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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Air Industries Group

Speculative Buy

John Nobile
April 10, 2019

AIRI $1.14 — (NYSE MKT)

	2017A	2018A	2019E	2020E
Revenues (millions)*	$49.9	$46.3	$53.0	$61.0
Earnings (loss) per share*	$(1.21)	$(0.36)	$(0.12)	$(0.05)

52-Week range	$1.95 – $0.70	Fiscal year ends:	December
Common shares out as/of 3/27/19	28.7 million	Revenue per share (TTM)	$1.72
Approximate float	21.7 million	Price/Sales (TTM)	0.7X
Market capitalization	$33 million	Price/Sales (FY2020)E	0.6X
Tangible book value/share	$0.40	Price/Earnings (TTM)	NMF
Price/tangible book value	2.9X	Price/Earnings (FY2020)E	NMF

** Continuing operations. Excludes results of WMI.*

Air Industries Group, headquartered in Bay Shore, New York, operates primarily in the aerospace and defense industry. The company designs and manufactures structural parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, components for jet engines, and other aerospace components. (www.airindustriesgroup.com)

Key investment considerations:

Reiterating Speculative Buy rating on Air Industries Group and maintaining our twelve-month price target of $2.00 per share.

AIRI entered 2019 with a backlog from continuing operations of approximately $100 million and significant new contracts awarded in 1Q19. The company continues to focus on implementing operational efficiencies and has reduced annual operating expenses by over $5.5 million since 2016. The efficiencies created by the consolidation of AIM and Nassau Tool Works (completed at the end of October 2018) and a reduced cost structure should enable the company to generate $1.1 million cash earnings in 2019 and $2.6 million in 2020.

In an effort to satisfy its backlog, the company is making capital equipment and infrastructure investments. In 1Q19, AIRI purchased a key piece of equipment (boring mill) that is scheduled to be operational in 2Q19. The company has also been hiring people for its first and second shifts to handle an increase in manufacturing.

In April 2019, Air Industries announced total bookings of new business for 1Q19 increased 140% to $19.9 million compared to $8.3 million in the year-ago period.

For 2019, we project revenue of $53 million and a net loss from continuing operations of $(0.12) per share. We previously projected revenue of $59 million and a net loss from continuing operations of $(0.09) per share. The change in our projections is primarily due to a slower ramp in sales than originally anticipated.

For 2020, we project revenue of $61 million and a net loss from continuing operations of $(0.05) per share.

2018 revenue (10-K released 4/1/19) decreased 7.1% to $46.3 million. The net loss from continuing operations was $(0.36) per share versus a loss of $(1.21) per share in 2017. The loss for 2018 included an $(0.08) per share capitalized engineering cost write-off and a $(0.01) per share impairment on abandonment of assets. We projected 2018 revenue of $46.7 million and a net loss from continuing operations of $(0.22) per share.

****Please view our disclosures on pages 13 - 16.***

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Recommendation and Valuation

We are reiterating our Speculative Buy rating on Air Industries Group (AIRI) and maintaining our twelve-month price target of $2.00 per share.

AIRI entered 2019 with a backlog from continuing operations of approximately $100 million and significant new contracts awarded in 1Q19. The company continues to focus on implementing operational efficiencies and has reduced annual operating expenses by over $5.5 million since 2016. The efficiencies created by the consolidation of AIM and Nassau Tool Works (completed at the end of October 2018) and a reduced cost structure should enable the company to generate $1.1 million cash earnings in 2019 and $2.6 million in 2020.

In an effort to satisfy its backlog, the company is making capital equipment and infrastructure investments. In 1Q19, AIRI purchased a key piece of equipment (boring mill) that is scheduled to be operational in 2Q19. The company has also been hiring people for its first and second shifts to handle an increase in manufacturing. We believe these investments should help to drive AIRI's sales starting in 1Q19 with sales ramping throughout our forecast horizon.

Shares of AIRI are trading at a multiple of 0.6X 2020 sales while the aerospace & defense industry trades at multiple of 1.4X (1.3X previously) 2020 sales. We believe AIRI's depressed multiple compared to the industry is due to disappointing sales over the past year (down 7%) versus 7% sales growth for the industry. In 2020, we project sales growth of 15.1% compared to 4.8% growth projected for the industry. We anticipate investors are likely to accord AIRI a price to sales multiple in line with the industry. We applied a multiple of 1.4X (1.3X prior) to our 2020 sales projection of $1.98 per share, discounted to account for execution risks, to obtain a year ahead value of approximately $2.00 per share.

Recent Developments

Total 1Q19 New Business Bookings of Approximately $19.9 Million – In April 2019, Air Industries announced that it received additional awards for its Complex Machining and Turbine Engine Components business segments. Total bookings of new business for 1Q19 were approximately $19.9 million, an increase of approximately $11.6 million or 140% compared to 1Q18.

