

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported):
October 24, 2006

GALES INDUSTRIES INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Delaware	000-29245	20-4458244
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State of	Commission	IRS Employer
Incorporation	File Number	I.D. Number

1479 North Clinton Avenue, Bay Shore, NY 11706

Address of principal executive offices

Registrant's telephone number: (631) 968-5000

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

On October 24, 2006, Air Industries Machining, Corp. ("Air Industries"), a wholly-owned subsidiary of Gales Industries Incorporated ("Gales"), consummated its agreement with STNLA-SPVEF Bay Shore, LLC, successor in interest to Net Lease Advisors LLC ("Purchaser"), whereby Air Industries sold to the Purchaser the buildings and related real property at its corporate headquarters in Bay Shore, New York (the "Property"), for \$6,200,000. Air Industries' net proceeds from the sale, after transaction and other related costs, were approximately \$4,850,000, which Air Industries used to repay debt obligations.

Simultaneously with the closing of the purchase agreement Air Industries entered into a 20-year triple-net lease with the Purchaser for the Property. The lease grants Air Industries an option to renew the lease for an additional period of five years. Base annual rent is approximately \$540,000 for the first five years of the lease, increases to \$621,000 for the sixth year of the term, and thereafter increases 3% per year. Air Industries deposited with Purchaser \$127,500 as security for performance of its obligations under the lease which it intends to replace with a \$127,500 letter of credit. Pursuant to the terms of the lease, Air Industries is required pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance.

The lease contains customary representations, warranties, obligations, conditions and indemnification provisions and grants the landlord customary remedies upon a breach of the lease by Air Industries, including the right to terminate the lease and hold Air Industries liable for any deficiency in future rent.

The foregoing summary is subject to, and qualified in its entirety by, the terms of the agreement of sale, attached hereto as Exhibit 10.1, and the lease,

attached hereto as Exhibit 10.2. The terms of the agreement of sale, the lease and all other documents attached thereto are incorporated herein by reference. A copy of the press release announcing the closing of the transaction is attached as Exhibit 99.1.

The representations, warranties and obligations contained in the purchase and sale agreement and the lease are intended for the benefit of the parties as of the date thereof, and are not to be considered factual representations to shareholders of or prospective purchasers of the shares of Gales. Investors are advised to review Gales' periodic filings with the SEC.

Item 2.01. Completion of Acquisition or Disposition of Assets

The information set forth under Item 1.01 is incorporated herein by reference.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

The information set forth under Item 1.01 is incorporated herein by reference.

EXHIBIT

10.1 Agreement of Sale, dated June 5, 2006, between Air Industries Machining,
Corp. and Net Lease Advisors LLC (predecessor-in-interest to STNLA-SPVEF
Bay Shore, LLC).

10.2 Lease, dated October 24, 2006, between Air Industries Machining, Corp, as
tenant, and STNLA-SPVEF Bay Shore, LLC, as Landlord.

99.1 Press Release, dated October 24, 2006, of Gales Industries Incorporated
announcing consummation of sale-and-leaseback transaction.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Current Report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: October 25, 2006

GALES INDUSTRIES INCORPORATED

By: /s/ Michael A. Gales

Michael A. Gales, Executive Chairman

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99.1 Press Release, dated June 29, 2006, of Gales Industries Incorporated
announcing a up to five-year government contract.

AGREEMENT OF SALE

THIS AGREEMENT OF SALE is made this ____ day of _____, 2006 (the "Effective Date"), between Net Lease Advisors, LLC, a New Jersey limited liability company having an address at 345 Old Short Hills Road, Short Hills, New Jersey 07078 ("Buyer") and Air Industries Machining Corp., a New York corporation, having an address at 1479 North Clinton Avenue, Bay Shore New York 11706 ("Seller").

In consideration of the covenants and provisions contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Agreement to Sell and Purchase. Seller agrees to sell to Buyer, and Buyer agrees to purchase from Seller, subject to the terms and conditions of this Agreement, that certain tract or piece of land known as 1479-1480 N Clinton Avenue and 1460 N Fifth Avenue Bay Shore New York as more fully described by metes and bounds in the legal description attached hereto as Exhibit "A," being all of the property owned by Seller in that location, together with all right, title, and interest of Seller in and to any land lying in the bed of any highway, street, road, or piece of land and any easements and appurtenances pertaining thereto (including, without limitation, all easements, licenses and right, title and interest of Seller in and to adjacent streets, alleys and rights of way and all right, title and interest, if any, to any award for any taking by condemnation or by reason of a change of grade of any street or highway) (the "Real Property"), all the buildings and other improvements situate thereon, including all sign structures, fixtures and systems used in connection with the Real Property and all intangible property related to the Improvements and all warranties related to the Improvements (the "Improvements"), all personal property used in connection with operation and maintenance of the Improvements, but specifically excluding Seller's machinery, equipment and furnishings used in the operation of its business (the "Personal Property") and all of the Seller's right, title and interest in and to all surveys and similar items within Seller's possession and/or control, including but not limited to, zoning reports, concurrency exemption certificates, soil condition test reports,

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market appraisals, value appraisals, utility availability, access, approvals, permits, environmental reports, studies or audits and any related documentation, development orders, any easements or cross-easement agreements, impact fee agreements and information, water/sewer capacity reservation agreements, site plans, development rights, engineering plans and construction drawings and plans (collectively the "Reports"). The Real Property, the Improvements, the Personal Property and the Reports are collectively called the "Property".

2. Purchase Price. The purchase price for the Property is Six Million two hundred thousand and 00/100 Dollars (\$6,200,000.00) (the "Purchase Price"), payable as follows:

- (a) a deposit of Fifty Thousand and 00/100 Dollars (\$50,000.00) (the "Deposit") shall be due and payable on or before that date which is three (3) business days following the Effective Date; provided, however, that if the Deposit is not delivered to the Escrowee (as hereinafter defined) by that date which is five (5) business days following the Effective Date, then this Agreement shall automatically terminate and the parties hereto shall be relieved of all further obligations and liability to the other. The Deposit shall be held in escrow in accordance with the terms hereof, in an interest bearing account. Upon closing of title to the Property ("Closing"), all interest accrued on the Deposit shall be credited to Buyer. In the event that this Agreement is terminated for any reason other than a default by Buyer, all interest accrued on the Deposit shall be paid to Buyer. The Deposit shall be applied against the Purchase Price at Closing subject to the earlier termination of this Agreement as provided herein, in which event the Deposit may be refundable, pursuant to the terms and provisions hereof; and
- (b) the balance of the Purchase Price, in the amount of Six Million One hundred fifty Thousand and 00/100 Dollars (\$6,150,000) shall be paid at Closing, subject to the prorations and adjustments set forth in this Agreement, by bank check, certified funds, or wire transfer to Seller's designated bank account on the date of Closing.

(c) (i) The Deposit shall be drawn to the order of, delivered to and held by Seller's attorney ("Escrowee"), the Escrowee shall hold the proceeds thereof in escrow in a special bank account (or as otherwise agreed in writing by Seller, Buyer and Escrowee) until the Closing or sooner termination of this Agreement and shall pay over or apply such proceeds in accordance with the terms

of this section. Escrowee will hold such proceeds in an interest-bearing

account, and any interest earned thereon shall be paid to the same party entitled to the escrowed proceeds, and the party receiving such interest shall pay any income taxes thereon. The tax identification numbers of the parties are shall be furnished to Escrowee upon request. At the Closing, such proceeds and the interest thereon, if any, shall be paid by Escrowee to Seller. If for any reason the Closing does not occur and either party makes a written demand upon Escrowee for payment of such amount, Escrowee shall give written notice to the other party of such demand. If Escrowee does not receive a written objection from the other party to the proposed payment within 5 business days after the giving of such notice, Escrowee is hereby authorized to make such payment. If Escrowee does receive such written objection within such 5 day period or if for any other reason Escrowee in good faith shall elect not to make such payment, Escrowee shall continue to hold such amount until otherwise directed by written instructions from the parties to this contract or a final judgment of a court. However, Escrowee shall have the right at any time to deposit the escrowed proceeds and interest thereon, if any, with the clerk of the Supreme Court of the county in which the Land is located. Escrowee shall give written notice of such deposit to Seller and Purchaser. Upon such deposit Escrowee shall be relieved and discharged of all further obligations and responsibilities hereunder.

(ii) The parties acknowledge that Escrowee is acting solely as a stakeholder at their request and for their convenience, that Escrowee shall not be deemed to be the agent of either of the parties, and that Escrowee shall not be liable to either of the parties for any act or omission on its part unless taken or suffered in bad faith, in willful disregard of this contract or involving gross negligence. Seller and Purchaser shall jointly and severally indemnify and hold Escrowee harmless from and against all costs, claims and expenses, including reasonable attorneys' fees, incurred in connection with the performance of Escrowee's duties hereunder, except with respect to actions or omissions taken or suffered by Escrowee in bad faith, in willful disregard of this contract or involving gross negligence on the part of Escrowee.

(iii) Escrowee has acknowledged agreement to these provisions by signing in the place indicated on the signature page of this contract.

(iv) If Escrowee is Seller's attorney, Escrowee or any member of its firm shall be permitted to act as counsel for Seller in any dispute as to the disbursement of the Deposit or any other dispute between the parties whether or not Escrowee is in possession of the Deposit and continues to act as Escrowee.

(v) Escrowee may act or refrain from acting in respect of any matter referred to in this section 2(c) in full reliance upon and with the advice of counsel which may be selected by it (including any member of its firm) and shall be fully protected in so acting or refraining from action upon the advice of such counsel.

3. Closing; Closing Date. The Closing shall be held on that date which is not more than forty-five (45) business days immediately following the expiration date of the Due Diligence Period as defined in Section 6 below (or on the next business day thereafter if such date is not a business day), or on such earlier date as Buyer shall designate by at least five (5) days' advance written notice to Seller (the "Closing Date"). The Closing shall take place at the office of the attorneys for the Seller at 3 Park Avenue, 16th Floor, New York, New York, or, upon reasonable prior written notice to the Seller, the offices of the Buyer's lender or its counsel, provided such offices are in the New York, or such other place as is agreed to by the parties. At Buyer's option, the Closing may be conducted by escrow, through the Title Company, or other escrow agent selected by Buyer.

4. Condition of Title.

(a) Within ten (10) days after the Effective Date (the date this Agreement has been executed by the last of Buyer and Seller), Seller, at its sole cost and expense, shall provide Buyer and Buyer's attorney with: (a) a current standard commitment to issue an owner's policy of title insurance (1992 ALTA Form B), (the "Title Commitment"), issued by the First American Title Company or other nationally recognized title insurance company licensed to conduct business in the State of New York (the "Title Company") and hard copies of all title exceptions; and (b) a current ALTA/ACSM Land

Title As-Built survey of the Property, which has been certified to Buyer and such other parties as Buyer may request. Title to the Property shall be good and marketable: (i) free and clear of all liens, restrictions, easements, encumbrances, claims or liens by contractors, subcontractors, mechanics and materialmen, leases, financing statements or other personal property liens or encumbrances and other title objections, other than those exceptions as set forth on the Title Commitment and approved by Buyer (the "Permitted Exceptions") and to the standard printed exceptions in an ALTA form of policy, and (ii) insurable as aforesaid at ordinary rates. Seller shall pay and discharge all liens at Closing or before Closing, at Seller's option; if Seller fails to do so, Buyer shall have the option, at its election, to pay and discharge such liens out of the Purchase Price.

- (b) If Buyer determines, in its sole and absolute discretion, prior to the expiration of the "Due Diligence Period" (as defined in Section 6(b) below), that there are defects to title such that title to the Property cannot be conveyed to Buyer at Closing in accordance with the requirements of this Agreement for a reason other than the existence of any lien which cannot be paid at Closing, Seller shall take reasonable action to cure the defect, and at Buyer's option, the Closing Date may be postponed for a reasonable time, not exceeding fifteen (15) days, to permit Seller to correct the title defect. If the title defect is of such a nature that it is not capable of being corrected within the fifteen (15) day cure period, then provided Seller shall have been proceeding diligently to effect a cure of the title defect, Seller shall have an additional time period of not exceeding fifteen (15) additional days, in which to complete its cure. If Seller fails or refuses to correct the title defect within the time periods set forth above, Buyer shall have the option: (i) of taking such title as Seller can convey without any abatement of the Purchase Price; or (ii) of terminating Buyer's obligations under this Agreement, in which event, the Deposit and all interest accrued on the Deposit shall be returned to Buyer and the parties shall have no further obligations to each other except those which by their terms shall specifically survive the termination of this Agreement. Survey issues raised by Buyer are to be treated pursuant to this paragraph 4(b) as if they are title defects.

5. Seller's Representations, Covenants, Warranties and Indemnity.

- (a) Seller represents, warrants, and covenants to Buyer that the following statements are true and correct as follows as of the date of this Agreement, and will remain true and correct as of the Closing Date:

- (i) Seller has no knowledge of, and has received no notice from any governmental authority stipulating that any assessments or charges for any public improvements have been made against the Property which remain unpaid, no improvements to the Property or any roads or facilities abutting the Property have been made or ordered for which a lien, assessment, or charge can be filed or made and Seller has no knowledge of, and has received no notice of any plans for improvements by any governmental or quasi-governmental authority which might result in a special assessment against the Property.
- (ii) Seller is not a party to any management, employment, service, equipment, supply, maintenance, water, sewer, or other utility or concession agreements escrows or bonds with respect to or affecting the Property (collectively, "Service Contracts") which will burden the Property or be binding upon Buyer after Closing in any manner whatsoever, except for instruments of record and those agreements set forth on Exhibit "B". At Closing, Seller shall to Buyer assign to Buyer those Service Contracts which Buyer has elected to continue.

- (iii) Seller is a duly existing corporation incorporated and in good standing in the State of New York, the Guarantor is a duly existing corporation incorporated and in good standing in State of Delaware, and is qualified to do business and in good standing in the State of New York. Seller has the power and authority to enter in this Agreement and to consummate the transactions herein contemplated and Guarantor has the power and authority to enter into the Guarantee. This Agreement and all documents executed by Seller or Guarantor, as applicable, which are to be delivered to Buyer at Closing: (A) are duly authorized, executed and delivered by Seller or Guarantor, as applicable and are enforceable in accordance with their terms; (B) are the legal, valid and binding obligations of Seller or Guarantor, as applicable. Neither Seller nor Guarantor is bankrupt or insolvent and no bankruptcy, insolvency or reorganization proceeding is contemplated by Seller or Guarantor.
- (iv) Seller is not a "foreign person" as contemplated by Section 1445 of the Internal Revenue Code.
- (v) No brokerage or leasing commissions or other compensation is or will be due or payable to any person, firm, corporation, or other entity with respect to or on account of any leases or occupancy agreements affecting the Property or any extensions or renewals thereof, if any.
- (vi) There are no tenants, licensees or other occupants of the Property except for Seller, and no party has any right or option to acquire or lease the Property or any portion thereof.
- (vii) Neither the execution and delivery of this Agreement, or any documents required in connection with the Closing, nor compliance with the terms and conditions of this Agreement by Seller, nor the consummation of the Sale, constitutes or will constitute a violation or breach of the Articles of Incorporation or By-Laws of Seller, or of any agreement or other instrument to which Seller is a party, to which it is subject or by which it is bound.

