AIR INDUSTRIES GROUP
Form 424B4
July 10, 2017
TABLE OF CONTENTS

Filed Pursuant to Rule 424(b)(4)
Registration Statement No. 333-217582

PROSPECTUS

4,500,000 Shares

Common Stock

We are offering 4,500,000 shares of our common stock. Our common stock is traded on the NYSE MKT under the symbol AIRI. On July 6, 2017, the last reported sale price of our common stock was $1.61 per share.

The offering is being underwritten on a firm commitment basis. We have granted the underwriters an option to buy up to an additional 675,000 shares of common stock to cover overallotments. The underwriters may exercise this option at any time during the 30-day period from the date of this prospectus.

We are an emerging growth company as defined in Section 2(a) of the Securities Act of 1933, as amended, and we have elected to comply with certain reduced public company reporting requirements.

	No Exercise of Over-Allotment		**Full Exercise of Over-Allotment**	
	Per Share	**Total**	**Per Share**	**Total**
Public offering price	$ 1.50	$ 6,750,000	$ 1.50	$ 7,762,500
Underwriting discounts and commissions[1]	$ 0.105	$ 472,500	$ 0.105	$ 543,375
Proceeds to us, before expenses	$ 1.395	$ 6,277,500	$ 1.395	$ 7,219,125

(1) See Underwriting on page 61 of this prospectus for a description of the compensation payable to the underwriters.

Investing in our securities involves a high degree of risk. See the section entitled Risk Factors appearing on page 4 of this prospectus and elsewhere in this prospectus for a discussion of information that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to the purchasers on or about July 12, 2017.

Sole Book-Running Manager

Roth Capital Partners

Co-Manager

National Securities Corporation

The date of this prospectus is July 7, 2017

TABLE OF CONTENTS

TABLE OF CONTENTS

	Page
Special Note Regarding Forward-Looking Statements	ii
We are an Emerging Growth Company	ii
Prospectus Summary	1
Risk Factors	4
Use of Proceeds	12
Price Range of Our Common Stock	12
Dividend Policy	12
Capitalization	13
Dilution	15
Business	16
Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Directors and Executive Officers	40
Executive Compensation	45
Security Ownership of Certain Beneficial Owners and Management	47
Certain Relationships and Related Transactions	49
Description of Capital Stock	53
Shares Available For Future Sales	59
Underwriting	61
Legal Matters	65
Experts	65
Where You Can Find More Information About Us	65
Index to Consolidated Financial Statements	66

This prospectus and any Freewriting prospectus that we file with the Securities and Commission (SEC) contain information you should consider when making your investment decision. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

The securities are not being offered in any jurisdiction where the offer is not permitted.

You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

In this prospectus, we refer to information regarding potential markets for our products and other industry data. We believe that all such information has been obtained from reliable sources that are customarily relied upon by companies in our industry however, we have not independently verified any such information.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements, which in some cases, you can identify by terms such as may, will, should, could, would, expects, plans, anticipates, believes, estimates, projects, predicts, potential and similar expres identify forward-looking statements, relate to future events or to our future operating or financial performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These statements include statements regarding our operations, cash flows, financial position and economic performance including, in particular, future sales, product demand, competition and the effect of economic conditions. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties.

Although we believe that these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flow, research and development costs, working capital, capital expenditures, distribution channels, profitability, new products, adequacy of funds from operations, and general economic conditions, these statements and other projections contained in this prospectus expressing opinions about future outcomes and non-historical information, are subject a number of risks and uncertainties, many of which are beyond our control, and reflect future business decisions that are subject to change and, therefore, there is no assurance that the outcomes expressed in these statements will be achieved. Some of the assumptions, future results and levels of performance expressed or implied in the forward-looking statements we have made or may make in the future inevitably will not materialize, and unanticipated events may occur which will affect our results. 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 undue reliance on these forward-looking statements. We discuss many of these risks and uncertainties in greater detail under the heading Risk Factors on page 3 of this prospectus, as well as in our consolidated financial statements, related notes, and the other financial information appearing in this prospectus. You should read this prospectus completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in this prospectus by these cautionary statements. 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. You are advised, however, to consult any additional disclosures we make in our reports filed with the Securities and Exchange Commission.

WE ARE AN EMERGING GROWTH COMPANY

We qualify as an emerging growth company as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include (i) a requirement to have only two years of audited financial statements and only two years of related Management s Discussion and Analysis of Financial Condition and Results of Operations disclosure and (ii) an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002.

We may take advantage of these provisions until the end of the fiscal year ending after the fifth anniversary of our initial public offering, December 31, 2018, or such earlier time that we are no longer an emerging growth company and if we do, the information that we provide stockholders may be different than you might get from other public companies in which you hold equity. We would cease to be an emerging growth company if we have more than $1.0 billion in annual revenue, have more than $700 million in market value of our shares of common stock held by

non-affiliates, or issue more than $1.0 billion of nonconvertible debt over a three year period.

The JOBS Act permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies, and we have elected to comply with certain reduced public company reporting requirements.

ii

TABLE OF CONTENTS

PROSPECTUS SUMMARY

The following is a summary of what we believe to be important aspects of our business and the offering of our securities under this prospectus. We urge you to read this entire prospectus. Investing in our securities involves risks. Therefore, carefully consider the risk factors set forth under the section titled Risk Factors in this prospectus and in our most recent annual and quarterly filings with the Securities and Exchange Commission (the SEC), if any, as well as other information in this prospectus, before purchasing our securities. Each of the risk factors could adversely affect our business, operating results, and financial condition, as well as adversely affect the value of an investment in our securities.

As used in this prospectus, unless otherwise stated or the context requires otherwise, the Company and terms such as we, us our, and AIRI refer to Air Industries Group, a Nevada corporation, and prior to August 30, 2013, Air Industr Group, Inc., a Delaware corporation, and our directly and indirectly wholly-owned subsidiaries: Air Industries Machining, Corp., a New York corporation (AIM), Welding Metallurgy, Inc., a New York corporation (Welding Metallurgy, or WMI), Nassau Tool Works, Inc., a New York corporation (NTW), Miller Stuart, Inc., a New York corporation (Miller Stuart or MS), until it merged into WMI effective May 16, 2017, Decimal Industries Inc., a New York corporation (Decimal), Woodbine Products, Inc., a New York corporation (Woodbine or WP), Eur-Pac Corporation, a Connecticut corporation (Eur-Pac or EPC), Electronic Connection Corporation, a Connecticut corporation (ECC), The Sterling Engineering Corporation, a Connecticut corporation (Sterling), Compac Development Corporation, a New York corporation (Compac), and Air Realty Group, LLC. a Connecticut limited liability company (Air Realty).

Company Overview

We are an aerospace and defense company. We manufacture and design structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, jet engines and other components. We also provide sheet metal fabrication of aerostructures, tube bending and welding services. Our products are currently deployed on a wide range of high profile military and commercial aircraft, including Sikorsky s UH-60 Black Hawk and CH-47 Chinook helicopters, Lockheed Martin s F-35 Joint Strike Fighter, Northrop Grumman s E2 Hawkeye, Boeing s 777, Airbus 380 commercial airliners and the US Navy F-18 and USAF F-16 fighter aircraft. Our Turbine Engine sector makes components for jet engines that are used on the USAF F-15, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground turbine applications.

We became a public company in 2005 when our net sales were approximately $30 million. At that time we had been manufacturing components and subassemblies for the defense and commercial aerospace industry for over 45 years and had established long term relationships with leading defense and aerospace manufacturers. Since becoming a public company, we have completed a series of acquisitions of defense related businesses. These acquisitions have enabled us to broaden the range of products and services we offer. At the time we became a public company, we were primarily a machining shop. As a result of acquisitions, we now have capabilities and expertise in metal fabrication, welding and tube bending; the production of electromechanical systems, harness and cable assemblies; the fabrication of electronic equipment and printed circuit boards; the machining of turbine engine components; and the assembly of packages or kits containing supplies for all branches of the United States Defense Department, including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies.

Restructuring Transactions In Connection With Offering

In order to obtain working capital as our sales declined during 2016, commencing in May 2016 through May 2017 we sold a total of 1,183,919 shares of Series A Convertible Preferred Stock (the Series A Preferred Stock), including 483,919 shares issued upon automatic conversion of 12% Subordinated Convertible Notes due December 31, 2017,

and we sold convertible debt securities in private placements, including $4,775,000 aggregate principal amount of 8% Subordinated Convertible Notes due November 30, 2018 and May 31, 2019 (the 8% Notes) and $4,158,624 aggregate principal amount of Subordinated Convertible Notes due May 12, 2018 (the May 2018 Notes).

