AIR INDUSTRIES GROUP
Form 10-K/A
April 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended: December 31, 2017

o **Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ______ to_______

Commission File No. 001-35927

AIR INDUSTRIES GROUP

(Name of small business issuer in its charter)

Nevada	80-0948413
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

360 Motor Parkway, Suite 100, Hauppauge, New York 11788
(Address of Principal Executive Offices

(631) 881-4920
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Name of Exchange on which Registered

NYSE AMERICAN

Title of Each Class

Common Stock, par value $0.001

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x Noo

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large Accelerated Filer o Non-Accelerated Filer o Accelerated Filer o Smaller Reporting Company x

Emerging growth company x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. o

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

As of June 30, 2017, the aggregate market value of our common stock held by non-affiliates was $ 11,879,537, based on 6,636,613 shares of outstanding common stock held by non-affiliates, and a price of $1.79 per share, which was the last reported sale price of our common stock on the NYSE American on that date.

There were a total of 25,213,805 shares of the registrant's common stock outstanding as of March 28, 2018.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive Proxy Statement relating to its 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

Explanatory Note

This amendment is being filed to include the XBRL presentation and to correct certain numbers in Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and certain Notes to the Consolidated Financial Statements, specifically, Note 2. – Discontinued Operations, and Note 3. Summary of Significant Accounting Policies – Credit and Concentration Risks.

Except for the corrections to the foregoing items, amendment speaks as of the original date of the original filing, does not reflect events that may have occurred subsequent to the date of the original filing and does not modify or update in any way any other disclosures made in the original filing.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Our Common Stock

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

2016:		
Quarter Ended March 31, 2016	$8.27	$5.90
Quarter Ended June 30, 2016	$6.18	$4.12
Quarter Ended September 30, 2016	$5.08	$3.85
Quarter Ended December 31, 2016	$4.49	$2.21
2017:		
Quarter Ended March 31, 2017	$4.60	$2.75
Quarter Ended June 30, 2017	$3.60	$1.79
Quarter Ended September 30, 2017	$1.75	$1.20
Quarter Ended December 31, 2017	$1.69	$1.30

Dividend Policy

The declaration and payment of dividends on our common stock is subject to the discretion of our Board of Directors and depends on a number of factors, including future earnings, capital requirements, restrictions under our Loan Facility, financial conditions and future prospects and other factors the Board of Directors may deem relevant.

Holders

On March 28, 2018 there were 279 stockholders of record of our common stock. The number of record holders does not include persons who held our Common Stock in nominee or "street name" accounts through brokers.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes shares of our Common Stock to be issued upon exercise of options and warrants, the weighted-average exercise price of outstanding options and warrants and options available for future issuance pursuant to our equity compensation plans as of December 31, 2017:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price Of Outstanding Options, Warrants and Rights	Number of Remaining Shares Available for Future Securities Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	1,048,627	3.20	818,658
Equity compensation plans not approved by security holders	1,704,102	3.62	None
Total	2,752,729		818,658

Recent Sales of Unregistered Equity Securities

Except as previously reported in our periodic reports filed under the Exchange Act, we did not issue any unregistered equity securities during the fiscal year ended December 31, 2017.

Purchases of Our Equity Securities

No repurchases of our common stock were made during the fiscal year ended December 31, 2017.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2017 and 2016 and the notes to those statements included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in this report that could cause actual results to differ materially from those anticipated in these forward-looking statements.

Business Overview

We are an aerospace company operating primarily in the defense industry, though the proportion of our business represented by the commercial and industrial sector is increasing. We manufacture and design structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, and other components. Our Turbine Engine Components segment makes components and provides services for jet engines and ground-power turbines. Our products are currently deployed on a wide range of high profile military and commercial aircraft including Sikorsky's UH-60 Blackhawk and CH-47 Chinook helicopters, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2D Hawkeye, the US Navy F-18 and USAF F-16 fighter aircraft, Boeing's 777 and Airbus' 380 commercial airliners. Our Turbine Engine segment makes components for jet engines that are used on the USAF F-15 and F-16, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground-power turbine applications.

Air Industries Machining, Corp. (“AIM”) became a public company in 2005 when its net sales were approximately $30 million. AIM has manufactured components and subassemblies for the defense and commercial aerospace industry for over 45 years and has established long-term relationships with leading defense and aerospace manufacturers. Since becoming public, we have completed a series of acquisitions of defense aerospace and commercial aerospace businesses which have enabled us to broaden the range of products and services beyond those which were provided by AIM.

In response to recent operating losses and lack of adequate working capital, we have and continue to reposition our business including:

1) In January 2017 we sold AMK Welding, Inc., for $4.5 million, net of a working capital adjustment of ($163,000) plus additional payments based on net revenue not to exceed $1.5 million.

2) In November 2017 we hired a new CEO, Lou Melluzzo, and increased our focus on reducing costs and achieving profitability.

3) On March 21, 2018, we entered into an SPA for the sale of WMI and related operations for a purchase price of $9,000,000, subject to a working capital adjustment. The SPA also provides for contingent payments of up to an aggregate of $1,000,000 if WMI enters into specified agreements by May 31, 2018 and July 31, 2018, respectively (the “Specified Dates”), which contingent payments are subject to reduction by $100,000 for each calendar month after the Specified Dates which passes before WMI enters into the specified agreements. It is anticipated that the sale will occur in May or June of 2018. Once the sale of WMI is complete, we will be more focused on the production of complex, machined products for aircraft landing gear and jet engines.

In addition to repositioning our business to obtain profitability and positive cash flow, we remain resolute on meeting customers' needs and have and continue to align production schedules to meet the needs of customers. We believe that an unyielding focus on our customers will allow us to execute on our existing backlog in a timely fashion and take on additional commitments. We are pleased with our progress and the positive responses received from our customers.

The aerospace market is highly competitive in both the defense and commercial sectors and we face intense competition in all areas of our business. Nearly all of our revenues are derived by producing products to customer specifications after being awarded a contract through a competitive bidding process. As the commercial aerospace and defense industries continue to consolidate and major contractors seek to streamline supply chains by buying more complete sub-assemblies from fewer suppliers, we have sought to remain competitive not only by providing cost-effective world class service but also by increasing our ability to produce more complex and complete assemblies for our customers.

Our ability to operate profitably is determined by our ability to win new contracts and renewals of existing contracts, and then fulfill these contracts on a timely basis at costs that enable us to generate a profit based upon the agreed upon contract price. Winning a contract generally requires that we submit a bid containing a fixed price for the product or products covered by the contract for an agreed upon period of time. Thus, when submitting bids, we are required to estimate our future costs of production and, since we often rely upon subcontractors, the prices we can obtain from our subcontractors.

While our revenues are largely determined by the number of contracts we are awarded, the volume of product delivered and price of product under each contract, our costs are determined by a number of factors. The principal factors impacting our costs are the cost of materials and supplies, labor, financing and the efficiency at which we can produce our products. The cost of materials used in the aerospace industry is highly volatile. In addition, the market for the skilled labor we require to operate our plants is highly competitive. The profit margin of the various products we sell varies based upon a number of factors, including the complexity of the product, the intensity of the competition for such product and, in some cases, the ability to deliver replacement parts on short notice. Thus, in assessing our performance from one period to another, a reader must understand that changes in profit margin can be the result of shifts in the mix of products sold. Many of our operations have a large percentage of fixed factory overhead. As a result our profit margins are also highly variable with sales volumes as under-absorption of factory overhead can decrease profits.

A very large percentage of the products we produce are used on military as opposed to civilian aircraft. These products can be replacements for aircraft already in the fleet of the armed services or for the production of new aircraft. Reductions to the Defense Department budget and decreased usage of aircraft have reduced the demand for both new production and replacement spares. This has reduced our sales, particularly in our complex machining segment. In response to the reduction in military sales, we are focusing greater efforts on the civilian aircraft market though we still remain dependent upon the military for an overwhelming portion of our revenues.

Public Offering

On July 12, 2017, we sold 5,175,000 shares of common stock at a price of $1.50 per for gross proceeds of $7,762,500 in a firm commitment underwritten public offering (the “Public Offering”). We received net proceeds of approximately $6,819,125 from the sale of our shares in the Public Offering. For additional information concerning the Public Offering and the related restructuring transactions (the “Restructuring Transactions”), see the discussion under the caption “Liquidity,” below.

