

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

AIR INDUSTRIES GROUP

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2020

or

☐ **Transition Report Pursuant To 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

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

80-0948413

(I.R.S. Employer
Identification No.)

1460 Fifth Avenue, Bay Shore, New York 11706

(Address of principal executive offices)

(631) 968-5000

(Registrant's telephone number, including area code)

Securities Registered pursuant to Section 12(b) of the Act

Title of Each Class	Trading Symbol(s)	Name of each Exchange on which Registered
Common Stock	AIRI	NYSE-American

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer ☐
Accelerated Filer ☐

Non-Accelerated Filer ☐
Smaller Reporting Company ☒
Emerging Growth Company ☐

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. ☐

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

There were a total of 31,729,755 shares of the registrant's common stock outstanding as of November 4, 2020.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, or Exchange Act. Forward-looking statements are predictive in nature and can be identified by the fact that they do not relate strictly to historical or current facts and generally include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates” and similar expressions. Certain of the matters discussed herein concerning, among other items, our operations, cash flows, financial position and economic performance including, in particular, future sales, product demand, competition and the effect of economic conditions, include forward-looking statements.

These statements and other projections contained herein expressing opinions about future outcomes and non-historical information, are subject to uncertainties and, therefore, there is no assurance that the outcomes expressed in these statements will be achieved. Investors are cautioned that forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from the expectations expressed in forward-looking statements contained herein. Given these uncertainties, you should not place any reliance on these forward-looking statements which speak only as of the date hereof. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, as amended, and elsewhere in this report and the risks discussed in our other filings with the SEC.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required under the securities laws of the United States.

PART I
FINANCIAL INFORMATION

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AIR INDUSTRIES GROUP
Condensed Consolidated Balance Sheets

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,460,000	\$ 1,294,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,226,000 and \$859,000	9,748,000	7,858,000
Inventory	32,840,000	28,646,000
Prepaid Expenses and Other Current Assets	394,000	447,000
Prepaid Taxes	6,000	-
Total Current Assets	44,448,000	38,245,000
Property and Equipment, Net		
Operating Lease Right-Of-Use-Asset	8,907,000	7,578,000
Deferred Financing Costs, Net, Deposits and Other Assets	3,625,000	3,623,000
Goodwill	1,621,000	1,481,000
	163,000	163,000
TOTAL ASSETS	\$ 58,764,000	\$ 51,090,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Finance Lease Obligations	\$ 22,234,000	\$ 15,682,000
Related Party Notes Payable	-	6,862,000
Accounts Payable and Accrued Expenses	11,362,000	8,105,000
Operating Lease Liabilities	694,000	697,000
Deferred Gain on Sale	38,000	38,000
Deferred Revenue	835,000	1,011,000
Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary	200,000	200,000
Income Taxes Payable	-	27,000
Total Current Liabilities	35,363,000	32,622,000
Long Term Liabilities		
Notes Payable and Finance Lease Obligations	1,121,000	3,406,000
Related Party Notes Payable	6,018,000	-
Operating Lease Liabilities	4,100,000	4,235,000
Deferred Gain on Sale	190,000	219,000
Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary	191,000	402,000
Deferred payroll tax liability - CARES Act	429,000	-
TOTAL LIABILITIES	47,412,000	40,884,000
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, par value \$.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both September 30, 2020 and December 31, 2019.	-	-
Common Stock - Par Value \$.001 - Authorized 60,000,000 Shares, 30,620,990 and 29,478,338 Shares Issued and Outstanding as of September 30, 2020 and December 31, 2019, respectively	30,000	29,000
Additional Paid-In Capital	79,582,000	77,434,000
Accumulated Deficit	(68,260,000)	(67,257,000)
TOTAL STOCKHOLDERS' EQUITY	11,352,000	10,206,000

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 58,764,000	\$ 51,090,000
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See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net Sales	\$ 13,662,000	\$ 13,997,000	\$ 35,603,000	\$ 41,243,000
Cost of Sales	12,006,000	11,034,000	31,152,000	33,815,000
Gross Profit	1,656,000	2,963,000	4,451,000	7,428,000
Operating Expenses	1,896,000	1,808,000	6,064,000	5,842,000
Loss on abandonment of Leases	-	-	-	(275,000)
Income (Loss) from Operations	(240,000)	1,155,000	(1,613,000)	1,311,000
Interest Expense – Third Parties	(234,000)	(570,000)	(789,000)	(2,050,000)
Interest Expense - Related Parties	(125,000)	(265,000)	(378,000)	(740,000)
Other Income, Net	122,000	100,000	363,000	169,000
Income (Loss) before Provision for (Benefit from) Income Taxes	(477,000)	420,000	(2,417,000)	(1,310,000)
Provision for (Benefit from) Income Taxes	-	22,000	(1,414,000)	22,000
Income (Loss) from Continuing Operations	(477,000)	398,000	(1,003,000)	(1,332,000)
Loss from Discontinued Operations, net of tax	-	(211,000)	-	(139,000)
Net Income (Loss)	<u>\$ (477,000)</u>	<u>\$ 187,000</u>	<u>\$ (1,003,000)</u>	<u>\$ (1,471,000)</u>
Net Income (Loss) per share – Basic				
Continuing Operations	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>
Discontinued Operations	<u>\$ -</u>	<u>\$ (0.01)</u>	<u>\$ -</u>	<u>\$ -</u>
Net Income (Loss) per share – Diluted				
Continuing Operations	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>
Discontinued Operations	<u>\$ -</u>	<u>\$ (0.01)</u>	<u>\$ -</u>	<u>\$ -</u>
Weighted Average Shares Outstanding - Basic - continuing operations	30,620,990	28,909,072	30,524,874	28,774,041
Weighted Average Shares Outstanding - Diluted - continuing operations	30,620,990	35,046,015	30,524,874	28,774,041
Weighted Average Shares Outstanding - Basic and Diluted - discontinued operations	30,620,990	28,909,072	30,524,874	28,774,041

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Stockholders' Equity
For the Three and Nine Months Ended September 30, 2020 and 2019
(Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Total
	Shares	Amount	Capital	Deficit	Stockholders' Equity
Balance, January 1, 2020	29,478,338	\$ 29,000	\$ 77,434,000	\$ (67,257,000)	\$ 10,206,000
Common stock issued for directors' fees	43,771	-	55,000	-	55,000
Costs related to issuance of stock	-	-	(145,000)	-	(145,000)
Issuance of Common Stock	419,597	1,000	983,000	-	984,000
Common Stock Issued for Convertible Notes	590,243	-	885,000	-	885,000
Stock Compensation Expense	-	-	140,000	-	140,000
Net Income	-	-	-	1,058,000	1,058,000
Balance, March 31, 2020	30,531,949	\$ 30,000	\$ 79,352,000	\$ (66,199,000)	\$ 13,183,000
Common stock issued for directors' fees	47,126	\$ -	\$ 46,000	\$ -	\$ 46,000
Stock Compensation Expense	-	-	74,000	-	74,000
Net Loss	-	-	-	(1,584,000)	(1,584,000)
Balance, June 30, 2020	30,579,075	\$ 30,000	\$ 79,472,000	\$ (67,783,000)	\$ 11,719,000
Common stock issued for directors' fees	41,915	\$ -	\$ 58,000	\$ -	\$ 58,000
Stock Compensation Expense	-	-	52,000	-	52,000
Net Loss	-	-	-	(477,000)	(477,000)
Balance, September 30, 2020	30,620,990	\$ 30,000	\$ 79,582,000	\$ (68,260,000)	\$ 11,352,000
Balance, January 1, 2019	28,392,853	\$ 28,000	\$ 76,101,000	\$ (64,523,000)	\$ 11,606,000
Common stock issued for directors' fees	147,830	-	131,000	-	131,000
Costs related to issuance of stock	-	-	(58,000)	-	(58,000)
Stock Compensation Expense	-	-	233,000	-	233,000
Other Adjustments - Shares Issued	144,899	-	-	-	-
Other Adjustments - Fair Value allocation	-	-	(185,000)	-	(185,000)
Net Loss	-	-	-	(923,000)	(923,000)
Balance, March 31, 2019	28,685,582	\$ 28,000	\$ 76,222,000	\$ (65,446,000)	\$ 10,804,000
Issuance of Common Stock	180,000	\$ 1,000	\$ 186,000	\$ -	\$ 187,000
Stock Compensation Expense	-	-	93,000	-	93,000
Other Adjustments - Shares Issued	25,401	-	-	-	-
Share Issuance Costs	-	-	(55,000)	-	(55,000)
Net Loss	-	-	-	(735,000)	(735,000)
Balance, June 30, 2019	28,890,983	\$ 29,000	\$ 76,446,000	\$ (66,181,000)	\$ 10,294,000
Common stock issued for directors' fees	57,433	\$ -	\$ 56,000	\$ -	\$ 56,000
Issuance of Common Stock	2,778	-	-	-	-
Stock Compensation Expense	-	-	25,000	-	25,000
Other Adjustments - Rounding	-	(1,000)	-	-	(1,000)
Net Income	-	-	-	187,000	187,000
Balance, September 30, 2019	28,951,194	\$ 28,000	\$ 76,527,000	\$ (65,994,000)	\$ 10,561,000

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30,
(Unaudited)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (1,003,000)	\$ (1,471,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation of property and equipment	1,920,000	2,085,000
Non-cash employee compensation expense	266,000	351,000
Non-cash directors compensation	159,000	95,000
Non-cash other income recognized	(302,000)	(198,000)
Non-cash interest expense	90,000	60,000
Non-cash deferred payroll tax expense - CARES Act	429,000	-
Abandonment of lease	-	275,000
Amortization of Right-of-Use Asset	366,000	352,000
Deferred gain on sale of real estate	(29,000)	(29,000)
Loss on sale of equipment	16,000	42,000
Amortization of debt discount on convertible notes payable	196,000	370,000
Bad debt expense	367,000	46,000
Amortization of deferred financing costs	73,000	-
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	(2,257,000)	49,000
Inventory	(4,194,000)	(1,301,000)
Prepaid expenses and other current assets	53,000	(154,000)
Prepaid taxes	(6,000)	43,000
Deposits and other assets	(213,000)	(261,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	1,594,000	343,000
Operating lease liabilities	(506,000)	(441,000)
Income taxes payable	(27,000)	-
Deferred revenue	(176,000)	14,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(3,184,000)</u>	<u>270,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,471,000)	(397,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,471,000)</u>	<u>(397,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable - revolver - net - Sterling National Bank	3,340,000	-
Note payable - revolver - net - PNC	-	(597,000)
Payments of note payable - term notes - Sterling National Bank	(414,000)	-
Payments of note payable - term notes - PNC	-	(1,108,000)
SBA Loan Proceeds - SNB	2,414,000	-
Proceeds from sale of future proceeds from disposition of subsidiary	-	800,000
Transaction costs from sale of future proceeds from disposition of subsidiary	-	(3,000)
Payments of finance lease obligations	(11,000)	(899,000)
Share issuance costs	-	(113,000)
Proceeds from notes payable issuances- related party	-	500,000
Proceeds from issuance of common stock	984,000	-
Costs related to issuance of stock	(145,000)	-
Payments of related party notes payable	(1,032,000)	(16,000)

Payments of notes payable - third party	(100,000)	-
Payments of loan payable - financed assets	(215,000)	(116,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>4,821,000</u>	<u>(1,552,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	166,000	(1,679,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>1,294,000</u>	<u>2,012,000</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 1,460,000</u>	<u>\$ 333,000</u>

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Cash Flows For the Nine Months Ended September 30, (Continued)
(Unaudited)

	2020	2019
Supplemental cash flow information		
Cash paid for interest	\$ 680,000	\$ 1,260,000
Supplemental disclosure of non-cash transactions		
Right of Use Asset additions under ASC 842	\$ 642,000	\$ 4,368,000
Operating Lease Liabilities under ASC 842	\$ 642,000	\$ 5,397,000
Write-off deferred rent under ASC 842	\$ -	\$ 1,165,000
Acquisition of financed asset	\$52,000	\$ -
Acquisition of property and equipment	\$ 1,504,000	\$ -
Supplemental disclosure of non-cash investing and financing activities		
Common stock issued in lieu of cash for services	\$ -	\$ 187,000
Common Stock issued for conversion of note payable and accrued interest	\$ 885,000	\$ -

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

Air Industries Group is a Nevada corporation (“AIRI”). As of and for the three and nine months ended September 30, 2020 and 2019, the accompanying condensed consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corp. (“AIM”), Nassau Tool Works, Inc. (“NTW”), and the Sterling Engineering Corporation (“Sterling”), (together, the “Company”). The results of Eur-Pac Corporation (“EPC”) and Electronic Connection Corporation (“ECC”) are included in discontinued operations since operations ceased on March 31, 2019. See Note 2 for details of discontinued operations.

Principal Business Activities

The Company is primarily engaged in manufacturing aircraft structural parts, and assemblies for prime defense contractors in the aerospace industry in the United States. NTW is a manufacturer of aerospace components, principally landing gear for F-16 and F-18 fighter aircraft. Sterling manufactures components and provides services for jet engines and ground-power turbines. The Company’s customers consist mainly of publicly traded companies in the aerospace industry.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission, from which the accompanying condensed consolidated balance sheet dated December 31, 2019 was derived.

Reclassifications

Certain account balances in 2019 have been reclassified to conform to the current period presentation.

Impact of Covid-19

On March 11, 2020, the World Health Organization announced that infections caused by the coronavirus disease of 2019 (“COVID-19”) had become pandemic, and on March 13, 2020, the U.S. President announced a national emergency relating to the disease. National, state and local authorities have adopted various regulations and orders, including mandates on the number of people that may gather in one location and closing non-essential businesses. To date, the Company has been deemed an essential business and has not curtailed its operations.

The measures adopted by various governments and agencies, as well as the decision by many individuals and businesses to voluntarily shut down or self-quarantine, have and are expected to continue to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts adopted by governments is uncertain. The likely overall economic impact of the COVID-19 pandemic will be highly negative to the general economy and has been particularly negative on the commercial travel industry and commercial aerospace industries.

In accordance with the Department of Defense guidance issued in March 2020 designating the Defense Industrial Base as a critical infrastructure workforce, the Company’s facilities have continued to operate in support of essential products and services required to meet national security commitments to the U.S. government and the U.S. military, however, facility closures or work slowdowns or temporary stoppages could occur. Although the Company’s facilities are open, it was unable to operate at full capacity or achieve high levels of productivity particularly in the second calendar quarter of fiscal 2020 due to the implementation of enhanced safety procedures, increased

employee absenteeism and intermittent closings of other businesses that supply goods or services to the Company. These impediments began to dissipate in the third calendar quarter. By September 2020 operating conditions were close to normal; however, business and operating conditions remain volatile.

Beginning in April 2020, the COVID-19 crisis resulted in a reduction to 2020 revenue and operating margins in portions of its business. This negative effect continued in May 2020 and to a lesser extent in June 2020. The decrease in revenue resulted from employee absenteeism, supplier disruption, changes in employee productivity, and related program delays or challenges. The Company and its employees, suppliers, customers and its global community continue to face tremendous challenges. While these challenges lessened in the third calendar quarter, the Company cannot predict how this dynamic situation will evolve or the impact it will have on the Company's results of operations.

The Company has implemented procedures to promote employee safety including more frequent and enhanced cleaning and adjusted schedules and work flows to support physical distancing. These actions have resulted in increased operating costs. In addition, a number of the Company's suppliers and customers have intermittently suspended or otherwise reduced their operations, and the Company is experiencing some supply chain challenges. Suppliers are also experiencing liquidity pressures and disruptions to their operations as a result of COVID-19. The challenges with our suppliers have been ameliorated during the third quarter and their operations have substantially returned to normal. During the three months ended June 30, 2020, we had large numbers of employees working remotely. As of September 30, 2020 essentially all employees have returned to work at our facilities.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law. The CARES Act provides aid to small businesses through programs administered by the Small Business Administration ("SBA"). The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program ("PPP"), whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs.

In May 2020, AIM, NTW and Sterling (each a "Borrower") entered into government subsidized loans with Sterling National Bank ("SNB") as the lender in an aggregate principal amount of approximately \$2.4 million ("SBA Loans"). Each SBA Loan is evidenced by a promissory note. At least 60% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the "Loan Program"). The Borrower has applied to SNB for forgiveness and SNB has approved and submitted the forgiveness application to the SBA for final approval in accordance with the applicable provisions of the federal statute authorizing the Loan Program. See Note 6.

The Company has elected to defer the deposit and payment of employer's portion of Social Security taxes pursuant to Section 2302 of the CARES Act. These deferred amounts must be repaid 50% on December 31, 2021 with the remaining 50% on December 31, 2022. As of September 30, 2020, the Company has deferred \$429,000, which is classified as Deferred payroll tax liability – CARES Act on the accompanying Condensed Consolidated Balance Sheet.

In addition, as a result of the passage of the CARES Act, the Company received a tax refund of \$1,416,000 from the filing of a net operating loss carryback claim. See Note 10.

The Company believes that based on its confirmed orders, funds generated from operations, amounts received under government subsidized loan programs and amounts available under its credit facility, it will have sufficient cash on hand to support its activities through November 1, 2021.

Subsequent Events

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

Note 2. DISCONTINUED OPERATIONS

As discussed in Note 1, the Company disposed of its EPC and ECC subsidiaries in March 2019. As required, the Company has retrospectively recast its condensed consolidated statements of operations for the 2019 period presented. As such, these businesses are reported as discontinued operations for the three and nine months ended September 30, 2019. The Company has not segregated the cash flows of these businesses in the condensed consolidated statements of cash flows. Management was also required to make certain assumptions and apply judgment to determine historical expenses related to the discontinued operations presented in prior periods. Unless noted otherwise, discussion in the Notes to Condensed Consolidated Financial Statements refers to the Company's continuing operations.

The following table presents the results of discontinued operations presented separately in the condensed consolidated statement of operations for the three and nine months ended September 30, 2019:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(unaudited)	(unaudited)
Net revenue	\$ -	\$ 132,000
Cost of goods sold	-	105,000
Gross profit	-	27,000
Operating expenses:		
Selling, general and administrative	100,000	155,000
Loss from operations	(100,000)	(128,000)
Interest expense	-	(1,000)
Other expense	(111,000)	(10,000)
Loss from discontinued operations before income taxes	(211,000)	(139,000)
Provision for income taxes	-	-
Loss from discontinued operations, net of income tax	<u>\$ (211,000)</u>	<u>\$ (139,000)</u>

Non-cash operating amounts for discontinued operations for the three and nine months ended September 30, 2019 include depreciation and amortization of \$0 and \$6,000, respectively. There were no capital expenditures for discontinued operations for both the three and nine months ended September 30, 2019. There were no other significant non-cash operating amounts or investing items of the discontinued operations for the period.

Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventory Valuation

For annual periods, the Company values inventory at the lower of cost on a first-in-first-out basis or estimated net realizable value. The Company does not take physical inventories at interim quarterly reporting periods. Historically, in each period, substantially all of the inventory value has been estimated using a gross profit percentage based on annual gross profit percentages of the immediately preceding year as applied to the net sales of the current period. During the three months ended September 30, 2020, the Company determined that its gross profits by segment were below its 2019 gross profit percentages and accordingly has adjusted margins to less than those of 2019. Adjustments to reconcile the annual physical inventory to the Company's books are recorded in the fourth quarter.

Credit and Concentration Risks

There were three customers that represented 70.6% and two customers that represented 61.7% of total net sales for the three months ended September 30, 2020 and 2019, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
1	25.8	35.0
2	23.2	26.7
3	21.6	*

* Customer was less than 10% of sales for the three months ended September 30, 2019.

There were three customers that represented 74.2% and 73.4% of total sales for the nine months ended September 30, 2020 and 2019, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
1	32.1	31.1
2	28.2	31.0
3	13.9	*
4	*	11.3

* Customer was less than 10% of sales for the nine months ended September 30, 2020 and 2019.

There were two customers that represented 63.6% and three customers that represented 67.8% of gross accounts receivable at September 30, 2020 and December 31, 2019, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	September 30, 2020	December 31, 2019
	(Unaudited)	
1	34.6	32.7
2	29.0	10.0
3	*	25.1

* Customer was less than 10% of accounts receivable sales at September 30, 2020.

Cash and Cash Equivalents

During the year, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC insurance limit. The Company has not experienced any losses on these accounts.

Major Suppliers

The Company has several key sole-source suppliers of various parts that are important for one or more of its products. These suppliers are its only source for such parts and, therefore, in the event any of them were to go out of business or be unable or unwilling to provide parts for any reason, its business could be severely harmed.

Leases

The Company accounts for leases under ASC 842, "Leases." All leases are required to be recorded on the balance sheet and are classified as either operating leases or finance leases. The lease classification affects the expense recognition in the income statement. Operating lease charges are recorded entirely in operating expenses. Finance lease charges are split, where amortization of the right-of-use asset is recorded in operating expenses and an implied interest component is recorded in interest expense.

Earnings (Loss) per share

Basic earnings (loss) per share ("EPS") is computed by dividing the net income (loss) applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

For purposes of calculating diluted earnings per common share, the numerator includes net income plus interest on convertible notes payable assumed converted as of the first day of the period. The denominator includes both the weighted-average number of shares of common stock outstanding during the period and the number of common stock equivalents if the inclusion of such common stock equivalents is dilutive. Dilutive common stock equivalents potentially include stock options and warrants using the treasury stock method and convertible notes payable using the if-converted method.

The following is the calculation of net (loss) income applicable to common stockholders utilized to calculate the EPS:

	Three Months Ended		Nine Months Ended	
	Sept 30, 2020	Sept 30, 2019	Sept 30, 2020	Sept 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing Operations				
Income (loss) from continuing operations	\$ (477,000)	\$ 398,000	\$ (1,003,000)	\$ (1,332,000)
Add: Convertible Note Interest for Potential Note Conversion	-	120,000	-	-
Income (loss) used to calculate earnings per share	<u>\$ (477,000)</u>	<u>\$ 518,000</u>	<u>\$ (1,003,000)</u>	<u>\$ (1,332,000)</u>

The following is a reconciliation of the denominators of basic and diluted earnings per share computations:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing Operations				
Weighted average shares outstanding used to compute basic earnings per share	30,620,990	28,909,072	30,524,874	28,774,041
Effect of dilutive stock options and warrants	-	131,458	-	-
Effect of dilutive convertible notes payable	-	6,005,485	-	-
Weighted average shares outstanding and dilutive securities used to compute diluted earnings per share	<u>30,620,990</u>	<u>35,046,015</u>	<u>30,524,874</u>	<u>28,774,041</u>

The following securities have been excluded from the calculation as the exercise price was greater than the average market price of the common shares:

	Three and Nine Months Ended	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
Stock Options	163,000	852,000
Warrants	1,423,000	2,183,000
	<u>1,586,000</u>	<u>3,035,000</u>

The following securities have been excluded from the calculation even though the exercise price was less than the average market price of the common shares during the periods set forth below because the effect of including these potential shares was anti-dilutive due to the net loss incurred during these periods:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Stock Options	1,696,000	-	1,696,000	500,000
Warrants	760,000	-	760,000	-
Convertible notes payable	5,092,000	-	5,092,000	6,005,000
	<u>7,548,000</u>	<u>-</u>	<u>7,548,000</u>	<u>6,505,000</u>

Stock-Based Compensation

The Company accounts for stock-based compensation 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. Stock based compensation expense for employees amounted to \$52,000 and \$25,000 for the three months ended September 30, 2020 and 2019, respectively, and \$266,000 and \$351,000 for the nine months ended September 30, 2020 and 2019, respectively. Stock compensation expense for directors amounted to \$58,000 and \$56,000 for the three months ended September 30, 2020 and 2019, respectively and \$159,000 and \$187,000 for the nine months ended September 30, 2020 and 2019, respectively. Stock compensation expense for employees and directors was included in operating expenses on the accompanying Condensed Consolidated Statements of Operations.

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of \$163,000 at September 30, 2020 and December 31, 2019 relates to the acquisition of NTW.

Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances occur that more likely than not reduce the fair value of the reporting unit below its carrying amount.

The COVID-19 pandemic was a triggering event for testing whether goodwill has been impaired. The Company performed a qualitative assessment and determined it is more likely than not that the fair value exceeds the carrying value of \$163,000 as of September 30, 2020. The Company will continue to monitor the impacts of the COVID-19 pandemic in future quarters. Changes in the Company’s forecasts or further decreases in the value of its common stock could cause book values to exceed fair values which may result in goodwill impairment charges in future periods.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity’s Own Equity (Subtopic 815-40) (“ASU 2020-06”), which is intended to address issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. For convertible instruments, ASU 2020-06 reduces the number of accounting models for convertible debt instruments and convertible preferred stock, and enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance on the basis of feedback from financial statement users. ASU 2020-06 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is evaluating the effect of adopting this new accounting guidance on its financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements and related disclosures.

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 condensed consolidated financial statements.

Note 4. PROPERTY AND EQUIPMENT

The components of property and equipment at September 30, 2020 and December 31, 2019 consisted of the following:

	September 30, 2020	December 31, 2019	
	(unaudited)		
Land	\$ 300,000	\$ 300,000	
Buildings and Improvements	1,650,000	1,650,000	31.50 years
Machinery and Equipment	14,861,000	12,251,000	5 - 8 years
Finance Lease Machinery and Equipment	6,546,000	6,495,000	5 - 8 years
Tools and Instruments	11,612,000	11,021,000	1.50 - 7 years
Automotive Equipment	148,000	177,000	5 years
Furniture and Fixtures	290,000	290,000	5 - 8 years
Leasehold Improvements	530,000	530,000	Term of Lease
Computers and Software	436,000	425,000	4 - 6 years
Total Property and Equipment	36,373,000	33,139,000	
Less: Accumulated Depreciation	(27,466,000)	(25,561,000)	
Property and Equipment, net	<u>\$ 8,907,000</u>	<u>\$ 7,578,000</u>	

Depreciation expense for the three months ended September 30, 2020 and 2019 was \$576,000 and \$712,000, respectively. Depreciation expense for the nine months ended September 30, 2020 and 2019 was \$1,920,000 and \$2,085,000, respectively.

