

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: March 31, 2021

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

80-0948413

(State or other jurisdiction of
incorporation or organization)

(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 1(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 and post such files). Yes No

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

Large Accelerated Filer
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 32,037,547 shares of the registrant's common stock outstanding as of May 7, 2021.

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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, 2020, 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

	March 31,	December 31,
	2021	2020
	(unaudited)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,731,000	\$ 2,505,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$886,000 and \$964,000	9,692,000	8,798,000
Inventory	32,195,000	32,120,000
Prepaid Expenses and Other Current Assets	250,000	173,000
Prepaid Taxes	15,000	15,000
Total Current Assets	43,883,000	43,611,000
Property and Equipment, Net	9,141,000	9,581,000
Operating Lease Right-Of-Use-Asset	3,392,000	3,510,000
Deferred Financing Costs, Net, Deposits and Other Assets	781,000	912,000
Goodwill	163,000	163,000
TOTAL ASSETS	\$ 57,360,000	\$ 57,777,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Finance Lease Obligations - Current Portion	\$ 15,606,000	\$ 16,475,000
Accounts Payable and Accrued Expenses	8,246,000	8,682,000
Operating Lease Liabilities - Current Portion	693,000	701,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	1,802,000	917,000
Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary - Current Portion	200,000	200,000
Deferred payroll tax liability - CARES Act - Current Portion	314,000	314,000
Total Current Liabilities	26,899,000	27,327,000
Long Term Liabilities		
Notes Payable and Finance Lease Obligations - Net of Current Portion	4,587,000	4,786,000
Notes Payable - Related Party - Net of Current Portion	6,412,000	6,012,000
Operating Lease Liabilities - Net of Current Portion	3,763,000	3,927,000
Deferred Gain on Sale - Net of Current Portion	171,000	181,000
Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary - Net of Current Portion	49,000	122,000
Deferred payroll tax liability - CARES Act - Net of Current Portion	313,000	313,000
TOTAL LIABILITIES	42,194,000	42,668,000
Commitments and Contingencies		
Stockholders' Equity Preferred Stock, par value \$.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both March 31, 2021 and December 31, 2020.	-	-
Common Stock - Par Value \$.001 - Authorized 60,000,000 Shares, 32,000,155 and 31,906,971 Shares Issued and Outstanding as of March 31, 2021 and December 31, 2020, respectively	32,000	32,000
Additional Paid-In Capital	81,447,000	81,238,000
Accumulated Deficit	(66,313,000)	(66,161,000)
TOTAL STOCKHOLDERS' EQUITY	15,166,000	15,109,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 57,360,000	\$ 57,777,000

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP
Condensed Consolidated Statements of Operations
For the Three Months Ended March 31,
(Unaudited)

	<u>2021</u>	<u>2020</u>
Net Sales	\$ 13,712,000	\$ 13,447,000
Cost of Sales	<u>11,915,000</u>	<u>11,266,000</u>
Gross Profit	1,797,000	2,181,000
Operating Expenses	<u>1,770,000</u>	<u>2,262,000</u>
Income (loss) from Operations	27,000	(81,000)
Interest and Financing Costs	(172,000)	(252,000)
Interest Expense - Related Parties	(125,000)	(128,000)
Other Income, Net	<u>118,000</u>	<u>105,000</u>
Loss before Benefit From Income Taxes	(152,000)	(356,000)
Benefit from Income Taxes	<u>-</u>	<u>(1,414,000)</u>
Net (Loss) Income	<u>\$ (152,000)</u>	<u>\$ 1,058,000</u>
Net (Loss) Income per share - Basic	<u>\$ (0.00)</u>	<u>\$ 0.04</u>
Net (Loss) Income per share - Diluted	<u>\$ (0.00)</u>	<u>\$ 0.03</u>
Weighted Average Shares Outstanding - basic	31,971,922	30,380,234
Weighted Average Shares Outstanding - diluted	31,971,922	36,521,454

