the common stock on May 20, 2018, the trading day immediately preceding the date they purchased the 2019 Notes and shares of common stock.

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

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

Related party notes payable to Michael and Robert Taglich, and their affiliated entities, totaled \$3,025,000 and \$1,912,000, as of June 30, 2018 and December 31, 2017, respectively.

Equity Private Placements

On November 29, 2017, December 5, 2017, December 29, 2017 and January 9, 2018, we issued and sold to 44 accredited investors, including Michael Taglich and Robert Taglich, an aggregate of 1,577,390 shares of common stock and warrants to purchase an additional 480,000 shares of common stock, for gross proceeds of \$2,000,000, in a private placement exempt from the registration requirements of the Securities Act. Michael Taglich and Robert Taglich purchased 144,927 shares and 72,463 shares, respectively, together with warrants to purchase an additional 48,000 shares and 24,000 shares, respectively, of common stock, for a purchase price of \$200,000 and \$100,000, respectively. The purchase price for the shares and warrants was \$1.25 per share, except that the purchase price paid by Michael Taglich and Robert Taglich was \$1.38 per share, the closing price of a share of common stock immediately prior to the purchase. The warrants have an exercise price of \$1.50 per share, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations, and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise. The warrants may be exercised until November 30, 2022.

Taglich Brothers, Inc., of which Michael Taglich and Robert Taglich are principals, acted as placement agent for the sale of the shares and warrants received a placement agent fee equal to \$160,000 (8% of the amounts invested), payable at the Company’s option, in cash or additional shares of common stock and warrants having the same terms and conditions as the shares and warrants issued in the offering.

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

For acting as placement agent of the offering, Taglich Brothers, Inc. is entitled to a placement agent fee equal to \$27,627.60 (6% of the gross proceeds of the offering), payable at our option, in cash or shares of Common Stock on the terms sold to the purchasers.

Cash Flow

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

	Six Months Ended	
	June 30,	
	2018	2017
	(unaudited)	(unaudited)
Cash provided by (used in)		
Operating activities	\$ (3,074,000)	(3,396,000)
Investing activities	(829,000)	3,479,000
Financing activities	3,678,000	(961,000)
Net decrease in cash and cash equivalents	\$ (225,000)	(878,000)

Cash 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, 2018, net cash was impacted by a net loss of \$1,283,000, offset by \$1,193,000 of non-cash items consisting of a gain on change to plan of assets held for sale \$1,563,000, depreciation of property and equipment of \$1,444,000, amortization of convertible notes payable of \$558,000, amortization of capitalized engineering costs of \$312,000, compensation expense of \$225,000 and other non-cash items totaling \$187,000.

Operating assets and liabilities further used cash in the net amount of \$2,984,000 consisting primarily of the net increases in accounts receivable, deferred revenue and deposits and other assets in the amounts of \$2,319,000, \$523,000 and \$202,000 respectively, partially offset by a decrease in inventory of \$160,000 and increases in prepaid and other current assets in the amount \$82,000.

Cash Used in Investing Activities

For the six months ended June 30, 2018, cash used in investing activities was \$829,000. This was comprised of \$512,000 for the purchase of property and equipment and \$317,000 for capitalized engineering costs.

Cash Provided By Financing Activities

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

For the six months ended June 30, 2018, cash provided by financing activities was \$3,678,000. This was comprised of proceeds from the issuance of common stock of \$1,425,000, note payable related party of \$770,000, note payable from third party of \$70,000 and by proceeds from our revolving loans in the amount of \$2,798,000, partially offset by repayments of \$739,000 on our term loan and \$646,000 on our capital lease obligations,

Going Concern

The Company incurred income (loss) from operations of \$267,000 and (\$12,758,000) and net losses of (\$1,283,000) and (\$22,551,000) for the six months ended June 30, 2018 and for the year ended December 31, 2017. The Company also had negative cash flows from operations for the six months ended June 30, 2018 and the years ended December 31, 2017 and 2016. In 2015, the Company ceased paying dividends on its common stock and in 2016 disposed of the real estate on which an operating subsidiary was located through a sale leaseback transaction. Since January 1, 2016, the Company has sold in excess of \$31,000,000 in debt and equity securities to fund its operations. In January 2017, the Company sold one of its operating subsidiaries, AMK Welding Inc. Furthermore, at December 31, 2017 the Company was not in compliance with financial covenants under its Amended and Restated Revolving Credit, Term Loan and Security Agreement with PNC Bank. On May 30, 2018 the Company entered into the Sixteenth Amendment of its Loan Agreement with PNC Bank which provided for an extension of the Loan Facility to December 31, 2018, and that, among other things, waived the Covenant violation at December 31, 2017 and March 31, 2018 and instituted new Covenants. The Company is in compliance with these covenants at March 31, 2018 and June 30, 2018.

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.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of June 30, 2018.

Critical Accounting Policies

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

Assets Held for Sale

The Company classifies assets as held for sale and suspends depreciation and amortization when approval at the appropriate level has been provided, the assets can be immediately removed from operations, an active program has begun to locate a buyer, the assets are being actively marketed for sale at or near their current fair value, significant changes to the plan of sale are not likely and the sale is probable within one year. Upon classification as held for sale, long-lived assets are no longer depreciated, and an assessment of impairment is performed to identify and expense any excess of carrying value over fair value less costs to sell. Subsequent changes to the estimated fair value less costs to sell will impact the measurement of assets held for sale. To the extent fair value increases, any impairment previously recorded is reversed. If the carrying value of the assets held for sale exceeds the fair value less costs to sell, the Company will record a loss for the amount of the excess.

If the Company decides not to sell previously classified assets held for sale, the asset is reclassified back to their original asset group in the period that it's determined to no longer be held for sale. The assets are recorded at the lower of the carrying value before being classified as held for sale adjusted for depreciation that would have been recognized during the time they were classified as held for sale or fair value at the date the Company decided not to sell.

As of December 31, 2017 the Company held for sale WMI Group. In June 2018, upon the termination of its agreement to sell the WMI Group to CPI Aerostructures, Inc., management of the Company decided not to hold for sale the WMI Group. Upon the change in plan of sale, the Company reclassified the assets held for sale at the lower of the carrying value before being classified as held for sale adjusted for depreciation that would have been recognized during the time they were classified as held for sale or fair value at the date the Company decided not to sell and liabilities held for sale were also reclassified to their liability group. For presentation purposes, the assets and liabilities previously held for sale as of December 31, 2017 were reclassified in the December 31, 2017 balance sheet in the accompanying financial statements back to their original asset and liability groups at their previous carrying values. In connection with this reclassification, the Company recorded a gain of \$1,563,000 during the quarter ended June 30, 2018 and for the six months then ended, relating to the reversal of the reserve that was recorded as of December 31, 2017 for the excess of the carrying value of assets held for sale over the disposal group's fair value, less costs to sell. For presentation purposes in the December 31, 2017 balance sheet in the accompanying financial statements, the \$1,563,000 reserve has been included in Accounts Payable and Accrued Expenses.

Based on the Company's change in plan to sell WMI Group, the Company's December 31, 2017 balance sheet was adjusted to reflect a reduction in assets held for sale of \$10,082,000 and a reduction of liabilities directly associated to assets held for sale of \$2,795,000, with an increase in the following asset groups: Accounts Receivable, net of allowance for doubtful accounts \$ 2,217,000; Inventory, net of reserves \$8,065,000; Prepaid and other assets \$485,000; Property and equipment, net of accumulated depreciation \$878,000; and an increase in the following liability groups: Accounts payable and accrued expenses \$3,701,000; Deferred Revenue \$521,000; Notes Payable & Capital lease obligations \$11,000; Deferred rent \$125,000.

Inventory Valuation

We do not take physical inventories at interim quarterly reporting periods. The majority of the inventory 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 is estimated based on our 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.

For annual reporting, we value inventory at the lower of cost on a first-in-first-out basis or net realizable value.

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.

We present 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

We have contractual agreements with customers to produce parts, which the customers design. 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 we are reimbursed for all or a portion of the pre-production expenses associated with a particular contract, only the unreimbursed portion would be capitalized. We 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

We recognize revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." We recognize 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. We utilize 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.

We recognize certain revenues under a bill and hold arrangement with two of its large customers. For any requested bill and hold arrangement, we make 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

We account for income taxes in accordance with accounting guidance now codified as FASB ASC 740, "Income Taxes," which requires that we 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.

We account 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

We account 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. We estimate 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.

We account 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.

We perform 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. We record 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. As of December 31, 2017, there has been no impairment.

Recently Issued Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing revenue recognition guidance, including ASC 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts, and outlines a single set of comprehensive principles for recognizing revenue under U.S. GAAP. Among other things, it requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time. On July 9, 2015, the FASB approved a one year deferral of the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. We will adopt the New Revenue Standard effective January 1, 2019, as allowed under our Emerging Growth Status designation.

The new guidance allows for two transition methods in application - (i) retrospective to each prior reporting period presented, or (ii) prospective with the cumulative effect of adoption recognized on January 1, 2019 (also known as the modified retrospective approach). We are still assessing which transition method to adopt. This guidance requires additional disclosures of the amount by which each financial statement line item affected in the current reporting period during 2019 as compared to the guidance that was in effect before the change, and an explanation of the reasons for the significant changes.

We currently recognize the majority of our revenues based on shipment of products (at a point in time). Currently, some contracts the Company enters into with customers are accounted for on a percentage of completion or milestone basis. For contracts with a significant amount of development and/or requiring the delivery of a minimal number of units, revenue and profit are recognized using the percentage-of-completion cost-to-cost method or a milestone to measure progress. For contracts that require us to produce a substantial number of similar items without a significant level of development, we record revenue and profit using units-of-delivery method as the basis for measuring progress on the contract.

Under ASC 606, revenue will be recognized as the customer obtains control of the goods and services promised in the contract (i.e., performance obligations). We may also have more performance obligations in our contracts under ASC 606, which may impact the timing of recording sales and operating profit, including those where sales recognition is deferred pending the incurrence of costs.

We have not completed an assessment of the effects of the new revenue standard, and has not determined whether adopting ASU 2014-09 will have a material effect on its consolidated financial statements.

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

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11 “Leases (Topic 842): Targeted Improvements” (ASU 2018-11). ASU 2018-10 clarifies certain areas within ASU 2016-02. Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt the provisions of ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. ASU 2018-11 also allows a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are present. An entity that elects to use the practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. ASU 2016-02, ASU 2018-10 and ASU 2018-11 will be effective for our fiscal year beginning April 1, 2019 and subsequent interim periods. Our current lease arrangements expire through 2021 and we are currently evaluating the impact the adoption of these ASUs will have on our condensed 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. We are 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 narrow 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. We are currently assessing the impact of the adoption of the amendments to Topic 606 and these amendments on its consolidated financial statements.