Assets held under financed lease obligations are depreciated over the shorter of their related lease terms or their estimated productive lives. Depreciation of assets under finance leases is included in depreciation expense for 2020 and 2019. Accumulated depreciation on these assets was approximately \$6,359,000 and \$5,936,000 as of September 30, 2020 and December 31, 2019, respectively.

Note 5. LEASES

The Company has operating and finance leases for leased office and manufacturing facilities and equipment leases. The Company leases certain machinery and equipment under finance leases and leases its offices and manufacturing facilities under operating leases. The leases have remaining lease terms of one to six years, some of which include options to extend or terminate the leases.

NTW’s warehouse lease was terminated in May 2020 by its landlord under the terms of its lease agreement. Additionally, the Company entered into a new lease agreement for warehouse space in Bohemia, NY. The new lease term commenced on April 1, 2020 and expires on May 31, 2025. During the first year of the lease, the monthly rent is \$10,964 and increases 3% each year thereafter. The final two months are equal installments of \$1,746.

Rent expense for the three months ended September 30, 2020 and 2019 was \$280,000 and \$310,000, respectively. Rent expense for the nine months ended September 30, 2020 and 2019 was \$892,000 and \$936,000, respectively.

	September 30, 2020
Weighted Average Remaining Lease Term - in years	5.77
Weighted Average discount rate - %	8.88%

The aggregate undiscounted cash flows of operating lease payments for leases with remaining terms greater than one year are as follows:

	September 30, 2020 (unaudited)
For the twelve months ended December 31,	
December 31, 2020 (remaining three months)	\$ 271,000
December 31, 2021	1,080,000
December 31, 2022	1,007,000
December 31, 2023	1,038,000
December 31, 2024	1,070,000
Thereafter	1,722,000
Total future minimum lease payments	6,188,000
Less: discount	(1,394,000)
Total operating lease maturities	4,794,000
Less: current portion of operating lease liabilities	(694,000)
Total long term portion of operating lease maturities	\$ 4,100,000

Note 6. NOTES PAYABLE, RELATED PARTY NOTES PAYABLE AND FINANCE LEASE OBLIGATIONS

Notes payable and finance lease obligations at September 30, 2020 and December 31, 2019 consisted of the following:

	September 30, 2020 (unaudited)	December 31, 2019
Revolving credit note payable to Sterling National Bank ("SNB")	\$ 15,883,000	\$ 12,543,000
Term loan, SNB	3,386,000	3,800,000
Finance lease obligations	12,000	22,000
Loans Payable - financed assets	220,000	385,000
Related party notes payable, net of debt discount	6,018,000	6,862,000
Convertible notes payable-third parties, net of debt discount	1,440,000	2,338,000
SBA loans	2,414,000	-
Subtotal	29,373,000	25,950,000
Less: Current portion of notes payable, related party notes payable and finance lease obligations	(22,234,000)	(22,544,000)
Notes payable, related party notes payable and finance lease obligations, net of current portion	\$ 7,139,000	\$ 3,406,000

Sterling National Bank ("SNB")

On December 31, 2019, the Company entered into a new loan facility ("SNB Facility") with Sterling National Bank, ("SNB") expiring on December 30, 2022. The new loan facility provides for a \$16,000,000 revolving loan ("SNB revolving line of credit") and a term loan ("SNB term loan").

Proceeds from the SNB Facility repaid the Company's outstanding loan facility ("PNC Facility") with PNC Bank N.A. ("PNC").

The formula to determine the amounts of revolving advances permitted to be borrowed under the SNB revolving line of credit is based on a percentage of the Company's eligible receivables and eligible inventory (as defined in the SNB Facility). Each day, the Company's cash collections are swept directly by SNB to reduce the SNB revolving loan balance and the Company then borrows according to a borrowing base formula. The Company's receivables are payable directly into a lockbox controlled by SNB (subject to the terms of the SNB Facility).

The repayment terms of the SNB term loan provide for monthly principal installments in the amount of \$45,238, payable on the first business day of each month, beginning on February 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. In addition, for so long as the SNB term loan remains outstanding, if Excess Cash Flow (as defined) is a positive number for any fiscal year, beginning with the year ending December 31, 2020, the Company shall pay to SNB an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow for such Fiscal Year and (ii) the outstanding principal balance of the term loan. Such payment shall be made to SNB and applied to the outstanding principal balance of the term loan, on or prior to April 15 of the Fiscal Year immediately following such Fiscal Year.

On November 6, 2020, the Company entered into the First Amendment to Loan and Security Agreement ("First Amendment"). The terms of the agreement increase the Term Loan to \$5,685,000. The repayment terms of the term loan were amended to provide monthly principal installments in the amount of \$67,679 beginning on December 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. Additionally, the date by which certain subordinated third-party notes need to be extended by was changed from September 30, 2020 to November 30, 2020. The Company has paid an amendment fee of \$20,000.

The Company may voluntarily prepay balances under the SNB Facility. Any prepayment of less than all of the outstanding principal of the SNB term loan is applied to the principal of the SNB term loan.

The terms of the SNB Facility require that, among other things, the Company maintain a specified Fixed Charge Coverage Ratio of 1.25 to 1.00 at the end of each Fiscal Quarter beginning with the Fiscal Quarter ending March 31, 2020. In addition, the Company is limited in the amount of Capital Expenditures it can make. The SNB Loan Agreement required the Company by September 30, 2020, to either (i) extend the maturity date of certain subordinate convertible notes to a date more than six months after December 31, 2022 or alternatively (ii) convert these notes to common stock of the Company. As of September 30, 2020, the Company was not in compliance with all loan covenants. As a result, the full balance due under the term note was classified as a current liability in the condensed consolidated balance sheet as of September 30, 2020. In connection with the First Amendment, the bank waived all events of default identified as of and through September 30, 2020. The SNB Facility also restricts the amount of dividends the Company may pay to its stockholders. Substantially all of the Company's assets are pledged as collateral under the SNB Facility.

The aggregate payments for the term note at September 30, 2020 are as follows:

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 136,000
December 31, 2021	543,000
December 31, 2022	2,759,000
SNB Term Loans payable	3,438,000
Less: debt issuance costs	(52,000)
Total SNB Term loan payable, net of debt issuance costs	3,386,000
Less: Current portion of SNB term loan payable	3,386,000
Total long-term portion of SNB term loan payable	\$ -

Under the terms of the SNB Facility, both the SNB revolving line of credit and the SNB term loan will bear an interest rate equal to 30-day LIBOR (with a 1% floor) plus 2.5%. The average interest rate charged during the period ended September 30, 2020 was 3.5%.

As of September 30, 2020, our debt to SNB in the amount of \$19,269,000 consisted of the SNB revolving line of credit note in the amount of \$15,883,000 and the SNB term loan in the amount of \$3,386,000. As of December 31, 2019, our debt to SNB in the amount of \$16,343,000 consisted of the SNB revolving line of credit note in the amount of \$12,543,000 and the SNB term loan in the amount of \$3,800,000.

Interest expense related to the SNB Facility amounted to approximately \$147,000 for the three months ended September 30, 2020, and \$420,000 for the nine months ended September 30, 2020.

PNC Bank N.A. (“PNC”)

The Company previously maintained a financing facility with PNC. Under such facility, substantially all of the Company’s assets were pledged as collateral. The PNC Facility provided for a \$15,000,000 revolving line of credit (“PNC revolving line of credit”) and a term loan (“PNC term loan”).

Interest expense related to the PNC Facility amounted to approximately \$391,000 for the three months ended September 30, 2019 and \$954,000 for the nine months ended September 30, 2019.

On December 31, 2019, both the PNC revolving line of credit and PNC term loan were paid in full and all assets that were previously pledged as collateral were released.

Loans Payable – Financed Assets

The Company financed the 2019 acquisition of manufacturing equipment with a third-party loan. The loan obligation totaled \$170,000 and \$385,000 as of September 30, 2020 and December 31, 2019, respectively and bears interest at 3% per annum.

The Company has also borrowed to purchase a delivery vehicle in July 2020. The loan obligation totaled \$50,000 and \$0 as of September 30, 2020 and December 31, 2019, respectively. The loan bears no interest and a final payment is due and payable for all unpaid principal on July 20, 2026.

Annual maturities of these loans are as follows:

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 75,000
December 31, 2021	106,000
December 31, 2022	9,000
December 31, 2023	9,000
December 31, 2024	9,000
Thereafter	12,000
Loans Payable - financed assets	220,000
Less: Current portion	179,000
Long-term portion	<u>\$ 41,000</u>

Related Party Notes Payable

Taglich Brothers, Inc. is a corporation co-founded by two directors of the Company, Michael and Robert Taglich. In addition, a third director of the Company is a vice president of Taglich Brothers, Inc.

Taglich Brothers, Inc. has acted as placement agent for various debt and equity financing transactions and has received cash and equity compensation for their services.

On January 15, 2019, the Company issued its 7% senior subordinated convertible promissory notes due December 31, 2020, each in the principal amount of \$1,000,000 (together, the “7% Notes”), to Michael Taglich and Robert Taglich, each for a purchase price of \$1,000,000. The 7% Notes bear interest at the rate of 7% per annum, are convertible into shares of the Company’s common stock at a conversion price of \$0.93 per share, subject to the anti-dilution adjustments set forth in the 7% Notes and are subordinate to the Company’s indebtedness under the SNB Facility.

In connection with the 7% Notes, the Company paid Taglich Brothers, Inc. a fee of \$80,000 (4% of the purchase price of the 7% Notes), paid in the form of a promissory note having terms similar to the 7% Notes.

On June 26, 2019, the Company was advanced \$250,000 from each of Michael and Robert Taglich. These notes bear interest at a rate of 12% per annum. In connection with these notes, the Company issued 37,500 shares of stock to each of Michael and Robert Taglich. The maturity date, of these notes, was June 30, 2020, but was extended to December 31, 2020.

On October 21, 2019, the Company was advanced \$1,000,000 from Michael Taglich. This advance was repaid on January 2, 2020. The interest rate on this advance was 12% per annum.

Private Placement of Subordinated Notes due May 31, 2019, together with Shares of Common Stock

On March 29, 2018 and April 4, 2018, Michael Taglich and Robert Taglich advanced \$1,000,000 and \$100,000, respectively, to the Company for use as working capital. The Company subsequently issued its Subordinated Notes originally due May 31, 2019 to Michael Taglich and Robert Taglich, together with shares of common stock, in the financing described below, to evidence its obligation to repay the foregoing advances.

In May 2018, the Company issued \$1,200,000 of Subordinated Notes due May 31, 2019 (the “2019 Notes”), together with a total of 214,762 shares of common stock to Michael Taglich, Robert Taglich and another accredited investor. As part of the financing, the Company issued to Michael Taglich \$1,000,000 principal amount of 2019 Notes and 178,571 shares of common stock for a purchase price of \$1,000,000 and to Robert Taglich \$100,000 principal amount of 2019 Notes and 17,857 shares of common stock. The Company issued and sold a 2019 Note in the principal amount of \$100,000, plus 18,334 shares of common stock to the other accredited investor for a purchase price of \$100,000. This additional note was paid in full on January 2, 2020.

Interest on the 2019 Notes is payable on the outstanding principal amount thereof at the rate of one percent (1%) per month, payable monthly commencing June 30, 2018. Upon the occurrence and continuation of a failure to pay accrued interest, interest shall accrue and be payable on such amount at the rate of 1.25% per month; provided that upon the occurrence and continuation of a failure to timely pay the principal amount of the 2019 Note, interest shall accrue and be payable on such principal amount at the rate of 1.25% per month and shall no longer be payable on interest accrued but unpaid. The 2019 Notes are subordinate to the Company’s obligations to SNB.

Taglich Brothers acted as placement agent for the offering and received a commission in the aggregate amount of 4% of the amount invested which was paid in kind.

During the second quarter of 2019, the maturity date of the 2019 Notes was extended to June 30, 2020. The interest rate of the notes remains at 12% per annum. In connection with the extension, 180,000 shares of common stock were issued on a pro-rata basis to each of the note holders, including 150,000 shares to Michael Taglich and 15,000 shares to Robert Taglich. The shares were valued at \$1.01 per share or \$182,000. The costs have been recorded as a debt discount, and are being accreted over the revised term. In connection with the SNB Facility, Michael and Robert Taglich agreed to extend the maturity date of the 2019 Notes to December 31, 2020.

Private Placements of 8% Subordinated Convertible Notes

From November 23, 2016 through March 21, 2017, the Company received gross proceeds of \$4,775,000, of which \$1,950,000 were received from Robert and Michael Taglich, from the sale of an equal principal amount of its 8% Subordinated Convertible Notes (the “8% Notes”), together with warrants to purchase a total of 383,080 shares of its common stock, in private placement transactions with accredited investors (the “8% Note Offerings”). In connection with the offering of the 8% Notes, the Company issued 8% Notes in the aggregate principal amount of \$382,000 to Taglich Brothers, Inc., 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 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 SNB Facility.

Interest on the 8% Notes is payable on the outstanding principal amount thereof at the annual rate of 8%, payable quarterly commencing February 28, 2017, in cash, or at the Company's option, in additional 8% Notes, provided that if accrued interest payable on \$1,269,000 principal amount of the 8% Notes issued in December 2016 is paid in additional 8% Notes, interest for that quarterly interest payment shall 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.

Related party advances and notes payable, net of debt discounts to Michael and Robert Taglich, and their affiliated entities, totaled \$6,018,000 and \$6,862,000, as of September 30, 2020 and December 31, 2019, respectively. Unamortized debt discounts related to these notes amounted to \$38,000 and \$226,000 as of September 30, 2020 and December 31, 2019, respectively. Interest incurred on these related party notes amounted to approximately \$125,000 and \$265,000 for the three months ended September 30, 2020 and 2019, respectively, and \$378,000 and \$740,000 for the nine months ended September 30, 2020 and 2019 respectively. Amortization of debt discount incurred on these related party notes amounted to approximately \$38,000 and \$76,000 for the three months ended September 30, 2020 and 2019, respectively and \$189,000 and \$227,000 for the nine months ended September 30, 2020 and 2019, respectively. The amortization of the debt discount is included in interest and financing costs in the Condensed Consolidated Statement of Operations.

Per the terms of the SNB Facility, the maturity date of all related party notes has been extended to July 1, 2023 and are subordinated to the SNB Facility. There are no principal payments due on these notes until such time.

Convertible Notes Payable – Third Parties

8% Notes payable to third parties totaled \$1,440,000 and \$2,338,000, as of September 30, 2020 and December 31, 2019, respectively. Interest incurred on the 8% Notes amounted to approximately \$38,000 and \$63,000 for the three months ended September 30, 2020 and 2019, respectively, and \$118,000 and \$319,000 for the nine months ended September 30, 2020 and 2019, respectively. Unamortized debt discounts related to these notes amounted to \$0 and \$7,000 as of September 30, 2020 and December 31, 2019, respectively. Amortization of debt discount on the 8% Notes amounted to approximately \$0 and \$3,000 for the three months ended September 30, 2020 and 2019, respectively, and \$7,000 and \$131,000 for the nine months ended September 30, 2020 and 2019, respectively. These costs are included in interest and financing costs in the Condensed Consolidated Statement of Operations.

All convertible notes with third parties are due on December 31, 2020 and are subordinated to the SNB Facility. There are no principal payments due on these notes until such time.

Per the terms of the SNB Facility, as amended, prior to November 30, 2020, the maturity date of each third party convertible note payable must be extended to a date that is more than six months after December, 30, 2022 or converted into common stock of the Company.

On November 3, 2020 third party holders of \$1,225,000 principal of the 8% Notes with accrued interest thereon of \$210,282 converted their notes into 1,063,272 shares of common stock at a per share price of \$1.35.

SBA Loans

In May 2020, AIM, NTW and Sterling entered into SBA Loans with SNB as the lender in an aggregate principal amount of \$2,414,000 all of which remains outstanding. Each SBA Loan is evidenced by a Note. Subject to the terms of the Note, the SBA Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the SBA. At least 60% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the "Loan Program"). Each Note provides for customary events of default including, among other things, cross-defaults on any other loan with SNB. Each SBA Loan may be accelerated upon the occurrence of an event of default.

The Company has elected to treat the SBA Loans as debt under FASB ASC 470. As such, the Company will derecognize the liability only when the loans are forgiven in whole or in part and the Company is legally released or repays the loans.

The Company used the \$2,414,000 of loans for allowed payroll and benefits expenses and expects the majority of the loans, if not all, will be forgiven. The Company has applied to the SNB for forgiveness and SNB has approved the application and submitted it to the SBA for final approval in accordance with the applicable provisions of the federal statute authorizing the Loan Program. The SBA will, subject to any SBA review of the loan or loan application, remit the appropriate forgiveness amount to SNB, plus any interest accrued through the date of payment, not later than 90 days after the lender issues its decision to the SBA. No assurance can be given that the Company will obtain forgiveness of the loan in whole or in part. In addition, as a borrower that received over \$2 million, the Company expects to be subject to an audit to review our eligibility under the Loan Program. The timing and scope of the audit remains unclear and as a result, the Company is not able to forecast when it can expect a decision on loan forgiveness. The Company does not expect the audit will impact its eligibility for forgiveness under the program.

If the loans are not ultimately forgiven, the future minimum loan payments are as follows:

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 133,000
December 31, 2021	1,607,000
December 31, 2022	674,000
Total SBA Loans	2,414,000
Less: Current portion of SBA Loans	1,337,000
Long-term portion of SBA Loans	\$ 1,077,000

NOTE 7. LIABILITY RELATED TO THE SALE OF FUTURE PROCEEDS FROM DISPOSITION OF SUBSIDIARY

In connection with the sale of the Company's wholly-owned subsidiary, AMK Welding, Inc. ("AMK") to Meyer Tool, Inc., ("Meyer") in 2017, Meyer was obligated to pay the Company within 30 days after the end of each calendar quarter, commencing April 1, 2017, an amount equal to five (5%) percent of the net sales of AMK for that quarter until the aggregate payments made to the Company (the "Meyer Agreement") equals \$1,500,000 (the "Maximum Amount").

As of December 31, 2018, the Company received an aggregate of \$363,000 under the Meyer Agreement.

In order to increase liquidity, on January 15, 2019, the Company entered into a "Purchase Agreement" with 15 accredited investors (the "Purchasers"), including Michael and Robert Taglich, pursuant to which the Company assigned to the Purchasers all of their rights, title and interest to the remaining \$1,137,000 of the \$1,500,000 in payments due from Meyer for the sale of AMK (the "Remaining Amount") for an immediate payment of \$800,000, including \$100,000 from each of Michael and Robert Taglich, and \$75,000 for the benefit of the children of Michael Taglich. The timing of the payments is based upon the net sales of AMK. If the Purchasers have not received the entire Remaining Amount by March 31, 2023, they have the right to demand payment of their pro rata portion of the unpaid Remaining Amount from the Company ("Put Right"). To the extent the Purchasers exercise their Put Right, the remaining payments from Meyer will be retained by the Company.

The Purchasers have agreed to pay Taglich Brothers a fee equal to 2% per annum of the purchase price paid by such Purchasers, payable quarterly, to be deducted from the payments of the Remaining Amount, for acting as paying agent in connection with the payments from Meyer.

Although the Company sold all of its rights to the Remaining Amount, as a result of its obligation to the Purchasers, the Company is required to account for the Remaining Amount or portion thereof as income when earned. The Company recorded the \$800,000 in proceeds as a liability on its condensed consolidated balance sheet, net of transaction costs of \$3,000. Transaction costs will be amortized to interest expense over the estimated life of the Purchase Agreement.

As payments are remitted to the Purchasers, the balance of the recorded liability will be effectively repaid over the life of the Purchase Agreement. To determine the amortization of the recorded liability, the Company is required to estimate the total amount of future payment to be received by the Purchasers. The Company estimates that the entire Remaining Amount will be received, and accordingly, the Remaining Amount less the \$800,000 purchase price received (the "Discount") will be amortized into the liability balance and recorded as interest expense. The Discount will be amortized through the earliest date that the Purchasers can exercise their Put Right, using the straight line method (which is not materially different than the effective interest method) over the estimated life of the Purchase Agreement with the Purchasers. Periodically, the Company will assess the estimated payments to be made to the Purchasers related to the Meyer Agreement, and to the extent the amount or timing of the payments is materially different from their original estimates, the

Company will prospectively adjust the amortization of the liability. The amount or timing of the payments from Meyer are not within the Company's control. Since the inception of the Purchase Agreement, the Company estimates the effective annual interest rate over the life of the agreement to be approximately 18%.

The liability is classified between the current and non-current portion of liability related to sale of future proceeds from disposition of subsidiary based on the estimated recognition of the payments to be received by the purchasers in the next 12 months from the financial statements reporting date.

The Company recognized \$91,000 and \$89,000 of non-cash income for the three months ended September 30, 2020 and 2019, respectively, and \$302,000 and \$198,000 of non-cash income for the nine months ended September 30, 2020 and 2019, respectively, reflected in "Other income, net" on the condensed consolidated statement of operations. Additionally, the Company recorded \$26,000 and \$27,000 of related non-cash interest expense related to the Purchase Agreement, for the three months ended September 30, 2020 and 2019, respectively, and \$90,000 and \$60,000 for the nine months ended September 30, 2020 and 2019, respectively.

The table below shows the activity within the liability account for the nine months ended September 30, 2020:

Liabilities related to sale of future proceeds from disposition of subsidiaries - as of December 31, 2019	\$ 603,000
Non-Cash other income recognized	(302,000)
Non-Cash interest expense recognized	90,000
Liabilities related to sale of future proceeds from disposition of subsidiary - as of September 30, 2020	391,000
Less: unamortized transaction costs	(3,000)
Liability related to sale of future proceeds from disposition of subsidiary, net	<u>\$ 388,000</u>

Note 8. STOCKHOLDERS' EQUITY

Common Stock – Sale of Securities

In January 2020, the Company issued and sold 419,597 shares of its common stock for gross proceeds of \$984,000 pursuant to a Form S-3 filed on October 10, 2019 as updated on January 15, 2020. Costs of the sale amounted to \$145,000.

The Company issued 41,915 and 57,433 shares of common stock in lieu of cash payments for director fees for the three months ended September 30, 2020 and 2019, respectively, and 132,812 and 205,263 for the nine months ended September 30, 2020 and 2019, respectively.

Note 9. CONTINGENCIES

Loss Contingencies

A number of actions have been commenced against the Company by vendors, landlords and former landlords, including a third party claim as a result of an injury suffered on a portion of a leased property not occupied by the Company. As certain of these claims represent amounts included in accounts payable they are not specifically discussed herein.

On December 20, 2018, pursuant to a Stock Purchase Agreement dated as of March 21, 2018 (“SPA”), the Company completed the sale of all of the outstanding shares of its subsidiary, Welding Metallurgy, Inc. to CPI Aerostructures. On March 19, 2019, in accordance with the procedures set forth in the SPA with CPI Aerostructures, the Company received a notice from CPI claiming that the working capital deficit used to compute the purchase price was understated. The issue of the amount of the working capital deficit was submitted to BDO USA, LLP (“BDO”), acting as an expert, and it issued a report dated September 3, 2019, where it determined that the amount of the working capital deficit was approximately \$4,145,870. On September 9, 2019 the Company received a demand from CPI for payment of such amount. The Company advised CPI that the determination of BDO is void because, among other things, it believes BDO exceeded the scope of its authority as set forth in the SPA. On September 27, 2019, CPI filed a notice of motion in the Supreme Court of the State of New York, County of New York, against the Company seeking, among other things, an order of specific performance requiring delivery of the funds deposited in escrow, together with the balance of the working capital deficit which it claimed, and a judgment against the Company in the amount of approximately \$4,200,000 of which \$2,000,000 would be satisfied by delivery of the funds in escrow. On October 7, 2019, the Company agreed to the release of \$619,316 of the funds held in escrow in respect of claims related to the working capital deficit not related to the value of WMI’s inventory. As of December 31, 2018, the Company has placed a reserve against substantially all of the escrowed amount and cannot estimate the amount of loss. For, among others, the reasons stated above the Company intends to contest vigorously any claim CPI may make for payment based on the BDO Report. Outside counsel for the company has advised that at this stage in the proceedings, it cannot offer an opinion as to the probable outcome.

On October 1, 2020, the court issued an order which stated that “CPI must commence a special proceeding to obtain the relief” sought by its Motion despite the fact that the stipulation of discontinuance entered into by CPI and the Company with respect to the action to enforce the SPA commenced by CPI on July 5, 2018, provided that the court would retain jurisdiction over the case. The court stated further that a special proceeding requires pleadings consisting of, among others, a petition which complies with the requirements for a complaint in an action and an answer. Since CPI brought the action in the form of a motion and not a complaint, neither party complied with the pleading requirements which the court stated is required. Consequently, the court denied CPI’s Motion and denied the Company’s cross motion to vacate BDO’s determination and conduct discovery.

The court’s decision does not resolve the Company’s dispute with CPI. CPI’s Motion was denied for procedural issues and the court did not consider the substance of the dispute. CPI, among other options, may choose to appeal this decision or commence a new proceeding. In either event, the Company intends to contest vigorously any claim CPI may make based on the BDO report.

Contract Pharmacal Corp. commenced an action on October 2, 2018, relating to a Sublease entered into between the Company and Contract Pharmacal in May 2018 with respect to the property at 110 Plant Avenue, Hauppauge, New York. In the action Contract Pharmacal seeks damages for an amount in excess of \$1,000,000 for our failure to make the entire premises available by the Sublease commencement date. The Company disputes the validity of the claims asserted by Contract Pharmacal and believes it has meritorious defenses to those claims and have recently submitted a motion in opposition to its motion for summary judgement. As of September 30, 2020, it is not possible to estimate if a loss will be incurred, as such there has been no accrual.

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

Note 10. INCOME TAXES

The Company recorded no federal income tax expense for the three and nine months ended September 30, 2020 and 2019 because the estimated annual effective tax rate was zero. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company’s annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

As a result of the passage of the CARES Act, the Company received \$1,416,000 from the filing of a net operating loss carryback claim. The Company is currently evaluating the impact of other provisions of the CARES Act on its accounting for income taxes and does not believe it has a material impact at this time.

