

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

FORM 10  
GENERAL FORM FOR REGISTRATION OF SECURITIES  
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

**AIR INDUSTRIES GROUP, INC.**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-4458244  
(I.R.S. Employer Identification No.)

1479 North Clinton Avenue Bay Shore, New York  
(Address of principal executive offices)

11706  
(Zip Code)

Registrant's telephone number, including area code-(631) 968-5000

Securities to be registered pursuant to Section 12(b) of the Act: None

Title of each class  
To be so registered  
None

Name of each exchange on which  
each class is to be registered  
N/A

Securities to be registered pursuant to section 12(g) of the Act:  
Common Stock, \$0.001 par value  
(Title of class)

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

Large Accelerated Filer   
Non-accelerated Filer  (Do not check if a smaller reporting Company)

Accelerated Filer   
Smaller Reporting Company

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## Explanatory Note

In October 2009, as part of our efforts to conserve cash, we filed a Form 15 voluntarily terminating the registration of our common stock under Section 12(g) of the Securities Exchange Act of 1934 (the “Exchange Act”), thereby terminating our obligation to file reports under the Exchange Act. Our board of directors has determined to file this registration statement on Form 10 to re-register our common stock under the Exchange Act which will obligate us, our directors and significant shareholders to comply with the reporting provisions of the Exchange Act.

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## Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements. Certain of the matters discussed herein concerning, among other items, our operations, cash flows, financial position and economic performance including, in particular, future sales, product demand, competition and the effect of economic conditions, include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act.

Forward-looking statements are predictive in nature and can be identified by the fact that they do not relate strictly to historical or current facts and generally include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions. Although we believe that these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flow, research and development costs, working capital, capital expenditures, distribution channels, profitability, new products, adequacy of funds from operations, and general economic conditions, these statements and other projections contained herein expressing opinions about future outcomes and non-historical information, are subject to uncertainties and, therefore, there is no assurance that the outcomes expressed in these statements will be achieved.

Investors are cautioned that forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from the expectations expressed in forward-looking statements contained herein. Given these uncertainties, you should not place any reliance on these forward-looking statements which speak only as of the date hereof. See "Risk factors" for a discussion of factors that could cause our actual results to differ from those expressed or implied by forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. You are advised, however, to consult any additional disclosures we make in our reports filed with the Securities and Exchange Commission ("SEC"). This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

## **Item 1. Business**

### **Introduction**

As used in this report, unless otherwise stated or the context requires otherwise, the "Company" and terms such as "we," "us" "our," and "AIRI" refer to Air Industries Group, Inc., a Delaware corporation, and our directly and indirectly wholly-owned subsidiaries: Gales Acquisition Group, Inc., a Delaware corporation ("Merger Sub"), Air Industries Machining, Corp., a New York corporation ("AIM"), Welding Metallurgy, Inc., a New York corporation ("Welding Metallurgy," or "WMI"), Nassau Tool Works, Inc., a New York corporation ("Air-NTW"), and, for periods prior to its divestiture in December 2010, Sigma Metals, Inc. ("Sigma Metals" or "Sigma").

### **DESCRIPTION OF BUSINESS**

We are an aerospace and defense company. We design and manufacture structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants and other components. We also provide sheet metal fabrication of aerostructures, tube bending and welding services. Our products are currently deployed on a wide range of high profile military and commercial aircraft including Sikorsky's UH-60 Blackhawk helicopter, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2D Hawkeye, Boeing's 777, Airbus' 380 commercial airliners, and the US Navy F-18 and USAF F-16 fighter aircraft. We believe that in terms of the number of components, we are the largest supplier of flight safety components to Sikorsky Aircraft Corp. ("Sikorsky") for its Blackhawk helicopters.

Air Industries Group, Inc. was formed in 2005 in connection with the "reverse-merger" of AIM into a publicly traded company with nominal assets. In June 2007, we changed our name to Air Industries Group, Inc. In addition to growing organically at AIM, we acquired Sigma Metals in April 2007, Welding Metallurgy in August 2007, and acquired the operations of Nassau Tool Works, Inc. (the "NTW Acquisition") through an asset acquisition in June 2012, at which time we changed the name of our subsidiary utilized to consummate the NTW Acquisition to "Nassau Tool Works, Inc.," which we refer to in this Report as "Air-NTW." In October 2008, we discontinued the operations of Sigma Metals, and liquidated or otherwise disposed of its assets. Consequently, we currently operate through three subsidiaries: AIM, WMI and Air-NTW.

AIM has manufactured components and subassemblies for the defense and commercial aerospace industry for over 40 years and has established long term relationships with leading defense and aerospace manufacturers such as Boeing, Goodrich Landing Gear, Lockheed Martin, and Northrop Grumman. AIM manufactures machined aircraft parts and subassemblies and other flight critical parts/assemblies for many of the major aircraft platforms in the industry. AIM's customers include original equipment manufacturers, or OEMs, and members of the defense and commercial aerospace industry supply chains, including Sikorsky, Goodrich Landing Gear, Lockheed Martin, Boeing, and Northrop Grumman. AIM is based in Bay Shore, Long Island, New York.

WMI has provided specialty welding services and metal fabrications to the defense and commercial aerospace industry since 1979. Its customers include GKN Corporation, Sikorsky, Lockheed Martin, Boeing and Northrop Grumman. WMI is based in Hauppauge, Long Island, New York.

The predecessor of Air-NTW was founded in 1959. Air-NTW's principal business is the fabrication and assembly of landing gear components and complete landing gear for fighter aircraft for the US and foreign governments. Air-NTW also performs sub-contract machining for other aerospace manufacturers, including Air Industries. Air-NTW is located in West Babylon, Long Island, New York.

Our principal offices are located at the offices of AIM at 1479 North Clinton Avenue, Bay Shore, New York 11706 and our telephone number is (631) 968-5000. All of our subsidiaries are located within a 10 mile radius from our headquarters.

### **Recent Stock Issuances and Financings**

After giving effect to all shares issued in connection with the reverse merger of AIM in 2005 and assuming the exercise or conversion of all of the options, warrants and derivative securities then outstanding, as of June 30, 2006, we had outstanding an aggregate of approximately 67,448,585 shares of common stock, without giving effect to the reverse split discussed below.

In April 2007, we issued 802,300 shares of our series B Convertible Preferred Stock (the "Series B Preferred") to finance the acquisition of Sigma and to provide us with additional working capital. The shares of Series B Preferred were convertible into shares of our common stock at a variable conversion price determined in accordance with the terms set forth in the Certificate of Designation. In addition, the terms of the Series B Preferred provided for the payment of a 7% cumulative dividend, payable in cash or in shares of Series B Preferred in lieu of cash, valued at a price determined by reference to the fair market value of our common stock as of approximately the date of issuance of such dividends. Until the Series B Preferred was converted into common stock in the recapitalization described below, we issued an aggregate of 3,077,933 shares of Series B Preferred to the holders thereof in lieu of cash dividends.

In June 2008 we completed a private placement in which we issued \$2,950,000 principal amount of our Junior Subordinated Notes (the "Old Notes") and 983,324 shares of our common stock (before giving effect to the reverse split described below). In connection with this placement we also issued 500 shares of common stock (before giving effect to the reverse split described below) to the placement agent. From September 2008 to February 2009 we issued an aggregate of \$3,040,000 principal amount of our Junior Subordinated Notes with terms similar to the Old Notes but with a lesser interest rate (the "New Notes"), together with an aggregate of 243,200 shares of Series B Preferred in a private placement. We also issued 39,604 shares of Series B Preferred to the placement agent as a partial sales commission for this placement.

In October 2008, the holders of \$2,950,000 of our Old Notes exchanged their Old Notes for an equal principal amount of our New Notes and 236,000 shares of Series B Preferred. As of December 31, 2011, the balance owed on the Junior Subordinated Notes amounted to \$6,320,000.

In January 2009, as part of the sale of certain of the assets of Sigma to its former stockholders, we issued 58,500 shares of our Series B Preferred to the former stockholders of Sigma.

In March and June, 2009, we issued 4,211 and 10,000 shares of our Series B Preferred in settlement of disputes with third parties.

In January 2010, we issued 137,138 shares of our Series B Preferred upon exercise of warrants issued to the placement agent for the offering of the New Notes and Preferred Shares.

#### *Recapitalization and Conversion of Junior Subordinated Notes*

In July 2010, at a special meeting of our stockholders, our common and Series B Preferred stockholders approved (i) a 1- for-400 reverse split of our common stock and (ii) the automatic conversion of the then outstanding shares of our Series B Preferred, together with any dividends that may have become payable prior to the conversion date into 3,400,000 shares of our common stock. Upon completion of the reverse split and conversion of our common stock in October 2010, we had an aggregate of 3,579,114 shares of common stock outstanding, of which approximately 95% was owned by the former holders of the Series B Preferred.

At the time of completion of our reverse merger we were party to a credit facility with PNC Bank N.A., our senior lender. The credit facility provided for maximum borrowings of \$19,000,000 and was secured by a lien on substantially all of our assets. The \$19,000,000 was comprised of a \$14,000,000 revolving loan, a \$3,500,000 term loan and a \$1,500,000 equipment line.

In connection with the acquisition of WMI, in August 2007, we issued the sellers a promissory note in the principal amount of \$2,000,000 and received a \$4,500,000 term loan from Steel City Capital Funding ("SCCF"), the proceeds of which were used to fund a portion of the purchase price of WMI. In November 2010, we executed a renewal and amendment to the credit facility with our senior lender which provided for a \$16,000,000 revolving loan and a \$3,000,000 term loan and which included WMI as one of the borrowers. A portion of the proceeds of the amended credit facility with our senior lender was used to satisfy the SCCF Term Loan. In August 2008 we restructured the WMI sellers' note into a note with a principal amount of \$2,050,000 bearing interest at the rate of 7% per annum and payable in installments with a final payment due March 31, 2014. In October 2010 we entered into a letter agreement with the sellers of WMI in which it was agreed that all accrued and unpaid interest under the restructured note would be added to the principal, making the new note balance \$2,397,967. Interest on this note accrues at 7% per annum and the note is payable in installments through January 2015.

In June 2012, we acquired the business now operated by Air-NTW from Nassau Tools Works, Inc., for a purchase price consisting of 66,666 shares of our common stock and \$12,118,000 in cash. Upon completion of the acquisition, Nassau Tool Works, Inc. changed its name to NTW Dissolution Corp. and it is referred to herein as "NTW Dissolution." In connection with the acquisition, we sold in a private offering an aggregate of 1,185,851 shares of common stock for \$6.00 per share, from which we derived net proceeds of approximately \$6,528,000, and issued 867,461 shares of common stock in exchange for approximately \$5,204,000 principal amount of our Junior Subordinated Notes, thereby increasing our equity by approximately \$11,700,000. As a result of the private placement and the conversion of Junior Subordinated Notes, the number of outstanding shares of our common stock increased from approximately 3,579,000 to 5,711,000.

## **Air Industries Machining Corp.**

AIM manufactures aircraft structural parts and assemblies principally for prime defense contractors in the defense/aerospace industry including, Boeing, Goodrich Landing Gear, Sikorsky, Lockheed Martin, and Northrop Grumman. For the trailing twelve months ended June 30, 2012, approximately 85 % of AIM's revenues were derived from sales of parts and assemblies for military applications, although direct sales to the military (U.S. and NATO) constituted a small fraction of those sales. The remaining 15% of revenues for the June 30, 2012 trailing twelve months represented sales in the airframe manufacturing sector to major commercial aviation manufacturers. AIM is a provider of flight critical, technically complex structures. AIM's parts are installed onboard Sikorsky's U/MH - 60M/S Helicopters, generally known as The BlackHawk, Lockheed's F35 Joint Strike Fighter (JSF), Northrop Grumman's E2-C/D Hawkeye, the Airbus A-380 Super Jumbo airliner, and the C-17 Globemaster.