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP

**Condensed Consolidated Statements of Stockholders' Equity
For the Three Months Ended March 31, 2021 and 2020
(Unaudited)**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2021	31,906,971	\$ 32,000	\$ 81,238,000	\$ (66,161,000)	\$ 15,109,000
Common stock issued for directors fees	41,960	-	52,000	-	52,000
Stock Compensation Expense	-	-	157,000	-	157,000
Stock Options exercised	51,224	-	-	-	-
Net Loss	-	-	-	(152,000)	(152,000)
Balance, March 31, 2021	<u>32,000,155</u>	<u>\$ 32,000</u>	<u>\$ 81,447,000</u>	<u>\$ (66,313,000)</u>	<u>\$ 15,166,000</u>
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	<u>30,531,949</u>	<u>\$ 30,000</u>	<u>\$ 79,352,000</u>	<u>\$ (66,199,000)</u>	<u>\$ 13,183,000</u>

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP

**Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31,
(Unaudited)**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) Income	\$ (152,000)	\$ 1,058,000
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Depreciation of property and equipment	713,000	656,000
Non-cash employee compensation expense	157,000	140,000
Non-cash directors compensation	52,000	55,000
Non-cash other income recognized	(104,000)	(92,000)
Non-cash interest expense	31,000	28,000
Amortization of Right-of-Use Asset	118,000	122,000
Deferred gain on sale of real estate	(10,000)	(10,000)
Loss on sale of equipment	-	16,000
Amortization of debt discount on convertible notes payable	-	78,000
Bad debt expense (recovery)	(78,000)	268,000
Amortization of deferred financing costs	36,000	30,000
Changes in Assets and Liabilities (Increase) Decrease in Operating Assets:		
Accounts receivable	(816,000)	(1,033,000)
Inventory	(75,000)	(1,162,000)
Prepaid expenses and other current assets	(77,000)	(6,000)
Deposits and other assets	95,000	(76,000)
Income tax receivable	-	(1,416,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	(36,000)	1,216,000
Operating lease liabilities	(172,000)	(167,000)
Deferred revenue	885,000	(7,000)
Income taxes payable	-	(12,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	567,000	(314,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(273,000)	(78,000)
NET CASH USED IN INVESTING ACTIVITIES	(273,000)	(78,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable - revolver - net - Sterling National Bank	(868,000)	1,033,000
Payments of note payable - term notes - SNB	(196,000)	(90,000)
Payments of finance lease obligations	(2,000)	(7,000)
Proceeds from issuance of common stock	-	984,000
Share issuance costs	-	(145,000)
Payments of notes payable issuances- related party	-	(1,012,000)
Payments of notes payable - third party	-	(100,000)
Payments of loan payable - financed asset	(2,000)	(71,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,068,000)	592,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(774,000)	200,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,505,000	1,294,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,731,000	\$ 1,494,000

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP

Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, (Continued)
(Unaudited)

	<u>2021</u>	<u>2020</u>
Supplemental cash flow information		
Cash paid during the period for interest	\$ 307,000	\$ 205,000
Supplemental disclosure of non-cash investing and financing activities		
Capitalization of accrued interest on related party notes payable	\$ 400,000	\$ -
Common Stock issued for conversion of notes 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 months ending March 31, 2021, 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”).

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 months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. 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, 2020, as filed with the Securities and Exchange Commission, from which the accompanying condensed consolidated balance sheet dated December 31, 2020 was derived.

Reclassifications

Reclassification occurred to certain 2020 amounts to conform to the 2021 classification. These reclassifications had no impact on the statement of operations.

Liquidity

At each reporting period, management evaluates whether there are conditions or events that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued. The Company is required to make certain additional disclosures if management concludes that substantial doubt exists about the Company’s ability to continue as a going concern and such doubt is not alleviated by the Company’s plans or when the Company’s plans alleviate substantial doubt about its ability to continue as a going concern. The evaluation entails analyzing prospective operating budgets and forecasts for expectations regarding cash needs and comparing those needs to the current cash and cash equivalent balance and expectations regarding cash to be generated over the following year.

Although the global outbreak of COVID-19 had a significant adverse impact on the world economy and negatively impacted the Company’s revenues, earnings and operating cash flows in 2020, management believes the Company’s operations substantially returned to normal in fiscal 2021 and the Company generated net cash from operations of \$567,000 in the quarter ended March 31, 2021. With the first quarter of fiscal 2021 now completed and the Company’s recent investments in new machinery and equipment paying off, management believes the Company will continue to improve its liquidity. As such, based on current best estimates of fiscal 2021 sales, confirmed and expected orders, the strength of existing backlog, overall market demand, expected timing of future cash receipts and expenditures and the Company’s ability to access additional liquidity, if needed, the Company believes it will have adequate cash to support operations through May 31, 2022.

