

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, 2022

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 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 32,247,513 shares of the registrant's common stock outstanding as of May 9, 2022.

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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, 2021, 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

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
	<u>(unaudited)</u>	
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 364,000	\$ 627,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$476,000 and \$594,000	7,558,000	10,473,000
Inventory	31,999,000	29,532,000
Prepaid Expenses and Other Current Assets	258,000	226,000
Prepaid Taxes	22,000	22,000
Total Current Assets	<u>40,201,000</u>	<u>40,880,000</u>
Property and Equipment, Net	8,169,000	8,404,000
Operating Lease Right-Of-Use-Asset	2,887,000	3,018,000
Deferred Financing Costs, Net, Deposits and Other Assets	1,026,000	960,000
Goodwill	163,000	163,000
TOTAL ASSETS	<u>\$ 52,446,000</u>	<u>\$ 53,425,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Finance Lease Obligations - Current Portion	\$ 13,278,000	\$ 14,112,000
Accounts Payable and Accrued Expenses	7,042,000	6,723,000
Operating Lease Liabilities - Current Portion	708,000	686,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	1,415,000	1,470,000
Liability Related to the Sale of Future Proceeds from Disposition of Subsidiary - Current Portion	5,000	59,000
Deferred payroll tax liability - CARES Act - Current Portion	314,000	314,000
Total Current Liabilities	<u>22,800,000</u>	<u>23,402,000</u>
Long Term Liabilities		
Notes Payable and Finance Lease Obligations - Net of Current Portion	2,565,000	2,838,000
Notes Payable - Related Party	6,412,000	6,412,000
Operating Lease Liabilities - Net of Current Portion	3,055,000	3,241,000
Deferred Gain on Sale - Net of Current Portion	133,000	143,000
TOTAL LIABILITIES	<u>34,965,000</u>	<u>36,036,000</u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, par value \$.001 - Authorized 3,000,000 shares, 0 shares outstanding, at both March 31, 2022 and December 31, 2021.	-	-
Common Stock - Par Value \$.001 - Authorized 60,000,000 Shares, 32,183,221 and 32,128,006 Shares Issued and Outstanding as of March 31, 2022 and December 31, 2021, respectively	32,000	32,000
Additional Paid-In Capital	82,011,000	81,891,000
Accumulated Deficit	(64,562,000)	(64,534,000)
TOTAL STOCKHOLDERS' EQUITY	<u>17,481,000</u>	<u>17,389,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 52,446,000</u>	<u>\$ 53,425,000</u>

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP

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

	2022	2021
Net Sales	\$ 12,062,000	\$ 13,712,000
Cost of Sales	9,984,000	11,915,000
Gross Profit	2,078,000	1,797,000
Operating Expenses	1,871,000	1,770,000
Income from Operations	207,000	27,000
Interest and Financing Costs	(198,000)	(172,000)
Interest Expense - Related Parties	(125,000)	(125,000)
Other Income, Net	88,000	118,000
Loss before Provision for Income Taxes	(28,000)	(152,000)
Provision for Income Taxes	-	-
Net Loss	\$ (28,000)	\$ (152,000)
Loss per share - Basic	\$ (0.00)	\$ (0.00)
Loss per share - Diluted	\$ (0.00)	\$ (0.00)
Weighted Average Shares Outstanding - basic	32,183,221	31,971,922
Weighted Average Shares Outstanding - diluted	32,183,221	31,971,922

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP

**Condensed Consolidated Statements of Stockholders' Equity
For the Three Months Ended March 31, 2022 and 2021
(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, 2022	32,128,006	\$ 32,000	\$ 81,891,000	\$ (64,534,000)	\$ 17,389,000
Common Stock issued for directors fees	55,215	-	54,000	-	54,000
Stock Compensation Expense	-	-	66,000	-	66,000
Net Loss	-	-	-	(28,000)	(28,000)
Balance, March 31, 2022	<u>32,183,221</u>	<u>\$ 32,000</u>	<u>\$ 82,011,000</u>	<u>\$ (64,562,000)</u>	<u>\$ 17,481,000</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 Options exercised	51,224	-	-	-	-
Stock Compensation Expense	-	-	157,000	-	157,000
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>