AIM has evolved from being a manufacturer of individual parts to a manufacturer of mechanical and electro-mechanical subassemblies and an engineering integrator. This evolution continues as AIM seeks to become a provider of larger and more complex subassemblies. AIM currently produces over 2,400 individual products (SKU's) that are assembled by a skilled labor force into electromechanical devices, mixer (primary flight control) assemblies, rotor-hub components for Blackhawk helicopters, arresting gear for the E2C/D Hawkeye, C2A Greyhound and US Navy Fighters, vibration absorbing assemblies for Sikorsky helicopters, landing gear components for the F-35 Joint Strike Fighter (JSF), and many other subassembly packages. In 2011 AIM was awarded a subcontract to fabricate and assemble complete landing gear for the new E-2D series Advanced Hawkeye aircraft.

AIM believes that in terms of the number of components supplied, it is the largest supplier of flight critical components to Sikorsky, and is considered the single or sole source for much of these parts. Sales of parts and services to Sikorsky and are subject to General Ordering Agreements which were recently renegotiated and extended through 2012.

Historically, Sikorsky has been AIM's single largest customer having accounted for more than 50% of its revenues in certain years. During 2011 and 2012, though sales to Sikorsky remained robust, AIM began to derive a significant portion of its revenues from Goodrich Landing Gear. Consequently, although sales to Sikorsky represented approximately 54% of AIM's net sales during 2011, sales to Sikorsky represented approximately 42% of AIM's net sales in the first six months of 2012. On a combined basis, these two customers accounted for approximately 78% of AIM's net revenues during each of 2011 and 2010, and 83% of AIM's net sales for the first six months of 2012.

AIM's achievements in manufacturing quality control have enabled it to receive various international certifications that distinguish it from less qualified manufacturers, as well as several highly technical, customer-based proprietary quality approvals. AIM has also been recognized with the supplier of the year awards from notable customers such as United Technologies (Sikorsky) and Northrop Grumman.

Nearly all of the parts and subassemblies produced by AIM are built to customer specifications and are not protected by patents, trademarks or other rights owned or licensed by AIM. AIM's investments have been for manufacturing engineering, process engineering and tooling, to achieve manufacturing efficiency certifications and customer approvals that provide entry barriers to competitors for follow-on procurements.

## **Welding Metallurgy, Inc.**

Welding Metallurgy was originally founded as a provider of specialty welding services. Since its acquisition in August 2007, its product and service offerings have increased and now include tube bending and metal fabrications of aircraft structures. WMI's services and products are principally provided to prime contractors, aerospace engine manufacturers and to other subcontractors to aerospace manufacturers throughout the United States.

Welding Metallurgy is an important supplier on the Northrop Grumman E-2 C/D Hawkeye Program producing approximately 300 different parts annually. For the trailing twelve months ended June 30, 2012 nearly 100% of WMI's revenues were derived from sales of parts and assemblies for military applications, although direct sales to the military (US and NATO) were a small fraction. WMI produces the inlet housing and the auxiliary long and short beams for the Sikorsky BlackHawk helicopter and various welded door and panel assemblies for the Boeing CH-47 Chinook Helicopter. WMI also provides environmental tubing to Lockheed for the F-35 Joint Strike Fighter.

In 2011, WMI was awarded a design and build contract for engine exhaust tubing for the CH-53K heavy lift helicopter.

### **Nassau Tool Works, Inc.**

Air-NTW is a manufacturer of complete landing gear and landing gear components for the F-16 Fighting Falcon and F-18 Hornet aircraft of the US Air Force and Navy. In addition Air-NTW specializes in deep hole gun-drilling and trepanning and performs sub-contract machining services for prime contractors in the defense and aerospace industries. In many ways Nassau Tool Works, from which we acquired the operations that now constitute Air-NTW, was very similar to AIM with perhaps a stronger focus on turning processes as opposed to milling processes.

The NTW Acquisition enhanced our position in aircraft landing gear. Not only did we expand our customer base and increase the number of aircraft platforms we support, we also decreased our dependence on any single customer.

### **Our Market**

We operate in both the military and to a lesser degree commercial aviation industries. Defense revenues represent approximately 90% of our sales. The Department of Defense has announced plans to significantly reduce spending beginning in Fiscal 2013, regardless of the impact of the current budget impasse. Reductions in United States Government spending on defense or future changes in the kind of defense products required by United States Government agencies could limit demand for our products. Our products are incorporated into many aircraft platforms, the majority of which remain in production, and of which there are a substantial number of operating aircraft. We believe we are the largest supplier of flight critical parts to Sikorsky's Black Hawk helicopter. We also make products for the Northrop Grumman E-2C, and the new E-2D Advanced Hawkeye aircraft including complete landing gear, the F-16 Falcon and F-18 Hornet fighter aircraft, the Airbus 380 Super Jumbo, and Boeing's (formerly McDonnell Douglas) C17 Globemaster, and the Lockheed F-35 Joint Strike Fighter.

Many of our products are *flight critical* requiring advanced certification and for which we are the sole or one of a limited sources of supply. Many of these parts are subject to wear and tear or fatigue and are routinely replaced on aircraft on a time of service or flight cycle basis. Replacement demand for these products will continue, albeit at perhaps a lower rate, so long as an aircraft remains in service, which can be many years after production has stopped. We believe that this may lessen the effect of reductions in defense spending. Nevertheless, there can be no assurance that our financial conditions and results of operations will not be adversely impacted by reductions in defense spending or a change in the mix of products purchased by defense departments in the United States or other countries.

### **Sales and Marketing**

#### **Air Industries Machining**

Our approach to sales and marketing can be best understood through the concept of customer alignment. The aerospace industry is dominated by a small number of large prime contractors and equipment manufacturers. These customers are increasingly seeking subcontractors who can supply and are qualified to integrate the fabrication of larger, more complex and more complete subassemblies. We seek to position ourselves within the supply chain of these contractors and manufacturers to be selected for subcontracted projects.

Successful positioning requires that we qualify to be a preferred supplier by achieving and maintaining independent third party quality approval certifications, specific customer quality system approvals and top supplier ratings through strong performance on existing contracts.

Initial contracts are usually obtained through competitive bidding against other qualified subcontractors, while follow-on contracts are usually obtained by successfully performing initial contracts. The long term business of each of our current subsidiaries, AIM, WMI and Air-NTW, generally benefits from barriers to entry resulting from investments, certifications, familiarization with the needs and systems of customers, and manufacturing techniques developed during the initial manufacturing phase.

As our business base grows with targeted customers, we endeavor to develop each of our relationships to one of a “partnership” where we become involved in the resolution of design and build issues and initial contracts are obtained as single source awards and follow-on pricing is negotiated on a cost plus rather than a competitive bid basis.

## Welding Metallurgy

WMI has historically enjoyed ongoing relationships with some of the world's leading aerospace companies, including Northrop Grumman, Boeing and Middle River Aircraft Systems. These relationships were based on the company's ability to provide precision welding services, which are sought after in the aerospace industry. Since we acquired Welding Metallurgy, we have implemented a marketing effort that is aimed at growth, with a focus on the following strategic objectives:

- Favorable differentiation of Welding Metallurgy from the competition, and the securing of long-term customer commitments.
- Diversification of customer base.
- Evolution from being a supplier of welding services to being a supplier of welded assemblies.
- Development into a Product Integrator, focused on providing Structural Assemblies to the Industry.

### *Favorable differentiation*

Since we acquired WMI in 2007, our focus has been on providing world class customer service and we have restructured WMI's pricing to improve its competitive position. Welding Metallurgy also has embarked on a face-to-face marketing campaign with established customers, using members of its top management team accompanied by the management of AIRI. We believe that this personal approach, combined with improved pricing and performance, has resulted in new opportunities for Welding Metallurgy with existing customers and customers of AIM that were not utilizing the services of WMI.

### *Diversification*

Prior to our acquisition of WMI, Northrop Grumman represented 70-75% of its annual revenues. Through direct marketing efforts by executive management of WMI and AIRI, Welding Metallurgy has secured the approval of and is now a supplier to Sikorsky Aircraft, Lockheed, Piper Aircraft, GKN Aerospace, M7 Aerospace, Vought Aerospace and Ametek/Hughes-Treitler. GKN Aerospace has now become WMI's largest customer. Consequently, though it remains a significant customer, the amount received from Northrop Grumman represented a significantly lower portion of WMI's revenues for the trailing twelve months ended June 30, 2012.

### *Evolution from Welder to Turnkey Solution Provider:*

Once considered only a supplier of welding services, WMI has recruited the personnel to fabricate complete, fully-assembled products, and, more recently, design products, and customers have now engaged WMI for these services. This has increased the WMI's penetration into the operations of certain customers resulting in more firmly embedded relationships.

Our long term marketing goal for Welding Metallurgy is to develop the company into a product integrator providing structural assemblies to the aerospace industry. We have employees with the talent and experience to manage the manufacture of sections of aircraft structures to be delivered to the final assembly phase of the aircraft manufacturing cycle. In 2011 we hired additional senior management personnel to bolster this capability. This strategy is very much in line with current prime contractor supply chain strategy. WMI combined with AIM and now Air-NTW, offers a cost competitive, low risk approach to customers for the outsourcing of subassembly manufacturing.

## Nassau Tool Works

In recent years, the marketing effort at Nassau Tool Works has been minimal and consisted largely of re-competing for contracts from the US Government and foreign governments for the F-16 and F-18 aircraft. Historically, Nassau Tool was a supplier to Goodrich Landing Gear, Gulfstream Aviation and others.



Air-NTW has retained the qualifications which the former Nassau Tool Works had with its customers and the required tooling for parts for many other aircraft platforms. Air-NTW's machining capabilities are somewhat different from and complementary to those of AIM. We intend to leverage our relationship with Goodrich and other customers to broaden the range of customers and products produced at Air-NTW initially emphasizing those that it used to produce but de-emphasized as it focused on the F-16 and F-18. We have already identified several opportunities for AIM and WMI to bid on subcontracts utilizing the capabilities of Air-NTW.

## **Our Backlog**

Our backlog is best understood by looking at our three operating subsidiaries independently.

AIM has a number of long-term multi-year General Purchase Agreements or GPA's with several customers. These agreements specify part numbers, specifications and prices of the covered products for a specified period, but do not authorize immediate production and shipment. Nevertheless, before a customer will award a GPA, we or any other potential supplier must demonstrate the ability to produce products meeting the customer's specifications and during the life of the contract maintain a strong quality performance rating and a consistent on-time delivery record, all at an acceptable price.

AIM's "firm backlog" includes only fully authorized orders received for products to be delivered within the forward 18-month period. The "projected backlog" includes the firm backlog and forecasted demand from our base of leading prime aerospace/defense contractors for product releases against GPAs. Although the forecasted releases against GPAs within the forward 18-month period are included in the "projected backlog", we may actually receive additional "follow-on" awards through the balance of a GPA period. As of June 30, 2012, AIM's 18-month "firm backlog" was approximately \$49 million and our "projected backlog" as of that date for the same 18-month period was approximately \$60 million.

