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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
February 13, 2018

AIRI $1.40 — (NYSE MKT)

	2015A	2016A	2017E	2018E
Revenues (millions)	$80.4	$66.9	$66.0	$76.0
Earnings (loss) per share	$(0.11)	($2.11)	($0.63)	($0.05)

52-Week range	$4.60 – $1.15	Fiscal year ends:	December
Common shares out as/of 11/13/17	23.3 million	Revenue per share (TTM)	$7.24
Approximate float	18.3 million	Price/Sales (TTM)	0.2X
Market capitalization	$33 million	Price/Sales (FY2018)E	0.5X
Tangible book value/share	$1.36	Price/Earnings (TTM)	NMF
Price/tangible book value	1.0X	Price/Earnings (FY2018)E	NMF

Air Industries Group, headquartered in Hauppauge, 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, jet engines and other components. Air Industries also provides sheet metal fabrication of aerostructures, tube bending, welding and kitting services. (www.airindustriesgroup.com)

Key investment considerations:

We are rating Air Industries Group a Speculative Buy and setting a twelve-month price target of $2.50 per share.

AIRI's sales over the past year have declined by roughly 6% while aerospace and defense industry sales have experienced near double digit growth. We project AIRI will report a decline in sales in 2017. In 4Q17, new management evaluated the company's production processes and is aligning its workforce and procedures to effectively manage its backlog, which totaled $102 million at September 30, 2017.

As backlog is effectively managed and production is aided by additional hires, we project a return to growth in 2018.

For 2017, we project a 1% decline in revenue to $66 million and a net loss of $8.3 million or ($0.63) per share.

For 2018, we project a 15% increase in revenue to $76 million and the net loss narrowing to $1.3 million or ($0.05) per share. Gross margins should improve to 19.1% from 15.4% in 2017, which reflects increased manufacturing overhead coverage.

3Q17 revenue (10-Q released 11/14/17) increased 10% to $17.3 million. The net loss was $2.9 million or ($0.21) per share versus a net loss of $2.3 million or ($0.30) per share in 3Q16.

****Please view our disclosures on pages 14 - 16.***

Recommendation and Valuation

We are rating Air Industries Group (AIRI) a Speculative Buy and setting a twelve-month price target of $2.50 per share.

Shares of AIRI are trading at a multiple of 0.5X 2018 sales while the aerospace & defense industry trades at multiple of 1.6X 2018 sales. We believe AIRI's depressed multiple compared to the industry is due to disappointing sales over the past year (down 6.1%) versus 9.8% sales growth for the industry. In 2018, we project sales growth of 15.1% compared to 2% growth projected for the industry. We anticipate investors are likely to accord AIRI a P/S multiple approaching that of the industry. We applied a multiple of 1X to our 2018 sales projection of $3.02 per share, discounted to account for execution risks, to obtain a year ahead value of approximately $2.50 per share.

Business Overview

Air Industries Group, headquartered in Hauppauge, New York, designs and manufactures structural aircraft parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants and other components (see picture below right). Air Industries also provides sheet metal fabrication of aerostructures, tube bending, welding and kitting services.

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. This should help to lessen the effect of reductions in defense spending which have adversely affected AIRI's revenue.

Source: Air Industries Group

AIRI operates in three segments: Complex Machining, Aerostructures and Electronics, and Turbine Engine Components.

Complex Machining accounted for 55% of 2016 revenue. Products include electromechanical devices, mixer (primary flight control) assemblies, rotor-hub components for Blackhawk helicopters, arresting gear for the E2C/D Hawkeye, C2A Greyhound and US Navy Fighters, vibration absorbing assemblies for Sikorsky helicopters, landing gear components for the F-35 Joint Strike Fighter (JSF), and many other subassembly packages.

AIRI's Complex Machining segment also manufactures complete landing gear assemblies and landing gear components for the US Air Force F-16 Fighting Falcon and the US Navy's F-18 Hornet aircraft. The company specializes in deep hole gun-drilling (a process that produces deep, straight holes in a variety of materials) and trepanning (the removal of a disk or cylindrical core from metal) and performs sub-contract machining services for prime contractors in the defense and aerospace industries.