For the month of March 2019, Air Industries Machining (AIM) received awards totaling approximately $4.8 million, including an award for $ 4.2 million for mixers, the primary flight control mechanism for the BlackHawk UH-60 helicopter. Air Industries has been the primary source for this product for decades.

Sterling Engineering Corporation, (Sterling) the company's Turbine Engine Component segment, received several awards in March 2019 including approximately $1.2 million for jet engine components for the geared turbo-fan, the PW 4000, and tooling for a development project. Sterling also received several orders for both aviation and ground-power turbines.

Sale of WMI – In December 2018, Air Industries completed the sale of its Welding Metallurgy subsidiary to CPI Aerostructures, Inc. for approximately $9 million. The sale has reduced bank debt by roughly 25%. The results of WMI are considered to be discontinued operations under GAAP and have been presented as such in the financial statements for all periods of 2018 and 2017.

Closure of Eur-Pac – Air Industries' Eur Pac subsidiary received a notice of proposed debarment from the US Navy, its principal customer, in April 2018. Air Industries' appeal of the proposed debarment was denied in November 2018. Since the Proposed Debarment was issued, Eur Pac has been unable to take on additional contracts and has only completed contracts already in process. AIRI completed existing contracts that were previously awarded and closed Eur Pac in 1Q19. The company recognized a loss on abandoned assets of $386,000 in 2018 in connection with the shutdown.

Business Overview

Air Industries Group, headquartered in Bay Shore, New York, designs and manufactures structural aircraft parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, components for jet engines, and other aerospace components (see picture at right).

Source: Air Industries Group

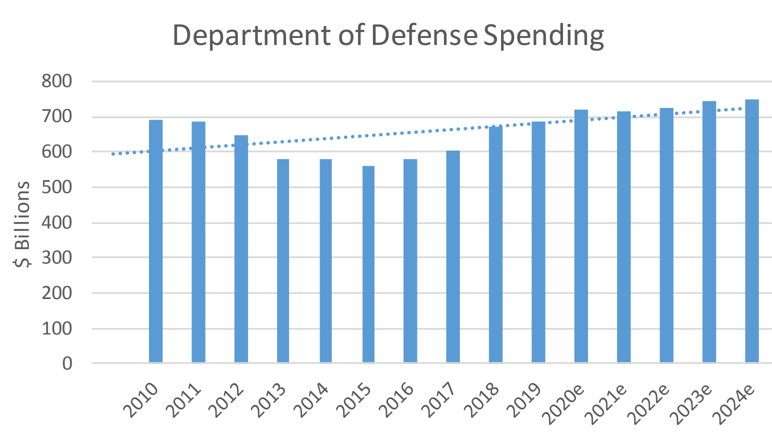
The company conducts its operations through the following wholly-owned subsidiaries: Air Industries Machining (AIM); Nassau Tool Works (NTW); and The Sterling Engineering Corporation (Sterling). AIM and NTW comprise the company's Complex Machining segment and Sterling represents the Turbine Engine Components segment.

AIRI's products are deployed on a wide range of military and commercial aircraft including Sikorsky's UH-60 Black Hawk, 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. The Turbine Engine 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 ground turbine applications.

Many of the company's products influence critical aspects of aircraft performance. Air Industries is required to have advanced certifications for these products as a condition to being a supplier. Many of these products are subject to wear and tear or fatigue and are routinely replaced on aircraft at a time of service or flight cycle basis. Replacement demand should continue so long as an aircraft remains in service.

Defense Spending Overview

Since 2001, the Department of Defense (DoD) focused on fighting terrorism and countering violent insurgencies and will continue to do so as long as these threats exist. Today, US forces are positioned globally, conducting counter-terrorism, stability, and deterrence operations in an effort to protect US interests.



Source: US Department of Defense

Changes in defense spending are likely to directly impact AIRI's revenues. US defense spending increased through much of the post-9/11 decade and peaked in 2010 at over $691 billion. However, budget cuts reduced defense spending by 19% to $560 billion in 2015 from the peak. Years of budget cuts have led to a depleted US military. In an effort to address the war readiness shortfalls and to help fund the fight against ISIS, defense spending started increasing in 2016 and is projected to continue growing through 2024 (see chart above).

Military Aircraft Market and Forecast

The company operates primarily in the US military aircraft market. IBISWorld estimated the US military aircraft, engine and parts manufacturing market at $50.5 billion in 2018. IBISWorld observed that the US has the largest defense budget in the world and as a result, is the biggest consumer of defense related products.

