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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
June 27, 2018

AIRI $1.87 — (NYSE MKT)

	2016A	2017A	2018E	2019E
Revenues (millions)*	$51.3	$49.9	$52.3	$56.4
Earnings (loss) per share*	$(1.96)	($1.20)	($0.16)	($0.12)

52-Week range	$2.03 – $1.15	Fiscal year ends:	December
Common shares out as/of 5/10/18	26.2 million	Revenue per share (TTM)	$3.00
Approximate float	20.6 million	Price/Sales (TTM)	0.6X
Market capitalization	$49 million	Price/Sales (FY2019)E	0.9X
Tangible book value/share	$0.66	Price/Earnings (TTM)	NMF
Price/tangible book value	2.8X	Price/Earnings (FY2019)E	NMF

** Continuing operations. Excludes results of WMI.*

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:

Reiterating Speculative Buy rating on Air Industries Group and maintaining twelve-month price target of $2.50 per share.

While AIRI's sales over the past year have declined by roughly 3%, aerospace and defense industry sales have experienced 7.1% growth. We project AIRI's sales will grow at an average rate of 6.4% annually over the next two years as management aligns its workforce and procedures to effectively manage its backlog.

AIRI's backlog from continuing operations remains strong at over $100 million. The company continues to focus on implementing operational efficiencies with a goal to reduce expenses by approximately $1 million per quarter. Consolidation (scheduled to be completed by the end of the summer of 2018) and cost reductions should enable the company to produce cash earnings of $1.4 million in 2019.

In March 2018, Air Industries Group announced it entered into a definitive agreement to sell its Welding Metallurgy, Inc. (WMI) subsidiary for $9 million in cash to CPI Aerostructures Inc. The company classifies WMI as a discontinued operation on its financial statements.

For 2018, we project revenue of $52.3 million and a loss of ($0.16) per share. For 2019, we project revenue of $56.4 million and a loss of ($0.12) per share. Gross margins should improve to 18.1% in 2019, up 17.1% in 2018 and 9.8% in 2017, reflecting increased manufacturing overhead coverage.

1Q18 revenue (10-Q released 5/15/18) decreased 3.4% to $12.2 million. The net loss from continuing operations was ($0.05) per share versus ($0.06) per share in 1Q17.

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

Recommendation and Valuation

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

Shares of AIRI are trading at a multiple of 0.9X 2019 sales while the aerospace & defense industry trades at multiple of 1.4X 2019 sales. We believe AIRI's depressed multiple compared to the industry is due to disappointing sales over the past year (down 3%) versus 7.1% sales growth for the industry. In 2019, we project sales growth of 7.8% compared to 6.8% growth projected for the industry. We anticipate investors are likely to accord AIRI a P/S multiple in line with the industry. We applied a multiple of 1.4X to our 2019 sales projection of $1.98 per share, discounted to account for execution risks, to obtain a year ahead value of approximately $2.50 per share.

Significant Development

In March 2018, Air Industries Group announced it entered into a definitive agreement to sell its Welding Metallurgy, Inc. (WMI) subsidiary for $9 million in cash to CPI Aerostructures Inc. The agreement also calls for up to $1 million cash to be paid to Air Industries if WMI enters into certain long-term supply agreements during 2018.

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, jet engines and other components (see picture below right). Air Industries also provides sheet metal fabrication of aerostructures, tube bending, and welding services.

Source: Air Industries Group

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.

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

Complex Machining accounted for 77% of 2017 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.

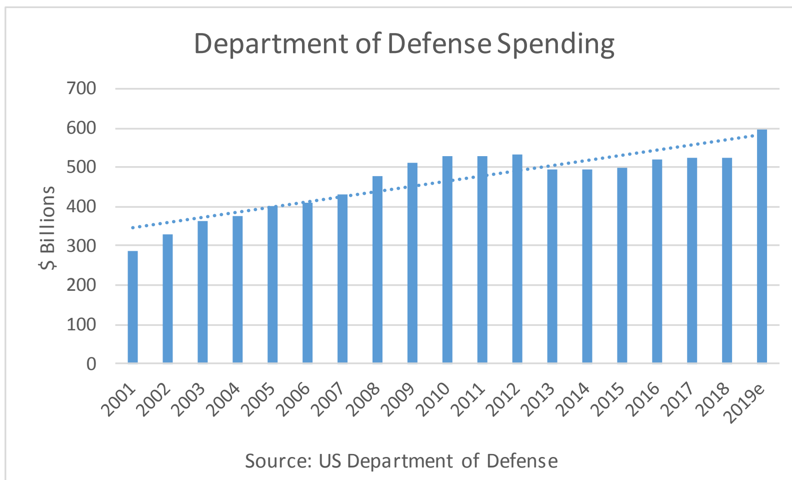
Aerostructures and Electronics accounted for 9% of total revenue in 2017. This segment provides electromechanical systems and assemblies, and wire harness and cable assemblies to the defense and commercial aerospace industry.