Subsequent Events

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

Note 2. 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. For interim periods, 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 March 31, 2021, the Company determined that its gross profit for its Complex Machining segment was below its 2020 gross profit percentages, and accordingly has adjusted margins to less than those of 2020. Adjustments to reconcile the annual physical inventory to the Company's books are recorded in the fourth quarter.

Credit and Concentration Risks

Net Sales and Accounts Receivable

There were three customers that represented 77.9% and 79.9% of total net sales for the three months ended March 31, 2021 and 2020, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	March 31, 2021 (unaudited)	March 31, 2020 (unaudited)
1	33.8%	36.2%
2	26.6%	31.5%
3	17.5%	12.2%

There were three customers that represented 77.8% and 80.3% of gross accounts receivable at March 31, 2021 and December 31, 2020, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	March 31, 2021 (unaudited)	December 31, 2020 (unaudited)
1	46.7%	57.1%
2	17.6%	*
3	13.5%	12.0%
4	**	11.2%

* Customer was less than 10% of Gross Accounts Receivable at December 31, 2020.

** Customer was less than 10% of Gross Accounts Receivable at March 31, 2021.

Cash and Cash Equivalents

During the period, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC 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 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. See Note 4.

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 income (loss) applicable to common stockholders utilized to calculate EPS:

	Three Months Ended	
	March 31, 2021 (unaudited)	March 31, 2020 (unaudited)
Net (loss) income per statement of operations	\$ (152,000)	\$ 1,058,000
Add: Convertible Note Interest for Potential Note Conversion	-	170,000
(Loss) income used to calculate diluted earnings per share	\$ (152,000)	\$ 1,228,000

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

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(unaudited)	(unaudited)
Weighted average shares outstanding used to compute basic earnings per share	31,971,922	30,380,234
Effect of dilutive stock options and warrants	-	1,137,769
Effect of dilutive convertible notes payable	-	5,003,451
Weighted average shares outstanding and dilutive securities used to compute diluted earnings per share	<u>31,971,922</u>	<u>36,521,454</u>

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

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(unaudited)	(unaudited)
Stock Options	191,000	234,000
Warrants	1,423,000	1,423,000
	<u>1,614,000</u>	<u>1,657,000</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 because the effect of including these potential shares was anti-dilutive due to the net loss incurred during that period:

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(unaudited)	(unaudited)
Stock Options	1,991,000	-
Warrants	760,000	-
Convertible notes payable	4,058,000	-
	<u>6,809,000</u>	<u>-</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 \$157,000 and \$140,000 for the three months ended March 31, 2021 and 2020, respectively. Stock compensation expense for directors amounted to \$52,000 and \$55,000 for the three months ended March 31, 2021 and 2020, respectively. Stock compensation expenses for employees and directors were 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 both March 31, 2021 and December 31, 2020 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 Company has determined that there has been no impairment of goodwill at March 31, 2021 and 2020.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326) (“ASU 2016- 13”), which significantly changes how entities will account for credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 replaces the existing incurred loss model with an expected credit loss model that requires entities to estimate an expected lifetime credit loss on most financial assets and certain other instruments. Under ASU 2016-13 credit impairment is recognized as an allowance for credit losses, rather than as a direct write-down of the amortized cost basis of a financial asset. The impairment allowance is a valuation account deducted from the amortized cost basis of financial assets to present the net amount expected to be collected on the financial asset. Once the new pronouncement is adopted by the Company, the allowance for credit losses must be adjusted for management’s current estimate at each reporting date. The new guidance provides no threshold for recognition of impairment allowance. Therefore, entities must also measure expected credit losses on assets that have a low risk of loss. For instance, trade receivables that are either current or not yet due may not require an allowance reserve under currently generally accepted accounting principles, but under the new standard, the Company will have to estimate an allowance for expected credit losses on trade receivables under ASU 2016-13. ASU 2016-13 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2022 for smaller reporting companies. Early adoption is permitted. The Company will evaluate the impact of ASU 2016-13 on the Company’s consolidated financial statements in a future period closer to the date of adoption.

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 in 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 with those fiscal years. The Company is evaluating the effect of adopting this new accounting guidance on its financial statements.

On January 1, 2021, the Company adopted 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 adoption of ASU 2019-12 did not have a material impact on the Company’s condensed consolidated financial statements.