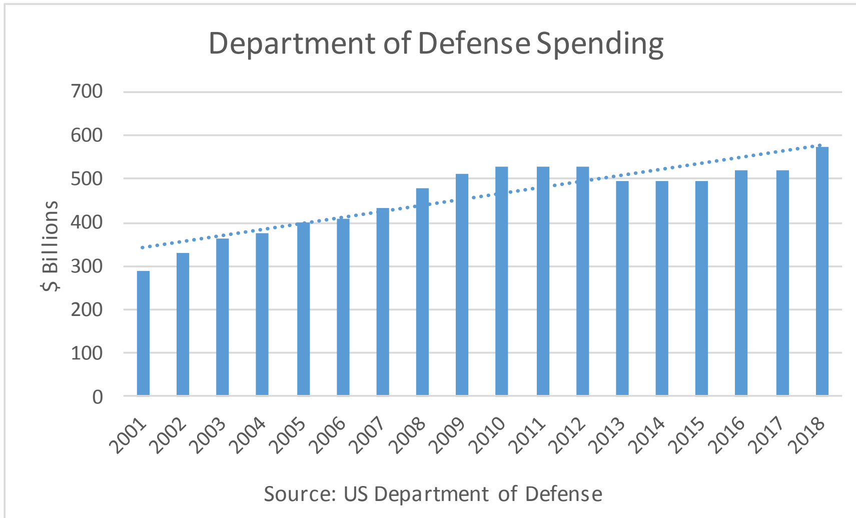
Aerostructures and Electronics accounted for 28% of total revenue in 2016. This segment provides specialty welding services and metal fabrications, electromechanical systems and assemblies, and wire harness and cable assemblies to the defense and commercial aerospace industry.

Turbine Engine Components accounted for 16% of total revenue in 2016. This segment makes components for jet engines that are used on the USAF F-15 and F-16, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground-power turbine applications.

Defense Spending Overview

For much of the past decade, 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.

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 2012 at over $530 billion. However, budget cuts reduced defense spending by 7% to $495.5 billion in 2013 and spending for 2014 and 2015 remained flat. 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 2018 (see chart at right).



In February 2018, an agreement was reached that lets federal lawmakers move forward on a plan to lift military spending limits for the next two years, setting the stage for a $1.4 trillion, two-year defense budget. The agreement would allow lawmakers to appropriate $700 billion to the pentagon for fiscal 2018, and another $716 billion for fiscal 2019. The deal lifts the $549 billion budget cap for defense spending in 2018 to $629 billion and puts the remaining $71 billion in a war account known as the overseas contingency operations fund. The 2019 plan lifts the $562 billion budget cap to $647 billion and puts another $69 billion in the war fund for a total of $716 billion. The plan is contingent upon an appropriations bill that will allow the funds to be released for specific purposes.

Military Aircraft Market and Forecast

The company operates primarily in the US military aircraft market. In August 2017, IBISWorld estimated the US military aircraft, engine and parts manufacturing market at $52.4 billion in 2017. IBISWorld said the US has by far the largest defense budget in the world and as a result, is the biggest consumer of defense related products.

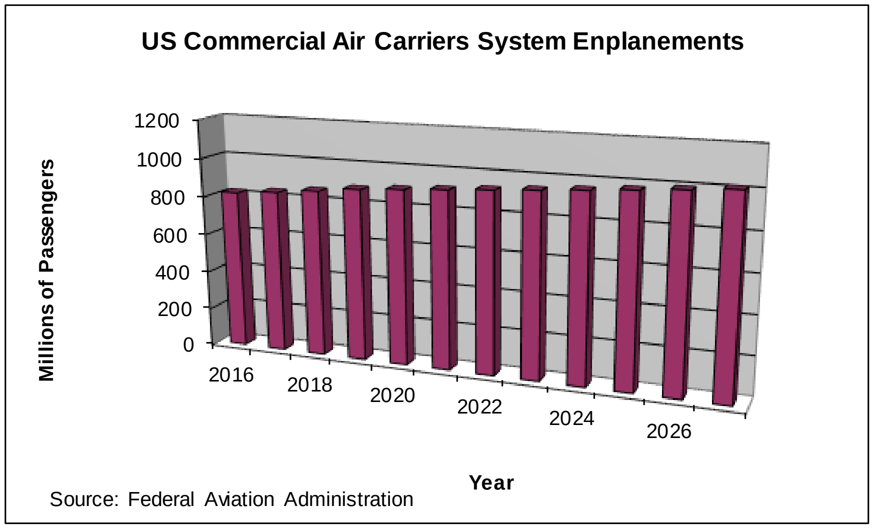
Most US defense manufacturers derive more than half of their revenue from sales to the DoD or defense-related government organizations. The US Navy is currently the largest domestic defense market as it invests in F/A-18 and F-35 fighters, maritime patrol craft, helicopters and unmanned aerial vehicles (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 (RDT&E). As most of AIRI's military sales are for the repair and maintenance of existing aircraft, the category with the greatest impact on AIRI's sales is operation and maintenance spending. The latest DoD budget is for operation and maintenance (O&M) spending to increase 13% to $223.3 billion in 2018 from $197.1 billion in 2017.

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 and United Technologies' Sikorsky and Goodrich divisions) typically build to both military and commercial specifications.