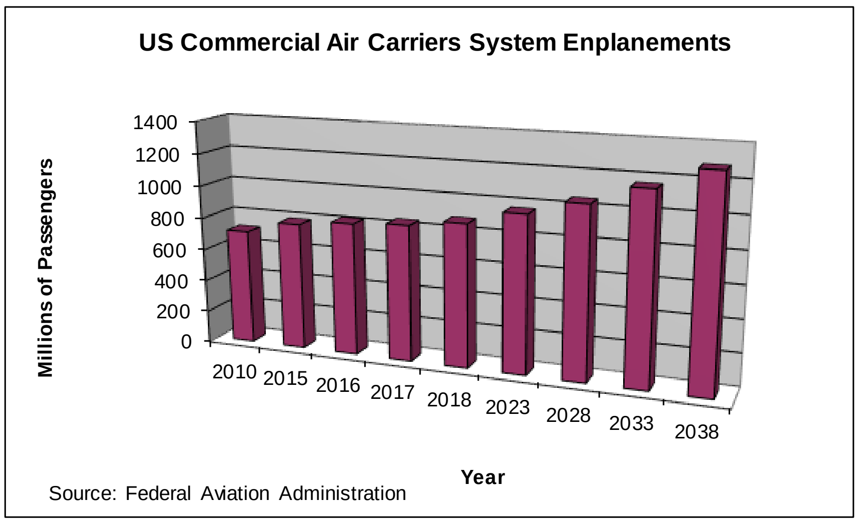
Most US defense manufacturers derive more than half of their revenue from sales to the DoD or defense-related government organizations. The US Navy is currently the largest domestic defense market as it invests in F/A-18 and F-35 fighters, maritime patrol craft, helicopters and unmanned aerial vehicles (UAVs) for both itself and the Marine Core. The US Air Force (USAF) is the second largest market for industry domestic defense sales.

The four largest components of the DoD's spending budget are in operation and maintenance (largest component), military personnel, procurement, and research, development, test & evaluation. As most of AIRI's military sales are for the repair and maintenance of existing aircraft, the category with the greatest impact on its sales is operation and maintenance spending. The latest DoD budget is for operation and maintenance (O&M) spending is expected to increase 5% to $292.7 billion in 2020 from $278.8 billion in 2019.

Commercial Aircraft Market and Forecast

Although the company's product lines primarily serve the defense market, they also serve the commercial markets. With defense budgets being under pressure since 2013, prime contractors began to shift their focus to the commercial sector. AIRI's customers (such as Boeing, United Technologies' Goodrich division, and Lockheed Martin's Sikorsky division) typically build to both military and commercial specifications.

According to the Federal Aviation Administration's (FAA) Aerospace Forecast 2018-2038, the number of passengers flying US commercial air carriers is projected to increase steadily throughout its forecast horizon. The FAA is forecasting steady US carrier passenger growth of 1.8% per year on average over the next ten years (see chart at right). Driving this growth will be a rise in economic activity. The FAA cited economic forecasts from IHS Global Insight, Inc. for US GDP growth to average 2% annually from 2018 to 2028.



Competition

The company's ability to obtain contracts requires providing quality products at competitive prices. In an effort to effectively compete, AIRI strives to continuously improve its capabilities and develop long-term relationships with its customers through establishing and maintaining advanced quality approvals, certifications and tooling investments that are difficult and expensive to duplicate. Despite these barriers to entry, many of the company's competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers.

Air Industries' competitors include Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group, Heroux Aerospace, and Ellanef Manufacturing, a division of Magellan Corporation.

Strategy

In response to recent operating losses and their impact on the company's working capital, AIRI has repositioned its business through the sale and liquidation of certain businesses acquired since becoming a public company. The company consolidated its headquarters and the operations of its subsidiaries, AIM and NTW, at its corporate campus in Bay Shore, New York, allowing it to re-focus its operations on its core competencies.

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, AIRI has sought to remain competitive by providing cost-effective service and increasing its ability to produce more complex and complete assemblies for its customers.

Economic Outlook

In April 2019, the IMF lowered its global economic growth estimate to 3.3% for 2019 from its January 2019 estimate of 3.5%, but kept GDP unchanged at 3.6% for 2020. The downward revision for 2019 reflects a notable slowing of economic activity in the second half of 2018. Key factors affecting major economies include a slowdown in China's growth and increased trade tensions with the US. The economy in the euro area was less than expected due in part to weakened consumer confidence and disrupted car production in Germany stemming from the introduction of new emission standards.

The IMF lowered its economic growth estimate for the US to 2.3% in 2019 from its January 2019 forecast of 2.5%. The 2020 estimate is up 0.1% to 1.9% from 1.8%. The downward revision for 2019 reflects the impact of the government shutdown and somewhat lower fiscal spending than previously anticipated, while the modest upward revision to 2020 reflects a more accommodative stance on monetary policy. .

The third estimate of US GDP growth (released on March 28, 2019) showed the US economy grew at an annual rate of 2.2% in 4Q18, down from 3.4% in 3Q18. The 4Q18 US GDP growth estimate reflects increases in consumer spending, business investment, exports, and inventory investment, partly offset by a decline in housing investment and government spending.