- (viii) To Seller's knowledge the present use of the Property is in compliance with applicable zoning classifications. Neither Seller nor the Property is in violation of: (a) any law, statute, code, regulation of any governmental agency or authority applicable to the Property; or (b) any building or occupancy permit; or (c) any condition, easement, right-of-way, covenant, agreement or restriction of record applicable to the Property, including without limitation any applicable building, land use or environmental laws.
- (ix) There is no pending or, to the best of Seller's knowledge, threatened condemnation of any portion of the Property or other enforcement action brought or threatened by any governmental agency or official for violation in of any laws, rules, regulations or ordinances to which the Property is subject.
- (x) No litigation is presently pending with respect to the Property, nor to the best of the Seller's knowledge has any litigation been filed, or threatened in writing, affecting the Seller's ability to consummate the transaction contemplated by this Agreement.
- (xi) Seller holds fee simple title to and is the sole owner of the Property.
- (xii) Except as expressly set forth in the environmental reports provided to Buyer as attached hereto as Exhibit "C" (the "Environmental Report") and subject to subparagraph (xiii) below, (i) the Seller is in compliance with all applicable Environmental Laws; (ii) the Seller has not transported from, stored or disposed of any Hazardous Materials from or upon the Premises in contravention of applicable Environmental Laws; (iii) there has not occurred, nor is there presently occurring, a Release of any Hazardous Materials on, into or beneath the surface of the Property except in compliance with applicable Environmental Laws; (iv) the Seller has not transported or disposed of, or allowed or arranged for any third parties to transport or dispose of, any Hazardous Material to or at a site which, pursuant to CERCLA, has been placed on the National Priorities List; (v) the Seller has not received written notice that it is a potentially responsible party for a federal or state environmental cleanup site or for corrective action under RCRA; and (vi) the Seller has not undertaken (or been requested to undertake) any response or remedial actions at the request of any federal, state or local governmental entity;

(xiii) In connection with complying with the recommendations contained in the Phase I Environmental Site Assessment, dated October 12, 2005 (the "Phase I"), (1) Seller represents and warrants that (A) the storm drains located on the Real Property have been drained and cleaned, and, if required by Buyer's lender, such storm drains shall be tested by Seller at Seller's sole cost, (B) the two 1,000-gallon fuel oil storage tanks located at 1480 North Clinton Avenue have been registered and tested for tightness, the results of which are to be made available to Buyer by June 12, 2006, however, if it is determined the tightness test has not been complete, Seller shall conduct the tightness test and provide Buyer the results of which by June 12, 2006, and (C) the 3,000-gallon underground storage tank located at 1479 North Clinton Avenue has been removed in accordance with applicable regulations; and (2) Seller covenants that (V) Seller shall clean the area around the storm drains located on the Real Property prior to recertification of the Phase I, or any additional Phase I Environmental Site Assessment being conducted on Real Property by Buyer, (W) Seller shall place all drums located in or on the Real Property on spill pallets prior to recertification of the Phase I, or any additional Phase I Environmental Site Assessment being conducted on Real Property by Buyer, (X) Seller shall clean the floors of all the buildings located on the Real Property, using a spill absorbent material, prior to recertification of the Phase I, or any additional Phase I Environmental Site Assessment being conducted on the Real Property by Buyer, (Y) Seller shall clean up the area of the Real Property where salvageable metal pieces are stored prior to recertification of the Phase I, or any additional Phase I Environmental Site Assessment being conducted on Real Property by Buyer, and (Z) Seller shall undertake to renew the permit for the 1100-gallon drum storage unit located at 1479 North Clinton Avenue.

For purposes of this Agreement:

"Environmental Laws" shall mean any and all federal, state, local and foreign statutes, laws, codes, regulations, ordinances, rules, judgments, injunctions, orders, decrees, permits, franchises or licenses relating to pollution, hazardous substances, hazardous wastes, petroleum or otherwise relating to protection of the environment, natural resources or human health, including but not limited to: the Clean Air Act; Clean Water Act; Resource Conservation and Recovery Act ("RCRA"); Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"); Emergency Planning and Community Right-to-Know Act; Federal Insecticide, Fungicide and Rodenticide Act; Safe

Drinking Water Act; Toxic Substances Control Act; Hazardous Materials Transportation Act; Occupational Safety and Health Act; and Endangered Species Act of 1973, each as amended.

"Hazardous Materials" means any substance in amounts and concentrations that: (i) require reporting, investigation, removal or remediation under any Environmental Law; (ii) are regulated as a "hazardous waste," "hazardous substance" or "pollutant" or "contaminant" under any Environmental Law; (iii) cause a nuisance, trespass or other tortious condition or poses a hazard to the health or safety of persons; or (iv) contain gasoline, diesel fuel or other petroleum fuels, PCBs, asbestos or urea formaldehyde foam insulation.

"Release" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment of any Hazardous Material (including the abandonment or discarding of barrels, containers, and other closed receptacles containing any Hazardous Material).

(xiv) There are no tax abatements or exemptions affecting the Property.

(xv) During the period of Seller's ownership of the Property: (A) none of the Property has been excavated by Seller; (B) no landfill was deposited on, or taken from, the Property by Seller; and (C) no construction debris or other debris (including, without limitation, rocks, stumps, or concrete) was buried upon any of the Property and to Seller's best knowledge known of the foregoing occurred prior to Seller's taking title to the Property.

(xvi) A permanent unconditional certificate of occupancy for the improvements has been issued by the appropriate governmental authority and is in full force and effect.

(xvii) The Property has direct and continuous ingress and egress to and from a dedicated county road and there is no action, pending or threatened that would impair or curtail such ingress or egress

The representations and warranties of Seller contained in this Section 5 shall survive Closing and the delivery of the deed.

(b) Seller shall indemnify, defend and hold Buyer harmless from and against any and all claims, actions, judgments, liabilities, suits, liens, damages, penalties, fines, costs and reasonable attorneys' fees (whether or not a suit is commenced and including any appeal), foreseen or unforeseen, asserted against, imposed on or suffered or incurred by Buyer (or the Property) directly or indirectly arising out of or in connection with any breach of the warranties, representations and covenants set forth in this Section 5 made as of the date of this Agreement. The warranties and representations set forth in this Section 5 shall be deemed remade as of Closing and updated if necessary, and all of such warranties and representations, as so remade and updated, and the indemnity obligation set forth in this Section 5 shall survive Closing and the delivery of the deed. In the event any of Seller's warranties and representations are prior to Closing known to be inaccurate in a circumstance that is material and adverse to Buyer and not otherwise permitted herein, and if Buyer shall be unwilling to waive same and close this transaction without abatement of the Purchase Price or allowance of any kind, Buyer's sole remedy shall be to terminate this Agreement by giving written notice thereof to Seller, and thereupon the Deposit (and all interest accrued thereon) shall be refunded to Buyer and neither party shall have any further rights or obligations hereunder, except for those rights and obligations which by their terms specifically survive the termination of this Agreement.

Except as set forth in Section 5(a) hereof Seller has not made and does not make any representations or warranties as to the physical condition, rents, leases, income, expenses, zoning or legality of occupancy of the Property, stays of title or any other matter or thing affecting or relating to the Property and Buyer acknowledges that no such representations and warranties have been made and Buyer further agrees to take the property "as is" in its present physical condition subject to reasonable wear and tear and normal depreciation between the date hereof and the Closing date. Seller shall not be liable or bound in any way for any verbal or written statements, representations or information pertaining to the property furnished by any real estate broker or agent thereof or employee of Seller or any other person. All prior and contemporaneous representations, statements, understanding and agreements between the parties with respect to the subject matter hereof are merged into this Agreement.

6. Conditions of Buyer's Obligations. The obligation of Buyer under this Agreement to purchase the Property from Seller is contingent upon and subject to the satisfaction at Closing of each of the following conditions (any one of which may be waived in whole or in part by Buyer at or prior to Closing):
- (a) All of the representations and warranties by Seller set forth in this Agreement shall be true and correct at and as of the date of this Agreement and as of the Closing Date in all respects as though such representations and warranties were made at and as of the Closing Date, and Seller shall have timely performed, observed, and complied with all covenants, agreements, and conditions required by this Agreement to be performed on its part prior to or as of Closing.
 - (b) Buyer shall have a period from the Effective Date through the date that is thirty (30) business days thereafter (the "Due Diligence Period") to conduct due diligence investigations and analysis of the Property and all information pertaining to the Property. Seller shall permit Buyer and its representatives to have access to the Property during regular business hours in order to conduct its due diligence investigations, subject to the notice requirement set forth in subparagraph (iii) below.
 - (i) Buyer shall have the right, but not the obligation, to perform any and all inspections, investigations and tests deemed appropriate by Buyer in its sole discretion including, but limited to of the following:
 - (A) Inspect all physical aspects of the Property, including without limitation, all operating systems, structural components and related service contracts, building approvals, plans and specifications and all occupancy certificates and permits;

(B) Investigate all zoning, code and governmental requirements;

(C) Review existing environmental reports and studies in Seller's possession or control;

(D) Review preliminary title reports and surveys;

(E) Review the financial statements of Seller and of Gales Industries Incorporated, a Delaware corporation ("Guarantor"), which is to guarantee all of Seller's obligations as tenant pursuant to the Lease (as hereinafter defined).

(F) Review of all agreements relating to the use, operation and occupancy of the Property, including, without limitation, financial and operating statements, leases, occupancy agreements, equipment or other rental agreements, maintenance agreements, service agreements and any and all other contracts with third parties.

(ii) If Buyer, in its sole and absolute discretion, determines that the Property is unsuitable for purchase for any reason whatsoever, and Buyer notifies Seller and Title Company of Buyer's election to terminate before 5:00 p.m. on the last day of the Due Diligence Period, this Agreement thereupon shall become void, the Deposit shall be returned to Buyer forthwith with interest and there shall be no further obligation or liability on either of the parties hereto. Upon receipt of notice of termination under this subparagraph, Title Company shall immediately deliver the Deposit and accrued interest to Buyer.

(iii) Buyer shall notify Seller twenty-four (24) hours in advance of any time that it intends to be on site conducting its due diligence investigations and shall restore the Property to its original

condition at the conclusion of the Due Diligence Period. Buyer shall endeavor to conduct its due diligence investigations in a manner that does not unreasonably disrupt the business operations of Seller at the Property.

(iv) Prior to any contractor retained by Buyer or such contractor's representatives entering upon the Property, Buyer shall deliver, or cause its contractors to deliver, a public liability policy naming Seller as a named insured with a combined single limit in case of death or injury or property damage of not less than \$3,000,000. Buyer shall keep the property free and clear of any and all liens and will indemnify, defend and hold Seller harmless from any and all claims and liabilities asserted against Seller as a result of any inspections, investigations, and entry by Buyer, its agents, employees or representatives. If any inspection or test disturbs the Property, Buyer will restore the Property to substantially the same condition as existed prior to any such inspection or test. The obligations of Buyer under this section shall survive the termination of this Agreement.

(c) Within five (5) days of the Effective Date, Seller shall deliver to Buyer any and all of the following materials:

(i) The most recent survey of the Property (the "Survey") prepared by a registered and licensed surveyor;

(ii) Copies of the floor plans of all buildings on the Property, together with copies of all other plans and specifications of the Property and the Improvements and any appraisals of the Property or any portion thereof, to the extent that such plans and specifications are in Seller's possession;

(iii) Copies of all Service Contracts;

(iv) Copies of all environmental, engineering, soil, hydrology and other reports in Seller's possession or under Seller's control with respect to the Property;

(v) Copies of the latest title policy with respect to the Property;

(vi) Certified financial statements of (A) the Seller for the three (3) years prior to the Effective Date and (B) the Guarantor for the one year prior to the Effective Date;

(vii) Copies of all tax bills relating to the Property;

(viii) Copies of all permits and approvals relating to the Property, including, without limitation, all zoning approvals, building or construction permits and certificates of occupancy.

(ix) all Reports and any other agreement(s) directly or indirectly affecting or impacting the Premises and any and all other documents or correspondence that impact or affect the Premises, the value of the Premises or the business being conducted on the Premises

(d) At Closing, Seller shall deliver to Buyer duly executed originals of the following:

(i) A bargain and sale deed in the usual and customary form with covenant's against grantor's act duly executed and acknowledged by Seller and in proper form for recording (the "Deed").

(ii) Originals of the following instruments (or copies if originals are unavailable), all certified by Seller as true and correct to the best knowledge of Seller:

(A) Each bill of current real estate taxes, sewer charges and assessments, water charges, and other utilities, together with proof of payment thereof (to the extent same have been paid);

(B) All assigned guaranties and warranties relating to the improvements and equipment therein, if any; and

(C) All documents listed in Section 6(c) above.

(iii) An assignment of all Service Contracts which Buyer has elected to assume and a termination of any Service Contracts Buyer has not elected to assume.

(v) An affidavit of title in favor of Buyer and the Title Company in the form customarily used by the Title Company.

(vi) The original Lease, and the original Lease Guaranty (as defined in Section 16 below)

(vii) An estoppel certificate from Seller, as tenant pursuant to the Lease, dated not more than fifteen (15) days prior to the Closing Date and in form and substance acceptable to the Buyer and its Lender, if any and an estoppel certificate from Guarantor relative to the Guarantee in form and substance acceptable to Buyer and its Lender, if any.

viii Such other documents as reasonably may be required by the Buyer, its counsel or the Title Company in order to consummate this transaction accordance with this Agreement, including, without limitation, all necessary corporate authorizations, approvals and resolutions, and a certificate confirming that Seller is not a foreign person or entity that would be subject to withholding.

ix a closing statement

- x Satisfactions of any and all liens, encumbrances and other conditions to be satisfied and extinguished upon Closing and any necessary corrective title instruments;

- xi A sworn affidavit of Seller authorizing the sale of the Property, an incumbency certificate and a certificate stating that all representations contained herein were true and correct when made and are true, correct and restated as of the time of Closing and that each representation and warranty shall survive the Closing and the purchase and sale transaction contemplated in this Agreement and a sworn affidavit from Guarantor authorizing the execution of the Lease Guaranty;

- xii there shall not have been any adverse change in environmental condition, physical condition or title of the Property, no event or condition shall have occurred which has or might reasonably have a material adverse effect on the Property and the Property shall be free of any hazardous substances

(e) (i) Seller will have paid, prior to the Closing Date, all taxes and assessments for commenced or completed improvements, including assessments payable in installments, which are to become due and payable, or a lien upon the Property, except for taxes for the current year, which shall be prorated in accordance with this Agreement. No special assessments have been levied against the Property. No work has been performed at the Property or is in progress, and no materials have been furnished to the Property other than ordinary and usual maintenance and repair work. If any lien for any such work is filed before or after Closing, Seller shall promptly discharge the same.

(ii) Seller will not further sell, encumber, convey, assign or contract to sell, convey, assign or pledge, all or any part of the Property, nor restrict the use of all or any part of the Property, nor take or cause to be taken any action in conflict with this Agreement at any time between the date of this Agreement and: (A) Closing, or (B) the earlier termination of this Agreement pursuant to its terms.

(iii) During the period between the Effective Date and the Closing Date, Seller shall: (A) comply with all applicable governmental laws, codes and requirements (including, without limitation, Environmental Laws) and the terms and conditions of all agreements affecting the Property; (B) continue to operate, maintain, use and repair the Property in a manner consistent with Seller's current practices, including, without limitation, maintaining all insurance coverage as now currently exists and/or may be required by the terms of any mortgages affecting the Property; (C) promptly inform Buyer in writing of any event adversely affecting the ownership, use, occupancy operation or management of the Property; (D) not enter into any new or amend any existing service agreements or maintenance agreements or other agreements affecting the Property that would be binding upon Buyer following Closing, unless Buyer has specifically consented in writing to same; and (E) not create any manner of lien or encumbrance upon the Property, without the express prior written consent of Buyer which consent may be withheld at Buyer's sole discretion.

(iv) Buyer shall have received from a Title Company an ALTA Owner's fee policy of title insurance for the Property, or in the alternative an irrevocable commitment for the issuance thereof, insuring title to the Property in the name of Buyer and in an amount not less than the Purchase Price. The policy shall be consistent with the Title Commitment referred to above, subject only to the Permitted Exceptions set forth on Exhibit B and to the standard printed exceptions in an ALTA form of policy. and which shall include such endorsements as Buyer shall request

(v) The Property shall be free of any and all municipal and other liens and there shall be no open permits effecting the Property;

(vi) There shall not have been any material adverse change in environmental condition, physical condition or title of the

Property, no event or condition shall have occurred which has or might reasonably have a material adverse effect on the Property and the Property shall be free of any hazardous substances.

(f) Seller and Buyer shall enter into the Lease (as defined in Section 16 below).

(g) As of the Closing Date, there shall exist no pending action, lawsuit or proceeding with respect to Seller, Guarantor or the Property before any court, administrative agency or tribunal which seeks to restrain or prohibit the consummation of the sale of the Property as contemplated by this Agreement.

(h) Notwithstanding anything contained in this Agreement to the contrary, Buyer, in its sole and absolute discretion, shall have the right to terminate this Agreement after the expiration of the Due Diligence Period and receive the return of the Deposit (plus all accrued interest) (i) if there occurs any change or alteration in the environmental condition of the Property that occurs after the expiration of the Due Diligence Period and is not a result of the direct actions of Buyer or (ii) if there is a material adverse change in the financial condition of the Guarantor.

7. Possession. Possession of the Property shall be given to Buyer at Closing unoccupied and free of any liens, subject only to the tenancy with the Seller pursuant to the Lease, as more particularly set forth and described in Section 16 below.
8. Apportionments.
 - (a) Real estate taxes, assessments, utilities, operating expenses, and other apportionable income and expenses are not to be pro-rated inasmuch as these shall be the responsibility of Seller as Tenant under the Lease .
 - (b) All real property transfer taxes, stamp fees and taxes, and escrow fees, if any, imposed on or in connection with this transaction shall be paid by Seller. All other costs of closing shall be paid for by either Buyer or Seller, according to the customary practices for commercial real estate closings in the Bay Shore, New York area.

(c) Seller shall pay all rollback taxes pertaining to the Property, if any.