We have outstanding 1,294,441 shares of Series A Preferred Stock, of which 155,668 shares have been issued in lieu of cash dividends (PIK Shares). The shares of Series A Preferred Stock are currently convertible into shares of our common stock at $4.92 per share. We have amended the Certificate of Designation authorizing the issuance of the Series A Preferred Stock (the Certificate of Designation) to provide for the automatic conversion of all 1,294,441 shares of Series A Preferred Stock into common stock at a conversion price of $1.50 per share, the offering price of the shares offered by this prospectus, upon consummation of this offering.

1

TABLE OF CONTENTS

The May 2018 Notes were issued for a purchase price equal to 97% of the principal amount of the May 2018 Notes purchased and are convertible into shares of common stock at a conversion price of $2.49 per share.

In connection with this offering, holders of approximately $1,940,907 aggregate principal amount of May 2018 Notes have agreed to convert their May 2018 Notes into shares of our common stock at a conversion price of $1.50 per share, the offering price of the shares offered by this prospectus, and Michael N. Taglich and Robert F. Taglich, directors and principal stockholders of our company, who beneficially own approximately $1,754,214 aggregate principal amount of May 2018 Notes, have agreed to amend the terms of their May 2018 Notes to require stockholder approval for the conversion of their May 2018 Notes to comply with applicable rules of the NYSE MKT. In addition, we will redeem $463,501 aggregate principal amount of the May 2018 Notes for a redemption price equal to 100% of the principal amount thereof from the net proceeds of the offering.

Corporate Information

We were incorporated in Nevada on July 9, 2013 and are successor by merger on August 30, 2013 to our former corporate parent, Air Industries Group, Inc., a Delaware corporation incorporated in November 2005 in connection with the acquisition of AIM.

Our principal offices are located at 360 Motor Parkway, Suite 100, Hauppauge New York 11788 and our telephone number is (631) 881-4920. Our principal website is http://www.airindustriesgroup.com. The information contained on our website does not form any part of this prospectus. We have included our website address as a factual reference and do not intend it to be an active link to our website.

The Offering

Securities offered
4,500,000 shares of common stock (or 5,175,000 shares of common stock if the underwriters exercise the over-allotment option in full).
Offering price
$1.50
Common stock outstanding:

Before this offering
7,650,165 shares[(1)]
After this offering
22,073,709 shares, after giving effect to the automatic conversion of 1,294,441 shares of our Series A Preferred Stock into 8,629,606 shares of common stock a conversion price of $1.50 per share, the conversion of approximately $1,940,907 aggregate principal amount of May 2018 Notes into 1,293,938 shares of common stock at a conversion price of $1.50 per share and the issuance of 4,500,000 shares of common stock in this offering.[(2)]
Over-allotment option
The underwriters have an option for a period of 30 days after the date of this prospectus to purchase up to an additional 675,000 shares of common stock, on the same terms and conditions as set forth above, to cover any over-allotments.
Use of proceeds
We estimate that we will receive net proceeds from this offering of approximately $5,877,500, or approximately $6,819,125 if the underwriters exercise the over-allotment option in full, after deducting the underwriting discounts and commissions and estimated offering expenses.
We plan to use net proceeds from this offering to redeem approximately $463,501 principal amount of the May 2018 Notes, pay approximately $4,000,000 in outstanding trade payables, with the balance available for

2

TABLE OF CONTENTS

general corporate purposes, including working capital. For a more complete description of our intended use of the net proceeds from this offering, see Use of Proceeds.

Risk factors
Investing in our securities involves a significant degree of risk. You should read the Risk Factors section beginning on page 4 and other information included in this prospectus for a discussion of factors you should carefully consider before investing in our securities.
NYSE MKT symbol
Our common stock is listed under the symbol AIRI.
Unless otherwise indicated, all information in this prospectus assumes no exercise of the over-allotment option granted to the underwriters to purchase up to an additional 675,000 shares of common stock.

(1) Excludes as of May 31, 2017 (i) 2,535,885 shares issuable upon conversion of our Series A Preferred Stock at a conversion price of $4.92 per share, (ii) 1,950,148 shares issuable upon conversion of our 8% subordinated convertible notes (the 8% Notes), (iii) 1,670,122 shares issuable upon conversion of the May 2018 Notes at a conversion price of $2.49 per share, (iv) 1,588,115 shares of common stock issuable upon exercise of warrants at a weighted average price of $4.05 (including 501,039 shares issuable upon the exercise of warrants having an exercise price of $2.49 per share) and (v) 516,342 shares of common stock issuable upon exercise of stock options granted pursuant to our existing equity incentive plans at a weighted average price of $6.29. Upon consummation of the offering, no shares of Series A Preferred Stock and none of the May 2018 Notes will be outstanding.

(2) Excludes (i) 1,950,148 shares issuable upon conversion of the 8% Notes, (ii) 1,588,116 shares issuable upon exercise of warrants at a weighted average price of $4.05, (iii) 516,342 shares issuable upon exercise of stock options granted pursuant to our existing equity incentive plans at a weighted average price of $6.29 and (iv) shares issuable upon conversion of the May 2018 Notes beneficially owned by Michael N. Taglich and Robert F. Taglich at an initial conversion price of $2.567 per share or such other price approved by the stockholders, provided such conversion at the price approved by the stockholders is in compliance with the rules and regulations of the NYSE-MKT.

TABLE OF CONTENTS

RISK FACTORS

Investing in our securities involves a high degree of risk. Before making an investment decision, you should carefully review and consider the risks and uncertainties described below, in addition to the other information presented in this prospectus, in light of your particular investment objectives and financial circumstances. The risks so described are not the only risks we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. Our business, financial condition, results of operations, or prospects could be materially adversely affected by any of these risks. The trading price of our securities could decline due to any of these risks, and you may lose all or part of your investment.

The risks below can be characterized into three groups:

1) ***Risks related to our business, including risks specific to the defense and aerospace industry:***
2) ***Risks arising from our indebtedness; and***
3) ***Risks related to our common stock and this offering.***

Risks Related to Our Business

We incurred a substantial net loss in 2016 and may not be able to continue to operate as a going concern.

We suffered net losses from operations of $10,789,000 and $519,000 and net losses of $15,623,000 and $1,154,000 for the year ended December 31, 2016 and the three months ended March 31, 2017, respectively. We also had negative cash flows from operations for the year ended December 31, 2016. In 2015 we ceased paying dividends on our common stock and in 2016 we disposed of the real estate on which one of our operating subsidiaries is located through a sale leaseback transaction. In January 2017, we sold one of our operating subsidiaries. During the year ended December 31, 2016 and subsequent thereto, we sold in excess of $20,000,000 in debt and equity securities to secure funds to operate our business. Since September 2016 we have been issuing additional shares of our Series A Convertible Preferred Stock in lieu of cash payment of accrued dividends on our outstanding shares of Series A Convertible Preferred Stock and since February 2017 we have issued additional convertible notes in lieu of cash payment of accrued interest on our outstanding convertible notes. Furthermore, as of December 31, 2016 and March 31, 2017, we were not in compliance with two financial covenants under our Amended and Restated Revolving Credit, Term Loan and Security Agreement with PNC Bank (the Loan Facility). We are dependent upon further issuances of debt, equity or other financings to fund ongoing operations. The report of our independent registered public accountants on our financial statements for the year ended December 31, 2016 states that these factors raise uncertainty about our ability to continue as a going concern. We may continue to incur additional operating losses and we cannot assure you that we will continue as a going concern.

We have identified deficiencies and material weaknesses in our internal controls and we may not be successful in remediating these deficiencies and weakness in the near future.

In connection with our review of our disclosure controls and internal controls over financial reporting for the fiscal year ended December 31, 2016 and the quarter ended March 31, 2017, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and internal controls over financial reporting were not effective as of such dates. In particular, certain portions of our inventory control system have not been integrated into the system used by the balance of our company which could result in a failure to properly account for the costs associated with work in process, slow moving inventory and the value of inventory on hand, and the enterprise reporting system used to track employee hours. Accordingly, costs to be included in work in process, may not be 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 nonstandard transactions. We intend to remediate these conditions. In the event we do not remediate these deficiencies and material weaknesses in our internal controls, our operations may be adversely affected and the market price of our common stock could decline. In addition, if we are unable to meet the requirements of Section 404 of the Sarbanes-Oxley Act, we may not be able to maintain our listing on the NYSE MKT.

4

A reduction in government spending on defense could materially adversely impact our revenues, results of operations and financial condition.

