

AIR INDUSTRIES GROUP  
Form 10-Q  
November 14, 2014

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED September 30, 2014

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

Commission file number 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  
(IRS Employer  
Identification No.)

1479 N. Clinton Avenue Bay Shore, New York 11706  
(Address of principal executive offices)

(631) 968-5000  
(Issuer's telephone number)

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 preceding 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 electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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, or a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer (do not check if smaller reporting company)  Smaller reporting company

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

As of November 12, 2014, the registrant had outstanding 7,100,491 shares of common stock.

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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.

Although we believe that these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flow, research and development costs, working capital, capital expenditures, distribution channels, profitability, new products, adequacy of funds from operations, and general economic conditions, 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, 2013 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

Item 1. Financial statements Page No.

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AIR INDUSTRIES GROUP  
Condensed Consolidated  
Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 1,568,000	\$ 561,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,084,000 and \$783,000	8,806,000	8,584,000
Inventory	30,686,000	26,222,000
Deferred Tax Asset	1,310,000	1,051,000
Prepaid Expenses and Other Current Assets	209,000	510,000
<b>Total Current Assets</b>	<b>42,579,000</b>	<b>36,928,000</b>
Property and Equipment, net	5,743,000	6,523,000
Capitalized Engineering Costs - net of Accumulated Amortization of \$4,184,000 and \$3,879,000	693,000	752,000
Deferred Financing Costs, net, deposit and other assets	680,000	605,000
Intangible Assets, net	3,854,000	4,726,000
Deferred Tax Asset	947,000	185,000
Goodwill	4,620,000	453,000
<b>TOTAL ASSETS</b>	<b>\$ 59,116,000</b>	<b>\$ 50,172,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	\$ 16,315,000	\$ 14,969,000
Accounts Payable and Accrued Expenses	6,280,000	6,855,000
Lease Impairment - Current	60,000	71,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Customer Deposit	174,000	251,000
Dividends Payable	-	717,000
Income Taxes Payable	382,000	1,496,000
<b>Total Current Liabilities</b>	<b>23,249,000</b>	<b>24,397,000</b>
Long-term liabilities		
Notes Payable and Capitalized Lease Obligation - Net of Current Portion	3,191,000	2,527,000
Lease Impairment - Net of Current Portion	12,000	56,000
Deferred Gain on Sale - Net of Current Portion	418,000	447,000
Deferred Rent	1,189,000	1,132,000
<b>TOTAL LIABILITIES</b>	<b>28,059,000</b>	<b>28,559,000</b>

## Stockholders' Equity

Preferred Stock Par Value \$.001-Authorized 1,000,000 shares at September 30, 2014 and December 31, 2013, respectively, none issued and outstanding at September 30, 2014 and December 31, 2013, respectively	-	-
Common Stock - Par Value \$.001- Authorized 25,000,000 shares at September 30, 2014 and December 31, 2013, respectively, 7,100,491 and 5,862,346 Shares Issued and Outstanding as of September 30, 2014 and December 31, 2013, respectively	7,000	6,000
Additional Paid-In Capital	44,905,000	36,799,000
Accumulated Deficit	(13,855,000 )	(15,192,000 )
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>31,057,000</b>	<b>21,613,000</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 59,116,000</b>	<b>\$ 50,172,000</b>

See notes to condensed consolidated financial statements

AIR INDUSTRIES GROUP  
Condensed Consolidated Statements of  
Income  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Sales	\$15,154,000	\$16,052,000	\$43,967,000	\$45,016,000
Cost of Sales	11,597,000	12,309,000	33,012,000	33,996,000
Gross Profit	3,557,000	3,743,000	10,955,000	11,020,000
Operating Expenses	2,997,000	2,712,000	8,909,000	7,733,000
Income from operations	560,000	1,031,000	2,046,000	3,287,000
Interest and financing costs	(260,000 )	(281,000 )	(867,000 )	(1,027,000 )
Other (expense) income, net	(1,000 )	(11,000 )	(64,000 )	(97,000 )
Income before benefit from income taxes	299,000	739,000	1,115,000	2,163,000
Benefit from income taxes	(81,000 )	(1,795,000 )	(222,000 )	(876,000 )
Net income	\$380,000	\$2,534,000	\$1,337,000	\$3,039,000
Income per share - basic	\$0.05	\$0.44	\$0.21	\$0.53
Income per share - diluted	\$0.05	\$0.43	\$0.20	\$0.52
Weighted average shares outstanding - basic	7,092,655	5,711,093	6,415,402	5,711,093
Weighted average shares outstanding - diluted	7,388,686	5,854,015	6,711,742	5,828,037

See notes to condensed consolidated financial statements

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

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 1,337,000	\$ 3,039,000
Adjustments to Reconcile Net Income to Net Cash (used in) provided by Operating Activities		
Depreciation of property and equipment	1,680,000	1,242,000
Amortization of intangible assets	872,000	872,000
Amortization of capitalized engineering costs	306,000	316,000
Bad debt expense	299,000	275,000
Non-cash compensation expense	25,000	15,000
Amortization of deferred financing costs	33,000	46,000
Gain on sale of real estate	(28,000 )	(28,000 )
Deferred Income Taxes	(1,021,000 )	(1,625,000 )
<b>Changes in Assets and Liabilities</b>		
<b>(Increase) Decrease in Operating Assets:</b>		
Accounts Receivable	(119,000 )	807,000
Inventory	(4,401,000 )	(1,295,000 )
Prepaid Expenses and Other Current Assets	332,000	359,000
Deposits	(1,000 )	125,000
Other Assets	(84,000 )	(37,000 )
<b>Increase (Decrease) in Operating Liabilities</b>		
Accounts payable and accrued expenses	(795,000 )	(362,000 )
Deferred Rent	56,000	56,000
Income Taxes payable	(1,114,000 )	(249,000 )
Customer Deposits	(77,000 )	-
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(2,700,000 )</b>	<b>3,556,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for acquisitions	(4,476,000 )	(468,000 )
Cash acquired in acquisition	5,000	-
Capitalized engineering costs	(247,000 )	(316,000 )
Purchase of property and equipment	(384,000 )	(136,000 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(5,102,000 )</b>	<b>(920,000 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Private Placement	9,530,000	-
Costs to raise capital	(968,000 )	-
Notes payable - Sellers	(513,000 )	(479,000 )
Capital lease obligations	(248,000 )	(899,000 )
Note payable - Revolver	3,202,000	1,164,000
Proceeds from note payable - Term Loan	1,328,000	-



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Payments of note payable - Term Loan	(759,000 )	(1,350,000 )
Cash paid for deferred financing costs	(25,000 )	(10,000 )
Payments related to Lease Impairment	(55,000 )	(65,000 )
Dividends Paid	(2,683,000 )	(716,000 )
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	8,809,000	(2,355,000 )
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,007,000	281,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		