FY 2018 Financial Results

<u>*FY 2018*</u> - Total revenue decreased 7.1% to $46.3 million. AIRI reported a net loss from continuing operations of $9.6 million or $(0.36) per share versus a loss of $16.1 million or $(1.21) per share in 2017. The loss for 2018 included a $2 million or $(0.08) per share capitalized engineering cost write-off and a $386,000 or $(0.01) per share impairment on abandonment of assets. We projected 2018 revenue of $46.7 million and a net loss from continuing operations of $5.8 million or $(0.22) per share.

The decrease in total sales was primarily due to reductions in the company's Aerostructures & Electronics and Turbine Engine Components segments partially offset by an increase in the Complex Machining segment. Complex Machining sales increased 3.3% to $39.7 million, Aerostructures & Electronics sales decreased 61.1% to $1.8 million, and Turbine Engine Components sales decreased 29.7% to $4.8 million.

Gross profit increased by $547,000 or 11.2% to $5.4 million while gross margins increased to 11.7% from 9.8%. The increase in gross margins was due to cost reductions and productivity improvement initiatives. Operating (SG&A) expenses decreased by 22.7% to $8.8 million due primarily to staff reductions and cost controls. The decrease in operating expenses resulted in the operating loss narrowing to $6 million from $12.8 million. Interest expense increased to $3.9 million from $3.4 million.

<u>*Liquidity*</u> - As of December 31, 2018, the company had $2 million cash and a current ratio of 1.3X, in line with the aerospace and defense industry. Total debt was approximately $25.1 million (of which $19.3 million is classified as current) for a debt/equity ratio of 2.2X.

In 2018, cash used in operations was $2.3 million consisting of a cash loss of $3 million and a $713,000 decrease in working capital due primarily to a decrease in inventory. Cash provided by investing was $3.7 million consisting of $5.4 million proceeds from the sale of a subsidiary (WMI in December 2018), offset in part by $523,000 of capitalized engineering costs and $1.3 million of capital expenditures. Cash provided by financing of $33,000 consisted primarily of proceeds from the issuance of debt and equity offset in part by debt repayments. Cash increased by $1.4 million to $2 million at December 31, 2018.

The company's loan facility provides for a $15 million revolving loan and a term loan with a balance of $1.6 million at December 31, 2018. Under the terms of the loan facility, the revolving and term loans bear interest at an alternate base rate plus 4%. The amount outstanding under the revolving loan was $14 million as of December 31, 2018. Both the revolving loan and the term loan mature on December 31, 2019. As of December 31, 2018, the company was in compliance with its loan covenants.

As of December 31, 2018, capital lease obligations totaled $1.8 million, 8% convertible notes payable totaled $2.8 million, and related party notes payable totaled $4.8 million (payable at the rate of 1% per month).

In January 2019, AIRI entered into a purchase agreement with 15 accredited investors pursuant to which the company assigned to the purchasers all of its rights, title and interest to the remaining $1.1 million of the $1.5 million in payments due from Meyer Tool, Inc. for the sale of AMK Welding, Inc. for an aggregate purchase price of $800,000, including $100,000 from Michael Taglich and Robert Taglich, and $75,000 for the benefit of the children of Michael Taglich. AIRI sold AMK to Meyer Tool in January 2017.

The purchasers have agreed to pay Taglich Brothers, Inc. a fee equal to 2% per annum of the purchase price paid by such purchasers, payable quarterly, to be deducted from the payments of the remaining amount, for acting as paying agent in connection with the assignment of the company's rights to the payments from Meyer Tool. Michael Taglich and Robert Taglich, directors of AIRI, are the principals of Taglich Brothers, Inc.

In January 2019, the company issued 7% senior subordinate convertible promissory notes due December 31, 2020, each in the principal amount of $1 million, to Michael Taglich and Robert Taglich. The notes bear interest at an annual rate of 7% and are convertible to shares of the company's common stock at a conversion price of $0.93 per share.

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

Projections

AIRI entered 2019 with a backlog from continuing operations of approximately $100 million and significant new contracts awarded in 1Q19. The company continues to focus on implementing operational efficiencies and has reduced annual operating expenses by over $5.5 million since 2016. The efficiencies created by the consolidation of AIM and Nassau Tool Works (completed at the end of October 2018) and a reduced cost structure should enable the company to generate $1.1 million cash earnings in 2019 and $2.6 million in 2020.

In an effort to satisfy its backlog, the company is making capital equipment and infrastructure investments. In 1Q19, AIRI purchased a key piece of equipment (boring mill) that is scheduled to be operational in 2Q19. The company has also been hiring people for its first and second shifts to handle an increase in manufacturing. We believe these investments should help to drive AIRI's sales starting in 1Q19 with sales ramping throughout our forecast horizon.