In September 2017, the FASB issued ASU 2017-13, “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842),” which provides additional implementation guidance on the previously issued ASU 2016-02 Leases (Topic 842). The revenue standard is effective for annual periods beginning after December 15, 2017. ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We are currently assessing the impact of the adoption of this guidance on its consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update will be effective for all interim and annual reporting periods beginning after December 15, 2018. We are currently assessing the impact of the adoption of these amendments on its consolidated financial statements.

In March 2018, the FASB issued Accounting Standards Update No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (“ASU 2018-05”). ASU 2018-05 adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB No. 118”), which was effective immediately. SAB No.118 provides for a provisional one year measurement period for entities to finalize their accounting for certain income tax effects related to the Tax Cuts and Jobs Act. The adoption of ASU 2018-05 had no material impact on our consolidated financial statements as of and for the three months ended March 31, 2018. Does this need to refer to 6 months? See Note 10, Income Taxes, for disclosures related to this amended guidance.

In June 2018, the FASB issued ASU No. 2018-07, Compensation Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share based compensation. The guidance is effective for our fiscal year beginning January 1, 2020. While the exact impact of this standard is not known, the guidance is not expected to have a material impact on our consolidated financial statements, as non-employee stock compensation is nominal relative to our total expenses as of June 30, 2018.

We believe that no other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision of and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer as of the end of the period covered by this Report. Based on that evaluation, our 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 the 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 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 and were deficient in supervision and internal control monitoring.

To remedy these weaknesses, when financially able, we plan to supplement our accounting staff with additional experienced financial professionals, redefining and realigning responsibilities and by defining additional controls, reporting processes and procedures to address the accounting requirements and disclosures for non-standard and unusual transactions. In addition, until we locate and engage appropriate accounting personnel, we will engage third party consultants to assist in accounting for non-recurring complex transactions.

The material weaknesses discussed above will not be considered remediated until the necessary personnel have been engaged and the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

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 1. Legal Proceedings.

On July 5, 2018, CPI Aerostructures, Inc. (the "CPI") filed a complaint in the Supreme Court of the State of New York, County of New York, against us relating to the previously announced Stock Purchase Agreement dated as of March 21, 2018 (the "Agreement") with CPI, pursuant to which we agreed to sell to CPI all of the shares of capital stock of our subsidiary, WMI. On July 2, 2018, the Company notified CPI that we were terminating the Agreement due to CPI's failure to close on a timely basis.

The complaint alleges that we willfully breached our contractual obligation to provide financial information required to fulfill key conditions for closing under the Agreement. CPI is seeking, among other things, an order of specific performance requiring us to comply with our obligations under the Agreement, monetary damages, and attorneys' fees and costs.

On July 30, 2018, we filed our answer and asserted counterclaims against CPI. We denied the allegations made by CPI in the complaint and alleged that CPI breached the Agreement and the covenant of good faith and fair dealing. We are seeking a declaration that the Agreement has terminated, along with monetary damages, attorneys' fees, and costs.

On July 31, 2018, CPI filed a motion for a preliminary injunction against us. The motion argued that our failure to provide financial data and other information necessary to close the transaction contemplated by the Agreement will cause irreparable injury to CPI. CPI is seeking an order directing us to furnish CPI with all previously requested financial, operating, and other data and information relating to WMI.

The Company disputes the validity and applicability of the claims asserted by CPI and believes that we have meritorious defenses to those claims and intends to contest the action vigorously.

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, 2017 (the "2017 Form 10-K"), which section is incorporated by reference into this report. Prospective investors are encouraged to consider the risks described in our 2017 Form 10-K, our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report and other information publicly disclosed or contained in documents we file with the Securities and Exchange Commission before purchasing our securities.

Item 2. Sales of Unregistered Equity Securities

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

For acting as placement agent of the offering, Taglich Brothers, Inc. is entitled to a placement agent fee equal to \$27,627.60 (6% of the gross proceeds of the Offering), payable at our option, in cash or shares of Common Stock on the terms sold to the purchasers.

The shares of Common Stock issued to the purchasers were issued pursuant to an exemption from registration afforded by Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder, and were endorsed with the customary Securities Act legend.

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

Item 6. Exhibits

Exhibit No.	Description
2.1	<u>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).</u>
2.2	<u>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).</u>
2.3	<u>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).</u>
3.1	<u>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).</u>
3.2	<u>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).</u>
3.3	<u>Certificate of Amendment increasing number of authorized shares of preferred stock and Series A Preferred Stock (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed on April 19, 2017).</u>
3.4	<u>Amendment to Certificate of Designation (incorporated herein by reference to the Company's Registration Statement on Form S-1 (Amendment No. 2) filed on June 19, 2017 declared effective on July 6, 2017).</u>
3.5	<u>Amended and Restated By-Laws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 31, 2015).</u>
10.32	<u>Stock Purchase Agreement dated March 21, 2018 with CPI Aerostructures, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 23, 2018).</u>
10.33	<u>Form of Subscription Agreement for offering of Subordinated Notes due May 31, 2019 and shares of common stock, together with form of Subordinated Note (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 22, 2018).</u>
10.34	<u>Placement Agency Agreement for offering of Subordinated Notes due May 31, 2019 and shares of common stock (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 22, 2018).</u>
10.35	<u>Subordinated Note due May 31, 2019 payable to Michael Taglich in the principal amount of \$1,000,000.</u>
10.36	<u>Subordinated Note due May 31, 2019 payable to Robert Taglich in the principal amount of \$100,000.</u>
10.37	<u>Sixteenth Amendment to Loan Facility with PNC Bank, N.A.</u>
10.38	<u>Form of Subscription Agreement for July 2018 offering of sale of shares of common stock.</u>

Certifications

31.1 [Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Securities Exchange Act of 1934.](#)

31.2 [Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act of 1934.](#)

32.1 [Certification of principal executive officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 \(18 U.S.C. Section 1350\).](#)

32.2 [Certification of principal financial officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 \(18 U.S.C. Section 1350\).](#)

XBRL Presentation

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Dated: August 14, 2018

AIR INDUSTRIES GROUP

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

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ACCORDINGLY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE BE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO AIR INDUSTRIES GROUP THAT SUCH REGISTRATION IS NOT REQUIRED.

No. AIRI-2019 SN-3
Principal Amount: \$1,000,000

Issue Date: May 22, 2018

Subordinated Note due May 31, 2019

FOR VALUE RECEIVED, AIR INDUSTRIES GROUP, a Nevada corporation (the "Company") hereby promises to pay to the order of Michael Taglich or assigns (the "Holder"), without demand, the sum of One Million Dollars (\$1,000,000), together with accrued interest on the unpaid principal amount thereof, on May 31, 2019 (the "Maturity Date"), or such earlier date as the same may become due as provided in Section 2 hereof.

Interest on the unpaid principal amount of this Note shall be payable at the rate of one percent (1%) per month, in cash, on the last day of each calendar month during which this Note remains outstanding, commencing June 30, 2018 (each an "Interest Payment Date") from the date of issuance or the most recent Interest Payment Date until the principal and accrued interest hereon has been paid in full. Upon the occurrence and continuation of an Event of Default (as defined in Section 2 below), in addition to the right of the Holder to demand payment of all amounts due hereunder, interest shall accrue and be payable on all accrued but unpaid interest at the rate of 1.25% per month; provided that upon the occurrence and continuation of a failure to timely pay the principal amount of this Note, interest shall accrue and be payable on such principal amount at the rate of 1.25% per month and shall no longer be payable on interest accrued but unpaid.

This Note is one of a series of the Company's subordinated notes due May 31, 2019 in the aggregate principal amount of \$1,200,000 (together with any other Notes issued as contemplated by this Note, the "Notes").

This Note may be prepaid in whole or in part at any time but only with the prior consent of the Holder. All payments made pursuant to this Note shall be applied first to reimbursable expenses, interest accrued, if any, and then principal.

The following is a statement of rights of the Holder and the conditions to which this Note is subject, and to which the Holder, by acceptance of this Note, agrees:

1. Subordination. (a) This Note will be subordinate and inferior to the Company's Senior Indebtedness (as hereinafter defined). The Company for itself, its successors and assigns, covenants and agrees and the Holder of this Note, for himself, his successors and assigns, by his acceptance of this Note likewise covenants and agrees that, to the extent provided below, the payment of all amounts due pursuant to this Note is hereby expressly subordinated and junior in right of payment to the extent and in the manner hereinafter set forth, to the Company's Senior Indebtedness. As used herein, the term "Senior Indebtedness" shall mean the principal of, and interest and premium, if any, on any and all, (i) indebtedness of the Company for borrowed money or obligations with respect to which the Company is a guarantor, to banks, insurance companies, or other financial institutions or entities regularly engaged in the business of lending money, in each case as in effect as of the date hereof (other than the Notes), or as may be borrowed hereafter, including without limitation, indebtedness incurred by one or more of the Company's subsidiaries under the Amended and Restated Revolving Credit, Term Loan, Equipment Line and Security Agreement, dated as of June 27, 2013 among Air Industries Machining, Corp., Welding Metallurgy, Inc., Nassau Tool Works, Inc., Woodbine Products Inc., Eur-Pac Corporation, Electronic Connection Corporation, The Sterling Engineering Corporation, and PNC Bank, National Association, as agent for the various lenders named therein, as amended as of the date hereof (the "Loan Agreement"), the payment of which has been guaranteed by the Company and Air Realty Group, LLC (the "Guarantors"), (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a Guarantor, provided that such indebtedness issued in exchange for or to refinance Senior Indebtedness or arising from the satisfaction of Senior Indebtedness by a Guarantor is on commercially reasonable terms as of the date of incurrence not to exceed the principal amount under such Senior Indebtedness and provided further that the Company provides the Holder with prior written notice of such action.

(b) Upon the acceleration of any Senior Indebtedness or upon the maturity of all or any portion of the principal amount of any Senior Indebtedness by lapse of time, acceleration or otherwise, all such Senior Indebtedness which has been so accelerated or matured shall first indefeasibly be paid in full before any payment is made by the Company or any person acting on behalf of the Company on account of any obligations evidenced by this Note.

(c) The Company shall not pay any principal portion of this Note, or interest accrued hereon, if at such time there exists a Blockage Event (as hereafter defined) and written notice thereof has been given to the Company and the Holder by the holders of the Senior Indebtedness.