Turbine Engine Components accounted for 14% of total revenue in 2017. 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

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.

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 2019 (see chart at right).



In June 2018, the House Appropriations Committee approved its first draft of the annual defense budget bill. The $674.6 billion bill ($606.5 in base military funding and $68.1 billion for overseas operations) is about $1 billion below the White House's defense budget request in February 2017, but in line with a two-year budget deal reached by lawmakers in March 2018 and the annual defense authorization measure approved by the House in May 2018.

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 $52.4 billion in 2017. 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.

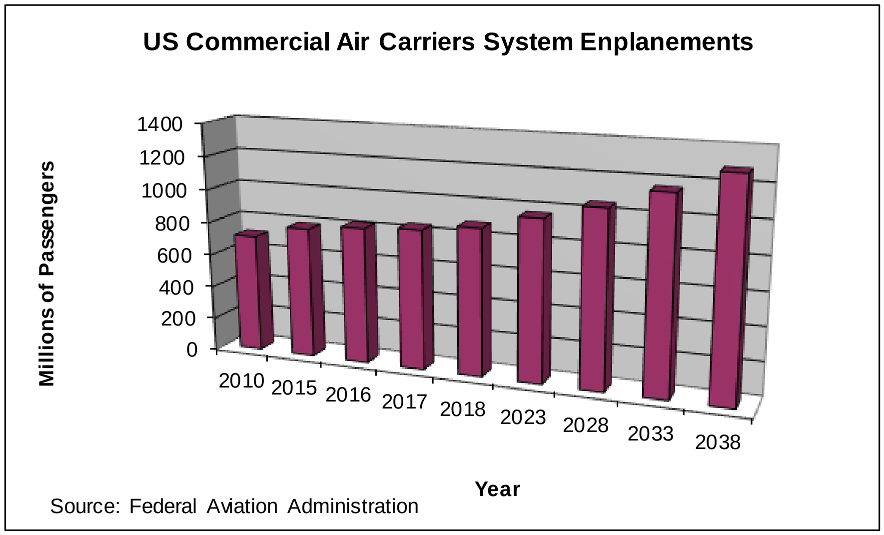
Most US defense manufacturers derive more than half of their revenue from sales to the DoD or defense-related government organizations. The US Navy is currently the largest domestic defense market as it invests in F/A-18 and F-35 fighters, maritime patrol craft, helicopters and unmanned aerial vehicles (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 7.7% to $215 billion in 2019 from $199.7 billion in 2018.

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

Air Industries 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 pay down debt and return operations to profitability. Selling its WMI subsidiary should enable the company to focus on its core businesses.

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 made by AIRI since 2012 has enabled it to produce more complete sub-assemblies sought after by major contractors.

Economic Outlook

In April 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from January 2018. The growth estimates reflect strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the US.

The IMF raised its economic growth estimate for the US to 2.9% in 2018 and 2.7% in 2019, up from its earlier (January 2018) growth forecast of 2.7% for 2018 and 2.5% for 2019. The upward revision reflects stronger than expected US economic growth due to firmer external demand, and the expected economic impact from 2018 tax policy changes, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments.

The second estimate of US GDP growth (released on May 30, 2018) showed the US economy grew at an annual rate of 2.2% in 1Q18, down from 2.9% growth in 4Q17. The 1Q18 US GDP growth estimate primarily reflects increases in business investment, consumer spending, exports, government spending, and inventory investment.

1Q18 Financial Results

1Q18 - Total revenue decreased 3.4% to $12.2 million. Excluding the January 2017 sale of AMK, 1Q18 total sales were flat. AIRI reported a net loss from continuing operations of $1.4 million or ($0.05) per share versus a net loss from continuing operations of $454,000 or $(0.06) per share in 1Q17.

The decrease in total sales was primarily due to lower sales in the company's Turbine Engine Components segment of $1.3 million stemming from the sale of AMK in 1Q17 and decreased sales in the company's Aerostructures and Electronics segment of $333,000 stemming from reduced volume at its EUR-PAC operations. The decrease in sales was partially offset by increased sales in the company's Complex Machining segment.