2019 – We project revenue of $53 million and a net loss from continuing operations of $3.5 million or ($0.12) per share. We previously projected revenue of $59 million and a net loss from continuing operations of $2.5 million or ($0.09) per share. The change in our projections is primarily due to a slower ramp in sales than originally anticipated. Gross margins should improve to 13.3% from 11.7% in 2018, reflecting increased manufacturing overhead coverage and a full year of cost savings from the consolidation of AIM and NTW.

We forecast a $2 million decrease in SG&A expenses to $6.8 million from $8.8 million as the company benefits from a full year of cost reductions. We project operating income of $235,000 compared to an operating loss of $6 million in 2018 with operating margin of 0.4% compared to (12.9)%. Interest expense is projected to decrease to $3.7 million from $3.9 million due to lower average debt levels. We project the company paying no taxes.

We project $1.9 million cash used in operations on a $2.9 million increase in working capital offset in part by $1.1 million of cash earnings. The increase in working capital should be primarily due to increases in inventory and receivables, offset in part by and an increase in payables. Cash used in operations, capital expenditures and repayments of debt should necessitate the company raising $2 million from the issuance of related party debt and $2 million from the issuance of stock. We project a $620,000 decrease in cash to $1.4 million by the end of 2019.

2020 – We project revenue of $61 million and a net loss from continuing operations of $1.7 million or ($0.05) per share. Gross margins should improve to 15.5% from 13.3% in 2019 reflecting increased manufacturing overhead coverage.

We forecast a $700,000 increase in SG&A expenses to $7.5 million from $6.8 million and operating income of $1.9 million compared to $235,000 in 2019. Operating margins are projected to improve to 3.2% from 0.4%. Interest expense is projected to decrease to $3.6 million from $3.7 million due to lower average debt levels. We project the company paying no taxes.

We project $367,000 cash used in operations on a $2.9 million increase in working capital offset in part by $2.6 million of cash earnings. The increase in working capital should be primarily due to increases in inventory and receivables, offset in part by and an increase in payables. Cash used in operations, capital expenditures and repayments of debt, should necessitate the company raising $2 million from the issuance of stock. We project a $197,000 increase in cash to $1.6 million by the end of 2020.

Risks

In our view, these are the principal risks underlying the stock.

Going concern issues – Air Industries suffered net losses from continuing operations of $6 million for year ended December 31, 2018. The company also had negative cash flows from operations for year ended December 31, 2018. Air Industries' auditors said that the company's loss from operations and negative cash flows from operations, among other reasons, raised substantial doubt about its ability to continue as a going concern.

Reliance on government spending - AIRI's sales are primarily derived from products for US military aviation. Reductions in US Government spending on defense or future changes in the mix of defense products required by US Government agencies could limit demand for the company's products, and could adversely impact AIRI's financial results.

Reliance on a small number of customers – Air Industries derives most of its revenues from a small number of customers. In 2018, three customers accounted for 70% of net sales. The loss of one or more of the company's largest customers will likely have a materially adverse impact on AIRI's financial results.

Reliance on a few aircraft platforms – The company 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 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 AIRI's financial results.

Competition - The defense and aerospace component manufacturing market is highly competitive. Many of the company's competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers. Air Industries' prime competitors include Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group, Heroux Aerospace, and Ellanef Manufacturing, a division of Magellan Corporation.

Competitive bidding – The company obtains many contracts through a competitive bidding process. There can be no assurance that the prices bid will be sufficient to allow Air Industries to generate a profit.

Regulations – Air Industries may be subject to US government inquiries and investigations because of its participation in government procurement. Any inquiry or investigation can result in fines or limitations on the company’s ability to continue to bid for government contracts and fulfill existing contracts.

Material weakness in disclosure controls and procedures – As of December 31, 2018, AIRI’s disclosure controls and procedures were not effective due to certain portions of AIRI’s inventory control system not being integrated into the system used by others in the company which could result in a failure to properly account for the costs associated with work in process. Slow moving inventory, the value of inventory on hand, and the system used to track employee costs to be included in work in process, is not sufficiently automated to ensure compliance.

Legal proceedings – Contract Pharmacal Corp. commenced an action in October 2018 relating to a sublease entered into between AIRI and Contract Pharmacal in May 2018 with respect to property occupied by WMI in Hauppauge, New York. In the action Contract Pharmacal seeks damages and an order directing that AIRI make all of the space referenced in the sublease available to Contract Pharmacal. Air Industries disputes the validity of the claims asserted by Contract Pharmacal and intends to contest the action.

In October 2018, a complaint was filed in the United States District Court for the Eastern District of New York alleging that the proxy statement for AIRI’s 2017 annual meeting contained false and misleading misstatements relating to whether brokers had discretionary authority to vote the shares of their customers in connection with a proposal to increase the number of shares authorized to issue. The plaintiff seeks to void the amendment and rescind any shares issued using the shares authorized by the amendment. AIRI adopted an amendment to further increase the number of shares of common stock it is authorized to issue, subject to stockholder approval at the 2019 annual meeting of stockholders, which is anticipated to be held in May or June of 2019. AIRI believes that approval of the amendment will remove any issues concerning its ability to issue shares of common stock and that any amount it may pay to resolve this action will not be material.