Like AIM, WMI and Air-NTW also have long term agreements with customers agreements specify part numbers, specifications and prices of the covered products for a specified period, but do not authorize immediate production and shipment. Their "firm backlog" as reported by us includes only fully authorized orders received for products to be delivered within the forward 18-month period. As of June 30, 2012 WMI's 18 month firm backlog was approximately \$12 million. We are currently in the process of establishing operating procedures that will enable us to project the backlog of Air-NTW.

## **Competition**

Winning a new contract is highly competitive. For the most part we manufacture to customer designs and specifications, and compete against companies that have similar manufacturing capabilities in a global marketplace. Consequently, the ability to obtain contracts requires providing quality products at competitive prices. To accomplish this requires that we make continuous improvements in our capabilities to assure our competitiveness and provide value to our customers. Our marketing strategy involves developing long-term ongoing working relationships with customers. These relationships enable us to develop entry barriers to would-be competitors by establishing and maintaining advanced quality approvals, certifications and tooling investments that are difficult and expensive to duplicate.

Despite these barriers to entry, many of our competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers. Among our competitors are Sterling Machine, Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group, Heroux Aerospace and Ellanef Manufacturing, a division of Magellan Corporation.

Many of our competitors are larger enterprises or divisions of significantly larger companies having greater financial and physical and technical resources, and the capabilities to more timely respond under much larger contracts.

## **Raw Materials and Replacement Parts**

As product integrators, the manufacturing processes of both AIM and Air-NTW require significant purchases of raw materials, hardware and subcontracted details. As a result, much of their success in profitably meeting customer demand requires efficient and effective subcontract management. Price and availability of many raw materials utilized in the aerospace industry are subject to volatile global markets. Most suppliers of raw materials are unwilling to commit to long-term contracts at fixed prices. This is a substantial risk as our strategy often involves long term fixed price commitments to our customers.

Welding Metallurgy does not require significant amounts of materials to produce finished products. Supplies required for its operations are readily available and do not require significant inventories to be held on hand.

### **Future Expansion Strategy**

Since the 1990s, the aerospace and defense industries have undergone radical consolidation. The largest prime contractors have merged or been acquired resulting in fewer, and much larger, entities. Some examples are Boeing which acquired McDonnell Douglas; Lockheed Martin, formed by Lockheed's acquisition of Martin Marietta, together with the aerospace divisions of General Dynamics; Northrop Grumman, which fused together Northrop, Grumman, Westinghouse and Litton Industries into one entity. Where once there were nine companies there are now just three. The recently proposed merger of the European companies EADS and BAE Systems indicates that this consolidation may be continuing.

The consolidation of the prime contractors has caused a similar consolidation of suppliers. Major contractors seek to streamline supply chains by buying both larger quantities and more complete sub-assemblies from fewer suppliers. This has led to increased competitive pressure on many smaller firms. To survive in this environment suppliers must invest in systems and infrastructures capable of interfacing with and meeting the needs of prime contractors. Suppliers with \$15-\$100 million in annual sales, referred to as the "Tier III and IV Manufacturing Sector," must become fully capable of working interactively in a computer aided three dimensional automated engineering environment and must have independent third party quality system certifications.

We believe this industry trend will increase pressure on smaller aerospace/defense critical component manufacturers, the Tier III and IV suppliers. These manufacturers will have no choice but to upgrade their systems and processes or seek to be acquired or acquire others to achieve the necessary scale or leave the industry.

Our acquisition of WMI and the NTW Acquisition are part of our strategy to react to this market environment. The NTW Acquisition creates a company with combined pro-forma sales for the trailing twelve months ended June 30, 2012 of approximately \$70 million. The addition of Nassau Tool places us in the upper quadrant of Tier III and IV manufacturers and enables the combined entity to compete more effectively for contracts and other outsourcing opportunities from prime contractors and the US Government.

We intend to continue to seek accretive acquisition candidates and internal growth opportunities for AIM, WMI and Air-NTW.

### **Employees**

As of June 30, 2012, we employed approximately 250 people.

AIM is a party to a collective bargaining agreement (the "Agreement") with the United Service Workers, IUJAT, Local 355 (the "Union") with which we believe we maintain good relations. The Agreement, dated January 1, 2012, expires December 31, 2015, and covers all of AIM's production personnel. AIM is required to make a monthly contribution to each of the Union's United Welfare Fund and the United Services Worker's Security Fund. This is the only pension benefit required by the Agreement and the Company is not obligated for any future defined benefit to retirees. The Agreement contains a "no-strike" clause, whereby, during the term of the Agreement, the Union will not strike and AIM will not lockout its employees.

All employees of the Company are covered under a co-employment agreement with Insperty, Inc., formerly known as Administaff.

### **Regulations**

#### *Environmental Regulation; Employee Safety*

We are subject to regulations administered by the United States Environmental Protection Agency, the Occupational Safety and Health Administration, various state agencies and county and local authorities acting in cooperation with federal and state authorities. Among other things, these regulatory bodies impose restrictions require us to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous chemicals and substances. The extensive regulatory framework imposes compliance burdens and financial and operating risks on us. Governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose civil and criminal fines in the case of violations.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") imposes strict, joint and several liability on the present and former owners and operators of facilities that release hazardous substances into the environment. The Resource Conservation and Recovery Act of 1976 ("RCRA") regulates the generation, transportation, treatment, storage and disposal of hazardous waste. In New York, the handling, storage and disposal of hazardous substances are governed by the Environmental Conservation Law, which contains the New York counterparts of CERCLA and RCRA. In addition, the Occupational Safety and Health Act, which requires employers to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, obligates employers to provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances.

#### *Federal Aviation Administration*

We are subject to regulation by the Federal Aviation Administration ("FAA") under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations.

#### *Government Contract Compliance*

Our government contracts and those of many of our customers are subject to the procurement rules and regulations of the United States government, including the Federal Acquisition Regulations ("FAR"). Many of the contract terms are dictated by these rules and regulations. During and after the fulfillment of a government contract, we may be audited in respect of the direct and allocated indirect costs attributed to the project. These audits may result in adjustments to our contract costs. Additionally, we may be subject to U.S. government inquiries and investigations because of our participation in government procurement. Any inquiry or investigation can result in fines or limitations on our ability to continue to bid for government contracts and fulfill existing contracts.

We believe that we are in compliance with all federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits required for the operation of our business.

#### **Reports to Security Holders**

We intend to furnish our shareholders annual reports containing financial statements audited by our independent auditors and to make available quarterly reports containing unaudited financial statements for each of the first three quarters of each year.

The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is [www.sec.gov](http://www.sec.gov).

#### **Item 1A. Risk Factors**

The purchase of our common stock involves a very high degree of risk.

In evaluating us and our business, you should carefully consider the risks and uncertainties described below and the other information and our consolidated financial statements and related notes included herein. The risks provided below may not be all the risks we face. If any of events described in the risks below actually occurs, our financial condition or operating results may be materially and adversely affected, the price of our common stock may decline, perhaps significantly, and you could lose all or a part of your investment.

The risks below can be characterized into three groups:

- 1) *Risks related to our business, including risks specific to the defense and aerospace Industry;*
- 2) *Risks arising from our indebtedness; and*
- 3) *Risks related to our common stock and our status as a public company.*

#### Risks Related to Our Business

##### **A reduction in government spending on defense could materially adversely impact our revenues, results of operations and financial condition.**

Approximately 90% of our revenue is derived from products for US military aviation. There are risks associated with programs that are subject to appropriation by Congress, which could be potential targets for reductions in funding for whatever reason. The Department of Defense has announced plans to significantly reduce spending beginning in Fiscal 2013. Reductions in United States Government spending on defense or future changes in the mix of defense products required by United States Government agencies could limit demand for our products, and may have a materially adverse effect on our operating results and financial condition.

##### **While some of our products may experience greater demand as a result of increased US Government defense spending, various responses could realign US Government programs and affect the composition, funding or timing of our government programs and those of our customers.**

US Government spending could shift to defense programs in which we and our customers do not participate. Increased defense spending does not necessarily correlate to increased business, because not all programs in which we participate or have current capabilities may be earmarked for increased funding.

##### **We depend on revenues from a few significant relationships, in particular with Sikorsky, and any loss, cancellation, reduction, or interruption in these relationships could harm our business.**

We expect that our customer concentration will not change significantly in the near future. We derive most of our revenues from a small number of customers. In 2011, two of our customers accounted for 64% of our net sales and three of our customers accounted for 75% of our net sales. The markets in which we sell our products are dominated by a relatively small number of customers which have contracts with United States governmental agencies, thereby limiting the number of potential customers. Our success depends on our ability to develop and manage relationships with significant customers. We cannot be sure that we will be able to retain our largest customers or that we will be able to attract additional customers, or that our customers will continue to buy our products in the same amounts as in prior years. The loss of one or more of our largest customers, any reduction or interruption in sales to these customers, our inability to successfully develop relationships with additional customers or future price concessions that we may have to make, could significantly harm our business.

##### **We depend on revenues from components for a few aircraft platforms and the cancellation or reduction of either production or use of these aircraft platforms could harm our business.**

AIM derives most of its revenues from components for a few aircraft platforms, specifically the Sikorsky BlackHawk helicopter, the Northrop Grumman E-2 Hawkeye naval aircraft and the McDonnell Douglas (Boeing) C-17 Globemaster. Air-NTW derives most of its revenues from the F-16 Falcon and the F-18 Hornet. These aircraft platforms constitute nearly 75% of the revenues of the NTW operations on a June 30 trailing twelve month basis. A reduction in demand for our products as a result of either a reduction in the production of new aircraft or a reduction in the use of existing aircraft in the fleet (reducing after-market demand) would have a material adverse effect on our operating results and financial condition.

##### **Intense competition in our markets may lead to a reduction in our revenues and market share.**

The defense and aerospace component manufacturing market is highly competitive and we expect that competition will increase. Many competitors have significantly greater technical, manufacturing, financial and marketing resources than we do. We expect that more companies will enter the defense and aerospace component manufacturing market. We may not be able to compete successfully against either current or future competitors. Increased competition could result in reduced revenue, lower margins or loss of market share, any of which could significantly harm our business our operating results and financial condition.

**We may lose sales if our suppliers fail to meet our needs.**

Although we procure most of our parts and components from multiple sources or believe that these components are readily available from numerous sources, certain components are available only from sole sources or from a limited number of sources. While we believe that substitute components or assemblies could be obtained, use of substitutes would require development of new suppliers or would require us to re-engineer our products, or both, which could delay shipment of our products and could have a materially adverse effect on our operating results and financial condition.

**There are risks associated with the bidding processes in which we compete.**

We obtain many contracts through a competitive bidding process. We must devote substantial time and resources to prepare bids and proposals and may not have contracts awarded to us. Even if contracts are awarded to us, there can be no assurance that the prices we bid will be sufficient to allow us to generate a profit from any particular contract. There are significant costs involved with producing low run initial units of any product and it may not be possible to recoup such costs on later production runs.

**Due to fixed contract pricing, increasing contract costs expose us to reduced profitability and the potential loss of future business.**

The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters, and the inability to recover any claims included in the estimates to complete. A significant change in cost estimates on one or more programs could have a material effect on our consolidated financial position or results of operations.

**There are risks associated with new programs.**

New programs typically carry risks associated with design changes, acquisition of new production tools, funding commitments, imprecise or changing specifications, timing delays and the accuracy of cost estimates associated with such programs. In addition, any new program may experience delays for a variety of reasons after significant expenditures are made. If we were unable to perform under new programs to the customers' satisfaction or if a new program in which we had made a significant investment was terminated or experienced weak demand, delays or other problems, then our business, financial condition and results of operations could be materially adversely affected. This could result in low margin or forward loss contracts, and the risk of having to write-off costs and estimated earnings in excess of billings on uncompleted contracts if it were deemed to be unrecoverable over the life of the program.