See Notes to Condensed Consolidated Financial Statements

AIR INDUSTRIES GROUP

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

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (28,000)	\$ (152,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation of property and equipment	665,000	713,000
Non-cash employee compensation expense	66,000	157,000
Non-cash directors compensation	54,000	52,000
Non-cash other income recognized	(89,000)	(104,000)
Non-cash interest expense	-	31,000
Amortization of Right-of-Use Asset	131,000	118,000
Deferred gain on sale of real estate	(10,000)	(10,000)
Bad debt recovery	(118,000)	(78,000)
Amortization of deferred financing costs	15,000	36,000
Changes in Operating Assets and Liabilities		
Decrease (Increase) in Operating Assets:		
Accounts receivable	3,033,000	(816,000)
Inventory	(2,467,000)	(75,000)
Prepaid expenses and other current assets	(32,000)	(77,000)
Deposits and other assets	(70,000)	95,000
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	354,000	(36,000)
Operating lease liabilities	(164,000)	(172,000)
Deferred revenue	(55,000)	885,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,285,000	567,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(430,000)	(273,000)
NET CASH USED IN INVESTING ACTIVITIES	(430,000)	(273,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable - revolver - net	(901,000)	(868,000)
Payments of note payable - term note	(203,000)	(196,000)
Payments of finance lease obligations	(9,000)	(2,000)
Payments of loan payable - financed asset	(5,000)	(2,000)
NET CASH USED IN FINANCING ACTIVITIES	(1,118,000)	(1,068,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(263,000)	(774,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	627,000	2,505,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 364,000	\$ 1,731,000

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>2022</u>	<u>2021</u>
Supplemental cash flow information		
Cash paid during the period for interest	<u>\$ 283,000</u>	<u>\$ 307,000</u>
Supplemental disclosure of non-cash investing and financing activities		
Capitalization of related party note interest to principal	<u>\$ -</u>	<u>\$ 400,000</u>

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, 2022 and 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, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. 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, 2021, as filed with the Securities and Exchange Commission, from which the accompanying condensed consolidated balance sheet dated December 31, 2021 was derived.

Effective with the Company’s first quarter ended March 31, 2022, the Company is presenting its operations as one reportable operating segment. See Note 10 for further information.

Historically the Company operated its businesses and reported its results as two separate segments with AIM and NTW comprising the Complex Machining segment (“CMS”) and SEC as the Turbine & Engine Component segment (“TEC”). Our CMS segment specialized in flight critical components including flight controls and landing gear. The TEC segment focused on manufacturing components for jet engines. Along with its operating subsidiaries, the Company reported the results of its corporate division as an independent segment.

In recent years the Company integrated and consolidated the business of AIM and NTW into one facility on Long Island and the operations of its CMS and TEC segments have become increasingly integrated. The Company also made significant capital expenditures and all of its operations now share the same manufacturing facilities and use most, if not all, of the same sales and marketing functions. The Company made these changes to take advantage of the long-term growth opportunities we see in the aerospace and defense market. In early fiscal 2022, the Company further changed its management approach and is now making decisions about resources to be allocated and assesses performance based on one integrated business rather than two reporting segments. As such, effective with the first quarter ended March 31, 2022, the Company is presenting its operations as one reportable operating segment.

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 the annual gross profit percentage of the immediately preceding year as applied to the net sales of the current period. 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 70.8% and 77.9% of total net sales for the three months ended March 31, 2022 and 2021, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	March 31, 2022 (Unaudited)	March 31, 2021 (Unaudited)
1	27.1%	33.8%
2	25.2%	26.6%
3	18.5%	17.5%

There were three customers that represented 75.9% and 74.7% of gross accounts receivable at March 31, 2022 and December 31, 2021, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	March 31, 2022 (Unaudited)	December 31, 2021 (Unaudited)
1	46.1%	50.3%
2	15.4%	12.7%
3	14.4%	11.7%