Liquidity risk **-** Shares of Air Industries Group have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 21.7 million shares in the float and the average daily volume is approximately 29,000 shares.

Miscellaneous risk **-** The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)*

	2017A	2018A	2019E	2020E
Cash and cash equivalents	630	2,012	1,392	1,589
Accounts receivable	5,464	6,522	7,464	8,591
Inventory	31,141	29,051	30,643	31,824
Prepaid expenses and other current assets	214	414	414	414
Assets held for sale	10,082	-	-	-
Prepaid taxes	49	49	49	49
Total current assets	47,580	38,048	39,963	42,467
Property and equipment, net	10,050	8,777	6,913	5,786
Capitalized engineering costs	2,188	-	-	-
Deferred financing costs	665	768	768	768
Intangible assets	-	-	-	-
Goodwill	272	163	163	163
Total assets	**60,755**	**47,756**	**47,807**	**49,184**
Notes payable and capitalized lease obligations	23,393	19,345	18,603	18,061
Accounts payable and accrued expenses	10,872	8,723	9,804	10,997
Deferred gain on sale	38	38	38	38
Deferred revenue	931	881	881	881
Liabilities associated with assets held for sale	2,795	-	-	-
Income taxes payable	20	20	20	20
Total current liabilities	38,049	29,007	29,346	29,997
Long-term debt	3,448	5,721	5,721	5,627
Deferred gain on sale	295	257	257	257
Deferred rent	1,197	1,165	1,165	1,165
Total liabilities	**42,989**	**36,150**	**36,489**	**37,046**
Total stockholders' equity	**17,766**	**11,606**	**11,317**	**12,138**
Total liabilities & stockholders' equity	**60,755**	**47,756**	**47,807**	**49,184**

* Continuing operations. Excludes results of WMI.
Source: Company filings and Taglich Brothers estimates

Income Statements for the Fiscal Years Ended
(in thousands $)*

	2017A	2018A	2019E	2020E
Net sales	49,869	46,309	53,000	61,000
Cost of sales	45,002	40,895	45,965	51,555
Gross profit	4,867	5,414	7,035	9,446
Impairment of goodwill, asset abandonment	6,195	495	-	-
Capitalized engineering writeoff	-	2,043		
Operating expenses	11,430	8,839	6,800	7,500
Operating income (loss)	(12,758)	(5,963)	235	1,946
Interest and financing costs	(3,378)	(3,921)	(3,724)	(3,624)
Loss on extinguishment of debt	(112)	-	-	-
Other (expense) income	(22)	278	-	-
Income (loss) before taxes	(16,270)	(9,606)	(3,489)	(1,679)
Income tax (benefit)	(197)	3	-	-
Net income / (loss)	(16,073)	(9,609)	(3,489)	(1,679)
EPS*	(1.21)	(0.36)	(0.12)	(0.05)
Shares Outstanding	13,231	26,898	28,875	30,875
Margin Analysis				
Gross margin	9.8%	11.7%	13.3%	15.5%
Operating margin	(25.6)%	(12.9)%	0.4%	3.2%
Net margin	(32.2)%	(20.7)%	(6.6)%	(2.8)%
Tax rate	1.2%	0.0%	0.0%	0.0%
Year / Year Growth				
Total Revenues		(7.1)%	14.4%	15.1%

*Continuing operations. Excludes results of WMI.
Source: Company filings and Taglich Brothers estimates