(d) A "Blockage Event" is deemed to exist for the period of time commencing on the date of receipt by the Holder of written notice of the occurrence of a Default or an Event of Default (as defined in the instruments evidencing the Senior Indebtedness), provided that the failure to pay accrued interest on this Note or the other Notes when due shall not give rise to a Blockage Event in the absence of another Default or Event of Default, which notice shall specify such Default or Event of Default, and ending on:

(i) the date such Default or Event of Default under the Senior Indebtedness, as applicable, is cured or waived, provided that such Default or Event of Default is the result of the failure to pay any amount due thereunder; or

(ii) in the case of any other Default or Event of Default under the Senior Indebtedness, the earlier of (A) the date on which Holder has received written notice of such Default or Event of Default shall have been cured or waived and (B) the date that is 365 days after the occurrence of such Default or Event of Default, provided that a Blockage Event with respect to a single specified Default or Event of Default may be deemed to occur only once for each twelve-month period, provided, further, that no Default or Event of Default that existed at the commencement of, or during the pendency of, a Blockage Event shall serve as the basis for the institution of any subsequent Blockage Event.

A Blockage Event shall not be deemed to have existed during the period of time commencing on the date upon which the holder of this Note or holders of other Notes accelerate payment of the principal amount of this Note or such other Notes as a result of any Event of Default hereunder or under such other Notes and ending on the 365th day after written notice of such acceleration given by the holder or such other holders to the Company and the holders of the instruments evidencing the Senior Indebtedness; provided that in no event shall the Company pay the holder of this Note or the holders of any other Notes the principal amount so accelerated if a Blockage Event then exists until the Senior Indebtedness has been paid in full.

(e) At any time there exists a Blockage Event, (i) the Company shall not, directly or indirectly, make any payment of any part of this Note, (ii) the Holder shall not demand or accept from the Company or any other person any such payment or cancel, set-off or otherwise discharge any part of the indebtedness represented by this Note, and (iii) neither the Company nor the Holder shall otherwise take or permit any action prejudicial to or inconsistent with the priority position of any holder of Senior Indebtedness over the Holder of this Note.

(f) No right of any holder of Senior Indebtedness to enforce the subordination provisions of this obligation shall be impaired by any act or failure to act by the Company or the Holder or by their failure to comply with this Note or any other agreement or document evidencing, related to or securing the obligations hereunder. Without in any way limiting the generality of the preceding sentence, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder and without impairing or releasing the subordination provided in this Note or the obligations of the Holder to the holders of Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment of any Senior Indebtedness provided that such change does not materially impact Holder in an adverse manner; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing any Senior Indebtedness; (iii) release any person or entity liable in any manner for the collection of any Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company or any other person or entity.

(g) In the event that the Company shall make any payment or prepayment to the Holder on account of the obligations under this Note which is prohibited by this Section, such payment shall be held by the Holder, in trust for the benefit of, and shall be paid forthwith over and delivered to, the holders of Senior Indebtedness (pro rata as to each of such holders on the basis of the respective amounts and priorities of Senior Indebtedness held by them) to the extent necessary to pay all Senior Indebtedness due to such holders of Senior Indebtedness in full in accordance with its terms (whether or not such Senior Indebtedness is due and owing), after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness.

(h) After all Senior Indebtedness indefeasibly is paid in full and until the obligations under the Note are paid in full, the Holder shall be subrogated to the rights of holders of Senior Indebtedness to the extent that distributions otherwise payable to the Holder have been applied to the payment of Senior Indebtedness. For purposes of such subrogation, no payments or distributions to holders of such Senior Indebtedness of any cash, property or securities to which the Holder would be entitled except for the provisions of this Section and no payment over pursuant to the provisions of this Section to holders of such Senior Indebtedness by the Holder, shall, as between the Company, its creditors other than holders of such Senior Indebtedness, and the Holder, be deemed to be a payment by the Company to or on account of such Senior Indebtedness, it being understood that the provisions of this Section are solely for the purpose of defining the relative rights of the holders of such Senior Indebtedness, on the one hand and the Holder, on the other hand.

(i) In any insolvency, receivership, bankruptcy, dissolution, liquidation or reorganization proceeding, or in any other proceeding, whether voluntary or involuntary, by or against the Company under any bankruptcy or insolvency law or laws relating to relief of debtors, to compositions, extensions or readjustments of indebtedness:

(i) the claims of any holders of Senior Indebtedness against the Company shall be paid indefeasibly in full in cash or such payment shall have been provided for in a manner acceptable to the holders of at least a majority of the then outstanding principal amount of the Senior Indebtedness before any payment is made to the Holder;

(ii) until all Senior Indebtedness is indefeasibly paid in full in cash or such payment shall have been provided for in a manner acceptable to the holders of at least a majority of the then outstanding principal amount of the Senior Indebtedness before any payment is made to the Holder, any distribution to which the Holder would be entitled but for this Section shall be made to holders of Senior Indebtedness, except for distribution of securities issued by the Company which are subordinate and junior in right of payment to the Senior Indebtedness; and

(iii) the holders of Senior Indebtedness shall have the right to enforce, collect and receive every such payment or distribution and give acquittance therefor. If, in or as a result of any action case or proceeding under Title 11 of the United States Code, as amended from time to time, or any comparable statute, relating to the Company, the holders of the Senior Indebtedness return, refund or repay to the Company, or any trustee or committee appointed in such case or proceeding receive any payment or proceeds of any collateral in connection with such action, case or proceeding alleging that the receipt of such payments or proceeds by the holders of the Senior Indebtedness was a transfer voidable under state or federal law, then the holders of the Senior Indebtedness shall not be deemed ever to have received such payments or proceeds for purposes of this Note in determining whether and when all Senior Indebtedness has been paid in full and the Company shall pay or cause to be paid, and the Holder shall be entitled to receive any such funds, proceeds or collateral to satisfy all amounts due hereunder. In the event the holders of Senior Indebtedness receive amounts in excess of payment in full (cash) of amounts outstanding in respect of Senior Indebtedness (without giving effect to whether claims in respect of the Senior Indebtedness are allowed in any insolvency proceeding), the holders of Senior Indebtedness shall pay such excess amounts to the Holder.

(k) By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the holder of any Senior Indebtedness in order to implement the foregoing provisions of this Section.

2. Events of Default.

(a) The occurrence of any of the following events shall constitute a default ("Event of Default"):

(i) Failure to Pay Principal or Interest. The Company fails to pay any installment of principal, interest or other sum due under this Note within ten days after the same becomes due, including without limitation the failure to pay due to the existence of a Blockage Event.

(ii) Receiver or Trustee. The Company shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business; or such a receiver or trustee shall otherwise be appointed without the consent of the Company is not dismissed within sixty (60) days of appointment.

(iii) Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings or relief under any bankruptcy law or any law, or the issuance of any notice in relation to such event, for the relief of debtors shall be instituted by or against the Company and if instituted against Company are not dismissed within sixty (60) days of initiation.

(b) Upon the occurrence and during the continuance of any Event of Default, upon notice to the Company and the holders of the Senior Indebtedness, the holders of a majority of the unpaid principal amount of the Notes then outstanding may demand the payment of the unpaid principal amount of the Notes, which together with all interest accrued thereon and other amounts payable hereunder shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, subject to the provisions of Section 1(a) hereof, and the Holder may immediately enforce any and all of the Holder's rights and remedies provided herein or any other rights or remedies afforded by law.

3. Pro Rata Treatment of Noteholders. Each payment or prepayment of principal of this Note shall be made to the holder of the Notes pro rata in accordance with the respective unpaid principal amounts of such holders' respective Notes. Each payment of interest on the Notes shall be made to the holders of the Notes pro rata in accordance with the amounts of interest due and payable to such holders under such holders' respective Notes. Each distribution of cash, property, securities or other value received by the holders of the Notes in respect of the indebtedness outstanding under the Notes, after payment of collection and other expenses as provided in the Notes, shall be apportioned to such holders pro rata in accordance with the respective unpaid principal amounts of and interest on such holders' respective Notes.

4. Note Register. The Company shall maintain a transfer agent, which may be the transfer agent for the Common Stock or the Company itself, for the registration of Notes. Upon any transfer of this Note in accordance with the provisions hereof, the Company shall register or cause the transfer agent to register such transfer on the Note register.

5. Record Owner. The Company may deem the person in whose name this Note shall be registered upon the registry books of the Company to be, and may treat such person as, the absolute owner of this Note, and the Company shall not be affected by any notice to the contrary. All such payments shall be valid and effective to satisfy and discharge the liability upon this Note to the extent of the sum or sums so paid.

6. Miscellaneous.

(a) Waiver. The holders of a majority of the unpaid principal amount of the Notes then outstanding may waive any provision or term of this Note. No failure or delay on the part of Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

(b) Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or electronic mail, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by electronic mail, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company to: Air Industries Group, 360 Motor Parkway, Suite 100, Hauppauge, New York 11788, Attn: Michael Recca, e-mail mrecca@airindustriessgroup.com, with a copy by e-mail only to: Mandelbaum Salsburg, 1270 Avenue of the Americas, Suite 1808, New York, NY 10020, Attn: Vincent J. McGill, Esq., e-mail: vmgill@lawfirm.ms, and (ii) if to the Holder, at the address(es) set forth in the Securities Purchase Agreement.

(c) Terms. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented.

(d) Successors and Assigns. This Note shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of the Holder and its successors and assigns.

(e) Expenses. The Company shall reimburse Holder for all reasonable costs and expenses, including without limitation, reasonable attorneys' fees and expenses, incurred in connection with (i) drafting, negotiating, executing and delivering any amendment, modification or waiver of, or consent with respect to, any matter relating to the rights of Holder hereunder and (ii) enforcing any provisions of this Note and/or collecting any amounts due under this Note.

(f) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the civil or state courts of New York or in the federal courts located in the State and county of New York. Both parties and the individual signing this Agreement on behalf of the Company agree to submit to the jurisdiction of such courts. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs.

(g) Savings Clause. Nothing contained herein shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest required to be paid or other charges hereunder exceed the maximum permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Company to the Holder and thus refunded to the Company.

IN WITNESS WHEREOF, Company has caused this Note to be signed in its name by an authorized officer as of the day set forth above.

AIR INDUSTRIES GROUP

By: /s/ Michael Recca
Chief Financial Officer

Acknowledged: /s/ Michael Taglich

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ACCORDINGLY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE BE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO AIR INDUSTRIES GROUP THAT SUCH REGISTRATION IS NOT REQUIRED.

No. AIRI-2019 SN-2
Principal Amount: \$100,000

Issue Date: May 22, 2018

Subordinated Note due May 31, 2019

FOR VALUE RECEIVED, AIR INDUSTRIES GROUP, a Nevada corporation (the "Company") hereby promises to pay to the order of Robert Taglich or assigns (the "Holder"), without demand, the sum of One Hundred Thousand Dollars (\$100,000), together with accrued interest on the unpaid principal amount thereof, on May 31, 2019 (the "Maturity Date"), or such earlier date as the same may become due as provided in Section 2 hereof.