(d) Each party shall pay for the fees of its own attorneys.

9. Condemnation. Seller covenants and warrants that Seller has not received any notice of any pending or threatened condemnation proceeding or other proceeding in the nature of eminent domain in connection with the Property. If prior to Closing any such proceeding is commenced or any change is made, or proposed to be made, to the current means of ingress and egress to the Property or the roads or driveways adjoining the Property, or to change such ingress or egress or to change the grade thereof, Seller agrees immediately to notify Buyer thereof. Buyer then shall have the right, at Buyer's option, to terminate this Agreement by giving written notice to Seller within thirty (30) days after receipt of such notice. If Buyer does not so terminate this Agreement, Buyer shall proceed to Closing pursuant to this Agreement as if no such proceeding had commenced and will pay Seller the full Purchase Price in accordance with this Agreement. Seller shall assign to Buyer all of its right, title, and interest in and to any compensation for such condemnation. As long as Buyer has elected to proceed with the Agreement and pay the full Purchase Price for the Property, Seller shall not negotiate or settle any claims for compensation prior to Closing, and Buyer shall have the sole right (in the name of Buyer or Seller or both) to negotiate for, to agree to, and to contest all offers and awards.
10. Default by Buyer. If Buyer, without the right to do so and in default of its obligation hereunder, fails to complete Closing, the Deposit and all accrued interest shall be paid to Seller. Such payment of the Deposit and all accrued interest to Seller shall be deemed to be liquidated damages for Buyer's default. Seller hereby waives any right to pursue any other remedy permitted at Law or in equity against Buyer.

11. Default by Seller. If Seller, without the right to do so and in default of its obligations hereunder, fails to complete Closing, the Deposit and all accrued interest shall be returned to Buyer, and Seller shall reimburse Buyer for all of Buyer's reasonable costs incurred in connection with this transaction, including, without limitation, costs of title and survey, costs of inspections and environmental reviews, cost of Buyer's consultants and attorneys, up to a maximum of \$25,000. In addition, Buyer may exercise any remedies available to it at law or in equity, including, but not limited to, specific performance.
12. Risk of Loss. Seller shall bear the risk of all loss or damage to the Property from all causes, other than the willful acts or negligence of Buyer, its agents, contractors, and/or representatives, until Closing. If the Property or any part thereof is damaged by fire or other casualty prior to Closing which would cost in excess of \$50,000.00 to repair (as determined by an insurance adjuster selected by the insurance carriers), Seller shall promptly notify Buyer thereof and Buyer, at its option, may terminate this Agreement by written notice to Seller given on or before the earlier of: (i) twenty (20) days following the date that Buyer receives notice of such casualty; or (ii) the Closing Date (provided, however, that in the event that Buyer has less than twenty (20) days in which to respond, the Closing Date shall be adjourned to the extent necessary in order to provide Buyer with a twenty (20) day response period). In the event of such termination, this Agreement shall be of no further force and effect and, except for those obligations which by their terms shall survive the termination of this Agreement, neither party shall thereafter have any further obligation under this Agreement, and Seller shall promptly return the Deposit and all accrued interest to Buyer. If Buyer does not elect to terminate this Agreement or the cost of repair is determined by the selected adjusters to be less than \$50,000.00, then the Closing shall take place as herein provided without abatement of the Purchase Price, and Seller shall assign and transfer to Buyer at the Closing, without warranty or recourse, all of Seller's right, title and interest to the insurance proceeds paid or payable to Seller on account of such fire or casualty. Seller shall pay or credit to Buyer the amount of the deductible of any of Seller's applicable insurance policies.
13. Brokerage. Buyer represents and warrants to Seller and Seller represents and warrants to Buyer that each dealt with no broker, agent, finder, or other intermediary in connection with this sale and purchase other than George Tsunis Real Estate Inc. Seller shall be solely responsible for all commissions due to Broker pursuant to a separate agreement, and such

commissions shall be payable out of Seller's closing proceeds if and when Closing takes place. Seller agrees to pay any other real estate broker or other intermediary claiming a commission in connection with this sale and purchase or the Lease, and Buyer shall have no liability or obligation in connection therewith. Seller agrees to indemnify, defend, and hold Buyer harmless from and against the claims of any and all brokers and other intermediaries claiming a commission in connection with this sale and the leaseback of the property pursuant to the Lease. These covenants and indemnities shall survive the Closing and the delivery of the Deed or the sooner termination of this Agreement.

14. Notices. All notices, requests, and other communications under this Agreement shall be in writing and shall be delivered: (i) in person; (ii) by registered or certified mail, return receipt requested; (iii) by recognized overnight delivery service providing positive tracking of items (for example, Federal Express); or (iv) by facsimile, with the original to follow as provided in (ii) or (iii) above, addressed as follows or at such other address of which Seller or Buyer shall have given notice as herein provided:

If intended for Seller:

Air Industries Machining, Corp.
1479 North Clinton Avenue
Bay Shore, New York 11716

Attention: Michael A. Gales, Executive Chairman

With a copy to:

Eaton & Van Winkle LLP
3 Park Avenue, 16th Floor,
New York, New York 10016
Attn: Vincent J. McGill, Esq.

If intended for Buyer:

Net Lease Advisors, LLC
345 Old Short Hills Road
Short Hills, New Jersey 07078
Attn: Peter Weisman
Pw1955@aol.com

And to: Single-Tenant Financial Corp
11730 Berry Drive
Cooper City, FL 33026
Att: David Piasecki
drpinvestco@aol.com

All such notices, requests, and other communications shall be deemed to have been sufficiently given for all purposes hereof one (1) day after overnight delivery and three (3) days after deposit of the notice in the U.S. mail. Notices by the parties may be given on their behalf by their respective attorneys.

15. Further Assurance. After Closing, at Buyer's sole cost and expense, Seller shall execute, acknowledge, and deliver, for no further consideration, all reasonable forms of assignments, transfers, deeds, and other documents as Buyer may reasonably request to vest in Buyer and perfect Buyer's right, title, and interest in and to the Property.
16. Lease Execution. The parties acknowledge and agree that as a condition to their respective obligations hereunder, Buyer shall lease to Seller, and Seller shall lease as tenant, from Buyer, effective the Closing, the entire Property and improvements located thereon pursuant to the terms and provisions of that certain lease agreement which shall be substantially in the form attached hereto and made a part hereof as Exhibit "D" (the "Lease"). At Closing, Buyer and Seller shall fully execute and deliver to the other, the Lease, as same may have been amended, in a mutually agreeable form, and such delivery shall be a material obligation of Buyer

and Seller under this Agreement. All of Seller's obligations as tenant pursuant to the Lease shall be unconditionally guaranteed by the Guarantor pursuant to the terms and provisions of a guaranty agreement, which shall be substantially in the form attached hereto and made a part hereof as Exhibit "E" (the "Lease Guaranty").

17. Miscellaneous.

- (a) The captions in this Agreement are inserted for convenience of reference only and in no way define, describe, or limit the scope or intent of this Agreement or any of the provisions hereof.
- (b) Buyer shall have the right to assign this Agreement without Seller's consent. The assignee shall sign an assignment and assumption of this Agreement, by which the assignee agrees to undertake all of Buyer's obligations pursuant to this Agreement. Buyer shall provide written notice of such assignment to Seller, and Seller agrees to convey the Property directly to Buyer's assignee. Time is of the essence with respect to this Agreement.
- (c) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executor, administrators, legal representatives, successors, and assigns.
- (d) This Agreement, including the exhibits attached hereto, contains the whole agreement as to the Property between Seller and Buyer, and there are no other terms, obligations, covenants, representations, statements, or conditions, oral or otherwise of any kind whatsoever concerning this sale and purchase, except for the Lease, upon the execution of same. This Agreement shall not be altered, amended, changed, or modified except in writing executed by the parties hereto.

- (e) This Agreement shall be construed in accordance with the laws of the State of New York.
- (f) All of the parties hereto are experienced and sophisticated in business and understand the terms and conditions set forth herein. Each of the parties hereto has sought or has knowingly waived its opportunity to seek the advice of independent legal counsel prior to entering into this Agreement. Should any provision of this Agreement require judicial interpretation, it is agreed the Court interpreting or construing such provision shall not apply any presumption that the terms hereof shall be more strictly construed against one party by reason of any rule of construction which might otherwise require or permit this document to be construed more strictly against the party who itself or through its agents prepared this document.
- (g) In the event of termination of this Agreement by either party for any reason, then, upon the return of the Deposit to Buyer, plus all interest accrued thereon, this Agreement shall terminate and the parties shall have no further rights or obligations with respect to the other, except for those provisions of this Agreement which, by their terms, specifically survive the Closing or sooner termination of this Agreement.
- (h) Neither this Agreement nor any provision may be changed, waived, discharged or terminated orally, but only by a written agreement signed by both Buyer and Seller.
- (i) The waiver by any party of any breach or default by any other party under any of the terms of this Agreement, shall not be deemed to be, nor shall the same constitute, a waiver of any subsequent breach or default in the part of any party. This Agreement shall be construed and enforced under the laws of the state of Florida. Whenever a date specified herein shall fall on a Saturday, Sunday or legal holiday, the date shall be extended to the next succeeding business day.

- (j) Any dispute that may arise relative to this Agreement shall be resolved by submitting the same to binding Arbitration to be conducted under the authority of the American Arbitration Association, the parties agreeing to submit jurisdiction of such dispute(s) to such body pursuant to its rules and regulations. The prevailing party in any proceeding shall be entitled to recover from the other party, in addition to any damages or other relief granted as a result of such proceeding, all costs and expenses of such proceeding and reasonable attorneys' fees as fixed by the Arbitrator(s). A single member panel shall be employed and the venue for any Arbitration shall be New York.

18. Exhibits. The following exhibits are attached to and made a part of this Agreement:

- Exhibit "A" - Metes and Bounds Description of the Property
- Exhibit "B" - List of Service Contracts
- Exhibit "C" - Environmental Matters
- Exhibit "D" - Form of Lease
- Exhibit "E" - Form of Lease Guaranty

19. Counterparts. This Agreement may be signed in one or more counterparts, each of which shall be an original and all of which, taken together, shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, intending to be legally bound, the parties have caused this Agreement to be duly executed, under seal, as of the day and year first written above.

WITNESS/ATTEST:

SELLER:

Air Industries Machining, Corp.
A New York Corporation

By:

Name

Title:

BUYER:

NET LEASE ADVISORS, LLC
A New Jersey Limited Liability Company

By:

Name: Peter Weisman
Title: Managing Member

ESCROW RECEIVED AND CONDITIONS OF
ESCROW ACCEPTED:

EATON & VAN WINKLE LLP, AS ESCROW AGENT

THIS LEASE, made the ____ day of _____, 2006, by and between STNLA-SPVEF Bay Shore, LLC, a Delaware limited liability company, whose address is 11730 Berry Drive, Cooper City, Florida 33026 ("Landlord"), and Air Industries Machining, Corp., a New York Corporation, whose address is 1479 North Clinton Avenue, Bay Shore, New York 11706 ("Tenant").

W I T N E S S E T H:

Landlord and Tenant hereby covenant and agree as follows:

ARTICLE I

Demise of Premises

Section 1.01. Landlord, for and in consideration of the rents to be paid and of the covenants and agreements herein contained to be kept and performed by Tenant, hereby demises and leases unto Tenant, and Tenant hereby hires and leases from Landlord, for the term and the rent and upon the covenants and agreements herein set forth, the parcel of land consisting of approximately 4.49 acres located at 1479 & 1480 N Clinton Avenue, Bay Shore New York and 1460 N. Fifth Avenue, Bay Shore New York all as shown on Exhibit A attached hereto and made a part hereof (the "Land"), together with industrial buildings containing approximately 75,421 gross square feet (the "Buildings") and all other improvements now or hereafter located on the Land (the "Improvements") (the Land, the Building and the Improvements being hereinafter collectively referred to as the "Demised Premises")

ARTICLE II

Term of Lease

Section 2.01. The term of this Lease and the demise of the Demised Premises shall be for Twenty (20) years beginning on the date hereof (the "Initial Commencement Date"), plus any partial month from the Initial Commencement Date to the first day of the following month (the "Commencement Date"), if the Initial Commencement Date occurs on a day other than the first day of the calendar month, and ending on the last day of the calendar month in which the twentieth (20th) anniversary of the Commencement Date shall occur (the "Term", which shall include any renewals hereof). Each twelve (12) month period commencing on the Commencement Date and ending on the day before the first and each subsequent anniversary of the Commencement Date shall be a "Lease Year" as used in this Lease.

ARTICLE III

Basic Rent

Section 3.01. Tenant's obligation to pay rent shall commence on the Initial Commencement Date. Tenant shall pay to Landlord during the Term, without demand, counterclaim, deduction or setoff, basic rent ("Basic Rent") as follows:

1

(a) During the first complete Lease Year, Tenant shall pay the sum of Five Hundred Forty Thousand and 00/100 (\$540,000.00) Dollars payable in twelve (12) equal monthly installments of Forty-five Thousand and 00/100 (\$45,000.00) Dollars each; and monthly thereafter for the 1st 60 months of the Lease.

(b) Beginning on the 61st month of the Lease, the Basic Rent payable by Tenant shall be increased by fifteen (15%) percent over the Basic Rent payable by Tenant in the immediately preceding Lease Year; thereafter the Basic Rent shall increase by 3% per annum for the remainder of the Term.

(c) In the event the Commencement Date is not the first day of a calendar month, the Basic Rent for such partial month shall be pro-rated upon a daily basis.

The Basic Rent, Additional Rent (as defined in Section 30.02 below) and all other sums payable under this Lease shall be payable, by wire transfer, at the office of Landlord on the first business day of each month, at the address above set forth, or as may otherwise be directed by notice from Landlord to Tenant. Basic Rent shall be paid monthly in advance.

Section 3.02. During the Term, Tenant shall well and truly pay, or cause to be paid, to Landlord, the monthly installments of Basic Rent as herein provided and all other sums that may become due and payable by Tenant under this Lease, at the time and in the manner herein provided, without counterclaim, offset or deduction; and all other sums due and payable by Tenant hereunder may,

at Landlord's option, be deemed to be, and treated as, Additional Rent, and added to any Basic Rent due and payable by Tenant hereunder. In the event of nonpayment of such other sums, Landlord shall have all the rights and remedies herein provided for in the case of the nonpayment of Basic Rent or of a breach of any covenant to be performed by Tenant. No payment to or receipt by Landlord of a lesser amount than the then-amount required to be paid under this Lease shall be deemed to be other than on account of the earliest amount of such obligation then due. No endorsement or statement on any check or other communication accompanying a check for payment of any amounts payable hereunder shall be deemed an accord and satisfaction, and Landlord may accept such check in payment without prejudice to Landlord's right to recover the balance of any sums owed by Tenant under this Lease.

Section 3.03. The Basic Rent payable by Tenant pursuant to this Lease shall be absolutely net to Landlord. All costs, operating expenses, and obligations imposed upon the Demised Premises or incurred in connection with its use, occupancy, care, maintenance, operation and control (including, but not limited to, all costs of replacements, maintenance and repairs (capital and ordinary, structural and non-structural, foreseen and unforeseen, ordinary and extraordinary) of the structure, roof, parking lot, utilities, taxes, insurance and all other payments required in connection with the Demised Premises during the Term of this Lease) shall be paid by Tenant in addition to all items of Basic Rent payable by Tenant under this Lease. Additionally, Tenant shall be responsible for compliance with any and all legal requirements and shall pay any and all current and future costs relative thereto.

Section 3.04. All amounts payable by Tenant to or on behalf of Landlord under this Lease, whether or not designated as "Rent", shall constitute rent for all purposes, including without limitation, as used in this Lease, "Rent" shall be deemed to include all Basic Rent, all Additional Rent and all other sums due under this Lease for the purpose of Section 502(b)(6) of the Bankruptcy Code, 11 U.S.C. 502(b)(6).

Section 3.05. Except as may be expressly otherwise provided in this Lease, there shall be no abatement, diminution or reduction of Basic Rent, Additional Rent or any other sums due under this Lease under any circumstances including, without limitation, due to charges or other compensation claimed by or allowed to Tenant or any person claiming under it, nor shall there be any abatement or diminution or reduction of the performance of the obligations of Tenant under any circumstances.

ARTICLE IV

Condition of the Demised Premises

Section 4.01. Tenant acknowledges that it has inspected and is fully familiar with and is leasing the Demised Premises in AS IS condition. Without limiting the generality of the foregoing, Tenant acknowledges, agrees and represents that Tenant has been given free access to and has inspected the Demised Premises to its satisfaction and is relying solely on its inspection. Neither Landlord nor any other party has made any representations or warranties of any kind as to the condition, design, use, operation, expenses, maintenance or repair of the Demised Premises. Landlord shall not be responsible for any latent or other defects or changes in the condition of the Demised Premises.