Segment Data

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

We currently divide our operations into three operating segments: Complex Machining; Aerostructures and Electronics; and Turbine Engine Components. We separately report our corporate overhead (which was comprised of certain operating costs that were not directly attributable to a particular segment). Effective January 1, 2015, all operating costs are allocated to the Company's three operating segments. In light of the pending sale of WMI and our focus on complex, machined parts to achieve profitability and growth, in the future we may change our reportable operating segments.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. We evaluate performance based on revenue, gross profit contribution and assets employed.

RESULTS OF OPERATIONS-CONTINUING OPERATIONS

Years ended December 31, 2017 and 2016:

In March 2018, we announced our intention to divest WMI and related operations. These operations are part of our Aerostructures & Electronics operating segment. Once the sale is completed, our Company will be more focused on complex, machined products for aircraft landing gear and jet turbine applications. Although WMI and the related operations have been classified as a discontinued operation, we will continue to operate these businesses until the sale is closed which is anticipated to occur in May or June 2018. We anticipate that from January 2018 through the closing date, these operations will generate a net loss. For purposes of the following discussion of our selected financial information and operating results, we have presented our financial information based on our continuing operations unless otherwise noted.

Selected Financial Information:

	2017	**2016**
Net sales	$49,869,000	$51,321,000
Cost of sales	45,002,000	47,052,000
Gross profit	4,867,000	4,269,000
Operating expenses and interest and financing costs	14,808,000	16,904,000
Other income (expense) net	(22,000)	(131,000)
(Benefit from) provision for income taxes	(197,000)	2,101,000
Net loss from continuing operations	$(15,873,000)	$(14,867,000)

Balance Sheet Data:

	December 31, 2017	**December 31, 2016**
Cash and cash equivalents	$630,000	$1,304,000
Working capital	9,531,000	8,562,000
Total assets	60,755,000	82,800,000
Total stockholders' equity	$17,766,000	$24,890,000

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

	Year Ended December 31,	
	2017	**2016**
COMPLEX MACHINING		
Net Sales	$38,489,000	$37,124,000
Gross Profit	4,906,000	4,382,000
Pre Tax Loss	(2,839,000)	(5,432,000)
Assets	43,207,000	45,073,000
AEROSTRUCTURES & ELECTRONICS		
Net Sales	4,574,000	3,224000
Gross Profit	507,000	38,000
Pre Tax Loss	(4,233,000)	(3,240,000)
Assets	1,021,000	4,596,000
TURBINE ENGINE COMPONENTS		
Net Sales	6,806,000	10,973,000
Gross Profit	(546,000)	(151,000)
Pre Tax Loss	(7,599,000)	(4,084,000)
Assets	6,157,000	17,235,000
CORPORATE		
Net Sales	—	—
Gross Profit	—	—
Pre Tax Loss	(1,399,000)	(10,000)
Assets	288,000	649,000
CONSOLIDATED		
Net Sales	49,869,000	51,321,000
Gross Profit	4,867,000	4,269,000
Pre Tax Loss	(16,070,000)	(12,766,000)
(Benefit from) provision for Income Taxes	(197,000)	2,101,000
Loss from Discontinued Operations	(6,678,000)	(756,000)
Assets Held for Sale	10,082,000	15,247,000
Net Loss	(22,551,000)	(15,623,000)
Assets	$60,755,000	$82,800,000

Net Sales:

Consolidated net sales for the year ended December 31, 2017 were $49,869,000, a decrease of $1,452,000, or 2.8%, compared with $51,321,000 for the year ended December 31, 2016. Net sales of our Complex Machining segment were $38,489,000, an increase of $1,365,000, or 3.7%, from $37,124,000 in the prior year. Net sales of our Aerostructures & Electronics segment, after elimination of discontinued operations, were $4,574,000, an increase of $1,350,000, or 41.9%, from $3,224,000 in the prior year. This increase can be attributed to increased volume at EUR-PAC. Net sales in our Turbine Engine Components segment were $6,806,000, a decrease of $4,167,000, compared with $10,973,000 for the year ended December 31, 2016. This decrease was due almost entirely to the sale of AMK in January 2017 which had sales of $4,511,000 in 2016 and $417,000 in 2017. Excluding the results of AMK in both annual periods, consolidated net sales would have been $49,452,000 in 2017 or an increase of 5.6% as compared to $46,810,000 in 2016.

As indicated in the table below, three customers represented 62.0% and three customers represented 52.3% of total sales for the years ended December 31, 2017 and 2016, respectively.

Customer	**Percentage of Sales**	
	2017	**2016**
Sikorsky Aircraft	25.5%	21.3%
Goodrich Landing Gear Systems	20.5%	14.6%
United States Department of Defense	16.0%	16.4%

As indicated in the table below, three customers represented 68.7% and two customers represented 35.3% of gross accounts receivable at December 31, 2017 and 2016, respectively.

Customer	**Percentage of Receivables**	
	2017	**2016**
Goodrich Landing Gear Systems	41.9%	24.1%
Rohr	14.6%	11.2*
Sikorsky Aircraft	12.2%	*

*Customer was less than 10% of Gross Accounts Receivable at December 31, 2016.

Gross Profit:

Consolidated gross profit from operations for the year ended December 31, 2017 was $4,867,000, an increase of $598,000, or 14.0%, as compared to gross profit of $4,269,000 for the year ended December 31, 2016. Consolidated gross profit as a percentage of sales was 9.8% and 8.3% for the years ended December 31, 2017 and 2016, respectively. Gross profit from operations for AMK, which was sold in January 2017, for the year ended December 31, 2016 was approximately $169,000. Excluding AMK from the Company's 2016 results would result in gross profit of $4,100,000 or 8.8% of sales of $46,810,000. The increase in gross profit from 8.8% to 9.8% after removing results of AMK was due to the implementation of cost reduction and productivity improvement initiatives.

Interest and Financing Costs

Our interest and financing costs increased from $2,500,000 in 2016 to $3,378,000 in 2017.

Impairment Charges

In fiscal 2017, we recorded a goodwill impairment charge of $6,195,000 and a loss on assets held for sale of $1,563,000, each of which amounts are included in the loss from continuing operations. In addition, in connection with the sale of WMI, we recorded a goodwill impairment charge of $3,417,000 and an impairment of intangible asset write-down of $1,085,000, both of these amounts are included in the loss from discontinued operations.

Operating Expense

Consolidated operating expenses for the year ended December 31, 2017 totaled $11,430,000 and decreased by $2,974,000 or 20.6% compared to $14,404,000 for the year ended December 31, 2016. The decrease in operating expenses is primarily due to staff reduction measures and cost reduction initiatives.

Net Loss

Net loss for the year ended December 31, 2017 was $22,551,000, an increase of $6,928,000, compared to a net loss $15,623,000 for the year ended December 31, 2016, for the reasons discussed above. Our net loss in 2017 and 2016 includes a net loss from the discontinued operations of WMI and related operations of $6,678,000 and $756,000, respectively. In addition, our net loss for 2017 includes an impairment charge related to ongoing operations of approximately $6,195,000. Excluding such amounts, our net loss in 2017 would have been $9,678,000 and in 2016 would have been $14,867,000.

Impact of Inflation

Inflation has not had a material effect on our results of operations.

LIQUIDITY AND CAPITAL RESOURCES

We are highly leveraged and rely upon our ability to continue to borrow under our Loan Facility with PNC or to raise debt and equity from our principal stockholders and third parties to support operations and acquisitions. Substantially all of our assets are pledged as collateral under our Loan Facility. We are required to maintain a lockbox account with PNC, into which substantially all of our cash receipts are paid. If PNC were to cease providing revolving loans to us under the Loan Facility, we would lack funds to continue our operations. Over the past eighteen months we have also relied upon our ability to borrow money from certain stockholders and raise debt and equity capital to support our operations. Should we continue to need to borrow funds from our principal stockholders or raise debt or equity, there is no assurance that we will be able to do so or that the terms on which we borrow funds or raise equity will be favorable to us or our existing shareholders.