According to the Federal Aviation Administration's (FAA) Aerospace Forecast 2017-2037, 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 over the next ten years to average 1.7% per year (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 2.1% annually from 2017 to 2037.



Competition

The company's ability to obtain contracts requires providing quality products at competitive prices. In an effort to effectively compete, Air 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

Air intends to increase its business through internal growth and accretive acquisitions that is dependent, in part, on its available cash and its ability to raise funds through debt or equity financing. While the company has effectively completed several acquisitions over the past few years, its current focus is to utilize cash to return operations to profitability.

The aerospace and defense industries have consolidated since the 1990s with the consolidation of the prime contractors causing a similar consolidation of their suppliers. Major contractors seek to streamline supply chains by buying more complete sub-assemblies from fewer suppliers. The acquisitions Air has made over the past few years has enabled the company to produce more complete sub-assemblies sought after by major contractors.

Economic Outlook

In January 2018, the IMF raised its global economic growth estimate to 3.9% for both 2018 and 2019, up from its earlier (October 2017) growth forecast of 3.7% for both 2018 and 2019. The upward revision reflects increased global economic growth momentum and the positive impact expected from recently approved US tax policy changes.

The IMF raised its economic growth estimate for the US to 2.7% in 2018 and 2.5% in 2019, up from its earlier (October 2017) growth forecast of 2.3% for 2018 and 1.9% for 2019. The upward revision reflects stronger than expected US economic activity in 2017, higher projected external demand, and the positive economic impact from recent tax policy changes, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments.

The advance estimate of US GDP growth (released on January 26, 2018) showed the US economy grew at an annual rate of 2.6% in 4Q17, down from 3.2% growth in 3Q17. The 4Q17 US GDP growth estimate primarily reflects increases in consumer spending, business investment, exports, housing investment, and federal, state and local government spending. These contributions were partly offset by declines in inventories.

3Q and Nine Months 2017 Financial Results

3Q17 - Total revenue increased 10% to $17.3 million. Excluding the effect of AMK, which was sold in January 2017, 3Q17 total sales increased by $2.8 million or 19.7%. AIRI reported a net loss of $2.9 million or ($0.21) per share versus a net loss of $2.3 million or $(0.30) per share in 3Q16.

The increase in total sales was primarily due to increased sales in the company's Complex Machining and Aerostructures and Electronics segments offset in part by decreased sales in the company's Turbine Engine Components segment.

Complex Machining sales increased 10% to $10.2 million. Aerostructures and Electronics sales increased 45% to $5.4 million. Turbine Engine Component sales decreased 39% to $1.6 million.

Gross profit increased by $160,000 or 8% while gross margins decreased to 12.5% from 12.7%. Operating (SG&A) expenses decreased by 29.4% to $3 million. The decrease in operating costs resulted from cost reductions instituted in 2017. The increase in gross profit against reduced operating expenses resulted in an operating loss of $881,000 compared to an operating loss of $2.3 million in 3Q16. Interest expense increased to $1.9 million from $894,000.

Nine Months 2017 - Total revenue increased 1% to $50.5 million. Excluding the effect of AMK, which was sold in January 2017, total sales increased by $4.5 million or 9.9%. AIRI reported a net loss of $6.9 million or ($0.51) per share versus a net loss of $4.1 million or $(0.54) per share in the comparable period in 2016.

The increase in total sales was primarily due to increased sales in the company's Complex Machining segment offset in part by decreased sales in the company's Aerostructures and Electronics and Turbine Engine Components segments.

Complex Machining sales increased 13% to $30.6 million. Aerostructures and Electronics sales decreased 3% to $14.5 million. Turbine Engine Component sales decreased 34% to $5.5 million.

Income Statement
(in thousands $)

	9m17A	9m16A
Complex Machining	30,562	27,022
Aerostructures & Electronics	14,484	14,939
Turbine Engine Components	5,469	8,296
Total sales	50,515	50,257
Cost of sales	42,737	41,284
Gross profit	7,778	8,973
Operating expenses	10,376	12,896
Operating income	(2,598)	(3,923)
Interest and financing costs	(3,645)	(1,771)
Other (expense) income	67	(137)
Income before taxes	(6,176)	(5,831)
Income tax (benefit)	(170)	(2,102)
Net income / (loss)	(6,006)	(3,729)
Preferred stock dividends	(913)	(334)
Net income/(loss) to common	(6,919)	(4,063)
EPS	(0.51)	(0.54)
Shares Outstanding	13,463	7,594
Margin Analysis		
Gross margin	15.4%	17.9%
Operating margin	(5.1)%	(7.8)%
Tax rate	2.8%	36.0%
Year / Year Growth		
Total Revenues	0.5%	
Net Income	NMF	
EPS	NMF	

Source: Company filings

Gross profit decreased by $1.2 million or 13% and gross margins decreased to 15.4% from 17.9%. Operating (SG&A) expenses decreased by 19.5% to $10.4 million. The decrease in operating costs resulted from cost reductions instituted in 2017. The decrease in gross profit against a greater reduction in operating expenses resulted in a narrowing of the operating loss to $2.6 million from $3.9 million in the year-ago period. Interest expense increased to $3.6 million from $1.8 million.