Section 4.02. The Demised Premises constitutes a self-contained unit; and nothing in this Lease shall impose upon Landlord any obligation to provide any services for the benefit of Tenant, including but not limited to water, gas, electricity, heat, janitorial or garbage removal.

Section 4.03. (a) In addition to any Basic Rent, Additional Rent and any other sums due under this Lease, Tenant has placed with Landlord the sum of \$303,750 (referred to herein as the "Roof Reserve"). The Roof Reserve shall be kept in an interest bearing account under Tenant's tax identification number and interest earned thereon shall be taxed to the Tenant; and Landlord's right to possession of the Demised Property for non-payment of Basic Rent, or for any other reason, shall not in any event be affected by reason of the Landlord's holding the Roof Reserve.

(b) Tenant shall expeditiously make those certain repairs to or replacements of the roofs to the Buildings as set forth in that certain report attached hereto as Exhibit B and shall utilize the Roof Reserve for such repairs to or the replacement of the roofs to the Buildings. Tenant shall access the Reserve and conduct any permitted repairs or replacements subject to the requirements of and in the same manner as set forth in Section 11.03 of the Lease except that any remaining proceeds, including interest accrued, shall be distributed to the Tenant upon completion of the repairs.

(c) In the event it is determined to the reasonable satisfaction of Landlord that the amount necessary to meet the conditions of this Paragraph 4.03 is less than \$303,750, the Roof Reserve shall be reduced accordingly with any excess being distributed to the Tenant.

(d) The foregoing is in addition to, and not in lieu of, Tenant's continuing obligation to be responsible for all structural and roof repairs and replacement

Section 4.04. (a) In addition to any Basic Rent, Additional Rent and any other sums due under this Lease, Tenant has placed with Landlord the sum of \$21,875 (referred to herein as the "Remediation Reserve"); The Remediation Reserve shall be kept in an interest bearing account under Tenant's tax identification number and interest earned thereon shall be taxed to the Tenant; and Landlord's right to possession of the Demised Property for non-payment of Basic Rent, or for any other reason, shall not in any event be affected by reason of the Landlord's holding the Remediation Reserve.

(b) Tenant shall expeditiously make those certain repairs to or replacements as required by that certain Phase 2 Environmental Report dated October 5, 2006 (the "Phase 2 Report") as set forth in that certain report attached hereto as Exhibit C and shall utilize the Remediation Reserve for such repairs to or replacements. Tenant shall access the Reserve and conduct any permitted repairs or replacements subject to the requirements of and in the same manner as set forth in Section 11.03 of the Lease except that, provided there is no condition of an uncured material default under the Lease by Tenant, any remaining proceeds, including interest accrued, shall be distributed to the Tenant upon completion of the repairs.

(c) The foregoing is in addition to, and not in lieu of, Tenant's continuing obligation to be responsible for all structural and Remediation repairs and replacement

ARTICLE V

Use

Section 5.01. The Demised Premises may be used solely for offices, the assembly/manufacturing and warehousing and ancillary offices in connection therewith and for no other purposes (the "Permitted Use"). Throughout the Term, Tenant covenants to continuously occupy and use the Demised Premises solely for the Permitted Use. Nothing contained herein shall be construed as a representation on the part of Landlord that Tenant's use of the Demised Premises is permitted under applicable zoning or other land use requirements, and, it shall be Tenant's obligation, at Tenant's sole cost and expense, research applicable zoning and other land use requirements and to make application for and to obtain any and all certificates and/or permits to permit Tenant's use from any governmental agencies having jurisdiction over the Demised Premises.

Section 5.02. Tenant shall continuously and without interruption, during all usual business hours, and on such days as most comparable businesses of like nature are open for business, occupy, use and operate the Demised Premises for

the Permitted Use. Tenant shall, at all times, operate the business conducted by it on the Demised Premises in a first class manner.

ARTICLE VI

Quiet Enjoyment

Section 6.01. Landlord covenants that if, and for so long as, Tenant pays Basic Rent, Additional Rent and all other sums due under this Lease as herein provided, and observes and performs the covenants and conditions of this Lease, Landlord shall do nothing to affect Tenant's right to peacefully and quietly have, hold and enjoy the Demised Premises for the Term, subject to the provisions of this Lease and to any present or future ground lease, mortgage or deed of trust to which this Lease shall be subordinate.

ARTICLE VII

Additional Rent, Taxes, Assessments, Water Rates, Electric, Charges

Section 7.01. The Tenant agrees during the Term of the Lease to pay, as Additional Rent, an amount equal to all the real estate taxes assessed against the Demised Premises together with all governmental and non-governmental water and sewer charges pertaining to the Demised Premises (collectively, "Taxes" which, among other charges set forth herein, are deemed a part of Additional Rent) plus an amount equal to all of the insurance required to be paid pursuant to Paragraphs 8(A), (B), (C), (D), (E) and (G) below (collectively, "Insurance" which among other charges set forth herein, are deemed a part of Additional Rent). Throughout the Term hereof, for each fiscal tax year, Taxes and Insurance to become due shall be payable by Tenant to Landlord with the monthly Basic Rent installment in twelve (12) equal installments as reasonably estimated by Landlord until the actual sum of Taxes and Insurance for such fiscal year is known, and thereafter an adjustment shall be made, with any deficiency being due from Tenant within ten (10) days following demand, or any overage being credited to Tenant against the monthly installment of Taxes and Insurance next following the billing. If Landlord's lender requires tax and insurance escrows, such lender's estimate of Taxes and Insurance shall be deemed to be a reasonable estimate that will not be questioned by Tenant.

Section 7.02. If at any time during the Term of this Lease, under the laws of the State of New York or any political subdivision thereof, a tax on rents is assessed against the Landlord or the Basic Rent, as a substitution, in whole or in part, for a real estate tax, assessment, water rent, rate or charge, sewer rent or other governmental imposition or charge with respect to the Demised Premises, Tenant shall pay an amount equal to same to the extent that it is in substitution, in whole or in part, for real estate taxes. Taxes shall not include any income tax, capital levy or transfer tax imposed on Landlord, or any franchise taxes imposed upon any corporate owner of the fee of the Demised Premises or income tax imposed upon the rent received by the Landlord unless such tax is a substitute for any real estate tax, property tax or rent tax. Any sales, value added, use and similar tax assessed or payable on account of the acquisition, ownership, leasing operation, possession or use of the Demised Property shall be paid by Tenant.

Section 7.03. Tenant shall, at its sole cost, arrange for service by all utility providers serving the Building and the Demised Premises (including, without limitation electricity, oil, gas, sewer, water and telephone) and shall pay for all such utility service before any interest or penalties accrue thereon, directly to the providers thereof.

Section 7.04. Landlord shall not be liable in any way to Tenant for any loss, damage or expense which Tenant may sustain or incur as a result of any failure, interruption, defect or change in the quantity or character of any utility or service and, in all events, no such interruption or cessation shall affect or modify this Lease or give rise to any right of cancellation, termination, offset or defense to Basic Rent, Additional Rent or any other charge hereunder. Tenant agrees that such supply may be interrupted for inspection, repairs and replacement and in emergencies.

ARTICLE VIII

Insurance

Section 8.01. During the Term, Tenant, at its sole cost, but for the mutual benefit of Landlord and Tenant, shall maintain the following insurance:

(A) General Comprehensive public liability insurance protecting and indemnifying Landlord and Tenant against all claims for damages to person or property or for loss of life or property occurring in, upon or about the Demised Premises and the areas adjacent thereto, in the amount of not less than Three Million and 00/100 (\$3,000,000.00) per occurrence and Five Million and 00/100 (\$5,000,000.00) annual general aggregate limit per location, naming Landlord, its managing agent, if any, and any mortgagee(s), as their respective interests may appear:

(B) Insurance against damage to the Buildings by all risks of direct physical loss (at Landlord's option to include earthquake, flood and such other risks as Landlord deems appropriate) with the policy to contain either the agreed amount endorsement or a replacement cost endorsement, in amounts equal to one hundred (100%) percent of full replacement cost, and in any event in an amount sufficient to prevent Landlord from becoming a co-insurer. Replacement Cost shall be determined from time to time by an independent appraiser, architect or engineer designated by Landlord, at Tenant's expense. The policy may include, at Landlord's option, a contingent liability endorsement and/or demolition and increased cost of construction endorsement in order for the Building to be constructed in accordance with all requirements and regulations which may be applicable at the time of loss or damage, of all governmental agencies having jurisdiction over the Building and construction of the Building.

(C) "All Risk" property insurance against fire, theft, vandalism, malicious mischief, sprinkler leakage and such additional perils as are now, or hereafter may be, included in a standard extended coverage endorsement from time to time in general use in the State of New York upon property of every description and kind owned by Tenant and/or under

Tenant's care, custody or control located in the Building or the Demised Premises or for which Tenant is legally liable or installed by or on behalf of Tenant, including by way of example and not by way of limitation, furniture, fixtures, fittings, equipment, installations and any other personal property in an amount equal to the full replacement cost thereof.

(D) Boiler and machinery insurance coverage, if appropriate, for all eligible objects, including pressure vessels and air conditioning equipment, with the electrical apparatus clause, with such limits as may be reasonably necessary to properly insure the values at risk in the Buildings.

(E) Business interruption and rent loss insurance, against the loss of Basic and Additional Rent for no less than one (1) year as provided herein, as well as such amounts as will reimburse Landlord for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent tenants or assumed by Tenant pursuant to this Lease or attributable to prevention or denial of access to the Demised Premises or the Buildings as a result of any such perils.

(F) Workers' Compensation Insurance (including employers' liability insurance) covering all persons employed at the Demised Premises to the extent required by the laws of the State of New York.

(G) Insurance for such other hazards and in such amounts as Landlord may reasonably require and as at the time are commonly insured against with respect to buildings similar in character, general location and use and occupancy to the Demised Premises in relative amounts normally carried with respect thereto. If, by reason of changed economic conditions, the insurance amounts referred to in this Section 8.01 become inadequate, in Landlord's reasonable determination, Tenant agrees to increase the amounts of such insurance promptly upon Landlord's reasonable request.

Tenant represents, said representation being specifically designed to induce Landlord to execute this Lease, that Tenant's personal property, fixtures, goods and inventory and any other items which Tenant may bring to the Demised Premises or which may be under Tenant's care, custody and control which may be subject to any claim for damages or destruction shall never exceed the amount of insurance which Tenant is required to carry pursuant to this Lease. Tenant shall name Landlord, its managing agent, if any, and Landlord's mortgagee[s] as an additional named insureds, as their interests may appear, with Landlord (of its mortgagee(s)) being designated as "loss payee" in all cases. If at any time the amount of personal property, fixtures, goods and inventory or other items located at the Demised Premises shall exceed said amount, Tenant covenants to so notify Landlord and at the same time increase the amount of insurance required to be carried pursuant to Subsection 8.01(C) to an amount sufficient to cover the aforesaid to preclude any liability on Landlord's

part to Tenant. Should Tenant fail to do so, or fail to maintain insurance coverage adequate to cover the aforesaid, naming Landlord, its managing agent, if any, and Landlord's mortgagee[s] as an additional named insured, then, after written notice and a ten (10) day opportunity to cure, Tenant shall be in default hereunder and shall be deemed to have breached its covenants as set forth herein.

Tenant shall not do or permit to be done any act or thing on the Demised Premises which shall invalidate or be in conflict with, or cause additional premium for any insurance policy insuring the Demised Premises.

All policies of insurance required pursuant to this Section 8.01 shall be from a company rated in the A.M. Best Key Rating Guide with a policyholder's service rating of A and a financial rating of X or such other rating as may be required by Landlord's mortgagee. The insurance company shall be licensed to do business in the State of New York and a certificate(s) evidencing the existence of such policy shall be delivered to Landlord, together with evidence of the payment of the premiums therefore upon the execution of this Lease. Each insurance company shall agree to provide a notice of cancellation or non-renewal to Landlord and any mortgagee at least thirty (30) days prior to said event becoming effective. At least thirty (30) days prior to the expiration or termination date of any policy, Tenant shall deliver a renewal or replacement policy, or certificate(s) evidencing the existence thereof, to Landlord together with proof of the payment of the premium therefor. No deductible on any insurance required hereunder shall exceed One Thousand and 00/100 (\$1,000.00) Dollars. If Tenant shall fail to comply with the provisions of this Article VIII, Landlord shall have the right, but not the obligation, to procure such insurance and pay the premiums thereof and Landlord shall be entitled to repayment by Tenant immediately on demand, as Additional Rent.

Section 8.02 Tenant is and shall be in exclusive control and possession of the Demised Premises as provided herein, and Landlord shall not be liable to Tenant for any loss suffered by Tenant under any circumstances, including, but not limited to: (i) loss of or injury to Tenant or to Tenant's property or that for which Tenant is legally liable from any cause whatsoever, including but not limited to theft or burglary; or (ii) that which results from or is incidental to the furnishing of or failure to furnish or the interruption in connection with the furnishing of any service; or (iii) that which results from any inspection, repair, alteration or addition or the failure thereof undertaken or failed to be undertaken by Landlord; or (iv) any interruption to Tenant's business, however occurring.

The aforesaid exculpatory Section is to induce Landlord, in its judgment, to avoid or minimize covering risks which are better quantified and covered by Tenant either through insurance, thereby avoiding the need to increase the rent charged Tenant to compensate Landlord for the additional costs in obtaining said coverage or reserving against such losses.

Tenant shall indemnify, defend and save Landlord harmless against and from all and all liabilities, claims, suits, fines, penalties, damages, losses, fees, obligations, costs and expenses (including attorneys' fees) which may be imposed upon, incurred by or asserted against Landlord by reason of:

- (A) Any work or thing done in, on or about the Demised Premises or any part thereof;
- (B) Any use, occupation, condition or operation of the Demised Premises;

(C) Any act or omission on the part of Tenant or any of its agents, employees, invitees, licensees or subtenants on or within the Demised Premises or any part thereof, or any occurrence on any of the same;

(D) Any accident, injury (including death) or damage to any third party or property owned by someone other than Tenant and not under the care, custody or control of Tenant occurring in, on or about the Demised Premises or any part thereof;

(E) Any failure on the part of Tenant to perform or comply with any of the covenants, agreements, terms or conditions contained in this Lease.

The provisions of this Section 8.02 shall survive the expiration or earlier termination of the Lease.

Section 8.03. Any policies required to be furnished by Tenant pursuant to this Article VIII will unequivocally provide an undertaking by the insurers to notify Landlord and the mortgagees or ground lessors of Landlord in writing not less than thirty (30) days prior to any material change, reduction in coverage, cancellation or other termination thereof.

Section 8.04. All policies of insurance set forth in this Article shall expressly provide that any losses thereunder shall be adjusted with Landlord, Tenant and Landlord's mortgagees. The Tenant will not take out separate insurance concurrent in form or contributing in the event of loss with that required (or which may reasonably be required) pursuant to this paragraph to be furnished by the Tenant unless the Landlord and each of Landlord's mortgagees are included therein as an insured, with all losses payable thereunder as provided above. Any such additional policy shall be subject to Landlord's prior consent and if approved, shall be delivered to Landlord.

ARTICLE IX

Repairs and Alterations; Surrender

Section 9.01. Tenant covenants that throughout the Term, Tenant shall, at its sole cost and expense, take good care of the Demised Premises, and make all necessary repairs and replacements thereto, interior and exterior, ordinary and extraordinary, foreseen and unforeseen, structural and non-structural, needed to keep the same in good order, repair and condition. As used in this Lease, the term "repair" shall include all necessary replacements, renewals, alterations, additions and betterments. Tenant shall keep the Demised Premises and all parts thereof in a clean and sanitary condition and free from trash, flammable material and other objectionable matter. Tenant shall keep the sidewalks, parking areas, and roadways within the Demised Premises clean and free of obstructions, snow and ice. Tenant shall re-pave and re-stripe as required all parking areas and roadways within the Demised Premises. Tenant shall keep, maintain and replace as required all landscaping on the Demised Premises. Tenant shall replace, at Tenant's expense, all glass in and on the Demised Premises,

which may become broken after the Commencement Date. Tenant shall also keep in effect a service and maintenance contract with respect to the HVAC unit servicing the Demised Premises and shall be responsible for all repairs and replacements to any such unit(s). Tenant shall redecorate, paint and renovate the Demised Premises as may be necessary to keep them in good appearance, condition and repair. Tenant shall comply with all legal requirements as may now or in the future exist in taking or not taking any action under this Lease.