To perform on new programs we may be required to expend up-front costs which may not have been separately negotiated. Additionally, we may have made assumptions related to the costs of any program which may be material and which may be incorrect, resulting in costs that are not recoverable. Such charges and the loss of up-front costs could have a material impact on our liquidity.

**Our inability to successfully manage the growth of our business may have a material adverse effect on our business, results of operations and financial condition.**

We expect to experience growth in the number of employees and the scope of our operations as a result of internal growth. In addition, we intend to seek to grow through acquisitions when we deem them to be economically advantageous. Internal growth or growth through acquisitions will result in increased responsibilities for management and could strain our financial and other resources. There can be no assurance that we will successfully integrate any future business acquired through acquisition.

Our ability to manage and support our growth effectively is substantially dependent on our ability to implement adequate improvements to financial, inventory, management controls, reporting, union relationships, order entry systems and other procedures, and hire sufficient numbers of financial, accounting, administrative, and management personnel. We may not succeed in our efforts to identify, attract and retain experienced personnel.

The NTW Acquisition requires that we integrate the operations of Air-NTW into our management, reporting and operational systems. In 2007 we acquired two companies; Sigma Metals, Inc., and Welding Metallurgy Inc. In 2008, we experienced serious financial and operational difficulties at Sigma Metals and within the Company as a whole. Consequently, we determined to discontinue the operations of Sigma Metals in October 2008. As a result, for the year ended December 31, 2008, we recognized a loss of more than \$ 9.0 million related to the acquisition and disposition of Sigma Metals and write-offs of \$4.5 million for the impairment of goodwill of AIM and WMI.

There can be no assurance that we have the management expertise to successfully integrate the operations of Air-NTW or any company that we might acquire in the future.

**Our future success also depends on our ability to address potential market opportunities and to manage expenses to match our ability to finance operations.**

The need to control our expenses will place a significant strain on our management and operational resources. If we are unable to control our expenses effectively, our business, results of operations and financial condition may be adversely affected.

**Attracting and retaining key personnel is an essential element of our future success.**

Our future success depends to a significant extent upon the continued service of our executive officers and other key management and technical personnel and on our ability to continue to attract, retain and motivate executive and other key employees. Experienced management and technical, marketing and support personnel in the defense and aerospace industries are in demand and competition for their talents is intense. The loss of the services of one or more of our key employees or our failure to attract, retain and motivate qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

**Our business may suffer if suppliers fail to meet our needs.**

Although we procure most of our parts and components from multiple sources and believe that these components are readily available from numerous sources, certain components are available only from sole or a limited number of sources. As our business has evolved we are now procuring more detailed parts and sub-assemblies. These products are more likely to be available from a sole or very limited number of sources.

With the recent addition of new contracts at AIM and the NTW Acquisition, the number of our suppliers has increased and will continue to increase. This increases the burden and the risk that one or more suppliers could fail or delay their deliveries to us. While we believe that substitute components or assemblies could be obtained, use of substitutes would require development of new suppliers or would require us to re-engineer our products, or both, which could delay shipment of our products and could have a materially adverse effect on our operating results and financial condition.

**We are subject to strict governmental regulations relating to the environment, which could result in fines and remediation expense in the event of non-compliance.**

We are required to comply with extensive and frequently changing environmental regulations at the federal, state and local levels. Among other things, these regulatory bodies impose restrictions to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous substances into the environment. This extensive regulatory framework imposes significant compliance burdens and risks on us. In addition, these regulations may impose liability for the cost of removal or remediation of certain hazardous substances released on or in our facilities without regard to whether we knew of, or caused, the release of such substances. Furthermore, we are required to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances. Our operations require the use of chemicals and other materials for painting and cleaning that are classified under applicable laws as hazardous chemicals and substances. If we are found not to be in compliance with any of these rules, regulations or permits, we may be subject to fines, remediation expenses and the obligation to change our business practice, any of which could result in substantial costs that would adversely impact our business operations and financial condition.

**We may be subject to fines and disqualification for non-compliance with Federal Aviation Administration regulations.**

We are subject to regulation by the Federal Aviation Administration under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations.

**Terrorist acts and acts of war may seriously harm our business, results of operations and financial condition.**

United States and global responses to the Middle East conflict, terrorism, perceived nuclear, biological and chemical threats and other global crises increase uncertainties with respect to U.S. and other business and financial markets. Several factors associated, directly or indirectly, with the Middle East conflict, terrorism, perceived nuclear, biological and chemical threats, and other global crises and responses thereto, may adversely affect the Company.

Risks Related to Our Indebtedness

**Our indebtedness may materially adversely affect our operations.**

As is more fully described under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources", we have significant indebtedness. Our indebtedness is substantial in relation to our stockholders' equity. Our ability to make principal and interest payments will depend on future performance. In addition, our loan facility is secured by substantially all of our assets. In the case of a continuing default under our loan facility, the lender will have the right to foreclose on our assets, which would have a material adverse effect on our business. The terms of our loan facility restrict our ability to pay dividends without the consent of our lender. Future payments of principal and interest may limit our ability to pay cash dividends to our stockholders. Our leverage may adversely affect our ability to finance future operations and capital needs, may limit our ability to pursue business opportunities and may make our results of operations more susceptible to adverse economic conditions.

**Restrictions imposed by our senior secured credit facility and our other outstanding indebtedness may limit our ability to operate our business and to finance our future operations or capital needs or to engage in other business activities.**

The terms of our senior secured credit facility restrict us from engaging in specified types of transactions. These covenants restrict our and our subsidiaries' ability to:

- o incur additional indebtedness;
- o pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness;
- o make investments, loans, advances and acquisitions;
- o create restrictions on the payment of dividends or other amounts to us from our subsidiaries;
- o sell assets, including capital stock of our subsidiaries;
- o consolidate or merge;
- o create liens; or;
- o enter into sale and lease-back transactions.

In the event of a default under our senior secured credit facility, the lender could elect to declare all amounts outstanding under the agreements governing our senior secured credit facilities to be immediately due and payable. If the indebtedness under our senior secured credit facility were to be accelerated, our assets may not be sufficient to repay such indebtedness in full.

Our lender maintains a lock box whereby our receipts are deposited directly into an account controlled by the lender and applied against the amount due under our revolving credit line. If our lender were not to advance us new monies as payments were received, we would not have the cash to maintain our operations.

**Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.**

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures or to sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives.

In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our senior secured credit facilities restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

**Our high level of debt may make it more difficult to retain existing or to attract new customers.**

Our existing customers and potential customers may be concerned that our high level of debt may impair our ability to satisfactorily perform on long-term contracts placing us at a disadvantage with competitors which have greater capital resources. A loss of any of our major customers would have a material adverse effect on our operating results and financial condition of our business.

**Our high level of debt may make it more difficult to retain existing or to attract new suppliers and may cause us to have more stringent payment terms with suppliers.**

Existing suppliers and potential suppliers of raw materials and subassemblies for our products may be concerned that our high level of debt may impair our ability to satisfactorily perform on long-term contracts. This may result in their refusing to supply product to us or imposing more onerous payment terms, limiting our flexibility in managing our business. Certain of our suppliers are the sole source or among a very limited number of sources for certain raw materials and products and the loss of any such supplier could have a material adverse effect on our business.

Risks Related to our Common Stock and our Status as a Public Company.

**There is only a very limited public market for our common stock.**

Our common stock is currently quoted on OTC Pink under the symbol AIRI.PK, where trading volume has been limited. An active trading market for our common stock may not develop or, if developed, may not be sustained. The lack of an active market may impair a stockholder's ability to sell shares of our common stock. We cannot assure you that a more active trading market in our common stock will ever develop or if one does develop, that it will be sustained. In the absence of a more active trading market, any attempt to sell a substantial number of our shares could result in a decrease in the price of our stock. Specifically, you may not be able to resell your shares of common stock at or above the price you paid for such shares or at all.

**Future sales of our common stock, or the perception that such sales could occur, could have an adverse effect on the market price of our common stock.**

Future sales of our common stock pursuant Rule 144 under the Securities Act, or the perception that such sales could occur, could have an adverse effect on the market price of our common stock. Under Rule 144, shares of common stock issued or issuable upon conversion of securities sold in private offerings are eligible for resale by non-affiliates after six months, assuming we file reports under the Exchange Act containing current information about us, and after one year regardless of whether current information about us is available. The number of shares eligible for resale pursuant to Rule 144 is enormous relative to the trading volume of our common stock. In addition, we have agreed to register for resale the 1,185,851 shares of common stock sold in the private placement we completed in July 2012 in connection with the NTW Acquisition. Any attempt to sell a substantial number of our shares will severely depress the market price of our common stock. In addition, we may use our capital stock in the future to finance acquisitions and to compensate employees and management, which will further dilute the interests of our existing shareholders and could eventually significantly depress the trading price of our common stock.



**The issuance of shares of our common stock, or the possible issuance of shares, under our stock option plan may limit the price that investors are willing to pay in the future for shares of our common stock and have the effect of delaying or preventing a change in control of our company, and the issuance of shares under the plan will decrease the amount of earnings and assets available for distribution to existing holders of our common stock and dilute their voting power.**

Our 2010 Equity Incentive Plan allows for the issuance of up to 2,000,000 shares of common stock, either as stock grants or options, to employees, officers, directors, advisors and consultants of the company. As of December 31, 2011, we had outstanding under the Plan options to purchase 306,316 shares. The committee administering the Plan, which has sole authority and discretion to grant options under the Plan, may grant options which become immediately exercisable in the event of a change in control of our company and in the event of certain mergers and reorganizations. The issuance of shares of our common stock, or the possible issuance of shares, under our stock option plan may limit the price that investors are willing to pay in the future for shares of our common stock and have the effect of delaying or preventing a change in control of our company, and the issuance of shares under the plan will decrease the amount of earnings and assets available for distribution to existing holders of our common stock and dilute their voting power.

**We will incur significant costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance requirements, including establishing and maintaining internal controls over financial reporting, and we may be exposed to potential risks if we are unable to comply with these requirements.**

As a public company, we will incur significant legal, accounting and other expenses under the Sarbanes-Oxley Act of 2002, together with rules implemented by the Securities and Exchange Commission and applicable market regulators. These rules impose various requirements on public companies, including requiring certain corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these requirements. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluations and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Compliance with Section 404 may require that we incur substantial accounting expenses and expend significant management efforts. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner, the market price of our stock could decline if investors and others lose confidence in the reliability of our financial statements and we could be subject to sanctions or investigations by the SEC or other applicable regulatory authorities.

**Our future revenues are inherently unpredictable; our operating results are likely to fluctuate from period to period and if we fail to meet the expectations of securities analysts or investors, our stock price could decline significantly.**

Our quarterly and annual operating results are likely to fluctuate significantly due to a variety of factors, some of which are outside our control. Accordingly, we believe that period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indications of performance. Some of the factors that could cause quarterly or annual operating results to fluctuate include conditions inherent in government contracting and our business such as the timing of cost and expense recognition for contracts, the United States Government contracting and budget cycles, introduction of new government regulations and standards, contract closeouts, variations in manufacturing efficiencies, our ability to obtain components and subassemblies from contract manufacturers and suppliers, general economic conditions and economic conditions specific to the defense market. Because we base our operating expenses on anticipated revenue trends and a high percentage of our expenses are fixed in the short term, any delay in generating or recognizing forecasted revenues could significantly harm our business.