On January 1, 2021, the Company adopted ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. In January 2021, the FASB issued ASU 2021-01, "Reference Rate Reform (Topic 848): Scope: which clarified the scope of ASU 2020-04. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The adoption of these ASU's did not have a material impact on the Company's condensed consolidated financial statements.

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

Note 3. PROPERTY AND EQUIPMENT

The components of property and equipment at March 31, 2021 and December 31, 2020 consisted of the following:

	March 31, 2021	December 31, 2020	
	<u>(unaudited)</u>	<u>(unaudited)</u>	
Land	\$ 300,000	\$ 300,000	
Buildings and Improvements	1,720,000	1,683,000	31.50 years
Machinery and Equipment	21,838,000	21,738,000	5 - 8 years
Finance Lease Machinery and Equipment	78,000	78,000	5 - 8 years
Tools and Instruments	12,246,000	12,116,000	1.50 - 7 years
Automotive Equipment	148,000	148,000	5 years
Furniture and Fixtures	290,000	290,000	5 - 8 years
Leasehold Improvements	861,000	855,000	Term of Lease
Computers and Software	436,000	436,000	4 - 6 years
Total Property and Equipment	<u>37,917,000</u>	<u>37,644,000</u>	
Less: Accumulated Depreciation	<u>(28,776,000)</u>	<u>(28,063,000)</u>	
Property and Equipment, net	<u>\$ 9,141,000</u>	<u>\$ 9,581,000</u>	

Depreciation expense for the three months ended March 31, 2021 and 2020 was approximately \$713,000 and \$656,000, respectively.

Assets held under finance 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 2021 and 2020. Accumulated depreciation on these assets was approximately \$30,000 and \$28,000 as of March 31, 2021 and December 31, 2020, respectively.

Note 4. 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 five years, some of which include options to extend or terminate the leases.

	March 31, 2021	December 31, 2020
	<u>(unaudited)</u>	<u>(unaudited)</u>
Weighted Average Remaining Lease Term - in years	5.19	5.53
Weighted Average discount rate - %	8.31%	8.90%

The aggregate undiscounted cash flows of operating lease payments as of March 31, 2021, with remaining terms greater than one year are as follows:

	Amount
December 31, 2021 (remainder of the year)	\$ 808,000
December 31, 2022	1,007,000
December 31, 2023	1,038,000
December 31, 2024	1,070,000
December 31, 2025	992,000
Thereafter	730,000
Total future minimum lease payments	5,645,000
Less: discount	(1,189,000)
Total operating lease maturities	4,456,000
Less: current portion of operating lease liabilities	(693,000)
Total long term portion of operating lease maturities	\$ 3,763,000

On April 29, 2021 the Company entered into an agreement to surrender the possession of the premises of the former corporate office, located in Hauppauge, NY. The Company made a one-time payment of 40% of the remaining balance due to the landlord as of May 1, 2021, of approximately \$37,000. The Company had previously recognized a lease impairment of \$275,000 to its Operating Lease Right-of-Use-Asset for the year-ended December 31, 2019.

Note 5. NOTES PAYABLE, RELATED PARTY NOTES PAYABLE AND FINANCE LEASE OBLIGATIONS

Notes payable, related party notes payable and finance lease obligations consist of the following:

	March 31,	December 31,
	2021	2020
	(unaudited)	
Revolving credit note payable to Sterling National Bank (“SNB”)	\$ 14,781,000	\$ 15,649,000
Term loan, SNB	5,362,000	5,558,000
Finance lease obligations	4,000	6,000
Loans Payable - financed assets	46,000	48,000
Related party notes payable, net of debt discount	6,412,000	6,012,000
Subtotal	26,605,000	27,273,000
Less: Current portion of notes payable, related party notes payable and finance lease obligations	(15,606,000)	(16,475,000)
Notes payable, related party notes payable and finance lease obligations, net of current portion	<u>\$ 10,999,000</u>	<u>\$ 10,798,000</u>

Sterling National Bank (“SNB”)

On December 31, 2019, the Company entered into a loan facility (“SNB Facility”) with 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”).

In 2020, the Company entered into the First Amendment to Loan and Security Agreement (“First Amendment”). The terms of the amendment 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 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. As of March 31, 2021, the Company was in compliance with all loan covenants. 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.