The Loan Facility has been amended many times during its term, most recently in January 2017 (the “Fourteenth Amendment”) and June 2017 (the “Fifteenth Amendment”).

The Loan Facility provides for a $33,000,000 revolving loan and a term loan with the initial principal amount of $7,387,854.

Under the terms of the Loan Facility, as amended, the revolving loan bears interest at (a) the sum of the Alternate Base Rate plus one and three-quarters of one percent (1.75%) with respect to Domestic Rate Loans; and (b) the sum of the LIBOR Rate plus four and one-half of one percent (4.50%) with respect to LIBOR Rate Loans. The advance rate with respect to our inventory is an amount equal to the lesser of (i) 75% of the eligible inventory, an increase from 50%, and (ii) 90% of the liquidation value of the eligible inventory, subject to the inventory sublimit of $12,500,000 and such reserves as PNC may deem proper.

The amount outstanding under the revolving loan was $16,455,000 and $24,393,000, as of December 31, 2017 and 2016 (including excess advances at December 31, 2016), respectively.

The repayment terms of the Term Loan provide for monthly principal installments in the amount of $123,133 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 terms of the Loan Facility require that, among other things, we maintain a specified Fixed Charge Coverage Ratio and maintain a minimum EBITDA (as defined in the Loan Facility) for specified periods. In addition, we are limited in the amount of Capital Expenditures we can make. We are also limited to the amount of dividends we can pay our shareholders as defined in the Loan Facility.

In connection with the sale of AMK to Meyer Tool, Inc., on January 27, 2017 we, together with our wholly-owned subsidiaries, entered into the Fourteenth Amendment to the Loan Facility which amended certain terms and conditions of the Loan Facility and released AMK from its obligations under the Loan Facility.

The proceeds of the sale of AMK, net of a working adjustment in the amount of ($163,000), were applied as follows: $1,700,000 to the payment of the Term Loan, $1,800,000 to the payment of outstanding revolving loans, and $500,000 to the payment of existing accounts payable. The remaining $500,000 will be applied to outstanding accounts payable on a future date to be determined by PNC or used to reduce the revolving loans. The Fourteenth Amendment to the Loan Facility required that we maintain a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00, tested quarterly on a consolidated rolling twelve (12) month basis however, for the quarter ending June 30, 2017, which was to be tested based upon the prior six (6) months, we were required to maintain a Fixed Charge Coverage Ratio of not less than 1.00 to 1.00 and for the quarter ending September 30, 2017, which was to be tested based upon the prior nine (9) months, we were required to maintain a Fixed Charge Coverage Ratio of not less than 1.10 to 1.00. The amendment also reduced the amount to be paid weekly in repayment of excess advances under the revolving credit facility from $100,000 to $50,000 for each Monday during the months of January, February and March of 2017. Thereafter, the weekly payments were to return to $100,000 until such excess advances were repaid in full.

On June 19, 2017, we entered into the Fifteenth Amendment to the Loan Facility, which waived the failure to comply with the minimum EBITDA covenant for the periods ended December 31, 2016 and March 31, 2017 and the Capital Expenditures covenant for the period ended December 31, 2016. The amendment also requires that we maintain at all times a Fixed Charge Coverage Ratio, tested quarterly on a consolidated basis beginning September 30, 2017, as follows: (i) 1.00 to 1.00 for the quarter ending September 30, 2017, tested based upon the prior three (3) months, (ii) 1.05 to 1.00 for the quarter ending December 31, 2017, tested based upon the prior six (6) months and (iii) 1.05 to 1.00 for the quarter ending March 31, 2018, tested based upon the prior nine (9) months and that we maintain EBITDA of not less than $345,000 for the period ending June 30, 2017. The amendment also provided that we were not required to maintain a Fixed Charge Coverage Ratio and that no testing was required to the Fixed Charge Coverage Ratio for the periods ending December 31, 2016 and March 31, 2017 and that we were not required to maintain a Fixed Charge Coverage Ratio and no testing was required of the Fixed Charge Coverage Ratio for the period ending June 30, 2017. In addition, the amendment reduces the weekly payments we are required to make to reduce our $2,244,071 over-advance under the revolving credit facility as of June 19, 2017 from $100,000 to $25,000 per week during the period commencing May 22, 2017 through and including July 10, 2017. We paid $50,000 to PNC in connection with the amendment and reimbursed PNC’s counsel fees.

As of December 31, 2017, we were not in compliance with our Fixed Charge Coverage Ratio covenant.

As of December 31, 2017, our outstanding indebtedness to PNC was $19,926,000 and consisted of revolving loans in the amount of $16,455,000 and the term loan of $3,471,000, as compared to December 31, 2016, when our debt to PNC was $31,042,000 and consisted of revolving loans of $24,393,000 and the term loan of $6,649,000. In addition, as of December 31, 2017 we had capitalized lease obligations to third parties of $3,073,000, as compared to capitalized lease obligations of $4,215,000 as of December 31, 2016.

Significant Transactions Since January 1, 2017 Which Have Impacted Our Liquidity

Dispositions

On January 27, 2017, we sold all of the outstanding shares of AMK to Meyer Tool, Inc., pursuant to a Stock Purchase Agreement dated January 27, 2017, for a purchase price of $4,500,000, net of a working capital adjustment of $(163,000), plus additional quarterly payments, not to exceed $1,500,000, equal to five percent (5%) of Net Revenues of AMK commencing April 1, 2017. In June 2017, we agreed to a final working capital adjustment with the buyer reducing the gain on sale from $451,000 to $200,000. The gain on sale was the difference between the non-contingent payments and the carrying value of the disposed business. The Company has made an accounting policy decision to record the contingent consideration as it is determined to be realizable. The proceeds of the sale were applied in accordance with the terms of the Fourteenth Amendment to the Loan Facility, as discussed above.

On March 21, 2018, we entered into a Stock Purchase Agreement (“SPA”) for the sale of WMI and related operations, for a purchase price of $9,000,000, subject to a working capital adjustment. The SPA also provides for contingent payments of up to an aggregate of $1,000,000 if WMI enters into specified agreements by May 31, 2018 and July 31, 2018, respectively (the “Specified Dates”), which contingent payments are subject to reduction by $100,000 for each calendar month after the Specified Dates which passes before WMI enters into the specified agreements. The sale is subject to certain conditions, including the buyer obtaining financing for the amount of the purchase price, and requires an escrow deposit of $2,000,000 to cover the working capital adjustment and our obligation to indemnify the buyer against damages arising out of the breach of our representations and warranties and obligations under the SPA. It is anticipated that the sale will occur in May or June of 2018.

Series A Preferred Stock

Pursuant to the restructuring completed in connection with our July 2017 public offering, all outstanding shares of Series A Preferred Stock were converted into 8,629,606 shares of our common stock.

Private Placements of 8% Subordinated Convertible Notes

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

Interest on the outstanding principal of the 8% Notes is payable quarterly at the annual rate of 8%, in cash, or if we are prohibited by applicable law or PNC, our principal lender under our Loan Facility, from paying interest in cash, or we otherwise elect to do so, we may pay accrued interest, in additional 8% Notes ("PIK Notes"), provided that if accrued interest with respect to the 8% Notes is paid in additional 8% Notes, interest for that quarterly interest payment will be calculated at the rate of 12% per annum. Upon the occurrence and continuation of an event of default, interest shall accrue at the rate of 12% per annum.

During the year ended December 31, 2017, we issued $354,238 principal amount of 8% Notes in lieu of cash payment of accrued interest. As of December 31, 2017, we had outstanding $5,525,000 principal amount of 8% Notes, of which $3,003,000 principal amount is due on November 30, 2018 and $2,522,000 principal amount is due on February 28, 2019.

The outstanding principal amount plus accrued interest on the 8% Notes is convertible at the option of the holder into shares of common stock at conversion prices ranging from $2.25 to $4.00 per share, subject to certain anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as mergers and other business combinations.

The exercise price of the warrants issued in connection with the 8% Note Offerings ranges from $3.00 to $4.45 per share, subject to certain anti-dilution and other adjustments, including stock splits, distributions in respect of the common stock and in the event of certain fundamental transactions such as mergers and other business combinations, and may be exercised on a cashless basis for a lesser number of shares depending upon prevailing market prices at the time of exercise. Of these warrants, 320,702 warrants may be exercised until November 30, 2021 and 243,307 warrants may be exercised until January 31, 2022.