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 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, 2022	March 31, 2021
	(Unaudited)	(Unaudited)
Stock Options	2,084,000	191,000
Warrants	1,261,000	1,423,000
	<u>3,345,000</u>	<u>1,614,000</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, 2022	March 31, 2021
	(Unaudited)	(Unaudited)
Stock Options	1,000	1,991,000
Warrants	-	760,000
Convertible notes payable	4,058,000	4,058,000
	<u>4,059,000</u>	<u>6,809,000</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 \$66,000 and \$157,000 for the three months ended March 31, 2022 and 2021, respectively. Stock compensation expense for directors amounted to \$54,000 and \$52,000 for the three months ended March 31, 2022 and 2021, 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, 2022 and December 31, 2021 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, 2022 and 2021.

Recently Issued Accounting Pronouncements

Effective January 1, 2022, the Company adopted 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. The adoption of ASU 2020-06 did not have a material effect on the Company’s financial statements.

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 is currently assessing the impact ASU 2016-13 will have on its consolidated financial statements.

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

Note 3. PROPERTY AND EQUIPMENT

The components of property and equipment at March 31, 2022 and December 31, 2021 consisted of the following:

	March 31, 2022	December 31, 2021
Land	\$ 300,000	\$ 300,000
Buildings and Improvements	1,817,000	1,723,000
Machinery and Equipment	22,124,000	22,013,000
Finance Lease Machinery and Equipment	375,000	375,000
Tools and Instruments	13,091,000	12,866,000
Automotive Equipment	200,000	200,000
Furniture and Fixtures	290,000	290,000
Leasehold Improvements	882,000	882,000
Computers and Software	583,000	583,000
Total Property and Equipment	<u>39,662,000</u>	<u>39,232,000</u>
Less: Accumulated Depreciation	<u>(31,493,000)</u>	<u>(30,828,000)</u>
Property and Equipment, net	<u>\$ 8,169,000</u>	<u>\$ 8,404,000</u>

Depreciation expense for the three months ended March 31, 2022 and 2021 was approximately \$665,000 and \$713,000, 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 2022 and 2021. Accumulated depreciation on these assets was approximately \$11,000 and \$36,000 as of March 31, 2022 and December 31, 2021, respectively.

Note 4. OPERATING LEASE LIABILITIES

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, 2022	December 31, 2021
	(unaudited)	
Weighted Average Remaining Lease Term - in years	4.38	4.53
Weighted Average discount rate - %	8.93%	8.89%

The aggregate undiscounted cash flows of operating lease payments as of March 31, 2022, with remaining terms greater than one year are as follows:

	Amount
December 31, 2022 (remainder of year)	\$ 758,000
December 31, 2023	1,038,000
December 31, 2024	1,066,000
December 31, 2025	992,000
December 31, 2026	730,000
Total future minimum lease payments	4,584,000
Less: discount	(821,000)
Total operating lease maturities	3,763,000
Less: current portion of operating lease liabilities	(708,000)
Total long term portion of operating lease maturities	<u>\$ 3,055,000</u>

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, 2022	December 31, 2021
	(unaudited)	
Revolving credit note payable to Webster Bank (F/K/A Sterling National Bank) ("Webster")	\$ 11,555,000	\$ 12,456,000
Term loan, Webster	3,999,000	4,192,000
Finance lease obligations	251,000	263,000
Loans Payable - financed assets	38,000	39,000
Related party notes payable	6,412,000	6,412,000
Subtotal	<u>22,255,000</u>	<u>23,362,000</u>
Less: Current portion of notes payable, related party notes payable and finance lease obligations	<u>(13,278,000)</u>	<u>(14,112,000)</u>
Notes payable, related party notes payable and finance lease obligations, net of current portion	<u>\$ 8,977,000</u>	<u>\$ 9,250,000</u>

Webster Bank (F/K/A Sterling National Bank) ("Webster")

The Company has a loan facility ("Webster Facility") with Webster Bank that expires on December 30, 2025. The Webster Facility, which was first entered into on December 31, 2019, was amended several times, and now provides for a \$20,000,000 revolving loan ("Revolving Line of Credit") and a \$5,685,000 term loan ("Term Loan").