Liquidity

As of September 30, 2017, the company had $408,000 cash and a current ratio of 1.4X versus 1.2X for the aerospace and defense industry. Total debt was approximately $30.7 million for a debt/equity ratio of 1.0X versus 1.3X for the aerospace and defense industry.

Cash used in operations in the first nine months of 2017 was $7.8 million consisting of a $1.6 million cash loss and a $6.2 million increase in working capital. The change in working capital was primarily due to a decrease in payables and increases in receivables and deposits and other assets. Cash provided by investing was $2.9 million consisting of $$4.3 million proceeds from the sale of AMK offset in part by $724,000 of capitalized engineering costs and $607,000 of capital expenditures. Cash provided by financing was $3.9 million and consisted primarily of proceeds from the issuance of debt and equity offset in part by debt repayments. Cash decreased by $896,000 to $408,000 at September 30, 2017.

The company's loan facility provides for a $33 million revolving loan and a $7.4 million term loan. Under the terms of the loan facility, the revolving loan bears interest at an Alternate Base Rate plus 1.75% with respect to domestic rate loans, and LIBOR plus 4.50% with respect to LIBOR rate loans. The amount outstanding under the revolving loan was $18.1 million as of September 30, 2017.

Repayments under the term loan agreement provide for monthly principal installments in the amount of $123,000 payable on the first business day of each month, with a final payment of any unpaid balance of principal and interest payable on the last business day of June, 2021. The amount outstanding under the term loan was $3.8 million as of September 30, 2017.

As of September 30, 2017, the company was not in compliance with its fixed charge coverage ratio covenant. The failure to satisfy the foregoing covenants would constitute a default under the loan facility and PNC (the company's lender) at its option could give notice to Air that all amounts under the loan facility are immediately due and payable. Accordingly, all amounts due under the loan facility have been classified as current.

As of September 30, 2017, capitalized lease obligations totaled $3.3 million, notes payable totaled $3.3 million, and related party notes payable totaled $2.3 million.

In July 2017, Air sold approximately 5.2 million shares of common stock at a price of $1.50 per in a public offering for gross proceeds of approximately $7.8 million (net proceeds of approximately $6.8 million). In connection with the public offering, approximately $1.8 million principal amount of notes payable were converted into approximately 1.2 million shares of AIRI common stock, all outstanding shares of Series A Preferred Stock were converted into 8.6 million shares of AIRI common stock, and $500,000 of related party notes (Taglich Notes), together with accrued interest, were converted into 347,000 shares of AIRI common stock.

As of November 13, 2017, the company had approximately 23.3 million shares of common stock outstanding and no shares of preferred stock. Other than the indebtedness under its loan facility, which as of September 30 2017, was approximately $21.9 million, AIRI's only other indebtedness are 8% notes, which as of September 30 2017, was approximately $4.8 million.

In January 2018, Air sold 852,000 shares of its common stock and warrants to purchase an additional 256,000 shares of common stock for gross proceeds of approximately $1.1 million in a private placement. In November and December 2017 the company sold approximately 725,000 shares of common stock and warrants to purchase an additional 224,000 shares of common stock for gross proceeds of $935,000.

Projections

We believe 4Q17 sales are likely to experience a temporary decline as new management evaluates production processes and makes the changes necessary to effectively manage the company's backlog, which totaled $102 million at September 30, 2017. New business bookings grew to $56.7 million for the nine months ended September 30, 2017 for a book-to-bill ratio of 112%.

We project a 1% decline in sales for 2017. As backlog is executed and production is aided by additional hires, we project a return to growth in 2018 with sales growth of 15%.

The following table provides a segmented breakdown of Air Industries' 2016 actual sales and our projections for 2017 and 2018. Air Industries Machining (AIM) and Nassau Tool Works (NTW) are classified under AIRI's Complex Machining segment, Welding Metallurgy (WMI), Woodbine Products (WPI), Miller Stuart (until merged into WMI in May 2017), Eur-Pac, Electronic Connection (ECC) and Compac are classified under AIRI's Aerostructures and Electronics segment while Sterling is classified under AIRI's Turbine Engine Components segment.