A large percentage of our revenue is derived from products for US military aviation. There are risks associated with programs that are subject to appropriation by Congress, which could be potential targets for reductions in funding. Reductions in United States Government spending on defense or future changes in the mix of defense products required by United States Government agencies could limit demand for our products, and may have a materially adverse effect on our operating results and financial condition. Our operations for the year ended December 31, 2016 were negatively impacted by reductions in government procurement orders and such reductions may continue. Since March 1, 2013, as a result of the continuing budget impasse, automatic government spending cuts termed the Sequester were implemented, and consequently, our revenues, particularly those of our Complex Machining segment, were and continue to be impacted by a slowing of orders in anticipation of a reduction or shift in the mix of defense spending. There can be no assurance that our financial condition and results of operations will not be materially adversely impacted by future reductions in defense spending or a change in the mix of products purchased by defense departments in the United States or other countries, or the perception on the part of our customers that such changes are about to occur.

We depend on revenues from a few significant relationships. Any loss, cancellation, reduction, or interruption in these relationships could harm our business.

We expect that our customer concentration will not change significantly in the near future. We derive most of our revenues from a small number of customers. Four customers represented approximately 56.4% and 59.3% of total sales for the years ended December 31, 2016 and 2015, respectively. These four customers represented approximately 60.5% and 58.4% of total sales for the three months ended March 31, 2017 and 2016, respectively. The markets in which we sell our products are dominated by a relatively small number of customers which have contracts with United States governmental agencies, thereby limiting the number of potential customers. Our success depends on our ability to develop and manage relationships with significant customers. We cannot be sure that we will be able to retain our largest customers or that we will be able to attract additional customers, or that our customers will continue to buy our products in the same amounts as in prior years. The loss of one or more of our largest customers, any reduction or interruption in sales to these customers, our inability to successfully develop relationships with additional customers or future price concessions that we may have to make, could significantly harm our business.

We depend on revenues from components for a few aircraft platforms and the cancellation or reduction of either production or use of these aircraft platforms could harm our business.

Our Complex Machining segment derives most of its revenues from components for a few aircraft platforms, specifically the Sikorsky BlackHawk helicopter, the Northrop Grumman E-2 Hawkeye naval aircraft, the McDonnell Douglas (Boeing) C-17 Globemaster, the F-16 Falcon and the F-18 Hornet. Boeing closed its C-17 production line in 2015. A reduction in demand for our products as a result of either a reduction in the production of new aircraft or a reduction in the use of existing aircraft in the fleet (reducing after-market demand) would have a material adverse effect on our operating results and financial condition.

Intense competition in our markets may lead to a reduction in our revenues and market share.

The defense and aerospace component manufacturing market is highly competitive and we expect that competition will increase and perhaps intensify as the overall market remains static or declines. Many competitors have significantly greater technical, manufacturing, financial and marketing resources than we do. We expect that more companies will enter the defense and aerospace component manufacturing market. We may not be able to compete successfully against either current or future competitors. Increased competition could result in reduced revenue, lower

margins or loss of market share, any of which could significantly harm our business, our operating results and financial condition.

We may lose sales if our suppliers fail to meet our needs or shipments of raw materials are not timely made.

Although we procure most of our parts and components from multiple sources or believe that these components are readily available from numerous sources, certain components are available only from a sole or limited number or sources. While we believe that substitute components or assemblies could be obtained, use of substitutes would require development of new suppliers or would require us to re-engineer our products, or both, which could delay

shipment of our products and could have a materially adverse effect on our operating results and financial condition. Recently, we have had difficulties in securing timely shipments of raw materials from certain vendors due to our liquidity problems. Our results of operations for 2016 were negatively impacted by disruptions in receipt of materials and such disruptions may continue. Any delays in the shipment of raw materials could significantly harm our business, our operating results and our financial condition.

There are risks associated with the bidding processes in which we compete.

We obtain many contracts through a competitive bidding process. We must devote substantial time and resources to prepare bids and proposals and may not have contracts awarded to us. Even if we win contracts, there can be no assurance that the prices that we have bid will be sufficient to allow us to generate a profit from any particular contract. There are significant costs involved with producing a small number of initial units of any new product and it may not be possible to recoup such costs on later production runs.

Due to fixed contract pricing, increasing contract costs expose us to reduced profitability and the potential loss of future business.

The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters, and the inability to recover any claims included in the estimates to complete. A significant change in cost estimates on one or more programs could have a material effect on our consolidated financial position or results of operations.

The prices of raw materials we use are volatile.

The prices of raw materials used in our manufacturing processes are volatile. If the prices of raw materials rise we may not be able to pass along such increases to our customers and this could have an adverse impact on our consolidated financial position and results of operations. Significant increases in the prices of raw materials could adversely impact our customers demand for certain products which could lead to a reduction in our revenues and have a material adverse impact on our revenues and on our consolidated financial position and results of operations.

Some of the products we produce have long lead times.

Some of the products we produce, particularly those of our Complex Machining segment, require months to produce and we sometimes produce products in excess of the number ordered intending to sell the excess as spares when orders arise. As a result, portions of our inventory turn slowly and tie up our working capital. Our inventory represented approximately 52% of our assets as of March 31, 2017. Any requirement to write down the value of our inventory due to obsolescence or a drop in the price of materials could have a material adverse effect on our consolidated financial position or results of operations.

We do not own the intellectual property rights to products we produce.

Nearly all the parts and subassemblies we produce are built to customer specifications and the customer owns the intellectual property, if any, related to the product. Consequently, if a customer desires to use another manufacturer to fabricate its part or subassembly, it would be free to do so, which could have a material adverse effect on our business, our operating results and financial condition.

There are risks associated with new programs.

New programs typically carry risks associated with design changes, acquisition of new production tools, funding commitments, imprecise or changing specifications, timing delays and the accuracy of cost estimates associated with such programs. In addition, any new program may experience delays for a variety of reasons after significant expenditures are made. If we were unable to perform under new programs to the customers satisfaction or if a new program in which we had made a significant investment was terminated or experienced weak demand, delays or other problems, then our business, financial condition and results of operations could be materially adversely affected. This could result in low margin or forward loss contracts, and the risk of having to write-off costs and estimated earnings in excess of billings on uncompleted contracts if it were deemed to be unrecoverable over the life of the program.

TABLE OF CONTENTS

To perform on new programs we may be required to incur up-front costs which may not have been separately negotiated. Additionally, we may have made assumptions related to the costs of any program which may be material and which may be incorrect, resulting in costs that are not recoverable. Such charges and the loss of up-front costs could have a material impact on our liquidity.

Our future success also depends on our ability to address potential market opportunities and to manage expenses to match our ability to finance operations.

The need to control our expenses will place a significant strain on our management and operational resources. If we are unable to control our expenses effectively, our business, results of operations and financial condition may be adversely affected.

Attracting and retaining a new executive officer and other key personnel is an essential element of our future success.

Our future success depends to a significant extent upon our ability to attract a new chief executive officer and other executive talent, as well as the continued service of our existing executive officers and other key management and technical personnel. Experienced management and technical, marketing and support personnel in the defense and aerospace industries are in demand and competition for their talents is intense. Our failure to attract a new chief executive officer and other executive talent, or retain our existing executive officers and key personnel, could have a material adverse effect on our business, financial condition and results of operations.

We are subject to strict governmental regulations relating to the environment, which could result in fines and remediation expense in the event of non-compliance.

We are required to comply with extensive and frequently changing environmental regulations at the federal, state and local levels. Among other things, these regulatory bodies impose restrictions to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous substances into the environment. This extensive regulatory framework imposes significant compliance burdens and risks on us. In addition, these regulations may impose liability for the cost of removal or remediation of certain hazardous substances released on or in our facilities without regard to whether we knew of, or caused, the release of such substances. Furthermore, we are required to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances. Our operations require the use of chemicals and other materials for painting and cleaning that are classified under applicable laws as hazardous chemicals and substances. If we are found not to be in compliance with any of these rules, regulations or permits, we may be subject to fines, remediation expenses and the obligation to change our business practice, any of which could result in substantial costs that would adversely impact our business operations and financial condition.

We may be subject to fines and disqualification for non-compliance with Federal Aviation Administration regulations.

We are subject to regulation by the Federal Aviation Administration under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations. We have never been subject to such fines or disqualification.

Terrorist acts and acts of war may seriously harm our business, results of operations and financial condition.

United States and global responses to the Middle East conflict, terrorism, perceived nuclear, biological and chemical threats and other global crises increase uncertainties with respect to U.S. and other business and financial markets. Several factors associated, directly or indirectly, with the Middle East conflict, terrorism, perceived nuclear, biological and chemical threats, and other global crises and responses thereto, may adversely affect the mix of products purchased by defense departments in the United States or other countries to platforms not serviced by us. A shift in defense budgets to product lines we do not produce could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Indebtedness

Our indebtedness may have a material adverse effect our operations.