Loans from Principal Stockholders

Related party notes payable to Michael and Robert Taglich, and their affiliated entities, totaled $2,126,000 and $1,086,000, as of December 31, 2017 and December 31, 2016, respectively.

On March 17, 2017, we borrowed $200,000 and $300,000 from each of Michael Taglich and Robert Taglich, respectively, and issued promissory notes in the principal amounts of $200,000 and $300,000 to Michael Taglich and Robert Taglich, respectively (the "Taglich Notes"). The Taglich Notes bore interest at the rate of 7% per annum. Pursuant to the restructuring completed in connection with out, July 2017 public offering, the Taglich Notes have been converted into 346,992 shares of common stock.

On May 2, and May 10, 2017, we borrowed an aggregate of $750,000 from each of Michael Taglich and Robert Taglich. This indebtedness, together with accrued interest, were converted into May 2018 Notes on May 12, 2017.

In April 2018, Michael and Robert Taglich advanced an aggregate of $1,150,000 which funds are to be applied to a private placement on terms yet to be determined.

Taglich Brothers acted as a placement agent in connection with the sale of the May 2018 Notes and warrants discussed below for which they are to be paid commissions in the aggregate amount of $176,000.

As compensation for its services as placement agent for the offering of the 12% Notes discussed below, we paid Taglich Brothers a fee of $295,400 and issued to Taglich Brothers five-year warrants to purchase 68,617 shares of common stock at an initial exercise price of $6.15, subject to certain anti-dilution and other adjustments.

May Note Financing

On May 12 and May 19, 2017, we issued and sold to 17 accredited investors (including Michael N. Taglich and Robert F. Taglich individually and a partnership of which they are partners), our “May 2018 Notes” in the aggregate principal amount of $4,158,624, together with warrants to purchase an aggregate of 501,039 shares of common stock, for gross proceeds (net of the exchange of indebtedness totaling $1,503,288 due to Michael N. Taglich and Robert F. Taglich of $2,534,196, Roth Capital LLC and Taglich Brothers acted as placement agents in connection with the sale of the May 2018 Notes and warrants for which they are to be paid commissions in the aggregate amount of $191,155.

The May 2018 Notes and warrants were issued for a purchase price equal to 97% of the principal amount of the May 2018 Notes purchased. The conversion price of the May 2018 Notes was originally $2.49 per share. In connection with our July public offering, approximately $1,754,215 principal amount of the May 2018 Notes were converted into 1,240,605 shares of common stock at a conversion price of $1.50 per share, the public offering price of the shares sold in the Public Offering, and $463,501 principal amount of May 2018 Notes were redeemed. The balance of the May 2018 Notes were converted into 1,222,809 shares of common stock at $1.50 per share, the public offering price of the shares sold in the Public Offering, pursuant to the restructuring approved by our stockholders at our Annual Meeting on October 3, 2017. Consequently, no May 2018 Notes remain outstanding.

We issued warrants to purchase 501,039 shares of common stock as part of the private placement of the May 2018 Notes. The warrants, when issued, were exercisable at an initial exercise price of $2.49 per share until May 12, 2022, and may be exercised on a cashless basis for a lesser number of shares based upon prevailing market prices when exercised. The exercise price of the warrants is subject to anti-dilution and other adjustments, including stock splits, and in the event of certain fundamental transactions such as recapitalizations, mergers and other business combination transactions. In accordance with the terms of the warrants, the exercise price was reduced to $1.50 per share, the public offering price of the shares of common stock sold in the Public Offering.

We early adopted the provisions of ASU 2017-11 in recognizing the warrants. As a result, the exercise price reset provisions were excluded from the assessment of whether the warrants are considered indexed to our own stock. The warrants otherwise meet the requirements for equity classification, as such were initially classified in Stockholders’ Equity. We will recognize the value of the exercise price reset provision if and when it becomes triggered, by recognizing the value of the effect of the exercise price reset as a deemed dividend and a reduction of income available to common shareholders in computing basic earnings per share.

The proceeds received upon issuing the May 2018 Notes and warrants was allocated to each instrument on a relative fair value basis. The allocation resulted in an effective conversion price for the May 2018 Notes that was below the quoted market price of our common stock. As such, we recognized a beneficial conversion feature equal to the intrinsic value of the conversion feature on each issuance date, resulting in an additional discount to the initial carrying value of the May 2018 Notes with a corresponding credit to additional paid-in capital.

We recognized an aggregate debt discount on the May 2018 Notes of approximately $2.5 million, comprised of the allocation of proceeds to the warrants and recognition of the beneficial conversion feature. The debt discount is presented net of the May 2018 Note balance in the Condensed Consolidated Balance Sheets and is amortized to interest expense over the term of the May 2018 Notes using the effective interest method. We amortized approximately $739,000 to interest expense in the year ended December 31, 2017.

Public Offering and Restructuring

On July 12, 2017, we sold 5,175,000 shares of common stock at a price of $1.50 per for gross proceeds of $7,762,500 in the Public Offering. We received net proceeds of approximately $6,819,125 of which approximately $4,000,000 was used to pay outstanding trade payable, $463,501 was used to redeem an equal principal amount of May 2018 Notes at a redemption price of 100% of the principal amount thereof and approximately $2,355,624 was added to our working capital.

In connection with the Public Offering, approximately $1,860,908 aggregate principal amount of the May 2018 Notes were converted into an aggregate of 1,240,605 shares of our common stock at a conversion price of $1.50 per share, the public offering price of the shares sold in the Public Offering.

In addition, we issued shares of common stock in connection with the Restructuring Transactions, described below, contemplated by the Public Offering, at a conversion price of $1.50 per share, upon obtaining stockholder approval at our Annual Meeting of Stockholders on October 3, 2017:

- May 2018 Notes in the aggregate principal amount of $1,834,214 were converted into 1,222,809 shares.
- All of the outstanding 1,294,441 shares of Series A Preferred Stock were converted into 8,629,606 shares.
- The Taglich Notes in the principal amount of $500,000, together with accrued interest thereon, were converted into 346,992 shares.

Equity Private Placement

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

If prior to July 1, 2018, we complete a placement of shares of our common stock or securities convertible into or exercisable for shares of our common stock at an effective price or conversion rate (the “Subsequent Price”) less than $1.25 per share of common stock, we have agreed to issue to the purchasers of the shares and warrants (other than Michael Taglich and Robert Taglich), such additional number of shares of common stock as would have been received had the purchase price been equal to the greater of the Subsequent Price and $1.00 per share. If we complete more than one placement of shares of common stock or securities convertible into or exercisable for shares of common stock prior to July 1, 2018, the Subsequent Price will be the lowest of the prices at which such offerings are completed.

Taglich Brothers, Inc., of which Michael Taglich and Robert Taglich are principals, acted as placement agent for the sale of the shares and warrants received a placement agent fee equal to $56,000 (8% of the amounts invested), payable at the Company's option, in cash or additional shares of common stock and warrants having the same terms and conditions as the shares and warrants issued in the offering.

After giving effect to the foregoing transactions, we had outstanding approximately 25,034,084 shares of common stock and no shares of preferred stock. In addition, other than the indebtedness under our Loan Facility and the indebtedness represented by our 8% Notes, our only other indebtedness for money borrowed was the $1,150,000 advanced by Michael and Robert Taglich on terms to be determined.

Cash Flow

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

	Year Ended December 31,	
	2017	**2016**
Cash provided by (used in)		
Operating activities	$(3,986)	(692)
Investing activities	1,761	(924)
Financing activities	1,551	2,391
Net (decrease) increase in cash and cash equivalents	$(674)	775

Cash Provided By (Used In) Operating Activities

Cash used in operating activities primarily consists of our net loss adjusted for certain non-cash items and changes to working capital items.