The Company recorded no other federal income tax benefit for both of the three and nine months ended September 30, 2020 and 2019.

As of September 30, 2020, and December 31, 2019, the Company provided a full valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized.

Note 11. SEGMENT REPORTING

In accordance with FASB ASC 280, "Segment Reporting" ("ASC 280"), the Company discloses financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company follows ASC 280, which establishes standards for reporting information about operating segments in annual and interim financial statements, and requires that companies report financial and descriptive information about their reportable segments based on a management approach. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers.

The Company divides its operations into two operating segments: Complex Machining which consists of AIM and NTW and Turbine Engine Components which consists of Sterling. Along with the Company's operating subsidiaries, the Company reports the results of its corporate division as an independent segment.

For reporting purposes, EPC and ECC have been classified as discontinued operations for the three and nine months ending September 30, 2019.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. Intersegment transfers are recorded at the transferor's cost, and there is no intercompany profit or loss on intersegment transfers. We evaluate performance based on revenue, gross profit contribution and assets employed.

Financial information about the Company's operating segments for the three and nine months ended September 30, 2020 and 2019 are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
COMPLEX MACHINING				
Net Sales	\$ 12,423,000	\$ 12,283,000	\$ 31,795,000	\$ 36,402,000
Gross Profit	1,735,000	2,762,000	4,584,000	7,070,000
Pre Tax Income from continuing operations	912,000	2,003,000	2,072,000	4,797,000
Assets	52,963,000	45,033,000	52,963,000	45,033,000
TURBINE ENGINE COMPONENTS				
Net Sales	1,239,000	1,714,000	3,808,000	4,841,000
Gross Profit (Loss)	(79,000)	201,000	(133,000)	358,000
Pre Tax Loss from continuing operations	(251,000)	(11,000)	(594,000)	(292,000)
Assets	3,941,000	5,122,000	3,941,000	5,122,000
CORPORATE				
Net Sales	-	-	-	-
Gross Profit	-	-	-	-
Pre Tax Loss from continuing operations	(1,138,000)	(1,572,000)	(3,895,000)	(5,815,000)
Assets	1,860,000	596,000	1,860,000	596,000
CONSOLIDATED				
Net Sales	13,662,000	13,997,000	35,603,000	41,243,000
Gross Profit	1,656,000	2,963,000	4,451,000	7,428,000
Pretax net income (loss) from continuing operations	(477,000)	420,000	(2,417,000)	(1,310,000)
Provision for (benefit from) Income Taxes	-	22,000	(1,414,000)	22,000
Loss from Discontinued Operations, net of taxes	-	(211,000)	-	(139,000)
Net Income (Loss)	(477,000)	187,000	(1,003,000)	(1,471,000)
Assets	\$ 58,764,000	\$ 50,751,000	\$ 58,764,000	\$ 50,751,000

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes to those statements included elsewhere in this Form 10-Q and with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2019 (the "2019 Form 10-K"). 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

The financial statements contained in this report as well as the discussion below principally reflect the status of our business and the results of our operations as of September 30, 2020.

Air Industries Machining, Corp. ("AIM") became a public company in 2005 and we are an aerospace company operating primarily in the defense industry. Our Complex Machining segment manufactures 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 the Sikorsky UH-60 Blackhawk, Lockheed Martin F-35 Joint Strike Fighter, Northrop Grumman E2D Hawkeye, the US Navy F-18 and USAF F-16 fighter aircraft, Boeing 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.

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.

We are currently focused on positioning our business to obtain profitability, achieve positive cash flow and we remain resolute on meeting customers' needs. We believe that an unyielding focus on our customers will allow us to execute on our existing backlog in a timely fashion. In fiscal 2020, in order to take advantage of the long-term growth opportunities we see in our markets, we made significant capital investments in new equipment. Additionally, we expanded our operations and manufacturing cells located in our Connecticut facility. We believe these investments will increase the volume and efficiency of production, increase the size of product we can make and allow us to offer additional services to our customers. We are pleased with the positive responses received from our customers to date.

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. 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 decreases 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 reduces the demand for both new production and replacement spares. Recent increases in Defense Department spending has increased orders for our products.

COVID -19

On March 11, 2020, the World Health Organization announced that infections caused by the coronavirus disease of 2019 (“COVID-19”) had become pandemic, and on March 13, 2020, the U.S. President announced a national emergency relating to the disease. National, state and local authorities have adopted various regulations and orders, including mandates on the number of people that may gather in one location and closing non-essential businesses. To date, we have been deemed an essential business and have not curtailed our operations.

The measures adopted by various governments and agencies, as well as the decision by many individuals and businesses to voluntarily shut down or self-quarantine, have and are expected to continue to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts adopted by governments is uncertain. The likely overall economic impact of the COVID-19 pandemic will be highly negative to the general economy and has been particularly negative on the commercial travel industry and commercial aerospace industries.

In accordance with the Department of Defense guidance issued in March 2020 designating the Defense Industrial Base as a critical infrastructure workforce, our facilities have continued to operate in support of essential products and services required to meet national security commitments to the U.S. Government and the U.S. military, however, facility closures or work slowdowns or temporary stoppages could occur. Although our facilities are open, we were unable to operate at full capacity or achieve high levels of productivity particularly in the second calendar quarter due to the implementation of enhanced safety procedures, increased employee absenteeism and intermittent closings of other businesses that supply goods or services to us. By September operating conditions were close to normal.

Our Company, employees, suppliers and customers, and our global community are facing tremendous challenges and we cannot predict how this dynamic situation will evolve or the impact it will have.

We have implemented procedures to promote employee safety including more frequent and enhanced cleaning and adjusted schedules and work-flows to support physical distancing. These actions have resulted in increased operating costs. In addition, a number of our suppliers and customers have intermittently suspended or otherwise reduced their operations, and we are experiencing some supply chain challenges. Suppliers are also experiencing liquidity pressures and disruptions to their operations as a result of COVID-19. During the three months ended June 30, 2020 we had large numbers of employees working remotely. By September 30, 2020, essentially all employees have returned to work at our facilities.

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 divide our operations into two operating segments: Complex Machining and Turbine Engine Components. Along with our operating subsidiaries, we report the results of our corporate office as an independent segment.

EPC and ECC were closed on March 31, 2019, and are classified as discontinued operations for the three and nine months ending September 30, 2019.

The accounting policies of our 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

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:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net sales	\$ 13,662,000	\$ 13,997,000	\$ 35,603,000	\$ 41,243,000
Cost of sales	12,006,000	11,034,000	31,152,000	33,815,000
Gross profit	1,656,000	2,963,000	4,451,000	7,428,000
Operating expenses and interest and financing costs	2,255,000	2,643,000	7,231,000	8,632,000
Loss on abandonment of leases	-	-	-	(275,000)
Other income, net	122,000	100,000	363,000	169,000
Provision for (benefit from) income taxes	-	22,000	(1,414,000)	22,000
Income (Loss) from continuing operations	<u>\$ (477,000)</u>	<u>\$ 398,000</u>	<u>\$ (1,003,000)</u>	<u>\$ (1,332,000)</u>

Balance Sheet Data:

	September 30,	December 31,
	2020	2019
	(unaudited)	
Cash and cash equivalents	\$ 1,460,000	\$ 1,294,000
Working capital	\$ 9,085,000	\$ 5,623,000
Total assets	\$ 58,764,000	\$ 51,090,000
Total stockholders' equity	\$ 11,352,000	\$ 10,206,000

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
COMPLEX MACHINING				
Net Sales	\$ 12,423,000	\$ 12,283,000	\$ 31,795,000	\$ 36,402,000
Gross Profit	1,735,000	2,762,000	4,584,000	7,070,000
Pre Tax Income from continuing operations	912,000	2,003,000	2,072,000	4,797,000
Assets	52,963,000	45,033,000	52,963,000	45,033,000
TURBINE ENGINE COMPONENTS				
Net Sales	1,239,000	1,714,000	3,808,000	4,841,000
Gross (Loss) Profit	(79,000)	201,000	(133,000)	358,000
Pre Tax Loss from continuing operations	(251,000)	(11,000)	(594,000)	(292,000)
Assets	3,941,000	5,122,000	3,941,000	5,122,000
CORPORATE				
Net Sales	-	-	-	-
Gross Profit	-	-	-	-
Pre Tax Loss from continuing operations	(1,138,000)	(1,572,000)	(3,895,000)	(5,815,000)
Assets	1,860,000	596,000	1,860,000	596,000
CONSOLIDATED				
Net Sales	13,662,000	13,997,000	35,603,000	41,243,000
Gross Profit	1,656,000	2,963,000	4,451,000	7,428,000
Pretax net income (loss) from continuing operations	(477,000)	420,000	(2,417,000)	(1,310,000)
Provision for (benefit from) Income Taxes	-	22,000	(1,414,000)	22,000
Loss from Discontinued Operations, net of taxes	-	(211,000)	-	(139,000)
Net Income (Loss)	(477,000)	187,000	(1,003,000)	(1,471,000)
Assets	\$ 58,764,000	\$ 50,751,000	\$ 58,764,000	\$ 50,751,000

Results of Operations for the three months ended September 30, 2020

Net Sales:

Consolidated net sales for the three months ended September 30, 2020 were \$13,662,000, a decrease of \$335,000, or 2.4%, compared with \$13,997,000 for the three months ended September 30, 2019. Net sales of our Complex Machining segment were \$12,423,000 in the three months ended September 30, 2020, an increase of \$140,000, or 1.1%, from \$12,283,000 in the three months ended September 30, 2019. Net sales in our Turbine Engine Components segment for the three months ended September 30, 2020 were \$1,239,000, a decrease of \$475,000, or 27.7%, compared with \$1,714,000 for the three months ended September 30, 2019. The decrease at our Turbine Engine Components segment was directly attributable to the negative business impacts caused by COVID-19.

As indicated in the table below, three customers represented 70.6% and two customers represented 61.7% of total sales for the three months ended September 30, 2020 and September 30, 2019, respectively.

Customer	Percentage of Sales	
	2020	2019
	(unaudited)	(unaudited)
Sikorsky Aircraft	25.8%	35.0%
Goodrich Landing Gear Systems	23.2%	26.7%
United States Government	21.6%	*

* Customer was less than 10% of sales for the three months ended September 30, 2019.

Gross Profit:

Consolidated gross profit from operations for the three months ended September 30, 2020 was \$1,656,000, a decrease of \$1,307,000, or 44.1%, as compared to gross profit of \$2,963,000 for the three months ended September 30, 2019. Consolidated gross profit as a percentage of sales was 12.1% and 21.2% for the three months ended September 30, 2020 and 2019, respectively. These decreases were directly attributable to the negative business impact of COVID-19 which resulted in significant operating inefficiencies and increased safety related costs.

Interest and Financing Costs

Interest and financing costs for the three months ended September 30, 2020 were \$359,000 a decrease of \$476,000 or 57.0% compared to \$835,000 for the three months ended September 30, 2019. This decrease was due to lower interest rates and finance costs under the Company's new credit facility ("SNB Facility") with SNB, which replaced the Company's previous credit facility ("PNC Facility") with PNC Bank N.A. ("PNC") as of December 31, 2019.

Operating Expense

Consolidated operating expenses for the three months ended September 30, 2020 totaled \$1,896,000 and increased by \$88,000 or 4.9% compared to \$1,808,000 for the three months ended September 30, 2019.

Net (Loss) Income

Net loss for the three months ended September 30, 2020 was \$477,000, compared to a net income of \$187,000 for the three months ended September 30, 2019. The net loss was largely attributable to the impact of COVID-19 as discussed above. Losses for the three months ended September 30, 2020 from continuing operations were \$477,000 compared to income of \$398,000 from continuing operations for the three months ended September 30, 2019. Our net income for the three months ended September 30, 2019 includes a net loss from the discontinued operations of EPC and ECC in the amount of \$211,000.

Results of Operations for the nine months ended September 30, 2020**Net Sales:**

Consolidated net sales for the nine months ended September 30, 2020 were \$35,603,000, a decrease of \$5,640,000, or 13.7%, compared with \$41,243,000 for the nine months ended September 30, 2019. Net sales of our Complex Machining segment were \$31,795,000 in the nine months ended September 30, 2020, a decrease of \$4,607,000, or 12.7%, from \$36,402,000 in the nine months ended September 30, 2019. Net sales in our Turbine Engine Components segment were \$3,808,000 for the nine months ended September 30, 2020, a decrease of \$1,033,000, or 21.3% compared with \$4,841,000 for the nine months ended September 30, 2019. These decreases were directly attributable to the negative business impacts caused by COVID-19.

As indicated in the table below, three customers represented 74.2% and 73.4% of total sales for the nine months ended September 30, 2020 and September 30, 2019, respectively.

Customer	Percentage of Sales	
	2020 (unaudited)	2019 (unaudited)
Sikorsky Aircraft	32.1%	31.1%
Goodrich Landing Gear Systems	28.2%	31.0%
United States Government	13.9%	*
Rohr	*	11.3%

* Customer was less than 10% of sales for the nine months ended September 30, 2020 and 2019.

Gross Profit:

Consolidated gross profit from operations for the nine months ended September 30, 2020 was \$4,451,000, a decrease of \$2,977,000, or 40.1%, as compared to gross profit of 7,428,000 for the nine months ended September 30, 2019. Consolidated gross profit as a percentage of sales was 12.5% and 18.0% for the nine months ended September 30, 2020 and 2019, respectively. These decreases were directly attributable to the negative business impacts of COVID-19 which resulted in significant operating inefficiencies and increased safety related costs.

Interest and Financing Costs

Interest and financing costs for the nine months ended September 30, 2020 were \$1,167,000 a decrease of \$1,623,000 or 58.2% compared to \$2,790,000 for the nine months ended September 30, 2019. This decrease was due to lower interest rates and finance costs under SNB Facility, which replaced the PNC Facility as of December 31, 2019.

Operating Expense

Consolidated operating expenses for the nine months ended September 30, 2020 totaled \$6,064,000 and increased by \$222,000 or 3.8% compared to \$5,842,000 for the nine months ended September 30, 2019.

Net Loss

Net loss for the nine months ended September 30, 2020 was \$1,003,000, compared to a net loss of \$1,471,000 for the nine months ended September 30, 2019, for the reasons discussed above. Losses for the nine months ended September 30, 2020 from continuing operations were \$1,003,000 compared to losses of \$1,332,000 from continuing operations for the nine months ended September 30, 2019. Our net loss for the nine months ended September 30, 2019 includes a net loss from the discontinued operations of EPC and ECC in the amount of \$139,000.

LIQUIDITY AND CAPITAL RESOURCES

Beginning in April 2020 the COVID-19 crisis resulted in a reduction to revenue and operating margins in portions of our business. This negative effect continued in May 2020 and to a somewhat lesser extent in June 2020. The decrease in revenue for the second quarter resulted from employee absenteeism, supplier disruption, changes in employee productivity, and related program delays or challenges. By September 30, 2020, essentially all employees had returned to work at our facilities. The challenges with our suppliers have largely been ameliorated and their operations have substantially returned to normal.

With respect to the remainder of 2020 and 2021, the negative impact COVID-19 may have on the broader global economy and the pace of the economic recovery and the aerospace industry is unknown. Given the unknown magnitude of the depth and duration of this crisis, we anticipate a more challenging macroeconomic environment in the remainder of the year.

Although the impact of COVID-19 on the commercial aerospace industry has been severe, the defense aerospace industry has not been as adversely impacted. We continue to have a substantial backlog. We believe that the contraction in commercial demand may result in orders being shifted to suppliers who are in a position to maintain their operations despite the impact of COVID-19. We have made capital investments in new machinery aggregating \$2.5 million for four state-of-the-art machines. One machine was delivered in September and is fully operational, the balance of the machines are expected to be fully operational by December 31, 2020. In connection with these capital investments, we expanded our operations in Connecticut. We believe these investments will increase the volume and efficiency of production, increase the size of product we can make and allow us to offer additional services to our customers. We are pleased with the positive responses received to-date from our customers.

Although COVID-19 did negatively impact our liquidity, we took advantage of US government incentive programs to improve our liquidity as discussed below. These actions should help mitigate COVID-19 related negative impacts to our operating cash flows for the remainder of the year. Nevertheless, our cash flows from operations could be affected by various risks and uncertainties, including, but not limited to the effects of the COVID-19 pandemic and other risks detailed in Part II, Item 1A of this Quarterly Report.

- Received Low Interest Loans from the SBA – In May 2020, AIM, NTW and Sterling (each a “Borrower”) entered into government subsidized loans with SNB in an aggregate principal amount of \$2.4 million (“SBA Loans”). Subject to the terms of the note evidencing each loan (the “Notes”), each SBA Loan bears interest at a fixed rate of one percent (1%) per annum,
- 1) with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the SBA. At least 60% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the Federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the “Loan Program”).
- Applied for and Expect Forgiveness of the SBA Loans – In accordance with U.S. government regulations we have applied to
- 2) SNB for forgiveness of each Loan in full and SNB has approved the applications and submitted them to the SBA for final approval. We expect our SBA Loans which approximate \$2,414,000 as of September 30, 2020, to be ultimately forgiven.
- Deferred Certain Tax Payments – In accordance with Section 2302 of the CARES Act, we have elected to defer the deposit and payment of the employer’s portion of Social Security taxes. These deferred amounts must be repaid 50% on December 31, 2021 with the remaining 50% on December 31, 2022. As of September 30, 2020, we deferred \$429,000, which is included in Deferred payroll tax liability – CARES Act on the accompanying Condensed Consolidated Balance Sheet.
- 3)
 - 4) Received a Net Operating Loss Refund – Pursuant to the CARES Act, we filed a net operating loss carryback claim for \$1,416,000, which was received during the second quarter of this year.

In addition to the support received through the CARES Act, the U.S. Department of Defense has, to date, taken steps to increase the rate for certain progress payments from 80 percent to 90 percent for costs incurred and worked performed on relevant contracts.

We have taken the following additional significant steps to improve our liquidity:

- Entered into a Lower Cost Financing Facility – On December 31, 2019, we entered into the SNB Facility which expires on
- 1) December 30, 2022. The SNB Facility provides for a \$16,000,000 revolving loan (“SNB revolving line of credit”) and a term loan (“SNB term loan”). Proceeds from the SNB Facility repaid our outstanding PNC Facility.

The formula to determine the amounts of revolving advances permitted to be borrowed under the SNB revolving line of credit is based on a percentage of eligible receivables and inventory (as defined in the SNB Facility).

Prior to the increase in the SNB term loan described below, the SNB term loan provided for monthly principal installments in the amount of \$45,238, payable on the first business day of each month, beginning on February 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. In addition, for so long as the SNB term loan remains outstanding, if Excess Cash Flow (as defined) is a positive number for any fiscal year, beginning with the year ending December 31, 2020, we shall pay to SNB an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow for such Fiscal Year and (ii) the outstanding principal balance of the term loan. Such payment shall be made to Lender and applied to the outstanding principal balance of the term loan, on or prior to April 15 of the Fiscal Year immediately following such Fiscal Year.

The terms of the SNB Facility require that, among other things, we maintain a specified Fixed Charge Coverage Ratio of 1.25 to 1.00 at the end of each Fiscal Quarter beginning with the Fiscal Quarter ending March 31, 2020. In addition, we are limited in the amount of Capital Expenditures we can make. The SNB Facility required us by September 30, 2020, to cause the holders of certain subordinated convertible notes to either (i) extend the maturity date of such notes to a date more than six months after December 31, 2022, or (ii) convert the notes into common stock of the Company. As of September 30, 2020, we were not in compliance with all loan covenants. In connection with the First Amendment, the bank waived all events of default identified as of and through September 30, 2020. The SNB Facility also restricts the amount of dividends we may pay to our stockholders. Substantially all of our assets are pledged as collateral under the SNB Facility.

- Increased Term Loan to modernize equipment - On November 6, 2020, we entered into the First Amendment to Loan and 2) Security Agreement, increasing the Term Loan to \$5,685,000. This allowed us to finance the acquisition of the new equipment at what we believe to be a reasonable interest rate.

The repayment terms of the term loan were amended to provide monthly principal installments in the amount of \$67,679 beginning on December 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. Additionally, the date by which certain subordinated third party notes need to be extended by was changed from September 30, 2020 to November 30, 2020. We have paid an amendment fee of \$20,000.

As of September 30, 2020, our debt to SNB in the amount of \$19,269,000 consisted of the SNB revolving line of credit note in the amount of \$15,883,000 and the SNB term loan in the amount of \$3,386,000.

Cash Flow

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

	Nine Months Ended September 30,	
	2020	2019
	(unaudited)	(unaudited)
Cash (used in) provided by		
Operating activities	\$(3,184,000)	\$ 270,000
Investing activities	(1,471,000)	(397,000)
Financing activities	4,821,000	(1,552,000)
Net increase (decrease) in cash and cash equivalents	<u>\$ 166,000</u>	<u>\$(1,679,000)</u>

Cash Provided by (Used in) Operating Activities

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

For the nine months ended September 30, 2020, cash used in operating activities was \$3,184,000. This was the result of our net loss of \$1,003,000, offset by \$3,551,000 of non-cash items consisting of depreciation of property and equipment of \$1,920,000, amortization of debt discount on convertible notes payable of \$196,000, amortization of right-of-use assets of \$366,000, non-cash employee compensation expense of \$266,000, non-cash deferral payroll tax expense – CARES Act of \$429,000, bad debt expense of \$367,000 and other non-cash items totaling \$7,000.

Operating assets and liabilities used cash in the net amount of \$5,732,000 consisting of net increases in inventory, accounts receivable, prepaid taxes and deposits and other assets in the amounts of \$4,194,000, \$2,257,000, \$6,000 and \$213,000, respectively, and decreases in operating lease liabilities of \$506,000, deferred revenue of \$176,000 and income taxes payable of \$27,000, partially offset by a decrease in prepaid expenses in the amount of \$53,000, and an increase in accounts payable and accrued expense of \$1,594,000.

Cash Used in Investing Activities

For the nine months ended September 30, 2020, cash used in investing activities was \$1,471,000. This was comprised of the purchase of equipment.

Cash Provided by (Used in) Financing Activities

Cash provided by financing activities consists of the borrowings and repayments under our credit facilities with our senior lender, amounts borrowed pursuant to the CARES Act, increases in and repayments of financing lease obligations and other notes payable, and the proceeds from the sale of our equity offset by expenses associated with our financing activities and payments of our loans, equipment leases and finance lease obligations.

For the nine months ended September 30, 2020, net cash provided by financing activities was \$4,821,000. This was primarily comprised of proceeds from our SBA loans and SNB revolving loan in the amount of \$2,414,000 and \$3,340,000, respectively, and the sale of common stock in the amount \$984,000, partially offset by costs related to the issuance of stock of \$145,000 and repayments of \$1,032,000 on our notes payable-related parties, \$100,000 on our notes payable – third party, \$414,000 on our term loan, \$215,000 on our loan for equipment and \$11,000 on our finance lease obligations.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of September 30, 2020.

Critical Accounting Policies and Estimates

A critical accounting policy is one that is both important to the portrayal of a company's financial condition and results of operations and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our condensed consolidated financial statements are presented in accordance with U.S. GAAP, and all applicable U.S. GAAP accounting standards effective as of September 30, 2020 have been taken into consideration in preparing the condensed consolidated financial statements. The preparation of condensed consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Some of those estimates are subjective and complex, and, consequently, actual results could differ from those estimates. The following accounting policies and estimates have been highlighted as significant because changes to certain judgments and assumptions inherent in these policies could affect our condensed consolidated financial statements:

- Revenue recognition;
- Inventory valuation;
- Lease accounting;
- Legal contingencies;
- Stock-based compensation; and
- Goodwill.

We base our estimates, to the extent possible, on historical experience. Historical information is modified as appropriate based on current business factors and various assumptions that we believe are necessary to form a basis for making judgments about the carrying value of assets and liabilities. We evaluate our estimates on an on-going basis and make changes when necessary. Actual results could differ from our estimates.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"), which is intended to address issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. For convertible instruments, ASU 2020-06 reduces the number of accounting models for convertible debt instruments and convertible preferred stock, and enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance on the basis of feedback from financial statement users. ASU 2020-06 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is evaluating the effect of adopting this new accounting guidance on its financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements and related disclosures.

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 condensed consolidated financial statements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our senior management is responsible for establishing and maintaining a system of disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the “Exchange Act”) designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Report under the supervision of and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter which is the subject of this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1A. Risk Factors.

Prospective investors are encouraged to consider the risks described in our 2019 Form 10-K, our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report and other information publicly disclosed or contained in documents we file with the Securities and Exchange Commission before purchasing our securities. The following risk factor supplements the risk factors described in our 2019 Form 10-K, and should be read in conjunction with the other risk factors presented in our Annual Report which are incorporated herein by reference.

The COVID-19 pandemic and the resulting macroeconomic disruption have affected how we, our customers and our suppliers are operating our businesses, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

COVID -19

In March 2020, the World Health Organization announced that infections caused by the coronavirus disease of 2019 ("COVID-19") had become pandemic and the U.S. President announced a National Emergency relating to the disease. National, state and local authorities, including those in which our offices and manufacturing facilities are located, have adopted various regulations and orders, including "shelter in place" rules, restrictions on travel, mandates on the number of people that may gather in one location and closing non-essential businesses. The global impact of the outbreak is continually evolving.

The measures adopted by various governments and agencies, as well as the decision by many individuals and businesses will voluntarily shut down or self-quarantine, had and are expected to continue to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts adopted by governments is uncertain. The likely overall economic impact of the COVID-19 pandemic has been and will continue to be highly negative to the general economy. While we continue to operate substantially in the normal course, we have implemented procedures to promote employee safety including more frequent and enhanced cleaning and adjusted schedules and work-flows to support physical distancing and our facilities are not operating under full staffing during the second quarter. These actions have resulted in increased operating costs. Further, our operations were reduced by employee absenteeism in the second quarter. During the third quarter essentially all employees have returned to work in our facilities. An increase in COVID-19 infections may result in further governmental restrictions and we may be forced to close or reduce operations as a result.