As of March 31, 2022, there is currently \$11,555,000 outstanding under the Revolving Line of Credit and \$3,999,000 under the Term Loan. The below table shows the timing of payments due under the Term Loan:

For the period ending	Amount
December 31, 2022 (remainder of the year)	\$ 1,463,000
December 31, 2023	812,000
December 31, 2024	812,000
December 31, 2025	912,000
Webster Term Loan payable	3,999,000
Less: debt issuance costs	(24,000)
Total Webster Term Loan payable, net of debt issuance costs	3,975,000
Less: Current portion of Webster Term Loan payable	(812,000)
Total long-term portion of Webster Term Loan payable	<u>\$ 3,163,000</u>

As of December 31, 2021, our debt to Webster in the amount of \$16,648,000 consisted of the Webster revolving line of credit note in the amount of \$12,456,000 and the Webster term loan in the amount of \$4,192,000.

Interest expense related to the Webster Facility amounted to approximately \$155,000 and \$181,000 for the three months ended March 31, 2022 and 2021, respectively.

The below summarizes historical amendments to the facility and various terms:

In 2020, the Company entered into the First Amendment to the Loan and Security Agreement which increased the Term Loan to \$5,685,000 and required the Company to make monthly principal installments in the amount of \$67,679 beginning on December 1, 2020. Other minor modifications were made and the Company paid an amendment fee of \$20,000.

In June 2021, the Company entered into the Second Amendment to the Loan and Security Agreement, which clarified the definition and calculation of Excess Cash Flow, and to confirm the due date of required payment of the Excess Cash Flow payment. For so long as the Webster term loan remains outstanding, if Excess Cash Flow (as defined) is a positive number for any fiscal year the Company shall pay to Webster 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 Webster and applied to the outstanding principal balance of the term loan, on or prior to the close of the fiscal year immediately following such fiscal year. The Company made Excess Cash Flow payments of \$558,750 in 2021 (for the fiscal year ended December 31, 2020) and paid \$854,000 in April 2022 (for fiscal year ended December 31, 2021). In connection with these changes, the Company paid an amendment fee of \$10,000.

On December 7, 2021, the Company entered into the Third Amendment to the Loan and Security Agreement (“Third Amendment”). The purpose of the amendment was to provide a maturity date for the Webster Facility of December 30, 2025 as compared to the original maturity date of December 30, 2022. Such amendment also increased the Revolving Line of Credit to its current limit of \$20,000,000 (up from the original \$16,000,000) and also provided for a similar increase in the inventory sublimit to \$14,000,000 (up from the original \$11,000,000). The Third Amendment, also allows the Company, subject to certain limitations, to begin amortizing a portion of its subordinated debt. In connection with these changes, the Company paid an amendment fee of \$75,000.

Under the terms of the Webster Facility, both the Webster revolving line of credit and the Webster term loan will bear an interest rate equal to the greater of (i) 3.50% and (ii) a rate per annum equal to the rate per annum published from time to time in the “Money Rates” table of the Wall Street Journal (or such other presentation within The Wall Street Journal as may be adopted hereafter for such information) as the base or prime rate for corporate loans at the nation’s largest commercial bank, less sixty-five hundredths (-0.65%) of one percent per annum. The average interest rate charged during both of the three months ended March 31, 2022 and 2021 was 3.5%.

All amendment fees paid in connection with the Webster Facility are included in Deferred Financing Costs, Net, Deposits and Other Assets, in the accompanying Condensed Consolidated Balance Sheets and are amortized over the term of the loan.

In connection with the Webster Facility, the Company is required to maintain a defined Fixed Charge Coverage Ratio of 1.25 to 1.00 at the end of each Fiscal Quarter. The Webster Facility limits the amount of Capital Expenditures and dividends the Company can pay to its stockholders. Substantially all of the Company’s assets are pledged as collateral under the Webster Facility.

As of March 31, 2022, the Company was in compliance with all loan covenants.

Finance Lease Obligations

The Company entered into a Finance lease in December of 2021 for the purchase of new manufacturing equipment. The obligation for the Finance lease as of December 31, 2021 is \$262,000. The lease has an imputed interest rate of 4.2% per annum and is payable monthly with the final payment due on December 17, 2026.