Fluctuations in quarterly results, competition or announcements of extraordinary events such as acquisitions or litigation may cause earnings to fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock could significantly decline. In addition, we cannot assure you that an active trading market will develop or be sustained for our common stock. These fluctuations, as well as general economic and market conditions, may adversely affect the future market price of our common stock, as well as our overall operating results.

## Item 2: Financial Information

### *Management's Discussion and Analysis of Financial Condition and Results of Operations*

*The following discussion of our financial condition and results of operations should be read in conjunction with the audited and unaudited financial statements and the notes to those statements included elsewhere in this Form 10. This discussion contains forward-looking statements that involve risks and uncertainties. You should specifically consider the various risk factors identified in this Form 10 that could cause actual results to differ materially from those anticipated in these forward-looking statements.*

#### Business Overview

We are an aerospace and defense company. We design and manufacture structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants and other components. We also provide sheet metal fabrication of aerostructures, tube bending and welding services. Our products are currently deployed on a wide range of high profile military and commercial aircraft including Sikorsky's UH-60 Blackhawk helicopter, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2D Hawkeye, Boeing's 777, Airbus' 380 commercial airliners, and the US Navy F-18 and USAF F-16 fighter aircraft.

We became a publicly traded company in December 2005 through the "reverse-merger" of our wholly-owned subsidiary, Air Industries Machining ("AIM") into a publicly traded shell company with nominal assets. In June 2007, we changed our name to Air Industries Group, Inc. In addition to growing organically at AIM since the reverse merger, we acquired Sigma Metals, Inc. ("Sigma") in April 2007 and Welding Metallurgy, Inc. ("WMI") in August 2007, and acquired the operations of Nassau Tool Works, Inc. through an asset acquisition in June 2012. In October 2008, we discontinued the operations of Sigma and liquidated or otherwise disposed of its assets. Consequently, we currently have three operating subsidiaries - AIM, WMI and Air-NTW. AIM has manufactured components and subassemblies for the defense and commercial aerospace industry for over 40 years. WMI has provided specialty welding services and metal fabrications to the defense and commercial aerospace industry since 1979. The predecessor of Air-NTW was founded in 1959 and its principal business is the fabrication and assembly of landing gear components and complete landing gear for fighter aircraft for the US and foreign governments.

The aerospace and defense market is highly competitive and we face intense competition in all areas of our business. Nearly all of our revenues are derived by producing products to customer specifications after being awarded a contract through a competitive bidding process. As the aerospace and defense industries continue to consolidate and major contractors seek to streamline their supply chains by buying more complete sub-assemblies from fewer suppliers, we have sought to remain competitive not only by providing cost-effective world class service but also by increasing our ability to deliver more complex and complete assemblies.

Our ability to operate profitably is determined by our ability to win new contracts and renewals of existing contracts, and then fulfill these contracts on a timely satisfactory basis at costs that enable us to generate a profit based upon the agreed upon contract price. Winning a contract generally requires that we submit a bid containing a fixed price for the product or products covered by the contract for an agreed upon period of time. Thus, when submitting bids we are required to estimate our future costs of productions and, since we often rely upon subcontractors, the prices we can obtain from our subcontractors.

While our revenues are largely determined by the number of contracts we are awarded, the volume of product delivered and price of product under each contract, our costs are determined by a number of factors. The principal factors impacting our costs are the cost of materials and supplies, labor, financing and the efficiency at which we can produce our products. The cost of materials used in the aerospace industry is highly volatile. In addition, the market for the skilled labor we require to operate our plants is highly competitive.

## Recent Acquisition and Recapitalization

In June 2012, we acquired the business now operated by Air-NTW from Nassau Tools Works, Inc., for a purchase price consisting of 66,666 shares of our common stock and \$12,118,000 in cash. In connection with the acquisition, we sold in a private offering an aggregate of 1,185,851 shares of common stock for \$6.00 per share, from which we derived net proceeds of approximately \$6,528,000, and issued 867,461 shares of common stock in exchange for approximately \$5,204,000 principal amount of our Junior Subordinated Notes, thereby increasing our equity by approximately \$11,700,000. As a result of the private placement and the conversion of Junior Subordinated Notes, the number of outstanding shares of our common stock increased from approximately 3,579,000 to 5,711,000.

## Segment Data

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

AIM is primarily engaged in processing, cutting, milling, machining and hardening metals into flight critical and other assemblies widely used in the aerospace industry and sold primarily to prime defense contractors. WMI specializes in complex welding applications in tubular structures and fabrication of complex sheet metal structures. Air-NTW is primarily engaged in the production of complete landing gear and landing gear sub-assemblies for the military fighter aircraft, sold primarily directly to the US Government.

Along with our operating subsidiaries, we report the results of our corporate division as an independent segment. As a result of the acquisitions of Sigma and WMI in April 2007 and August 2007, respectively, we had three reportable operating segments: AIM, Sigma and WMI. With the disposition of Sigma, we had two reportable operating segments. Given the similarity of their operations, the combination of AIM and Air-NTW will enable us to increase the variety and complexity we produce for certain customers. Nevertheless, we have determined to operate AIM and Air-NTW as independent business units and, in the discussion below, they are considered independent business segments and we once again have three reportable operating segments.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. We evaluate performance based on revenue, gross profit contribution and assets employed. Operating costs that are not directly attributable to a particular segment are included in Corporate. These costs include corporate costs such as legal, audit, tax and other professional fees including those related to being a public company.

## Results of Operations

Because the NTW Acquisition was completed on June 20, 2012, the results of the acquired operations are included in our operating results only for the last ten days of the six months ended June 30, 2012. The results of the operations of WMI have been reflected within our financial reports since its acquisition in August 2007. During the quarter ended September 30, 2008, the Company's Board of Directors decided to discontinue the operations of Sigma. Accordingly, Sigma's results of operations have been reported as discontinued operations for the year ended December 31, 2010. Since we disposed of Sigma and all remnants of its operations in 2010, there were no results from Sigma in later periods.

**For the Calendar Years ended December 31, 2011 and 2010:**

Selected Financial Information:

<b>Statement of Operations Data</b>	<b>2011</b>	<b>2010</b>
Net sales	\$ 53,745,000	\$ 48,601,000
Cost of sales	42,817,000	41,134,000
Gross profit	10,928,000	7,467,000
Operating and interest costs	8,651,000	10,701,000
Other income (expense) net	27,000	(17,000)
Income taxes	57,000	-
Income (Loss) from continuing operations	2,247,000	(3,251,000)
Income from discontinued operations	-	342,000
Net Income (Loss)	\$ 2,247,000	\$ (2,909,000)

<b>Balance Sheet Data</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 577,000	\$ 537,000
Working capital	7,821,000	7,703,000
Total assets	36,981,000	34,384,000
Total stockholders' equity	4,666,000	2,287,000

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

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Air Industries Machining</b>		
Net Sales	\$ 42,668,000	\$ 40,477,000
Gross Profit	8,013,000	5,487,000
Pre Tax Income	3,527,000	376,000
Assets	27,735,000	29,077,000
<b>Sigma Metals</b>		
Income From Discontinued Operations	-	342,000
Assets Held for Sale	-	-
<b>Welding Metallurgy</b>		
Net Sales	11,077,000	8,124,000
Gross Profit	2,915,000	1,980,000
Pre Tax Income	1,288,000	1,005,000
Assets	8,028,000	6,047,000
<b>Corporate</b>		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss	(2,511,000)	(4,632,000)
Assets	7,883,000	8,937,000
<b>Consolidated</b>		
Net Sales	53,745,000	48,601,000
Gross Profit	10,928,000	7,467,000
Income from Discontinued Ops	-	342,000
Pre Tax Income (Loss)	2,304,000	(3,251,000)
Provision for Taxes	57,000	-
Net Income (Loss)	2,247,000	(2,909,000)
Elimination of Assets	(6,665,000)	(9,677,000)
Assets	36,981,000	34,384,000

The following discussion of our results of operations constitutes management's review of the factors that affected our financial and operating performance for the years ended December 31, 2011 and 2010. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report.

## Continuing Operations:

### Net Sales:

Consolidated operations during 2011 and 2010 reflect the operations of AIM and Welding Metallurgy, as well as corporate expenses. Consolidated net sales from continuing operations for 2011 were \$53,745,000, an increase of approximately \$5,144,000 or 10.6% compared with \$48,601,000 for the prior year. Net sales at AIM for 2011 were \$42,668,000, an increase of approximately \$2,191,000 or 5.4% compared with \$40,477,000 for the prior year. Net sales at WMI for 2011 were \$11,077,000, an increase of approximately \$2,953,000 or 36.3% compared with \$8,124,000 for the prior year.

As set forth in the following table, three customers represented 75.5% of total sales for the year ended December 31, 2011 and two customers represented 65.4% of total sales for the year ended December 31, 2010.

Customer	Percentage of Sales	
	2011	2010
Sikorsky Aircraft	44.4	49.3
Goodrich Landing Gear Systems	19.2	16.1
Northrup Grumman Inc	11.9	*

\* Customer was less than 10% of sales in 2010

As set forth in the following table, five customers represented 82.2% of gross accounts receivable at December 31, 2011 and three customers represented 52.6% of gross accounts receivable at December 31, 2010.

Customer	Percentage of Receivables	
	2011	2010
Northrup Grumman Inc	26.2	12.6
Goodrich Landing Gear Systems	18.3	19.1
Sikorsky Aircraft	13.3	20.9
GKN Aerospace	12.9	*
Helicopter Support	11.5	*

\* Customer was less than 10% of receivables in 2010

### Gross Profit:

- Consolidated: Gross profit for 2011 increased by \$3,461,000 or 46.3% to \$10,928,000 as compared to gross profit of \$7,467,000 for the prior year.
- AIM: Gross profit for 2011 increased by \$2,526,000 or 46% to \$8,013,000 as compared to \$5,487,000 for the prior year. Gross profit for 2010 was reduced by an inventory revaluation of \$1,157,000.
- WMI: Gross profit for 2011 increased by \$935,000 or 47.2% to \$2,915,000 as compared to \$1,980,000 for the prior year.

Selling, General & Administrative (“SG&A”):

Consolidated SG&A costs from continuing operations totaled \$6,549,000 and decreased by \$(366,000) or (5.2) % for 2011 compared to \$6,915,000 for 2010.

The principal components of the SG&A costs were:

- o AIM: SG&A costs at AIM for 2011 totaled approximately \$3,901,000 and decreased by \$(637,000) or (14.0)% compared to the prior year.
- o WMI: SG&A costs at for 2011 totaled approximately \$1,516,000 and increased by \$619,000 or approximately 69% compared to the prior year.
- o AIRI – Corporate: SG&A costs at for 2011 totaled approximately \$1,132,000 and decreased by \$(348,000) or (23.5)% compared to the prior year.

Interest and financing costs consist of interest paid and accrued as well as amortization of debt discounts resulting from recording debt obligations at fair value. Interest and financing costs for 2011 were approximately \$2,102,000, a decrease of approximately \$(1,684,000) or (44.4%) as compared to 2010. The decrease in interest expense results principally from the reduction in the amortization of debt discount resulting from recording debt obligations at fair value. This accretion expense related to the Jr. Notes issued in 2008 and 2009 was \$-0- for 2011 and \$1,323,000 for 2010.