We have substantial indebtedness under our Loan Facility. As of May 31, 2017, we had $23,306,168 of indebtedness outstanding under the Loan Facility, including $2,219,071 of excess advances. All of our indebtedness under the Loan Facility is secured by substantially all of our assets.

We also have substantial amounts outstanding in the form of our 8% Notes and May 2018 Notes. As of May 31, 2017, we had outstanding $5,359,420 principal amount of 8% Notes and $4,158,624 principal amount of May 2018 Notes. To the extent we are not able to pay accrued interest on the 8% Notes in cash due to restrictions set forth in the Loan Facility or otherwise, we may issue additional 8% Notes in payment of such accrued interest in lieu of cash (PIK Notes). We issued PIK Notes in lieu of cash payment of accrued interest on the 8% Notes on February 28, 2017 and May 31, 2017. Approximately $1,940,907 aggregate principal amount of our May 2018 Notes will be converted into shares of our common stock upon the closing of this offering and approximately $463,501 principal amount will be redeemed with a portion of the net proceeds of this offering.

Following the consummation of this offering, in addition to our indebtedness under the Loan Facility, we will have outstanding the indebtedness evidenced by the 8% Notes, the aggregate principal amount of which as of May 31, 2017 was $5,359,420, of which $2,911,135 in principal amount is due in November 2018 and $2,448,285 in principal amount is due in January 2019. We also will have outstanding $1,754,214 aggregate principal amount of May 2018 Notes beneficially owned by Michael N. Taglich and Robert F. Taglich, whose terms have been amended to require stockholder approval for the conversion of their May 2018 Notes to comply with applicable rules of the NYSE MKT, and subordinated notes in the aggregate principal amount of $500,000 payable to Michael N. Taglich and Robert F. Taglich bearing interest at the rate of 7% per annum with an amended maturity date of March 17, 2018 (collectively, the Taglich Notes"). If we are unable to pay the outstanding principal and accrued interest on the 8% Notes and Taglich Notes when due, our operations may be materially and adversely affected.

Our leverage may adversely affect our ability to finance future operations and capital needs, may limit our ability to pursue business opportunities and may make our results of operations more susceptible to adverse economic conditions.

Our indebtedness may limit our ability to pay dividends.

The terms of our Loan Facility require that we maintain certain financial covenants. We have issued PIK Shares in lieu of cash payment of accrued dividends on the Series A Preferred Stock on all dividend payment dates since their initial issuance in May 2016 due to covenant defaults under our Loan Facility which defaults have now been waived. Unless we are in compliance with our Loan Facility in the future, we would need to seek covenant changes under our Loan Facility to pay accrued dividends in cash. There can be no assurance our lenders would agree to covenant changes acceptable to us or at all. In addition, we may in the future incur indebtedness or otherwise become subject to agreements whose terms restrict our ability to pay dividends.

Risks Related to our common stock and this offering

The ownership of our common stock is highly concentrated, and your interests may conflict with the interests of our existing stockholders.

Two of our directors, Michael N. Taglich and Robert F. Taglich, and their affiliates beneficially owned approximately 36.68% of our outstanding common stock as of June 15, 2017, including shares they may acquire upon conversion of

Series A Preferred Stock (at the stated conversion price of $4.92 per share), 8% Notes and May 2018 Notes, and the exercise of warrants and of options, and they will beneficially own approximately 21.70% of our outstanding common stock upon completion of this offering, after giving effect to the sale of 4,500,000 shares in this offering, the automatic conversion of approximately 1,294,441 shares of Series A Preferred Stock and the conversion of approximately $1,940,907 principal amount of the May 2018 Notes upon completion of this offering (in each case, at a conversion price equal to $1.50 per share, and the redemption of approximately $463,501 aggregate principal amount of the May 2018 Notes at a redemption price equal to 100% of the principal amount thereof from the net proceeds of this offering. Accordingly, these directors have significant influence over the outcome of corporate actions requiring stockholder approval. The interests of these directors may be different from the interests of other stockholders on these matters. This concentration of ownership could also have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could reduce the price of our common stock.

TABLE OF CONTENTS

Investors in this offering will experience immediate substantial dilution in net tangible book value per share.

If you purchase shares of common stock in this offering, you will suffer immediate and substantial dilution of $0.69 per share in the pro forma as adjusted net tangible book value of the common stock based on the assumed public offering price of $1.50 per share, which is substantially higher than the net tangible book value per share of our common stock. See Dilution for a more complete description of how the value of your investment will be diluted upon completion of this offering.

A large number of shares may be sold in the market following this offering, which may depress the market price of our common stock.

All of the shares of our common stock sold in the offering will be freely tradable without restriction or further registration under the Securities Act. As a result, a substantial number of shares of our common stock may be sold in the public market following this offering, which may cause the market price of our common stock to decline.

We can provide no assurance that our common stock will continue to meet NYSE MKT listing requirements. If we fail to comply with the continuing listing standards of the NYSE MKT, our common stock could be delisted.

As a result of the delayed filing of our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K) and our Quarterly Report on Form 10-Q for the period ended March 31, 2017 (Q1 2017 Form 10-Q), we received official notices of noncompliance with NYSE MKT continued listing standards. We resolved the continued listing deficiencies and regained compliance with NYSE MKT continued listing standards upon filing our 2016 Form 10-K and Q1 2017 Form 10-Q. However, we may fail to timely file a periodic report or other required SEC filing in the future and as a result may fail to be in compliance in the future. If we fail to satisfy the continued listing requirements of the NYSE MKT, the NYSE MKT may take steps to delist our common stock. Such a delisting would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase common stock when you wish to do so. In the event of a delisting, we can provide no assurance that any action taken by us to restore compliance with listing requirements would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the NYSE MKT minimum bid price requirement or prevent future non-compliance with NYSE MKT s listing requirements.

There is only a limited public market for our common stock.

Our common stock is listed on the NYSE MKT. However, trading volume has been limited and a more active public market for our common stock may not develop or be sustained over time. The lack of a robust market may impair a stockholder s ability to sell shares of our common stock. In the absence of a more active trading market, any attempt to sell a substantial number of our shares could result in a decrease in the price of our stock. Specifically, you may not be able to resell your shares of common stock at or above the price you paid for such shares or at all.

Moreover, sales of our common stock in the public market, or the perception that such sales could occur, could negatively impact the price of our common stock. As a result, you may not be able to sell your shares of our common stock in short time periods, or possibly at all, and the price per share of our common stock may fluctuate significantly.

Our future revenues are inherently unpredictable; our operating results are likely to fluctuate from period to period and if we fail to meet the expectations of securities analysts or investors, our stock price could decline significantly.

Our quarterly and annual operating results are likely to fluctuate significantly due to a variety of factors, some of which are outside our control. Accordingly, we believe that period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indications of performance. Some of the factors that could cause quarterly or annual operating results to fluctuate include conditions inherent in government contracting and our business such as the timing of cost and expense recognition for contracts, the United States Government contracting and budget cycles, introduction of new government regulations and standards, contract closeouts, variations in manufacturing efficiencies, our ability to obtain components and subassemblies from contract manufacturers and suppliers, general economic conditions and economic conditions specific to the defense market. Because we base our operating expenses on anticipated revenue trends and a high percentage of our expenses are fixed in the short term, any delay in generating or recognizing forecasted revenues could significantly harm our business.

TABLE OF CONTENTS

Fluctuations in quarterly results, competition or announcements of extraordinary events such as acquisitions or litigation may cause earnings to fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock could significantly decline. These fluctuations, as well as general economic and market conditions, may adversely affect the future market price of our common stock, as well as our overall operating results. Consequently, our share price may experience significant volatility and may not necessarily reflect the value of our expected performance.

We are currently unable to pay cash dividends on our common stock

Our ability to pay cash dividends on our common stock is limited by the terms of our Loan Facility (and the terms of any future indebtedness or other agreements), the Certificate of Designation authorizing the issuance of our Series A Preferred Stock, under applicable law, and our status as a holding company.

We may need to raise additional capital in the future. Additional capital may not be available to us on reasonable terms, if at all, when or as we require. If we issue additional shares of our common stock or other securities that may be convertible into, or exercisable or exchangeable for, our common stock, our existing stockholders would experience further dilution and could trigger anti-dilution provisions in outstanding warrants.