For the year ended December 31, 2017, net cash was impacted by a net loss of $22,551,000, offset by $19,172,000 of non-cash items consisting primarily of goodwill impairment of $9,612,000, depreciation of property and equipment of $2,723,000, amortization of debt discount on convertible notes payable of $2,301,000, amortization of capitalized engineering costs and intangibles of $1,096,000. Operating assets and liabilities further used cash in the net amount of $607,000 consisting primarily of the net decrease of accounts payable and accrued expenses in the amount $3,527,000 and a decrease in accounts receivable of $1,004,000, partially offset primarily by decreases in inventory of $905,000 prepaid taxes of $360,000 and an increase in deferred revenue of $410,000.

For the year ended December 31, 2016, our net cash used in operating activities of $692,000 was comprised of a net loss of $15,623,000 plus $6,712,000 of cash provided by changes in operating assets and liabilities plus adjustments for non-cash items of $8,219,000. Adjustments for non-cash items consisted primarily of depreciation of property and equipment of $3,347,000, amortization of capitalized engineering costs, intangibles and other items of $2,229,000, bad debt expense of $274,000, representing amounts reserved for as potentially uncollectible, and non-cash compensation of $167,000, deferred income taxes of $2,063,000, loss on sale of fixed assets held for sale of $5,000, loss on extinguishment of debt of $172,000, and prepaid taxes of $126,000. These non-cash items were offset by $38,000 of deferred gain on the sale of real estate. The increase in operating assets and liabilities consisted of a net decrease in Operating Assets of $2,045,000 and a net increase in Operating Liabilities of $4,667,000. The increase in Operating Assets was comprised of an increase in inventory of $2,902,000, and a net decrease in prepaid expenses and other current assets, and deposits and other assets of $394,000, partially offset by a decrease in accounts receivable of $4,616,000. The net increase in Operating Liabilities was comprised of increases in accounts payable and accrued expenses of $4,495,000 due to the timing of the receipt and payment of invoices, an increase in deferred rent of $82,000, and an increase in deferred revenue of $84,000, partially offset by an increase in income taxes payable of $6,000.

Cash Provided By (Used in) Investing Activities

Cash provided by investing activities consists of the cash received from the businesses we sold, reduced by capital expenditures for property and equipment and capitalized engineering costs. A description of capitalized engineering costs can be found below and in Note 3 Summary of Significant Accounting Policies in our Consolidated Financial Statements for the year ended December 31, 2017.

For the year ended December 31, 2017, cash provided by investing activities was $1,761,000. This was comprised of the proceeds from the sale of the AMK subsidiary of $4,260,000, offset by $985,000 for capitalized engineering costs and $1,514,000 for the purchase of property and equipment.

For the year December 31, 2016, cash used in investing activities was $924,000. This was comprised of $963,000 of capitalized engineering costs, $1,632,000 used for the purchase of property and equipment, offset by the proceeds of the sale of fixed assets of $1,671,000.

Cash Provided By Financing Activities

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

For the year ended December 31, 2017, cash provided by financing activities was $1,551,000. This was comprised of repayments of $3,178,000 on our term loan, $7,938,000 on our revolving loans, $1,397,000 on our capital lease obligations, payments of notes payable issuances of $463,000, and deferred financing costs of $50,000, offset by proceeds from notes payable issuances of $2,660,000 to related parties and $4,184,000 to third parties and proceeds from the issuance of common stock of $7,733,000.

For the year ended December 31, 2016, cash provided by financing activities was $2,391,000. This was comprised of repayments of $5,211,000 under our revolving credit facility, as well as repayments on our term loans of $3,184,000, proceeds from note payable of $4,500,000, as well as repayments under our capital leases of $1,226,000, proceeds from notes payable of $3,695,000, expense for issuance of preferred stock of $ 663,000, expense for issuance of debt offering $547,000, proceeds from the issuance of preferred stock of $5,250,000, and deferred financing costs of $223,000.

CONTRACTUAL OBLIGATIONS

The following table sets forth our future contractual obligations as of December 31, 2017:

	Payment due by period (in thousands)				
	Total	**Less than 1 year***	**1-3 years**	**3-5 years**	**More than 5 years**
Debt and capital leases	$27,069	25,169	1,806	67	—
Operating leases	8,492	1,294	1,886	1,811	3,501
Total	$35,561	26,490	3,692	1,878	3,501

* The revolving loans and term loans with our senior lender are classified as due in less than 1 year, see Note 11 to our Consolidated Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of December 31, 2017.

Going Concern

We suffered losses from operations of $12,758,000 and $10,135,000 and net losses of $22,551,000 and $15,623,000, respectively, for the years ended December 31, 2017 and 2016. We also had negative cash flows from operations for the year ended December 31, 2017. In addition, in 2016 we disposed of the real estate on which one of our operating subsidiaries was located through a sale leaseback transaction, and in January 2017 we sold that operating subsidiary. We have had to sell debt and equity securities to secure funds to operate our business and may have to continue to do so. From September 2016 through June 2017, we issued additional shares of Series A Preferred Stock in lieu of cash payment of accrued dividends on outstanding shares of Series A Preferred Stock and in February 2017, May 2017 and August 2017, we issued additional convertible notes in lieu of cash payment of accrued interest on outstanding convertible notes.

On June 19, 2017, we entered into the Fifteenth Amendment to the Loan Facility, which waived the failure to comply with the minimum EBITDA covenant for the periods ended December 31, 2016 and March 31, 2017 and the Capital Expenditures covenant for the period ended December 31, 2016. The amendment also requires that we maintain at all times a Fixed Charge Coverage Ratio, tested quarterly on a consolidated basis beginning September 30, 2017, as follows: (i) 1.00 to 1.00 for the quarter ending September 30, 2017, tested based upon the prior three (3) months, (ii) 1.05 to 1.00 for the quarter ending December 31, 2017, tested based upon the prior six (6) months and (iii) 1.05 to 1.00 for the quarter ending March 31, 2018, tested based upon the prior nine (9) months and that we maintain EBITDA of not less than $345,000 for the period ending June 30, 2017. The amendment also provided that we were not required to maintain a Fixed Charge Coverage Ratio and that no testing was required to the Fixed Charge Coverage Ratio for the periods ending December 31, 2016 and March 31, 2017 and that we are not required to maintain a Fixed Charge Coverage Ratio and that no testing will be required of the Fixed Charge Coverage Ratio for the period ending September 30, 2017.

In late fiscal 2017, we initiated a repositioning of our business to obtain profitability and improve our liquidity position. We named a new CEO and on March 21, 2018, we entered into a Stock Purchase Agreement for the sale of WMI, for a purchase price of $9,000,000, subject to a working capital adjustment. The sale is subject to certain conditions, including the buyer obtaining financing and is anticipated to close in May or June 2018 although it is possible that that closing may be delayed. In addition, although management believes such event is unlikely, the SPA does provide for certain limited termination rights by either party. Although we believe the proceeds of this acquisition will improve our liquidity position, we still may need further issuances of debt, equity or financing to fund ongoing operations until we achieve sustainable profitability.

The continuation of our business is dependent upon our ability to achieve profitability and positive cash flow and, pending such achievement, future issuances of equity or other financing to fund ongoing operations. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Critical Accounting Policies

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

Inventory Valuation

The Company does not take physical inventories at interim quarterly reporting periods. The majority of the inventory been estimated using a gross profit percentage based on sales of previous periods to the net sales of the current period, as management believes that the gross profit percentage on these items are materially consistent from period to period.

The remainder of the inventory value is estimated based on the Company's standard cost perpetual inventory system, as management believes the perpetual system computed value for these items provides a better estimate of value for that inventory.

For annual reporting, the Company values inventory at the lower of cost on a first-in-first-out basis or market.

We generally purchase raw materials and supplies uniquely suited to the production of larger more complex parts, such as landing gear, only when non-cancellable contracts for orders have been received for finished goods. We occasionally produce larger more complex products, such as landing gear, in excess of purchase order quantities in anticipation of future purchase order demand. Historically this excess has been used in fulfilling future purchase orders. We purchase supplies and materials useful in a variety of products as deemed necessary even though orders have not been received. The Company periodically evaluates inventory items that are not secured by purchase orders and establishes reserves for obsolescence accordingly. The Company also reserves for excess quantities, slow-moving goods, and for other impairments of value.

The Company presents inventory net of progress billings in accordance with the specified contractual arrangements with the United States Government, which results in the transfer of title of the related inventory from the Company to the United States Government, when such progress payments are received.