As of March 31, 2021 the future minimum principal payments for the SNB term loan are as follows:

For the twelve months ending	Amount
December 31, 2021 (remainder of the year)	\$ 609,000
December 31, 2022	4,805,000
SNB Term Loan payable	5,414,000
Less: debt issuance costs	(52,000)
Total SNB Term loan payable, net of debt issuance costs	5,362,000
Less: Current portion of SNB term loan payable	(812,000)
Total long-term portion of SNB term loan payable	<u>\$ 4,550,000</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 March 31, 2021 was 3.5%.

As of March 31, 2021, our debt to SNB in the amount of \$20,143,000 consisted of the SNB revolving line of credit note in the amount of \$14,781,000 and the SNB term loan in the amount of \$5,362,000. As of December 31, 2020, our debt to SNB in the amount of \$21,207,000 consisted of the SNB revolving line of credit note in the amount of \$15,649,000 and the SNB term loan in the amount of \$5,558,000.

Interest expense related to the SNB Facility amounted to approximately \$181,000 and \$120,000 for the three months ended March 31, 2021 and 2020, respectively.

Loan Payable – Financed Asset

The Company financed the purchase of a delivery vehicle in July 2020. The loan obligation totaled \$46,000 and \$48,000 as of March 31, 2021 and December 31, 2020, respectively. The loan bears no interest and a final payment is due and payable for all unpaid principal on July 20, 2026.

The future minimum loan payments, are as follows:

For the twelve months ending	Amount
December 31, 2021 (remainder of the year)	\$ 7,000
December 31, 2022	9,000
December 31, 2023	9,000
December 31, 2024	9,000
December 31, 2025	9,000
Thereafter	3,000
Loans Payable - financed assets	46,000
Less: Current portion	9,000
Long-term portion	<u>\$ 37,000</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.

From 2016 through 2020, the Company entered into various subordinated notes payable and convertible subordinated notes payable with Michael and Robert Taglich. These notes included proceeds totaling \$6,550,000. In connection with these notes, Michael and Robert were issued a total of 355,082 shares of common stock and Taglich Brothers Inc. were issued promissory notes totaling \$554,000 for placement agency fees.

On January 1, 2021, the related party subordinated notes due to Michael and Robert Taglich and Taglich Brothers, Inc., were amended to include all accrued interest through December 31, 2020 in the principal balance of the notes. Per the terms of the SNB Facility, these notes remain subordinate to the SNB Facility and are due on July 1, 2023. There are no principal payments due on these notes until such time. The Note Holders and the principal balance of the notes as amended on January 1, 2021 are shown below:

	Michael Taglich, Chairman	Robert Taglich, Director	Taglich Brothers, Inc.	Total
Convertible Subordinated Notes	\$ 2,666,000	\$ 1,905,000	\$ 241,000	\$ 4,812,000
Subordinated Notes	1,250,000	350,000	-	1,600,000
Total	<u>\$ 3,916,000</u>	<u>\$ 2,255,000</u>	<u>\$ 241,000</u>	<u>\$ 6,412,000</u>

For the three months ended March 31, 2021, no principal payments have been made on these notes and the principal balances remain unchanged from the table above. Interest expense for the three months ended March 31, 2021 and 2020 on all related party notes payable was \$125,000 and \$128,000, respectively.

Convertible Notes Payable – Third Parties

As of both March 31, 2021 and December 31, 2020 the notes payable to third parties totaled \$0 as the notes were converted into shares of common stock in 2020. Interest incurred on these amounted to approximately \$42,000 for the three months ended March 31, 2020. Amortization of debt discount on these notes amounted to approximately \$4,000 for the three months ended March 31, 2020. These costs are included in interest and financing costs in the Condensed Consolidated Statement of Operations.

NOTE 6. 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”).

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 Company recognized \$104,000 and \$92,000 of non-cash income reflected in “other income, net” on the condensed consolidated statement of operations and recorded \$31,000 and \$28,000 of related non-cash interest expense related to the Purchase Agreement, for the three months ended March 31, 2021 and 2020, respectively.