As of March 31, 2022, the aggregate future minimum finance lease payments, including imputed interest are as follows:

For the period ending	Amount
December 31, 2022 (remainder of the year)	\$ 44,000
December 31, 2023	58,000
December 31, 2024	58,000
December 31, 2025	58,000
December 31, 2026	59,000
Total future minimum finance lease payments	277,000
Less: imputed interest	(26,000)
Less: Current portion	(49,000)
Long-term portion	<u>\$ 202,000</u>

Loan Payable – Financed Asset

The Company financed the purchase of a delivery vehicle in July 2020. The loan obligation totaled \$37,000 and \$39,000 as of March 31, 2022 and December 31, 2021, 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 period ending	Amount
December 31, 2022 (remainder of the year)	\$ 7,000
December 31, 2023	9,000
December 31, 2024	9,000
December 31, 2025	9,000
December 31, 2026	4,000
Loans Payable - financed assets	38,000
Less: Current portion	(9,000)
Long-term portion	<u>\$ 29,000</u>

Related Party Notes Payable

Taglich Brothers, Inc. is a corporation co-founded by two directors of the Company, Michael and Robert Taglich.

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 resulted in proceeds to the Company 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. was issued promissory notes totaling \$554,000 for placement agency fees. At December 31, 2020, related party notes payable totaled \$6,012,000 and accrued interest totaled \$400,000.

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 Webster Facility, these notes remain subordinate to the Webster Facility and are due on July 1, 2026. Approximately \$2,732,000 of the related party subordinated notes can be converted at the option of the holder into Common Stock of the Company at \$1.50 per share, while the remaining \$2,080,000 of the related party subordinated notes can be converted at the option of the holder into common stock of the Company at \$0.93 per share. There are no principal payments due on these notes. Under the terms of the Third Amendment to the Webster Facility, the Company is now allowed, subject to certain limitations, to begin amortizing a portion of this subordinated debt. The note holders and the principal balance of the notes as amended on January 1, 2021 are shown below:

	<u>Michael Taglich, Chairman</u>	<u>Robert Taglich, Director</u>	<u>Taglich Brothers, Inc.</u>	<u>Total</u>
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, 2022 and 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, 2022 and 2021 on all related party notes payable was \$125,000 and \$125,000, respectively.

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”).

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 its 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 \$89,000 and \$104,000 of non-cash income reflected in “other income, net” on the condensed consolidated statement of operations and recorded \$38,000 and \$31,000 of related non-cash interest expense related to the Purchase Agreement, for the three months ended March 31, 2022 and 2021, respectively.

The table below shows the activity within the liability account for the three months ended March 31, 2022, and the year ended December 31, 2021:

	March 31, 2022	December 31, 2021
	(unaudited)	
Liabilities related to sale of future proceeds from disposition of subsidiaries - beginning balance	\$ 59,000	\$ 322,000
Non-Cash other income recognized	(89,000)	(360,000)
Non-Cash interest expense recognized	38,000	97,000
Liabilities related to sale of future proceeds from disposition of subsidiary - ending balance	8,000	59,000
Less: unamortized transaction costs	(3,000)	(3,000)
Liability related to sale of future proceeds from disposition of subsidiary, net	<u>\$ 5,000</u>	<u>\$ 56,000</u>

Note 7. STOCKHOLDERS' EQUITY

Common Stock – Sale of Securities

The Company issued 55,215 and 41,960 shares of common stock in payment of director fees totaling \$54,000 and \$52,000 for the three months ended March 31, 2022 and 2021, 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.

During the second quarter of 2022, the Company issued 64,292 shares of common stock in payment of directors' fees totaling \$54,000.

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.