While the potential economic impact brought by COVID-19 may be difficult to assess or predict, the pandemic has resulted in significant disruption of the commercial travel and aerospace industries. The pandemic has also caused significant disruption in global financial markets, and a recession or long-term market correction resulting from the spread of COVID-19 could cause severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions, which could make it difficult for us to access debt and equity capital on attractive terms, or at all, and impact our ability to fund business activities and repay debt on a timely basis.

At this time, we cannot forecast with any certainty whether and to what degree the disruptions caused by the COVID-19 pandemic will increase, or the extent to which the disruption may materially impact our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020.

We have debt outstanding under the Paycheck Protection Program, which is subject to the terms and conditions applicable to loans administered by the SBA under the CARES Act, and we may be subject to an audit or enforcement action related to these loans.

AIM, NTW and Sterling (each a “Borrower”) entered into government subsidized loans with SNB pursuant to the Paycheck Protection Program in an aggregate principal amount of \$2,414,000 (“SBA Loans”). At least 60% of the proceeds of each SBA Loan (the “Proceeds”) must be used for payroll and payroll-related costs, in accordance with the provisions of the CARES Act and the rules promulgated thereunder (the “Loan Program”). Each Borrower may apply to SNB for forgiveness of a portion of its SBA Loan if the Proceeds are used for payroll costs, mortgage interest payments, lease payments or utility payments. While we believe each Borrower has used the proceeds of its SBA Loan for purposes that would permit forgiveness of substantially all of its SBA Loan, no assurance can be provided that the SBA Loans will be forgiven in whole or in part.

Each Note provides for customary events of default and contains a cross default provision in the event of a default under one of our other loans with SNB. In the event of a default under a Note, SNB would have the right to declare any and all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable. If substantially all of the debt evidenced by the SBA Loans were to be accelerated, we may not have sufficient cash, be able to borrow sufficient funds or be able to sell sufficient assets to repay the debt, which could immediately materially and adversely affect our cash flows, business, results of operations and financial condition.

Additionally, each Note is subject to the terms and conditions applicable to loans administered by the SBA under the Loan Program, which is subject to revisions and changes by the SBA and Congress. We may also be subject to CARES Act-specific lookbacks and audits that may be conducted by other federal agencies, including oversight bodies created under the CARES Act. Given that we received more than \$2.0 million under our SBA Loans, we will be subject to an audit. Complying with such audit could divert management attention and require us to expend significant time and resources, which could have an adverse effect on our business, financial condition and results of operations.

Item 6. Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated July 29, 2013 between Air Industries Group, Inc. and Air Industries Group (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed August 30, 2013).
2.2	Articles of Merger between Air Industries Group and Air Industries Group, Inc. filed with the Secretary of State of Nevada on August 28, 2013 (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed August 30, 2013).
2.3	Certificate of Merger between Air Industries Group and Air Industries Group, Inc. filed with the Secretary of State of Nevada on August 29, 2013 (incorporated herein by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed August 30, 2013).
3.1	Articles of Incorporation of Air Industries Group (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 30, 2013).
3.2	Certificate of Amendment increasing authorized shares of common stock to 60,000,000 shares (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019 filed on August 8, 2019).
3.3	Amended and Restated By-Laws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 31, 2015).
10.1	Promissory Note dated May 6, 2020, between Sterling National Bank and Air Industries Machining Corp. (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2020).
10.2	Promissory Note dated May 6, 2020, between Sterling National Bank and Nassau Tool Works Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2020).
10.3	Promissory Note dated May 6, 2020, between Sterling National Bank and Sterling Engineering Corporation (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2020).
10.4	First Amendment to Loan and Security Agreement with Sterling National Bank.
Certifications	
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).
XBRL Presentation	
101.INS	XBRL Instance File
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 report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 9, 2020

AIR INDUSTRIES GROUP

By: /s/ Michael Recca

Michael Recca
Chief Financial Officer
(principal financial and accounting officer)

FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT (this “Amendment”) executed as of November 6, 2020, is by and among (a) AIR INDUSTRIES MACHINING, CORP., a New York corporation (“AIM”), NASSAU TOOL WORKS, INC., a New York corporation (“NTW”), and THE STERLING ENGINEERING CORPORATION, a Connecticut corporation (“Engineering”, and together with AIM and NTW, collectively the “Borrowers” and each a “Borrower”), (b) AIR INDUSTRIES GROUP, a Nevada corporation (together with its successors and permitted assigns, “Parent”), and AIR REALTY GROUP, LLC, a Connecticut limited liability company (“Realty”, and together with Parent, collectively the “Guarantors” and each a “Guarantor”; Borrowers and Guarantors are referred to herein collectively as the “Credit Parties” and each as a “Credit Party”), and (c) STERLING NATIONAL BANK, a national banking association (together with its successors and permitted assigns, the “Lender”).

W I T N E S S E T H:

WHEREAS, the Credit Parties and the Lender entered into that certain Loan and Security Agreement dated as of December 31, 2019 (the “Original Loan Agreement”, and as amended hereby, the “Loan Agreement”), for the purposes and consideration therein expressed, pursuant to which the Lender became obligated to make Loans to Borrowers as therein provided; and

WHEREAS, the Credit Parties and the Lender desire to amend the Original Loan Agreement as provided herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Original Loan Agreement, in consideration of the Loans which may hereafter be made by the Lender to Borrowers, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I

Definitions and References

Section 1.1 Terms Defined in the Original Loan Agreement. Unless the context otherwise requires or unless otherwise expressly defined herein, the terms defined in the Loan Agreement shall have the same meanings whenever used in this Amendment.

ARTICLE II

Amendment to Original Loan Agreement

Section 2.1 Term Loan Commitment. The amount “\$3,800,000” appearing in the definition of “Term Loan Commitment” set forth in Section 1.1 of the Original Loan Agreement is hereby amended to read “\$5,700,000”.

Section 2.2 Term Loan Commitment Period. The date “March 30, 2020” appearing in the definition of “Term Loan Commitment Period” set forth in Section 1.1 of the Original Loan Agreement is hereby amended to read “the First Amendment Closing Date”.

Section 2.3 Maturity Date. The definition of “Maturity Date” set forth in Section 1.1 of the Original Loan Agreement is hereby amended to read in its entirety as follows:

“Maturity Date” means December 30, 2022.

Section 2.4 Judgment Reserve. Effective as of the date hereof, clause (b) of the definition of “Borrowing Base” set forth in Section 1.1. of the Original Loan Agreement is hereby amended to read as follows:

(b) the Judgment Reserve and the aggregate amount of any and all other reserves implemented by Lender pursuant to Section 2.1, in each case determined as of such day;

Section 2.5 New Definitions. Section 1.1 of the Original Loan Agreement is hereby amended to add the following definitions thereto, which definitions shall appear in proper alphabetical order and shall read in their respective entireties as follows:

“First Amendment” means the First Amendment to Loan and Security Agreement dated as of the First Amendment Closing Date, among the parties hereto.

“First Amendment Closing Date” means November 6, 2020.

“Judgment Reserve” means a reserve in the initial amount of \$20,000; provided that (a) if Borrower provides to Lender evidence satisfactory to Lender that the judgment in favor of MSC Industrial Supply Co. in the amount of \$28,203.62 has been paid and satisfied in full and any and all related liens have been released, the amount of the Judgment Reserve shall be reduced to \$6,403; (b) if the Borrower provides to Lender evidence satisfactory to Lender that the judgment in favor of Perillos Bros. and Petro Inc. in the amount of \$12,807.26 has been paid and satisfied in full and any and all related liens have been released, the amount of the Judgment Reserve shall be reduced to \$14,102; and (c) if Borrower provides to Lender evidence satisfactory to Lender that both such judgments have been paid and satisfied in full and all related liens have been released, the amount of the Judgment Reserve shall be reduced to \$0.00.

Section 2.6 Applicable Term Loan Advance Amount. The word “refinance” appearing in the definition of “Applicable Term Loan Advance Amount” set forth in Section 1.1 of the Original Loan Agreement is hereby amended to read “finance or refinance”.

Section 2.7 Term Loan. The word “refinancing” appearing in the second sentence of Section 2.1(b) of the Original Loan Agreement is hereby amended to read “financing or refinancing”.

Section 2.8 Commitment Fee. Section 3.2(a) of the Original Loan Agreement is hereby amended to add the following sentence to the end thereof, which sentence shall read in its entirety as follows:

In consideration of the increase of the Term Loan Commitment and other amendments provided in the First Amendment, Borrowers agree to pay to the Lender a fee in the amount of \$20,000, which amount shall be payable on the First Amendment Closing Date.

Section 2.9 Mandatory Payments. The amount “\$45,238” appearing in Section 4.3(a) of the Original Loan Agreement is hereby amended to read “\$67,679”.

Section 2.10 Post-Closing Requirements. Section 8.20 of the Original Loan Agreement is hereby amended as follows:

(a) The date “February 15, 2020” appearing in subsection (a) is hereby amended to read “November 30, 2020”;

(b) The date “September 30, 2020” appearing in subsection (b) is hereby amended to read “November 30, 2020”;

(c) Subsections (c) is hereby deleted; and

(d) Subsections (d), (e) and (f) are hereby amended to read as follows:

(d) On or before December 31, 2020, a UCC amendment in form and substance satisfactory to Lender, amending that certain UCC financing statement naming Engineering as debtor and MUFG Union Bank, N.A. as secured party, filed with the Connecticut Department of State (the “Connecticut Filing Office”), shall be authorized for filing by MUFG Union Bank, N.A. and filed in the Connecticut Filing Office; and in the event such UCC amendment is not so authorized and filed on or before such date, any and all Accounts owing to any Borrower by General Electric Company or any of its affiliates shall not be included as Eligible Accounts at any time after such date.

(e) Within thirty (30) days after the First Amendment Closing Date, Credit Parties shall (i) cause each of Signature Financial, Wells Fargo Equipment Finance, HVB Equipment Capital and BFG Corporation to terminate any and all UCC financing statements in favor of such creditors or (ii) cause an authorized representative of each such creditor to authorize Lender or its designee to file termination statements for such UCC financing statements.

(f) Within thirty (30) days after the First Amendment Closing Date, Credit Parties shall deliver to Lender (a) evidence satisfactory to Lender that Credit Parties have obtained contents coverage for Connecticut building 2 and an endorsement, in form and substance satisfactory to Lender, related to the property insurance for such building 2 which names Lender as lender loss payee with respect to such insurance, and (b) an endorsement, in form and substance satisfactory to Lender, which names Lender as additional insured with respect to liability insurance for all non-Connecticut locations of Credit Parties.

Section 2.11 Use of Proceeds. Clause (c) of Section 9.3 of the Original Loan Agreement is hereby amended to read as follows:

(c) on the Agreement Date and thereafter, (i) for working capital in the ordinary course of Borrowers’ business, and (ii) with regard to proceeds of the Term Loan, to finance or refinance Eligible Equipment on the First Amendment Closing Date.

Section 2.12 Schedules. Schedule 1.2 of the Original Loan Agreement is hereby amended to read in its entirety as set forth on Schedule 1.2 hereto, and Schedule 7.21 of the Original Loan Agreement is hereby amended to read in its entirety as set forth on Schedule 7.21 hereto.

ARTICLE III **Conditions of Effectiveness**

Section 3.1 Effective Date. This Amendment shall become effective as of the date hereof once the following conditions precedent have been satisfied in full:

(a) Lender shall have received, at Lender’s office, a duly executed counterpart of this Amendment by each Credit Party;

(b) Lender shall have received a payoff letter executed by each provider of any and all financing to be paid off with proceeds of a Term Loan Advance, in each case in form and substance acceptable to Lender;

(c) Lender shall have received a Borrowing Notice, meeting the requirements set forth in Section 2.2(a), for any Term Loan Advance to be made on the First Amendment Closing Date;

(d) Lender shall have received (A) a copy of the organizational documents of each Credit Party and all amendments thereto and a copy of the bylaws or similar governing document of each Credit Party and all amendments thereto, or in each case a certification that such organizational documents or bylaws have not been amended, modified or terminated since the Agreement Date and are in full force and effect as of the First Amendment Closing Date, (B) certification of the name, signature and incumbency of all officers of such Person who are authorized to execute this Amendment and any other Loan Document or, with respect to Borrower Representative, request Loans and (C) a copy of authorizing resolutions approving the transactions contemplated by this Amendment, and authorizing and directing an officer or officers of such Person to sign and deliver this Amendment and all other Loan Documents to be executed by it in connection with this Amendment, duly adopted by such Person's board of directors or similar governing body, all accompanied by a certificate from a secretary or a Responsible Officer of such Person dated as of the First Amendment Closing Date to the effect that each such item is true and complete and in full force and effect as of the First Amendment Closing Date;

(e) Lender shall have received payment of the fee in the amount of \$20,000 payable on the First Amendment Closing Date in accordance with Section 3.2(a) of the Loan Agreement, in immediately available funds on or before the date hereof;

(f) Borrowers shall have paid all reasonable out-of-pocket expenses of Lender, including reasonable fees and expenses billed to date of Lender's outside legal counsel incurred in connection with the preparation, negotiation, execution and delivery of this Amendment and the transactions contemplated hereby;

(g) After giving effect to this Amendment, all representations and warranties in the Loan Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date hereof, as though such representations and warranties are made on and as of such date (except to the extent any such representations and warranties relate solely to an earlier date); and

(h) After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing.

ARTICLE IV **Representations and Warranties**

Section 4.1 Representations and Warranties of Credit Parties. In order to induce the Lender to enter into this Amendment, Credit Parties represent and warrant to the Lender that:

(a) The representations and warranties contained in Article VII of the Original Loan Agreement are true and correct in all material respects at and as of the time of the effectiveness hereof; provided, however, (i) the foregoing materiality qualifier shall not apply to those representations and warranties that, by their terms, are already so qualified, and (ii) those representations and warranties containing a reference to a particular date shall continue to be qualified by reference to such date;

(b) Each Credit Party is duly authorized to execute and deliver this Amendment, each Credit Party is and will continue to be duly authorized to perform its obligations under the Loan Agreement and each Borrower is and will continue to be duly authorized to borrow Loans under the Loan Agreement. Each Credit Party has duly taken all corporate or limited liability company action necessary to authorize the execution and delivery of this Amendment and to authorize the performance of the obligations of such Credit Party hereunder;

(c) The execution and delivery by each Credit Party of this Amendment, the performance by each Credit Party of its obligations hereunder and the consummation of the transactions contemplated hereby do not and will not conflict with any provision of law, statute, rule or regulation or of the organizational documents of any Credit Party, or of any material agreement, judgment, license, order or permit applicable to or binding upon any Credit Party, or result in the creation of any lien, charge or encumbrance upon any assets or properties of any Credit Party;

(d) Except for those which have been duly obtained, no consent, approval, authorization or order of any court or governmental authority or third party is required in connection with the execution and delivery by each Credit Party of this Amendment or to consummate the transactions contemplated hereby;

(e) When duly executed and delivered, this Amendment will be a legal and binding instrument and agreement of each Credit Party, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency and similar laws applying to creditors' rights generally and by principles of equity applying to creditors' rights generally; and

(f) After giving effect to this Amendment, no Default or Event of Default exists under the Loan Agreement or any of the other Loan Documents.

ARTICLE V

Miscellaneous

Section 5.1 Ratification of Agreement. The Original Loan Agreement as hereby amended is hereby ratified and confirmed in all respects. Any reference to the Loan Agreement in any Loan Document shall be deemed to refer to the Original Loan Agreement, as amended by this Amendment. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Lender under the Loan Agreement or any other Loan Document nor constitute a waiver of any provision of the Loan Agreement or any other Loan Document. The Credit Parties ratify and confirm that all guaranties, assurances and Liens granted, conveyed or assigned to Lender under the Loan Documents (as they may have been renewed, extended and amended) are not released, reduced or otherwise adversely affected by this Amendment and continue to guarantee, assure and secure the full payment and performance of the present and future Obligations and agree to perform such acts and duly authorize, execute, acknowledge, deliver, file and record such additional documents and certificates as Lender may reasonably request in order to create, perfect, preserve and protect those guaranties, assurances and Liens.

Section 5.2 Survival of Agreements. All representations, warranties, covenants and agreements of Credit Parties herein shall survive the execution and delivery of this Amendment and the performance hereof, and shall further survive until all of the Obligations are paid in full. All statements and agreements contained in any certificate or instrument delivered by Borrowers or any other Credit Party hereunder or under the Loan Agreement to Lender shall be deemed to constitute representations and warranties by, or agreements and covenants of, such Person(s) under this Amendment and under the Loan Agreement.

Section 5.3 Loan Document. This Amendment is a Loan Document, and all provisions in the Loan Agreement pertaining to Loan Documents apply hereto.

Section 5.4 Governing Law. **THIS AMENDMENT HAS BEEN EXECUTED OR COMPLETED AND/OR IS TO BE PERFORMED IN NEW YORK, AND IT AND ALL TRANSACTIONS HEREUNDER OR PURSUANT HERETO SHALL BE GOVERNED AS TO INTERPRETATION, VALIDITY, EFFECT, RIGHTS, DUTIES AND REMEDIES OF THE PARTIES THEREUNDER AND IN ALL OTHER RESPECTS BY THE LAWS OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF, BUT INCLUDING SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW.**

Section 5.5 Counterparts; Fax; Final Agreement. This Amendment may be separately executed in counterparts and by the different parties hereto in separate counterparts, each of which when so executed and taken together shall be deemed to constitute one and the same Amendment. This Amendment may be duly executed and delivered by facsimile, electronic mail or other electronic transmission.

Section 5.6 Release. Each Credit Party, on behalf of itself and, as applicable, such Credit Party's predecessors, successors, successors-in-interest, partners, members, shareholders, managers, directors, officers, heirs, beneficiaries, agents and assigns (each, a "Releasing Person" and collectively, the "Releasing Persons"): (i) does hereby forever RELEASE, ACQUIT, REMISE and FOREVER DISCHARGE Lender and its Affiliates, Equity Interest owners, present and former officers, directors, stockholders, members, managers, employees, attorneys, agents and other representatives, and the respective predecessors, successors, successors-in-interest, assigns, heirs, and representatives of each of the foregoing (each, a "Releasee" and collectively, the "Releasees") from any and all actions, causes of action, counterclaims, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, rights, claims, demands, liabilities, losses, rights to reimbursement, subrogation, indemnification or other payment, costs or expenses, and reasonable attorneys' fees, whether in law or in equity, of any nature whatsoever, known or unknown, suspected or unsuspected, fixed or contingent, and whether representing a past, present or future obligation of the Releasees, or any of them, that any of the Releasing Persons ever had from the beginning of time, may have or hereafter can, may or shall have against the Releasees, or any of them, which have arisen or accrued prior to or as of the date of this Amendment, in each case to the extent in any way relating to or arising out of or in connection with: (a) any of the Obligations or the Loan Documents; (b) any of the transactions consummated under any of the Loan Documents; (c) the making of any Loan or the use of the proceeds thereof; (d) the Collateral; (e) the exercise by Lender of any right or remedy under or with respect to the Loan Documents, the Obligations, or the Collateral; (f) the conduct of the relationship between or among the Lender and any one or more of the Credit Parties (or any one or more of them); (g) fraud, dominion, control, alter ego, instrumentality, misrepresentation, **NEGLIGENT MISREPRESENTATION**, duress, coercion, undue influence, interference, **NEGLIGENCE OR GROSS NEGLIGENCE**, business interruption or lost profits, slander, libel or damage to reputation; (h) estoppel, promissory estoppel or waiver; (i) usury or penalty or damages therefor, from any advances or loans, or from the contracting for, charging, taking, reserving, collecting or receiving interest in excess of the highest lawful rate; (j) intentional or negligent infliction of mental distress, tortious interference with contractual relations, tortious interference with governance or prospective business advantage, or mistake; (k) any act, failure to act, event, omission, transfer, payment or transaction occurring on or prior to the date of this Amendment; (l) any fee, penalty or payment charged or paid under or in connection with the Loan Documents or this Amendment; or (m) the negotiation of this Amendment and any Loan Documents (each a "Claim" and collectively, "Claims") and (ii) does hereby agree and covenant not to assert or prosecute against any or all of the Releasees any Claims.

THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, this Amendment is executed as of the date first above written.

AIR INDUSTRIES MACHINING, CORP., as a
Borrower

By: /s/ Michael Recca
Name: Michael Recca
Title: Chief Financial Officer

NASSAU TOOL WORKS, INC., as a Borrower

By: /s/ Michael Recca
Name: Michael Recca
Title: Chief Financial Officer

THE STERLING ENGINEERING CORPORATION,
as a Borrower

By: /s/ Michael Recca
Name: Michael Recca
Title: Chief Financial Officer

AIR INDUSTRIES GROUP, as a Guarantor and a
Credit Party

By: /s/ Michael Recca
Name: Michael Recca
Title: Chief Financial Officer

AIR REALTY GROUP, LLC, as a Guarantor and a
Credit Party

By: /s/ Michael Recca
Name: Michael Recca
Title: Chief Financial Officer

STERLING NATIONAL BANK, as Lender

By: /s/ Mark Long
Mark Long
Senior Vice President

First Amendment to Loan and Security Agreement (Air Industries) - Signature Page

SCHEDULE 1.2

Term Loan Primary Collateral

See the list annexed hereto which was derived from the Appraisal Report dated October 26, 2020, prepared by Tiger Group and provided to Lender.

First Amendment to Loan and Security Agreement (Air Industries) - Schedule 1.2

SCHEDULE 7.21

Debt

Original Lessor	Account Number	Principle Balance as of 11-30-19	Payoff Amount	Monthly Payment	Appraisal Valuation	Last Payment Date	Description
NMHG Financial		\$10,500.21		\$ 409.42		2-1-22	Yale Forklift
HVB Equipment Capital LLC*							
Leaf Capital Funding, LLC							Copiers

* This lease has been paid off

The following two Supplier Agreements will remain in place after closing:

Air Machining -

Citibank, N.A. – as described in UCC Filing Number 201901160022494, Citibank claims an interest in receivables due from Sikorsky and United Technologies to the extent those receivables are purchased by Citibank.

Sterling Engineering –

Citibank Europe PLC - as described in UCC Filing Number 0003096251, Citibank claims an interest in receivables due from GKN to the extent those receivables are purchased by Citibank Europe.

The following UCC filing and related obligations will remain in place after closing:

As described in UCC Filing Number 2013025063-0, Taglich Brothers, Inc., as agent for purchasers, claims an interest in payments due to Parent from Meyer Tool, Inc.

The following Supplier Agreement will remain in place after closing on the First Amendment:

MUFG – Receivable Purchase Agreement dated July 16, 2020, between The Sterling Engineering Corporation and MUFG Union Bank, N. A., as described in UCC Filing Number 0003395898, pursuant to which MUFG claims an interest in receivables due from General Electric Company or a subsidiary or affiliate of GE to the extent those receivables are purchased by MUFG.

The following State Tax Lien will remain in place after closing on the First Amendment:

Lien for \$100 in favor of the New York State Commissioner of Taxation- Index No. EO45968238W0013

First Amendment to Loan and Security Agreement (Air Industries) – Schedule 7.21

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT**

I, Luciano Melluzzo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Air Industries Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2020

/s/ Luciano Melluzzo

Luciano Melluzzo

Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT**

I, Michael E. Recca, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Air Industries Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2020

/s/ Michael E. Recca

Michael E. Recca

Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Air Industries Group, a Nevada corporation (the “Company”), on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission (the “Report”), Luciano Melluzzo, Chief Executive Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: November 9, 2020

/s/ Luciano Melluzzo

Luciano Melluzzo

Chief Executive Officer (Principal Executive Officer)

[A signed original of this written statement required by Section 906 has been provided to Air Industries Group and will be retained by Air Industries Group and furnished to the Securities and Exchange Commission or its staff upon request.]

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Air Industries Group, a Nevada corporation (the “Company”), on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission (the “Report”), Michael E. Recca, Chief Financial Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: November 9, 2020

/s/ Michael E. Recca

Michael E. Recca

Chief Financial Officer (Principal Financial Officer)

[A signed original of this written statement required by Section 906 has been provided to Air Industries Group and will be retained by Air Industries Group and furnished to the Securities and Exchange Commission or its staff upon request.]