Assuming we meet our current operating budget, we do not expect to need capital in the foreseeable future. However, we may need to raise additional capital in the future. Future financings may involve the issuance of debt, equity and/or securities convertible into or exercisable or exchangeable for our equity securities. These financings may not be available to us on reasonable terms or at all when and as we require funding. If we are able to consummate such financings, the trading price of our common stock could be adversely affected and/or the terms of such financings may adversely affect the interests of our existing stockholders. Any failure to obtain additional working capital when required would have a material adverse effect on our business and financial condition and may result in a decline in our stock price. Any issuances of our common stock, preferred stock, or securities such as warrants or notes that are convertible into, exercisable or exchangeable for, our capital stock, would have a dilutive effect on the voting and economic interest of our existing stockholders.

Future financings or acquisitions may adversely affect the market price of our common stock.

Future sales or issuances of our common stock following this offering and the automatic conversion of the Series A Preferred Stock, including the issuance of shares of our common stock upon the conversion of the 8% Notes, upon exercise of our outstanding warrants or as part of future financings or acquisitions, would be substantially dilutive to the outstanding shares of common stock. Any dilution or potential dilution may cause our stockholders to sell their shares, which would contribute to a downward movement in the price of common stock.

Future issuances of additional 8% Notes in lieu of cash interest payments on our 8% Notes will dilute existing holders of our common stock and may adversely affect the market price of our common stock.

We are obligated to pay accrued interest quarterly to holders of our 8% Notes. To date, we have issued additional 8% Notes in lieu of cash payments of accrued interest (PIK Notes). If for any future interest periods we are unable to pay accrued interest on the 8% Notes in cash due to restrictions in our Loan Facility or liquidity constraints, we may issue additional PIK Notes to holders of our 8% Notes. The conversion of PIK Notes into common stock will dilute the interests of our common stockholders and may adversely affect the market price of our common stock.

We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

The JOBS Act permits emerging growth companies like us to rely on some of the reduced disclosure requirements that are already available to companies having a public float of less than $75 million, for as long as we qualify as an emerging growth company. During that period, we are permitted to omit the auditor s attestation on internal control over financial reporting that would otherwise be required by the Sarbanes-Oxley Act. Companies with a public float of $75 million or more must otherwise procure such an attestation beginning with their second annual report after their initial public offering. For as long as we qualify as an emerging growth company, we also are excluded from the requirement to submit say-on-pay , say-on-pay frequency and say-on-parachute votes to our stockholders and may avail ourselves of reduced executive compensation disclosure compared to larger companies. In addition, as described in the following risk factor, as an emerging growth company we can take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies.

10

TABLE OF CONTENTS

Until such time as we cease to qualify as an emerging growth company, investors may find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

As an emerging growth company we may take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies.

Section 107 of the JOBS Act also provides that, as an emerging growth company, we can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates for further discussion of the extended transition period for complying with new or revised accounting standards.

At such time as we cease to qualify as an emerging growth company under the JOBS Act, the costs and demands placed upon management will increase.

We will continue to be deemed an emerging growth company until the earliest of (i) the last day of the fiscal year during which we had total annual gross revenues of $1,000,000,000 (as indexed for inflation), (ii) December 31, 2018 (the last day of the fiscal year following the fifth anniversary of the date of the first sale of common stock under a registration statement under the Securities Act,) (iii) the date on which we have, during the previous 3-year period, issued more than $1,000,000,000 in non-convertible debt; or (iv) the date on which we are deemed to be a ‘large accelerated filer as defined by the SEC, which would generally occur upon our attaining a public float of at least $700 million. Once we lose emerging growth company status, we expect the costs and demands placed upon management to increase, as we would have to comply with additional disclosure and accounting requirements, particularly if our public float should exceed $75 million.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to compliance requirements, including establishing and maintaining internal controls over financial reporting, and we may be exposed to potential risks if we are unable to comply with these requirements.

As a public company, we will incur significant legal, accounting and other expenses under the Sarbanes-Oxley Act of 2002, together with rules implemented by the Securities and Exchange Commission and applicable market regulators. These rules impose various requirements on public companies, including requiring certain corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these requirements. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluations and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Compliance with Section 404 may require that we incur substantial accounting expenses and expend significant management efforts. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner, the market price of our stock could decline if investors and others lose

confidence in the reliability of our financial statements and we could be subject to sanctions or investigations by the SEC or other applicable regulatory authorities.

TABLE OF CONTENTS

USE OF PROCEEDS

We estimate that the net proceeds from the sale of 4,500,000 shares of our common stock we are offering will be $5,877,500, after deducting underwriting discounts and $400,000 of estimated offering expenses payable by us. If the underwriters option to purchase additional shares of common stock is exercised in full, we estimate that our net proceeds will be approximately $6,819,125.

We intend to use the net proceeds from this offering to redeem approximately $463,501 in principal amount of May 2018 Notes; to pay outstanding trade payables of approximately $4,000,000; and the remainder of the net proceeds (approximately $1,413,999) will be available for general corporate purposes, including working capital. Pending the application of the net proceeds, we may invest the net proceeds in high-quality, short-term, interest-bearing securities.

PRICE RANGE OF OUR COMMON STOCK

Our common stock is listed on the NYSE MKT under the symbol AIRI. The prices set forth below reflect the quarterly high and low closing prices of a share of our common stock for the periods indicated as reported by Yahoo Finance.

2015:		High		Low
Quarter Ended March 31, 2015	$	10.52	$	9.70
Quarter Ended June 30, 2015	$	10.74	$	9.91
Quarter Ended September 30, 2015	$	10.13	$	8.06
Quarter Ended December 31, 2015	$	9.17	$	6.98
2016:				
Quarter Ended March 31, 2016	$	8.23	$	5.90
Quarter Ended June 30, 2016	$	6.08	$	4.20
Quarter Ended September 30, 2016	$	4.89	$	3.95
Quarter Ended December 31, 2016	$	4.39	$	2.25
2017:				
Quarter Ended March 31, 2017	$	4.60	$	2.75
Quarter Ended June 30, 2017	$	3.60	$	1.79

On July 6, 2017, the closing price of our common stock was $1.61.

DIVIDEND POLICY

We paid quarterly dividends on our common stock each quarter commencing with the first quarter of 2013 through the third quarter of 2015. All determinations relating to our dividend policy are made at the discretion of our Board of Directors and depend on a number of factors, including future earnings, capital requirements, restrictions under our Loan Facility, financial conditions and future prospects and other factors the Board of Directors may deem relevant.

TABLE OF CONTENTS

CAPITALIZATION

The following table sets forth our cash and cash equivalents, total current liabilities and capitalization as of March 31, 2017 on:

- an actual basis;
- on a pro forma basis to give effect to the issuance of $4,158,624 principal amount of May 2018 Notes and warrants to purchase 501,039 shares of common stock issued in the financing we completed in May 2017, assuming no value is assigned to the warrants and
- on an as adjusted basis to give effect to the automatic conversion of 1,294,441 shares of Series A Preferred Stock into 8,629,606 shares of common stock at a conversion price of $1.50 per share, the conversion of $1,940,907 aggregate principal amount of May 2018 Notes into 1,293,938 shares of common stock at a conversion price of $1.50 per share and our receipt of the estimated net proceeds from our sale of 4,500,000 shares of our common stock in this offering, after deducting underwriting discounts and estimated offering expenses payable by us, and the application of the net proceeds as follows: (i) to redeem approximately $463,501 aggregate principal amount of May 2018 Notes at 100% of the principal amount thereof, and (ii) to pay approximately $4,000,000 in outstanding trade payables.

For purposes of the table below, all amounts due under the Term Loan (as defined herein) are classified as current instead of as long-term liabilities since we were in default under the terms of our Loan Facility as of March 31, 2017. In addition, because the revolving loans under the Loan Facility contain a subjective acceleration clause which could permit PNC to require repayment prior to maturity, all of the loans outstanding with PNC are classified with the current portion of notes and capital lease obligations.