Complex Machining sales increased 7.4% to $10.6 million.

Gross profit decreased by $709,000 to $2 million while gross margins decreased to 16.4% from 21.4%. Operating (SG&A) expenses increased by 3% to $2.6 million due primarily to higher professional and insurance expenses. The decrease in gross profit against higher operating expenses resulted in an operating loss of $613,000 compared to operating income of $171,000 in 1Q17. Interest expense decreased to $777,000 from $893,000.

Liquidity

As of December 31, 2018, the company had $1.4 million cash and a current ratio of 1.2X versus 1.2X for the aerospace and defense industry. Total debt was approximately $29 million for a debt/equity ratio of 1.7X versus 1.4X for the aerospace and defense industry.

In 1Q18, cash used in operations was $1.8 million consisting of cash earnings of $124,000 and a $1.9 million increase in working capital. Working capital increased primarily due to an increase in receivables. Cash used in investing was $308,000 consisting of $164,000 of capitalized engineering costs and $144,000 of capital expenditures. Cash provided by financing of $2.9 million consisted primarily of proceeds from the issuance of debt and equity offset in part by debt repayments. Cash increased by $785,000 to $1.4 million at March 31, 2018.

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 $17.9 million as of March 31, 2018.

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 $3.1 million as of March 31, 2018.

As of March 31, 2018, the company was not in compliance with its fixed charge coverage ratio covenant. The failure to satisfy the covenant would constitute a default under the loan facility and PNC (the company's lender) at its option could give notice to the company 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 March 31, 2018, capitalized lease obligations totaled $2.8 million, notes payable totaled $2 million, and related party notes payable totaled $3.2 million.

Projections

AIRI's backlog from continuing operations remains strong at over $100 million. The company continues to focus on implementing operational efficiencies with a goal to pull out approximately $1 million of expenses per quarter. Consolidation (scheduled to be completed by the end of the summer of 2018) and cost reductions should enable the company to generate cash earnings in 2018 and 2019.

The following table provides a segmented breakdown of Air Industries' 2016 and 2017 actual sales and our projections for 2018 and 2019. Air Industries Machining (AIM) and Nassau Tool Works (NTW) are classified under AIRI's Complex Machining segment, EUR-PAC, 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*	2017A*	1Q18A	2Q18E	3Q18E	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E
Complex Machining	37,124	38,489	10,627	11,200	11,600	12,000	45,427	11,500	12,000	12,500	13,000	49,000
Aerostructures & Electronics	3,224	4,574	333	375	400	425	1,533	375	400	425	450	1,650
Turbine Engine Components	10,973	6,806	1,282	1,300	1,350	1,400	5,332	1,350	1,400	1,450	1,500	5,700
Total	51,321	49,869	12,242	12,875	13,350	13,825	52,292	13,225	13,800	14,375	14,950	56,350

*Restated for sale of WMI
Source: Company filings and Taglich Brothers' estimates

2018 – We project revenue of $52.3 million and a net loss of $4.1 million or ($0.16) per share. Gross margins should improve to 17.1% from 9.8% in 2017 reflecting increased manufacturing overhead coverage.

We forecast a $243,000 decrease in SG&A expenses to $11.2 million due primarily to a full year of cost reductions that were instituted during 2017 and savings from the plant consolidation of AIM and Nassau Tool Works. We project an operating loss of $2.2 million from an operating loss of $12.8 million in 2017 with margins narrowing to (4.3)% from (25.6)%. Interest expense is projected to decrease to $3 million from $3.4 million due to lower average debt levels and financing costs. We project a tax rate of 20.6%.

We project $1.8 million cash provided by operations from cash earnings of $939,000 and a 907,000 decrease in working capital. The decrease in working capital should be primarily due to a decrease in inventory offset in part by a decrease in payables and accruals. Cash provided by operations and $2.2 million cash used in investing should necessitate a $2.8 million increase in debt and $2 million from the issuance of common stock. We project a $2.3 million increase in cash to $2.9 million by the end of 2018.

2019 – We project revenue of $56.4 million and a net loss of $3.4 million or ($0.12) per share. Gross margins should improve to 18.1% from 17.1% in 2017 reflecting increased manufacturing overhead coverage.