On October 2, 2018, Contract Pharmacal Corp. ("Contract Pharmacal") commenced an action, relating to a Sublease entered into between the Company and Contract Pharmacal in May 2018 with respect to the property that was formerly occupied by its subsidiary WMI, at 110 Plant Avenue, Hauppauge, New York. In the action Contract Pharmacal sought damages for an amount in excess of \$1,000,000 for the Company's failure to make the entire premises available by the Sublease commencement date. On July 8, 2021, the Court denied Contract Pharmacal's motion for summary judgement. In the Order, the court granted Contract Pharmacal's Motions to drop its claim for specific performance and to amend its Complaint to reduce its claim for damages to \$700,000. Contract Pharmacal filed a Motion to reargue which the Court denied on November 30, 2021. On March 10, 2022, Contract Pharmacal filed an appeal to the Court's decision with the Appellate Division which the Company will oppose. The Company disputes the validity of the claims asserted by Contract Pharmacal, continues to believe it has a meritorious defense to those claims and intends to dispute the validity of the claim asserted by Contract Pharmacal.

Note 9. INCOME TAXES

The Company recorded no income tax expense for the three months ended March 31, 2022 and 2021 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 of March 31, 2022 and December 31, 2021, 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.

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, 2021 (the "2021 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

Air Industries Group is a holding company with three legal subsidiaries, AIM, NTW and SEC. SEC began manufacturing aircraft components in 1941 – over 80-years ago – for use in World War II. NTW was formed in the early 1960's and AIM has been in business since 1971. We became a public company in 2005.

We manufacture aerospace components primarily for the defense industry. Our Complex Machining Segment ("CMS"), which consists of AIM and NTW, manufactures structural parts and assemblies focusing on flight safety, including aircraft landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, and other components. Our Turbine and Engine Component segment ("TEC") segment consists of SEC which makes components and provides services for aircraft jet engines and ground-power turbines.

Products of CMS 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 and F-15 fighter aircraft, CMS also makes a critical component for the Pratt & Whitney Geared TurboFan ("GTF") aircraft engine used on commercial airliners. TEC makes products used in jet engines that are used on military and commercial aircraft including the USAF F-15 and F-16, the Airbus A-330 and the Boeing 777, and others, and in addition, 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 products and service but also by increasing our ability to produce more complex and complete assemblies for our customers.

We are focused on maintaining profitability and positive cash flows from operating activities. We remain resolute on meeting customers' needs. To take advantage of the long-term growth opportunities we see in our markets, we have made significant capital investments in new equipment in recent years. We believe these investments will increase the velocity and efficiency of production, increase the size of product we can make and allow us to offer additional services to our customers. Some of our investments expand our capabilities allowing us to internally process product that was previously outsourced to third party processors. We are pleased with the positive responses from our customers about these initiatives.

Our ability to operate profitably and generate positive cash flows from operating activities is determined by our ability to win new or renewal contracts and fulfilling these contracts on a timely and cost effective basis. Winning a contract generally requires that we submit a bid containing fixed prices for the product or products covered by the contract for an agreed upon period of time, sometimes for five-years or longer, with negotiated increases to reflect a portion of the impact of inflation. 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. The invasion of Ukraine by the Russian Federation and retaliatory measures imposed by the United States, United Kingdom, the European Union and other countries, and the responses of Russia to such measures, have negatively impacted the availability of certain minerals, such as titanium, for which Russia was a source of supply. We are working with our larger customers, some of which have access to sources of metals necessary to manufacture their products not readily available to us or other companies of our size. Nevertheless, there can be no assurance that disruptions in the markets for metals will not adversely impact our ability to timely meet the needs of our customers.

In addition, the market for the skilled labor we require to operate our plants is highly competitive. Changes in the available pool of laborers caused by Covid-19 have not materially adversely impacted our ability to meet our production schedules. Nevertheless, as we seek to grow our business, there can be no assurance that the skilled laborers we need to operate our machinery will be available to us or that the costs incurred to maintain our current labor force and those we seek to bring on will not increase.

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.

Our revenues are principally determined by orders from our customers, generally orders – which we call releases – against LTA’s with those customers. These long-term agreements generally have fixed prices for product with negotiated increases to reflect a portion of the impact of inflation, though over the term of a LTA prices often increase and not all of the increase is covered by agreed upon price protection clauses in our agreements. Our direct costs of production include costs for material, labor, and factory overhead; all of these costs may vary based on the efficiency of our factory operations. Our gross profit is highly variable due to the mix of products sold, and by sales volume, which can lead to the over absorption or under absorption of factory overhead costs.