	Sales ($ in thousands)										
	2016A	1Q17A	2Q17A	3Q17A	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Complex Machining	37,124	9,891	10,473	10,198	9,300	39,862	10,500	11,100	11,700	12,300	45,600
Aerostructures & Electronics	18,818	4,320	4,733	5,431	4,650	19,134	5,250	5,550	5,850	6,150	22,800
Turbine Engine Components	10,973	1,942	1,878	1,649	1,550	7,019	1,750	1,850	1,950	2,050	7,600
Total	66,915	16,153	17,084	17,278	15,500	66,015	17,500	18,500	19,500	20,500	76,000

Source: Company filings and Taglich Brothers' estimates

2017 – We project revenue of $66 million and a net loss of $8.3 million or ($0.63) per share. Gross margins should improve to 15.4% from 10% in 2016, which reflects year-to-date results and excludes the adverse effect AMK had on 2016 gross margins (AMK was sold in January 2017).

We forecast a decrease in SG&A expenses to $13.4 million from $17.5 million due primarily to cost reduction programs instituted during 2017. We project operating losses narrowing to $3.2 million from $10.8 million in 2016 for margins of (4.8)% and (16.1)% respectively. Interest expense is projected to increase to $4.5 million from $2.6 million due to higher interest rates and financing costs. We project a tax rate of 9.9%.

We project $4.2 million cash used in operations from a cash burn of $1.3 million and a $2.9 million increase in working capital. The increase in working capital should come primarily from a decrease in payables and accrued expenses offset in part by a decrease in inventory. Cash used in operations will be more than offset by $2.1 million cash from investing and $3.6 million cash from financing. Cash from investing will be due primarily to proceeds from the sale of AMK offset in part by capital expenditures. Cash from financing will come primarily from proceeds from the sale of common stock offset in part by a net decrease in debt. These items should result in a $1.5 million increase in cash to $2.8 million in 2017.

2018 – We project revenue of $76 million and a net loss of $1.3 million or ($0.05) per share. Gross margins should improve to 19.1% from 15.4% in 2017, which reflects increased manufacturing overhead coverage.

We forecast a $176,000 decrease in SG&A expenses to $13.2 million due primarily to a full year of cost reduction programs that were instituted during 2017 and savings from the plant consolidation of AIM and Nassau Tool Works scheduled to be completed by mid-2018. We project operating income of $1.3 million from an operating loss of $3.2 million in 2017 for margins of 1.7% and (4.8)% respectively. Interest expense is projected to decrease to $2.8 million from $4.5 million due to lower debt levels and financing costs. We project a tax rate of 28%.

We project $283,000 cash provided by operations from cash earnings of $4.2 million, partly offset by a $3.9 million increase in working capital. The increase in working capital should come primarily from an increase in inventory. Cash provided by operations and $343,000 cash from financing should be more than offset by $2.2 million cash used in investing due primarily to capital expenditures. We project a $1.5 million decrease in cash to $1.3 million in 2018.

Risks

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

Going concern issues – Air Industries suffered net losses from operations of $2.6 million and $10.8 million and net losses of $6 million and $15.6 million, respectively, for the nine months ended September 30, 2017, and the year ended December 31, 2016. The company also had negative cash flows from operations for the nine months ended September 30, 2017. Air Industries' auditors for the year ended December 31, 2016 said that the company's loss from operations and negative cash flows from operations, among other reasons, raised substantial doubt about the company's 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 2016, four customers accounted for 56% 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 September 30, 2017, 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.

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 18.3 million shares in the float and the average daily volume is approximately 110,000 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 $)