Tenant, at its sole cost and expense, shall be responsible for the maintenance, repair and replacement of: (a) all electric, water, sewer and other utility lines serving the Demised Premises and the mains to the points of connection; (b) all structural and non-structural elements of the Buildings and other improvements, including, without limitation, the roof and all roof structures, HVAC system, plumbing, electrical, and other building systems. Tenant shall provide snow removal services for the Demised Premises, including the removal of heavy accumulations of snow from the roof of the Buildings which threaten to cause the roof to collapse, and removal of snow from all sidewalks, driveways and parking areas.

All repairs or replacements made by Tenant shall be equal or better in quality and class to the original work. Tenant shall quit and surrender the Demised Premises at the end of the Term in as good condition as the reasonable use thereof will permit and in compliance with the requirements stated herein and in a "broom-clean" condition, and shall, by way of example and not by way of limitation, clean and reseal all concrete floors.

Section 9.02. Landlord covenants and agrees that Landlord shall not make any alterations or additions to the Demised premises without Tenant's consent. Landlord shall not permit any mechanics' or other liens to stand against the Demised Premises for work or materials furnished to landlord. Notwithstanding the foregoing, should Tenant fail to keep the Demised Premises in good condition and repair, Landlord, after notice to Tenant (or without notice in the case of an emergency), may, without being obligated to do so, make the repairs, but nothing herein shall be construed to impose a duty on Landlord to mitigate its damages by undertaking any repair which is Tenant's obligation. Any costs incurred by Landlord in connection with the making of such repairs shall be paid to Landlord promptly after demand and shall be deemed Additional Rent under this Lease.

Section 9.03. At any time and from time to time, Tenant, at Tenant's cost and expense, may make such non-structural and structural alterations and additions to the Demised Premises as Tenant desires, including the construction of new building(s) on the vacant area included within the Demised Premises, provided that any such alteration and addition shall be of such character and condition as not to diminish the structural integrity of any improvement on the Demised Premises and shall not violate applicable laws. Any such alteration shall not reduce the square footage of the Buildings by more than 5% from that as of the date hereof and shall not enlarge the square footage of the Buildings by more than that allowed by applicable law. Any alterations to the Demised Premises shall be made subject to compliance with all of the following conditions: (i) Tenant shall first obtain all governmental permits and approvals, if any, required therefor; (ii) no alteration of or involving the structural portions, and no alteration, the cost of which would exceed \$125,000, of or involving the non-structural portions, of the Buildings shall be undertaken until detailed plans and specifications have first been approved in writing by the Landlord (which approval shall not be unreasonably withheld, delayed or conditioned); (iii) all alterations when completed shall be of such a character as shall not reduce, or otherwise adversely affect, the value, cubic

content or structural soundness of the Demised Premises and shall immediately become the property of the Landlord; (iv) all alterations shall be done promptly and in a good and workmanlike manner and in compliance with all governmental laws, ordinances, orders, rules, regulations and requirements, and in accordance with the orders, rules and regulations of the Board of Fire Underwriters or any other body exercising similar functions and having jurisdiction thereof; (v) Tenant, prior to performing any work, shall provide Landlord with evidence that Tenant and each of its contractors and subcontractors have (and will continue to have), at their sole cost and expense, adequate insurance therefor, including statutory worker's compensation insurance (or certificates for contractors indicating worker's compensation insurance is in force) covering all persons employed in connection with the work, builder's risk insurance (including completed operations) and general liability insurance for the mutual benefit of the Tenant, Landlord and Landlord's mortgagees with limits reasonably acceptable to Landlord, at all times when any work is in process in connection with any alteration; (vi) Tenant shall pay all increased taxes and insurance premiums assessed or charged as a result of the alterations; and (vii) Tenant shall post with Landlord a completion bond in form and substance acceptable to Landlord. The Tenant shall not be permitted to do any work on the Demised Premises which would void any portion of any insurance coverage for Landlord's benefit.

Section 9.04. All alterations, additions and improvements, whether temporary or permanent in character, which may be made upon or to the Demised Premises by Tenant (except furniture or movable trade fixtures installed at the expense of Tenant) shall become the property of Landlord and shall remain upon and be surrendered with the Demised Premises as a part thereof at the expiration or sooner termination of this Lease, without compensation to Tenant.

Any furniture or movable trade fixtures remaining at the Demised Premises on the next day after the end of the Term shall be conclusively deemed abandoned and may be removed by Landlord and discarded or stored at Tenant's sole risk and expense.

Section 9.05. On the Termination Date or earlier termination of this Lease, Tenant shall, at Tenant's sole cost and expense: (1) peaceably surrender the Demised Premises broom-clean, in good order and condition and upon Landlord's request, restored to its original condition as of the Commencement Date; and (2) at its expense remove from the Demised Premises the signage, movable furniture, equipment, machinery, trade fixtures (the personalty which belongs to Tenant and which Tenant may remove shall be referred to as "Tenant's Property"), and any of Tenant's Property not so removed may at Landlord's election and without limiting Landlord's right to compel removal thereof, be deemed abandoned. Any damage to the Demised Premises caused by Tenant in the removal of Tenant's Property shall be repaired by and at Tenant's expense, or if not done by Tenant in a timely manner, may be performed by Landlord and all sums expended by Landlord shall be deemed Additional Rent. Any cost or expense incurred by Landlord in removing Tenant's Property shall be deemed Additional Rent.

ARTICLE X

Management Fee

Section 10.01. Intentionally omitted.

ARTICLE XI

Casualty or Condemnation

Section 11.01. Tenant shall give prompt written notice to Landlord in the event of any damage, destruction to or condemnation of the Demised Premises.

Section 11.02. Tenant hereby irrevocably assigns to Landlord any award, compensation or insurance payment to which Tenant may become entitled by reason of Tenant's interest in the Demised Premises (i) if the use, occupancy or title of the Demised Premises or any part thereof, is taken, requisitioned or sold in, by or on account of any actual or threatened eminent domain proceeding or other action by any person having the power of eminent domain ("Condemnation") or (ii) if the Demised Premises or any part thereof are damaged or destroyed by fire, flood or other casualty ("Casualty"). All awards, compensations and insurance payments on account of any Condemnation or Casualty are herein collectively called "Compensation." Landlord may appear in any such proceeding or action to negotiate, prosecute and adjust any claim for any Compensation, and Landlord shall collect any such Compensation. Tenant shall pay all of Landlord's costs and expenses in connection with each such proceeding, action, negotiation, prosecution and adjustment. Tenant shall be entitled to participate in any such proceeding, action, negotiation, prosecution or adjustment. Notwithstanding anything to the contrary contained in this Article XI, if permissible under applicable law, any separate Compensation made to Tenant for its moving and relocation expenses, anticipated loss of business profits, loss of goodwill or fixtures and equipment paid for by Tenant and which are not part of the Demised Premises, shall be paid directly to and shall be retained by Tenant (unless such Compensation reduces amounts otherwise due to Landlord). All Compensation shall be applied pursuant to this Section 11.02, and all such Compensation (less the expense of collecting such Compensation) is herein called the "Net Proceeds".

Section 11.03. Substantial Condemnation. If a Condemnation shall, in Tenant's good faith judgment, affect all or a substantial portion of the Premises and shall render the Premises unsuitable for restoration for continued use and occupancy in Tenant's business, then Tenant shall, not later than thirty (30) days after such Condemnation, deliver to Landlord (i) notice of its intention to terminate this Lease on the rental payment date immediately after any such Condemnation occurs (the "Condemnation Termination Date"); (ii) a certificate of an authorized officer of Tenant describing the event giving rise to such termination and stating that Tenant has determined that such Condemnation has rendered the Premises unsuitable for restoration for continued use and occupancy in Tenant's business; and (iii) documentation to the effect that termination of this Lease will not be in violation of any agreement then in effect with which Tenant is obligated to comply pursuant to this Lease. This Lease shall terminate on the Condemnation Termination Date, except with respect to obligations and liabilities of Tenant hereunder, actual or contingent, which have arisen on or prior to the Condemnation Termination Date, upon payment by Tenant of all Basic Rent, Additional Rent and other sums due and payable hereunder to and including the Condemnation Termination Date and the Net Proceeds shall belong to Landlord.

Section 11.04. Substantial Casualty during the Renewal Term. Intentionally Omitted

Section 11.05. Less Than Substantial Condemnation or any Casualty. If, after a Condemnation or Casualty, Tenant does not give or does not have the right to give notice of its intention to terminate this Lease as provided in Subsections 11.03 and 11.04, then this Lease shall continue in full force and effect (with no abatement of Basic Rent, Additional Rent or any other sums due under this Lease) and Tenant shall, at its expense, rebuild, replace or repair the Demised Premises in conformity with the requirements of Section IX, and other applicable Sections of this Lease so as to restore the Demised Premises (in the case of Condemnation, as nearly as practicable) to the condition, character and fair market value thereof immediately prior to such Casualty or Condemnation. Prior to any such rebuilding, replacement or repair, Landlord and Tenant shall agree on the maximum cost thereof (the "Restoration Cost"). The Restoration Cost shall be paid first out of Tenant's own funds to the extent that the Restoration Cost exceeds the Net Proceeds payable in connection with such occurrence, after which expenditure Tenant shall be entitled to receive the Net Proceeds, but only against (i) certificates of Tenant delivered to Landlord from time to time as such work of rebuilding, replacement and repair progresses, each such certificate describing the work for which Tenant is requesting payment and the cost incurred by Tenant in connection therewith and stating that Tenant has not theretofore received payment for such work and (ii) such additional documentation as Landlord may reasonably require, including, but not limited to, copies of contracts and subcontracts relating to restoration, architects' certifications, title policy updates and lien waivers or releases. Any Net Proceeds remaining after final payment has been made for such work and after Tenant has been reimbursed for any portions it contributed to the Restoration Cost shall be retained by Landlord. In the event of any temporary Condemnation, this Lease shall remain in full effect and Tenant shall be entitled to receive the Net Proceeds allocable to such temporary Condemnation, except that any portion of the Net Proceeds allocable to the period after the expiration or termination of the Term shall be paid to Landlord. If the cost of any rebuilding, replacement or repair required to be made by Tenant pursuant to this subsection 11.05 shall exceed the amount of such Net Proceeds, the deficiency shall be paid by Tenant.

ARTICLE XII

Reserve

Section 12.01. In addition to any Basic Rent, Additional Rent and any other sums due under this Lease, Tenant shall pay to Landlord, concurrently with each payment of Basic Rent, a monthly installment for Annual Replacement Reserve Costs (as defined below and referred to herein as the "Reserve"). "Annual Replacement Reserve Costs" is hereby defined as the estimated annual replacement reserve for repair and replacement to the structure of the Buildings and replacement of the roof of the Buildings. The annual Reserve shall be 12.5 cents (\$0.125) per sq.ft. per annum and each monthly installment shall be one twelfth (1/12th) of such amount. The Reserve shall be held by the Landlord, in escrow, and the following shall apply:

- i) Tenant acknowledges and agrees that the Reserve may be pledged to Landlord's mortgagee(s);
- ii) The Reserve shall be kept in a non-interest bearing account unless Landlord is required by law to pay interest in which event the Reserve shall be placed in an interest bearing account under Tenant's tax identification number and interest earned thereon shall be taxed to the Tenant;
- iii) So long as no default has occurred under this Lease and is continuing, any amount remaining in the Reserve at the termination of the Lease, including any permitted Renewal Term, shall be returned to the Tenant; and
- iv) Landlord's right to possession of the Demised Property for non-payment of Basic Rent, or for any other reason, shall not in any event be affected by reason of the Landlord's holding the Reserve.

Section 12.02. So long as there is no default has occurred under this Lease and is continuing, Tenant shall have the option, but not the obligation, to utilize the Reserve for structural repairs or replacements to the Buildings and for the replacement of the roof(s) of the Building(s). Tenant shall access the Reserve and conduct any permitted repairs or replacements subject to the requirements of and in the same manner as set forth in Section 11.03 above except that any remaining proceeds shall remain in the Reserve.

The foregoing is in addition to, and not in lieu of, Tenant's continuing obligation to be responsible for all structural and roof repairs and replacement.

ARTICLE XIII

Compliance With Laws, Etc.; Environmental Matters

Section 13.01. Tenant shall not do or permit anything to be done in the Demised Premises which shall constitute a public nuisance or which will conflict with the regulations of the Fire Department or with any insurance policy upon said improvements or any part thereof or which will conflict with or violate any governmental law, regulation, ordinance or code.

Section 13.02. Tenant shall, at its own expense, obtain all necessary environmental and operating permits and comply with all present and future requirements of law and with all present and future ordinances or orders, rules and regulations of any Federal, State, Municipal or other public authority affecting the Demised Premises and with all requirements of the Fire Insurance Exchange or similar body, and of any liability insurance company insuring Landlord against liability for accidents in or connected with the Demised Premises including, but not limited to laws, ordinances, orders, rules and regulations which apply to the interior or exterior of the Demised Premises, the structural or nonstructural parts thereof, and to make all improvements and repairs required by such laws, ordinances, orders, rules and regulations, ordinary or extraordinary, foreseen or unforeseen.

Section 13.03. Tenant acknowledges and agrees to comply with all applicable municipal, county, State, and Federal laws, rules and regulations now or hereafter enacted or amended (collectively, "Laws") with respect to its use of the Demised Premises. Tenant acknowledges that it has reviewed the documents listed as exceptions 7, 8, 9 and 10 as set forth on Schedule B-II of that

certain Title Commitment issued by First American Title Insurance Company of New York (Title Number 3008-147496 with an effective date of May 9, 2006) naming Net Lease Advisor's, LLC as "Purchaser". Tenant shall comply with the requirements of such documents and shall take any and all required actions or inactions necessary to comply with and maintain compliance with such requirements.

Section 13.04. Environmental Compliance.

(a) For purposes of this Lease

- (i) the term "Environmental Laws" shall mean and include the Resource Conservation and Recovery Act, as amended by the Hazardous and Solid Waste Amendments of 1984, the Comprehensive Environmental Response, Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substances Control Act, the Federal Insecticide, Fungicide and Rodenticide Act and all applicable federal, state and local environmental laws, ordinances, rules, requirements, regulations and publications, as any of the foregoing may have been or may be from time to time amended, supplemented or supplanted, and any and all other federal, state or local laws, ordinances, rules, requirements, regulations and publications, now or hereafter existing, relating to the preservation of the environment or the regulation or control of toxic or hazardous substances or materials; and
- (ii) the term "Regulated Substance" shall mean and include any, each and all substances or materials now or hereafter, regulated pursuant to any Environmental Law, including but not limited to any such substance or material now or hereafter defined as or deemed to be a "regulated substance", "pesticide", "hazardous substance" or "hazardous waste" under any Environmental Law, or included in any similar or like classification or categorization, thereunder.

(b) Tenant shall

- (i) not cause or permit any Regulated Substance to be placed, held, located, released, transported or disposed of on, under, at or from the Demised Premises or to otherwise adversely affect the Demised Premises;
- (ii) contain at or remove from the Demised Premises, or perform any other necessary or desirable remedial action regarding, any Regulated Substance in any way affecting the Demised Premises if, as and when such containment, removal or other remedial action is required under any Environmental Law and, whether or not so required, shall perform any containment, removal or remediation of any kind involving any Regulated Substance in any way affecting the Demised Premises in compliance with all Laws, and shall arrange for periodic environmental tests to be conducted at the Demised Premises by qualified companies specializing in environmental matters and reasonably satisfactory to Landlord in order to ascertain compliance

with all Laws and the requirements of this Lease, all of the foregoing to be at Tenant's sole cost and expense. Further, Tenant shall, upon the request of Landlord, provide Landlord with a bond or letter of credit, in form and substance satisfactory to Landlord, in an amount sufficient to cover the aggregate of the foregoing costs;

- (iii) provide Landlord with written notice (and a copy as may be applicable) of any of the following within five (5) days thereof:
 - (A) Tenant's obtaining knowledge or notice of any kind of the presence, or any actual or threatened release, of any Regulated Substance in any way affecting the Demised Premises; (B) Tenant's receipt or submission, or Tenant's obtaining knowledge or notice of any kind, of any report, citation, notice or other communication from or to any federal, state or local governmental or quasigovernmental authority regarding any Regulated Substance in any way affecting the Demised Premises; or (c) Tenant's obtaining knowledge or notice of any kind of the incurrance of any cost or expense by any federal, state or local governmental or quasigovernmental authority or any private party in connection with the assessment, monitoring, containment, removal or remediation of any kind of any Regulated Substance in any way affecting the Demised Premises, or of the filing or recording of any lien on the Demised Premises or any portion thereof in connection with any such action or Regulated Substance in any way affecting the Demised Premises; and
- (iv) in addition to the requirements of this Section 13.04 hereof, defend all actions against Landlord and its members, officers, employees, agents and lenders (the "Indemnified Parties") and pay, protect, indemnify and save harmless the Indemnified Parties from and against any and all liabilities, losses, damages, costs, expenses (including, without limitation, reasonable attorneys' fees and expenses), causes of action, suits, claims, demands or judgments of any nature relating, directly or indirectly, to any Environmental Laws, Regulated Substance or other environmental matters. Tenant shall comply with all Environmental Laws in existence now or in the future and, if some action(s) or inaction(s) is required pursuant to any such future Environmental Laws, Tenant shall take such action(s) or inaction(s) and shall fully comply with such Environmental Laws at its sole cost and expense. The indemnity and the compliance obligation of Tenant contained in this Section 13.04 shall survive the expiration or earlier termination of this Lease.
- (v) Notwithstanding anything to the contrary in this Section 13.04, Landlord hereby acknowledges that Tenant uses certain Regulated Substances, and may use other Regulated Substances in the future, and that such use of Regulated Substances in connection with the operation of its business on the Demised Premises shall not be deem a violation of this Lease, as long as such use complies with applicable Environmental Laws.