Interest on the unpaid principal amount of this Note shall be payable at the rate of one percent (1%) per month, in cash, on the last day of each calendar month during which this Note remains outstanding, commencing June 30, 2018 (each an "Interest Payment Date") from the date of issuance or the most recent Interest Payment Date until the principal and accrued interest hereon has been paid in full. Upon the occurrence and continuation of an Event of Default (as defined in Section 2 below), in addition to the right of the Holder to demand payment of all amounts due hereunder, interest shall accrue and be payable on all accrued but unpaid interest at the rate of 1.25% per month; provided that upon the occurrence and continuation of a failure to timely pay the principal amount of this Note, interest shall accrue and be payable on such principal amount at the rate of 1.25% per month and shall no longer be payable on interest accrued but unpaid.

This Note is one of a series of the Company's subordinated notes due May 31, 2019 in the aggregate principal amount of \$1,200,000 (together with any other Notes issued as contemplated by this Note, the "Notes").

This Note may be prepaid in whole or in part at any time but only with the prior consent of the Holder. All payments made pursuant to this Note shall be applied first to reimbursable expenses, interest accrued, if any, and then principal.

The following is a statement of rights of the Holder and the conditions to which this Note is subject, and to which the Holder, by acceptance of this Note, agrees:

1. Subordination. (a) This Note will be subordinate and inferior to the Company's Senior Indebtedness (as hereinafter defined). The Company for itself, its successors and assigns, covenants and agrees and the Holder of this Note, for himself, his successors and assigns, by his acceptance of this Note likewise covenants and agrees that, to the extent provided below, the payment of all amounts due pursuant to this Note is hereby expressly subordinated and junior in right of payment to the extent and in the manner hereinafter set forth, to the Company's Senior Indebtedness. As used herein, the term "Senior Indebtedness" shall mean the principal of, and interest and premium, if any, on any and all, (i) indebtedness of the Company for borrowed money or obligations with respect to which the Company is a guarantor, to banks, insurance companies, or other financial institutions or entities regularly engaged in the business of lending money, in each case as in effect as of the date hereof (other than the Notes), or as may be borrowed hereafter, including without limitation, indebtedness incurred by one or more of the Company's subsidiaries under the Amended and Restated Revolving Credit, Term Loan, Equipment Line and Security Agreement, dated as of June 27, 2013 among Air Industries Machining, Corp., Welding Metallurgy, Inc., Nassau Tool Works, Inc., Woodbine Products Inc., Eur-Pac Corporation, Electronic Connection Corporation, The Sterling Engineering Corporation, and PNC Bank, National Association, as agent for the various lenders named therein, as amended as of the date hereof (the "Loan Agreement"), the payment of which has been guaranteed by the Company and Air Realty Group, LLC (the "Guarantors"), (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a Guarantor, provided that such indebtedness issued in exchange for or to refinance Senior Indebtedness or arising from the satisfaction of Senior Indebtedness by a Guarantor is on commercially reasonable terms as of the date of incurrence not to exceed the principal amount under such Senior Indebtedness and provided further that the Company provides the Holder with prior written notice of such action.

(b) Upon the acceleration of any Senior Indebtedness or upon the maturity of all or any portion of the principal amount of any Senior Indebtedness by lapse of time, acceleration or otherwise, all such Senior Indebtedness which has been so accelerated or matured shall first indefeasibly be paid in full before any payment is made by the Company or any person acting on behalf of the Company on account of any obligations evidenced by this Note.

(c) The Company shall not pay any principal portion of this Note, or interest accrued hereon, if at such time there exists a Blockage Event (as hereafter defined) and written notice thereof has been given to the Company and the Holder by the holders of the Senior Indebtedness.

(d) A "Blockage Event" is deemed to exist for the period of time commencing on the date of receipt by the Holder of written notice of the occurrence of a Default or an Event of Default (as defined in the instruments evidencing the Senior Indebtedness), provided that the failure to pay accrued interest on this Note or the other Notes when due shall not give rise to a Blockage Event in the absence of another Default or Event of Default, which notice shall specify such Default or Event of Default, and ending on:

(i) the date such Default or Event of Default under the Senior Indebtedness, as applicable, is cured or waived, provided that such Default or Event of Default is the result of the failure to pay any amount due thereunder; or

(ii) in the case of any other Default or Event of Default under the Senior Indebtedness, the earlier of (A) the date on which Holder has received written notice of such Default or Event of Default shall have been cured or waived and (B) the date that is 365 days after the occurrence of such Default or Event of Default, provided that a Blockage Event with respect to a single specified Default or Event of Default may be deemed to occur only once for each twelve-month period, provided, further, that no Default or Event of Default that existed at the commencement of, or during the pendency of, a Blockage Event shall serve as the basis for the institution of any subsequent Blockage Event.

A Blockage Event shall not be deemed to have existed during the period of time commencing on the date upon which the holder of this Note or holders of other Notes accelerate payment of the principal amount of this Note or such other Notes as a result of any Event of Default hereunder or under such other Notes and ending on the 365th day after written notice of such acceleration given by the holder or such other holders to the Company and the holders of the instruments evidencing the Senior Indebtedness; provided that in no event shall the Company pay the holder of this Note or the holders of any other Notes the principal amount so accelerated if a Blockage Event then exists until the Senior Indebtedness has been paid in full.

(e) At any time there exists a Blockage Event, (i) the Company shall not, directly or indirectly, make any payment of any part of this Note, (ii) the Holder shall not demand or accept from the Company or any other person any such payment or cancel, set-off or otherwise discharge any part of the indebtedness represented by this Note, and (iii) neither the Company nor the Holder shall otherwise take or permit any action prejudicial to or inconsistent with the priority position of any holder of Senior Indebtedness over the Holder of this Note.

(f) No right of any holder of Senior Indebtedness to enforce the subordination provisions of this obligation shall be impaired by any act or failure to act by the Company or the Holder or by their failure to comply with this Note or any other agreement or document evidencing, related to or securing the obligations hereunder. Without in any way limiting the generality of the preceding sentence, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder and without impairing or releasing the subordination provided in this Note or the obligations of the Holder to the holders of Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment of any Senior Indebtedness provided that such change does not materially impact Holder in an adverse manner; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing any Senior Indebtedness; (iii) release any person or entity liable in any manner for the collection of any Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company or any other person or entity.

(g) In the event that the Company shall make any payment or prepayment to the Holder on account of the obligations under this Note which is prohibited by this Section, such payment shall be held by the Holder, in trust for the benefit of, and shall be paid forthwith over and delivered to, the holders of Senior Indebtedness (pro rata as to each of such holders on the basis of the respective amounts and priorities of Senior Indebtedness held by them) to the extent necessary to pay all Senior Indebtedness due to such holders of Senior Indebtedness in full in accordance with its terms (whether or not such Senior Indebtedness is due and owing), after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness.

(h) After all Senior Indebtedness indefeasibly is paid in full and until the obligations under the Note are paid in full, the Holder shall be subrogated to the rights of holders of Senior Indebtedness to the extent that distributions otherwise payable to the Holder have been applied to the payment of Senior Indebtedness. For purposes of such subrogation, no payments or distributions to holders of such Senior Indebtedness of any cash, property or securities to which the Holder would be entitled except for the provisions of this Section and no payment over pursuant to the provisions of this Section to holders of such Senior Indebtedness by the Holder, shall, as between the Company, its creditors other than holders of such Senior Indebtedness, and the Holder, be deemed to be a payment by the Company to or on account of such Senior Indebtedness, it being understood that the provisions of this Section are solely for the purpose of defining the relative rights of the holders of such Senior Indebtedness, on the one hand and the Holder, on the other hand.

(i) In any insolvency, receivership, bankruptcy, dissolution, liquidation or reorganization proceeding, or in any other proceeding, whether voluntary or involuntary, by or against the Company under any bankruptcy or insolvency law or laws relating to relief of debtors, to compositions, extensions or readjustments of indebtedness:

(i) the claims of any holders of Senior Indebtedness against the Company shall be paid indefeasibly in full in cash or such payment shall have been provided for in a manner acceptable to the holders of at least a majority of the then outstanding principal amount of the Senior Indebtedness before any payment is made to the Holder;

(ii) until all Senior Indebtedness is indefeasibly paid in full in cash or such payment shall have been provided for in a manner acceptable to the holders of at least a majority of the then outstanding principal amount of the Senior Indebtedness before any payment is made to the Holder, any distribution to which the Holder would be entitled but for this Section shall be made to holders of Senior Indebtedness, except for distribution of securities issued by the Company which are subordinate and junior in right of payment to the Senior Indebtedness; and

(iii) the holders of Senior Indebtedness shall have the right to enforce, collect and receive every such payment or distribution and give acquittance therefor. If, in or as a result of any action case or proceeding under Title 11 of the United States Code, as amended from time to time, or any comparable statute, relating to the Company, the holders of the Senior Indebtedness return, refund or repay to the Company, or any trustee or committee appointed in such case or proceeding receive any payment or proceeds of any collateral in connection with such action, case or proceeding alleging that the receipt of such payments or proceeds by the holders of the Senior Indebtedness was a transfer voidable under state or federal law, then the holders of the Senior Indebtedness shall not be deemed ever to have received such payments or proceeds for purposes of this Note in determining whether and when all Senior Indebtedness has been paid in full and the Company shall pay or cause to be paid, and the Holder shall be entitled to receive any such funds, proceeds or collateral to satisfy all amounts due hereunder. In the event the holders of Senior Indebtedness receive amounts in excess of payment in full (cash) of amounts outstanding in respect of Senior Indebtedness (without giving effect to whether claims in respect of the Senior Indebtedness are allowed in any insolvency proceeding), the holders of Senior Indebtedness shall pay such excess amounts to the Holder.

(k) By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the holder of any Senior Indebtedness in order to implement the foregoing provisions of this Section.

2. Events of Default.

(a) The occurrence of any of the following events shall constitute a default ("Event of Default"):

(i) Failure to Pay Principal or Interest. The Company fails to pay any installment of principal, interest or other sum due under this Note within ten days after the same becomes due, including without limitation the failure to pay due to the existence of a Blockage Event.

(ii) Receiver or Trustee. The Company shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business; or such a receiver or trustee shall otherwise be appointed without the consent of the Company is not dismissed within sixty (60) days of appointment.

(iii) Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings or relief under any bankruptcy law or any law, or the issuance of any notice in relation to such event, for the relief of debtors shall be instituted by or against the Company and if instituted against Company are not dismissed within sixty (60) days of initiation.

(b) Upon the occurrence and during the continuance of any Event of Default, upon notice to the Company and the holders of the Senior Indebtedness, the holders of a majority of the unpaid principal amount of the Notes then outstanding may demand the payment of the unpaid principal amount of the Notes, which together with all interest accrued thereon and other amounts payable hereunder shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, subject to the provisions of Section 1(a) hereof, and the Holder may immediately enforce any and all of the Holder's rights and remedies provided herein or any other rights or remedies afforded by law.