	2014A	2015A	2016A	3Q17A	2017E	2018E
Cash and cash equivalents	1,418	529	1,304	408	2,847	1,308
Accounts receivable	11,916	13,662	8,050	10,039	7,942	9,143
Inventory	28,391	36,923	39,851	39,242	36,966	40,728
Deferred tax asset	1,421	1,725	-	-	-	-
Prepaid expenses and other current assets	875	1,048	557	550	550	550
Assets held for sale	-	1,700	6,050	-	-	-
Prepaid taxes	-	535	409	21	21	21
Total current assets	44,021	56,122	56,221	50,260	48,326	51,750
Property and equipment, net	9,557	15,299	12,219	10,773	12,083	10,868
Capitalized engineering costs	712	1,027	1,627	2,073	2,073	2,073
Deferred financing costs	825	1,094	1,096	2,152	2,152	2,152
Intangible assets	4,513	3,852	1,754	1,124	1,065	846
Deferred tax asset	858	338	-	-	-	-
Goodwill	5,434	10,518	9,883	9,883	9,883	9,883
Total assets	**65,920**	**88,250**	**82,800**	**76,265**	**75,582**	**77,572**
Notes payable and capitalized lease obligations	19,508	40,895	33,999	23,690	23,190	23,190
Accounts payable and accrued expenses	6,948	12,046	16,160	12,212	14,990	16,516
Lease impairment	56	-	-	-	-	-
Deferred gain on sale	38	38	38	38	38	38
Deferred revenue	158	958	946	1,226	1,226	1,226
Dividends payable	1,066	-	-	-	-	-
Liabilities associated with assets held for sale	-	-	2,155	-	-	-
Income taxes payable	71	14	20	20	20	20
Total current liabilities	27,845	53,951	53,318	37,186	39,464	40,990
Long-term debt	8,213	3,917	2,971	7,033	5,199	3,721
Lease impairment	4	-	-	-	-	-
Deferred gain on sale	409	371	333	304	304	304
Deferred rent	1,177	1,206	1,288	1,316	1,316	1,316
Total liabilities	**37,648**	**59,445**	**57,910**	**45,839**	**46,283**	**46,331**
Preferred stock	**-**	**-**	**1**	**1**	**-**	**-**
Common equity	**28,272**	**28,805**	**24,889**	**30,425**	**29,299**	**31,242**
Total stockholders' equity	**28,272**	**28,805**	**24,890**	**30,426**	**29,299**	**31,242**
Total liabilities & stockholders' equity	**65,920**	**88,250**	**82,800**	**76,265**	**75,582**	**77,572**

Source: Company filings and Taglich Brothers estimates

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

	2014A	2015A	2016A	2017E	2018E
Net sales	64,331	80,442	66,915	66,015	76,000
Cost of sales	50,233	63,161	60,195	55,837	61,520
Gross profit	14,098	17,281	6,720	10,178	14,480
Operating expenses	12,363	16,655	17,509	13,376	13,200
Operating income	1,735	626	(10,789)	(3,198)	1,280
Interest and financing costs	(1,295)	(1,858)	(2,596)	(4,545)	(2,800)
Gain (loss) on sale of subsidiary		-	-	-	
Other (expense) income	(141)	114	(126)	(336)	(260)
Income before taxes	299	(1,118)	(13,511)	(8,079)	(1,780)
Income tax (benefit)	(368)	(286)	2,112	(796)	(498)
Net Income / (Loss)	667	(832)	(15,623)	(7,283)	(1,282)
Preferred stock dividends	-	-	(334)	(974)	-
Net Income/(Loss) to common	667	(832)	(15,957)	(8,257)	(1,282)
EPS	0.10	(0.11)	(2.11)	(0.63)	(0.05)
Shares Outstanding	6,916	7,478	7,579	13,016	25,163
Margin Analysis					
Gross margin	21.9%	21.5%	10.0%	15.4%	19.1%
Operating margin	2.7%	0.8%	(16.1)%	(4.8)%	1.7%
Net margin	1.0%	(1.0)%	(23.3)%	(11.0)%	(1.7)%
Tax rate	(123.1)%	25.6%	(15.6)%	9.9%	28.0%
Year / Year Growth					
Total Revenues	2.4%	25.0%	(16.8)%	(1.3)%	15.1%
Net Income	(82.2)%	NMF	NMF	NMF	NMF
EPS	(84.7)%	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers estimates

Quarterly Income Statements 2016A -2018E
(in thousands $)