Capitalized Engineering Costs

The Company has contractual agreements with customers to produce parts, which the customers design. Though the Company has not designed and thus has no proprietary ownership of the parts, the manufacturing of these parts requires pre-production engineering and programming of our machines. The pre-production costs associated with a particular contract are capitalized and then amortized beginning with the first shipment of product pursuant to such contract. These costs are amortized on a straight line basis over the shorter of the estimated length of the contract, or three years.

If the Company is reimbursed for all or a portion of the pre-production expenses associated with a particular contract, only the unreimbursed portion would be capitalized. The Company may also progress bill customers for certain engineering costs being incurred. Such billings are recorded as progress billings (a reduction of the associated inventory) until the appropriate revenue recognition criteria have been met. The Terms and Conditions contained in customer purchase orders may provide for liquidated damages in the event that a stop-work order is issued prior to the final delivery of the product.

Revenue Recognition

During fiscal 2017 and 2016, the Company recognized revenue in accordance with Staff Accounting Bulletin No. 104, “Revenue Recognition.” The Company recognizes revenue when products are shipped and/or the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Payments received in advance from customers for products delivered are recorded as customer deposits until earned, at which time revenue is recognized. The Terms and Conditions contained in our customer purchase orders often provide for liquidated damages in the event that a stop work order is issued prior to the final delivery. The Company utilizes a Returned Merchandise Authorization or RMA process for determining whether to accept returned products. Customer requests to return products are reviewed by the contracts department and if the request is approved, a credit is issued upon receipt of the product. Net sales represent gross sales less returns and allowances. Freight out is included in operating expenses.

The Company recognizes certain revenues under a bill and hold arrangement with two of its large customers. For any requested bill and hold arrangement, the Company makes an evaluation as to whether the bill and hold arrangement qualifies for revenue recognition. The customer must initiate the request for the bill and hold arrangement. The customer must have made this request in writing in addition to their fixed commitment to purchase the item. The risk of ownership has passed to the customer, payment terms are not modified and payment will be made as if the goods had shipped.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance now codified as FASB ASC 740, “Income Taxes,” which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The Company accounts for uncertainties in income taxes under the provisions of FASB ASC 740-10-05, "Accounting for Uncertainty in Income Taxes." The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Stock-Based Compensation

The Company accounts for stock-based compensation expense in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model.

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company accounts for the impairment of goodwill under the provisions of ASU 2011-08 ("ASU 2011-08"), "Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment." ASU 2011-08 updated the guidance on the periodic testing of goodwill for impairment. The updated guidance gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

The Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist, using a three-step approach. Step "zero" is a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Step one compares the fair value of the net assets of the relevant reporting unit (calculated using a discounted cash flow method) to its carrying value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

Long-Lived and Intangible Assets

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit. Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. As of December 31, 2017, the intangible assets have been fully amortized and there has been no impairment.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-01 ("ASU 2017-01"), Business Combinations, which clarifies the definition of a business, particularly when evaluating whether transactions should be accounted for as acquisitions or dispositions of assets or businesses. The first part of the guidance provides a screen to determine when a set is not a business; the second part of the guidance provides a framework to evaluate whether both an input and a substantive process are present. The guidance will be effective after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted for transactions that have not been reported in issued financial statements. The Company is currently assessing the impact of this update on the presentation of these financial statements.

In January 2017, FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment, Step 2 of the goodwill impairment test, which requires determining the implied fair value of goodwill and comparing it with its carrying amount has been eliminated. Thus, the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount (i.e., what was previously referred to as Step 1). In addition, ASU No. 2017-04 requires entities having one or more reporting units with zero or negative carrying amounts to disclose (1) the identity of such reporting units, (2) the amount of goodwill allocated to each, and (3) in which reportable segment the reporting unit is included. ASU No. 2017-04 is effective as follows: (1) for a public business entity that is an SEC filer for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently in the process of evaluating the impact of the adoption of this standard on our financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* The ASU allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted classified as liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, such as warrants, an entity will treat the value of the effect of the down round, when triggered, as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. The guidance in ASU 2017-11is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. The Company adopted this guidance in the current quarter, effective April 1, 2017. As a result, the warrants issued on May 12, 2017, in connection with the bridge financing, were equity-classified.

In April 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606) (“ASU 2016-10”). The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2016-10 affect the guidance in ASU 2014-09, Revenue from Contracts with Customers, which is not yet effective. The effective date and transition requirements of ASU 2016-10 are the same as the effective date and transition requirements of ASU 2014-09. They are effective prospectively for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The Company is currently assessing the impact of the adoption of these amendments on its consolidated financial statements.

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

JOBS Act

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an “emerging growth company,” we may, under Section 7(a)(2)(B) of the Securities Act, delay adoption of new or revised accounting standards applicable to public companies until such standards would otherwise apply to private companies. We may take advantage of this extended transition period until the first to occur of the date that we (i) are no longer an “emerging growth company” or (ii) affirmatively and irrevocably opt out of this extended transition period. We have elected to take advantage of the benefits of this extended transition period. Our consolidated financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Until the date that we are no longer an “emerging growth company” or affirmatively and irrevocably opt out of the exemption provided by Securities Act Section 7(a)(2)(B), upon issuance of a new or revised accounting standard that applies to our consolidated financial statements and that has a different effective date for public and private companies, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting standard.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements

The financial statements required by this item begin on page F-1 hereof.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits are included as part of this amendment to this report. References to "the Company" in this Exhibit List mean Air Industries Group, a Nevada corporation.

Exhibit No.	Description
31.1	Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Securities Exchange Act of 1934.
31.2	Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act of 1934.
32.1	Certification of principal executive officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2	Certification of principal financial officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Dated: April 19, 2018

AIR INDUSTRIES GROUP

By: /s/ Michael E. Recca
Michael E. Recca

Chief Financial Officer

(principal financial and accounting officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Air Industries Group

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Air Industries Group and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities law and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, among other going concern matters discussed, the Company has suffered a net loss in 2017 and has had negative cash flows from operating activities, and is dependent upon future issuances of equity or other financing to fund ongoing operations, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have served as the Company's auditors since 2008.

Saddle Brook, NJ

April 17, 2018

AIR INDUSTRIES GROUP

Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and Cash Equivalents	$630,000	$1,304,000
Accounts Receivable, Net of Allowance for Doubtful Accounts		
of $494,000 and $403,000, respectively	5,464,000	6,073,000
Inventory	31,141,000	32,568,000
Prepaid Expenses and Other Current Assets	214,000	299,000
Prepaid Taxes	49,000	409,000
Assets Held for Sale	10,082,000	21,297,000
Total Current Assets	47,580,000	61,950,000
Property and Equipment, Net	10,050,000	11,197,000
Capitalized Engineering Costs - Net of Accumulated Amortization		
of $5,380,000 and $4,957,000, respectively	2,188,000	1,627,000
Deferred Financing Costs, Net, Deposits and Other Assets	665,000	1,088,000
Intangible Assets, Net	—	471,000
Goodwill	272,000	6,467,000
TOTAL ASSETS	$60,755,000	$82,800,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	$23,131,000	$32,913,000
Notes Payable – Related Party – Current Portion	262,000	1,086,000
Accounts Payable and Accrued Expenses	10,872,000	14,150,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	931,000	946,000
Liabilities Directly Associated with Assets Held for Sale	2,795,000	4,235,000
Income Taxes Payable	20,000	20,000
Total Current Liabilities	38,049,000	53,388,000
Long Term Liabilities		
Notes Payable and Capitalized Lease Obligations - Net of Current Portion	1,798,000	2,971,000
Notes Payable – Related Party – Net of Current Portion	1,650,000	—
Deferred Gain on Sale - Net of Current Portion	295,000	333,000
Deferred Rent	1,197,000	1,218,000
TOTAL LIABILITIES	42,989,000	57,910,000
Commitments and Contingencies		
Stockholders' Equity		