3. Pro Rata Treatment of Noteholders. Each payment or prepayment of principal of this Note shall be made to the holder of the Notes pro rata in accordance with the respective unpaid principal amounts of such holders' respective Notes. Each payment of interest on the Notes shall be made to the holders of the Notes pro rata in accordance with the amounts of interest due and payable to such holders under such holders' respective Notes. Each distribution of cash, property, securities or other value received by the holders of the Notes in respect of the indebtedness outstanding under the Notes, after payment of collection and other expenses as provided in the Notes, shall be apportioned to such holders pro rata in accordance with the respective unpaid principal amounts of and interest on such holders' respective Notes.

4. Note Register. The Company shall maintain a transfer agent, which may be the transfer agent for the Common Stock or the Company itself, for the registration of Notes. Upon any transfer of this Note in accordance with the provisions hereof, the Company shall register or cause the transfer agent to register such transfer on the Note register.

5. Record Owner. The Company may deem the person in whose name this Note shall be registered upon the registry books of the Company to be, and may treat such person as, the absolute owner of this Note, and the Company shall not be affected by any notice to the contrary. All such payments shall be valid and effective to satisfy and discharge the liability upon this Note to the extent of the sum or sums so paid.

6. Miscellaneous.

(a) Waiver. The holders of a majority of the unpaid principal amount of the Notes then outstanding may waive any provision or term of this Note. No failure or delay on the part of Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

(b) Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or electronic mail, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by electronic mail, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company to: Air Industries Group, 360 Motor Parkway, Suite 100, Hauppauge, New York 11788, Attn: Michael Recca, e-mail mrecca@airindustriestgroup.com, with a copy by e-mail only to: Mandelbaum Salsburg, 1270 Avenue of the Americas, Suite 1808, New York, NY 10020, Attn: Vincent J. McGill, Esq., e-mail: vmcgill@lawfirm.ms, and (ii) if to the Holder, at the address(es) set forth in the Securities Purchase Agreement.

(c) Terms. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented.

(d) Successors and Assigns. This Note shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of the Holder and its successors and assigns.

(e) Expenses. The Company shall reimburse Holder for all reasonable costs and expenses, including without limitation, reasonable attorneys' fees and expenses, incurred in connection with (i) drafting, negotiating, executing and delivering any amendment, modification or waiver of, or consent with respect to, any matter relating to the rights of Holder hereunder and (ii) enforcing any provisions of this Note and/or collecting any amounts due under this Note.

(f) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the civil or state courts of New York or in the federal courts located in the State and county of New York. Both parties and the individual signing this Agreement on behalf of the Company agree to submit to the jurisdiction of such courts. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs.

(g) Savings Clause. Nothing contained herein shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest required to be paid or other charges hereunder exceed the maximum permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Company to the Holder and thus refunded to the Company.

IN WITNESS WHEREOF, Company has caused this Note to be signed in its name by an authorized officer as of the day set forth above.

AIR INDUSTRIES GROUP

By: /s/ Michael Recca
Chief Financial Officer

Acknowledged: /s/ Robert Taglich

**SIXTEENTH AMENDMENT TO AMENDED AND RESTATED
REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT**

THIS SIXTEENTH AMENDMENT TO AMENDED AND RESTATED REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT (this "Agreement") is entered into May 30, 2018 by and among AIR INDUSTRIES MACHINING, CORP. (as successor by merger with Gales Industries Acquisition Corp., Inc.) ("Air"), a corporation organized under the laws of the State of New York, WELDING METALLURGY, INC. (as successor by merger with WMS Merger Corp.) ("WM"), a corporation organized under the laws of the State of New York, NASSAU TOOL WORKS, INC. (formerly known as NTW Operating Inc.) ("Nassau"), a corporation organized under the laws of the State of New York, WOODBINE PRODUCTS, INC. ("WP"), a corporation organized under the laws of the State of New York, EUR-PAC CORPORATION ("Eur-Pac"), a corporation organized under the laws of the State of Connecticut, ELECTRONIC CONNECTION CORPORATION ("ECC"), a corporation organized under the laws of the State of Connecticut, and THE STERLING ENGINEERING CORPORATION ("STERLING"), a corporation organized under the laws of the State of Connecticut, ("Sterling," and collectively with Air, WM, Nassau, WP, EUR-PAC and ECC, the "Borrower"), a corporation organized under the laws of the State of New York, AIR INDUSTRIES GROUP (as successor by merger with Air Industries Group, Inc. f/k/a Gales Industries Incorporated, a Delaware corporation) ("AIR GROUP") a corporation organized under the laws of the State of Nevada and AIR REALTY GROUP, LLC ("REALTY," and collectively with AIR GROUP and with the Borrower, the "Obligor"), a limited liability company organized under the laws of the State of Connecticut, and PNC BANK, NATIONAL ASSOCIATION ("PNC"), the various financial institutions named therein or which hereafter become a party thereto, (together with PNC, collectively, "Lenders") and PNC as agent for Lenders (in such capacity, "Agent").

RECITALS

WHEREAS, Obligor and PNC entered into a certain Amended and Restated Revolving Credit, Term Loan and Security Agreement dated June 27, 2013 (which has been, is being and may be further amended, replaced, restated, modified and/or extended, the "Loan Agreement");

WHEREAS, Borrower has requested that PNC consent to the sale of all of the assets of WM to CPI Aerostructures, Inc. for valuable consideration, specifically gross cash proceeds of up to approximately \$10,000,000, including contingency payments (the "Sale");

WHEREAS, as a condition to PNC's consent to the Sale, Borrower has agreed to apply the proceeds of the Sale to, among other things, the following specific uses: (i) pay down the outstanding balance of Revolving Advances in an amount necessary to maintain compliance with Section 2.6 of the Loan Agreement, (ii) \$1,000,000 to be applied and utilized by Borrower for Borrower's working capital needs; and (iii) any remaining balance to be applied towards the existing Term Loan; and

WHEREAS, Obligor has requested modifications to the terms of the Loan Agreement as set forth in this Agreement.

Now, therefore, in consideration of PNC's continued extension of credit and the agreements contained herein, the parties agree as follows:

AGREEMENT

1) **ACKNOWLEDGMENT OF BALANCE.** Obligor acknowledges that the most recent statement of account sent to Obligor with respect to the Obligations is correct.

2) **MODIFICATIONS.** The Loan Agreement be and hereby is modified as follows:

(a) The following new definitions are hereby added to Section 1.2 of the Loan Agreement to read as follows:

“Beneficial Owner” shall mean, for each Borrower, each of the following: (a) each individual, if any who, directly or indirectly, owns 25% or more of such Borrower's Equity Interests; and (b) a single individual with significant responsibility to control, manage, or direct such Borrower.

“Certificate of Beneficial Ownership” shall mean, for each Borrower, a certificate in form and substance acceptable to Agent (as amended or modified by Agent from time to time in its sole discretion), certifying, among other things, the Beneficial Owner of such Borrower.

“Sixteenth Amendment Closing Date” shall mean May 30, 2018.

“WM Sale” shall mean the sale of the assets of WM to CPI Aerostructures, Inc. for valuable consideration, specifically gross cash proceeds of up to approximately \$10,000,000.

(b) The following definitions contained in Section 1.2 of the Loan Agreement are hereby amended to read as follows:

“EBITDA” shall mean for any period with regard to Air Group the sum of (i) Earnings Before Interest and Taxes for such period on a consolidated basis plus (ii) depreciation expenses for such period on a consolidated basis, plus (iii) amortization expenses for such period on a consolidated basis, plus (iv) stock compensation expense from continuing operations, as defined per GAAP.

“Inventory Sublimit” shall mean (i) 15,000,000 until the WM Sale is closed and (ii) \$10,000,000 upon the closing of the WM Sale and thereafter.

“Maximum Loan Amount” shall mean (i) Until the WM Sale is closed, \$22,856,000 less repayments of the Term Loan and (ii) Upon the closing of the WM Sale and thereafter, \$17,856,000.00 less repayments of the Term Loan.]

“Maximum Revolving Advance Amount” shall mean (i) Until the WM Sale is closed, \$20,000,000, and (ii) Upon the closing of the WM Sale and thereafter, \$15,000,000.00.

“Revolving Interest Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus three percent (3.00%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus four and one half percent (4.50%) with respect to Eurodollar Rate Loans.

“Term Loan Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus three percent (3.00%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus four and one half percent (4.50%) with respect to Eurodollar Rate Loans.

“Termination Date” shall mean December 31, 2018 or such other date as the Lenders may agree in writing to extend the Termination Date until, without there being any obligation on the part of the Lenders to extend the Termination Date.

(c) Section 2.1 is hereby deleted and replaced with a new Subsection 2.1 to read as follows:

2.1 Revolving Advances.

(a) Amount of Revolving Advances. Subject to the terms and conditions set forth in this Agreement specifically including Section 2.1(b), each Lender, severally and not jointly, will make Revolving Advances to Borrowers in aggregate amounts outstanding at any time equal to such Lender’s Revolving Commitment Percentage of the lesser of (x) the Maximum Revolving Advance Amount, less the aggregate Maximum Undrawn Amount of all outstanding Letters of Credit or (y) an amount equal to the sum of:

(i) up to the sum of (A) 85%, subject to the provisions of Section 2.1(b) hereof (the “Receivables Advance Rate A”), of Eligible Receivables that do not constitute Eligible Unassigned Government Receivables (specifically excluding all Eligible Receivables of Sigma) plus (B) the lesser of (I) 50%, subject to the provisions of Section 2.1(b) hereof (the “Receivables Advance Rate B” and collectively with the Receivables Advance Rate A, the “Receivables Advance Rate”), of Eligible Unassigned Government Receivables (specifically excluding all Eligible Unassigned Government Receivables of Sigma) and (II) the Unassigned Government Receivables Sublimit, plus

(ii) up to the lesser of (A) 75%, subject to the provisions of Section 2.1(b) hereof, of the value of the Eligible Inventory (specifically excluding all Eligible Inventory of Sigma), (B) (1) Until the WM Sale is closed, 90% of the appraised net orderly liquidation value of Eligible Inventory (as evidenced by an Inventory appraisal satisfactory to Agent in its sole discretion exercised in good faith and specifically excluding all Eligible Inventory of Sigma) and (2) Upon the closing of the WM Sale and thereafter, 85% of the appraised net orderly liquidation value of Eligible Inventory (as evidenced by an Inventory appraisal satisfactory to Agent in its sole discretion exercised in good faith and specifically excluding all Eligible Inventory of Sigma), or (C) the Inventory Sublimit in the aggregate at any one time (“Inventory Advance Rate” and together with the Receivables Advance Rate, collectively, the “Advance Rates”), minus

(iii) such reserves as Agent may reasonably deem proper and necessary from time to time.