The provision for income taxes was approximately \$57,000 for 2011 compared to a provision of \$ -0- for 2010. During 2011, the Company utilized a large percentage of its available net operating tax loss carry-forward (“NOL’s”).

Net income from continuing operations for 2011 was \$2,247,000 compared to a loss of \$(2,909,000) for the prior year. Net income attributable to common shareholders after dividends attributable to preferred shareholders of \$0 for 2011 and \$1,436,000 for 2010 was \$2,247,000 compared to a loss of \$(4,345,000) for 2010.

**Discontinued Operations:**

The table below sets forth the results of operations for Sigma Metals for the year ended December 31, 2010, the last year in which there was any impact on our financial results from Sigma Metals:

Net Sales	\$	-
Cost of Sales		20,000
Gross loss		(20,000)
Operating costs and expenses		245,000
Loss from operations		(265,000)
Interest and financing costs		(1,000)
Other Income		608,000
Income	\$	342,000

For the Six Month periods ended June 30 2012 ("2012") and 2011 ("2011"):

Selected Financial Information:

<b>Statement of Operations Data</b>	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Net sales	\$ 31,278,000	\$ 25,723,000
Cost of sales	24,570,000	20,692,000
Gross profit	\$ 6,708,000	\$ 5,031,000
Operating and interest costs	4,786,000	4,143,000
Other income (expense) net	(135,000)	(3,000)
Income taxes	648,000	25,000
Net Income	\$ 1,139,000	\$ 860,000

<b>Balance Sheet Data</b>	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Cash and cash equivalents	\$ 1,235,000	\$ 252,000
Working capital	12,560,000	8,232,000
Total assets	52,271,000	35,398,000
Total stockholders' equity	17,684,000	3,207,000

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

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Air Industries Machining</b>		
Net Sales	\$ 23,728,000	\$ 20,738,000
Gross Profit	4,439,000	3,635,000
Pre Tax Income	2,294,000	1,698,000
Assets	27,159,000	28,099,000
<b>Nassau Tool Works</b>		
Net Sales	513,000	-
Gross Profit	199,000	-
Pre Tax Income	154,000	-
Assets	13,366,000	-
<b>Welding Metallurgy</b>		
Net Sales	7,037,000	4,985,000
Gross Profit	2,069,000	1,396,000
Pre Tax Income	854,000	592,000
Assets	8,746,000	7,365,000
<b>Corporate</b>		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss	(1,515,000)	(1,405,000)
Assets	16,860,000	9,856,000
<b>Consolidated</b>		
Net Sales	31,278,000	25,723,000
Gross Profit	6,708,000	5,031,000
Pre Tax Income	1,787,000	885,000
Provision for Taxes	648,000	25,000
Net Income	1,139,000	860,000
Elimination of Assets	(13,860,000)	(9,922,000)
Assets	52,271,000	35,398,000

The following discussion of our results of operations constitutes management's review of the factors that affected our financial and operating performance for the six month periods ended June 30, 2012 and 2011. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report.

For 2012, we had three segments operating segments, AIM, Welding Metallurgy and Air-NTW, and separately report our corporate overhead. For 2011, we had two operating segments, AIM and Welding Metallurgy, and separately report our corporate overhead. We completed the NTW Acquisition on June 20, 2012. The results of NTW, inclusive of the operations acquired in the NTW Acquisition are included and reflected in the discussion below. However, we owned these operations for just six business days, during which time, net sales were \$513,000 or 1.64% of total net sales for the six month period.

Net Sales:

Consolidated net sales from operations for 2012 were approximately \$31,278,000, an increase of \$5,555,000 or 21.5% compared with \$25,723,000 for the prior period. Net sales at AIM for 2012 were \$23,728,000, an increase of approximately \$2,990,000 or 14.4% compared with \$20,738,000 for the prior period. Net sales at Welding for 2012 were \$ 7,037,000 an increase of approximately \$2,052,000 or 41.2% compared with \$4,985,000 for the prior period. Net sales at Air-NTW for the period June 20, 2012 to June 30, 2012 were \$513,000.



As indicated in the table below, two customers represented 64.9% and 67.1% of total sales for the six months ended June 30, 2012 and 2011, respectively.

Customer	Percentage of Sales six months ended June 30,	
	2012	2011
	(Unaudited)	(Unaudited)
Sikorsky Aircraft	33.7	47.9
Goodrich Landing Gear Systems	31.2	19.2

As indicated in the table below, four customers represented 69.8% and 68.6% of gross accounts receivable at June 30, 2012 and 2011, respectively.

Customer	Percentage of Receivables	
	June 30, 2012	June 30, 2011
	(Unaudited)	(Unaudited)
Goodrich Landing Gear Systems	26.6	19.8
GKN Aerospace	19.7	12.6
Northrup Grumman Corporation	11.8	10.0
Sikorsky Aircraft	11.7	26.2

**Gross Profit:**

- Consolidated: Gross profit from operations for 2012 increased by approximately \$1,676,000 or 33.3%, to approximately \$6,708,000 as compared to gross profit of \$5,031,000 for the prior period.
- AIM: Gross profit at AIM increased by approximately \$804,000 or 22.1% to \$4,439,000 for 2012 as compared to \$3,635,000 for the prior period.
- WMI: Gross profit at Welding for 2012 increased by approximately \$673,000 or 48.2% from \$2,069,000 for 2012 compared to \$1,396,000 for the prior period.
- Air-NTW: Gross profit for the period June 20, 2012 to June 30, 2012 was \$199,000.

**Selling, General & Administrative (“SG&A”):**

- Consolidated SG&A costs for 2012 totaled \$3,816,000 and increased by \$716,000 or 23.0% compared to \$3,100,000 for 2011. Included in SG&A costs for 2012 are approximately \$180,000 of costs relating to the NTW Acquisition.

The principal components of the SG&A costs were:

- o AIM: SG&A costs for 2012 totaled approximately \$1,827,000 and increased by \$145,000 or 8.6 % compared to the prior period
- o WMI: SG&A costs for 2012 totaled approximately \$1,161,000 and increased by \$413,000 or approximately 55.2% compared to the prior period. The increase in SG&A costs at Welding resulted in part from a reclassification in 2012 of certain management personnel costs from factory overhead to SG&A. The reduction in factory overhead costs increased gross profit at Welding for the 2012 period.
- o Air-NTW: SG&A costs totaled approximately \$44,000 for the period June 20, 2012 to June 30, 2012.
- o AIRI – Corporate: SG&A costs for 2012 totaled approximately \$784,000 and increased by \$114,000 or 17.0 % compared to the prior period.

Interest and financing costs were approximately \$970,000 for 2012, a decrease of approximately \$(73,000) or (6.9%) as compared to 2011.

The provision for income taxes was approximately \$648,000 for 2012 compared to a provision of \$25,000 for 2011. During 2011, the Company utilized nearly all of its available NOL’s and accordingly, is now subject to tax at full statutory rates.

Net income for 2012 was \$1,139,999, an increase of \$279,000 or 32.4% compared to net income of \$860,000 for the prior period.

**For the Three Month periods ended June30, 2012 (“2012”) and 2011 (“2011”):**

Selected Financial Information:

**Statement of Operations Data**

	<b>Three months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Net sales	\$ 15,240,000	\$ 13,123,000
Cost sales	11,804,000	10,551,000
Gross profit	\$ 3,436,000	\$ 2,572,000
Operating and interest costs	2,612,000	2,046,000
Other income (expense) net	(142,000)	(10,000)
Income taxes	363,000	25,000
Net Income	\$ 319,000	\$ 491,000

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

	<b>Three Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Air Industries Machining</b>		
Net Sales	\$ 11,585,000	\$ 10,645,000
Gross Profit	2,193,000	1,878,000
Pre Tax Income	1,098,000	946,000
Assets	27,159,000	28,099,000
<b>Nassau Tool Works</b>		
Net Sales	513,000	-
Gross Profit	199,000	-
Pre Tax Income	154,000	-
Assets	13,366,000	-
<b>Welding Metallurgy</b>		
Net Sales	3,142,000	2,478,000
Gross Profit	1,044,000	694,000
Pre Tax Income	266,000	205,000
Assets	8,746,000	7,365,000
<b>Corporate</b>		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss	(836,000)	(635,000)
Assets	16,860,000	9,856,000
<b>Consolidated</b>		
Net Sales	15,240,000	13,123,000
Gross Profit	3,436,000	2,572,000
Pre Tax Income	682,000	516,000
Provision for Taxes	363,000	25,000
Net Income	319,000	491,000
Elimination of Assets	(13,860,000)	(9,922,000)
Assets	52,271,000	35,398,000

The following discussion of our results of operations constitutes management's review of the factors that affected our financial and operating performance for the three month periods ended June 30, 2012 and 2011. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report.

For 2012, we had three operating segments, AIM, Welding Metallurgy and Air-NTW. For 2011, we had two operating segments, AIM and Welding Metallurgy. For both periods, we separately reported our corporate overhead. We completed the NTW Acquisition on June 20, 2012. The results of Air-NTW, inclusive of the operations acquired in the NTW Acquisition are included and reflected in the discussion below. However, we owned these operations for just six business days, during which time net sales at Air-NTW were \$513,000, or 3.3% of total net sales for the three month period.

Net Sales:

Consolidated net sales from operations for 2012 were approximately \$15,240,000, an increase of \$2,117,000 or 16.1% compared with \$13,123,000 for the prior period. Net sales at AIM for 2012 were \$11,585,000, an increase of approximately \$940,000 or 8.8% compared with \$10,645,000 for the prior period. Net sales at WMI for 2012 were \$3,142,000, an increase of approximately \$664,000 or 26.7% compared with \$2,478,000 for the prior period. Net sales at Air-NTW for the period June 20, 2012 to June 30, 2012 were \$513,000.

As indicated in the table below, two customers represented 60.6% and 73.5% of total sales for the three months ended June 30, 2012 and 2011, respectively.

Customer	Percentage of Sales	
	2012	2011
	(Unaudited)	(Unaudited)
Goodrich Landing Gear Systems	31.6	21.5
Sikorsky Aircraft	29.0	52.0

#### Gross Profit:

- Consolidated: Gross profit for 2012 increased by approximately \$864,000, or 33.5% to approximately \$3,436,000 as compared to gross profit of \$2,572,000 for the prior period.
- AIM: Gross profit for 2012 increased by approximately \$315,000, or 16.7% to \$2,193,000, as compared to \$1,878,000 for the prior period.
- WMI: Gross profit for 2012 increased by approximately \$350,000, or 50.4% to \$1,044,000 from \$694,000 for the prior period.
- Air-NTW: Gross profit for the period June 20, 2012 to June 30, 2012 was \$199,000.

#### Selling, General & Administrative ("SG&A"):

- Consolidated SG&A costs for 2012 totaled \$2,140,000 and increased by \$617,000 or 40.5% compared to \$1,523,000 for 2011. Included in SG&A costs for 2012 are approximately \$180,000 of costs relating to the NTW Acquisition.

The principal components of the SG&A costs were:

- o AIM: SG&A costs for 2012 totaled approximately \$940,000 and increased by \$ 156,000 or 19.8% compared to the prior period.
- o WMI: SG&A costs for 2012 totaled approximately \$751,000 and increased by \$ 289,000 or approximately 62.6% compared to the prior period. The increase in SG&A costs at Welding resulted in part from a reclassification in 2012 of certain management personnel costs from factory overhead to SG&A. The reduction in factory overhead costs increased gross profit at Welding for the period.
- o Air-NTW: SG&A costs for the period June 20, 2012 to June 30, 2012 totaled approximately \$44,000.
- o AIRI – Corporate: SG&A costs for 2012 totaled approximately \$405,000 and increased by \$128,000 or 46.2% compared to the prior period.