We forecast a $663,000 increase in SG&A expenses to $11.9 million due primarily to increased compensation costs. We project an operating loss of $1.6 million from an operating loss of $2.2 million in 2018 with margins narrowing to (2.9)% from (4.3)%. Interest expense is projected to increase to $3.1 million from $3 million due to higher average debt levels and financing costs. We project a tax rate of 28%.

We project $1.6 million cash used in operations from cash earnings of $1.4 million and a $3 million increase in working capital. The increase in working capital should be primarily due to an increase in inventory. Cash used in operations, $2.2 million cash used in investing, and a net decrease in debt should necessitate raising $4 million from the issuance of stock. We project a $392,000 decrease in cash to $2.5 million by the end of 2019.

Risks

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

<u>*Going concern issues*</u> – Air Industries suffered net losses of $1.5 million and $22.6 million, respectively, for the three months ended March 31, 2018, and the year ended December 31, 2017. The company also had negative cash flows from operations for the three months ended March 31, 2018 and year ended December 31, 2017. Air Industries' auditors for the year ended December 31, 2017 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.

<u>*Reliance on government spending*</u> - 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.

<u>*Reliance on a small number of customers*</u> – Air Industries derives most of its revenues from a small number of customers. In 2017, three customers accounted for 62% 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.

<u>*Reliance on a few aircraft platforms*</u> – 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.

<u>*Competition*</u> - 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.

<u>*Competitive bidding*</u> – 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.

<u>*Regulations*</u> – 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 March 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.

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 20.6 million shares in the float and the average daily volume is approximately 49,000 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 $)*

	2016A	2017A	3/18A	2018E	2019E
Cash and cash equivalents	1,304	630	1,415	2,930	2,538
Accounts receivable	6,073	5,464	6,749	5,729	6,174
Inventory	32,568	31,141	30,887	29,988	31,924
Prepaid expenses and other current assets	299	214	349	349	349
Assets held for sale	21,297	10,082	10,412	10,412	10,412
Prepaid taxes	409	49	49	49	49
Total current assets	61,950	47,580	49,861	49,457	51,446
Property and equipment, net	11,197	10,050	9,529	8,804	7,879
Capitalized engineering costs	1,627	2,188	2,207	2,073	1,958
Deferred financing costs	1,088	665	737	737	737
Intangible assets	471	-	-	-	-
Goodwill	6,467	272	272	272	272
Total assets	**82,800**	**60,755**	**62,606**	**61,343**	**62,292**
Notes payable and capitalized lease obligations	33,999	23,393	25,881	26,500	25,829
Accounts payable and accrued expenses	14,150	10,872	10,750	10,470	11,145
Deferred gain on sale	38	38	38	38	38
Deferred revenue	946	931	938	938	938
Liabilities associated with assets held for sale	4,235	2,795	2,797	2,797	2,797
Income taxes payable	20	20	20	20	20
Total current liabilities	53,388	38,049	40,424	40,763	40,767
Long-term debt	2,971	3,448	3,149	3,149	3,149
Deferred gain on sale	333	295	285	285	285
Deferred rent	1,218	1,197	1,189	1,189	1,189
Total liabilities	**57,910**	**42,989**	**45,047**	**45,386**	**45,390**
Preferred stock	**1**	**-**	**-**	**-**	**-**
Common equity	**24,889**	**17,766**	**17,559**	**15,958**	**16,901**
Total stockholders' equity	**24,890**	**17,766**	**17,559**	**15,958**	**16,901**
Total liabilities & stockholders' equity	**82,800**	**60,755**	**62,606**	**61,343**	**62,292**

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

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

	2016A	2017A	2018E	2019E
Net sales	51,321	49,869	52,292	56,350
Cost of sales	47,052	45,002	43,336	46,133
Gross profit	4,269	4,867	8,956	10,217
Impairment of goodwill	-	6,195	-	-
Operating expenses	14,404	11,430	11,187	11,850
Operating income (loss)	(10,135)	(12,758)	(2,231)	(1,633)
Interest and financing costs	(2,500)	(3,378)	(2,994)	(3,072)
Loss on extinguishment of debt	-	(112)	-	-
Gain (loss) on sale of subsidiary	-	200	16	-
Other (expense) income	(131)	(22)	-	-
Income (loss) before taxes	(12,766)	(16,070)	(5,209)	(4,705)
Income tax (benefit)	2,101	(197)	(1,072)	(1,318)
Net income / (loss)	(14,867)	(15,873)	(4,137)	(3,388)
EPS*	(1.96)	(1.20)	(0.16)	(0.12)
Shares Outstanding	7,579	13,231	26,292	28,500
Margin Analysis				
Gross margin	8.3%	9.8%	17.1%	18.1%
Operating margin	(19.7)%	(25.6)%	(4.3)%	(2.9)%
Net margin	(29.0)%	(31.8)%	(7.9)%	(6.0)%
Tax rate	(16.5)%	1.2%	20.6%	28.0%
Year / Year Growth				
Total Revenues		(2.8)%	4.9%	7.8%
Net Income		NMF	NMF	NMF
EPS		NMF	NMF	NMF

*Continuing operations. Excludes results of WMI.