Beyond these direct costs of production, we incur general and administrative costs termed Operating Expenses and financing costs for borrowed money, income taxes and miscellaneous income and expense.

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 and could adversely impact our business and our revenue.

Segment Data

In this report, 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.

Historically we have operated our businesses and reported their results as two separate segments with AIM and NTW comprising our CMS segment and SEC as the TEC segment. Our CMS segment specializes in flight critical components including flight controls and landing gear. Our TEC segment focuses on manufacturing components for jet engines. Each segment having different customers.

In recent years we integrated and consolidated the business of AIM and NTW into one facility on Long Island and the operations of our CMS and TEC segments have become increasingly integrated. We also made significant capital expenditures and all of our operations now share the same manufacturing facilities and use most, if not all, of the same sales and marketing functions. We made these changes to take advantage of the long-term growth opportunities we see in the aerospace and defense market. In early fiscal 2022, we further changed our management approach and are now making decisions about resources to be allocated and assessing performance based on one integrated business rather than two reporting segments. As such, effective with our first quarter ended March 31, 2022, we are presenting our operations as one reportable operating segment.

RESULTS OF OPERATIONS

Selected Financial Information:

	Three Months Ended	
	March 31, 2022	March,31 2021
	(unaudited)	(unaudited)
Net sales	\$ 12,062,000	\$ 13,712,000
Cost of sales	9,984,000	11,915,000
Gross profit	2,078,000	1,797,000
Operating expenses and interest and financing costs	2,194,000	2,067,000
Other income, net	88,000	118,000
Net loss	\$ (28,000)	\$ (152,000)

Balance Sheet Data:

	March 31,	December 31,
	2022	2021
	(unaudited)	
Cash and cash equivalents	\$ 364,000	\$ 627,000
Working capital	\$ 17,401,000	\$ 17,478,000
Total assets	\$ 52,446,000	\$ 53,425,000
Total stockholders' equity	\$ 17,481,000	\$ 17,389,000

Net Sales:

Consolidated net sales for the three months ended March 31, 2022 were \$12,062,000, a decrease of \$1,650,000, or 12.0%, compared with \$13,712,000 for the three months ended March 31, 2021. The decrease in sales resulted principally from the decline of approximately \$1,460,000 in sales from two products whose contracts expired or were cancelled by the customer in 2021.

As indicated in the table below, three customers represented 70.8% and 77.9% of total net sales for the three months ended March 31, 2022 and March 31, 2021, respectively.

Customer	Percentage of Sales	
	2022	2021
	(unaudited)	(unaudited)
Goodrich Landing Gear Systems	27.1%	26.6%
Sikorsky Aircraft	25.2%	33.8%
United States Department of Defense	18.5%	17.5%

Gross Profit:

Consolidated gross profit for the three months ended March 31, 2022 was \$2,078,000, an increase of \$281,000, or 15.6%, as compared to gross profit of \$1,797,000 for the three months ended March 31, 2021. Consolidated gross profit as a percentage of sales was 17.2% and 13.1% for the three months ended March 31, 2022 and 2021, respectively. Consolidated gross profit for the March 2022 quarter was positively impacted by lower sales from the two products referred to above. Margin on these two products was substantially less than the margin on our other products.

Operating Expense

Consolidated operating expenses for the three months ended March 31, 2022 totaled \$1,871,000 and increased by \$101,000 or 5.7% compared to \$1,770,000 for the three months ended March 31, 2021. The increase was caused by increases in employment costs, including employee health benefits increases which were not passed on to employees, increases in investor relations and increased travel costs resulting from the resumption of travel to customers as Covid restrictions eased. These increased costs were partially offset by reductions in stock compensation expense, information technology, and bad debt expense.

Interest and Financing Costs

Interest and financing costs for the three months ended March 31, 2022 were \$323,000 an increase of \$26,000 or 8.8% compared to \$297,000 for the three months ended March 31, 2021.