**Document and Entity
Information - shares**

**9 Months Ended
Sep. 30, 2020**

Nov. 04, 2020

Document and Entity Information [Abstract]

<u>Entity Registrant Name</u>	AIR INDUSTRIES GROUP	
<u>Entity Central Index Key</u>	0001009891	
<u>Amendment Flag</u>	false	
<u>Current Fiscal Year End Date</u>	--12-31	
<u>Document Type</u>	10-Q	
<u>Document Period End Date</u>	Sep. 30, 2020	
<u>Document Fiscal Period Focus</u>	Q3	
<u>Document Fiscal Year Focus</u>	2020	
<u>Entity Filer Category</u>	Non-accelerated Filer	
<u>Entity Small Business</u>	true	
<u>Entity Emerging Growth Company</u>	false	
<u>Entity Current Reporting Status</u>	Yes	
<u>Entity Shell Company</u>	false	
<u>Entity Common Stock, Shares Outstanding</u>		31,729,755
<u>Entity File Number</u>	001-35927	
<u>Entity Interactive Data Current</u>	Yes	
<u>Entity Incorporation State Country Code</u>	NV	

Condensed Consolidated Balance Sheets - USD (\$)	Sep. 30, 2020	Dec. 31, 2019
<u>Current Assets</u>		
<u>Cash and Cash Equivalents</u>	\$ 1,460,000	\$ 1,294,000
<u>Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,226,000 and \$859,000</u>	9,748,000	7,858,000
<u>Inventory</u>	32,840,000	28,646,000
<u>Prepaid Expenses and Other Current Assets</u>	394,000	447,000
<u>Prepaid Taxes</u>	6,000	
<u>Total Current Assets</u>	44,448,000	38,245,000
<u>Property and Equipment, Net</u>	8,907,000	7,578,000
<u>Operating Lease Right-Of-Use-Asset</u>	3,625,000	3,623,000
<u>Deferred Financing Costs, Net, Deposits and Other Assets</u>	1,621,000	1,481,000
<u>Goodwill</u>	163,000	163,000
<u>TOTAL ASSETS</u>	58,764,000	51,090,000
<u>Current Liabilities</u>		
<u>Notes Payable and Finance Lease Obligations</u>	22,234,000	15,682,000
<u>Related Party Notes Payable</u>		6,862,000
<u>Accounts Payable and Accrued Expenses</u>	11,362,000	8,105,000
<u>Operating Lease Liabilities</u>	694,000	697,000
<u>Deferred Gain on Sale</u>	38,000	38,000
<u>Deferred Revenue</u>	835,000	1,011,000
<u>Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary</u>	200,000	200,000
<u>Income Taxes Payable</u>		27,000
<u>Total Current Liabilities</u>	35,363,000	32,622,000
<u>Long Term Liabilities</u>		
<u>Notes Payable and Finance Lease Obligations</u>	1,121,000	3,406,000
<u>Related Party Notes Payable</u>	6,018,000	
<u>Operating Lease Liabilities</u>	4,100,000	4,235,000
<u>Deferred Gain on Sale</u>	190,000	219,000
<u>Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary</u>	191,000	402,000
<u>Deferred payroll tax liability - CARES Act</u>	429,000	
<u>TOTAL LIABILITIES</u>	47,412,000	40,884,000
<u>Commitments and Contingencies</u>		
<u>Stockholders' Equity</u>		
<u>Preferred Stock, par value \$.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both September 30, 2020 and December 31, 2019.</u>		
<u>Common Stock - Par Value \$.001 - Authorized 60,000,000 Shares, 30,620,990 and 29,478,338 Shares Issued and Outstanding as of September 30, 2020 and December 31, 2019, respectively</u>	30,000	29,000
<u>Additional Paid-In Capital</u>	79,582,000	77,434,000
<u>Accumulated Deficit</u>	(68,260,000)	(67,257,000)
<u>TOTAL STOCKHOLDERS' EQUITY</u>	11,352,000	10,206,000

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$	\$
58,764,000	51,090,000

**Condensed Consolidated
Balance Sheets
(Parenthetical) - USD (\$)**

Sep. 30, 2020 Dec. 31, 2019

Statement of Financial Position [Abstract]

<u>Allowance for doubtful accounts</u>	\$ 1,226,000	\$ 859,000
<u>Preferred stock, par value</u>	\$ 0.001	\$ 0.001
<u>Preferred stock, shares authorized</u>	3,000,000	3,000,000
<u>Preferred stock, shares outstanding</u>	0	0
<u>Common stock, par value</u>	\$ 0.001	\$ 0.001
<u>Common stock, shares authorized</u>	60,000,000	60,000,000
<u>Common stock, shares issued</u>	30,620,990	29,478,338
<u>Common stock, shares outstanding</u>	30,620,990	29,478,338

Condensed Consolidated Statements of Operations (Unaudited) - USD (\$)	3 Months Ended		9 Months Ended	
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019
<u>Income Statement [Abstract]</u>				
<u>Net Sales</u>	\$ 13,662,000	\$ 13,997,000	\$ 35,603,000	\$ 41,243,000
<u>Cost of Sales</u>	12,006,000	11,034,000	31,152,000	33,815,000
<u>Gross Profit</u>	1,656,000	2,963,000	4,451,000	7,428,000
<u>Operating Expenses</u>	1,896,000	1,808,000	6,064,000	5,842,000
<u>Loss on abandonment of Leases</u>				(275,000)
<u>Income/(Loss) from Operations</u>	(240,000)	1,155,000	(1,613,000)	1,311,000
<u>Interest Expense - Third Parties</u>	(234,000)	(570,000)	(789,000)	(2,050,000)
<u>Interest Expense - Related Parties</u>	(125,000)	(265,000)	(378,000)	(740,000)
<u>Other Income, Net</u>	122,000	100,000	363,000	169,000
<u>Income (Loss) before Provision for (Benefit from) Income Taxes</u>	(477,000)	420,000	(2,417,000)	(1,310,000)
<u>Provision for (Benefit from) Income Taxes</u>		22,000	(1,414,000)	22,000
<u>Income (Loss) from Continuing Operations</u>	(477,000)	398,000	(1,003,000)	(1,332,000)
<u>Loss from Discontinued Operations, net of tax</u>		(211,000)		(139,000)
<u>Net Income (Loss)</u>	\$ (477,000)	\$ 187,000	\$ (1,003,000)	\$ (1,471,000)
<u>Net Income (Loss) per share - Basic</u>				
<u>Continuing Operations</u>	\$ (0.02)	\$ 0.01	\$ (0.03)	\$ (0.05)
<u>Discontinued Operations</u>		(0.01)		
<u>Net Income (Loss) per share - Diluted</u>				
<u>Continuing Operations</u>	(0.02)	0.01	(0.03)	(0.05)
<u>Discontinued Operations</u>		\$ (0.01)		
<u>Weighted Average Shares Outstanding - Basic - continuing operations</u>	30,620,990	28,909,072	30,524,874	28,774,041
<u>Weighted Average Shares Outstanding - Diluted - continuing operations</u>	30,620,990	35,046,015	30,524,874	28,774,041
<u>Weighted Average Shares Outstanding - Basic and Diluted - discontinued operations</u>	30,620,990	28,909,072	30,524,874	28,774,041

Condensed Consolidated Statements of Stockholders' Equity (Unaudited) - USD (\$)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at Dec. 31, 2018	\$ 28,000	\$ 76,101,000	\$ (64,523,000)	\$ 11,606,000
Balance, shares at Dec. 31, 2018	28,392,853			
Common stock issued for directors' fees		131,000		131,000
Common stock issued for directors' fees, shares	147,830			
Costs related to issuance of stock		(58,000)		(58,000)
Stock Compensation Expense		233,000		233,000
Other Adjustments - Shares Issued				
Other Adjustments - Shares Issued, shares	144,899			
Other Adjustments - Fair Value allocation		(185,000)		(185,000)
Net Income (Loss)			(923,000)	(923,000)
Balance at Mar. 31, 2019	\$ 28,000	76,222,000	(65,446,000)	10,804,000
Balance, shares at Mar. 31, 2019	28,685,582			
Balance at Dec. 31, 2018	\$ 28,000	76,101,000	(64,523,000)	11,606,000
Balance, shares at Dec. 31, 2018	28,392,853			
Balance at Sep. 30, 2019	\$ 28,000	76,527,000	(65,994,000)	10,561,000
Balance, shares at Sep. 30, 2019	28,951,194			
Balance at Mar. 31, 2019	\$ 28,000	76,222,000	(65,446,000)	10,804,000
Balance, shares at Mar. 31, 2019	28,685,582			
Issuance of Common Stock	\$ 1,000	186,000		187,000
Issuance of Common Stock, shares	180,000			
Stock Compensation Expense		93,000		93,000
Other Adjustments - Shares Issued				
Other Adjustments - Shares Issued, shares	25,401			
Share Issuance Costs		(55,000)		(55,000)
Net Income (Loss)			(735,000)	(735,000)
Balance at Jun. 30, 2019	\$ 29,000	76,446,000	(66,181,000)	10,294,000
Balance, shares at Jun. 30, 2019	28,890,983			
Common stock issued for directors' fees		56,000		56,000
Common stock issued for directors' fees, shares	57,433			
Issuance of Common Stock				
Issuance of Common Stock, shares	2,778			
Stock Compensation Expense		25,000		25,000
Other Adjustments - Rounding	(1,000)			(1,000)
Net Income (Loss)			187,000	187,000
Balance at Sep. 30, 2019	\$ 28,000	76,527,000	(65,994,000)	10,561,000
Balance, shares at Sep. 30, 2019	28,951,194			
Balance at Dec. 31, 2019	\$ 29,000	77,434,000	(67,257,000)	10,206,000

<u>Balance, shares at Dec. 31, 2019</u>	29,478,338			
<u>Common stock issued for directors' fees</u>		55,000		55,000
<u>Common stock issued for directors' fees, shares</u>	43,771			
<u>Costs related to issuance of stock</u>		(145,000)		(145,000)
<u>Issuance of Common Stock</u>	\$ 1,000	983,000		984,000
<u>Issuance of Common Stock, shares</u>	419,597			
<u>Common Stock Issued for Convertible Notes</u>		885,000		885,000
<u>Common Stock Issued for Convertible Notes, shares</u>	590,243			
<u>Stock Compensation Expense</u>		140,000		140,000
<u>Net Income (Loss)</u>			1,058,000	1,058,000
<u>Balance at Mar. 31, 2020</u>	\$ 30,000	79,352,000	(66,199,000)	13,183,000
<u>Balance, shares at Mar. 31, 2020</u>	30,531,949			
<u>Balance at Dec. 31, 2019</u>	\$ 29,000	77,434,000	(67,257,000)	10,206,000
<u>Balance, shares at Dec. 31, 2019</u>	29,478,338			
<u>Balance at Sep. 30, 2020</u>	\$ 30,000	79,582,000	(68,260,000)	11,352,000
<u>Balance, shares at Sep. 30, 2020</u>	30,620,990			
<u>Balance at Mar. 31, 2020</u>	\$ 30,000	79,352,000	(66,199,000)	13,183,000
<u>Balance, shares at Mar. 31, 2020</u>	30,531,949			
<u>Common stock issued for directors' fees</u>		46,000		46,000
<u>Common stock issued for directors' fees, shares</u>	47,126			
<u>Stock Compensation Expense</u>		74,000		74,000
<u>Net Income (Loss)</u>			(1,584,000)	(1,584,000)
<u>Balance at Jun. 30, 2020</u>	\$ 30,000	79,472,000	(67,783,000)	11,719,000
<u>Balance, shares at Jun. 30, 2020</u>	30,579,075			
<u>Common stock issued for directors' fees</u>		58,000		58,000
<u>Common stock issued for directors' fees, shares</u>	41,915			
<u>Stock Compensation Expense</u>		52,000		52,000
<u>Net Income (Loss)</u>			(477,000)	(477,000)
<u>Balance at Sep. 30, 2020</u>	\$ 30,000	\$ 79,582,000	\$ (68,260,000)	\$ 11,352,000
<u>Balance, shares at Sep. 30, 2020</u>	30,620,990			

**Condensed Consolidated
Statements of Cash Flows
(Unaudited) - USD (\$)**

**9 Months Ended
Sep. 30, Sep. 30,
2020 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

<u>Net Loss</u>	\$	\$
	(1,003,000)	(1,471,000)
<u>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities</u>		
<u>Depreciation of property and equipment</u>	1,920,000	2,085,000
<u>Non-cash employee compensation expense</u>	266,000	351,000
<u>Non-cash directors compensation</u>	159,000	95,000
<u>Non-cash other income recognized</u>	(302,000)	(198,000)
<u>Non-cash interest expense</u>	90,000	60,000
<u>Non-cash deferred payroll tax expense - CARES Act</u>	429,000	
<u>Abandonment of lease</u>		275,000
<u>Amortization of Right-of-Use Asset</u>	366,000	352,000
<u>Deferred gain on sale of real estate</u>	(29,000)	(29,000)
<u>Loss on sale of equipment</u>	16,000	42,000
<u>Amortization of debt discount on convertible notes payable</u>	196,000	370,000
<u>Bad debt expense</u>	367,000	46,000
<u>Amortization of deferred financing costs</u>	73,000	
<u>(Increase) Decrease in Operating Assets:</u>		
<u>Accounts receivable</u>	(2,257,000)	49,000
<u>Inventory</u>	(4,194,000)	(1,301,000)
<u>Prepaid expenses and other current assets</u>	53,000	(154,000)
<u>Prepaid taxes</u>	(6,000)	43,000
<u>Deposits and other assets</u>	(213,000)	(261,000)
<u>Increase (Decrease) in Operating Liabilities:</u>		
<u>Accounts payable and accrued expenses</u>	1,594,000	343,000
<u>Operating lease liabilities</u>	(506,000)	(441,000)
<u>Income taxes payable</u>	(27,000)	
<u>Deferred revenue</u>	(176,000)	14,000
<u>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>	(3,184,000)	270,000
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
<u>Purchase of property and equipment</u>	(1,471,000)	(397,000)
<u>NET CASH USED IN INVESTING ACTIVITIES</u>	(1,471,000)	(397,000)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
<u>Note payable - revolver - net - Sterling National Bank</u>	3,340,000	
<u>Note payable - revolver - net - PNC</u>		(597,000)
<u>Payments of note payable - term notes - Sterling National Bank</u>	(414,000)	
<u>Payments of note payable - term notes - PNC</u>		(1,108,000)
<u>SBA Loan Proceeds - SNB</u>	2,414,000	
<u>Proceeds from sale of future proceeds from disposition of subsidiary</u>		800,000
<u>Transaction costs from sale of future proceeds from disposition of subsidiary</u>		(3,000)

Payments of finance lease obligations	(11,000)	(899,000)
Share issuance costs		(113,000)
Proceeds from notes payable issuances- related party		500,000
Proceeds from issuance of common stock	984,000	
Costs related to issuance of stock	(145,000)	
Payments of related party notes payable	(1,032,000)	(16,000)
Payments of notes payable - third party	(100,000)	
Payments of loan payable - financed assets	(215,000)	(116,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,821,000	(1,552,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	166,000	(1,679,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,294,000	2,012,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,460,000	333,000
Supplemental cash flow information		
Cash paid for interest	680,000	1,260,000
Supplemental disclosure of non-cash transactions		
Right of Use Asset additions under ASC 842	642,000	4,368,000
Operating Lease Liabilities under ASC 842	642,000	5,397,000
Write-off deferred rent under ASC 842		1,165,000
Acquisition of financed asset	52,000	
Acquisition of property and equipment	1,504,000	
Supplemental disclosure of non-cash investing and financing activities		
Common stock issued in lieu of cash for services		187,000
Common Stock issued for conversion of note payable and accrued interest	\$ 885,000	

Formation and Basis of Presentation

**9 Months Ended
Sep. 30, 2020**

Formation and Basis of Presentation [Abstract] FORMATION AND BASIS OF PRESENTATION

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

Air Industries Group is a Nevada corporation ("AIRI"). As of and for the three and nine months ended September 30, 2020 and 2019, the accompanying condensed consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corp. ("AIM"), Nassau Tool Works, Inc. ("NTW"), and the Sterling Engineering Corporation ("Sterling"), (together, the "Company"). The results of Eur-Pac Corporation ("EPC") and Electronic Connection Corporation ("ECC") are included in discontinued operations since operations ceased on March 31, 2019. See Note 2 for details of discontinued operations.

Principal Business Activities

The Company is primarily engaged in manufacturing aircraft structural parts, and assemblies for prime defense contractors in the aerospace industry in the United States. NTW is a manufacturer of aerospace components, principally landing gear for F-16 and F-18 fighter aircraft. Sterling manufactures components and provides services for jet engines and ground-power turbines. The Company's customers consist mainly of publicly traded companies in the aerospace industry.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission, from which the accompanying condensed consolidated balance sheet dated December 31, 2019 was derived.

Reclassifications

Certain account balances in 2019 have been reclassified to conform to the current period presentation.

Impact of Covid-19

On March 11, 2020, the World Health Organization announced that infections caused by the coronavirus disease of 2019 ("COVID-19") had become pandemic, and on March 13, 2020, the U.S. President announced a national emergency relating to the disease. National, state and local authorities have adopted various regulations and orders, including mandates on the number of people that may gather in one location and closing non-essential businesses. To date, the Company has been deemed an essential business and has not curtailed its operations.

The measures adopted by various governments and agencies, as well as the decision by many individuals and businesses to voluntarily shut down or self-quarantine, have and are expected to

continue to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts adopted by governments is uncertain. The likely overall economic impact of the COVID-19 pandemic will be highly negative to the general economy and has been particularly negative on the commercial travel industry and commercial aerospace industries.

In accordance with the Department of Defense guidance issued in March 2020 designating the Defense Industrial Base as a critical infrastructure workforce, the Company's facilities have continued to operate in support of essential products and services required to meet national security commitments to the U.S. government and the U.S. military, however, facility closures or work slowdowns or temporary stoppages could occur. Although the Company's facilities are open, it was unable to operate at full capacity or achieve high levels of productivity particularly in the second calendar quarter of fiscal 2020 due to the implementation of enhanced safety procedures, increased employee absenteeism and intermittent closings of other businesses that supply goods or services to the Company. These impediments began to dissipate in the third calendar quarter. By September 2020 operating conditions were close to normal; however, business and operating conditions remain volatile.

Beginning in April 2020, the COVID-19 crisis resulted in a reduction to 2020 revenue and operating margins in portions of its business. This negative effect continued in May 2020 and to a lesser extent in June 2020. The decrease in revenue resulted from employee absenteeism, supplier disruption, changes in employee productivity, and related program delays or challenges. The Company and its employees, suppliers, customers and its global community continue to face tremendous challenges. While these challenges lessened in the third calendar quarter, the Company cannot predict how this dynamic situation will evolve or the impact it will have on the Company's results of operations.

The Company has implemented procedures to promote employee safety including more frequent and enhanced cleaning and adjusted schedules and work flows to support physical distancing. These actions have resulted in increased operating costs. In addition, a number of the Company's suppliers and customers have intermittently suspended or otherwise reduced their operations, and the Company is experiencing some supply chain challenges. Suppliers are also experiencing liquidity pressures and disruptions to their operations as a result of COVID-19. The challenges with our suppliers have been ameliorated during the third quarter and their operations have substantially returned to normal. During the three months ended June 30, 2020, we had large numbers of employees working remotely. As of September 30, 2020 essentially all employees have returned to work at our facilities.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law. The CARES Act provides aid to small businesses through programs administered by the Small Business Administration ("SBA"). The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program ("PPP"), whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs.

In May 2020, AIM, NTW and Sterling (each a "Borrower") entered into government subsidized loans with Sterling National Bank ("SNB") as the lender in an aggregate principal amount of approximately \$2.4 million ("SBA Loans"). Each SBA Loan is evidenced by a promissory note. At least 60% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the "Loan Program"). The Borrower has applied to SNB for forgiveness and SNB has approved and submitted the forgiveness application to the SBA for final approval in accordance with the applicable provisions of the federal statute authorizing the Loan Program. See Note 6.

The Company has elected to defer the deposit and payment of employer's portion of Social Security taxes pursuant to Section 2302 of the CARES Act. These deferred amounts must be repaid

50% on December 31, 2021 with the remaining 50% on December 31, 2022. As of September 30, 2020, the Company has deferred \$429,000, which is classified as Deferred payroll tax liability – CARES Act on the accompanying Condensed Consolidated Balance Sheet.

In addition, as a result of the passage of the CARES Act, the Company received a tax refund of \$1,416,000 from the filing of a net operating loss carryback claim. See Note 10.

The Company believes that based on its confirmed orders, funds generated from operations, amounts received under government subsidized loan programs and amounts available under its credit facility, it will have sufficient cash on hand to support its activities through November 1, 2021.

Subsequent Events

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

Discontinued Operations

9 Months Ended
Sep. 30, 2020

[Discontinued Operations and Disposal Groups](#)

[\[Abstract\]](#)

[DISCONTINUED OPERATIONS](#)

Note 2. DISCONTINUED OPERATIONS

As discussed in Note 1, the Company disposed of its EPC and ECC subsidiaries in March 2019. As required, the Company has retrospectively recast its condensed consolidated statements of operations for the 2019 period presented. As such, these businesses are reported as discontinued operations for the three and nine months ended September 30, 2019. The Company has not segregated the cash flows of these businesses in the condensed consolidated statements of cash flows. Management was also required to make certain assumptions and apply judgment to determine historical expenses related to the discontinued operations presented in prior periods. Unless noted otherwise, discussion in the Notes to Condensed Consolidated Financial Statements refers to the Company's continuing operations.

The following table presents the results of discontinued operations presented separately in the condensed consolidated statement of operations for the three and nine months ended September 30, 2019:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(unaudited)	(unaudited)
Net revenue	\$ -	\$ 132,000
Cost of goods sold	-	105,000
Gross profit	-	27,000
Operating expenses:		
Selling, general and administrative	100,000	155,000
Loss from operations	(100,000)	(128,000)
Interest expense	-	(1,000)
Other expense	(111,000)	(10,000)
Loss from discontinued operations before income taxes	(211,000)	(139,000)
Provision for income taxes	-	-
Loss from discontinued operations, net of income tax	\$ (211,000)	\$ (139,000)

Non-cash operating amounts for discontinued operations for the three and nine months ended September 30, 2019 include depreciation and amortization of \$0 and \$6,000, respectively. There were no capital expenditures for discontinued operations for both the three and nine months ended September 30, 2019. There were no other significant non-cash operating amounts or investing items of the discontinued operations for the period.

**Summary of Significant
Accounting Policies**

**9 Months Ended
Sep. 30, 2020**

Accounting Policies

[Abstract]

**SUMMARY OF
SIGNIFICANT
ACCOUNTING POLICIES**

Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventory Valuation

For annual periods, the Company values inventory at the lower of cost on a first-in-first-out basis or estimated net realizable value. The Company does not take physical inventories at interim quarterly reporting periods. Historically, in each period, substantially all of the inventory value has been estimated using a gross profit percentage based on annual gross profit percentages of the immediately preceding year as applied to the net sales of the current period. During the three months ended September 30, 2020, the Company determined that its gross profits by segment were below its 2019 gross profit percentages and accordingly has adjusted margins to less than those of 2019. Adjustments to reconcile the annual physical inventory to the Company's books are recorded in the fourth quarter.

Credit and Concentration Risks

There were three customers that represented 70.6% and two customers that represented 61.7% of total net sales for the three months ended September 30, 2020 and 2019, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
1	25.8	35.0
2	23.2	26.7
3	21.6	*

* Customer was less than 10% of sales for the three months ended September 30, 2019.

There were three customers that represented 74.2% and 73.4% of total sales for the nine months ended September 30, 2020 and 2019, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
1	32.1	31.1
2	28.2	31.0
3	13.9	*
4	*	11.3

* Customer was less than 10% of sales for the nine months ended September 30, 2020 and 2019.

There were two customers that represented 63.6% and three customers that represented 67.8% of gross accounts receivable at September 30, 2020 and December 31, 2019, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	September 30, 2020	December 31, 2019

	(Unaudited)	
1	34.6	32.7
2	29.0	10.0
3	*	25.1

* Customer was less than 10% of accounts receivable sales at September 30, 2020.

Cash and Cash Equivalents

During the year, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC insurance limit. The Company has not experienced any losses on these accounts.

Major Suppliers

The Company has several key sole-source suppliers of various parts that are important for one or more of its products. These suppliers are its only source for such parts and, therefore, in the event any of them were to go out of business or be unable or unwilling to provide parts for any reason, its business could be severely harmed.

Leases

The Company accounts for leases under ASC 842, "Leases." All leases are required to be recorded on the balance sheet and are classified as either operating leases or finance leases. The lease classification affects the expense recognition in the income statement. Operating lease charges are recorded entirely in operating expenses. Finance lease charges are split, where amortization of the right-of-use asset is recorded in operating expenses and an implied interest component is recorded in interest expense.

Earnings (Loss) per share

Basic earnings (loss) per share ("EPS") is computed by dividing the net income (loss) applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

For purposes of calculating diluted earnings per common share, the numerator includes net income plus interest on convertible notes payable assumed converted as of the first day of the period. The denominator includes both the weighted-average number of shares of common stock outstanding during the period and the number of common stock equivalents if the inclusion of such common stock equivalents is dilutive. Dilutive common stock equivalents potentially include stock options and warrants using the treasury stock method and convertible notes payable using the if-converted method.

The following is the calculation of net (loss) income applicable to common stockholders utilized to calculate the EPS:

	Three Months Ended		Nine Months Ended	
	Sept 30, 2020	Sept 30, 2019	Sept 30, 2020	Sept 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing Operations				
Income (loss) from continuing operations	\$ (477,000)	\$ 398,000	\$ (1,003,000)	\$ (1,332,000)
Add: Convertible Note Interest for Potential Note Conversion	-	120,000	-	-
Income (loss) used to calculate earnings per share	\$ (477,000)	\$ 518,000	\$ (1,003,000)	\$ (1,332,000)

The following is a reconciliation of the denominators of basic and diluted earnings per share computations:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing Operations				
Weighted average shares outstanding used to compute basic earnings per share	30,620,990	28,909,072	30,524,874	28,774,041
Effect of dilutive stock options and warrants	-	131,458	-	-
Effect of dilutive convertible notes payable	-	6,005,485	-	-
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	30,620,990	35,046,015	30,524,874	28,774,041

The following securities have been excluded from the calculation as the exercise price was greater than the average market price of the common shares:

	Three and Nine Months Ended	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
Stock Options	163,000	852,000
Warrants	1,423,000	2,183,000
	1,586,000	3,035,000

The following securities have been excluded from the calculation even though the exercise price was less than the average market price of the common shares during the periods set forth below because the effect of including these potential shares was anti-dilutive due to the net loss incurred during these periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Stock Options	1,696,000	-	1,696,000	500,000
Warrants	760,000	-	760,000	-
Convertible notes payable	5,092,000	-	5,092,000	6,005,000
	7,548,000	-	7,548,000	6,505,000

Stock-Based Compensation

The Company accounts for stock-based compensation 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. Stock based compensation expense for employees amounted to \$52,000 and \$25,000 for the three months ended September 30, 2020 and 2019, respectively, and \$266,000 and \$351,000 for the nine months ended September 30, 2020 and 2019, respectively. Stock compensation expense for directors amounted to \$58,000 and \$56,000 for the three months ended September 30, 2020 and 2019, respectively and \$159,000 and \$187,000 for

the nine months ended September 30, 2020 and 2019, respectively. Stock compensation expense for employees and directors was included in operating expenses on the accompanying Condensed Consolidated Statements of Operations.

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of \$163,000 at September 30, 2020 and December 31, 2019 relates to the acquisition of NTW.

Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances occur that more likely than not reduce the fair value of the reporting unit below its carrying amount.