	3/16A	6/16A	9/16A	12/16A	2016A	3/17A	6/17A	9/17A	12/17E	2017E	3/18E	6/18E	9/18E	12/18E	2018E
Net sales	15,184	19,363	15,710	16,658	66,915	16,153	17,084	17,278	15,500	66,015	17,500	18,500	19,500	20,500	76,000
Cost of sales	12,363	15,208	13,713	18,911	60,195	13,451	14,165	15,121	13,100	55,837	14,440	15,080	15,700	16,300	61,520
Gross profit	2,821	4,155	1,997	(2,253)	6,720	2,702	2,919	2,157	2,400	10,178	3,060	3,420	3,800	4,200	14,480
Operating expenses	4,412	4,182	4,302	4,613	17,509	3,221	4,117	3,038	3,000	13,376	3,150	3,250	3,350	3,450	13,200
Operating income	(1,591)	(27)	(2,305)	(6,866)	(10,789)	(519)	(1,198)	(881)	(600)	(3,198)	(90)	170	450	750	1,280
Interest and financing costs	(505)	(372)	(894)	(825)	(2,596)	(893)	(875)	(1,877)	(900)	(4,545)	(900)	(770)	(630)	(500)	(2,800)
Gain (loss) on sale of subsidiary	-	-	-	-	-	451	(163)	50	-	-	-	-	-	-	
Other (expense) income	10	21	(168)	11	(126)	(193)	65	(143)	(65)	(336)	(65)	(65)	(65)	(65)	(260)
Income before taxes	(2,086)	(378)	(3,367)	(7,680)	(13,511)	(1,154)	(2,171)	(2,851)	(1,565)	(8,079)	(1,055)	(665)	(245)	185	(1,780)
Income tax (benefit)	(656)	(126)	(1,320)	4,214	2,112	-	(199)	29	(626)	(796)	(295)	(186)	(69)	52	(498)
Net Income / (Loss)	(1,430)	(252)	(2,047)	(11,894)	(15,623)	(1,154)	(1,972)	(2,880)	(939)	(7,283)	(760)	(479)	(176)	133	(1,282)
Preferred stock dividends	-	(82)	(252)	-	(334)	(210)	(764)	-	-	(974)	-	-	-	-	-
Net Income/(Loss) to common	(1,430)	(334)	(2,299)	(11,894)	(15,957)	(1,364)	(2,736)	(2,880)	(939)	(8,257)	(760)	(479)	(176)	133	(1,282)
EPS	(0.19)	(0.04)	(0.30)	(1.43)	(2.11)	(0.18)	(0.36)	(0.21)	(0.04)	(0.63)	(0.03)	(0.02)	(0.01)	0.01	(0.05)
Shares Outstanding	7,585	7,588	7,610	8,325	7,579	7,650	7,650	13,463	23,300	13,016	24,150	25,500	25,500	25,500	25,163
Margin Analysis															
Gross margin	18.6%	21.5%	12.7%	(13.5)%	10.0%	16.7%	17.1%	12.5%	15.5%	15.4%	17.5%	18.5%	19.5%	20.5%	19.1%
Operating margin	(10.5)%	(0.1)%	(14.7)%	(41.2)%	(16.1)%	(3.2)%	(7.0)%	(5.1)%	(3.9)%	(4.8)%	(0.5)%	0.9%	2.3%	3.7%	1.7%
Net margin	(9.4)%	(1.3)%	(13.0)%	(71.4)%	(23.3)%	(7.1)%	(11.5)%	(16.7)%	(6.1)%	(11.0)%	(4.3)%	(2.6)%	(0.9)%	0.6%	(1.7)%
Tax rate	31.4%	33.3%	39.2%	(54.9)%	(15.6)%	0.0%	9.2%	(1.0)%	40.0%	9.9%	28.0%	28.0%	28.0%	28.0%	28.0%
Year / Year Growth															
Total Revenues	(9.7)%	1.6%	(25.5)%	(29.1)%	(16.8)%	6.4%	(11.8)%	10.0%	(7.0)%	(1.3)%	8.3%	8.3%	12.9%	32.3%	15.1%
Net Income	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	(92.1)%	NMF	NMF	(75.7)%	(93.9)%	(114.2)%	NMF
EPS	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	(97.2)%	NMF	NMF	(94.8)%	(96.8)%	(113.0)%	NMF