The amount derived from the sum of (x) Sections 2.1(a)(y)(i) and (ii) minus (y) Section 2.1 (a)(y)(iii) at any time and from time to time shall be referred to as the “Formula Amount”. The Revolving Advances shall be evidenced by one or more secured promissory notes (collectively, the “Revolving Credit Note”) substantially in the form attached hereto as Exhibit 2.1(a).

(b) Discretionary Rights. The Advance Rates may be increased or decreased by Agent at any time and from time to time in the exercise of its reasonable discretion. Each Borrower consents to any such increases or decreases and acknowledges that decreasing the Advance Rates or increasing or imposing reserves may limit or restrict Advances requested by Borrowing Agent. The rights of Agent under this subsection are subject to the provisions of Section 16.2(b).

(d) Section 5.28 is hereby added to the Loan Agreement to read as follows:

5.28 Certificate of Beneficial Ownership. The Certificate of Beneficial Ownership executed and delivered to Agent and Lenders for each Borrower on or prior to the date of this Agreement, as updated from time to time in accordance with this Agreement, is accurate, complete and correct as of the date hereof and as of the date any such update is delivered. The Borrower acknowledges and agrees that the Certificate of Beneficial Ownership is one of the Other Documents.

(e) Section 6.16 is hereby added to the Loan Agreement to read as follows:

6.16 Certificate of Beneficial Ownership and Other Additional Information. Provide to Agent and the Lenders: (i) confirmation of the accuracy of the information set forth in the most recent Certificate of Beneficial Ownership provided to the Agent and Lenders; (ii) a new Certificate of Beneficial Ownership, in form and substance acceptable to Agent and each Lenders, when the individual(s) to be identified as a Beneficial Owner have changed; and (iii) such other information and documentation as may reasonably be requested by Agent or any Lender from time to time for purposes of compliance by Agent or such Lender with applicable laws (including without limitation the USA Patriot Act and other “know your customer” and anti-money laundering rules and regulations), and any policy or procedure implemented by Agent or such Lender to comply therewith.

(f) Subsection 6.5(a) and 6.5(b) are hereby deleted from the Loan Agreement in their entirety and replaced with the following new Section 6.5:

Minimum EBITDA. Maintain EBITDA of not less than (i) \$75,000 for the three-month period ending March 31, 2018, (ii) \$485,000 for the six month period ending June 30, 2018, and (iii) \$1,200,000 for the nine-month period ending September 30, 2018.

(g) Subsection 7.5 is hereby deleted from the Loan Agreement in its entirety and replaced with the following new Section 7.5:

7.5 Loans. Make advances, loans or extensions of credit to any Person, including any Parent, Subsidiary or Affiliate except with respect to the extension of commercial trade credit in connection with the sale of Inventory in the Ordinary Course of Business.

(h) Subsection 7.7 is hereby deleted from the Loan Agreement in its entirety and replaced with the following new Section 7.7:

7.7. Dividends. Declare, pay or make any dividend or distribution on any shares of the common stock or preferred stock of Obligor (other than dividends or distributions payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock, or of any options to purchase or acquire any such shares of common or preferred stock of Obligor.

- 3) **GUARANTOR'S RATIFICATION.** (A) AIR GROUP hereby reaffirms its continuing obligations under the terms of that certain Guaranty and Suretyship Agreement dated August 24, 2007 executed by Air Industries Group, Inc. f/k/a Gales Industries Incorporated, a Delaware corporation, and (B) Air Realty Group, LLC, a Connecticut limited liability company, hereby reaffirms its continuing obligations under the terms of that certain Continuing Unlimited Guaranty dated March 9, 2015 (collectively, the "Guaranty"), and each acknowledges that (i) it has read this Agreement, (ii) the Obligations under the Loan Agreement are secured by the Guaranty, and (iii) they make such reaffirmation with full knowledge of the terms thereof.
- 4) **WAIVER OF DEFAULT.** Agent, on behalf of the Lenders, hereby waives Borrower's failure to comply with Subsection 6.5(a), the Fixed Charge Coverage Ratio covenant, for the periods ending September 30, 2017, December 31, 2017 and March 31, 2018. Such waiver is solely for such periods and does not extend to any other default which might exist now or in the future.
- 5) **CONSENT TO SALE AND THE USE OF PROCEEDS THEREOF AND RELEASE OF COLLATERAL.** Subject to the conditions set forth herein, Agent, on behalf of the Lenders, will consent to the Sale and the application of the net proceeds thereof to the uses described in the third Recital of this Agreement. Agent's consent to the Sale is conditioned upon (i) Agent's receipt of the specific list of assets to be sold pursuant to the Sale, (ii) Agent's receipt of copies of all documentation executed in connection with the Sale, including but not limited to the purchase agreement, bill of sale, and closing statement with respect thereto, (iii) \$2,000,000 of the escrowed funds pursuant to the Sale being assigned to PNC as Collateral for the Obligations, and (iv) Agent's receipt of any other information or documentation reasonably requested by Agent. Upon the closing of the Sale to Agent's satisfaction, Agent will unconditionally release WM from any and all obligations relating to, arising from, or in connection with, the Loan Agreement and the Other Documents, and will release and terminate any security interest, or lien granted by WM to Agent or Lenders thereunder on the assets sold pursuant to the Sale. Agent will authorize an appropriate letter to the purchaser of the assets pursuant to the Sale to confirm PNC's release of its security interest and lien on such assets being sold. For the avoidance of doubt, WM shall be recognized as a discontinued operation as of the fiscal year ended December 31, 2017.
- 6) **ACKNOWLEDGMENTS.** Borrower acknowledges and represents that:
- (A) the Loan Agreement and Other Documents, as amended hereby, are in full force and effect without any defense, claim, counterclaim, right or claim of set-off;
- (B) to the best of its knowledge, no default by the Agent or Lenders in the performance of their duties under the Loan Agreement or the Other Documents has occurred;
- (C) all representations and warranties of the Borrower contained herein, in the Loan Agreement and in the Other Documents are true and correct in all material respects as of this date, except for any representation or warranty that specifically refers to an earlier date;
- (D) Borrower has taken all necessary action to authorize the execution and delivery of this Agreement; and
- (E) this Agreement is a modification of an existing obligation and is not a novation.

- 7) **PRECONDITIONS.** As preconditions to the effectiveness of any of the modifications, consents, or waivers contained herein, the Borrower agrees to:
- (A) provide the Agent with this Agreement, properly executed;
 - (B) pay to Agent an Amendment and Waiver Fee in the amount of \$125,000 payable as follows: (i) \$62,500 due on the Sixteenth Amendment Closing Date and (ii) the remaining \$62,500 due thirty (30) days later;
 - (C) provide the Agent with Secretary's Certificates and Resolutions of the Obligor approving the transaction;
 - (D) provide Agent with a copy of all executed documentation with respect to the Sale;
 - (E) pay all legal fees incurred by the Agent in entering into this Agreement to Wilentz, Goldman & Spitzer; and
 - (F) pay all other fees and costs incurred by the Agent in entering into this Agreement.
- 8) **MISCELLANEOUS.** This Agreement shall be construed in accordance with and governed by the laws of the State of New York, without reference to that state's conflicts of law principles. This Agreement, the Loan Agreement and the Other Documents constitute the sole agreement of the parties with respect to the subject matter thereof and supersede all oral negotiations and prior writings with respect to the subject matter thereof. No amendment of this Agreement, and no waiver of any one or more of the provisions hereof shall be effective unless set forth in writing and signed by the parties hereto. The illegality, unenforceability or inconsistency of any provision of this Agreement shall not in any way affect or impair the legality, enforceability or consistency of the remaining provisions of this Agreement, the Loan Agreement or the Other Documents. This Agreement, the Loan Agreement and the Other Documents are intended to be consistent. However, in the event of any inconsistencies among this Agreement, the Loan Agreement and/or any of the Other Documents, the terms of this Agreement, then the Loan Agreement, shall control. This Agreement may be executed in any number of counterparts and by the different parties on separate counterparts. Each such counterpart shall be deemed an original, but all such counterparts shall together constitute one and the same agreement.
- 9) **DEFINITIONS.** The terms used herein and not otherwise defined or modified herein shall have the meanings ascribed to them in the Loan Agreement. The terms used herein and not otherwise defined or modified herein or defined in the Loan Agreement shall have the meanings ascribed to them by the Uniform Commercial Code as enacted in State of New York.

(SIGNATURES ON NEXT PAGE)

IN WITNESS WHEREOF, the undersigned have signed and sealed this Agreement the day and year above written.

ATTEST:

AIR INDUSTRIES MACHINING, CORP.

By: /s/ Michael Recca
Name: MICHAEL RECCA
Title: Chief Financial Officer

By: /s/ Luciano Melluzzo
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

ATTEST:

**WELDING METALLURGY, INC. (as
successor by merger with WMS Merger Corp.)**

By: /s/ Michael Recca
Name: MICHAEL RECCA
Title: Chief Financial Officer

By: /s/ Luciano Melluzzo
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

ATTEST:

**NASSAU TOOL WORKS, INC.
(formerly known as NTW Operating Inc.)**

By: /s/ Michael Recca
Name: MICHAEL RECCA
Title: Chief Financial Officer

By: /s/ Luciano Melluzzo
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

(SIGNATURES CONTINUED ON NEXT PAGE)

ATTEST:

By: /s/ MICHAEL RECCA
Name: MICHAEL RECCA
Title: Chief Financial Officer

ATTEST:

By: /s/ MICHAEL RECCA
Name: MICHAEL RECCA
Title: Chief Financial Officer

ATTEST:

By: /s/ MICHAEL RECCA
Name: MICHAEL RECCA
Title: Chief Financial Officer

ATTEST:

By: /s/ MICHAEL RECCA
Name: MICHAEL RECCA
Title: Chief Financial Officer

AIR INDUSTRIES GROUP

By: /s/ LUCIANO MELLUZZO
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

WOODBINE PRODUCTS, INC.

By: /s/ LUCIANO MELLUZZO
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

EUR-PAC CORPORATION

By: /s/ LUCIANO MELLUZZO
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

ELECTRONIC CONNECTION CORPORATION

By: /s/ LUCIANO MELLUZZO
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

(SIGNATURES CONTINUED ON NEXT PAGE)

ATTEST:

By: /s/ Michael Recca
Name: MICHAEL RECCA
Title: Chief Financial Officer

ATTEST:

By: /s/ Michael Recca
Name: MICHAEL RECCA
Title: Chief Financial Officer

THE STERLING ENGINEERING CORPORATION

By: /s/ Luciano Meluzzo
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

AIR REALTY GROUP, LLC

By: /s/ Luciano Melluzzo
Name: LUCIANO MELLUZZO
Title: Chief Executive Officer

(SIGNATURES CONTINUED ON NEXT PAGE)

**PNC BANK, NATIONAL ASSOCIATION
Lender and as Agent**

By: /s/ Victor Alarcon

Name: VICTOR ALARCON

Title: Senior Vice President

SUBSCRIPTION AGREEMENT

This Subscription Agreement (this "Agreement") is dated as of July 19, 2018 between Air Industries Group, a Nevada corporation (the "Company"), and the person identified on the signature page hereto ("Purchaser").