Interest and financing costs were approximately \$472,000 for 2012, a decrease of approximately \$(51,000) or (9.7%) as compared to 523,000 for 2011.

The provision for income taxes was approximately \$363,000 for 2012 compared to a provision of \$25,000 for the 2011. As noted above, during 2011, the Company utilized nearly all of its available NOL's and accordingly, is now subject to statutory tax rates.

Net income for 2012 was \$319,000 a decrease of (\$172,000) or (35%) compared to income of \$491,000 for the prior period.

#### Impact of Inflation

Inflation has not had a material effect on our results of operations.

## LIQUIDITY AND CAPITAL RESOURCES

The Company is highly leveraged and relies upon its ability to continue to borrow from its bank lenders. Substantially all of the assets of the Company are used as collateral under our existing loan agreements with our senior lender. The Company is required to maintain a lockbox account with our senior lender, into which substantially all of the Company's cash receipts are paid. If our bank lender were to cease lending, the Company would lack funds to continue its operations.

In June 2012, in connection with the NTW Acquisition, we increased our equity by approximately \$11,700,000 which allowed us to complete the NTW Acquisition with only a slight increase in the debt on our balance sheet. To increase our equity we concluded a private placement of shares of our common stock at a price of \$6.00 per share from which we derived net proceeds of \$6,332,000, and the holders of \$5,204,000 principal amount of our Junior Subordinated Notes converted the notes into 867,461 shares of our common stock. To obtain the balance of the cash necessary to complete the NTW Acquisition in excess of the amount provided by the private placement, we increased our term loan with our senior lender by \$3,900,000 from \$1,500,000 to \$5,400,000 and drew down on our revolving loan. Given that the rate of interest on our Junior Subordinated Notes exceeded that on our term loan and revolving loan, though the principal amount of our debt increased, the cost of carrying our debt decreased and, significantly, we now have the benefit of the newly acquired operations of Air-NTW to service this debt. Thus, though we remain significantly leveraged we believe our capacity to service our debt is much greater today than it was before the Air-NTW Acquisition. Upon completion of the NTW Acquisition, our debt for borrowed monies consisted of the revolving note due our senior lender in the amount of \$14,278,000, the term loan due our senior lender in the amount of \$5,400,000, notes due sellers of businesses previously acquired in the aggregate amount of \$1,681,000, Junior Subordinated Notes of \$1,115,000 and capitalized lease obligations of \$1,589,000.

As of June 30, 2012, we had approximately \$1.2 million in cash.

### **Anticipated uses of Cash**

As a requirement of our Credit Facility, substantially all of our cash receipts from operations are required to be deposited into our lockbox account at our senior lender. These cash receipts are used to reduce our indebtedness under our Revolving Credit Facility. Additionally, under the terms of our Term Loan agreement with our senior lender, we are required to make 36 consecutive monthly principal installments, the first 35 of which will be in the amount of \$150,000 commencing on the first business day of July 2012, with the 36th and final payment of any unpaid balance of principal and interest payable on the first business day of June 2015. Additionally, there is a mandatory prepayment equal to 50% of Excess Cash Flow (as defined) for each fiscal quarter commencing with the fiscal quarter ended September 30, 2012, payable upon the delivery of the financial statements to our senior lender for such fiscal period, but no later than 45 days after the end of the fiscal period.

As of June 30, 2012, there is approximately \$718 thousand due to NTW Dissolution. During July 2012, we paid \$200 thousand of this amount which was held back at the closing due to a lien on one of the assets we were acquiring. The remaining \$518 thousand relates to a working capital adjustment based on the net working capital of NTW Dissolution at June 20, 2012, the date of the acquisition, as compared to the net working capital at December 31, 2011. The \$518 thousand will be offset by \$107 thousand that is due to AIRI for the payment of certain liabilities that were not assumed in the transaction.

In August of 2012 we entered into a capital lease to finance the acquisition of new machinery. The monthly lease payment is approximately \$18,000.

Additionally, the Company intends to begin making quarterly dividend payments beginning in the fourth quarter of 2012.

### **Cash Flow**

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

	<b>Year ended December 31, 2011</b>	<b>Six months ended June 30, 2012 (Unaudited)</b>
Cash Provided by (used in):		
Operating activities	\$ 3,633	\$ 82
Investing activities	(1,288)	(11,921)
Financing activities	(2,305)	12,497
Net increase in cash and cash equivalents	<u>\$ 40</u>	<u>\$ 658</u>

### **Cash Provided By Operating Activities**

Cash provided by operating activities primarily consists of our net income adjusted for certain non-cash items and changes to working capital.

For the six months ended June 30, 2012, our net cash provided by operating activities of \$82 thousand was comprised of net income of \$1.1 million offset by 2.4 million of cash used by changes in working capital and adjustments for non-cash items of \$1.3 million. Adjustments for non-cash items consisted primarily of depreciation of property and equipment of \$715 thousand, amortization of capitalized engineering costs, intangibles and other items of \$336 thousand, bad debt expense of \$241 thousand representing all amounts more than 120 days past due, and non-cash compensation of \$43 thousand. The decrease in working capital activities primarily consisted net increases of Operating Assets of \$2.3million and net decrease of Operating Liabilities of \$100 thousand. The increases in Operating Assets were comprised of an increase in accounts receivable of \$3.7 million due to the timing of shipments to customers offset by decreases in inventory of \$1.3 million and prepaid expenses of \$100 thousand. The decreases in Operating Liabilities were comprised of a decrease in accounts payable and accrued expenses of \$700 thousand due the timing of the receipt and payment of invoices offset by an increase in Income taxes payable of \$600 thousand due to the complete utilization of our NOL.

For the year ended December 31, 2011 our net cash provided by operating activities of \$3.6 million was comprised of net income of \$2.2 million offset by 1.5 million of cash used by changes in working capital and adjustments for non-cash items of \$2.9 million. Adjustments for non-cash items consisted primarily of depreciation of property and equipment of \$1.5, amortization of capitalized engineering costs, intangibles and other items of \$884 thousand, bad debt expense of \$427 thousand, and non-cash compensation of \$131 thousand. The decrease in working capital activities primarily consisted net increases of Operating Assets of \$3.3 million and net increases of Operating Liabilities of \$1.8 million. The increases in Operating Assets were comprised of increases in accounts receivable of \$2.1 million due to the timing of cash receipts from our customers, inventory of \$1.1 million in anticipation of shipments to be made in the first quarter of 2012 and prepaid expenses of \$100 thousand. The increases in Operating Liabilities were comprised of increases in accounts payable and accrued expenses of \$1.6 million and deferred rent of \$200 thousand.

### ***Cash Used in Investing Activities***

Cash used in investing activities consists of capital expenditures for property and equipment, capitalized engineering costs and the cash portion of the cost of any business we might acquire. A description of capitalized engineering costs can be found in footnote 3 Summary of Significant Accounting Policies in Consolidated Financial Statements for the year ended December 31, 2011.

For the six months ended June 30, 2012, cash used in investing activities was \$11.9 million. The most significant component of the cash used for investing was the \$11.4 million paid for the NTW Acquisition. For a further discussion of the acquisition of the operations currently comprising Air-NTW, see footnote 2 Acquisition in Consolidated Financial Statements for the six months ended June 30, 2012. The remaining \$500 thousand used in investing activities was comprised of \$200 thousand for the purchase of property and equipment, \$100 thousand for deposits on new property and equipment not yet delivered to our facilities, and \$200 for capitalized engineering costs.

For the year ended December 31, 2011 cash used in investing activities was \$1.3 million. This was comprised of \$778 thousand for the purchase of property and equipment and \$510 thousand for capitalized engineering costs.

### ***Cash Provided By (Used in) Financing Activities***

Cash provided by (used in) financing activities consists of proceeds from the sale of our common stock, and the borrowings and repayments under our credit facilities with PNC Bank and repayment of our capital lease obligations and other notes payable.

For the six months ended June 30, 2012, cash provided by financing activities was \$12.5 million. The \$12.5 million results from cash received from financing activities of \$14.2 million reduced by cash applied to financing activities of \$1.7 million. This principally reflects the recapitalization that was effectuated in order to generate the cash to enable us to complete the NTW Acquisition and decrease our leverage. The components of the \$14.2 million are as follows: \$6.9 million in gross proceeds for the sale of our Common Stock in the Private Placement completed in conjunction with the Acquisition, increased borrowings under our revolving credit facility of \$3.4 million and an increase in our term loan of \$3.9 million. The \$1.7 million of outflows were comprised of repayments on our term loan of \$500 thousand, \$300 thousand for the repayment of capital lease obligations, and \$300 thousand for the repayment of notes to the former shareholders of Welding Metallurgy. Additionally, we paid \$600 thousand in expenses related to the private placement of our common stock.

In June 2012, the Company issued 1,147,518 shares of its Common Stock in a Private Placement to Accredited Investors. The Company received \$6,332,000 net of commissions and expenses. Our agent, Taglich Brothers, Inc. ("Taglich Brothers" – see Item 7 below), received commissions in the amount of approximately \$539,000, along with 12,000 shares of common stock, and a Warrant to purchase approximately 115,000 shares of Common Stock at \$6.30. The Company also paid approximately \$15,000 of legal fees on behalf of Taglich Brothers.

The proceeds from the sale of the Common Stock were used to partially finance the NTW Acquisition. Additionally, in conjunction with the Private Placement, we solicited the holders of our Junior Subordinated Notes to convert their notes to Common Stock at a price of \$6.00 per share. On June 29, 2012, we issued 867,461 shares of our common stock in exchange for approximately \$5,204,000 of our Junior Subordinated Notes.

## CONTRACTUAL OBLIGATIONS

The following table sets forth our future contractual obligations as of June 30, 2012:

	Payment due by period				
	Total	Less than 1 year*	1-3 years	3-5 years	More than 5 years
Long term debt and captial leases	\$ 24,435	\$ 17,624	\$ 5,604	\$ 207	\$ 1,000
Operating leases	15,497	1,583	3,276	2,445	8,193
Total	\$ 39,932	\$ 19,207	\$ 8,880	\$ 2,652	\$ 9,193

\* The revolving line of credit with PNC is classified as due in less than 1 year.

## OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of June 30, 2012.

## Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our financial results.

### *Inventory Valuation*

The Company values inventory at the lower of cost on a first-in-first-out basis or market.

AIM and Air- NTW generally purchase inventory only when non-cancellable contracts for orders have been received. AIM and Air-NTW occasionally produce finished goods in excess of purchase order quantities in anticipation of future purchase order demand; historically this excess has been used in fulfilling future purchase orders. The Company periodically evaluates inventory items that are not secured by purchase orders and establishes reserves for obsolescence accordingly. The Company also reserves for excess quantities, slow-moving goods, and for other impairment of value.

Welding generally produces pursuant to customer orders and maintains relatively lower inventory levels than AIM or Air-NTW.

### *Capitalized Engineering Costs*

The Company has contractual agreements with customers to produce parts, which the customers design. For the most part the Company has not designed and thus has no proprietary ownership of the parts, the manufacturing of these parts require pre-production engineering and programming of our machines. The pre-production costs associated with a particular contract are capitalized and then amortized beginning with the first shipment of product pursuant to such contract. These costs are amortized on a straight line basis over the shorter of the estimated length of the contract, or three years.