The table below shows the activity within the liability account for:

	<u>March 31,</u> <u>2021</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2020</u>
Liabilities related to sale of future proceeds from disposition of subsidiaries - beginning balance	\$ 322,000	\$ 602,000
Non-Cash other income recognized	(104,000)	(402,000)
Non-Cash interest expense recognized	31,000	122,000
Liabilities related to sale of future proceeds from disposition of subsidiary - ending balance	<u>249,000</u>	<u>322,000</u>
Less: unamortized transaction costs	<u>(3,000)</u>	<u>(3,000)</u>
Liability related to sale of future proceeds from disposition of subsidiary, net	<u>\$ 246,000</u>	<u>\$ 319,000</u>

Note 7. STOCKHOLDERS' EQUITY

Common Stock – Sale of Securities

The Company issued 41,960 and 43,771 shares of common stock in payment of director fees totaling \$52,000 and \$55,000 for the three months ended March 31, 2021 and 2020, respectively. Additionally, the Company issued 51,224 shares of common stock upon the cashless exercise of stock options during the three months ended March 31, 2021.

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

During the three months ended March 31, 2020, the Company issued 590,243 shares of common stock to convert third party subordinated debt totaling \$885,000 to equity.

During the second quarter of 2021, the Company issued 37,392 shares of common stock in payment of directors' fees totaling \$52,000.

Note 8. 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.

Contract Pharmacal Corp. ("Contract Pharmacal") 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 March 31, 2021, 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 averse to our interest.

Note 9. INCOME TAXES

The Company recorded no income tax expense for the three months ended March 31, 2021 and 2020 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 filed for a net operating loss carryback claim of \$1,416,000 in March 2020. The refund was received in April 2020.

As of March 31, 2021 and December 31, 2020, 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 10. 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 currently 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 its operating subsidiaries, the Company reports the results of its corporate division as an independent segment.

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 transferors 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 reporting segments for the three months ended March 31, 2021 and 2020 are as follows:

	For the Three Months	
	Ended March 31,	
	2021	2020
	(unaudited)	(unaudited)
COMPLEX MACHINING		
Net Sales	\$ 12,166,000	\$ 12,064,000
Gross Profit	1,619,000	2,168,000
Income before benefit from income taxes	980,000	1,170,000
Assets	51,703,000	48,732,000
TURBINE ENGINE COMPONENTS		
Net Sales	1,546,000	1,383,000
Gross Profit	178,000	13,000
Loss before benefit from income taxes	(15,000)	(126,000)
Assets	3,582,000	4,569,000
CORPORATE		
Net Sales	-	-
Gross Profit	-	-
Loss before benefit from income taxes	(1,117,000)	(1,400,000)
Assets	2,075,000	750,000
CONSOLIDATED		
Net Sales	13,712,000	13,447,000
Gross Profit	1,797,000	2,181,000
Loss before benefit from income taxes	(152,000)	(356,000)
Benefit from Income Taxes	-	(1,414,000)
Net Income (loss)	(152,000)	1,058,000
Assets	\$ 57,360,000	\$ 54,051,000

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

The following discussion of our financial condition and results of operations should be read in conjunction with 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, for the year ended December 31, 2020 (the "2020 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 March 31, 2021.

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 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 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 2018 and 2019, we consolidated the operations of our Complex Machining segment in our main campus located in Bay Shore, New York. In 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 where our Turbine Engine segment is located. 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 have increased orders for our products. Reductions to the Defense Department budget or decreased usage of aircraft reduces the demand for both new production and replacement spares and could adversely impact our business and our revenues. We are focusing greater efforts on the civilian aircraft market though we still remain dependent upon the military for an overwhelming portion of our revenues.

Segment Data

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

We currently divide our operations into 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.

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

Selected Financial Information:

	Three Months Ended	
	March 31,	March 31,
	2021	2020
	(unaudited)	(unaudited)
Net sales	\$ 13,712,000	\$ 13,447,000
Cost of sales	11,915,000	11,266,000
Gross profit	1,797,000	2,181,000
Operating expenses and interest and financing costs	2,067,000	2,642,000
Other income, net	118,000	105,000
Benefit from income taxes	-	(1,414,000)
Net Income (loss)	<u>\$ (152,000)</u>	<u>\$ 1,058,000</u>

Balance Sheet Data:

	March 31, 2021	December 31, 2020
	(unaudited)	
Cash and cash equivalents	\$ 1,731,000	\$ 2,505,000
Working capital	\$ 16,984,000	\$ 16,284,000
Total assets	\$ 57,360,000	\$ 57,777,000
Total stockholders' equity	\$ 15,166,000	\$ 15,109,000