Preferred Stock, par value $.001 - Authorized 3,000,000 shares, Designated as Series A Convertible Preferred Stock – par value $0.001, Authorized 0 at December 31, 2017 and 2,000,000 shares at December 31, 2016; 0 and 1,202,548 outstanding at December 31, 2017 and 2016	—	1,000
Common Stock - Par Value $.001 - Authorized 50,000,000 Shares, 25,213,805 and 7,626,945 Shares Issued and Outstanding as of December 31, 2017 and December 31, 2016, respectively	25,000	7,000
Additional Paid-In Capital	71,272,000	55,862,000
Accumulated Deficit	(53,531,000)	(30,980,000)
TOTAL STOCKHOLDERS' EQUITY	17,766,000	24,890,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$60,755,000	$82,800,000

See Notes to Consolidated Financial Statements

F-1

AIR INDUSTRIES GROUP
Consolidated Statements of Operations For the Years Ended December 31,

	2017	2016
Net Sales	$49,869,000	$51,321,000
Cost of Sales	45,002,000	47,052,000
Gross Profit	4,867,000	4,269,000
Operating Expenses	(11,430,000)	(14,404,000)
Impairment of goodwill	(6,195,000)	—
Loss from Operations	(12,758,000)	(10,135,000)
Interest and Financing Costs	(3,378,000)	(2,500,000)
Loss on Extinguishment of Debt	(112,000)	—
Gain on Sale of Subsidiary	200,000	—
Other Expenses, Net	(22,000)	(131,000)
Loss before Provision for Income Taxes	(16,070,000)	(12,766,000)
(Benefit from) Provision for Income Taxes	(197,000)	2,101,000
Loss from Continuing Operations	(15,873,000)	(14,867,000)
Loss from Discontinued Operations, net of tax	(6,678,000)	(756,000)
Net Loss	$(22,551,000)	$(15,623,000)
Net Loss per share - basic		
Continuing operations	(1.20)	$(1.96)
Discontinued operations	$(0.50)	$(0.10)
Net Loss per share – diluted		
Continuing operations	(1.20)	(1.96)
Discontinued operations	$(0.50)	$(0.10)
Weighted average shares outstanding – basic	13,230,775	7,579,419
Weighted average shares outstanding – diluted	13,230,775	7,579,419

See Notes to Consolidated Financial Statements

F-2

AIR INDUSTRIES GROUP
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2017 and 2016

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, January 1, 2016	—	—	7,560,040	$7,000	$44,155,000	$ (15,357,000)	$28,805,000
Issuance of Preferred Stock	1,202,548	$1,000	—	—	10,304,000	—	10,305,000
Fair Value Allocation of Warrants	—	—	—	—	1,236,000	—	1,236,000
Issuance of Restricted Stock	—	—	42,000	—	—	—	—
Exercise of Options and Warrants	—	—	24,905	—		—	—
Stock Compensation Expense	—	—	—	—	167,000	—	167,000
Net Loss	—	—	—	—	—	(15,623,000)	(15,623,000)
Balance, December 31, 2016	1,202,548	$1,000	7,626,945	$7,000	$55,862,000	$(30,980,000)	$24,890,000
Issuance of Preferred stock	91,893	—	—	—	—	—	—
Fair Value Allocation of Warrants	—	—	—	—	2,500,000	—	2,500,000
Issuance of Common stock	—	—	5,900,390	6,000	7,621,000	—	7,627,000
Common stock issued for directors fees	—	—	154,463	—	232,000	—	232,000
Common stock issued for legal fees	—	—	92,000	—	200,000	—	200,000
Conversion of preferred to common	(1,294,441)	(1,000	8,629,606	9,000	—	—	8,000
Common stock issued for convertible notes	—	—	2,810,401	3,000	4,525,000	—	4,528,000
Stock Compensation Expense	—	—	—	—	332,000	—	332,000
Net Loss	—	—	—	—	—	(22,551,000)	(22,551,000)
Balance, December 31, 2017	—	—	25,213,805	$25,000	$71,272,000	(53,531,000)	$17,766,000

See Notes to Consolidated Financial Statements

F-3

AIR INDUSTRIES GROUP
Consolidated Statements of Cash Flows For the Years Ended December 31,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(22,551,000)	$(15,623,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation of property and equipment	2,723,000	3,347,000
Amortization of intangible assets	673,000	1,279,000
Amortization of capitalized engineering costs	423,000	362,000
Loss on Impairment of goodwill – continuing operations	6,195,000	—
Loss on Impairment of goodwill – discontinued operations	3,417,000	—
Bad debt expense (recovery)	87,000	274,000
Non-cash employee compensation expense	332,000	167,000
Non-cash directors compensation expense	232,000	—
Amortization of deferred financing costs	267,000	371,000
Deferred gain on sale of real estate	(38,000)	(38,000)
Loss on sale of fixed assets held for sale	—	5,000
(Gain) loss on sale of subsidiary	(200,000)	—
Deferred income taxes	—	2,063,000
Loss on impairment of intangible assets – discontinued operations	1,085,000	—
Loss on Assets Held for Sale	1,563,000	—
Loss on extinguishment of debt	112,000	172,000
Amortization of convertible notes payable	2,301,000	217,000
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Assets held for sale - AMK Cash	39,000	(39,000)
Accounts receivable	1,004,000	4,616,000
Inventory	905,000	(2,902,000)
Prepaid expenses and other current assets	281,000	394,000
Prepaid taxes	360,000	126,000
Deposits and other assets	(113,000)	(150,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expense	(3,527,000)	4,495,000
Deferred rent	34,000	82,000
Deferred revenue	410,000	84,000
Income taxes payable	—	6,000
NET CASH USED IN OPERATING ACTIVITIES	(3,986,000)	(692,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized engineering costs	(985,000)	(963,000)
Purchase of property and equipment	(1,514,000)	(1,632,000)
Proceeds from the sale of fixed assets	—	1,671,000
Proceeds from sale of subsidiary	4,260,000	—

NET CASH PROVIDED BY(USED IN) INVESTING ACTIVITIES	1,761,000	(924,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable – revolver – net	(7,938,000)	(5,211,000)
Payments of note payable – term notes	(3,178,000)	(3,184,000)
Capital lease obligations	(1,397,000)	(1,226,000)
Proceeds from note payable – related party	2,660,000	4,500,000
Proceeds from notes payable – third parties	4,184,000	3,695,000
Payments of notes payable – third parties	(463,000)	—
Deferred financing costs	(50,000)	(223,000)
Expense for issuance of preferred stock	—	(663,000)
Expenses for issuance of debt offering	—	(547,000)
Proceeds from issuance of common stock	7,733,000	—
Proceeds from the issuance of preferred stock	—	5,250,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,551,000	2,391,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT	(674,000)	775,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,304,000	529,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$630,000	$1,304,000

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Cash Flows For the Years Ended December 31, (Continued)

	2017	2016
Supplemental cash flow information		
Cash paid during the period for interest	$2,035,000	$1494,000
Cash paid during the period for income taxes	$8,000	$13,000
Supplemental schedule of non-cash investing and financing activities		
Common Stock issued for notes payable - related party	2,254,000	—
Common Stock issued for notes payable - third parties	1,941,000	—
Placement agent warrants issued	85,000	—
Preferred stock issued for notes payable – related party	$—	$3,250,000
Preferred stock issued for notes payable – other	$—	$2,745,000
Preferred stock issued for PIK dividends	$913,000	$502,000
Acquisition of property and equipment financed by capital lease	$225,000	$2,096,000
Classification of assets held for sale	$10,082,000	$21,297,000
Liabilities directly associated with assets held for sale	$(2,795,000)	$(4,235,000)

See Notes to Consolidated Financial Statements

F-5

AIR INDUSTRIES GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

On August 30, 2013, Air Industries Group, Inc. (“Air Industries Delaware”) changed its state of incorporation from Delaware to Nevada as a result of a merger with and into its newly formed wholly-owned subsidiary, Air Industries Group, a Nevada corporation (“Air Industries Nevada” or “AIRI”) and the surviving entity, pursuant to an Agreement and Plan of Merger. The reincorporation was approved by the stockholders of Air Industries Delaware at its 2013 Annual Meeting of Stockholders. Air Industries Nevada is deemed to be the successor.