The Company is offering (the "Offering") pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder, up to 330,000 shares (the "Shares") of the Company's common stock, par value \$0.001 per share (the "Common Stock").

The per share purchase price for the Shares will be the closing price of a share of Common Stock on the NYSE AMERICAN on the trading day immediately prior to the closing for the sale of the Shares, or \$1.60 per share, whichever is lower; provided that if the Purchaser is an affiliate of the Company the per share price shall not be less than the closing price of the Common Stock on the day prior to the date of acceptance of his Subscription Agreement.

The Offering will commence on July 19, 2018, and terminate on the close of business on July 20, 2018 (the "Initial Offering Period"), which period may be extended by the Company for up to an additional 10 days (this additional period and the Initial Offering Period shall be referred to as the "Offering Period"). The Company may hold one or more closings at any time during the Offering Period.

The Company will issue certificates representing the shares purchased by each Purchaser (the "Purchased Shares") against payment of the purchase price therefor (the "Purchase Price") at one or more closings conducted from time to time (each, a "Closing") until the termination or expiration of the Offering Period, or the earlier sale of all of the Shares. The Company has the right to terminate the Offering at any time, or to sell less than all of the Shares. The Company has the right to reject a subscription from any subscriber, in whole or in part.

Purchaser desires to purchase, and the Company is willing to sell to the Purchaser, upon the terms and conditions stated in this Agreement, the number of shares of Common Stock set forth on the signature page hereof, for the total purchase price set forth on the signature page hereof.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and Purchaser agree as follows:

**ARTICLE I.
DEFINITIONS**

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement the following terms have the meanings set forth in this Section 1.1:

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the Securities Act. For the avoidance of doubt, all directors and officers of the Company are deemed Affiliates of the Company.

"Board of Directors" means the board of directors of the Company.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"Commission" means the United States Securities and Exchange Commission.

"Common Stock" means the common stock of the Company, par value \$0.001 per share, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Placement Agent” means Taglich Brothers, Inc.

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Rule 144” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“Rule 424” means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Subsidiary” means any subsidiary of the Company and shall, where applicable, also include any direct or indirect subsidiary of the Company formed or acquired after the date hereof.

“Transfer Agent” means Broadridge Corporate Issuer Solutions, Inc., the current transfer agent of the Company, with a mailing address of P. O. Box 1342, Brentwood, New York 11717 and a facsimile number of (215) 553-5402, and any successor transfer agent of the Company.

ARTICLE II. PURCHASE AND SALE

2.1 **Purchase of the Securities.** Subject to the terms and conditions of this Agreement, the Purchaser, intending to be legally bound, hereby irrevocably subscribes for and agrees to purchase the number of Shares set forth on the signature page hereto, and the Company agrees to issue such Shares against receipt of the Purchase Price.

2.2 **Deliveries.** The Purchaser will deposit the Purchase Price for the Shares to be acquired by Purchaser to an account designated by the Company by wire transfer of immediately available funds. The Company will deliver to the Purchaser his Shares against receipt of the Purchase Price.

**ARTICLE III.
REPRESENTATIONS AND WARRANTIES**

3.1 Representations and Warranties of the Company. Except as set forth in the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation or warranty contained or otherwise made herein to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to Purchaser:

(a) Subsidiaries. All of the direct and indirect subsidiaries of the Company are set forth on Exhibit 21.1 to the Annual Report on Form 10-K filed with the SEC on April 18, 2018, as amended (the "10-K"). The Company owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in: (i) a material adverse effect on the legality, validity or enforceability of this Agreement or the Securities, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under this Agreement (any of (i), (ii) or (iii), a "Material Adverse Effect") and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and otherwise to carry out its obligations hereunder. The execution and delivery of this Agreement by the Company and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's stockholders in connection herewith or therewith. This Agreement has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company of this Agreement, the issuance and sale of the Shares and the consummation by it of the transactions contemplated hereby and thereby do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of this Agreement and the issuance of the Shares, other than: (i) the notice and/or application(s) to NYSE-American for the listing of the Shares on the NYSE-American, (ii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws; and (iii) the consent of PNC Bank, National Association, as the Company's senior lender, under the Amended and Restated Revolving Credit, Term Loan and Security Agreement, as amended (collectively, the "Required Approvals").

(f) Issuance of the Shares. The Shares been duly authorized, and when issued in accordance with the terms set forth in this Agreement, will be duly and validly issued, and constitute the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with their terms.

(g) Capitalization. The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock and 3,000,000 shares of preferred stock, \$.001 par value per share. As of June 30, 2018, there were outstanding 26,205,341 shares of Common Stock and no shares of preferred stock. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by this Agreement. Except as a result of the purchase and sale of the Shares and the issuance of shares to Taglich Brothers, Inc., placement agent for the Shares (the "Placement Agent") and as set forth in the SEC Reports, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire any shares of Common Stock or the capital stock of any Subsidiary, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents or capital stock of any Subsidiary, except for such rights as CPI Aerostructures may have notwithstanding the termination of the Agreement to purchase all of the outstanding shares of Welding Metallurgy, Inc. The issuance and sale of the Shares will not obligate the Company or any Subsidiary to issue shares of Common Stock or other securities to any Person (other than the Purchaser, the other purchasers of the Shares and the Placement Agent) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. There are no outstanding securities or instruments of the Company or any Subsidiary that contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to redeem a security of the Company or such Subsidiary. The Company does not have any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and non-assessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(h) SEC Reports; Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "SEC Reports"). As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest audited financial statements included within the SEC Reports, except as specifically disclosed in a subsequent SEC Report filed prior to the date hereof: (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans or as a result of sales disclosed in the SEC Reports. The Company does not have pending before the Commission any request for confidential treatment of information. Except for the issuance of the Shares, no event, liability, fact, circumstance, occurrence or development has occurred or exists or is reasonably expected to occur or exist with respect to the Company or its Subsidiaries or their respective businesses, properties, operations, assets or financial condition, that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made or deemed made that has not been publicly disclosed at least 1 Trading Day prior to the date that this representation is made.

(j) Litigation. There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of this Agreement or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect, except CPI Aerostructures has threatened to commence an action against the Company as a result of the termination of the Agreement whereby it had the right to acquire Welding Metallurgy, Inc. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(k) Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company, which could reasonably be expected to result in a Material Adverse Effect. None of the Company's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with the Company or such Subsidiary, and neither the Company nor any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. To the knowledge of the Company, no executive officer of the Company or any Subsidiary, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(l) Compliance. Neither the Company nor any Subsidiary: (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), except that the Company has received notice from CPI Aerostructures alleging that the Company has breached the Agreement pursuant to which CPI could have acquired Welding Metallurgy, Inc., (ii) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(m) Environmental Laws. The Company and its Subsidiaries (i) are in compliance with all federal, state, local and foreign laws relating to pollution or protection of human health or the environment (including ambient air, surface water, groundwater, land surface or subsurface strata), including laws relating to emissions, discharges, releases or threatened releases of chemicals, pollutants, contaminants, or toxic or hazardous substances or wastes (collectively, "Hazardous Materials") into the environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, as well as all authorizations, codes, decrees, demands, or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, permits, plans or regulations, issued, entered, promulgated or approved thereunder ("Environmental Laws"); (ii) have received all permits licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses; and (iii) are in compliance with all terms and conditions of any such permit, license or approval, where in each clause (i), (ii) and (iii), the failure to so comply could be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect.

(n) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the SEC Reports, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(o) Title to Assets. The Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them and good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for (i) Liens set forth in the SEC Reports, (ii) such Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and (iii) Liens for the payment of federal, state or other taxes, for which appropriate reserves have been made therefor in accordance with GAAP and, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and the Subsidiaries are in compliance.

(p) Intellectual Property. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights as described in the SEC Reports as necessary or required for use in connection with their respective businesses and which the failure to so have could have a Material Adverse Effect.

(q) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(r) Transactions With Affiliates and Employees. Except as set forth in the SEC Reports, none of the officers or directors of the Company or any Subsidiary and, to the knowledge of the Company, none of the employees of the Company or any Subsidiary is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, providing for the borrowing of money from or lending of money to or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee, stockholder, member or partner, in each case in excess of \$120,000 other than for: (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(s) Sarbanes-Oxley; Internal Accounting Controls. The Company and the Subsidiaries are in compliance with any and all applicable requirements of the Sarbanes-Oxley Act of 2002 that are effective as of the date hereof, and any and all applicable rules and regulations promulgated by the Commission thereunder that are effective as of the date hereof and as of the Closing Date. Except as disclosed in the SEC Reports, the Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company and the Subsidiaries have established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and the Subsidiaries and designed such disclosure controls and procedures to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The Company's certifying officers have evaluated the effectiveness of the disclosure controls and procedures of the Company and the Subsidiaries as of the end of the period covered by the most recently filed periodic report under the Exchange Act (such date, the "Evaluation Date"). The Company presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no changes in the internal control over financial reporting (as such term is defined in the Exchange Act) of the Company and its Subsidiaries that have materially affected, or is reasonably likely to materially affect, the internal control over financial reporting of the Company and its Subsidiaries.

(t) Certain Fees. Except for (i) a sales commission to be paid to the Placement Agent in an amount equal to six percent (6)% of the purchase price of the Shares, payable at the Company's option, in cash or additional shares of Common Stock, no brokerage or finder's fees or commissions are or will be payable by the Company or any Subsidiary to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement. The Purchaser shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by this Agreement.

(u) Private Placement. Assuming the accuracy of the Purchaser's representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Shares by the Company to the Purchaser as contemplated hereby. The issuance and sale of the Shares hereunder does not contravene the rules and regulations of the Trading Market.

(v) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Shares, will not be or be an Affiliate of, an “investment company” within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become an “investment company” subject to registration under the Investment Company Act of 1940, as amended.

(w) Registration Rights. Except as disclosed in the Company’s SEC Reports, no Person has any right to cause the Company to effect the registration under the Securities Act of any securities of the Company or any Subsidiary.

(x) Listing and Maintenance Requirements. The Common Stock is registered pursuant to Section 12(b) of the Exchange Act, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act nor has the Company received any notification that the Commission is contemplating terminating such registration. The Company has not, in the 12 months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements. The Common Stock is currently eligible for electronic transfer through the Depository Trust Company or another established clearing corporation and the Company is current in payment of the fees to the Depository Trust Company (or such other established clearing corporation) in connection with such electronic transfer.