	As of March 31, 2017		
	Actual	**Pro Forma**	**As Adjusted**
Cash and cash equivalents	$ 1,043,000	$ 4,889,000	$ 6,304,000
Total current liabilities	44,455,000	44,455,000	40,455,000
Long term liabilities:			
Notes Payable and Capitalized Lease Obligation - Net of Current Portion	2,644,000	6,803,000	4,399,000
Deferred Gain on Sale - Net of Current Portion	323,000	323,000	323,000
Deferred Rent	1,294,000	1,294,000	1,294,000
Total long term liabilities	4,261,000	8,420,000	6,016,000
Stockholders' equity:			
Preferred stock, $0.001 par value, 3,000,000 shares authorized, of which 2,000,000 shares are designated as Series A Convertible Preferred Stock; 1,247,654 shares issued and outstanding, actual and pro forma; and none issued as adjusted	$ 1,000	$ 1,000	—
Common stock, $0.001 par value, 25,000,000 shares authorized; 7,650,165 shares issued and outstanding, actual and pro forma; 22,073,709 shares issued and	7,000	7,000	22,000

outstanding, as adjusted;								
Additional paid-in capital		57,038,000			57,038,000			64,844,000	
Accumulated deficit		(32,135,000	)		(32,447,000	)		(32,448,000	)
Total stockholders' equity	$	24,911,000		$	24,599,000		$	32,418,000	
Total capitalization	$	29,172,000		$	33,018,000		$	38,433,000	

The actual and pro forma number of shares outstanding as shown above is based on 7,650,165 shares outstanding as of March 31, 2017, and excludes as of May 31, 2017 (i) 2,535,856 shares issuable upon conversion of our Series A Preferred Stock at a conversion price of $4.92 per share, (ii) 1,950,148 shares issuable upon

13

TABLE OF CONTENTS

conversion of our 8% Notes, (iii) 1,087,076 shares issuable upon exercise of warrants at a weighted average price of $4.77, (iv) 516,342 shares issuable upon exercise of stock options granted pursuant to our existing equity incentive plans at a weighted average price of $6.29, (v) 1,670,122 shares issuable upon conversion of the May 2018 Notes at a conversion price of $2.49 per share and (vi) 501,039 shares issuable upon exercise of the warrants issued in connection with the May 2018 Notes having an exercise price of $2.49 per share.

The as adjusted number of shares consists of 7,650,165 shares outstanding, plus an additional 8,629,606 shares issued upon the automatic conversion of 1,294,441 shares of Series A Preferred at a conversion price of $1.50 per share, 1,293,938 shares issued upon the conversion of approximately $1,940,907 aggregate principal amount of May 2018 Notes at a conversion price of $1.50 per share and 4,500,000 shares of common stock issued in this offering at the offering price of $1.50 per share.

You should read the forgoing table together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

TABLE OF CONTENTS

DILUTION

If you purchase shares of our common stock in this offering, your interest will be diluted to the extent of the difference between the offering price per share of our common stock and the adjusted net tangible book value per share of our common stock after this offering. Net tangible book value is total tangible assets minus total liabilities. Net tangible book value per share is net tangible book value less the stated value of any preferred stock outstanding, divided by the total number of shares of common stock outstanding. Our net tangible book value as of March 31, 2017, after deducting the liquidation preference of the Series A Preferred Stock of $12,476,540, was $(2,373,843), or $(0.31) per share of common stock.

For purposes of the table below, we have adjusted the net tangible book value per share at March 31, 2017 to give effect to the issuance and sale of the May 2018 Notes and related warrants in May 2017, and the conversion of 1,294,441 shares of Series A Preferred Stock at a conversion price of $1.50 per share into 8,629,606 shares of common stock. After giving effect to the foregoing, our pro forma net tangible book value as of March 31, 2017 would have been $10,110,335 and our pro forma net tangible book value per share would have been $0.62.

After giving effect to the sale by us of 4,500,000 shares of our common stock in this offering at the offering price of $1.50 per share, the conversion of approximately $1,940,907 aggregate principal amount of May 2018 Notes into 1,293,938 shares of common stock at a conversion price of $1.50 per share and the application of the net proceeds of this offering, after deducting the underwriting discount and estimated offering expenses that we will pay, as follows: (i) to redeem approximately $463,501 aggregate principal amount of May 2018 Notes at 100% of the principal amount thereof, and (ii) to pay approximately $4,000,000 in outstanding trade payables, our pro forma as adjusted net tangible book value as of March 31, 2017 would have been $17,921,217, or $0.81 per share of common stock. This amount represents an immediate increase in pro forma net tangible book value of $0.19 per share to existing stockholders and an immediate dilution of $0.69 per share to purchasers in this offering.

The following table illustrates this dilution on a per share basis to new investors:

Initial public offering price per share			$	1.50
Historical net tangible book value per share as of March 31, 2017	$	(0.31)		
Increase per share attributable to the issuance of the May 2018 Notes and related warrants and conversion of 1,294,441 shares of Series A Preferred Stock	$	0.93		
Pro forma net tangible book value per share as of March 31, 2017		0.62		
Increase in pro forma net tangible book value per share after giving effect to this offering		0.19		
Pro forma as adjusted net tangible book value per share after giving effect to this offering			$	0.81
Dilution in pro forma as adjusted net tangible book value per share to new investors in this offering			$	0.69

The above table is based on 7,650,165 shares outstanding as of March 31, 2017 and excludes as of May 31, 2017 (i) 1,950,148 shares issuable upon conversion of the 8% Notes, (ii) 1,670,122 shares issuable upon conversion of the May 2018 Notes, (iii) 1,588,115 shares of common stock issuable upon exercise of warrants at a weighted average price of $4.05 (including 501,039 shares issuable upon the exercise of warrants having an exercise price of $2.49 per share) and (iv) 516,342 shares of common stock issuable upon exercise of stock options granted pursuant to our existing equity incentive plans at a weighted average price of $6.29. Moreover, to the extent that any outstanding options or warrants are exercised, new options are issued under our existing equity incentive plans, or we otherwise issue additional shares of common stock in the future, at a price less than the public offering price, there will be

further dilution to new investors.

If the underwriters over-allotment option is exercised in full, the dilution to new investors in the offering will be $0.67 per share.

TABLE OF CONTENTS

BUSINESS

We are an aerospace and defense company. We manufacture and design structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, jet engines and other components. We also provide sheet metal fabrication of aerostructures, tube bending and welding services. Our products are currently deployed on a wide range of high profile military and commercial aircraft including Sikorsky s UH-60 Black Hawk and CH-47 Chinook helicopters, Lockheed Martin s F-35 Joint Strike Fighter, Northrop Grumman s E2 Hawkeye, Boeing s 777, Airbus 380 commercial airliners and the US Navy F-18 and USAF F-16 fighter aircraft. Our Turbine Engine sector makes components for jet engines that are used on the USAF F-15, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground turbine applications.

We became a public company in 2005 when our net sales were approximately $30 million. At that time we had been manufacturing components and subassemblies for the defense and commercial aerospace industry for over 45 years and had established long term relationships with leading defense and aerospace manufacturers. Since becoming public we have completed a series of acquisitions of defense related businesses. These acquisitions have enabled us to broaden the range of products and services we offer. At the time we became a public company, we were primarily a machining shop. As a result of acquisitions, we now have capabilities and expertise in metal fabrication, welding and tube bending; the production of electromechanical systems, harness and cable assemblies; the fabrication of electronic equipment and printed circuit boards; the machining of turbine engine components; and the assembly of packages or kits containing supplies for all branches of the United States Defense Department, including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies.

We currently divide our operations into three operating segments: Complex Machining; Aerostructures & Electronics; and Turbine Engine Components. As our businesses continue to develop and evolve, we may deem it appropriate to reallocate our companies into different operating segments and, once we achieve sufficient integration among our businesses, report as a unified company.

Complex Machining is comprised of Air Industries Machining (AIM) and Nassau Tool Works (NTW). Since the lease for the premises occupied by NTW expires in October 2018, we are relocating and consolidating the operations of NTW into the facilities of AIM in Bay Shore, New York, approximately six miles from the premises presently occupied by NTW on Long Island.

Aerostructures & Electronics is comprised of Welding Metallurgy (WMI), Woodbine Products (WPI), Eur-Pac, Electronic Connections (ECC) and Compac Development (Compac). We previously relocated the operations of Miller Stuart, and Compac Development from their locations on Long Island to Welding Metallurgy s facility in Hauppauge, Long Island NY, and merged Miller Stuart into WMI. We are continuing to fully integrate these operations, and the operations of Woodbine Products, and Decimal Industries into the operations of Welding Metallurgy. Turbine Engine Components is comprised of The Sterling Engineering Corporation and, until its sale in January 2017, included AMK Welding.

Our Market

We operate primarily in the military and, to a lesser degree, commercial aviation industries. Defense revenues represent a preponderance of our sales. Our principal customers include Sikorsky Aircraft, Goodrich Landing Gear Systems, Northrop Grumman, the United States Department of Defense, GKN Aerospace, Lockheed, Boeing, Raytheon, Piper Aircraft, M7 Aerospace, Vought Aerospace, Ametek/Hughes-Treitler and Airbus.

Our products are incorporated into many aircraft platforms, the majority of which remain in production, and of which there are a substantial number of operating aircraft in the fleets maintained by the military and commercial airlines.

We believe that we are the largest supplier of flight critical parts to Sikorsky s Black Hawk helicopter. We have made, or currently make, or have been awarded, products for the CH-47 Chinook helicopter, Lockheed Martin s F-35 Joint Strike Fighter, Northrop Grumman s E2 Hawkeye, Boeing s 777, Airbus 380 commercial airliners, and the US Navy F-18 and USAF F-16 fighter aircraft. Our Turbine Engine Components segment makes components for jet engines that are used on the USAF F-15, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of non-military ground turbine applications.