Quarterly Income Statements
(in thousands $)*

	3/18A	6/18A	9/18A	12/18A	2018A	3/19E	6/19E	9/19E	12/19E	2019E	3/20E	6/20E	9/20E	12/20E	2020E
Net sales	12,242	11,915	11,043	11,109	46,309	12,500	13,000	13,500	14,000	53,000	14,500	15,000	15,500	16,000	61,000
Cost of sales	10,239	10,327	9,683	10,646	40,895	10,938	11,310	11,678	12,040	45,965	12,267	12,750	13,098	13,440	51,555
Gross profit	2,003	1,588	1,360	463	5,414	1,563	1,690	1,823	1,960	7,035	2,233	2,250	2,403	2,560	9,446
Impairment of goodwill, asset abandonment	-	-	-	495	495	-	-	-	-	-	-	-	-	-	-
Capitalized engineering writeoff	-	-	-	2,043	2,043										
Operating expenses	2,616	2,647	1,975	1,601	8,839	1,625	1,675	1,725	1,775	6,800	1,800	1,850	1,900	1,950	7,500
Operating income (loss)	(613)	(1,059)	(615)	(3,676)	(5,963)	(63)	15	98	185	235	433	400	503	610	1,946
Interest and financing costs	(777)	(861)	(833)	(1,450)	(3,921)	(946)	(934)	(926)	(918)	(3,724)	(914)	(910)	(906)	(894)	(3,624)
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (expense) income	16	71	88	103	278	-	-	-	-	-	-	-	-	-	-
Income (loss) before taxes	(1,374)	(1,849)	(1,360)	(5,023)	(9,606)	(1,009)	(919)	(829)	(733)	(3,489)	(481)	(510)	(404)	(284)	(1,679)
Income tax (benefit)	2	-	-	1	3	-	-	-	-	-	-	-	-	-	-
Net income / (loss)	(1,376)	(1,849)	(1,360)	(5,024)	(9,609)	(1,009)	(919)	(829)	(733)	(3,489)	(481)	(510)	(404)	(284)	(1,679)
EPS*	(0.05)	(0.07)	(0.05)	(0.19)	(0.36)	(0.04)	(0.03)	(0.03)	(0.02)	(0.12)	(0.02)	(0.02)	(0.01)	(0.01)	(0.05)
Shares Outstanding	26,116	26,200	26,769	26,898	26,898	27,800	28,500	29,200	30,000	28,875	30,350	30,700	31,050	31,400	30,875
Margin Analysis															
Gross margin	16.4%	13.3%	12.3%	4.2%	11.7%	12.5%	13.0%	13.5%	14.0%	13.3%	15.4%	15.0%	15.5%	16.0%	15.5%
Operating margin	(5.0)%	(8.9)%	(5.6)%	(33.1)%	(12.9)%	(0.5)%	0.1%	0.7%	1.3%	0.4%	3.0%	2.7%	3.2%	3.8%	3.2%
Net margin	(11.2)%	(15.5)%	(12.3)%	(45.2)%	(20.7)%	(8.1)%	(7.1)%	(6.1)%	(5.2)%	(6.6)%	(3.3)%	(3.4)%	(2.6)%	(1.8)%	(2.8)%
Tax rate	(0.1)%	0.0%	0.0%	(0.0)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth															
Total Revenues					(7.1)%	2.1%	9.1%	22.2%	26.0%	14.4%	16.0%	15.4%	14.8%	14.3%	15.1%

*Continuing operations. Excludes results of WMI.
Source: Company filings and Taglich Brothers estimates

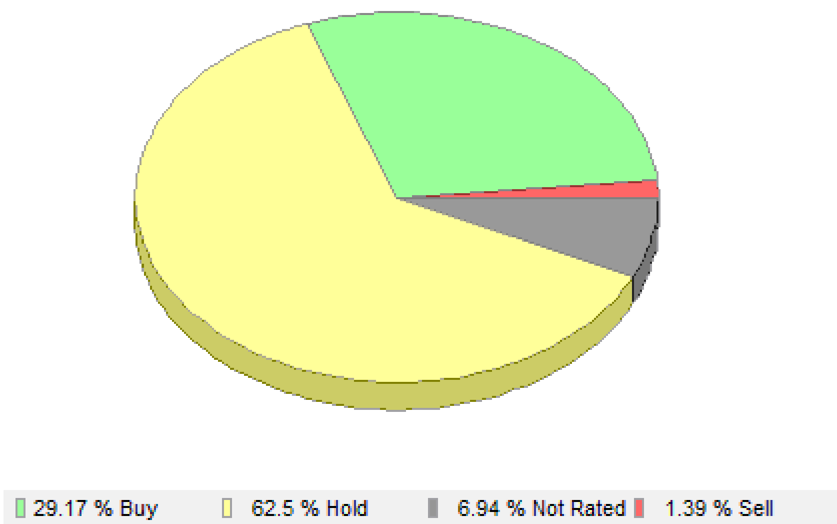
Statement of Cash Flows for the Periods Ended
(in thousands $)*