Net Loss

Net loss for the three months ended March 31, 2022 was \$28,000, an improvement of \$124,000, compared to net loss of \$152,000 for the three months ended March 31, 2021 due to the reasons stated above.

LIQUIDITY AND CAPITAL RESOURCES

Our material cash requirements are for debt service, capital expenditures and funding working capital/operating costs.

As of March 31, 2022, we have debt service requirements related to:

- 1) Our Webster Facility of \$15,554,000 consisting of a Revolving Line of Credit of \$11,555,000 and a term loan in the amount of \$3,999,000. During the remainder of our fiscal 2022, we are required to pay \$1,463,000 of this amount plus an amount of Excess Cash Flow we generate.
- 2) Related party debt consisting of a convertible subordinated note payable of \$6,412,000. This debt is not due until July 1, 2026.
- 3) Various equipment leases and contractual obligations related to our normal business.

We have historically met our cash requirements with funds provided by a combination of cash generated from operating activities and cash generated from equity and debt financing transactions. Based on our current revenue visibility and strength of our backlog, we believe that we have enough liquidity to meet our short-term cash requirements. Although the Webster Facility does have certain restrictions on our ability to fund capital expenditures, we are currently in discussions to amend the facility to provide us with the capability to spend up to an additional \$2,500,000 for new equipment,

Because we believe our fiscal 2022 sales will be in line with the amount achieved in fiscal 2021, we believe our liquidity in 2022 will continue to improve. As a result of recent increases in the federal funds borrowing rate, interest rates and related expense under our Webster Facility are expected to increase from current levels. Such increases are not expected to material impact our liquidity.

Our future liquidity may be adversely impacted by various risks and uncertainties, including, but not limited to future and current impacts of global events such as COVID-19 and the war in the Ukraine, increases in inflation, disruptions in the labor market and other risks detailed in Part1, Item 1A of our 2021 Annual Report on Form 10K. Should our cash requirements change beyond our current expectations due to general economic conditions or a strategic decision, we may choose to raise additional funds through equity and debt financing transactions. We believe that we have sufficient access to credit and/or financing from public and private debt and equity markets.

Changes in our cash flow are discussed further below.

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,	
	2022	2021
	(unaudited)	(unaudited)
Cash provided by (used in)		
Operating activities	\$ 1,285,000	\$ 567,000
Investing activities	(430,000)	(273,000)
Financing activities	(1,118,000)	(1,068,000)
Net decrease in cash and cash equivalents	<u>\$ (263,000)</u>	<u>\$ (774,000)</u>

Cash Provided by Operating Activities

Cash provided by 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, 2022, the net loss as adjusted for non-cash items provided cash of \$686,000. This was a result of our net loss of \$28,000, offset by \$714,000 of non-cash items consisting primarily of depreciation of property and equipment of \$665,000, non-cash employee stock compensation expense of \$66,000, amortization of right-of-use assets of \$131,000 and non-cash directors' compensation expense of \$54,000. The remaining non-cash items totaled \$(202,000).

Changes in operating assets and liabilities provided cash in the net amount of \$599,000 consisting primarily of a decrease in accounts receivable in the amount of \$3,033,000 and an increase in accounts payable and accrued expenses of \$354,000, partially offset by increases in inventory, prepaid expenses and other current assets and deposits and other assets in the amounts of \$2,467,000, \$32,000 and \$70,000, respectively, and decreases in operating lease liabilities and deferred revenue in the amounts of \$164,000 and \$55,000, respectively.

Cash Used in Investing Activities

For the three months ended March 31, 2022, cash used in investing activities was \$430,000 used for the purchase of property and equipment.

Cash Used in Financing Activities

For the three months ended March 31, 2022, cash used in financing activities consisted of net payments on our Webster revolving loan and term note in the amounts of \$901,000 and \$203,000, respectively and payments of \$9,000 and \$5,000 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, 2022.

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, 2022 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.

Investors are encouraged to consider the risks described in our 2021 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

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

<u>Exhibit No.</u>	<u>Description</u>
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.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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, 2022

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, 2022

/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, 2022

/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 three months ended March 31, 2022 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, 2022

/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 three months ended March 31, 2022, 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, 2022

/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.]