Many of our products are flight critical, essential to aircraft performance and safety on takeoff, during flight and when landing. These products require advanced certifications as a condition to being a supplier. For many of our products we are the sole or one of a limited number of sources of supply. Many of the parts we supply are subject to wear and tear or fatigue and are routinely replaced on aircraft on a time of service or flight cycle basis.

TABLE OF CONTENTS

Replacement demand for these products will continue, albeit at perhaps a lower rate, so long as an aircraft remains in service, which is usually many years after production has stopped.

The National Defense Authorization Act, which was approved in December 2016, provides for an increase in defense spending. President Donald Trump s preliminary budget proposal provides for a further increase in military spending of approximately 10%. Despite these positive developments, there can be no assurance that any such increase in military spending will increase demand for the products we supply or otherwise benefit us.

Sales and Marketing

Our approach to sales and marketing can be best understood through the concept of customer alignment. The aerospace industry is dominated by a small number of large prime contractors and equipment manufacturers. These customers rely heavily upon subcontractors to supply quality parts meeting specifications on a timely and cost effective basis. These customers and other customers we supply routinely rate their suppliers based on a variety of performance factors. One of our principal goals is to be highly rated and thus relied upon by all of our customers.

The large prime contractors are increasingly seeking subcontractors who can supply and are qualified to integrate the fabrication of larger, more complex and more complete subassemblies. We seek to position ourselves within the supply chain of these contractors and manufacturers to be selected for subcontracted projects. Successful positioning requires that we qualify to be a preferred supplier by achieving and maintaining independent third party quality approval certifications, specific customer quality system approvals and top supplier ratings through strong performance on existing contracts. We believe that the various capabilities we have acquired through our acquisition program increase the likelihood we will qualify for and be awarded larger, more complex projects. As an example of our successful efforts to move up the supplier chain, our Aerostructures & Electronics segment has grown from being a supplier of welding services to being a supplier of welding subassemblies and is now a product integrator, providing customers with complete structural assemblies.

As part of our effort to become a product integrator and increase our value to our customers, we have recruited personnel to design products and to fabricate complete, fully-assembled products. In our marketing efforts we let customers know that we now have employees with the talent and experience to manage the manufacture of sections of aircraft structures to be delivered to the final assembly phase of the aircraft manufacturing cycle, and customers have now engaged us for these services.

As we acquired new businesses, we often gained new or enhanced technical capabilities. When we sought to exploit these new capabilities by introducing to our existing customers newly acquired products and capabilities we previously lacked. Businesses we acquired often introduced us to customers we had not previously supplied and we marketed to these customers the products and services they need which we historically provided. This marketing effort has enabled us to grow some of the businesses we acquired and increased our value to our customers. For example, the acquisition of the business of Nassau Tool Works in 2012 expanded our capabilities in the turning of metal components. This enhanced capability was important in our Complex Machining segment winning a large multi-year commercial aerospace contract to supply Thrust Struts to a unit of UTAS for use in the Pratt & Whitney Geared Turbo Fan jet engine.

Initial contracts are usually obtained through competitive bidding against other qualified subcontractors, while follow-on contracts are usually retained by successfully performing initial contracts. The long term business of each of our current operating segments generally benefits from barriers to entry resulting from investments, certifications, familiarization with the needs and systems of customers, and manufacturing techniques developed during the initial manufacturing phase. We endeavor to develop each of our relationships to one of a partnership where we participate in the resolution of pre-production design and build issues, and initial contracts are obtained as single source awards

and follow-on pricing is determined through negotiations. Despite these efforts a minority of our sales are based on negotiated prices.

Our Backlog

Our backlog is best understood by looking at our operating segments independently.

Within our Complex Machining and Turbine Engine Components segments, the production cycle of products can extend from several months to a year or longer. This gives rise to significant backlogs as customers must order product with sufficient lead time to ensure timely delivery. In contrast, the production cycle for a significant majority of the products produced in our Aerostructures & Electronics segment is much shorter, a matter of several weeks or a few months. This shorter cycle allows customers to delay orders resulting in a much smaller backlog.

TABLE OF CONTENTS

We have a number of long-term multi-year General Purchase Agreements or GPA s with several of our customers. These agreements specify part numbers, specifications and prices of the covered products for a specified period, but do not authorize immediate production and shipment. Shipments are authorized periodically by the customer to fit their production schedule. We recently received a renewal of our multi-year contract with Sikorsky, MY9, for the years 2018 to 2023. This contract is for $47 million worth of product during this period. This is the third multi-year contract award we have received from Sikorsky.

Our firm backlog includes only fully authorized orders received for products to be delivered within the forward 18-month period. As of May 31, 2017, our 18-month firm funded backlog was approximately $120 million.

Competition

Winning a new contract is highly competitive. For the most part we manufacture to customer designs and specifications, and compete against companies that have similar manufacturing capabilities in a global marketplace. Consequently, the ability to obtain contracts requires providing quality products at competitive prices. To accomplish this requires that we strive for continuous improvement in our capabilities to assure our competitiveness and provide value to our customers. Our marketing strategy involves developing long-term ongoing working relationships with customers. These relationships enable us to develop entry barriers to would-be competitors by establishing and maintaining advanced quality approvals, certifications and tooling investments that are difficult and expensive to duplicate. Despite these barriers to entry, many of our competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers. Among our competitors are: Monitor Aerospace, a division of Stellex Aerospace; Hydromil, a division of Triumph Aerospace Group; Heroux Aerospace and Ellanef Manufacturing, a division of Magellan Corporation.

Many of our competitors are larger enterprises or divisions of significantly larger companies having greater financial, physical and technical resources, and the capabilities to timelier respond under much larger contracts.

Raw Materials and Replacement Parts

The manufacturing process for certain products, particularly those for which we serve as product integrator, requires significant purchases of raw materials, hardware and subcontracted details. As a result, much of our success in profitably meeting customer demand for these products requires efficient and effective subcontract management. Price and availability of many raw materials utilized in the aerospace industry are subject to volatile global markets. Most suppliers of raw materials are unwilling to commit to long-term contracts at fixed prices. This is a substantial risk as our strategy often involves long term fixed price commitments to our customers. Recently, we have had difficulties in securing timely shipments of raw materials from certain vendors due to our liquidity problems.

Employees

As of May 31, 2017, we employed approximately 366 people. Of these, approximately 42 were in administration, 29 were in sales and procurement, and 295 were in manufacturing.

Air Industries Machining, one of the components of our Complex Machining segment, is a party to a collective bargaining agreement (the Agreement) with the United Service Workers, IUJAT, Local 355 (the Union) with which we believe we maintain good relations. The Agreement, dated January 1, 2016, expires December 31, 2018 and covers all of AIM s production personnel, of which there are approximately 104 people. AIM is required to make a monthly contribution to each of the Union s United Welfare Fund and the United Services Worker s Security Fund. This is the only pension benefit required by the Agreement and the Company is not obligated for any future defined benefit to retirees. The Agreement contains a no-strike clause, whereby, during the term of the Agreement, the Union will not

strike and AIM will not lockout its employees.

All of our employees are covered under a co-employment agreement with ADP.

Regulations

Environmental Regulation; Employee Safety

We are subject to regulations administered by the United States Environmental Protection Agency, the Occupational Safety and Health Administration, various state agencies and county and local authorities acting in cooperation with federal and state authorities. Among other things, these regulatory bodies impose restrictions that

require us to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous chemicals and substances. The extensive regulatory framework imposes compliance burdens and financial and operating risks on us. Governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose civil and criminal fines in the case of violations.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) imposes strict, joint and several liability on the present and former owners and operators of facilities that release hazardous substances into the environment. The Resource Conservation and Recovery Act of 1976 (RCRA) regulates the generation, transportation, treatment, storage and disposal of hazardous waste. New York and Connecticut, the states where all of our production facilities are located, also have stringent laws and regulations governing the handling, storage and disposal of hazardous substances, counterparts of CERCLA and RCRA. In addition, the Occupational Safety and Health Act, which requires employers to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, obligates employers to provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances.

Federal Aviation Administration

We are subject to regulation by the Federal Aviation Administration (FAA) under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations. We have never been subject to such fines or disqualifications.

Government Contract Compliance

Our government contracts and those of many of our customers are subject to the procurement rules and regulations of the United States government, including the Federal Acquisition Regulations. Many of the contract terms are dictated by these rules and regulations. During and after the fulfillment of a government contract, we may be audited in respect of the direct and allocated indirect costs attributed to the project. These audits may result in adjustments to our contract costs. Additionally, we may be subject to U.S. government inquiries and investigations because of our participation in government procurement. Any inquiry or investigation can result in fines or limitations on our ability to continue to bid for government contracts and fulfill existing contracts.