The COVID-19 pandemic was a triggering event for testing whether goodwill has been impaired. The Company performed a qualitative assessment and determined it is more likely than not that the fair value exceeds the carrying value of \$163,000 as of September 30, 2020. The Company will continue to monitor the impacts of the COVID-19 pandemic in future quarters. Changes in the Company's forecasts or further decreases in the value of its common stock could cause book values to exceed fair values which may result in goodwill impairment charges in future periods.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"), which is intended to address issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. For convertible instruments, ASU 2020-06 reduces the number of accounting models for convertible debt instruments and convertible preferred stock, and enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance on the basis of feedback from financial statement users. ASU 2020-06 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is evaluating the effect of adopting this new accounting guidance on its financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements and related disclosures.

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 condensed consolidated financial statements.

Property and Equipment

**9 Months Ended
Sep. 30, 2020**

[Property, Plant and
Equipment \[Abstract\]](#)

[PROPERTY AND
EQUIPMENT](#)

Note 4. PROPERTY AND EQUIPMENT

The components of property and equipment at September 30, 2020 and December 31, 2019 consisted of the following:

	September 30, 2020	December 31, 2019	
	(unaudited)		
Land	\$ 300,000	\$ 300,000	
Buildings and Improvements	1,650,000	1,650,000	31.50 years
Machinery and Equipment	14,861,000	12,251,000	5 - 8 years
Finance Lease Machinery and Equipment	6,546,000	6,495,000	5 - 8 years
Tools and Instruments	11,612,000	11,021,000	1.50 - 7 years
Automotive Equipment	148,000	177,000	5 years
Furniture and Fixtures	290,000	290,000	5 - 8 years
Leasehold Improvements	530,000	530,000	Term of Lease
Computers and Software	436,000	425,000	4 - 6 years
Total Property and Equipment	36,373,000	33,139,000	
Less: Accumulated Depreciation	(27,466,000)	(25,561,000)	
Property and Equipment, net	<u>\$ 8,907,000</u>	<u>\$ 7,578,000</u>	

Depreciation expense for the three months ended September 30, 2020 and 2019 was \$576,000 and \$712,000, respectively. Depreciation expense for the nine months ended September 30, 2020 and 2019 was \$1,920,000 and \$2,085,000, respectively.

Assets held under financed lease obligations are depreciated over the shorter of their related lease terms or their estimated productive lives. Depreciation of assets under finance leases is included in depreciation expense for 2020 and 2019. Accumulated depreciation on these assets was approximately \$6,359,000 and \$5,936,000 as of September 30, 2020 and December 31, 2019, respectively.

Leases

9 Months Ended Sep. 30, 2020

[Leases \[Abstract\]](#)
[LEASES](#)

Note 5. LEASES

The Company has operating and finance leases for leased office and manufacturing facilities and equipment leases. The Company leases certain machinery and equipment under finance leases and leases its offices and manufacturing facilities under operating leases. The leases have remaining lease terms of one to six years, some of which include options to extend or terminate the leases.

NTW's warehouse lease was terminated in May 2020 by its landlord under the terms of its lease agreement. Additionally, the Company entered into a new lease agreement for warehouse space in Bohemia, NY. The new lease term commenced on April 1, 2020 and expires on May 31, 2025. During the first year of the lease, the monthly rent is \$10,964 and increases 3% each year thereafter. The final two months are equal installments of \$1,746.

Rent expense for the three months ended September 30, 2020 and 2019 was \$280,000 and \$310,000, respectively. Rent expense for the nine months ended September 30, 2020 and 2019 was \$892,000 and \$936,000, respectively.

	September 30, 2020
Weighted Average Remaining Lease Term - in years	5.77
Weighted Average discount rate - %	8.88%

The aggregate undiscounted cash flows of operating lease payments for leases with remaining terms greater than one year are as follows:

	September 30, 2020 (unaudited)
For the twelve months ended December 31,	
December 31, 2020 (remaining three months)	\$ 271,000
December 31, 2021	1,080,000
December 31, 2022	1,007,000
December 31, 2023	1,038,000
December 31, 2024	1,070,000
Thereafter	1,722,000
Total future minimum lease payments	6,188,000
Less: discount	(1,394,000)
Total operating lease maturities	4,794,000
Less: current portion of operating lease liabilities	(694,000)
Total long term portion of operating lease maturities	\$ 4,100,000

**Notes Payable, Related Party
Notes Payable and Finance
Lease Obligations**

**9 Months Ended
Sep. 30, 2020**

Notes and Loans Payable

[Abstract]

**NOTES PAYABLE,
RELATED PARTY NOTES
PAYABLE AND FINANCE
LEASE OBLIGATIONS**

Note 6. NOTES PAYABLE, RELATED PARTY NOTES PAYABLE AND FINANCE LEASE OBLIGATIONS

Notes payable and finance lease obligations at September 30, 2020 and December 31, 2019 consisted of the following:

	September 30, 2020	December 31, 2019
	(unaudited)	
Revolving credit note payable to Sterling National Bank ("SNB")	\$ 15,883,000	\$ 12,543,000
Term loan, SNB	3,386,000	3,800,000
Finance lease obligations	12,000	22,000
Loans Payable - financed assets	220,000	385,000
Related party notes payable, net of debt discount	6,018,000	6,862,000
Convertible notes payable-third parties, net of debt discount	1,440,000	2,338,000
SBA loans	2,414,000	-
Subtotal	29,373,000	25,950,000
Less: Current portion of notes payable, related party notes payable and finance lease obligations	(22,234,000)	(22,544,000)
Notes payable, related party notes payable and finance lease obligations, net of current portion	<u>\$ 7,139,000</u>	<u>\$ 3,406,000</u>

Sterling National Bank ("SNB")

On December 31, 2019, the Company entered into a new loan facility ("SNB Facility") with Sterling National Bank, ("SNB") expiring on December 30, 2022. The new loan facility provides for a \$16,000,000 revolving loan ("SNB revolving line of credit") and a term loan ("SNB term loan").

Proceeds from the SNB Facility repaid the Company's outstanding loan facility ("PNC Facility") with PNC Bank N.A. ("PNC").

The formula to determine the amounts of revolving advances permitted to be borrowed under the SNB revolving line of credit is based on a percentage of the Company's eligible receivables and eligible inventory (as defined in the SNB Facility). Each day, the Company's cash collections are swept directly by SNB to reduce the SNB revolving loan balance and the Company then borrows according to a borrowing base formula. The Company's receivables are payable directly into a lockbox controlled by SNB (subject to the terms of the SNB Facility).

The repayment terms of the SNB term loan provide for monthly principal installments in the amount of \$45,238, payable on the first business day of each month, beginning on February 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. In addition, for so long as the SNB term loan remains outstanding, if Excess Cash Flow (as defined) is a positive number for any fiscal year, beginning with the year ending December 31, 2020, the Company shall pay to SNB an amount equal to the lesser of (i) twenty-five percent (25%) of the Excess Cash Flow for such Fiscal Year and (ii) the outstanding principal balance of the term loan. Such payment shall be made to SNB and applied to the outstanding principal balance of the term loan, on or prior to April 15 of the Fiscal Year immediately following such Fiscal Year.

On November 6, 2020, the Company entered into the First Amendment to Loan and Security Agreement (“First Amendment”). The terms of the agreement increase the Term Loan to \$5,685,000. The repayment terms of the term loan were amended to provide monthly principal installments in the amount of \$67,679 beginning on December 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. Additionally, the date by which certain subordinated third-party notes need to be extended by was changed from September 30, 2020 to November 30, 2020. The Company has paid an amendment fee of \$20,000.

The Company may voluntarily prepay balances under the SNB Facility. Any prepayment of less than all of the outstanding principal of the SNB term loan is applied to the principal of the SNB term loan.

The terms of the SNB Facility require that, among other things, the Company maintain a specified Fixed Charge Coverage Ratio of 1.25 to 1.00 at the end of each Fiscal Quarter beginning with the Fiscal Quarter ending March 31, 2020. In addition, the Company is limited in the amount of Capital Expenditures it can make. The SNB Loan Agreement required the Company by September 30, 2020, to either (i) extend the maturity date of certain subordinate convertible notes to a date more than six months after December 31, 2022 or alternatively (ii) convert these notes to common stock of the Company. As of September 30, 2020, the Company was not in compliance with all loan covenants. As a result, the full balance due under the term note was classified as a current liability in the condensed consolidated balance sheet as of September 30, 2020. In connection with the First Amendment, the bank waived all events of default identified as of and through September 30, 2020. The SNB Facility also restricts the amount of dividends the Company may pay to its stockholders. Substantially all of the Company’s assets are pledged as collateral under the SNB Facility.

The aggregate payments for the term note at September 30, 2020 are as follows:

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 136,000
December 31, 2021	543,000
December 31, 2022	<u>2,759,000</u>
SNB Term Loans payable	3,438,000
Less: debt issuance costs	<u>(52,000)</u>
Total SNB Term loan payable, net of debt issuance costs	3,386,000
Less: Current portion of SNB term loan payable	<u>3,386,000</u>
Total long-term portion of SNB term loan payable	<u>\$ -</u>

Under the terms of the SNB Facility, both the SNB revolving line of credit and the SNB term loan will bear an interest rate equal to 30-day LIBOR (with a 1% floor) plus 2.5%. The average interest rate charged during the period ended September 30, 2020 was 3.5%.

As of September 30, 2020, our debt to SNB in the amount of \$19,269,000 consisted of the SNB revolving line of credit note in the amount of \$15,883,000 and the SNB term loan in the amount of \$3,386,000. As of December 31, 2019, our debt to SNB in the amount of \$16,343,000 consisted of the SNB revolving line of credit note in the amount of \$12,543,000 and the SNB term loan in the amount of \$3,800,000.

Interest expense related to the SNB Facility amounted to approximately \$147,000 for the three months ended September 30, 2020, and \$420,000 for the nine months ended September 30, 2020.

PNC Bank N.A. (“PNC”)

The Company previously maintained a financing facility with PNC. Under such facility, substantially all of the Company’s assets were pledged as collateral. The PNC Facility provided for a \$15,000,000 revolving line of credit (“PNC revolving line of credit”) and a term loan (“PNC term loan”).

Interest expense related to the PNC Facility amounted to approximately \$391,000 for the three months ended September 30, 2019 and \$954,000 for the nine months ended September 30, 2019.

On December 31, 2019, both the PNC revolving line of credit and PNC term loan were paid in full and all assets that were previously pledged as collateral were released.

Loans Payable – Financed Assets

The Company financed the 2019 acquisition of manufacturing equipment with a third-party loan. The loan obligation totaled \$170,000 and \$385,000 as of September 30, 2020 and December 31, 2019, respectively and bears interest at 3% per annum.

The Company has also borrowed to purchase a delivery vehicle in July 2020. The loan obligation totaled \$50,000 and \$0 as of September 30, 2020 and December 31, 2019, respectively. The loan bears no interest and a final payment is due and payable for all unpaid principal on July 20, 2026.

Annual maturities of these loans are as follows:

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 75,000
December 31, 2021	106,000
December 31, 2022	9,000
December 31, 2023	9,000
December 31, 2024	9,000
Thereafter	12,000
Loans Payable - financed assets	220,000
Less: Current portion	179,000
Long-term portion	<u>\$ 41,000</u>

Related Party Notes Payable

Taglich Brothers, Inc. is a corporation co-founded by two directors of the Company, Michael and Robert Taglich. In addition, a third director of the Company is a vice president of Taglich Brothers, Inc.

Taglich Brothers, Inc. has acted as placement agent for various debt and equity financing transactions and has received cash and equity compensation for their services.

On January 15, 2019, the Company issued its 7% senior subordinated convertible promissory notes due December 31, 2020, each in the principal amount of \$1,000,000 (together, the “7% Notes”), to Michael Taglich and Robert Taglich, each for a purchase price of \$1,000,000. The 7% Notes bear interest at the rate of 7% per annum, are convertible into shares of the Company’s common stock at a conversion price of \$0.93 per share, subject to the anti-dilution adjustments set forth in the 7% Notes and are subordinate to the Company’s indebtedness under the SNB Facility.

In connection with the 7% Notes, the Company paid Taglich Brothers, Inc. a fee of \$80,000 (4% of the purchase price of the 7% Notes), paid in the form of a promissory note having terms similar to the 7% Notes.

On June 26, 2019, the Company was advanced \$250,000 from each of Michael and Robert Taglich. These notes bear interest at a rate of 12% per annum. In connection with these notes, the Company issued 37,500 shares of stock to each of Michael and Robert Taglich. The maturity date, of these notes, was June 30, 2020, but was extended to December 31, 2020.

On October 21, 2019, the Company was advanced \$1,000,000 from Michael Taglich. This advance was repaid on January 2, 2020. The interest rate on this advance was 12% per annum.

Private Placement of Subordinated Notes due May 31, 2019, together with Shares of Common Stock

On March 29, 2018 and April 4, 2018, Michael Taglich and Robert Taglich advanced \$1,000,000 and \$100,000, respectively, to the Company for use as working capital. The Company subsequently issued its Subordinated Notes originally due May 31, 2019 to Michael Taglich and Robert Taglich, together with shares of common stock, in the financing described below, to evidence its obligation to repay the foregoing advances.

In May 2018, the Company issued \$1,200,000 of Subordinated Notes due May 31, 2019 (the “2019 Notes”), together with a total of 214,762 shares of common stock to Michael Taglich, Robert Taglich and another accredited investor. As part of the financing, the Company issued to Michael Taglich \$1,000,000 principal amount of 2019 Notes and 178,571 shares of common stock for a purchase price of \$1,000,000 and to Robert Taglich \$100,000 principal amount of 2019 Notes and 17,857 shares of common stock. The Company issued and sold a 2019 Note in the principal amount of \$100,000, plus 18,334 shares of common stock to the other accredited investor for a purchase price of \$100,000. This additional note was paid in full on January 2, 2020.

Interest on the 2019 Notes is payable on the outstanding principal amount thereof at the rate of one percent (1%) per month, payable monthly commencing June 30, 2018. Upon the occurrence and continuation of a failure to pay accrued interest, interest shall accrue and be payable on such amount at the rate of 1.25% per month; provided that upon the occurrence and continuation of a failure to timely pay the principal amount of the 2019 Note, interest shall accrue and be payable on such principal amount at the rate of 1.25% per month and shall no longer be payable on interest accrued but unpaid. The 2019 Notes are subordinate to the Company’s obligations to SNB.

Taglich Brothers acted as placement agent for the offering and received a commission in the aggregate amount of 4% of the amount invested which was paid in kind.

During the second quarter of 2019, the maturity date of the 2019 Notes was extended to June 30, 2020. The interest rate of the notes remains at 12% per annum. In connection with the extension, 180,000 shares of common stock were issued on a pro-rata basis to each of the note holders, including 150,000 shares to Michael Taglich and 15,000 shares to Robert Taglich. The shares were valued at \$1.01 per share or \$182,000. The costs have been recorded as a debt discount, and are being accreted over the revised term. In connection with the SNB Facility, Michael and Robert Taglich agreed to extend the maturity date of the 2019 Notes to December 31, 2020.

Private Placements of 8% Subordinated Convertible Notes

From November 23, 2016 through March 21, 2017, the Company received gross proceeds of \$4,775,000, of which \$1,950,000 were received from Robert and Michael Taglich, from the sale of an equal principal amount of its 8% Subordinated Convertible Notes (the “8% Notes”), together with warrants to purchase a total of 383,080 shares of its common stock, in private placement transactions with accredited investors (the “8% Note Offerings”). In connection with the offering of the 8% Notes, the Company issued 8% Notes in the aggregate principal amount of \$382,000 to Taglich Brothers, Inc., 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 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 SNB Facility.

Interest on the 8% Notes is payable on the outstanding principal amount thereof at the annual rate of 8%, payable quarterly commencing February 28, 2017, in cash, or at the Company’s option, in additional 8% Notes, provided that if accrued interest payable on \$1,269,000 principal amount of the 8% Notes issued in December 2016 is paid in additional 8% Notes, interest for that quarterly interest payment shall 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.

Related party advances and notes payable, net of debt discounts to Michael and Robert Taglich, and their affiliated entities, totaled \$6,018,000 and \$6,862,000, as of September 30, 2020 and

December 31, 2019, respectively. Unamortized debt discounts related to these notes amounted to \$38,000 and \$226,000 as of September 30, 2020 and December 31, 2019, respectively. Interest incurred on these related party notes amounted to approximately \$125,000 and \$265,000 for the three months ended September 30, 2020 and 2019, respectively, and \$378,000 and \$740,000 for the nine months ended September 30, 2020 and 2019 respectively. Amortization of debt discount incurred on these related party notes amounted to approximately \$38,000 and \$76,000 for the three months ended September 30, 2020 and 2019, respectively and \$189,000 and \$227,000 for the nine months ended September 30, 2020 and 2019, respectively. The amortization of the debt discount is included in interest and financing costs in the Condensed Consolidated Statement of Operations.

Per the terms of the SNB Facility, the maturity date of all related party notes has been extended to July 1, 2023 and are subordinated to the SNB Facility. There are no principal payments due on these notes until such time.

Convertible Notes Payable – Third Parties

8% Notes payable to third parties totaled \$1,440,000 and \$2,338,000, as of September 30, 2020 and December 31, 2019, respectively. Interest incurred on the 8% Notes amounted to approximately \$38,000 and \$63,000 for the three months ended September 30, 2020 and 2019, respectively, and \$118,000 and \$319,000 for the nine months ended September 30, 2020 and 2019, respectively. Unamortized debt discounts related to these notes amounted to \$0 and \$7,000 as of September 30, 2020 and December 31, 2019, respectively. Amortization of debt discount on the 8% Notes amounted to approximately \$0 and \$3,000 for the three months ended September 30, 2020 and 2019, respectively, and \$7,000 and \$131,000 for the nine months ended September 30, 2020 and 2019, respectively. These costs are included in interest and financing costs in the Condensed Consolidated Statement of Operations.

All convertible notes with third parties are due on December 31, 2020 and are subordinated to the SNB Facility. There are no principal payments due on these notes until such time.

Per the terms of the SNB Facility, as amended, prior to November 30, 2020, the maturity date of each third party convertible note payable must be extended to a date that is more than six months after December, 30, 2022 or converted into common stock of the Company.

On November 3, 2020 third party holders of \$1,225,000 principal of the 8% Notes with accrued interest thereon of \$210,282 converted their notes into 1,063,272 shares of common stock at a per share price of \$1.35.

SBA Loans

In May 2020, AIM, NTW and Sterling entered into SBA Loans with SNB as the lender in an aggregate principal amount of \$2,414,000 all of which remains outstanding. Each SBA Loan is evidenced by a Note. Subject to the terms of the Note, the SBA Loan bears interest at a fixed rate of one percent (1%) per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the SBA. At least 60% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the “Loan Program”). Each Note provides for customary events of default including, among other things, cross-defaults on any other loan with SNB. Each SBA Loan may be accelerated upon the occurrence of an event of default.

The Company has elected to treat the SBA Loans as debt under FASB ASC 470. As such, the Company will derecognize the liability only when the loans are forgiven in whole or in part and the Company is legally released or repays the loans.

The Company used the \$2,414,000 of loans for allowed payroll and benefits expenses and expects the majority of the loans, if not all, will be forgiven. The Company has applied to the SNB for forgiveness and SNB has approved the application and submitted it to the SBA for final approval in accordance with the applicable provisions of the federal statute authorizing the Loan Program.

The SBA will, subject to any SBA review of the loan or loan application, remit the appropriate forgiveness amount to SNB, plus any interest accrued through the date of payment, not later than 90 days after the lender issues its decision to the SBA. No assurance can be given that the Company will obtain forgiveness of the loan in whole or in part. In addition, as a borrower that received over \$2 million, the Company expects to be subject to an audit to review our eligibility under the Loan Program. The timing and scope of the audit remains unclear and as a result, the Company is not able to forecast when it can expect a decision on loan forgiveness. The Company does not expect the audit will impact its eligibility for forgiveness under the program.

If the loans are not ultimately forgiven, the future minimum loan payments are as follows:

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 133,000
December 31, 2021	1,607,000
December 31, 2022	674,000
Total SBA Loans	2,414,000
Less: Current portion of SBA Loans	1,337,000
Long-term portion of SBA Loans	<u>\$1,077,000</u>

**Liability Related to the Sale
of Future Proceeds from
Disposition of Subsidiary**

9 Months Ended

Sep. 30, 2020

**Placement invested
percentage [Abstract]**

**LIABILITY RELATED TO
THE SALE OF FUTURE
PROCEEDS FROM
DISPOSITION OF
SUBSIDIARY**

**NOTE 7. LIABILITY RELATED TO THE SALE OF FUTURE PROCEEDS FROM
DISPOSITION OF SUBSIDIARY**

In connection with the sale of the Company's wholly-owned subsidiary, AMK Welding, Inc. ("AMK") to Meyer Tool, Inc., ("Meyer") in 2017, Meyer was obligated to pay the Company within 30 days after the end of each calendar quarter, commencing April 1, 2017, an amount equal to five (5%) percent of the net sales of AMK for that quarter until the aggregate payments made to the Company (the "Meyer Agreement") equals \$1,500,000 (the "Maximum Amount").

As of December 31, 2018, the Company received an aggregate of \$363,000 under the Meyer Agreement.

In order to increase liquidity, on January 15, 2019, the Company entered into a "Purchase Agreement" with 15 accredited investors (the "Purchasers"), including Michael and Robert Taglich, pursuant to which the Company assigned to the Purchasers all of their rights, title and interest to the remaining \$1,137,000 of the \$1,500,000 in payments due from Meyer for the sale of AMK (the "Remaining Amount") for an immediate payment of \$800,000, including \$100,000 from each of Michael and Robert Taglich, and \$75,000 for the benefit of the children of Michael Taglich. The timing of the payments is based upon the net sales of AMK. If the Purchasers have not received the entire Remaining Amount by March 31, 2023, they have the right to demand payment of their pro rata portion of the unpaid Remaining Amount from the Company ("Put Right"). To the extent the Purchasers exercise their Put Right, the remaining payments from Meyer will be retained by the Company.

The Purchasers have agreed to pay Taglich Brothers a fee equal to 2% per annum of the purchase price paid by such Purchasers, payable quarterly, to be deducted from the payments of the Remaining Amount, for acting as paying agent in connection with the payments from Meyer.

Although the Company sold all of its rights to the Remaining Amount, as a result of its obligation to the Purchasers, the Company is required to account for the Remaining Amount or portion thereof as income when earned. The Company recorded the \$800,000 in proceeds as a liability on its condensed consolidated balance sheet, net of transaction costs of \$3,000. Transaction costs will be amortized to interest expense over the estimated life of the Purchase Agreement.

As payments are remitted to the Purchasers, the balance of the recorded liability will be effectively repaid over the life of the Purchase Agreement. To determine the amortization of the recorded liability, the Company is required to estimate the total amount of future payment to be received by the Purchasers. The Company estimates that the entire Remaining Amount will be received, and accordingly, the Remaining Amount less the \$800,000 purchase price received (the "Discount") will be amortized into the liability balance and recorded as interest expense. The Discount will be amortized through the earliest date that the Purchasers can exercise their Put Right, using the straight line method (which is not materially different than the effective interest method) over the estimated life of the Purchase Agreement with the Purchasers. Periodically, the Company will assess the estimated payments to be made to the Purchasers related to the Meyer Agreement, and to the extent the amount or timing of the payments is materially different from their original estimates, the Company will prospectively adjust the amortization of the liability. The amount or timing of the payments from Meyer are not within the Company's control. Since the inception of the Purchase Agreement, the Company estimates the effective annual interest rate over the life of the agreement to be approximately 18%.

The liability is classified between the current and non-current portion of liability related to sale of future proceeds from disposition of subsidiary based on the estimated recognition of the payments to be received by the purchasers in the next 12 months from the financial statements reporting date.

The Company recognized \$91,000 and \$89,000 of non-cash income for the three months ended September 30, 2020 and 2019, respectively, and \$302,000 and \$198,000 of non-cash income for the nine months ended September 30, 2020 and 2019, respectively, reflected in "Other income, net" on the condensed consolidated statement of operations. Additionally, the Company recorded \$26,000 and \$27,000 of related non-cash interest expense related to the Purchase Agreement, for the three months ended September 30, 2020 and 2019, respectively, and \$90,000 and \$60,000 for the nine months ended September 30, 2020 and 2019, respectively.

The table below shows the activity within the liability account for the nine months ended September 30, 2020:

Liabilities related to sale of future proceeds from disposition of subsidiaries - as of December 31, 2019	\$ 603,000
Non-Cash other income recognized	(302,000)
Non-Cash interest expense recognized	90,000
Liabilities related to sale of future proceeds from disposition of subsidiary - as of September 30, 2020	391,000
Less: unamortized transaction costs	(3,000)
Liability related to sale of future proceeds from disposition of subsidiary, net	<u>\$ 388,000</u>

Stockholders' Equity

**9 Months Ended
Sep. 30, 2020**

[Equity \[Abstract\]](#)

[STOCKHOLDERS' EQUITY](#) **Note 8. STOCKHOLDERS' EQUITY**

Common Stock – Sale of Securities

In January 2020, the Company issued and sold 419,597 shares of its common stock for gross proceeds of \$984,000 pursuant to a Form S-3 filed on October 10, 2019 as updated on January 15, 2020. Costs of the sale amounted to \$145,000.

The Company issued 41,915 and 57,433 shares of common stock in lieu of cash payments for director fees for the three months ended September 30, 2020 and 2019, respectively, and 132,812 and 205,263 for the nine months ended September 30, 2020 and 2019, respectively.

Contingencies

**9 Months Ended
Sep. 30, 2020**

[Contingencies \[Abstract\]](#)
[CONTINGENCIES](#)

Note 9. CONTINGENCIES

Loss Contingencies

A number of actions have been commenced against the Company by vendors, landlords and former landlords, including a third party claim as a result of an injury suffered on a portion of a leased property not occupied by the Company. As certain of these claims represent amounts included in accounts payable they are not specifically discussed herein.