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 March 31,	
	2021	2020
	(unaudited)	
COMPLEX MACHINING		
Net Sales	\$ 12,166,000	\$ 12,064,000
Gross Profit	1,619,000	2,168,000
Income before benefit from income taxes	980,000	1,170,000
Assets	51,703,000	48,732,000
TURBINE ENGINE COMPONENTS		
Net Sales	1,546,000	1,383,000
Gross Profit	178,000	13,000
Loss before benefit from income taxes	(15,000)	(126,000)
Assets	3,582,000	4,569,000
CORPORATE		
Net Sales	-	-
Gross Profit	-	-
Loss before benefit from income taxes	(1,117,000)	(1,400,000)
Assets	2,075,000	750,000
CONSOLIDATED		
Net Sales	13,712,000	13,447,000
Gross Profit	1,797,000	2,181,000
Loss before benefit from income taxes	(152,000)	(356,000)
Benefit from Income Taxes	-	(1,414,000)
Net Income (loss)	(152,000)	1,058,000
Assets	\$ 57,360,000	\$ 54,051,000

Net Sales:

Consolidated net sales for the three months ended March 31, 2021 were \$13,712,000, an increase of \$265,000, or 2.0%, compared with \$13,447,000 for the three months ended March 31, 2020. Net sales of our Complex Machining segment were \$12,166,000, an increase of \$102,000, or 0.8%, from \$12,064,000 for the three months ended March 31, 2020. Net sales in our Turbine Engine Components segment were \$1,546,000, an increase of \$163,000, or 11.8% compared with \$1,383,000 for the three months ended March 31, 2020.

As indicated in the table below, three customers represented 77.9% and 79.9% of total net sales for the three months ended March 31, 2021 and March 31, 2020, respectively.

Customer	Percentage of Sales	
	2021 (unaudited)	2020 (unaudited)
Sikorsky Aircraft	33.8%	36.2%
Goodrich Landing Gear Systems	26.6%	31.5%
United States Department of Defense	17.5%	12.2%

Gross Profit:

Consolidated gross profit from operations for the three months ended March 31, 2021 was \$1,797,000, a decrease of \$384,000, or 17.6%, as compared to gross profit of \$2,181,000 for the three months ended March 31, 2020. Consolidated gross profit as a percentage of sales was 13.1% and 16.2% for the three months ended March 31, 2021 and 2020, respectively. This decrease was mainly attributable to an increase of approximately \$518,000 in manufacturing overhead costs primarily related to employee benefit costs and depreciation of new equipment, and a loss of approximately \$91,000 resulting from a termination of a contract by a customer.

Interest and Financing Costs

Interest and financing costs for the three months ended March 31, 2021 were \$297,000 a decrease of \$83,000 or 21.8% compared to \$380,000 for the three months ended March 31, 2020. This decrease is attributable to the conversion of our third party Convertible Debt during fiscal 2020.

Operating Expense

Consolidated operating expenses for the three months ended March 31, 2021 totaled \$1,770,000 and decreased by \$492,000 or 21.8% compared to \$2,262,000 for the three months ended March 31, 2020.

Net (Loss) Income

Net loss for the three months ended March 31, 2021 was \$152,000, a reduction of \$1,210,000, compared to net income of \$1,058,000 for the three months ended March 31, 2020 due to the reasons stated above. In addition, the Company recorded a benefit from income taxes of \$1,414,000 for the three months ended March 31, 2020 pursuant to the filing of a net operating loss claim (see below).

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2020, we took advantage of a number of U.S. government programs to improve our liquidity to offset the negative impact to our business from COVID-19. These steps included:

- 1) Received Low Interest Loans from the SBA – In May 2020, our three operating subsidiaries entered into government subsidized loans with Sterling National Bank (“SNB”) in an aggregate principal amount of \$2.4 million (“SBA Loans”).
- 2) Applied for and Received Forgiveness of the SBA Loans – In accordance with U.S. government regulations we applied to SNB for forgiveness of each Loan in full and in December 2020 we received final approval from the SBA that the entire principal amount of our SBA Loans plus accrued interest had been forgiven.
- 3) Deferred Certain Tax Payments – In accordance with Section 2302 of the CARES Act, we 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 December 31, 2020, we deferred \$627,000, which is included in Deferred payroll tax liability – CARES Act on the accompanying Condensed Consolidated Balance Sheet.
- 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 2020.

Also, 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 work performed on certain contracts.