We believe that we are in compliance with all federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits required for the operation of our business.

Properties

Our executive offices are located at 360 Motor Parkway, Suite 100, Hauppauge, New York 11788. We occupy our executive offices under a lease with approximately five years remaining in the term which ends January 2022. The annual rent was $103,000 for the lease year which began in January 2016, and increases by approximately 3% per annum each year thereafter until the seventh year of the lease.

The operations of a portion of our Complex Machining segment are conducted on a 5.4-acre corporate campus in Bay Shore, New York. We occupy three buildings on the campus, consisting of 76,000 square feet. On October 24, 2006, we entered into a sale/leaseback transaction whereby we sold the buildings and real property located at the corporate campus and entered into a 20-year triple-net lease for the property. Base annual rent for 2016 was approximately

$723,000 and increases by 3% each subsequent year. The lease grants us an option to renew the lease for an additional five years. Under the terms of the lease, we are required to pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance.

The remaining portion of the operations of our Complex Machining segment are conducted in a 60,000 square foot facility in West Babylon, New York. The space is occupied under a lease which provides for an annual base rent of approximately $360,000 through October 30, 2018. We are in the process of relocating the operations of NTW conducted at this location to AIM s facilities in Bay Shore, New York.

19

TABLE OF CONTENTS

The operations of our Aerostructures & Electronics segment are principally conducted in an 81,035 square foot facility located in Hauppauge, New York. This space is occupied under a sublease which had an annual base rent of approximately $527,000 for 2016 and increases by an agreed upon amount each anniversary of the commencement of the lease through December 31, 2026.

The balance of our Aerostructures & Electronics segment are located in a 16,000 square foot facility in Waterbury, Connecticut. The space is occupied under a lease which has an annual base rent of approximately $115,000 and expires May 31, 2019; and a 9,200 square foot space in Bay Shore, New York, which is occupied under a lease which has an annual base rent of approximately $75,000 and expires April 30, 2018.

The operations of our Turbine Engine Components segment are conducted in a 74,923 square foot facility on a 24 acre parcel in Barkhamsted, Connecticut.

Legal Proceedings

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

TABLE OF CONTENTS

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 our audited consolidated financial statements for the years ended December 31, 2016 and 2015 and our unaudited condensed consolidated financial statements for the quarters ended March 31, 2017 and 2016 and the notes to those statements included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in this prospectus that could cause actual results to differ materially from those anticipated in these forward-looking statements.

Business Overview

We are an aerospace company operating primarily in the defense industry, though the proportion of our business represented by the commercial and industrial sector is increasing. We manufacture and design structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, and other components. We also provide sheet metal fabrication of aerostructures, tube bending, welding and kitting services. Our Turbine Engine Components segment makes components and provides services for jet engines and ground-power turbines. Our products are currently deployed on a wide range of high profile military and commercial aircraft.

We became a public company in 2005 when our net sales were approximately $30 million. We have manufactured components and subassemblies for the defense and commercial aerospace industry for over 50 years and have established long-term relationships with leading defense and aerospace manufacturers. Since becoming public, we have completed a series of acquisitions of defense related businesses. These acquisitions have enabled us to broaden the range of products and services we offer. At the time we became a public company, we were primarily a machining shop. As a result of acquisitions, we now have capabilities and expertise in metal fabrication, welding and tube bending; the production of electromechanical systems, harness and cable assemblies; the fabrication of electronic equipment and printed circuit boards; the machining of turbine engine components; and the assembly of packages or kits containing supplies for all branches of the United States Defense Department, including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies.

Since January 1, 2015, we have made the following acquisitions and dispositions:

- In March 2015, we acquired Sterling Engineering Corporation (Sterling) for approximately $10.1 million. Founded in 1941, Sterling provides complex machining services and its business is concentrated with aircraft jet engine and ground turbine manufacturers;
- In September 2015, we acquired Compac Development Corporation (Compac) for approximately $1.5 million. Founded in 1976, Compac specializes in the manufacture of RFI/EMI (Radio Frequency Interference – Electromagnetic Interference) shielded enclosures for electronic components;
- In January 2017 we sold AMK Welding, Inc., for $4.5 million, net of a working capital adjustment of ($240,000) plus additional payments based on net revenue not to exceed $1.5 million. We acquired AMK Welding in October, 2014.

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.

TABLE OF CONTENTS

While our revenues are largely determined by the number of contracts we are awarded, the volume of product delivered and the 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.

A very large percentage of the products we produce are used on military as opposed to civilian aircraft. These products can be replacements parts 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 reduced our sales, particularly in our Complex Machining segment.

The Defense budget proposed for Fiscal Year 2017, beginning on October 1, 2016, approved in December 2016, increases military spending and presumably procurement. Recently President Trump has proposed an additional increase of approximately $50 billion for fiscal year 2018, beginning on October 1, 2017. There is no assurance that defense spending will, in fact, increase in the near future or that the increase will increase demand for the product lines we produce.

Segment Data

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

We currently divide our operations into three operating segments: Complex Machining; Aerostructures & Electronics; and Turbine Engine Components. Effective January 1, 2015, all operating costs are allocated to our three operating segments. As our businesses continue to develop and evolve we may deem it appropriate to reallocate our companies into different operating segments. 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. We evaluate performance of each segment based on revenue, gross profit contribution and assets employed.

RESULTS OF OPERATIONS

Three Months ended March 31, 2017 and 2016

Selected Financial Information:

	Three Months Ended March 31, 2017 and 2016:	
	2017	**2016**

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

22

TABLE OF CONTENTS

Balance Sheet Data:

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

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

	Three Months Ended March 31,	
	2017	2016
	(Unaudited)	(Unaudited)
COMPLEX MACHINING		
Net Sales	$ 9,891,000	$ 7,467,000
Gross Profit	2,901,000	1,858,000
Pre Tax (Loss) Income	1,085,000	(400,000)
Assets	41,940,000	51,076,000
AEROSTRUCTURES & ELECTRONICS		
Net Sales	4,320,000	5,160,000
Gross Profit	26,000	948,000
Pre Tax (Loss) Income	(1,279,000)	(772,000)
Assets	19,669,000	19,263,000
TURBINE ENGINE COMPONENTS		
Net Sales	1,942,000	2,557,000
Gross Profit	(225,000)	15,000
Pre Tax (Loss) Income	(827,000)	(914,000)
Assets	11,233,000	17,247,000
CORPORATE		
Net Sales	—	—
Gross Profit	—	—
Pre Tax (Loss) Income	(133,000)	—
Assets	785,000	534,000
CONSOLIDATED		
Net Sales	16,153,000	15,184,000

Gross Profit	2,702,000	2,821,000
Pre Tax (Loss) Income	(1,154,000)	(2,086,000)
Benefit from Income Taxes	—	656,000
Net (Loss) Income	(1,154,000)	(1,430,000)
Assets	$ 73,627,000	$ 88,120,000

Net Sales:

Consolidated net sales for the three months ended March 31, 2017 were approximately $16,153,000, an increase of $969,000, or 6.4%, compared with $15,184,000 for the three months ended March 31, 2016. The increase in sales resulted from an increase in our Complex Machining segment of approximately $2,424,000 or 32.5%. This increase in sales was partially offset by decreases in our Turbine Engine Components and Aerostructures & Electronics segments of approximately $615,000 and $840,000, respectively. The decrease in our Turbine Engine Segment in

23

TABLE OF CONTENTS

2017 largely resulted from the inclusion of AMK for three months in 2016 and only one month in 2017. AMK was sold on January 27, 2017. Without AMK revenues of this segment were essentially flat, declining just $38,000 for the quarter.

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

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

Gross Profit:

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

Operating Expenses:

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

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

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

Net Loss:

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

Years ended December 31, 2016 and 2015:

The results of operations of the businesses we have acquired are included in our financial results for the year ended December 31, 2015 from their respective dates of acquisition; March 1, 2015, in the case of Sterling and September 1, 2015, in the case of Compac.

TABLE OF CONTENTS

Selected Financial Information:

	2016	2015
Net sales	$ 66,915,000	$ 80,442,000
Cost of sales	60,195,000	63,161,000
Gross profit	6,720,000	17,281,000
Operating expenses, acquisition costs and interest and financing costs	20,105,000	18,513,000
Other income (expense) net	(126,000)	114,000
Provision for (benefit from) income taxes	2,112,000	(286,000)
Net (loss)	$ (15,623,000)	$ (832,000)

Balance Sheet Data:

	December 31, 2016