Source: Company filings and Taglich Brothers estimates

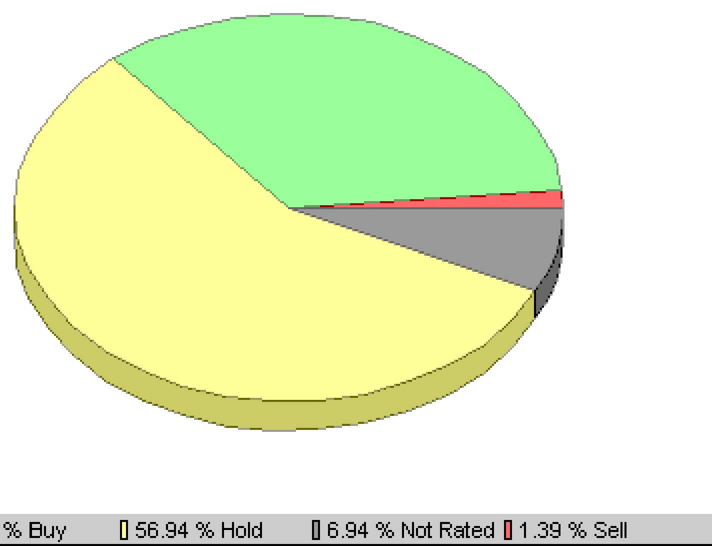
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2014A	2015A	2016A	9m17A	2017E	2018E
Net income (loss)	667	(832)	(15,623)	(6,006)	(7,283)	(1,282)
Depreciation	2,364	3,090	3,347	2,026	2,701	2,415
Amortization of intangible assets	1,163	1,262	1,279	630	689	219
Amortization of capitalized engineering costs	375	341	362	278	370	370
Bad debt expense (recovery)	299	176	274	(10)	(10)	-
Stock compensation expense	42	100	167	9	160	160
Amortization of deferred financing costs	49	204	371	179	240	240
Gain on sale of real estate	(38)	(38)	(38)	(29)	(29)	-
Loss on sale of assets held for sale	-	-	5	-	-	-
Gain on sale of subsidiary	-	-	-	(338)	(338)	-
Deferred income taxes	(1,043)	(215)	2,063	-	-	-
Loss on extinguishment of debt	-	-	172	150	150	-
Amortization of convertible notes payable	-	-	217	1,544	2,060	2,060
Cash earnings (loss)	3,878	4,088	(7,404)	(1,567)	(1,290)	4,182
Changes in assets and liabilities						
Assets held for sale	-	-	(39)	-	-	-
Accounts receivable	(2,417)	91	4,616	(1,979)	108	(1,201)
Inventory	(1,802)	(8,412)	(2,902)	609	2,885	(3,762)
Prepaid expenses and other current assets	(244)	(748)	394	7	7	-
Prepaid taxes	-	-	126	388	388	-
Deposits and other assets	(164)	(18)	(150)	(1,185)	(1,185)	-
Accounts payable and accrued expenses	(577)	3,593	4,495	(4,335)	(5,391)	1,064
Deferred rent	45	29	82	28	28	-
Income taxes payable	(1,425)	(57)	6	-	-	-
Deferred revenue	(93)	540	84	280	280	-
(Increase) decrease in working capital	(6,677)	(4,982)	6,712	(6,187)	(2,880)	(3,900)
Net cash provided by (used in) operations	**(2,799)**	**(894)**	**(692)**	**(7,754)**	**(4,170)**	**283**
Cash paid for acquisitions, net	(8,757)	(6,340)	-	-	-	-
Capitalized engineering costs	(335)	(656)	(963)	(724)	(965)	(965)
Purchase of property and equipment	(571)	(1,564)	(1,632)	(607)	(1,200)	(1,200)
Proceeds from sale of fixed assets	-	-	1,671	-	-	-
Proceeds from sale of subsidiary	-	-	-	4,260	4,260	-
Net cash provided by (used in) investing	**(9,663)**	**(8,560)**	**(924)**	**2,929**	**2,095**	**(2,165)**
Proceeds from sales of common stock	9,530	-	-	7,762	7,762	3,065
Costs to raise capital	(968)	-	-	-	-	-
Proceeds from capital lease refinance	-	500	-	-	-	-
Notes payable - sellers	(691)	(41)	-	-	-	-
Capital lease obligations	(143)	(717)	(1,226)	(933)	(1,244)	(1,244)
Notes payable - revolver	3,142	11,933	(5,211)	(6,316)	(6,316)	-
Proceeds from notes payable - term loan	7,328	3,500	-	-	-	-
Payments of notes payable - term loan	(913)	(2,030)	(3,184)	(2,808)	(2,808)	-
Proceeds from notes payable - related party	-	350	4,500	2,553	2,553	-
Proceeds from notes payable	-	-	3,695	4,184	4,184	-
Payments of notes payable	-	-	-	(463)	(463)	(1,478)
Deferred financing costs	(151)	(402)	(223)	(50)	(50)	-
Payments related to lease impairment	(67)	(60)	-	-	-	-
Expense for issuance of preferred stock	-	-	(663)	-	-	-
Expense for issuance of convertible debt	-	-	(547)	-		
Proceeds from issuance of preferred stock	-	-	5,250	-	-	-
Dividends paid	(3,748)	(4,468)	-	-	-	-
Net cash provided by (used in) financing	**13,319**	**8,565**	**2,391**	**3,929**	**3,618**	**343**
Net change in cash	**857**	**(889)**	**775**	**(896)**	**1,543**	**(1,539)**
Cash - beginning of period	**561**	**1,418**	**529**	**1,304**	**1,304**	**2,847**
Cash - end of period	**1,418**	**529**	**1,304**	**408**	**2,847**	**1,308**

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	**1**	**4**
Hold		
Sell		
Not Rated	**1**	**33**

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 3,171,860 shares of AIRI common stock, 150,377 shares that may be acquired upon the conversion of convertible notes, 418,453 shares that may be acquired upon the conversion of warrants, and 15,250 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 1,899,249 shares of AIRI common stock, 238,612 shares that may be acquired upon the conversion of convertible notes, 270,605 shares that may be acquired upon the conversion of warrants, and 15,250 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 56,042 shares of AIRI common stock, and 4,400 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 62,012 shares of AIRI common stock, 15,250 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 13,054 shares of AIRI common stock and 5,000 shares that may be acquired upon the conversion of warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 29,820 shares upon the conversion of warrants. Taglich Brothers, Inc. owns 17,990 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)
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.