On December 20, 2018, pursuant to a Stock Purchase Agreement dated as of March 21, 2018 (“SPA”), the Company completed the sale of all of the outstanding shares of its subsidiary, Welding Metallurgy, Inc. to CPI Aerostructures. On March 19, 2019, in accordance with the procedures set forth in the SPA with CPI Aerostructures, the Company received a notice from CPI claiming that the working capital deficit used to compute the purchase price was understated. The issue of the amount of the working capital deficit was submitted to BDO USA, LLP (“BDO”), acting as an expert, and it issued a report dated September 3, 2019, where it determined that the amount of the working capital deficit was approximately \$4,145,870. On September 9, 2019 the Company received a demand from CPI for payment of such amount. The Company advised CPI that the determination of BDO is void because, among other things, it believes BDO exceeded the scope of its authority as set forth in the SPA. On September 27, 2019, CPI filed a notice of motion in the Supreme Court of the State of New York, County of New York, against the Company seeking, among other things, an order of specific performance requiring delivery of the funds deposited in escrow, together with the balance of the working capital deficit which it claimed, and a judgment against the Company in the amount of approximately \$4,200,000 of which \$2,000,000 would be satisfied by delivery of the funds in escrow. On October 7, 2019, the Company agreed to the release of \$619,316 of the funds held in escrow in respect of claims related to the working capital deficit not related to the value of WMI’s inventory. As of December 31, 2018, the Company has placed a reserve against substantially all of the escrowed amount and cannot estimate the amount of loss. For, among others, the reasons stated above the Company intends to contest vigorously any claim CPI may make for payment based on the BDO Report. Outside counsel for the company has advised that at this stage in the proceedings, it cannot offer an opinion as to the probable outcome.

On October 1, 2020, the court issued an order which stated that “CPI must commence a special proceeding to obtain the relief” sought by its Motion despite the fact that the stipulation of discontinuance entered into by CPI and the Company with respect to the action to enforce the SPA commenced by CPI on July 5, 2018, provided that the court would retain jurisdiction over the case. The court stated further that a special proceeding requires pleadings consisting of, among others, a petition which complies with the requirements for a complaint in an action and an answer. Since CPI brought the action in the form of a motion and not a complaint, neither party complied with the pleading requirements which the court stated is required. Consequently, the court denied CPI’s Motion and denied the Company’s cross motion to vacate BDO’s determination and conduct discovery.

The court’s decision does not resolve the Company’s dispute with CPI. CPI’s Motion was denied for procedural issues and the court did not consider the substance of the dispute. CPI, among other options, may choose to appeal this decision or commence a new proceeding. In either event, the Company intends to contest vigorously any claim CPI may make based on the BDO report.

Contract Pharmacal Corp. commenced an action on October 2, 2018, relating to a Sublease entered into between the Company and Contract Pharmacal in May 2018 with respect to the property at 110 Plant Avenue, Hauppauge, New York. In the action Contract Pharmacal seeks damages for an amount in excess of \$1,000,000 for our failure to make the entire premises available by the Sublease commencement date. The Company disputes the validity of the claims asserted by

Contract Pharmacal and believes it has meritorious defenses to those claims and have recently submitted a motion in opposition to its motion for summary judgement. As of September 30, 2020, it is not possible to estimate if a loss will be incurred, as such there has been no accrual.

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

Income Taxes

**9 Months Ended
Sep. 30, 2020**

[Income Tax Disclosure](#)

[\[Abstract\]](#)

[INCOME TAXES](#)

Note 10. INCOME TAXES

The Company recorded no federal income tax expense for the three and nine months ended September 30, 2020 and 2019 because the estimated annual effective tax rate was zero. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

As a result of the passage of the CARES Act, the Company received \$1,416,000 from the filing of a net operating loss carryback claim. The Company is currently evaluating the impact of other provisions of the CARES Act on its accounting for income taxes and does not believe it has a material impact at this time.

The Company recorded no other federal income tax benefit for both of the three and nine months ended September 30, 2020 and 2019.

As of September 30, 2020, and December 31, 2019, the Company provided a full valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized.

Segment Reporting

**9 Months Ended
Sep. 30, 2020**

Segment Reporting

[Abstract]

SEGMENT REPORTING

Note 11. SEGMENT REPORTING

In accordance with FASB ASC 280, "Segment Reporting" ("ASC 280"), the Company discloses financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company follows ASC 280, which establishes standards for reporting information about operating segments in annual and interim financial statements, and requires that companies report financial and descriptive information about their reportable segments based on a management approach. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers.

The Company divides its operations into two operating segments: Complex Machining which consists of AIM and NTW and Turbine Engine Components which consists of Sterling. Along with the Company's operating subsidiaries, the Company reports the results of its corporate division as an independent segment.

For reporting purposes, EPC and ECC have been classified as discontinued operations for the three and nine months ending September 30, 2019.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. Intersegment transfers are recorded at the transferor's cost, and there is no intercompany profit or loss on intersegment transfers. We evaluate performance based on revenue, gross profit contribution and assets employed.

Financial information about the Company's operating segments for the three and nine months ended September 30, 2020 and 2019 are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
COMPLEX MACHINING				
Net Sales	\$12,423,000	\$12,283,000	\$31,795,000	\$36,402,000
Gross Profit	1,735,000	2,762,000	4,584,000	7,070,000
Pre Tax Income from continuing operations	912,000	2,003,000	2,072,000	4,797,000
Assets	52,963,000	45,033,000	52,963,000	45,033,000
TURBINE ENGINE COMPONENTS				
Net Sales	1,239,000	1,714,000	3,808,000	4,841,000
Gross Profit (Loss)	(79,000)	201,000	(133,000)	358,000
Pre Tax Loss from continuing operations	(251,000)	(11,000)	(594,000)	(292,000)
Assets	3,941,000	5,122,000	3,941,000	5,122,000
CORPORATE				
Net Sales	-	-	-	-
Gross Profit	-	-	-	-
Pre Tax Loss from continuing operations	(1,138,000)	(1,572,000)	(3,895,000)	(5,815,000)

Assets	1,860,000	596,000	1,860,000	596,000
CONSOLIDATED				
Net Sales	13,662,000	13,997,000	35,603,000	41,243,000
Gross Profit	1,656,000	2,963,000	4,451,000	7,428,000
Pretax net income (loss) from continuing operations	(477,000)	420,000	(2,417,000)	(1,310,000)
Provision for (benefit from) Income Taxes	-	22,000	(1,414,000)	22,000
Loss from Discontinued Operations, net of taxes	-	(211,000)	-	(139,000)
Net Income (Loss)	(477,000)	187,000	(1,003,000)	(1,471,000)
Assets	\$58,764,000	\$50,751,000	\$58,764,000	\$50,751,000

**Summary of Significant
Accounting Policies (Policies)**

**9 Months Ended
Sep. 30, 2020**

[Accounting Policies](#)

[\[Abstract\]](#)

[Inventory Valuation](#)

Inventory Valuation

For annual periods, the Company values inventory at the lower of cost on a first-in-first-out basis or estimated net realizable value. The Company does not take physical inventories at interim quarterly reporting periods. Historically, in each period, substantially all of the inventory value has been estimated using a gross profit percentage based on annual gross profit percentages of the immediately preceding year as applied to the net sales of the current period. During the three months ended September 30, 2020, the Company determined that its gross profits by segment were below its 2019 gross profit percentages and accordingly has adjusted margins to less than those of 2019. Adjustments to reconcile the annual physical inventory to the Company's books are recorded in the fourth quarter.

Credit and Concentration Risks

There were three customers that represented 70.6% and two customers that represented 61.7% of total net sales for the three months ended September 30, 2020 and 2019, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
1	25.8	35.0
2	23.2	26.7
3	21.6	*

* Customer was less than 10% of sales for the three months ended September 30, 2019.

There were three customers that represented 74.2% and 73.4% of total sales for the nine months ended September 30, 2020 and 2019, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
1	32.1	31.1
2	28.2	31.0
3	13.9	*
4	*	11.3

* Customer was less than 10% of sales for the nine months ended September 30, 2020 and 2019.

There were two customers that represented 63.6% and three customers that represented 67.8% of gross accounts receivable at September 30, 2020 and December 31, 2019, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	September 30, 2020	December 31, 2019
	(Unaudited)	
1	34.6	32.7
2	29.0	10.0

* Customer was less than 10% of accounts receivable sales at September 30, 2020.

Cash and Cash Equivalents

During the year, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC insurance limit. The Company has not experienced any losses on these accounts.

Major Suppliers

The Company has several key sole-source suppliers of various parts that are important for one or more of its products. These suppliers are its only source for such parts and, therefore, in the event any of them were to go out of business or be unable or unwilling to provide parts for any reason, its business could be severely harmed.

Leases

Leases

The Company accounts for leases under ASC 842, "Leases." All leases are required to be recorded on the balance sheet and are classified as either operating leases or finance leases. The lease classification affects the expense recognition in the income statement. Operating lease charges are recorded entirely in operating expenses. Finance lease charges are split, where amortization of the right-of-use asset is recorded in operating expenses and an implied interest component is recorded in interest expense.

Earnings (Loss) per share

Earnings (Loss) per share

Basic earnings (loss) per share ("EPS") is computed by dividing the net income (loss) applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

For purposes of calculating diluted earnings per common share, the numerator includes net income plus interest on convertible notes payable assumed converted as of the first day of the period. The denominator includes both the weighted-average number of shares of common stock outstanding during the period and the number of common stock equivalents if the inclusion of such common stock equivalents is dilutive. Dilutive common stock equivalents potentially include stock options and warrants using the treasury stock method and convertible notes payable using the if-converted method.

The following is the calculation of net (loss) income applicable to common stockholders utilized to calculate the EPS:

	Three Months Ended		Nine Months Ended	
	Sept 30, 2020	Sept 30, 2019	Sept 30, 2020	Sept 30, 2019
Continuing Operations	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Income (loss) from continuing operations	\$ (477,000)	\$ 398,000	\$(1,003,000)	\$(1,332,000)
Add: Convertible Note Interest for Potential Note Conversion	-	120,000	-	-
Income (loss) used to calculate earnings per share	<u>\$ (477,000)</u>	<u>\$ 518,000</u>	<u>\$(1,003,000)</u>	<u>\$(1,332,000)</u>

The following is a reconciliation of the denominators of basic and diluted earnings per share computations:

<u>Three Months Ended</u>	<u>Nine Months Ended</u>
---------------------------	--------------------------

	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing Operations				
Weighted average shares outstanding used to compute basic earnings per share	30,620,990	28,909,072	30,524,874	28,774,041
Effect of dilutive stock options and warrants	-	131,458	-	-
Effect of dilutive convertible notes payable	-	6,005,485	-	-
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	30,620,990	35,046,015	30,524,874	28,774,041

The following securities have been excluded from the calculation as the exercise price was greater than the average market price of the common shares:

	Three and Nine Months Ended	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
Stock Options	163,000	852,000
Warrants	1,423,000	2,183,000
	<u>1,586,000</u>	<u>3,035,000</u>

The following securities have been excluded from the calculation even though the exercise price was less than the average market price of the common shares during the periods set forth below because the effect of including these potential shares was anti-dilutive due to the net loss incurred during these periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Stock Options	1,696,000	-	1,696,000	500,000
Warrants	760,000	-	760,000	-
Convertible notes payable	5,092,000	-	5,092,000	6,005,000
	<u>7,548,000</u>	<u>-</u>	<u>7,548,000</u>	<u>6,505,000</u>

Stock-Based Compensation

Stock-Based Compensation

The Company accounts for stock-based compensation 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. Stock based compensation expense for employees amounted to \$52,000 and \$25,000 for the three months ended September 30, 2020 and 2019, respectively, and \$266,000 and \$351,000 for the nine months ended September 30, 2020 and 2019, respectively. Stock compensation expense for directors amounted to \$58,000 and \$56,000 for the three months ended September 30, 2020 and 2019, respectively and \$159,000 and \$187,000 for the nine months ended September 30, 2020 and 2019, respectively. Stock compensation expense for employees and directors was included in operating expenses on the accompanying Condensed Consolidated Statements of Operations.

Goodwill

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of \$163,000 at September 30, 2020 and December 31, 2019 relates to the acquisition of NTW.

Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances occur that more likely than not reduce the fair value of the reporting unit below its carrying amount.

The COVID-19 pandemic was a triggering event for testing whether goodwill has been impaired. The Company performed a qualitative assessment and determined it is more likely than not that the fair value exceeds the carrying value of \$163,000 as of September 30, 2020. The Company will continue to monitor the impacts of the COVID-19 pandemic in future quarters. Changes in the Company's forecasts or further decreases in the value of its common stock could cause book values to exceed fair values which may result in goodwill impairment charges in future periods.

[Recently Issued Accounting Pronouncements](#)

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"), which is intended to address issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. For convertible instruments, ASU 2020-06 reduces the number of accounting models for convertible debt instruments and convertible preferred stock, and enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance on the basis of feedback from financial statement users. ASU 2020-06 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is evaluating the effect of adopting this new accounting guidance on its financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements and related disclosures.

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 condensed consolidated financial statements.

**Discontinued Operations
(Tables)**

Discontinued Operations and Disposal Groups [Abstract]
Schedule of reconciliation of the major financial lines constituting
the results of operations for discontinued operations

**9 Months Ended
Sep. 30, 2020**

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(unaudited)	(unaudited)
Net revenue	\$ -	\$ 132,000
Cost of goods sold	-	105,000
Gross profit	-	27,000
Operating expenses:		
Selling, general and administrative	100,000	155,000
Loss from operations	(100,000)	(128,000)
Interest expense	-	(1,000)
Other expense	(111,000)	(10,000)
Loss from discontinued operations before income taxes	(211,000)	(139,000)
Provision for income taxes	-	-
Loss from discontinued operations, net of income tax	\$ (211,000)	\$ (139,000)

**Summary of Significant
Accounting Policies (Tables)**

[Accounting Policies \[Abstract\]](#)

[Schedule of credit and concentration risks](#)

**9 Months Ended
Sep. 30, 2020**

Customer	Percentage of Sales	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
1	25.8	35.0
2	23.2	26.7
3	21.6	*

* Customer was less than 10% of sales for the three months ended September 30, 2019.

Customer	Percentage of Sales	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
1	32.1	31.1
2	28.2	31.0
3	13.9	*
4	*	11.3

* Customer was less than 10% of sales for the nine months ended September 30, 2020 and 2019.

Customer	Percentage of Receivables	
	September 30, 2020	December 31, 2019
	(Unaudited)	(Unaudited)
1	34.6	32.7
2	29.0	10.0
3	*	25.1

* Customer was less than 10% of accounts receivable sales at September 30, 2020.

[Schedule of calculation of net income \(loss\)
applicable to common stockholders utilized
to calculate EPS](#)

	Three Months Ended		Nine Months Ended	
	Sept 30, 2020	Sept 30, 2019	Sept 30, 2020	Sept 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing Operations				
Income (loss) from continuing operations	\$ (477,000)	\$ 398,000	\$(1,003,000)	\$(1,332,000)
Add: Convertible Note Interest for Potential Note Conversion	-	120,000	-	-
Income (loss) used to calculate earnings per share	\$ (477,000)	\$ 518,000	\$(1,003,000)	\$(1,332,000)

[Schedule of earnings per share for continuing operations](#)

Continuing Operations	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Weighted average shares outstanding used to compute basic earnings per share	30,620,990	28,909,072	30,524,874	28,774,041
Effect of dilutive stock options and warrants	-	131,458	-	-
Effect of dilutive convertible notes payable	-	6,005,485	-	-
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	30,620,990	35,046,015	30,524,874	28,774,041

Schedule of anti-dilutive securities

	Three and Nine Months Ended	
	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)
Stock Options	163,000	852,000
Warrants	1,423,000	2,183,000
	1,586,000	3,035,000

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Stock Options	1,696,000	-	1,696,000	500,000
Warrants	760,000	-	760,000	-
Convertible notes payable	5,092,000	-	5,092,000	6,005,000
	7,548,000	-	7,548,000	6,505,000

**Property and Equipment
(Tables)**

**9 Months Ended
Sep. 30, 2020**

[Property, Plant and Equipment](#)

[\[Abstract\]](#)

[Schedule of property and equipment](#)

	September 30, 2020	December 31, 2019	
	(unaudited)		
Land	\$ 300,000	\$ 300,000	
Buildings and Improvements	1,650,000	1,650,000	31.50 years
Machinery and Equipment	14,861,000	12,251,000	5 - 8 years
Finance Lease Machinery and Equipment	6,546,000	6,495,000	5 - 8 years
Tools and Instruments	11,612,000	11,021,000	1.50 - 7 years
Automotive Equipment	148,000	177,000	5 years
Furniture and Fixtures	290,000	290,000	5 - 8 years
Leasehold Improvements	530,000	530,000	Term of Lease
Computers and Software	436,000	425,000	4 - 6 years
Total Property and Equipment	36,373,000	33,139,000	
Less: Accumulated Depreciation	(27,466,000)	(25,561,000)	
Property and Equipment, net	<u>\$ 8,907,000</u>	<u>\$ 7,578,000</u>	

Leases (Tables)

**9 Months Ended
Sep. 30, 2020**

[Leases \[Abstract\]](#)

[Schedule of components of lease costs, lease term and discount rate](#)

**September 30,
2020**

Weighted Average Remaining Lease Term - in years	5.77
Weighted Average discount rate - %	8.88%

[Schedule of aggregate undiscounted cash flows of operating lease payments](#)

**September 30,
2020**

For the twelve months ended December 31,	(unaudited)
December 31, 2020 (remaining three months)	\$ 271,000
December 31, 2021	1,080,000
December 31, 2022	1,007,000
December 31, 2023	1,038,000
December 31, 2024	1,070,000
Thereafter	1,722,000
Total future minimum lease payments	6,188,000
Less: discount	(1,394,000)
Total operating lease maturities	4,794,000
Less: current portion of operating lease liabilities	(694,000)
Total long term portion of operating lease maturities	\$ 4,100,000

**Notes Payable, Related Party
Notes Payable and Finance
Lease Obligations (Tables)**

9 Months Ended

Sep. 30, 2020

[Notes and Loans Payable \[Abstract\]](#)

[Schedule of notes payable, related party notes payable and finance lease obligations](#)

	September 30, 2020 (unaudited)	December 31, 2019
Revolving credit note payable to Sterling National Bank ("SNB")	\$ 15,883,000	\$ 12,543,000
Term loan, SNB	3,386,000	3,800,000
Finance lease obligations	12,000	22,000
Loans Payable - financed assets	220,000	385,000
Related party notes payable, net of debt discount	6,018,000	6,862,000
Convertible notes payable-third parties, net of debt discount	1,440,000	2,338,000
SBA loans	2,414,000	-
Subtotal	29,373,000	25,950,000
Less: Current portion of notes payable, related party notes payable and finance lease obligations	(22,234,000)	(22,544,000)
Notes payable, related party notes payable and finance lease obligations, net of current portion	\$ 7,139,000	\$ 3,406,000

[Schedule of payments for the term note](#)

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 136,000
December 31, 2021	543,000
December 31, 2022	2,759,000
SNB Term Loans payable	3,438,000
Less: debt issuance costs	(52,000)
Total SNB Term loan payable, net of debt issuance costs	3,386,000
Less: Current portion of SNB term loan payable	3,386,000
Total long-term portion of SNB term loan payable	\$ -

[Schedule of future minimum loans payments](#)

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 75,000
December 31, 2021	106,000
December 31, 2022	9,000
December 31, 2023	9,000
December 31, 2024	9,000
Thereafter	12,000
Loans Payable - financed assets	220,000
Less: Current portion	179,000
Long-term portion	\$ 41,000

[Schedule of SBA Loans future minimum loan payments](#)

For the twelve months ending	Amount
December 31, 2020 (remainder of the year)	\$ 133,000
December 31, 2021	1,607,000
December 31, 2022	674,000
Total SBA Loans	2,414,000
Less: Current portion of SBA Loans	1,337,000
Long-term portion of SBA Loans	\$1,077,000

**Liability Related to the Sale
of Future Proceeds from
Disposition of Subsidiary
(Tables)**

9 Months Ended

Sep. 30, 2020

[Proceeds as liability amount](#)

[Schedule of activity within the](#)

[liability account](#)

Liabilities related to sale of future proceeds from disposition of subsidiaries - as of December 31, 2019	\$ 603,000
Non-Cash other income recognized	(302,000)
Non-Cash interest expense recognized	90,000
Liabilities related to sale of future proceeds from disposition of subsidiary - as of September 30, 2020	391,000
Less: unamortized transaction costs	(3,000)
Liability related to sale of future proceeds from disposition of subsidiary, net	<u>\$ 388,000</u>

Segment Reporting (Tables)

**9 Months Ended
Sep. 30, 2020**

[Segment Reporting](#)

[\[Abstract\]](#)

[Schedule of operating
segments](#)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
COMPLEX MACHINING				
Net Sales	\$12,423,000	\$12,283,000	\$31,795,000	\$36,402,000
Gross Profit	1,735,000	2,762,000	4,584,000	7,070,000
Pre Tax Income from continuing operations	912,000	2,003,000	2,072,000	4,797,000
Assets	52,963,000	45,033,000	52,963,000	45,033,000
TURBINE ENGINE COMPONENTS				
Net Sales	1,239,000	1,714,000	3,808,000	4,841,000
Gross Profit (Loss)	(79,000)	201,000	(133,000)	358,000
Pre Tax Loss from continuing operations	(251,000)	(11,000)	(594,000)	(292,000)
Assets	3,941,000	5,122,000	3,941,000	5,122,000
CORPORATE				
Net Sales	-	-	-	-
Gross Profit	-	-	-	-
Pre Tax Loss from continuing operations	(1,138,000)	(1,572,000)	(3,895,000)	(5,815,000)
Assets	1,860,000	596,000	1,860,000	596,000
CONSOLIDATED				
Net Sales	13,662,000	13,997,000	35,603,000	41,243,000
Gross Profit	1,656,000	2,963,000	4,451,000	7,428,000
Pretax net income (loss) from continuing operations	(477,000)	420,000	(2,417,000)	(1,310,000)
Provision for (benefit from) Income Taxes	-	22,000	(1,414,000)	22,000
Loss from Discontinued Operations, net of taxes	-	(211,000)	-	(139,000)
Net Income (Loss)	(477,000)	187,000	(1,003,000)	(1,471,000)
Assets	\$58,764,000	\$50,751,000	\$58,764,000	\$50,751,000

**Formation and Basis of
Presentation (Details) - USD
(\$)**

**1 Months Ended
May 31, 2020**

**9 Months
Ended
Sep. 30, 2020**

**Formation and Basis of
Presentation (Textual)**

Government subsidized loans, description AIM, NTW and Sterling (each a "Borrower") entered into government subsidized loans with Sterling National Bank ("SNB") as the lender in an aggregate principal amount of approximately \$2.4 million ("SBA Loans"). Each SBA Loan is evidenced by a promissory note. At least 60% of the proceeds of each Loan must be used for payroll and payroll-related costs, in accordance with the applicable provisions of the federal statute authorizing the loan program administered by the SBA and the rules promulgated thereunder (the "Loan Program").

Net operating loss carryback

\$ 1,416,000

Deferred liabilities other

\$ 429,000

Deferred amounts, description

These deferred amounts must be repaid 50% on December 31, 2021 with the remaining 50% on December 31, 2022.

Discontinued Operations (Details) - USD (\$)	3 Months Ended Sep. 30, 2019	9 Months Ended Sep. 30, 2019
<u>Discontinued Operations and Disposal Groups [Abstract]</u>		
<u>Net revenue</u>		\$ 132,000
<u>Cost of goods sold</u>		105,000
<u>Gross profit</u>		27,000
<u>Operating expenses:</u>		
<u>Selling, general and administrative</u>	100,000	155,000
<u>Loss from operations</u>	(100,000)	(128,000)
<u>Interest expense</u>		(1,000)
<u>Other expense</u>	(111,000)	(10,000)
<u>Loss from discontinued operations before income taxes</u>	(211,000)	(139,000)
<u>Provision for income taxes</u>		
<u>Loss from discontinued operations, net of income tax</u>	\$ (211,000)	\$ (139,000)

Discontinued Operations	3 Months Ended	9 Months Ended
(Details Textual) - USD (\$)	Sep. 30, 2019	Sep. 30, 2019
<u>Discontinued Operations (Textual)</u>		
<u>Depreciation and amortization</u>	\$ 0	\$ 6,000

Summary of Significant Accounting Policies (Details)	3 Months Ended		9 Months Ended		12 Months Ended
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019	Dec. 31, 2019
Total Sales [Member] Customer one [Member]					
Percentage of Sales	25.80%	35.00%	32.10%	31.10%	
Total Sales [Member] Customer two [Member]					
Percentage of Sales	23.20%	26.70%	28.20%	31.00%	
Total Sales [Member] Customer three [Member]					
Percentage of Sales	21.60%	[1] 13.90%		[2]	
Total Sales [Member] Customer four [Member]					
Percentage of Sales				[2] 11.30%	
Accounts receivable [Member] Customer one [Member]					
Percentage of Sales			34.60%		32.70%
Accounts receivable [Member] Customer two [Member]					
Percentage of Sales			29.00%		10.00%
Accounts receivable [Member] Customer three [Member]					
Percentage of Sales				[3]	25.10%

[1] Customer was less than 10% of sales for the three months ended September 30, 2019.

[2] Customer was less than 10% of sales for the nine months ended September 30, 2020 and 2019.

[3] Customer was less than 10% of accounts receivable sales at September 30, 2020.