Section 13.05. Tenant shall immediately provide the Landlord with copies of all correspondence, reports, notices, orders, findings, declarations and other materials pertinent to the Tenant's compliance and the requirements of the New York Department of Environmental Protection ("DEP") with respect to any Environmental Law as they are issued or received by the Tenant.

Section 13.06. Tenant covenants to indemnify, defend and hold Landlord and each mortgagee of the Demised Premises harmless from and against any and all liabilities, damages, claims, losses, judgments, causes of action, costs and expenses (including, without limitation, the fees and expenses of counsel and consultants and expenses incurred by Landlord as the result of the filing of a lien against the Demised Premises by any governmental agency or authority) which may be incurred by Landlord or any such mortgagee or threatened against Landlord or such mortgagee, relating to or arising out of any breach by Tenant of the undertakings set forth in this Lease, or the release of any Hazardous Substances in, on, about, above or under the Demised Premises occurring as a result of Tenant's activities on and occupancy of the Demised Premises.

Section 13.07. Intentionally omitted.

Section 13.08. On or before the Commencement Date, Tenant, at its sole cost and expense, shall provide Landlord with an environmental insurance policy issued by AIG or similar insurance carrier specializing in environmental insurance policies, as required by Landlord, including, without limitation, a so-called "Cost-Cap Environmental Policy" and/or a so-called "Pollution Coverage Legal Liability Policy" (collectively, the "Environmental Insurance"). The Environmental Insurance shall name Landlord (and its mortgagee, if so required) as the insured and loss payee. The amounts, coverage and insurance company issuing the Environmental Insurance must be acceptable to Landlord in all respects. Tenant shall maintain the Environmental Insurance for the benefit of Landlord and its mortgagee throughout the 20 Year Term in the amount of \$5,000,000.

Section 13.09. In the event of Tenant's failure to comply in full with the provisions of this Article XIII, Landlord may at its option, but without any obligation to do so, perform any or all of Tenant's obligations and all costs and expenses incurred by Landlord in exercise of such rights shall be deemed to be Additional Rent payable to Landlord upon demand.

Section 13.10. The undertakings and indemnities of this Article XIII shall survive the termination or sooner expiration of the Lease and surrender of the Demised Premises and shall also survive sale, or lease or assignment of the Demised Premises by Landlord.

Section 13.11. The undertakings of Tenant contained in this Section shall not require Tenant to remove those Hazardous Substances referred to in the Environmental Report annexed hereto as Exhibit C unless and until (i) Tenant shall remove the Building which lies above such material or (ii) a governing agency shall order Tenant to do so, provided that Tenant shall not be required to comply with such order so long as it is contesting the same in a manner which prevents the imposition of any penalty or fine or, in such event, Tenant provides a bond in an amount sufficient to satisfy any penalty or fine to which landlord or the Demised Premises may be subjected.

Section 13.12. The Tenant shall, at least once every Lease Year, drain the storm drain located between the buildings located on the property known as 1460 North Fifth Avenue and 1479 North Clinton Avenue.

ARTICLE XIV

Subordination & Estoppel Certificate

Section 14.01. This Lease is and shall be automatically subject and subordinate to all present and future ground leases and mortgages of Landlord affecting the Demised Premises (including all modifications, extensions and renewals thereof) without the need for further documentation or instrumentation to effectuate such subordination, provided that as a condition of such subordination the holder of such ground lease or mortgage provides Tenant a Non-Disturbance Agreement in form and substance reasonably satisfactory to Tenant and such mortgagee or ground lessor. However, if requested by Landlord and subject to Tenant's receipt of the aforesaid Non-Disturbance Agreement, Tenant shall execute any instrument which reasonably may be requested by Landlord to confirm the subordination of this Lease to any such ground lease or mortgage. Landlord may assign this Lease to any such mortgagee in connection with any such lien, and subject to Tenant's receipt of the aforesaid Non-Disturbance Agreement Tenant shall execute any instrument which may be necessary or desirable by Landlord or the holder of said lien in connection with said assignment.

Section 14.02. Tenant agrees, within ten (10) days of Landlord's written request, to certify by written instrument duly executed and acknowledged to any mortgagee, ground lessee or purchaser, or any proposed mortgagee, ground lessee or purchaser, that this Lease is in full force and effect, or if not, in what respect it is not, that this Lease has not been modified, or the extent to which it has been modified, that there are no existing defaults hereunder to the best of the knowledge of the party so certifying, or specifying the defaults, if any, and any other information which Landlord shall reasonably require.

Section 14.03. Tenant shall not seek to enforce any remedy it may have under this Lease for any default on the part of Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any Landlord's mortgagee whose address has been provided to Tenant and affording Landlord's mortgagee a reasonable opportunity to perform Landlord's obligations under this Lease.

ARTICLE XV

Defaults & Remedies

Section 15.01. The occurrence of any one or more of the following acts or occurrences shall be referred to as a default or as an "Event of Default" under this Lease:

(A) If Tenant shall fail to make any payment of Basic Rent or pay Additional Rent or any other amount due under this Lease as and when the same shall become due and payable; or

(B) If Tenant shall default in the performance of or compliance with any of the other covenants, agreements, terms or conditions of this Lease to be performed by Tenant (other than any default curable by payment of money), and such default shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; or where such default reasonably cannot be cured within such thirty (30) days, if Tenant shall not have commenced the curing thereof within such period of time and shall not be proceeding with reasonable diligence to cure it, provided, however, that such default must be cured within ninety (90) days after commencement of the curing thereof; or

(C) If Tenant or any guarantor of this Lease shall make an assignment for the benefit of creditors or file a voluntary petition in bankruptcy or shall be adjudicated a bankrupt or insolvent, or shall file any petition or answer seeking any reorganization, composition, readjustment or similar relief under any present or future bankruptcy or other applicable law, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver, or liquidator of Tenant or any guarantor of this Lease or of all or any substantial part of its properties or of all or any part of the Demised Premises; or

(D) If, within thirty (30) days after the filing of an involuntary petition in bankruptcy against Tenant or any guarantor of this Lease, or the commencement of any proceeding against Tenant or such guarantor seeking any reorganization, composition, readjustment or similar relief under any law, such proceeding shall not have been dismissed, or if, within thirty (30) days after the appointment (with or without the consent or acquiescence of Tenant or such guarantor), of any trustee, receiver or liquidator of Tenant or such guarantor, or of all or any part of the Demised Premises, such appointment shall not have been vacated or stayed on appeal or otherwise, or if, within thirty (30) days after the expiration of any such stay, such appointment shall have been vacated, or if, within thirty (30) days after the taking possession, without the consent or acquiescence of Tenant or such guarantor, of the property of Tenant, or of such guarantor by any governmental office or agency pursuant to statutory authority for the dissolution or liquidation of Tenant or such guarantor, such taking shall not have been vacated or stayed on appeal or otherwise; or

(E) If the Demised Premises shall be abandoned, unoccupied or vacated by Tenant; or

(F) If Tenant liquidates, ceases to exist or sells all or a substantial portion of its assets; or

(G) Intentionally omitted.

(H) If any representation or warranty made by Tenant or any guarantor of this Lease that is set forth herein or in any contract, notice, certificate, estoppel or request proves to be incorrect in any respect; or

(I) If a final judgment of more than \$1,000,000 or any amount which creates a default under any material debt of Tenant or any guarantor occurs and is not discharged or bonded within thirty (30) days of such occurrence.

Section 15.02. Following the occurrence of an Event of Default, Landlord, in addition to any and all rights and remedies it may have at law and equity, may at its option exercise any one or more of the following remedies:

(a) Landlord may give Tenant a notice (the "Eviction Notice") of its intention to terminate this Lease specifying a date not less than five (5) days thereafter, upon which date this Lease, the term and estate hereto granted and all rights of Tenant hereunder shall expire and terminate. Notwithstanding the foregoing: (i) Tenant shall remain liable for damages as hereinafter set forth, and (ii) Landlord may institute dispossession proceedings for non-payment of rent, or other proceedings to enforce the payment of rent without giving the Eviction Notice. Upon any such eviction or expiration of this Lease, Tenant shall peaceably quit and surrender the Demised Premises to Landlord, and Landlord may without further notice enter upon, re-enter, possess and repossess itself thereof, by summary proceedings, ejectment or otherwise and may have, hold and enjoy the Demised Premises and the right to receive all rental and other income of and from the same as heretofore provided. However, so long as Tenant is not in default in the payment of Basic Rent or Additional Rent or in the performance of any other terms, covenants and conditions of this Lease beyond the expiration of relevant cure periods, Landlord shall not terminate this Lease.

(b) Landlord may, at Landlord's sole option (without imposing any duty upon Landlord to do so), and Tenant hereby authorizes and empowers Landlord to: (i) re-enter the Demised Premises as Tenant's agent or for any occupant of the Demised Premises under Tenant, or for its own account or otherwise, (ii) relet the same for any term, (iii) restore the Demised Premises to the condition in which it was required to be surrendered by Tenant under this Lease, and (iv) receive and apply the rent so received to pay all reasonable fees and expenses incurred by Landlord, directly or indirectly, as a result of Tenant's default, including, without limitation, any reasonable legal fees and expenses arising therefrom, the reasonable cost of re-entry, repair and reletting and the payment of the rent and other charges due hereunder. No entry, re-entry or reletting by Landlord, whether by summary proceedings, termination or otherwise, shall discharge Tenant from any of its liability to Landlord as set forth in this Lease, and in no event shall Tenant be entitled to or receive any benefit or credit from any rental in excess of the rent reserved under this Lease which results from a reletting of the Demised Premises after Tenant's default;

(c) Regardless of whether Landlord relets the Demised Premises, or enters or re-enters the same, whether by summary proceedings, termination or otherwise, Tenant shall pay Landlord, and be liable to Landlord for the full amount of all Basic Rent, Additional Rent, and all other charges then due or thereafter to become due to Landlord hereunder less any sums collected by Landlord during the remaining term of this Lease, such amount shall be paid by Tenant to Landlord on the days originally fixed herein for payment thereof. Landlord may apply any or

all sums held by Landlord as a security deposit pursuant to Article XXIII toward all sums due by Tenant for Basic Rent, Additional Rent or any other obligations of Tenant;

(d) If Tenant shall fail to pay any Taxes or make any other payment required to be made under this Lease, or shall default in the performance of any covenant, agreement, term, provision or condition herein contained, Landlord may, without being under any obligation to do so, and without thereby waiving such default, make such payment and/or remedy such default for the account and at the sole expense of Tenant. Tenant shall pay to Landlord, on demand, the amount of all sums so paid and all expenses so incurred by Landlord, together with interest, at the rate set forth in subparagraph 15.02(e) below, on such sums and expenses from the date incurred until payment in full;

(e) Interest on any sums due to Landlord from Tenant under this Lease shall accrue from the date such sums became due and payable at the lesser of: (a) the highest permitted rate by law, and (b) eighteen percent (18%) per annum. Landlord, at its option, shall forthwith, notwithstanding any other provision of this Lease, be entitled to recover from Tenant (in lieu of all other claims for damages on account of such termination) as and for liquidated damages an amount equal to the excess of all Basic Rent and Additional Rent reserved hereunder for the unexpired portion of the Term of this Lease discounted at the rate of three (3%) percent per annum to the then present worth, over the fair rental value of the Demised Premises at the time of termination for such unexpired portion of the Term (the rent received on a reletting shall be conclusively accepted as the fair rental value). Additionally, Tenant agrees to pay, as Additional Rent, all reasonable attorney's fees and other expenses incurred by Landlord in enforcing any of the obligations under this Lease, including but not limited to the payment of any rental obligations hereunder. This covenant shall survive the expiration or sooner termination of this Lease.

(f) Nothing herein contained shall limit or prejudice the right of Landlord, in any bankruptcy or reorganization or insolvency proceeding, to prove for and obtain as liquidated damages by reason of such termination an amount equal to the maximum allowed by any statute or rule of law whether such amount shall be greater or less than the excess referred to above.

Section 15.03. All remedies of Landlord set forth herein, and all remedies of Landlord at law and in equity, may be exercised from time to time in such order and in such combination as Landlord elects.

Section 15.04. Tenant hereby waives all right of redemption or re-entry or re-possession to which Tenant or any person under it may be entitled by any law now or hereafter in force. In addition, in the event of an Event of Default which results in the Landlord recovering possession of the Demised Premises, Landlord shall be under no duty to mitigate Tenant's damages as provided for in this Article XV unless such mitigation is required by applicable law. Landlord's remedies hereunder are in addition to any remedy allowed by law.

Section 15.05. In the event of any breach or threatened breach by Tenant of any of the agreements, terms, covenants or conditions contained in this Lease, Landlord shall be entitled to enjoin such breach or threatened breach and shall have the right to invoke any right or remedy allowed at law or in equity or by statute or otherwise as though re-entry, summary dispossession

proceedings, and other remedies were not provided for in this Lease. During the pendency of any proceedings brought by Landlord to recover possession by reason of default, Tenant shall continue all money payments required to be made to Landlord, and Landlord may accept such payments for use and occupancy of the Demised Premises. In such event, Tenant waives its right in such proceedings to claim as a defense that the receipt of such money payments by Landlord constitutes a waiver by Landlord of such default.

Section 15.06. No failure by Landlord to insist upon the strict performance of any covenant, agreement or term or condition of this Lease, or to exercise any right or remedy upon default, and no acceptance of full or partial Basic Rent, Additional Rent or any other sum due under this Lease during the continuance of any such default shall constitute a waiver of such default or of any covenant, agreement, term or condition. No covenant, agreement, term or condition of this Lease, or any breach thereof, shall be waived, altered or modified except by a written instrument executed by Landlord.

Section 15.07. In the event of any breach or threatened breach by Tenant of any of the terms or conditions contained in this Lease, Landlord shall be entitled to enjoin such breach or threatened breach and shall have the right to invoke any right or remedy allowed at law or in equity.

ARTICLE XVI

Assignment and Subletting

Section 16.01. Unless a default shall have occurred hereunder and be continuing, Tenant may, for its own account, assign this Lease or sublet all or any part of the Demised Premises for the Term of this Lease subject to the approval of Landlord which approval shall not be unreasonably withheld, delayed or conditioned. Each such assignment or sublease shall expressly be made subject to the provisions hereof. No such assignment or sublease shall modify or limit any right or power of Landlord hereunder or affect or reduce any obligation of Tenant hereunder and all such obligations shall be those of Tenant and shall continue in full effect as obligations of a principal and not of a guarantor or surety, as though no subletting or assignment had been made, such liability of the Tenant named herein to continue notwithstanding any subsequent modifications or amendments of this Lease; provided, however, that (other than with respect to any modifications required by law or on account of bankruptcy or insolvency) if any modification or amendment is made without the consent of the Tenant named herein (which consent shall not be unreasonably withheld or delayed), such modification or amendment shall be ineffective as against the Tenant named herein to the extent, and only to the extent, that the same shall materially increase the obligations of the Tenant, it being expressly agreed that (even if

any such modification or amendment shall materially increase the likelihood of a default by Tenant under this Lease) the Tenant named herein shall remain liable to the full extent of this Lease as if such modification had not been made. Neither this Lease nor the Term hereby demised shall be mortgaged by Tenant, nor shall Tenant mortgage or pledge its interest in any sublease of the Demised Premises or the rentals payable thereunder. Any such mortgage or pledge, any sublease made otherwise than as expressly permitted by this Section 16.01 and any assignment of Tenant's interest hereunder made otherwise than as expressly permitted by this Section 16.01 shall be void. Tenant shall, within twenty (20) days after the execution of any assignment or sublease, deliver a conformed copy thereof to Landlord.