(y) Disclosure. All of the disclosure furnished by or on behalf of the Company to the Purchaser regarding the Company and its Subsidiaries, their respective businesses and the transactions contemplated hereby, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(z) No Integrated Offering. Assuming the accuracy of the Purchaser’s representations and warranties set forth in Section 3.2, neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Shares to be integrated with prior offerings by the Company for purposes of (i) the Securities Act which would require the registration of any such securities under the Securities Act, or (ii) any applicable shareholder approval provisions of any Trading Market on which any of the securities of the Company are listed or designated.

(aa) Solvency. Based on the consolidated financial condition of the Company as of the Closing Date, after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder: (i) the fair saleable value of the Company’s assets exceeds the amount that will be required to be paid on or in respect of the Company’s existing debts and other liabilities (including known contingent liabilities) as they mature, (ii) the Company’s assets do not constitute unreasonably small capital to carry on its business as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, consolidated and projected capital requirements and capital availability thereof, and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its liabilities when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. For the purposes of this Agreement, “Indebtedness” means (x) any liabilities for borrowed money or amounts owed in excess of \$50,000 (other than trade accounts payable incurred in the ordinary course of business), (y) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company’s consolidated balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (z) the present value of any lease payments in excess of \$50,000 due under leases required to be capitalized in accordance with GAAP. Neither the Company nor any Subsidiary is in default with respect to any Indebtedness.

(bb) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and its Subsidiaries each (i) has made or filed all United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations and (iii) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company or of any Subsidiary know of no basis for any such claim.

(cc) No General Solicitation. Neither the Company nor any Person acting on behalf of the Company has offered or sold any of the Shares by any form of general solicitation or general advertising. The Company has offered the Shares for sale only to the Purchaser and certain other “accredited investors” within the meaning of Rule 501 under the Securities Act.

(dd) Foreign Corrupt Practices. Neither the Company nor any Subsidiary, nor to the knowledge of the Company or any Subsidiary, any agent or other person acting on behalf of the Company or any Subsidiary, has: (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or any Subsidiary (or made by any person acting on its behalf of which the Company is aware) which is in violation of law or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(ee) Regulation M Compliance. The Company has not, and to its knowledge no one acting on its behalf has, (i) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Shares, (ii) sold, bid for, purchased, or paid any compensation for soliciting purchases of, any of the Securities, or (iii) paid or agreed to pay to any Person any compensation for soliciting another to purchase any other securities of the Company, other than, in the case of clauses (ii) and (iii), compensation paid to the Placement Agent in connection with the placement of the Shares.

(ff) Office of Foreign Assets Control. Neither the Company nor any Subsidiary nor, to the Company's knowledge, any director, officer, agent, employee or affiliate of the Company or any Subsidiary is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“OFAC”).

(gg) Money Laundering. The operations of the Company and its Subsidiaries are and have been conducted at all times in compliance with applicable financial record-keeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, applicable money laundering statutes and applicable rules and regulations thereunder (collectively, the “Money Laundering Laws”), and no Action or Proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company and any Subsidiary with respect to the Money Laundering Laws is pending or, to the knowledge of the Company or any Subsidiary, threatened.

(hh) No Disqualification Events. With respect to the Securities to be offered and sold hereunder in reliance on Rule 506 under the Securities Act, none of the Company, any of its predecessors, any affiliated issuer, any director, executive officer, other officer of the Company participating in the offering hereunder, any beneficial owner of 20% or more of the Company's outstanding voting equity securities, calculated on the basis of voting power, nor any promoter (as that term is defined in Rule 405 under the Securities Act) connected with the Company in any capacity at the time of sale (each, an "Issuer Covered Person" and, together, "Issuer Covered Persons") is subject to any of the "Bad Actor" disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act (a "Disqualification Event"), except for a Disqualification Event covered by Rule 506(d)(2) or (d)(3). The Company has exercised reasonable care to determine whether any Issuer Covered Person is subject to a Disqualification Event. The Company has complied, to the extent applicable, with its disclosure obligations under Rule 506(e), and has furnished to the Purchaser a copy of any disclosures provided thereunder.

(ii) Other Covered Persons. Other than the Placement Agent, the Company is not aware of any person (other than any Issuer Covered Person) that has been or will be paid (directly or indirectly) remuneration for solicitation of purchasers in connection with the sale of any Shares.

3.2 Representations and Warranties of the Purchaser. Purchaser hereby represents and warrants to the Company as follows:

(a) Organization; Authority. Purchaser is either an individual or an entity duly incorporated or formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with full right, corporate, partnership, limited liability company or similar power and authority to enter into and to consummate the transactions contemplated by this Agreement and otherwise to carry out its or his obligations hereunder. The execution and delivery of this Agreement and performance by Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate, partnership, limited liability company or similar action, as applicable, on the part of Purchaser. This Agreement, when delivered by Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of Purchaser, enforceable against it or him in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Own Account. Purchaser understands that the Shares are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Shares as principal for its own account and not with a view to or for distributing or reselling such Shares or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities in violation of the Securities Act or any applicable state securities law. Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) Purchaser Status. At the time Purchaser was offered the Shares, it was, and as of the date hereof it is, either: (i) an "accredited investor" as defined in Rule 501(a) under the Securities Act or (ii) a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act.

(d) Experience of Purchaser. Purchaser, either alone or together with its or his representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Shares. Purchaser is able to bear the economic risk of an investment in the Shares and, at the present time, is able to afford a complete loss of such investment.

(e) General Solicitation. Purchaser is not purchasing the Shares as a result of any advertisement, article, notice or other communication regarding the Shares published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(f) Access to Information. Purchaser acknowledges that it or he has had the opportunity to review this Agreement (including all exhibits and schedules thereto) and the SEC Reports and has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the Shares and the merits and risks of investing in the securities of the Company; (ii) access to information about the Company and its financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment. The Purchaser acknowledges that the Company has discussed the status of the sale of its Welding Metallurgy Inc. subsidiary to CPI Aerostructures Inc. (the "WMI Transaction") with Purchaser.

ARTICLE IV. OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) The Shares only may be disposed of in compliance with state and federal securities laws. In connection with any transfer of Shares other than pursuant to an effective registration statement or Rule 144, to the Company or to an Affiliate of a Purchaser, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Shares under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights and obligations of a Purchaser under this Agreement.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1, of a legend on any certificates representing the Shares in the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.

4.2 Use of Proceeds. The Company shall use the net proceeds from the sale of the Shares hereunder for working capital purposes, including the payment of Indebtedness.

ARTICLE V. MISCELLANEOUS

5.1 Indemnity. The Purchaser agrees to indemnify and hold harmless the Company, its officers and directors, employees and its affiliates and their respective successors and assigns and each other person, if any, who controls any thereof, against any loss, liability, claim, damage and expense whatsoever (including, but not limited to, any and all expenses whatsoever reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based upon any false representation or warranty or breach or failure by the Purchaser to comply with any covenant or agreement made by the Purchaser herein or in any other document furnished by the Purchaser to any of the foregoing in connection with this transaction.

5.2 Modification. Neither this Agreement nor any provisions hereof shall be modified, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

5.3 Notices. Any notice, demand or other communication which any party hereto may be required, or may elect, to give to anyone interested hereunder shall be sufficiently given if (a) deposited, prepaid, with a recognized international courier service, (b) delivered personally, (c) upon the expiration of twenty four (24) hours after transmission, if sent by facsimile if a confirmation of transmission is produced by the sending machine (and a copy of each facsimile promptly shall be sent as provided in clause (a), in each case to the parties at their respective addresses set forth below their signatures to this Agreement (or at such other address for a party as shall be specified by like notice; provided that the notices of a change of address shall be effective only upon receipt thereof).

5.4 Counterparts. This Agreement may be executed through the use of separate signature pages or in any number of counterparts and by facsimile, and each of such counterparts shall, for all purposes, constitute one agreement binding on all parties, notwithstanding that all parties are not signatories to the same counterpart. Signatures may be facsimiles.

5.5 Binding Effect. Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the parties and their heirs, executors, administrators, successors, legal representatives and assigns.

5.6 Entire Agreement. This Agreement (including the exhibits and schedules hereto) contain the entire agreement of the parties and there are no representations, covenants or other agreements except as stated or referred to herein and therein.

5.7 Assignability. This Agreement is not transferable or assignable by the undersigned.

5.8 Applicable Law; Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflicts of law principles. If there is any litigation relating to this Agreement or the transaction contemplated hereby, the parties hereto irrevocably consent to the jurisdiction of the courts of the State of New York and of any federal court located in such State in connection with any action or proceeding arising out of or relating to this Agreement, any document or instrument delivered pursuant to, in connection with or simultaneously with this Agreement, or a breach of this Agreement or any such document or instrument. In any such action or proceeding, each party hereto waives personal service of any summons, complaint or other process and agrees that service thereof may be made in accordance with Section 5.3. Within 30 days after such service, or such other time as may be mutually agreed upon in writing by the attorneys for the parties to such action or proceeding, the party so served shall appear or answer such summons, complaint or other process. **EACH PARTY HERETO WAIVES TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF THIS AGREEMENT OR ANY BREACH OR ALLEGED BREACH HEREOF.**

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year this subscription has been accepted by the Company as set forth below.

Name of Purchaser: _____

Name of Purchaser, if Joint: _____

Signature of Individual or Authorized Signatory: _____

Signature of Purchaser, if Joint Individuals: _____

Name of Authorized Signatory, if Entity: _____

Title of Authorized Signatory, if Entity: _____

Email Address of Authorized Signatory: _____

Facsimile Number of Authorized Signatory: _____

Address for Notices to Purchaser:

Address for Delivery of Shares to Purchaser (if not same as address for notice):

Number of Purchased Shares: _____

Purchase Price for the Purchased Shares: \$1.43

EIN Number: _____

ACCEPTANCE OF SUBSCRIPTION

AIR INDUSTRIES GROUP

By: _____
Michael Recca
Chief Financial Officer

Date: July __, 2018

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

I, Luciano Melluzzo, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: August 14, 2018

/s/ Luciano Melluzzo

Luciano Melluzzo

Chief Executive Officer (Principal Executive Officer)

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

I, Michael E. Recca, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: August 14, 2018

/s/ Michael E. Recca

Michael E. Recca

Chief Financial Officer (Principal Financial Officer)

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

In connection with the Quarterly Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), Luciano Melluzzo, Chief Executive Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 14, 2018

/s/ Luciano Melluzzo

Luciano Melluzzo
Chief Executive Officer (Principal Executive Officer)

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

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

In connection with the Quarterly Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), Michael E. Recca, Chief Financial Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 14, 2018

/s/ Michael E. Recca

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

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