Source: Company filings and Taglich Brothers estimates

Quarterly Income Statements
(in thousands $)*

	3/18A	6/18E	9/18E	12/18E	2018E	3/19E	6/19E	9/19E	12/19E	2019E
Net sales	12,242	12,875	13,350	13,825	52,292	13,225	13,800	14,375	14,950	56,350
Cost of sales	10,239	10,699	11,034	11,364	43,336	10,950	11,344	11,730	12,110	46,133
Gross profit	2,003	2,176	2,316	2,461	8,956	2,275	2,456	2,645	2,841	10,217
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-
Operating expenses	2,616	2,755	2,857	2,959	11,187	2,800	2,900	3,000	3,150	11,850
Operating income (loss)	(613)	(579)	(541)	(498)	(2,231)	(525)	(444)	(355)	(310)	(1,633)
Interest and financing costs	(777)	(758)	(739)	(720)	(2,994)	(744)	(760)	(776)	(792)	(3,072)
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-
Gain (loss) on sale of subsidiary	16	-	-	-	16	-	-	-	-	-
Other (expense) income	-	-	-	-	-	-	-	-	-	-
Income (loss) before taxes	(1,374)	(1,337)	(1,280)	(1,218)	(5,209)	(1,269)	(1,204)	(1,131)	(1,102)	(4,705)
Income tax (benefit)	2	(374)	(358)	(341)	(1,072)	(355)	(337)	(317)	(308)	(1,318)
Net income / (loss)	(1,376)	(963)	(921)	(877)	(4,137)	(914)	(867)	(814)	(793)	(3,388)
EPS*	(0.05)	(0.04)	(0.03)	(0.03)	(0.16)	(0.03)	(0.03)	(0.03)	(0.03)	(0.12)
Shares Outstanding	26,116	26,200	26,350	26,500	26,292	28,500	28,500	28,500	28,500	28,500
Margin Analysis										
Gross margin	16.4%	16.9%	17.4%	17.8%	17.1%	17.2%	17.8%	18.4%	19.0%	18.1%
Operating margin	(5.0)%	(4.5)%	(4.1)%	(3.6)%	(4.3)%	(4.0)%	(3.2)%	(2.5)%	(2.1)%	(2.9)%
Net margin	(11.2)%	(7.5)%	(6.9)%	(6.3)%	(7.9)%	(6.9)%	(6.3)%	(5.7)%	(5.3)%	(6.0)%
Tax rate	(0.1)%	28.0%	28.0%	28.0%	20.6%	28.0%	28.0%	28.0%	28.0%	28.0%
Year / Year Growth										
Total Revenues					4.9%	8.0%	7.2%	7.7%	8.1%	7.8%
Net Income					NMF					NMF
EPS					NMF					NMF

*Continuing operations. Excludes results of WMI.

Source: Company filings and Taglich Brothers estimates

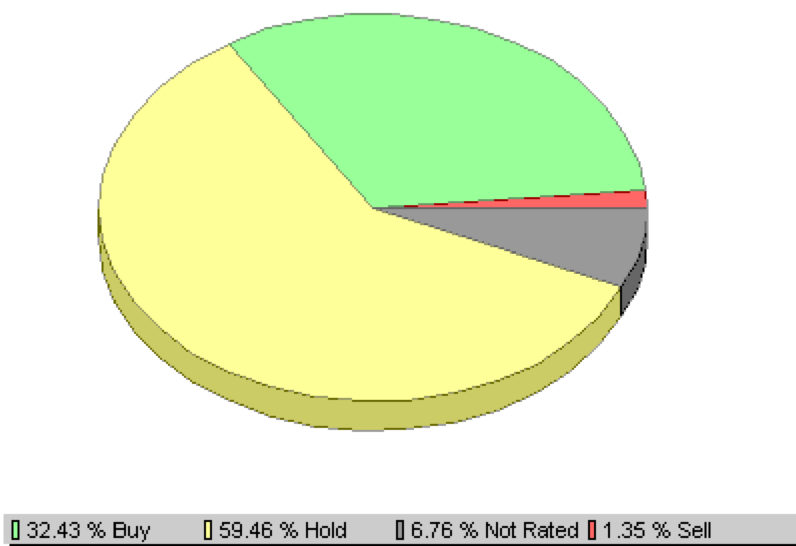
Statement of Cash Flows for the Periods Ended
(in thousands $)*