Section 16.02 Related Parties. At any time and from time to time Tenant's interest under this Lease may be assigned and re-assigned without Landlord's consent to a corporation or other entity which is a parent, subsidiary or affiliate of Tenant or to a corporation or other entity resulting from any consolidation, reorganization, or merger with Tenant, or any of its parent or subsidiary entities. For purposes of this paragraph, an affiliate of Tenant shall mean any entity which directly or indirectly controls or is controlled by Tenant or Guarantor.

Section 16.03. Tenant agrees that it shall not be unreasonable for Landlord to withhold its consent to a proposed sublease or assignment if:

- I. The proposed assignee refuses to provide Landlord with financial statements covering a period of at least 12 months ending no earlier than six months and no later than three months prior to the as of which they are provided to Landlord or as of the effective date of the proposed assignment, the Proposed Assignee shall have a financial standing substantially inferior to the financial standing of Tenant as of the Commencement Date;
- II. The Proposed Assignee shall not agree in writing to assume all of the obligations of Tenant under this Lease from and after the date of the assignment;
- III. The term of any such assignment or sublease shall be less than five (5) years or the balance of the term of this Lease, if less;
- IV. Tenant or the Proposed Assignee shall fail to pay to Landlord a processing fee of Two Thousand Five Hundred and 00/100 (\$2,500.00) Dollars in connection with the proposed sublet or assignment of this Lease;
- V. Tenant shall fail to furnish Landlord with a true and correct copy of the sublease or assignment and assumption not less than thirty (30) days prior to execution for Landlord's review and approval (such approval not to be unreasonably withheld) and a fully executed counterpart of the sublease or assignment and assumption of this Lease, as applicable, within ten (10) days after the date of the execution of same;
- VI. Tenant shall refuse to pay to Landlord fifty (50%) percent of any sums (including without limitation Basic Rent and Additional Rent) received by Tenant, as and when received, in excess of the Rent payable by Tenant to Landlord as Rent under this Lease.
- VII. The Proposed Assignee is not solvent or is generally held in disrepute.

Section 16.04 Limits on Assignees

Notwithstanding anything to the contrary contained in this Lease, Tenant shall not, without the prior written consent (which consent, to be effective must expressly state the Landlord is aware that the subject assignee or subtenant, as the case may be, is a tax-exempt entity) of Landlord in each instance (which Landlord may grant or withhold in its sole discretion), assign all or any part of its interest in this Lease or sublet all or any part of the Demised Premises, or in any other manner grant any right to use, occupy or otherwise "lease" (within the meaning of Internal Revenue Code of 1986, Section 168(h), as amended

("Section 168(h)") all or any part of the Demised Premises, to any "tax-exempt entity", as defined in Section 168(h), to the extent that the aggregate portion of the Premises sublet, assigned, used, occupied or "leased" by all such tax-exempt entities shall be more than thirty-five (35%) percent of the Demised Premises. Tenant agrees that any assignment of lease or subletting made in violation of the foregoing sentence will be deemed initially void, and Tenant acknowledges that, notwithstanding such voiding, Landlord may incur damages as a result of such violations and Tenant agrees to indemnify Landlord from any such damages

Section 16.05. Transfer or Pledge by Landlord

Landlord shall be free to transfer its fee interest in the Demised Premises or any part thereof or interest therein, subject, however, to the terms of this Lease and the assumption of such terms by the proposed assignee. Any such transfer shall relieve the transferor of all liability and obligation hereunder (to the extent of the interest transferred) accruing after the date of the transfer. Landlord shall be free to pledge or mortgage its interest in the Demised Premises and this Lease. Tenant agrees to make such reasonable modifications to this Lease as may be requested by Landlord's mortgagee(s), if any, provided that such modifications do not materially increase Tenant's obligations or increase the rent due hereunder

Section 16.06. If Tenant is an entity other than an entity that files periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934 and whose stock is publicly traded, the provisions of this Article XVI shall apply to a transfer (however accomplished, whether in a single transaction or in a series of related or unrelated transactions) of stock (or any other mechanism such as, by way of example, the issuance of additional stock, a stock voting agreement or change in class(es) of stock) which results in a change of control of Tenant as if such transfer of stock (or other mechanism) resulting in a change of control of Tenant were an assignment of this Lease, and if Tenant is a limited liability company, partnership, limited partnership, joint venture or other entity other than an entity that files periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934 and whose interests are publicly traded, such provisions shall apply with respect to a transfer (by one or more transfers) of an interest in the entity or distributions of profits and losses of such partnership, limited partnership or joint venture (or other mechanism, such as, by way of example, the creation of additional general partnership or limited partnership interests) which results in a change of control of such an entity, partnership or joint venture as if such transfer of an interest in the distributions of profits and losses of such entity, partnership or joint venture which results in a change of control of such entity, partnership or joint venture were an assignment of this Lease.

Section 16.07. Tenant shall have no claim, and hereby waives the right to any claim, against Landlord for money damages by reason of any refusal, withholding or delaying by Landlord of any consent to Tenant's request for a proposed subletting or assignment.

Section 16.08. Any assignment or subletting that is not made in compliance with the provisions of this Article XVI shall be void, and at Landlord's option, shall constitute an Event of Default under this Lease. The provisions of this Article XVI do not and shall not be construed to create any rights in favor of any third parties.

ARTICLE XVII

Notices

Section 17.01. All notices, demands, consents, approvals, requests and instruments or documents by this Lease required or permitted to be given to or served upon Landlord or Tenant shall be in writing. Any such notice, demand, consent, approval, request, instrument or document shall be sufficiently given or served only if delivered personally or if sent by a recognized overnight courier service or if sent by certified or registered mail, postage prepaid, addressed at the address set forth below, or at such other address as it shall designate by notice, as follows:

If to Landlord: STNLA-SPVEF Bay Shore, LLC
Single-Tenant Financial Corp
11730 Berry Drive
Cooper City, FL 33026
Att: David Piasecki

With Copy to: Lawrence A. Saichek, Esq.
601 Brickell Key Drive, Suite 505,
Miami, Florida 33131
Laslaw18@aol.com

If to Tenant: Air Industries Machining, Corp.
1479 North Clinton Avenue
Bay Shore, New York 11706
Attention: Michael A. Gales, Executive Chairman

With Copy to: Eaton & Van Winkle LLP
3 Park Avenue, 16th Floor,
New York, New York 10016
Attention: Vincent J. McGill, Esq.

Any notice so sent shall be deemed delivered one (1) business day after delivery to the overnight courier or five (5) business days after deposit in the U.S. mail. The addresses and names of the parties to whom notices are to be sent may be changed by the giving of a notice as provided in this Section 17.01.

ARTICLE XVIII

Holding Over

Section 18.01. If Tenant shall remain in the Demised Premises after the expiration of the Term without having executed and delivered a new lease with Landlord, such holding over shall not constitute a renewal or extension of this Lease. Landlord may, at its option, elect to treat Tenant as one who has not removed at the end of its Term, and thereupon be entitled to all the remedies against Tenant provided by law and in equity in that situation, or Landlord may elect, at its option, to construe such holding over as a tenancy from month to month made at the sufferance of Landlord, subject to all the terms and conditions of this Lease, except: (a) as to duration thereof; and (b) that the Basic Rent shall be at a monthly rate equal to two hundred (200%) percent of the Basic Rent payable in the month immediately prior to the expiration of the Term (or renewal thereof). The time limitations described in this Article XVIII shall not be subject to extension for Force Majeure.

ARTICLE XIX

Liens

Section 19.01. Tenant shall not do any act, or make any contract, which may create or be the foundation for any lien or other encumbrance upon any interest of Landlord or any ground or underlying lessor in any portion of the Building, the Land, or the Demised Premises. If, because of any act or omission (or alleged act or omission) of Tenant, any notice of intention, mechanic's or other lien (collectively, a "Lien"), charge or order for the payment of money or other encumbrance shall be filed against Landlord and/or any ground or underlying lessor and/or any portion of the Demised Premises (whether or not such lien, charge, order, or encumbrance is valid or enforceable as such), Tenant shall, at its own cost and expense, cause same to be discharged of record or bonded within fifteen (15) days after the filing thereof; and Tenant shall indemnify, defend and save harmless Landlord and all ground and underlying lessor(s) against and from all costs, liabilities, suits, penalties, claims, and demands, including counsel fees, resulting therefrom. If Tenant fails to comply with the foregoing provisions, Landlord shall have the right (but not the obligation) to discharge or bond any such lien, charge, order, or encumbrance, and Tenant agrees to reimburse Landlord for all costs, expenses and other sums of money in connection therewith with interest at the maximum rate permitted by law promptly upon demand, and all such sums shall be Additional Rent.

Section 19.02. All materialmen, contractors, artisans, mechanics, laborers, and any other persons now or hereafter contracting with Tenant or any contractor or subcontractor of Tenant for the furnishing of any labor services, materials, supplies, or equipment with respect to the Building or any other portion of the Demised Premises, at any time from the date hereof until the end of the Lease Term, are hereby charged with notice that they must look exclusively to Tenant and not to any mechanic's or other lien on the Demised Premises to obtain payment for same.

ARTICLE XX

Bankruptcy

Section 20.01. If, as a matter of law, Landlord has no right on the bankruptcy of Tenant to terminate this Lease, then, if Tenant, as debtor, or its trustee wishes to assume or assign this Lease, in addition to curing or adequately assuring the cure of all defaults existing under this Lease on Tenant's part on the date of filing of the proceeding (such assurances being defined below), Tenant, as debtor, or the trustee or assignee, must also furnish adequate assurances of future performance under this Lease (as defined in the Bankruptcy Code (as hereinafter defined)). In the case of an assignee, Tenant or its trustee shall assure Landlord that the assignee is financially capable of assuming this Lease, and that its use of the Demised Premises will not be detrimental to Landlord. In a reorganization under Chapter 11 of 11 U.S.C. ss. 101 et seq. (the "Bankruptcy Code"), the debtor or trustee must assume this Lease or assign it within sixty (60) days from the filing of the proceedings, or it shall be deemed to have rejected and terminated this Lease.

Section 20.02. If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, any and all monies or other consideration to be delivered in connection with the assignment shall be delivered to Landlord, shall be and remain the exclusive property of Landlord and shall not constitute property of Tenant or of the estate of Tenant within the meaning of the Bankruptcy Code. Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed to have assumed all of the obligations arising under this Lease on or after the date of the assignment and shall on demand execute and deliver to Landlord an instrument confirming the assumption.

ARTICLE XXI

Inspection, For Sale and For Rent Signs

Section 21.01. Landlord, or its agents, shall have the right to enter the Demised Premises at reasonable hours and by providing Tenant with no less than one (1) business day's notice (except that no notice shall be required in an emergency) to examine the same, or to exhibit the Demised Premises to prospective purchasers and lenders and to place upon the Demised Premises a suitable "For Sale" sign. For twelve (12) months prior to the expiration of the Term, Landlord, or its agents, may exhibit the Demised Premises to prospective tenants and may place the usual "For Rent" signs thereon.

ARTICLE XXII

Signs

Section 22.01. Tenant shall not affix or place any sign, advertisement or notice upon any part of the Demised Premises, except in conformity with all applicable governmental ordinances and regulations and provided Tenant shall apply for and receive all necessary governmental approvals required for erection and maintenance of the sign; and no later than the last day of the Term, Tenant shall, at Tenant's expense, remove the sign and repair all damage done by or in connection with the installation or removal of the sign.

ARTICLE XXIII

Advanced Rent, Security and Late Charge

Section 23.01. On or before the Commencement Date, Tenant shall deposit with Landlord, as security for the payment of the Rent due hereunder and the full and faithful performance by Tenant of the covenants and conditions on the part of Tenant to be performed under this Lease, an irrevocable, unconditional, transferable "evergreen" commercial letter of credit issued by an S&P "A" rated commercial bank approved in advance by Landlord and otherwise acceptable in all respects to Landlord, in its sole and absolute discretion (the "Letter of Credit"). The initial amount of the Letter of Credit shall be the sum of One Hundred Twenty Seven Thousand Five hundred and 00/100 (\$127,500) Dollars. The Letter of Credit shall have an initial expiration date of not less than one (1) year from the Commencement Date and shall provide for the automatic extension of its expiration date for successive one (1) year periods throughout the Term, unless Landlord is given written notice to the contrary by the issuing bank not less than sixty (60) days prior to the expiration of the Letter of Credit. Not less than thirty (30) days prior to the expiration of the Letter of Credit, or at any time following notice by the issuing bank that it will not renew the Letter of Credit, Tenant shall provide a substitute letter of credit conforming in all respects to the requirements of this Section 23.01. In the event: (i) of any default by Tenant under this Lease; or (ii) that Tenant has failed to provide a substitute letter of credit as required by this Section 23.01, Landlord is hereby authorized to draw upon the Letter of Credit, and shall have the right to retain the cash proceeds of the Letter of Credit, or so much thereof as shall remain after curing any default. In such case, Tenant shall immediately provide Landlord with a substitute letter of credit in the amount equal to the aggregate of twelve (12) monthly payments of the then-current Basic Rent.

Section 23.02. Intentionally deleted

Section 23.03. The original Letter of Credit (less any portions thereof used, applied or retained by Landlord in accordance with this Article 23) shall be returned to Tenant after the expiration of the Term, provided that Tenant has fully and faithfully performed all such covenants and conditions of this Lease, is not in arrears in Rent and has vacated the Demised Premises. In the event of a sale, pledge, transfer or encumbrance of the Demised Premises subject to this Lease, Landlord shall have the right to transfer the Letter of Credit to a purchaser or lender, as applicable, and Landlord shall be considered released by Tenant from all liability for the return of the Letter of Credit. All costs incurred in connection with the transfer of the Letter of Credit shall be paid by Tenant. Tenant agrees to look solely to the new owner for the return of the Letter of Credit, and it is agreed that this shall apply to every transfer or assignment made of the Letter of Credit to the new landlord.

Section 23.04. In the event of the insolvency of Tenant or in the event of the entry of a judgment in bankruptcy in any court against Tenant which is not discharged within thirty (30) days after entry, or in the event a petition is filed by or against Tenant under any chapter of the bankruptcy or insolvency laws of any state or the United States of America, then and in such event Landlord may require Tenant to deposit additional security in such amount as may be necessary to adequately assure Tenant's performance of all of its obligations under this Lease, including all payments subsequently accruing. Failure of Tenant to deposit the additional security required by this section within ten (10) days after Landlord's written demand shall constitute a default by Tenant under this Lease.

Section 23.05. Simultaneously with the execution of this Lease, the Tenant has delivered to Landlord the sum of \$45,000.00 as Basic Rent for the first month of Tenant's rental obligation.

Section 23.06. Tenant shall pay a "Late Charge" of eight (8%) percent of any installment of Basic Rent or Additional Rent received by Landlord more than five (5) days after the due date thereof. Landlord and Tenant stipulate and agree that this Late Charge is a reasonable amount to be charged to Tenant for the purpose of offsetting Landlord's costs and other charges incurred by Landlord as a result of Tenant's failure (including, but not limited to, Landlord's cost of collection efforts) which are incapable of precise definition at this time. The assessment and/or collection of any of the foregoing charges shall not in any way be construed or deemed to be a waiver or a continuing waiver of any of the terms, provisions, covenants, and conditions of this Lease or any of Landlord's rights hereunder or under applicable law nor shall it be construed as a cure for any non-payment under this Lease. Tenant shall pay any such Late Charge on demand.

ARTICLE XXIV

Financial Statements

Section 24.01. Lessee shall deliver to Lessor within thirty (30) days (except as set forth below) of filing, sending, delivering to lenders or otherwise making available, copies of all financial statements and copies of all documents filed with the Securities and Exchange Commission ("SEC"), (including without limitation all 8-K, 10-K and 10-Q reports, and notices and proxy statements sent by Lessee to its stockholders); provided, however, that if such statements and reports do not include the following information, Lessee will deliver to Lessor the following:

- (i) within seven (7) days after filing with the SEC but in no event more than one hundred twenty (120) days after the end of each fiscal year of Lessee, (1) a balance sheet of Lessee and its consolidated subsidiaries as of the end of such year, (2) a statement of profits and losses of Lessee and its consolidated subsidiaries for such year, and (3) a statement of cash flows of Lessee and its consolidated subsidiaries for such year, setting forth in each of (1), (2), and (3) above, in comparative form, the corresponding figures for the preceding fiscal year in reasonable detail and scope and certified by independent certified public accountants of recognized national standing selected by Lessee, and within sixty (60) days after the end of each fiscal quarter of Lessee a balance sheet of Lessee and its consolidated subsidiaries as of the end of such quarter and statements of profits and losses of Lessee and its consolidated subsidiaries for such quarter setting forth in each case, in comparative form, the

corresponding figures for the similar quarter of the preceding year, in reasonable detail and scope, and complying with the requirements for Form 10-Q quarterly reports pursuant to the Securities Exchange Act of 1934, and certified by the chief financial officer of Lessee; all of the foregoing financial statements being prepared in accordance with generally accepted accounting principles, consistently applied; and

- (ii) Within ninety (90) days after the end of Tenant's fiscal year or at any time upon the request of Landlord or Landlord's lender(s), such financial statements and information (including, without limitation, copies of public reports filed by Lessee or financial statements and information delivered by Lessee to its shareholders or lenders, and if Lessee is part of a consolidated group, its financial statement consolidating entries in reasonable detail) regarding the business affairs and financial condition of Lessee as Lessor may request.