**Summary of Significant
Accounting Policies (Details
1) - USD (\$)**

**3 Months Ended
Sep. 30,
2020 Sep. 30,
2019**

**9 Months Ended
Sep. 30,
2020 Sep. 30,
2019**

[Accounting Policies \[Abstract\]](#)

[Income \(loss\) from continuing operations](#)

\$ (477,000)	\$ 398,000	\$ (1,003,000)	\$ (1,332,000)
--------------	------------	----------------	----------------

[Add: Convertible Note Interest for Potential Note
Conversion](#)

120,000

[Income \(loss\) used to calculate earnings per share](#)

\$ (477,000)	\$ 518,000	\$ (1,003,000)	\$ (1,332,000)
--------------	------------	----------------	----------------

**Summary of Significant
Accounting Policies (Details
2) - shares**

3 Months Ended		9 Months Ended	
Sep. 30,	Sep. 30,	Sep. 30,	Sep. 30,
2020	2019	2020	2019

Accounting Policies [Abstract]

Weighted average shares outstanding used to compute basic earnings per share

30,620,990 28,909,072 30,524,874 28,774,041

Effect of dilutive stock options and warrants

131,458

Effect of dilutive convertible notes payable

6,005,485

Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share

30,620,990 35,046,015 30,524,874 28,774,041

Summary of Significant Accounting Policies (Details 3) - shares	3 Months Ended		9 Months Ended	
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019
Securitized excluded from calculation due to exercise price in excess of average market share	1,586,000	3,035,000	1,586,000	3,035,000
Antidilutive securities excluded from computation of earnings per share, amount	7,548,000		7,548,000	6,505,000
Warrants [Member]				
Securitized excluded from calculation due to exercise price in excess of average market share	1,423,000	2,183,000	1,423,000	2,183,000
Antidilutive securities excluded from computation of earnings per share, amount	760,000		760,000	
Stock Options [Member]				
Securitized excluded from calculation due to exercise price in excess of average market share	163,000	852,000	163,000	852,000
Antidilutive securities excluded from computation of earnings per share, amount	1,696,000		1,696,000	500,000
Convertible Notes Payable, Third Parties [Member]				
Antidilutive securities excluded from computation of earnings per share, amount	5,092,000		5,092,000	6,005,000

Summary of Significant Accounting Policies (Details Textual)	3 Months Ended		9 Months Ended		12 Months Ended
	Sep. 30, 2020 USD (\$) Customer / Customers	Sep. 30, 2019 USD (\$) Customer / Customers	Sep. 30, 2020 USD (\$) Customer / Customers	Sep. 30, 2019 USD (\$) Customer / Customers	Dec. 31, 2019 USD (\$) Customer / Customers
Summary of Significant Accounting Policies (Textual)					
Stock-based compensation	\$ 52,000	\$ 25,000	\$ 266,000	\$ 351,000	
Goodwill	163,000		163,000		\$ 163,000
Fair value exceeds the carrying value	163,000		163,000		
Director [Member]					
Summary of Significant Accounting Policies (Textual)					
Stock-based compensation	\$ 58,000	\$ 56,000	\$ 159,000	\$ 187,000	
Accounts receivable [Member]					
Summary of Significant Accounting Policies (Textual)					
Number of customers Customer / Customers					3
Concentration risks			63.60%		67.80%
Credit and concentration risks, description			Customer was less than 10% of accounts receivable sales at September 30, 2020.		
Total Sales [Member]					
Summary of Significant Accounting Policies (Textual)					
Number of customers Customer / Customers	3	2	3	3	
Concentration risks	70.60%	61.70%	74.20%	73.40%	
Credit and concentration risks, description		Customer was less than 10% of sales for the three months ended September 30, 2019.	Customer was less than 10% of sales for the nine months ended September 30, 2020 and 2019.		
NTW [Member]					
Summary of Significant Accounting Policies (Textual)					
Goodwill	\$ 163,000		\$ 163,000		\$ 163,000

Property and Equipment (Details) - USD (\$)	9 Months Ended	
	Sep. 30, 2020	Dec. 31, 2019
Total Property and Equipment	\$ 36,373,000	\$ 33,139,000
Less: Accumulated Depreciation	(27,466,000)	(25,561,000)
Property and Equipment, net	8,907,000	7,578,000
Land [Member]		
Total Property and Equipment	300,000	300,000
Buildings and Improvements [Member]		
Total Property and Equipment	\$ 1,650,000	1,650,000
Property and Equipment, Useful Life	31 years 6 months	
Machinery and Equipment [Member]		
Total Property and Equipment	\$ 14,861,000	12,251,000
Machinery and Equipment [Member] Minimum [Member]		
Property and Equipment, Useful Life	5 years	
Machinery and Equipment [Member] Maximum [Member]		
Property and Equipment, Useful Life	8 years	
Finance Lease Machinery and Equipment [Member]		
Total Property and Equipment	\$ 6,546,000	6,495,000
Tools and Instruments [Member]		
Total Property and Equipment	\$ 11,612,000	11,021,000
Tools and Instruments [Member] Minimum [Member]		
Property and Equipment, Useful Life	1 year 6 months	
Tools and Instruments [Member] Maximum [Member]		
Property and Equipment, Useful Life	7 years	
Automotive Equipment [Member]		
Total Property and Equipment	\$ 148,000	177,000
Property and Equipment, Useful Life	5 years	
Furniture and Fixtures [Member]		
Total Property and Equipment	\$ 290,000	290,000
Furniture and Fixtures [Member] Minimum [Member]		
Property and Equipment, Useful Life	5 years	
Furniture and Fixtures [Member] Maximum [Member]		
Property and Equipment, Useful Life	8 years	
Leasehold Improvements [Member]		
Total Property and Equipment	\$ 530,000	530,000
Property and Equipment, Useful Life, description	Term of Lease	
Computers and Software [Member]		
Total Property and Equipment	\$ 436,000	\$ 425,000
Computers and Software [Member] Minimum [Member]		
Property and Equipment, Useful Life	4 years	
Computers and Software [Member] Maximum [Member]		
Property and Equipment, Useful Life	6 years	
Finance Lease Machinery and Equipment [Member] Minimum [Member]		

<u>Property and Equipment, Useful Life</u>	5 years
<u>Finance Lease Machinery and Equipment [Member] Maximum [Member]</u>	
<u>Property and Equipment, Useful Life</u>	8 years

Property and Equipment (Details Textual) - USD (\$)	3 Months Ended		9 Months Ended	
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019 Dec. 31, 2019
<u>Property and Equipment (Textual)</u>				
<u>Depreciation expense</u>	\$ 576,000	\$ 712,000	\$ 1,920,000	\$ 2,085,000
<u>Accumulated depreciation</u>	\$ 6,359,000		\$ 6,359,000	\$ 5,936,000

Leases (Details)**Sep. 30, 2020****[Leases \[Abstract\]](#)**[Weighted Average Remaining Lease Term - in years](#) 5 years 9 months 7 days[Weighted Average discount rate - %](#) 8.88%

Leases (Details 1) - USD (\$)**Sep. 30, 2020 Dec. 31, 2019****For the twelve months ended December 31,**Total long term portion of operating lease maturities \$ 4,100,000 \$ 4,235,000Operating lease payments [Member]**For the twelve months ended December 31,**December 31, 2020 (remaining three months) 271,000December 31, 2021 1,080,000December 31, 2022 1,007,000December 31, 2023 1,038,000December 31, 2024 1,070,000Thereafter 1,722,000Total future minimum lease payments 6,188,000Less: discount (1,394,000)Total operating lease maturities 4,794,000Less: current portion of operating lease liabilities (694,000)Total long term portion of operating lease maturities \$ 4,100,000

Leases (Details Textual) - USD (\$)	3 Months Ended		9 Months Ended Sep. 30, 2020	Sep. 30, 2019
	Sep. 30, 2020	Sep. 30, 2019		
Leases (Textual)				
Lease agreement, description	The Company entered into a new lease agreement for warehouse space in Bohemia, NY. The new lease term commenced on April 1, 2020 and expires on May 31, 2025. During the first year of the lease, the monthly rent is \$10,964 and increases 3% each year thereafter. The final two months are equal installments of \$1,746.			
Rent expense	\$ 280,000	\$ 310,000	\$ 892,000	\$ 936,000

**Notes Payable, Related Party
Notes Payable and Finance
Lease Obligations (Details) -
Notes payable and finance
lease obligations [Member] -
USD (\$)**

	Sep. 30, 2020	Dec. 31, 2019
<u>Revolving credit note payable to Sterling National Bank ("SNB")</u>	\$ 15,883,000	\$ 12,543,000
<u>Term loan, SNB</u>	3,386,000	3,800,000
<u>Finance lease obligations</u>	12,000	22,000
<u>Loans Payable - financed assets</u>	220,000	385,000
<u>Related party notes payable, net of debt discount</u>	6,018,000	6,862,000
<u>Convertible notes payable-third parties, net of debt discount</u>	1,440,000	2,338,000
<u>SBA loans</u>	2,414,000	
<u>Subtotal</u>	29,373,000	25,950,000
<u>Less: Current portion of notes payable, related party notes payable and finance lease obligations</u>	(22,234,000)	(22,544,000)
<u>Notes payable, related party notes payable and finance lease obligations, net of current portion</u>	\$ 7,139,000	\$ 3,406,000

**Notes Payable, Related Party
Notes Payable and Finance
Lease Obligations (Details 1)
- Term loans [Member]**

**Sep. 30, 2020
USD (\$)**

For the twelve months ending

December 31, 2020 (remainder of the year) \$ 136,000

December 31, 2021 543,000

December 31, 2022 2,759,000

SNB Term Loans payable 3,438,000

Less: debt issuance costs (52,000)

Total SNB Term loan payable, net of debt issuance costs 3,386,000

Less: Current portion of SNB term loan payable 3,386,000

Total long-term portion of SNB term loan payable

Notes Payable, Related Party
Notes Payable and Finance
Lease Obligations (Details 2)
- Term loans [Member]

Sep. 30, 2020
USD (\$)

For the twelve months ending

<u>December 31, 2020 (remainder of the year)</u>	\$ 75,000
<u>December 31, 2021</u>	106,000
<u>December 31, 2022</u>	9,000
<u>December 31, 2023</u>	9,000
<u>December 31, 2024</u>	9,000
<u>Thereafter</u>	12,000
<u>Loans Payable - financed assets</u>	220,000
<u>Less: Current portion</u>	179,000
<u>Long-term portion</u>	\$ 41,000

**Notes Payable, Related Party
Notes Payable and Finance
Lease Obligations (Details 3)
- Term loans [Member]**

**Sep. 30, 2020
USD (\$)**

For the twelve months ending

<u>December 31, 2020 (remainder of the year)</u>	\$ 133,000
<u>December 31, 2021</u>	1,607,000
<u>December 31, 2022</u>	674,000
<u>Total SBA Loans</u>	2,414,000
<u>Less: Current portion of SBA Loans</u>	1,337,000
<u>Long-term portion of SBA Loans</u>	\$ 1,077,000

Notes Payable, Related Party Notes Payable and Finance Lease Obligations (Details Textual) - USD (\$)	Nov. 03, 2020	Jun. 26, 2019	Jan. 15, 2019	Jan. 31, 2020	1 Months Ended Oct. 21, 2019	May 31, 2018	3 Months Ended Sep. 30, 2020	Sep. 30, 2019	9 Months Ended Sep. 30, 2020	Sep. 30, 2019	12 Months Ended Dec. 31, 2019	May 31, 2020	Apr. 04, 2018	Mar. 29, 2018
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[Notes Payable and Capital
Lease Obligations \(Textual\)](#)
[Loan and security agreement](#)

The Company entered into the First Amendment to Loan and Security Agreement ("First Amendment"). The terms of the agreement increase the Term Loan to \$5,685,000. The repayment terms of the term loan were amended to provide monthly principal installments in the amount of \$67,679 beginning on December 1, 2020, with a final payment of any unpaid balance of principal and interest payable on December 30, 2022. Additionally, the date by which certain subordinated third-party notes need to be extended by was changed from September 30, 2020 to November 30, 2020. The Company has paid an amendment fee of \$20,000.

[Aggregate commission received](#)

4.00%

[Related party advances and notes payable, net of debt discounts](#)

\$
6,018,000

\$ 6,018,000

[Issuance of common stock, shares](#)

419,597

[Proceeds from related party debt](#)

\$
500,000

[Interest rate](#)

3.00%

3.00%

12.00%

[Loan obligation](#)

\$ 50,000

\$ 50,000

\$ 0

[Michael Taglich \[Member\]](#)

[Notes Payable and Capital
Lease Obligations \(Textual\)](#)

Advanced from related parties	\$		
	250,000		
Issuance of common stock, shares	37,500		
Notes payable percentage	12.00%		
Proceeds from related party debt		\$	
		1,000,000	
Michael Taglich [Member] Robert [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Advanced from related parties			\$
			\$
			100,000 1,000,000
Robert [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Common stock purchased, shares			
Common stock purchase price, per share			
Issuance of common stock, shares	37,500		
Robert and Michael Taglich [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Loan facility, description			

From November 23, 2016 through March 21, 2017, the Company received gross proceeds of \$4,775,000, of which \$1,950,000 were received from Robert and Michael Taglich, from the sale of an equal principal amount of its 8% Subordinated Convertible Notes (the "8% Notes"), together with warrants to purchase a total of 383,080 shares of its common stock, in private placement transactions with accredited investors (the "8% Note Offerings"). In connection with the offering of the 8% Notes, the Company issued 8% Notes in the aggregate principal

[Interest-bearing, description](#)

amount of
\$382,000 to
Taglich
Brothers, Inc.,
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
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
SNB Facility.
Interest on the
8% Notes is
payable on the
outstanding
principal
amount
thereof at the
annual rate of
8%, payable
quarterly
commencing
February 28,
2017, in cash,
or at the
Company's
option, in
additional 8%
Notes,
provided that
if accrued
interest
payable on
\$1,269,000
principal
amount of the
8% Notes
issued in
December
2016 is paid in
additional 8%
Notes, interest
for that
quarterly
interest
payment shall
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.	
Interest expense	125,000	\$ 265,000	\$ 378,000	740,000	
Convertible notes payable	6,018,000		6,018,000		\$ 6,862,000
Amortization of debt discount	38,000	76,000	189,000	227,000	
Unamortized debt discounts	38,000		\$ 38,000		226,000
Taglich Brothers, Inc., [Member]					
Notes Payable and Capital Lease Obligations (Textual)					
Related party notes payable allocated percentage, description				4% of the purchase price of the 7% Notes	
Convertible Notes Payable, Third Parties [Member]					
Notes Payable and Capital Lease Obligations (Textual)					
Interest expense	\$ 38,000	63,000	\$ 118,000	319,000	
Interest rate	8.00%		8.00%		
Share price					\$ 1.50
Convertible notes payable	\$ 1,440,000		\$ 1,440,000		2,338,000
Amortization of debt discount	0	3,000	7,000		\$ 131,000
Convertible Notes Payable, Third Parties [Member]					
Subsequent Event [Member]					
Notes Payable and Capital Lease Obligations (Textual)					
Principal amount	\$ 1,225,000				
Sale of principle convertible note interest rate	8.00%				
Debt converted	\$ 210,282				
Convertible debt, shares issued	1,063,272				
Share price	\$ 1.35				
Notes payable and finance lease obligations [Member]					
Notes Payable and Capital Lease Obligations (Textual)					
Related party advances and notes payable, net of debt discounts	6,018,000		6,018,000		6,862,000
Unamortized debt discounts	0		0		7,000
Loan obligation	220,000		220,000		\$ 385,000
SBA Loans [Member]					
Notes Payable and Capital Lease Obligations (Textual)					
Principal amount					\$ 2,414,000
Revolving credit loan debt to SNB			2,000,000		
Interest rate					1.00%
Total debt amount	2,414,000		\$ 2,414,000		
SNB Bank [Member]					
Notes Payable and Capital Lease Obligations (Textual)					
Loan facility, description			The terms of the SNB Facility require that, among other things, the Company maintain a specified Fixed Charge	The Company entered into a new loan facility ("SNB Facility") with Sterling National	

[Interest-bearing, description](#)

Coverage
Ratio of 1.25
to 1.00 at the
end of each
Fiscal Quarter
beginning
with the Fiscal
Quarter
ending March
31, 2020.

Under the
terms of the
SNB Facility,
both the SNB
revolving line
of credit and
the SNB term
loan will bear
an interest rate
equal to
30-day
LIBOR (with
a 1% floor)
plus 2.5%.
The average
interest rate
charged
during the
period ended
September 30,
2020 was
3.5%.

Bank,
("SNB")
expiring on
December
30, 2022.
The new
Loan
Facility
provides for
a
\$16,000,000
revolving
loan ("SNB
revolving
line of
credit") and
a term loan
("SNB term
loan").
The
repayment
terms of the
SNB term
loan
provide for
monthly
principal
installments
in the
amount of
\$45,238,
payable on
the first
business
day of each
month,
beginning
on February
1, 2020,
with a final
payment of
any unpaid
balance of
principal
and interest
payable on
December
30, 2022. In
addition, for
so long as
the SNB
term loan
remains
outstanding,
if Excess
Cash Flow
(as defined)
is a positive
number for
any fiscal
year,
beginning
with the
year ending
December
31, 2020,
the
Company
shall pay to
SNB an
amount
equal to the
lesser of (i)
twenty-five
percent
(25%) of
the Excess

			Cash Flow for such Fiscal Year and (ii) the outstanding principal balance of the term loan. Such payment shall be made to SNB and applied to the outstanding principal balance of the term loan, on or prior to April 15 of the Fiscal Year immediately following such Fiscal Year.
Principal amount	19,269,000	\$ 19,269,000	\$ 16,343,000
Revolving credit loan debt to SNB		15,883,000	12,543,000
Term loan amount		3,386,000	\$ 3,800,000
Interest expense	147,000	\$ 420,000	
Two Thousand Nineteen [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Interest-bearing, description			

Interest on the 2019 Notes is payable on the outstanding principal amount thereof at the rate of one percent (1%) per month, payable monthly commencing June 30, 2018. Upon the occurrence and continuation of a failure to pay accrued interest, interest shall accrue and be payable on such amount at the rate of 1.25% per month; provided that upon the occurrence and continuation of a failure to timely pay the principal amount of the 2019 Note,

interest shall
accrue and be
payable on
such principal
amount at the
rate of 1.25%
per month and
shall no
longer be
payable on
interest
accrued but
unpaid. The
2019 Notes
are
subordinate to
the Company's
obligations to
SNB.

Principal amount	\$ 100,000		
Common stock purchased, shares	18,334		15,000
Common stock purchase price, per share			\$ 1.01
Common stock warrants to purchase			182,000
Common stock purchase price	\$ 100,000		
Aggregate principal amount	\$ 1,200,000		
Subordinated notes maturity date	May 31, 2019		Jun. 30, 2020
Issuance of common stock, shares	214,762		180,000
Accrued interest on notes payable	1.25%		
Placement agent fee	4.00%		
Two Thousand Nineteen [Member] Michael Taglich [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Aggregate principal amount	\$ 100,000		
Issuance of common stock, shares	17,857		
Two Thousand Nineteen [Member] Robert [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Placement invested percentage	4.00%		
Aggregate principal amount	\$ 1,000,000		
Issuance of common stock, shares	178,571		
Total purchase price	\$ 1,000,000		
PNC Bank [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Principal amount	\$ 15,000,000	\$ 15,000,000	
Interest expense		\$ 391,000	\$ 954,000
2019 Notes [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Notes payable percentage			12.00%
Senior Subordinated Convertible Promissory Notes [Member]			
Notes Payable and Capital Lease Obligations (Textual)			
Loan facility, description			

The
Company
issued its

[Related party notes payable
allocated percentage,
description](#)

7% senior subordinated convertible promissory notes due December 31, 2020, each in the principal amount of \$1,000,000 (together, the "7% Notes"), to Michael Taglich and Robert Taglich, each for a purchase price of \$1,000,000. The 7% Notes bear interest at the rate of 7% per annum, are convertible into shares of the Company's common stock at a conversion price of \$0.93 per share, subject to the anti-dilution adjustments set forth in the 7% Notes and are subordinate to the Company's indebtedness under the SNB Facility. In connection with the 7% Notes, the Company paid Taglich Brothers, Inc. a fee of \$80,000 (4% of the purchase price of the 7% Notes), paid in the form of a promissory note having terms similar to the 7% Notes.

**Liability Related to the Sale
of Future Proceeds from
Disposition of Subsidiary
(Details) - USD (\$)**

3 Months Ended		9 Months Ended	
Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019

Placement Agency Agreement [Member]

Liabilities related to sale of future proceeds from disposition of subsidiaries - beginning balance

\$ 603,000

Non-Cash other income recognized

(302,000)

Non-Cash interest expense recognized

\$ 26,000	\$ 27,000	90,000	\$ 60,000
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Liabilities related to sale of future proceeds from disposition of subsidiary - ending balance

\$ 391,000	391,000
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Less: unamortized transaction costs

(3,000)

Liability related to sale of future proceeds from disposition of subsidiary, net

\$ 388,000

Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary (Details Textual) - USD (\$)	Jan. 15, 2019	3 Months Ended		9 Months Ended		12 Months Ended
		Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019	Dec. 31, 2018

Liability Related to the Sale
of Future Proceeds from
Disposition of Subsidiary
(Textual)

Sale of subsidiary, description

Meyer was obligated to pay the Company within 30 days after the end of each calendar quarter, commencing April 1, 2017, an amount equal to five (5%) percent of the net sales of AMK for that quarter until the aggregate payments made to the Company (the "Meyer Agreement") equals \$1,500,000 (the "Maximum Amount").

Aggregate of amount received

\$
363,000

Purchase agreement,
description

The Company entered into a "Purchase Agreement" with 15 accredited investors (the

"Purchasers"), including Michael and Robert Taglich, pursuant to which the Company assigned to the Purchasers all of their rights, title and interest to the remaining \$1,137,000 of the \$1,500,000 in payments due from Meyer for the sale of AMK (the "Remaining Amount") for an immediate payment of \$800,000, including \$100,000 from each of Michael and Robert Taglich, and \$75,000 for the benefit of the children of Michael Taglich. The timing of the payments is based upon the net sales of AMK. If the Purchasers have not received the entire Remaining Amount by March 31, 2023, they have the right to demand payment of their pro rata portion of the unpaid Remaining Amount from the Company ("Put Right"). To the extent the Purchasers exercise their Put Right, the remaining payments from Meyer will be retained by the Company.

<u>Purchase price per annum</u>		2.00%	
<u>Proceeds as liability amount</u>	\$		\$
	800,000		800,000
<u>Net of transaction costs</u>		\$ 3,000	
<u>Non-cash other income</u>	\$		
<u>recognized</u>	91,000	89,000	302,000
<u>Non-cash interest expense</u>	\$		
<u>recognized</u>	26,000	\$ 90,000	60,000
<u>Purchase price received</u>			\$
			800,000

Stockholders' Equity (Details) - USD (\$)	1 Months Ended		3 Months Ended			9 Months Ended	
	Jan. 20, 2020	Jan. 31, 2020	Sep. 30, 2020	Mar. 31, 2020	Sep. 30, 2019	Jun. 30, 2019	Sep. 30, 2020 Sep. 30, 2019
Stockholders' Equity (Textual)							
Issuance of common stock, shares		419,597					
Issuance of common stock		\$ 984,000		\$ 984,000		\$ 187,000	
Costs of sales	\$ 145,000						
Director [Member]							
Stockholders' Equity (Textual)							
Common stock issued for directors fees, shares			41,915		57,433		132,812 205,263

Contingencies (Details) - USD (\$)	1 Months Ended			
	May 31, 2018	Oct. 07, 2019	Sep. 27, 2019	Sep. 03, 2019

Contingencies (Textual)

<u>Damages value</u>	\$ 1,000,000			
<u>Working capital deficit</u>			\$ 4,200,000	\$ 4,145,870
<u>Satisfied to delivered escrow fund</u>		\$ 619,316	\$ 2,000,000	

**Income Taxes (Details
Textual)**

**Sep. 30, 2020
USD (\$)**

Income Taxes (Textual)

Net operating loss carryback claim \$ 1,416,000

Segment Reporting (Details) - USD (\$)	3 Months Ended		9 Months Ended		Dec. 31, 2019
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019	
<u>Net Sales</u>	\$ 13,662,000	\$ 13,997,000	\$ 35,603,000	\$ 41,243,000	
<u>Gross Profit (Loss)</u>	1,656,000	2,963,000	4,451,000	7,428,000	
<u>Pretax net income (loss) from continuing operations</u>	(477,000)	420,000	(2,417,000)	(1,310,000)	
<u>Provision for (benefit from) Income Taxes</u>		22,000	(1,414,000)	22,000	
<u>Loss from Discontinued Operations, net of taxes</u>		(211,000)		(139,000)	
<u>Net Income (Loss)</u>	(477,000)	187,000	(1,003,000)	(1,471,000)	
<u>Assets</u>	58,764,000		58,764,000		\$ 51,090,000
<u>COMPLEX MACHINING</u>					
<u>Net Sales</u>	12,423,000	12,283,000	31,795,000	36,402,000	
<u>Gross Profit (Loss)</u>	1,735,000	2,762,000	4,584,000	7,070,000	
<u>Pretax net income (loss) from continuing operations</u>	912,000	2,003,000	2,072,000	4,797,000	
<u>Assets</u>	52,963,000	45,033,000	52,963,000	45,033,000	
<u>TURBINE ENGINE COMPONENTS</u>					
<u>Net Sales</u>	1,239,000	1,714,000	3,808,000	4,841,000	
<u>Gross Profit (Loss)</u>	(79,000)	201,000	(133,000)	358,000	
<u>Pretax net income (loss) from continuing operations</u>	(251,000)	(11,000)	(594,000)	(292,000)	
<u>Assets</u>	3,941,000	5,122,000	3,941,000	5,122,000	
<u>CORPORATE</u>					
<u>Net Sales</u>					
<u>Gross Profit (Loss)</u>					
<u>Pretax net income (loss) from continuing operations</u>	(1,138,000)	(1,572,000)	(3,895,000)	(5,815,000)	
<u>Assets</u>	1,860,000	596,000	1,860,000	596,000	
<u>CONSOLIDATED</u>					
<u>Net Sales</u>	13,662,000	13,997,000	35,603,000	41,243,000	
<u>Gross Profit (Loss)</u>	1,656,000	2,963,000	4,451,000	7,428,000	
<u>Pretax net income (loss) from continuing operations</u>	(477,000)	420,000	(2,417,000)	(1,310,000)	
<u>Provision for (benefit from) Income Taxes</u>		22,000	(1,414,000)	22,000	
<u>Loss from Discontinued Operations, net of taxes</u>		(211,000)		(139,000)	
<u>Net Income (Loss)</u>	(477,000)	187,000	(1,003,000)	(1,471,000)	
<u>Assets</u>	\$ 58,764,000	\$ 50,751,000	\$ 58,764,000	\$ 50,751,000	

**Segment Reporting (Details
Textual)** **9 Months Ended
Sep. 30, 2020
Segments**

[Segment Reporting \(Textual\)](#)

[Number of reportable segments](#) 2