	2017A	2018A	2019E	2020E
Net income (loss)	(22,551)	(10,992)	(3,489)	(1,679)
Depreciation	2,723	2,877	2,324	1,927
Amortization of intangible assets	673	-	-	-
Amortization of capitalized engineering costs	423	668	668	668
Loss on impairment of goodwill	9,612	109	-	-
Bad debt expense (recovery)	87	49	50	50
Stock compensation expense	564	356	400	500
Amortization of deferred financing costs	267	212	212	212
Gain on sale of real estate	(38)	(38)	-	-
(Gain) loss on sale of subsidiary	(200)	340	-	-
Change in useful life of capitalized engineering costs	-	2,043	-	-
Loss on impairment of intangible assets	1,085	-	-	-
Loss on assets held for sale	1,563	386	-	-
Loss on extinguishment of debt	112	-	-	-
Amortization of convertible notes payable	2,301	941	900	900
Cash earnings (loss)	(3,379)	(3,049)	1,065	2,579
Changes in assets and liabilities				
Assets held for sale	39	-	-	-
Accounts receivable	1,004	(561)	(942)	(1,127)
Inventory	905	1,395	(2,337)	(2,494)
Prepaid expenses and other current assets	281	39	-	-
Prepaid taxes	360	-	-	-
Deposits and other assets	(113)	(1,112)	-	-
Accounts payable and accrued expenses	(3,527)	(1,127)	1,081	1,192
Deferred rent	34	3	-	-
Deferred revenue	410	2,076	(745)	(517)
(Increase) decrease in working capital	(607)	713	(2,943)	(2,945)
Net cash provided by (used in) operations	**(3,986)**	**(2,336)**	**(1,878)**	**(367)**
Capitalized engineering costs	(985)	(523)	-	-
Purchase of property and equipment	(1,514)	(1,264)	(800)	(800)
Proceeds from sale of payment rights from Meyer Tool			800	
Proceeds from sale of subsidiary	4,260	5,472	-	-
Net cash provided by (used in) investing	**1,761**	**3,685**	**-**	**(800)**
Notes payable - revolver	(7,938)	(2,415)	-	-
Payments of notes payable - term loan	(3,178)	(1,899)	(1,478)	(94)
Capital lease obligations	(1,397)	(1,286)	(1,264)	(542)
Proceeds from notes payable - related party	2,660	2,803	2,000	-
Proceeds from notes payable	4,184	70	-	-
Payments of notes payable	(463)	-	-	-
Deferred financing costs	(50)	(125)	-	-
Proceeds from issuance of stock	7,733	2,885	2,000	2,000
Net cash provided by (used in) financing	**1,551**	**33**	**1,258**	**1,364**
Net change in cash	**(674)**	**1,382**	**(620)**	**197**
Cash - beginning of period	**1,304**	**630**	**2,012**	**1,392**
Cash - end of period	**630**	**2,012**	**1,392**	**1,589**

* Continuing operations. Excludes results of WMI.
Source: Company filings and Taglich Brothers estimates

Price Chart

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**2**	**8**
Hold		
Sell		
Not Rated	**2**	**50**

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of AIRI common stock. Michael Taglich, President of Taglich Brothers, Inc. and Chairman of Air Industries Group, owns or has a controlling interest in 3,618,134 shares of AIRI common stock, 2,282,621 shares that may be acquired upon the conversion of convertible notes, 437,849 shares that may be acquired upon the conversion of warrants, and 35,250 shares that may be acquired upon the conversion of stock options. In September 2015, April, May, and August 2016, and in March and May 2017, Michael Taglich loaned the company monies. Robert Taglich, Managing Director of Taglich Brothers, Inc. and a Director of Air Industries Group, owns or has a controlling interest in 2,169,485 shares of AIRI common stock, 1,849,288 shares that may be acquired upon the conversion of convertible notes, 293,416 shares that may be acquired upon the conversion of warrants, and 35,250 shares that may be acquired upon the conversion of stock options. In April and May 2016, and in February, March, and May 2017, Robert Taglich loaned the company monies. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 23,908 shares that may be acquired upon the conversion of warrants. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and a Director of Air Industries Group, owns or has a controlling interest in 92,293 shares of AIRI common stock, 35,250 shares that may be acquired upon the conversion of stock options, and 55,278 shares that may be acquired upon the conversion of warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 15,513 shares of AIRI common stock that may be acquired upon the conversion of warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 40,426 shares of common stock upon the conversion of warrants. Taglich Brothers, Inc. owns 1,030 shares of AIRI common stock. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In April and May of 2007, Taglich Brothers Inc. served as the placement agent in the sale of convertible preferred stock for the company. In June 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes for the company. In September and October of 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes and convertible preferred stock for the company. In October 2013 and May 2014, Taglich Brothers, Inc. served as the placement agent in the sale of common stock for the company. In May and June 2016, Taglich Brothers, Inc. served as the placement agent in the sale of convertible preferred stock for the company. In August, November and December 2016, and in February and March 2017, Taglich Brothers, Inc. served as the placement agent in the sale of convertible notes for the company. In May 2017, Taglich Brothers, Inc. served as a placement agent in the sale of convertible notes and warrants for the company. In January 2018, Taglich Brothers, Inc. served as a placement agent in the sale of common stock and warrants for the company.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $1,500 (USD) in October 2013 for the creation and dissemination of research reports. After the initial publication, the company pays a monthly monetary fee of $1,500 (USD) to Taglich Brothers, Inc., for a minimum of six months for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Boeing (NYSE: BA)
CPI Aerostructures Inc. (NYSE MKT: CVU)
Heroux-Devtek, Inc. (OTC: HERXF)
Lockheed Martin (NYSE: LMT)
Northrop Grumman (NYSE: NOC)
Triumph Group, Inc. (NYSE: TGI)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.