ARTICLE XXV

Intentionally deleted

ARTICLE XXVI

Memorandum of Lease for Recording

Section 26.01. Intentionally omitted.

ARTICLE XXVII

Waiver of Jury Trial/Non-Mandatory Counterclaims

Section 27.01. LANDLORD AND TENANT WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER THE LANDLORD OR THE TENANT AGAINST THE OTHER IN ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE TENANT'S USE OR OCCUPANCY OF THE DEMISED PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE.

ARTICLE XXVIII

Landlord's Lien

Section 28.01. Landlord shall have a lien and security interest, in addition to statutory liens of Landlord now or hereafter in effect, on all personal property and equipment of Tenant; provided, however, the Landlord agrees that the lien and security granted herein shall be subordinate to any and all liens on such personal property and equipment held by Tenant's institutional lender, whether existing prior to the Initial Commencement Date and/or hereinafter created or granted by Tenant, and shall be further limited to two (2) times the Basic Rent.

ARTICLE XXIX

Limitation of Liability; Definition of "Landlord"

Section 29.01. Notwithstanding anything to the contrary provided in this Lease, each and every term, covenant, condition and provision of this Lease, is hereby made specifically subject to the provisions of this Article XXIX. The term "Landlord" as used in this Lease means only the owner or lessor for the time being of the Demised Premises so that in the event of any conveyance of such interest (and the transfer to the transferee of any funds then being held under this Lease by such owner), the assigning Landlord shall be and hereby is entirely freed and relieved of any and all obligations of Landlord hereunder thereafter accruing, and it shall be deemed without further agreement between the parties and such grantee(s) that the grantee has assumed and agreed to observe and perform all future obligations of Landlord hereunder. It is specifically understood and agreed that notwithstanding anything to the contrary herein provided or otherwise provided at law or in equity, there shall be absolutely no personal liability to the Landlord in excess of its interest in the Demised Premises (whether the same be an individual, joint venture, limited liability company, tenancy in common, firm or partnership, general, limited or otherwise) or on the part of the members of any firm, limited liability company, partnership or joint venture or other unincorporated Landlord with respect to any of the terms, covenants and/or conditions of this Lease. In the event of a breach or default by Landlord or any of its obligations under this Lease, Tenant shall look solely to the interest in the Demised Premises of the then Landlord for the satisfaction of each and every remedy of Tenant, such exculpation of personal and additional liability which is in excess of such interest in the Demised Premises to be absolute and without any exception whatsoever.

ARTICLE XXX

Definitions

Section 30.01. Force Majeure. A "Force Majeure" shall mean and include those situations beyond either party's control, including by way of example and not by way of limitation, acts of God; accidents; repairs; strikes; shortages of labor, supplies or materials; inclement weather; or, where applicable, the passage of time while waiting for an adjustment of insurance proceeds. Any time limits required to be met by either party hereunder, whether specifically made subject to Force Majeure or not, except those related to the payment of Basic Rent or Additional Rent and except as to the time periods set forth in Article XVIII, shall, unless specifically stated to the contrary elsewhere in this Lease, be automatically extended by the number of days by which any performance called for is delayed due to Force Majeure.

Section 30.02. Additional Rent. As used in this Lease, "Additional Rent" shall mean all sums in addition to Basic Rent payable by Tenant to Landlord pursuant to the provisions of this Lease.

ARTICLE XXXI

Miscellaneous

Section 31.01. Partial Validity. If any term or provision of this Lease or the application thereof to any party or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease or the application of such term or provision to parties or circumstances other than those to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

Section 31.02. Waivers. One or more waivers by either party of the obligation of the other to perform any covenant or condition shall not be construed as a waiver of a subsequent breach of the same or any other covenant or condition. The receipt of Basic Rent and/or Additional Rent by Landlord, with knowledge of any breach of this Lease by Tenant or of any default on the part of Tenant in the observance or performance of any of the conditions or covenants of this Lease, shall not be deemed to be a waiver of any provision of this Lease. Neither acceptance of the keys nor any other act or thing done by Landlord or any agent or employee during the Term herein demised shall be deemed to be an acceptance of a surrender of the Demised Premises, excepting only an agreement in writing signed by Landlord accepting or agreeing to accept such a surrender.

Section 31.03. Number, Gender. Wherever herein the singular number is used, the same shall include the plural, and the masculine gender shall include the feminine and neuter genders.

Section 31.04. Successors, Assigns. The terms, covenants and conditions herein contained shall be binding upon and inure to the benefit of the respective parties and their successors and assigns.

Section 31.05. Headings. The Article and marginal headings herein are intended for convenience in finding the subject matters, are not to be taken as part of this Lease and are not to be used in determining the intent of the parties to this Lease.

Section 31.06. Entire Agreement. This document recites the entire and only agreement between the parties relating to the leasing of the Demised Premises; and no unwritten statements or representations or prior written matter not contained in this document shall have any force or effect. This Lease shall not be modified in any way or terminated except by a writing executed by both parties.

Section 31.07. Landlord. The "Landlord" means only the holder, for the time being, of Landlord's interest under this Lease so that in the event of any transfer of title to the Demised Premises Landlord shall be and hereby is entirely freed and relieved of all obligations of Landlord hereunder accruing

after such transfer, and it shall be deemed without further agreement between the parties that such grantee, transferee or assignee has assumed and agreed to observe and perform all obligations of Landlord hereunder arising during the period it is the holder of Landlord's interest hereunder.

Section 31.08. Words of Duty. Whenever in this Lease any words of obligation or duty are used, such words or expressions shall have the same force and effect as though made in the form of covenants.

Section 31.09. Cumulative Remedies. The specified remedies to which Landlord or Tenant may resort under the terms of this Lease are cumulative and are not intended to be exclusive of any other remedies or means of redress to which Landlord or Tenant may lawfully be entitled in case of any breach or threatened breach of any provision of this Lease.

Section 31.10. No Option. The submission of this Lease to Tenant for examination and/or execution does not constitute a reservation of, or option for, the Demised Premises; and this Lease becomes effective as a Lease only upon execution and delivery thereof by Landlord and Tenant.

Section 31.11. Accord and Satisfaction. No payment by Tenant or receipt by Landlord of a lesser amount than the Basic Rent and Additional Rent payable hereunder shall be deemed to be other than a payment on account of the earliest stipulated monthly Basic Rent and Additional Rent, nor shall any endorsement or statement on any check or any letter accompanying any check or payment for Basic Rent or Additional Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Basic Rent and Additional Rent or pursue any other remedy provided herein or by law.

Section 31.12. Corporate Authority. If Tenant is a corporation, Tenant represents and warrants that this Lease and the Tenant's execution of this Lease has been duly authorized and approved by the Tenant's Board of Directors. The undersigned officers and representatives of the corporation executing this Lease on behalf of Tenant represent and warrant that they are officers of the corporation with authority to execute this Lease on behalf of the corporation.

Section 31.13. Lease Commencement. Notwithstanding anything contained herein to the contrary, if Landlord, for any reason whatsoever including Force Majeure and Landlord's negligence, cannot deliver possession of the Demised Premises to Tenant at the commencement of the agreed Term as set forth in Section 2.01, this Lease shall not be void or voidable, nor shall Landlord be liable to Tenant for any loss or damage resulting therefrom, but in that event, the Term shall be for the full Term as specified in Section 2.01 to commence from and after the date Landlord shall have delivered possession of the Demised Premises to Tenant, and, if requested by Landlord or Tenant, Landlord and Tenant shall, by a writing signed by the parties, ratify and confirm the Lease Commencement and Termination Dates.

Section 31.14. Applicable Law. This Lease shall be interpreted and construed in accordance with the laws of the State of New York and by the state courts of New York.

Section 31.15. Survival of Tenant's Obligations. All obligations of Tenant which by their nature involve performance, in any particular, after the end of the Term, or which cannot be ascertained to have been fully performed until after the end of the term, shall survive the expiration or sooner termination of this Lease.

Section 31.16. Parking Area. Under no circumstances shall Tenant be permitted to use any portion of the parking area for on-site storage.

Section 31.17. Assumption. It shall be a condition precedent to the merger of Lessee into any Person, to the consolidation of Lessee with one or more Persons and to the sale or other disposition of all or substantially all of the assets of Lessee to one or more Persons that the surviving entity or transferee of assets, as the case may be, shall deliver to Lessor, and any assignee of any interest of Lessor, an acknowledged instrument assuming all obligations, covenants and responsibilities of Lessee hereunder

Section 31.18. No Merger. There shall be no merger of this Lease or of the leasehold estate hereby created with the fee estate in the Premises by reason of the fact that the same person acquires or holds, directly or indirectly, this Lease or the leasehold estate hereby created or any interest herein or in such leasehold estate as well as the fee estate in the Premises or any interest in such fee estate

Section 31.19. Surrender. Upon the expiration or termination of this Lease, Lessee shall surrender the Premises to Lessor in good repair and condition. The provisions of this Section and Article IX shall survive the expiration or other termination of this Lease

Section 31.20. Counterparts. This Lease may be executed in two or more counterparts and shall be deemed to have become effective when and only when one or more of such counterparts shall have been executed by or on behalf of each of the parties hereto (although it shall not be necessary that any single counterpart be executed by or on behalf of each of the parties hereto, and all such counterparts shall be deemed to constitute but one and the same instrument), and shall have been delivered by each of the parties to the other.

ARTICLE XXXII

Renewal Option

Section 32.01. Tenant is hereby granted one (1) option to renew (the "Renewal Option") this Lease upon the following terms and conditions:

(A) At the time of the exercise of the Renewal Option and at the commencement of the renewal term (the "Renewal Term"), the Tenant shall not be in default of any of the terms and provisions of this Lease, and shall be in possession of the Demised Premises pursuant to this Lease.

(B) Notice of the exercise of the Renewal Option shall be sent to the Landlord in writing at least twenty-four (24) months before the expiration of the current Term of this Lease, TIME HEREBY BEING MADE OF THE ESSENCE.

(C) The Renewal Term shall be for a period of five (5) years, commencing at the expiration of the twentieth (20th) Lease Year. All of the terms and conditions of this Lease, other than the Basic Rent, shall apply during the Renewal Term.

(D) Should Tenant exercise the Renewal Option in accordance with the provisions of this Article, within forty-five (45) days after receipt of Tenant's notice of intent to exercise the Renewal Option, Landlord shall provide to Tenant, in writing a statement indicating Landlord's calculation of the fair market value of the annual Basic Rent for the first Lease Year of the Renewal Term (the "FMV Rent"). In calculating the FMV Rent for the first Lease Year of the Renewal Term, Landlord shall look to arms-length transactions between an unrelated landlord and tenant in other comparable buildings, in the geographical area in which the Demised Premises are located, taking into account all generally applicable terms of tenancy for comparable leases of comparable premises in the Suffolk County, New York marketplace at the time of calculation. Tenant shall have twenty (20) days from receipt of Landlord's calculation of the FMV Rent for the first Lease Year of the Renewal Term in which to accept or reject such calculation. Tenant's failure to object within such twenty (20) day period shall be deemed Tenant's acceptance of such calculation. In the event that Tenant disputes Landlord's calculation, the parties shall seek to reach a mutually acceptable amount of the FMV Rent during the first Lease Year of the Renewal Term. In the event that the parties are unable to reach such mutual agreement within fifteen (15) days of receipt by Landlord of Tenant's objection, the parties shall engage the services of a mutually acceptable independent MAI appraiser experienced with properties located within the geographical area in which the Demised Premises are located. The cost of the third party appraiser shall be paid by Tenant. The determination of such appraiser shall be binding upon both parties. Notwithstanding the foregoing, the Basic Rent for the first Lease Year of the Renewal Terms shall not be less than the Basic Rent for the immediately preceding Lease Year.

(E) During each subsequent Lease Year of the Renewal Term, the Basic Rent payable by Tenant shall be equal to the greater of: (i) the then-current FMV Rent for the Demised Premises, calculated in accordance with the provisions set forth in Section 32.01(D) above; or (ii) the Base Rent payable by Tenant for the immediately preceding Lease Year.

(F) Tenant shall have no further renewal options unless expressly granted in writing by Landlord.

ARTICLE XXXIII

Guaranty

Section 33.01. Tenant's payment and performance obligations under this Lease shall be unconditionally guaranteed, jointly and severally by Gales Industries Incorporated, a Delaware corporation ("Guarantor") pursuant to a Guaranty in the form attached to this Lease as Exhibit D attached hereto and made a part hereof (the "Guaranty"). The Guarantor shall deliver the original signed Guaranty simultaneously with the execution and delivery of this Lease.

[This page is intentionally left blank. Signature page follows]

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals the month, day and year first above written.

LANDLORD:

STNLA-SPVEF BAY SHORE, LLC,
a Delaware limited liability company

By: Single-Tenant Net Lease Advisors, LLC,
a Florida limited liability company,
its Manager

By: Single-Tenant Financial Corp.,
a Florida corporation,
its Managing Member

By: -----
David R. Piasecki, President

TENANT:

AIR INDUSTRIES MACHINING, CORP.,
A New York Corporation

By: -----
Name: Michael A. Gales
Title: Executive Chairman

EXHIBIT A

Demised Premises

EXHIBIT B
Roof Repairs

EXHIBIT C

Phase 2 Report Repairs

EXHIBIT D
Form of Lease Guaranty

Gales Industries Announces Successful Completion of Sale and Lease Back of Real Properties to Pave the Way for Next Acquisitions

BAY SHORE, NY -- October 24, 2006 -- Gales Industries Incorporated (OTCBB: GLDS), a leading operating/holding and management services integrator group within the aerospace/defense field, today announced the successful completion of the sale and lease back of the real estate properties in Bay Shore, Long Island, New York, where its corporate headquarters and wholly-owned subsidiary Air Industries Machining Corp. are located. The Company had previously purchased the properties as two separate transactions that were part of a series of deals that included the primary funding and acquisition of Air Industries and reverse merger to effectuate the public listing of Gales in November 2005.

The sale and lease back agreement included three manufacturing and office buildings of 76,000 square feet on approximately 5.4 acres in Bay Shore, New York. The property and buildings had been purchased by Gales in November 2005 for approximately \$4.2 million and, upon the consummation of the sale and lease back, sold for \$6.2 million. Net of closing costs and other fees relating to the transaction, Gales has reduced its overall Bank debt by approximately 45%. As part of the transaction, Gales has repaid approximately \$4.851 million in borrowings from PNC Bank that had been used to make the initial purchase of the property and buildings. Finally, underscoring its commitment to Long Island and the local work force, Gales has entered into a 20-year lease agreement and will continue to have its corporate office and principle operations located in the Bay Shore location. Commenting on the transactions, Gales Industries' Vice Chairman and Chief Financial Officer Louis Giusto said, "We are pleased to have concluded this transaction which enables Gales to move forward with its growth strategy." Gales' President and Chief Executive Officer Peter Rettaliata added, "We remain focused on pursuing acquisitions and increasing our presence on Long Island. The profit from the sale of real properties and the availability of capital from our improved post-sale financial condition are intended to be applied toward future acquisitions which are part of our overall growth strategy."

ABOUT GALES INDUSTRIES INCORPORATED

Gales' strategy and attendant tactical plan is to execute a consolidation among Tier III, IV and V aerospace/defense subcontractors. Gales offers a tailored exit strategy or management continuity strategy in exchange for qualified

acquisitions, and targets technically superior organizations in the \$15-100 million annual range. Gales is an operating/holding and management services integrator group within the aerospace/defense field, focusing on manufacturing, technical services and strategic product distribution opportunities.

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Certain matters discussed in this press release are 'forward-looking statements' intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. In particular, the Company's statements regarding trends in the marketplace and potential future results are examples of such forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, the timing of projects due to the variability in size, scope and duration of projects, estimates made by management with respect to the Company's critical accounting policies, regulatory delays, and other factors, including general economic conditions, not within the Company's control. The factors discussed herein and expressed from time to time in the Company's filings with the Securities and Exchange Commission could cause actual results and developments to be materially different from those expressed in or implied by such statements. The forward-looking statements are made only as of the date of this press release and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstance.

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or

Gales Industries Incorporated
Michael A. Gales
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mag@airindmc.com