In addition to taking advantage of the aforementioned U.S. government programs, we took additional significant steps to improve our liquidity, including:

- 1) Entered into a Lower Cost Financing Facility— On December 31, 2019, we entered into a new loan facility (“SNB Facility”) with Sterling National Bank, (“SNB”) which expires on 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 with PNC Bank N.A. (“PNC”).
- 2) Increased Term Loan to Modernize Equipment – On November 6, 2020, we entered into the First Amendment to the Loan and 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. We have paid an amendment fee of \$20,000. Additionally, the date by which certain subordinated third-party notes were to be extended by was changed from September 30, 2020 to November 30, 2020. We caused all of these notes to be converted into common stock prior to December 31, 2020.

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).

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 SNB and applied to the outstanding principal balance of the term loan, on or prior to the April 15 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. As of March 31, 2021, we were in compliance with all loan covenants. 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.

As of March 31, 2021, our debt to SNB in the amount of \$20,143,000 consisted of the SNB revolving line of credit note in the amount of \$14,781,000 and the SNB term loan in the amount of \$5,362,000.

- 3) Conversion and Extension of Subordinated Notes – During 2020, third party holders of convertible subordinated notes of the remaining principal balance plus accrued interest, converted these notes into common stock. In addition, the maturity date of related party convertible subordinated notes and subordinated notes payable in the aggregate amount of \$6,012,000 plus \$400,000 of accrued interest was extended until July 1, 2023, and we were relieved of the obligation to make any principal payments on these notes prior to maturity.

Because we continue to believe our fiscal 2021 sales will be higher than the amount achieved in fiscal 2020, we believe our liquidity for the remainder of 2021 will continue to improve.

Cash Flow

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

	Three Months Ended	
	March 31,	
	2021	2020
	(unaudited)	(unaudited)
Cash (used in) provided by		
Operating activities	\$ 567,000	\$ (314,000)
Investing activities	(273,000)	(78,000)
Financing activities	(1,068,000)	592,000
Net (decrease) increase in cash and cash equivalents	<u>\$ (774,000)</u>	<u>\$ 200,000</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 operating assets and liabilities.

For the three months ended March 31, 2021 cash provided by operating activities was \$567,000. This was a result of our net loss of \$152,000, offset by \$915,000 of non-cash items consisting primarily of depreciation of property and equipment of \$713,000, non-cash employee stock compensation expense of \$157,000, amortization of right-of-use assets of \$118,000 and non-cash directors' compensation expense of \$52,000. The remaining non-cash items totaled \$125,000.

Operating assets and liabilities used cash in the net amount of \$196,000 consisting primarily of the net increases in accounts receivable, inventory and prepaid expenses and other current assets in the amounts of \$816,000, \$75,000 and \$77,000, respectively and decreases in accounts payable and operating lease liabilities of \$36,000, and \$172,000 respectively, partially offset by an increase in deferred revenue in the amount of \$885,000 and a decrease in deposits in the amount of \$95,000.

Cash Used in Investing Activities

Cash used in investing activities consists of capital expenditures for property and equipment.

For the three months ended March 31, 2021, cash used in investing activities was \$273,000. This was for the purchase of property and equipment.

Cash Provided by (Used in) Financing Activities

For the three months ended March 31, 2021, cash used in financing activities consisted of net payments on our SNB revolving loan and term note in the amounts of \$868,000 and \$196,000, respectively and payments of \$2,000 and \$2,000 on our financing lease obligations and loan payable – financed asset.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of March 31, 2021.

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 March 31, 2021 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:

- Liquidity;
- Inventory valuation
- Revenue recognition;
- Income taxes;
- 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

See Note 2 of the Condensed Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

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 2020 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 2020 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.

COVID -19

The COVID-19 pandemic and the resulting macroeconomic disruptions 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. Our operations have substantially returned to normal, nevertheless, any such disruption may materially impact our business and our consolidated financial position, results of operations, and cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Except as previously disclosed on our Exchange Act reports, we did not issue or sell any unregistered equity securities during the period covered by this Report.

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 number of authorized shares of preferred stock and Series A Preferred Stock (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed on April 19, 2017).
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).
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.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: May 11, 2021

AIR INDUSTRIES GROUP

By: /s/ Michael Recca
Michael Recca
Chief Financial Officer
(principal financial and accounting officer)

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: May 11, 2021

/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: May 11, 2021

/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 March 31, 2021 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: May 11, 2021

/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 March 31, 2021, 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: May 11, 2021

/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.]