	2016A	2017E	3m18A	2018E	2019E
Net income (loss)	(15,623)	(22,551)	(1,468)	(4,137)	(3,388)
Depreciation	3,347	2,723	722	2,384	2,125
Amortization of intangible assets	1,279	673	38	152	152
Amortization of capitalized engineering costs	362	423	145	580	580
Loss on impairment of goodwill	-	9,612	-	-	-
Bad debt expense (recovery)	274	87	270	270	270
Stock compensation expense	167	564	83	330	330
Amortization of deferred financing costs	371	267	69	270	270
Gain on sale of real estate	(38)	(38)	(10)	(10)	-
Loss on sale of assets held for sale	5	-	-	-	-
(Gain) loss on sale of subsidiary	-	(200)	-	-	-
Deferred income taxes	2,063	-	-	-	-
Loss on impairment of intangible assets	-	1,085	-	-	-
Loss on assets held for sale	-	1,563	-	-	-
Loss on extinguishment of debt	172	112	-	-	-
Amortization of convertible notes payable	217	2,301	275	1,100	1,100
Cash earnings (loss)	(7,404)	(3,379)	124	939	1,439
Changes in assets and liabilities					
Assets held for sale	(39)	39	-	-	-
Accounts receivable	4,616	1,004	(1,025)	(265)	(445)
Inventory	(2,902)	905	(733)	1,835	(2,946)
Prepaid expenses and other current assets	394	281	(103)	(135)	-
Prepaid taxes	126	360	-	-	-
Deposits and other assets	(150)	(113)	(124)	(124)	-
Accounts payable and accrued expenses	4,495	(3,527)	(97)	(402)	395
Deferred rent	82	34	1	(8)	-
Income taxes payable	6	-	-	-	-
Deferred revenue	84	410	175	7	-
(Increase) decrease in working capital	6,712	(607)	(1,906)	907	(2,995)
Net cash provided by (used in) operations	**(692)**	**(3,986)**	**(1,782)**	**1,846**	**(1,556)**
Capitalized engineering costs	(963)	(985)	(164)	(965)	(965)
Purchase of property and equipment	(1,632)	(1,514)	(144)	(1,200)	(1,200)
Proceeds from sale of fixed assets	1,671	-	-	-	-
Proceeds from sale of subsidiary	-	4,260	-	-	-
Net cash provided by (used in) investing	**(924)**	**1,761**	**(308)**	**(2,165)**	**(2,165)**
Notes payable - revolver	(5,211)	(7,938)	1,489	1,489	-
Payments of notes payable - term loan	(3,184)	(3,178)	(369)	(1,478)	(1,478)
Capital lease obligations	(1,226)	(1,397)	(310)	(1,392)	(1,193)
Proceeds from notes payable - related party	4,500	2,660	1,000	1,000	1,000
Proceeds from notes payable	3,695	4,184	-	1,000	1,000
Payments of notes payable	-	(463)	-	-	-
Deferred financing costs	(223)	(50)	-	-	-
Expense for issuance of stock	(663)	-	-	-	-
Expense for issuance of debt	(547)	-	-	-	-
Proceeds from issuance of stock	5,250	7,733	1,065	2,000	4,000
Net cash provided by (used in) financing	**2,391**	**1,551**	**2,875**	**2,619**	**3,329**
Net change in cash	**775**	**(674)**	**785**	**2,300**	**(392)**
Cash - beginning of period	**529**	**1,304**	**630**	**630**	**2,930**
Cash - end of period	**1,304**	**630**	**1,415**	**2,930**	**2,538**

* 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	**3**	**12**
Hold		
Sell		
Not Rated		

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 3,518,353 shares of AIRI common stock, 150,377 shares that may be acquired upon the conversion of convertible notes, 418,391 shares that may be acquired upon the conversion of warrants, and 27,500 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 2,129,788 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 27,500 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, 27,500 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 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.