The accompanying consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corp. (“AIM”), Welding Metallurgy, Inc. ("WMI" or “Welding”), Miller Stuart, Inc. (“Miller Stuart”), Nassau Tool Works, Inc. (“NTW”), Woodbine Products, Inc. (“Woodbine” or “WPI”), Decimal Industries, Inc. ("Decimal"), Eur-Pac Corporation (“Eur-Pac” or “EPC”), Electronic Connection Corporation (“ECC”), AMK Welding, Inc. (“AMK”), Air Realty Group, LLC ("Air Realty") The Sterling Engineering Corporation ("Sterling"), and Compac Development Corporation (“Compac”), (together, the “Company”).

Going Concern

The Company suffered a net loss from operations of $12,758,000 for the year ended December 31, 2017, and net losses of $22,551,000 and and $15,623,000 for the years ended December 31, 2017 and 2016, respectively. The Company also had negative cash flows from operations for the years ended December 31, 2017 and 2016. In 2015 the Company ceased paying dividends on its common stock and in 2016 disposed of the real estate on which an operating subsidiary was located through a sale leaseback transaction. In January 2017, the Company sold one of its operating subsidiaries. The Company has entered in a Stock Purchase Agreement to sell a majority of its Aerostructures & Electronics segment. During the year ended December 31, 2016 and subsequent thereto, the Company sold in excess of $29,856,000 in debt and equity securities to secure funds to operate its business. Furthermore, as of December 31, 2017, the Company was not in compliance with financial covenants under its Amended and Restated Revolving Credit, Term Loan and Security Agreement with PNC Bank (the “Loan Facility”).

The continuation of the Company's business is dependent upon its ability to achieve profitability and positive cash flow and, pending such achievement, future issuances of equity or other financing to fund ongoing operations. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Sale of AMK

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

At December 31, 2016, AMK's assets and liabilities have been reclassified as Assets Held for Sale and Liabilities Directly Associated with Assets Held for Sale, respectively. The carrying value of the assets, net of liabilities, held for sale was less than the contract sales price and accordingly no loss or impairment was recorded for the year ended December 31, 2016.

In connection with the sale of AMK to Meyer Tool, Inc., on January 27, 2017, the Company, together with its wholly-owned subsidiaries, entered into the Fourteenth Amendment to the Amended and Restated Revolving Credit, Term Loan And Security Agreement with PNC Bank, N. A. (the "PNC Loan Agreement") which amends certain terms and conditions of the PNC Loan Agreement and releases AMK from its obligations under the PNC Loan Agreement.

The proceeds of the sale of AMK were applied as follows: $1,700,000 to the payment of the Term Loan (as defined in the PNC Loan Agreement), $1,800,000 to the payment of outstanding Revolving Advances (as defined in the PNC Loan Agreement), and $500,000 to the payment of existing accounts payable. The remaining $500,000 will be applied to outstanding accounts payable on a future date to be determined by PNC or used to reduce the amount of the Revolving Advance. The amendment also waives the noncompliance at September 30, 2016 with the Fixed Charge Coverage Ratio and the Minimum EBITDA covenants for the period then ended, and requires that the Company maintain a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00, tested quarterly on a consolidated rolling twelve (12) month basis; however, for the quarter ending June 30, 2017, which shall be tested based upon the prior six (6) months, the Fixed Charge Coverage Ratio shall not be less than 1.00 to 1.00 and for the quarter ending September 30, 2017, which shall be tested based upon the prior nine (9) months, the Fixed Charge Coverage Ratio shall not be less than 1.10 to 1.00. The amendment also reduces the amount to be paid weekly in repayment of excess advances in the amount of $5,294,071 under the revolving credit facility from $100,000 to $50,000 for each Monday during the months of January, February and March of 2017. Thereafter, the weekly payments will return to $100,000 until such excess advances have been repaid in full.

Subsequent Events

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

Sale of Welding Metallurgy Inc.

On March 21, 2018, the Company signed an agreement to sell all of the outstanding shares of WMI including its wholly owned subsidiaries Miller Stuart, Woodbine, Decimal and Compac Development Corp to CPI Aerostructures, Inc., pursuant to a Stock Purchase Agreement (SPA) for a purchase price of $9,000,000, subject to a customary working capital adjustment. The SPA also provides for contingent payments of up to an aggregate of $1,000,000 if WMI enters into specified agreements, long-term agreements with certain customers, by May 31, 2018 and July 31, 2018, respectively (the “Specified Dates”), which contingent payments are subject to reduction if subsequent to the Specified Dates WMI enters into those specified agreements by $100,000 for each calendar month after the Specified Date. The sale is subject to certain conditions, including CPI obtaining financing for the amount of the purchase price, and requires an escrow deposit of $2,000,000 to cover the working capital adjustment and our obligation to indemnify CPI against damages arising out of the breach of our representations and warranties and obligations under the SPA. It is anticipated that the sale will occur in May or June of 2018.

Sale of Unregistered Equity Securities

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

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

If prior to July 1, 2018, the Company should complete a placement of shares of its common stock or securities convertible into or exercisable for shares of its common stock at an effective price or conversion rate (the “Subsequent Price”) less than $1.25 per share of common stock, there shall be issued to the purchasers in the Offering, such additional number of shares of common stock as would have been received had the Purchase Price thereunder been equal to the greater of the Subsequent Price and $1.00 per share, provided further that no adjustment shall be made for those subscribers who are officers, directors or otherwise deemed to be affiliates of the Company under the rules of the NYSE American. If the Company shall complete more than one placements of shares of its common stock or securities convertible into or exercisable for shares of its common stock prior to July 1, 2018, the Subsequent Price will be the lowest of the prices at which such offerings are completed.

Taglich Brothers, Inc., a related party (see related party footnote for definition), which acted as placement agent for the sale of the Shares and Warrants, is entitled to a placement agent fee equal to $85,200 (8% of the amounts invested), payable at the Company’s option, in cash or additional shares of common stock and warrants having the same terms and conditions as the Shares and Warrants. Michael Taglich and Robert Taglich, directors of the Company, are principals of Taglich Brothers, Inc.

Related Party Transactions

In April 2018, Michael and Robert Taglich advanced an aggregate of $1,150,000 to be applied to a private placement on terms to be determined.

Note 2. — DISCONTINUED OPERATIONS

In March 2018, the Company entered into an agreement to sell WMI and related operations to CPI Aerostructures, Inc. pursuant to a Stock Purchase Agreement (SPA) for a purchase price of $9,000,000, subject to a working capital adjustment. The SPA also provides for contingent payments of up to an aggregate of $1,000,000 if WMI enters into specified agreements by May 31, 2018 and July 31, 2018, respectively (the "Specified Dates"), which contingent payments are subject to reduction by $100,000 for each calendar month which pause often after the Specified Date WMI enters into the specified agreements. The sale is subject to certain conditions, including CPI obtaining financing for the amount of the purchase price, and requires an escrow deposit of $2,000,000 to cover the working capital adjustment and our obligation to indemnify CPI against damages arising out of the breach of our representations and warranties and obligations under the SPA. It is anticipated that the sale will occur in May or June of 2018. At December 31, 2017, the Company has recorded a loss on impairment on intangible assets of $1,085,000 and a loss on assets held for sale of $1,563,000.

The following table presents a reconciliation of the major financial lines constituting the results of operations for discontinued operations to the net income (loss) from discontinued operations presented separately in the consolidated statement of operations:

	December 31,	
	2017	**2016**
Net revenue	$13,129,000	$15,954,000
Cost of goods sold	11,245,000	13,143,000
Gross profit	1,884,000	2,451,000
Operating expenses:		
Selling, general and administrative	2,488,000	3,105,000
Loss on impairment of assets	1,085,000	---
Loss on assets held for sale	1,053,000	—
Impairment of Goodwill	3,417,000	—
Total operating expenses	8,553,000	3,105,000
Interest expense	12,000	96,000
Other income (expense)	3,000	5,000
Loss from discontinued operations before income taxes	(6,678,000)	(745,000)

Provision for income taxes	—	11,000
Net income (loss) from discontinued operations	$(6,678,000)	$(756,000)

The following table presents a reconciliation of the WMI and subsidiaries net cash flow from operating, investing and financing activities for the periods indicated below:

	2017	2016
Net cash used in operating activities - discontinued operation	$(2,765,055)	