If the Company is reimbursed for all or a portion of the pre-production expenses associated with a particular contract, only the unreimbursed portion would be capitalized. The Company may also progress bill customers for certain engineering costs being incurred. Such billings are recorded as progress billings (a reduction of the associated inventory) until the appropriate revenue recognition criteria have been met. The Terms and Conditions contained in customer purchase orders may provide for liquidated damages in the event that a stop-work order is issued prior to the final delivery of the product.

### *Revenue Recognition*

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Payments received in advance from customers for products delivered are recorded as customer advance payments until earned, at which time revenue is recognized. The Terms and Conditions contained in our customer Purchase orders often provide for liquidated damages in the event that a stop work order is issued prior to the final delivery. The Company utilizes a Returned Merchandise Authorization or RMA process for determining whether to accept returned products. Customer requests to return products are reviewed by the contracts department and if the request is approved, a credit is issued upon receipt of the product. Net sales represent gross sales less returns and allowances. Shipping costs are included in cost of sales.



### ***Income Taxes***

The Company accounts for income taxes in accordance with accounting guidance now codified as FASB ASC 740, "Income Taxes," which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The Company has adopted the provisions of FASB ASC 740-10-05 "Accounting for Uncertainty in Income Taxes." The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

### ***Stock-Based Compensation***

The Company accounts for stock-based compensation expense in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model.

### ***Goodwill***

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount. The Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist, using a two-step approach. Step one compares the fair value of the net assets of the relevant reporting unit (calculated using a discounted cash flow method) to its carrying value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

### **Item 3. Properties**

Our headquarters and the majority of the operations of AIM are situated on a 5.4-acre corporate campus in Bay Shore, New York. We occupy three buildings on the campus, consisting of 76,000 square feet.

On October 24, 2006, we entered into a "sale/leaseback" transaction whereby we sold the buildings and real property located at the corporate campus for a purchase price of \$6,200,000 and entered into a 20-year triple-net lease for the property. Base annual rent is approximately \$540,000 for the first five years of the lease, increases to \$626,000 for the sixth year of the term, and increases by 3% for each subsequent year. The lease grants AIM an option to renew the lease for an additional five years. Under the terms of the lease, we are required to pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance.

The operations of WMI are conducted in an 81,035 square foot facility located in Hauppauge, New York. This space is occupied under a sublease which provides for an annual base rent of approximately \$530,000 for 2009, with increases of 3% per year through December 31, 2015.

The operations of Air-NTW are conducted in a 60,000 square foot facility in West Babylon, New York. The space is occupied under a lease from an affiliate of the prior shareholders of Nassau Tool Works and provides for an annual base rent of \$30,000 per month through October 2017.

All of our facilities are within a 10 mile radius of each other in Suffolk County, Long Island, New York.

#### Item 4. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information known to us regarding beneficial ownership of our common stock as of September 14, 2012 by (i) each person known by us to own beneficially more than 5% of our outstanding common stock, (ii) each of our directors and executive officers, and (iii) all of our officers and directors as a group. Except as otherwise indicated, we believe, based on information provided by each of the individuals named in the table below, that such individuals have sole investment and voting power with respect to such shares, subject to community property laws, where applicable.

As of September 14, 2012, we had outstanding 5,711,093 shares of our common stock. Except as stated in the table, the address of the holder is c/o our company, 1479 North Clinton Avenue, Bay Shore, New York 11706.

<u>Name</u>	<u>Number of Shares</u>	<u>Percent of Class</u>
<u>Owner of More than 5% of Class:</u>		
Hillson Partners LP (1)		
Hillson Private Partners II, LLLP (1)	331,556	5.81%
110 North Washington Street, Suite 401 Rockville, MD 20850		
<u>Directors and Executive Officers:</u>		
Peter D. Rettaliata	56,661(2)	*
Dario Peragallo	57,200(2)	*
Michael N. Taglich	454,466(3)	7.79%
Seymour G. Siegel	7,289(4)	*
David J. Buonanno	7,039(4)	*
Robert F. Taglich	483,652(3)	8.29%
Robert Schroeder	67,739(5)	1.18%
Michael Brand	6,000(6)	*
Gary Settoducato	44,773(7)	*
Michael E. Recca	38,026(8)	*
Scott Glassman	12,200(9)	*
All directors and officers as a group (11 persons)	1,116,460(10)	18.39%

\*Less than 1 %

(1) The general partner of Hillson Partners LP and Hillson Private Partners II, LLP is Daniel H. Abramowitz, who has the sole power to vote and dispose of the shares.

(2) Includes 54,116 shares we may issue upon exercise of options.

(3) Includes 30,736 shares owned by Taglich Brothers, Inc. and other entities controlled by Mr. Taglich, 118,585 shares we may issue upon exercise of warrants and 6,000 shares we may issue upon exercise of options.

(4) Includes 6,500 shares we may issue upon exercise of options.

(5) Includes 6,000 shares we may issue upon exercise of options.

(6) Includes 6,000 shares we may issue upon exercise of options.

(7) Includes 44,754 shares we may issue upon exercise of options.

(8) Represents shares we may issue upon exercise of options.

(9) Includes 12,188 shares we may issue upon exercise of options.

(10) Includes 118,585 shares we may issue upon exercise of warrants and 240,200 shares we may issue upon exercise of options.

#### Item 5. Directors and Executive Officers of the Registrant.

Our directors and executive officers are:

<u>Name:</u>	<u>Age</u>	<u>Position</u>
Peter D. Rettaliata	62	President, CEO and Director
Dario A. Peragallo	50	President of AIM and Director
Gary Settoducato	51	President Welding Metallurgy
Michael E. Recca	60	Group Vice President
Scott A. Glassman	36	Chief Accounting Officer
Seymour G. Siegel	69	Director
David J. Buonanno	58	Director
Michael N. Taglich	47	Chairman of the Board
Robert F. Taglich	46	Director
Robert Schroeder	45	Director

Peter D. Rettaliata has been our President and Chief Executive Officer since November 30, 2005. He also has been the President of our wholly-owned subsidiary, AIM, since 1994. Prior to his involvement at AIM, Mr. Rettaliata was employed by Grumman Aerospace Corporation for twenty two years. Professionally, Mr. Rettaliata is the Chairman of "ADAPT", an organization of regional aerospace companies, a past member of the Board of Governors of the Aerospace Industries Association, and a member of the Executive Committee of the AIA Supplier Council. He is a graduate of Niagara University where he received a B.A. in History and the Harvard Business School where he completed the PMD Program. Mr. Rettaliata's extensive experience in the aerospace industry and his knowledge of our operations qualify him to serve as a director.

Dario Peragallo has been President of AIM since December 8, 2008. Prior to becoming President of AIM, he was Executive Vice President of Manufacturing for AIM. Mr. Peragallo has been associated with AIM for over 25 years. He became AIM's Director of Manufacturing in 2000. Mr. Peragallo became Executive Vice President with overall responsibility for engineering, manufacturing and customer-critical technical matters in 2003. He has been an active member of Diversity Business since 2000, an organization specializing in the promotion of small and minority owned businesses. He is a graduate of SUNY Farmingdale where he received a B.A. in Manufacturing Engineering. Mr. Peragallo oversees all engineering and production matters relating to AIM. Mr. Peragallo's extensive experience in the aerospace industry and his knowledge of our operations qualify him to serve as a director.

Gary Settoducato has been the President of WMI since August 2007. Prior to this appointment, Mr. Settoducato had been a senior executive of Air Industries Machining, Corp., the Company's primary operating subsidiary, and was responsible for contracts, procurement and integration. Mr. Settoducato has been associated with Air Industries for (17) years, and has been in the aerospace industry for a total of (28) years. He is a graduate of Northrop Grumman's procurement training program, and has held senior management positions at several other aerospace manufacturers prior to his current tenure at Air Industries. Mr. Settoducato graduated *summa cum laude* from the C.W. Post Center of Long Island University in 1983 with a double major in marketing and management, and was the Valedictorian of his graduating class.

Michael Recca is Group Vice President – Finance of Air Industries Group. He was a consultant to the Company beginning in October 2008 through March 31, 2009 at which time he became an employee. Mr. Recca is a graduate of the State University of New York at Stony Brook and of Columbia University Graduate School of Business.

Scott Glassman has been our Chief Accounting Officer since December 8, 2008. Mr. Glassman had served as Controller of the Company since February 2007. Prior to joining the Company, Mr. Glassman was employed by First Data Corporation as Accounting Manager from June 2005 to January 2007, by Veeco Instruments Inc. as an SEC Reporting Specialist from January 2004 to May 2005, and by Grant Thornton LLP in a variety of positions from June 1999 to December 2003, most recently as an audit manager.

Michael N. Taglich has been Chairman of our Board of Directors and a Director since September 22, 2010. He is Chairman and President of Taglich Brothers, Inc. ("Taglich Brothers"), a New York City based securities firm, which he and his brother Robert founded in 1992. Mr. Taglich's extensive experience in the capital markets and his familiarity with growth companies qualify him to serve as a director.

Seymour G. Siegel has been a principal in the Business Consulting Group of Rothstein, Kass & Company, P.C., a national firm of accountants and consultants since April 2000. He specializes in providing strategic advice to business owners including mergers and acquisitions; succession planning; capital introductions and long range planning. In 1974, Mr. Siegel founded, and from 1974 to 1990, was managing partner of, Siegel Rich and Co, P.C., CPAs. In 1990, Siegel Rich merged into Weiser LLP, then known as M.R.Weiser & Co., LLC, a large regional firm where he had been a senior partner. In 1995, Mr. Siegel founded another firm called Siegel Rich, which became a division of Rothstein, Kass in April 2000. Mr. Siegel has been a director, trustee and officer of numerous businesses, philanthropic and civic organizations. He serves as a director and audit committee chairman of Hauppauge Digital Inc., Emerging Vision Incorporated and Status Media Group and has served in a similar capacity at Oak Hall Capital Fund, Prime Motor Inns Limited Partnership, Noise Cancellation Technologies and Barpoint.com and serves as the chairman of the audit committee and as a member of the compensation committee for Global Aircraft Solutions Incorporated. He also serves as a director and Member of the Audit Committee of Premier Alliance Group. Mr. Siegel is the Chairman of the Audit Committee of the Board. Mr. Siegel's extensive knowledge and experience in accounting matters and familiarity with the issues of manufacturing businesses qualify him to serve as a director of our Company.

Robert F. Taglich has been a Director since October 3, 2010. He is a managing director of Taglich Brothers, a New York City based securities firm, which he and his brother Michael founded in 1992. Mr. Taglich's extensive experience in the capital markets and his familiarity with growth companies qualify him to serve as a director of our Company.

David J. Buonanno has been a Director since June 26, 2009. He is a consultant to Dresser-Rand Corporation as well as other companies in the aerospace and defense industries. Mr. Buonanno has extensive experience in manufacturing, supply management and operations. He was employed by Sikorsky Aircraft, Inc., a subsidiary of United Technologies Corporation, as Vice President, Supply Management (from January 1997 to July 2006) and as Director, Systems Subcontracts (from November 1992 to January 1997). From May 1987 to November 1992, he was employed by General Electric Company and GE Astro Space, serving as Operations Manager for GE in 1992 and Manager, Program Materials Management of GE Astro Space from December 1989 to January 1992. From June 1977 to May 1987, he was employed by RCA and affiliated companies, including RCA Astro Space. Mr. Buonanno attended Lehigh University College of Electrical Engineering and holds a B.S. in Business Administration from Rutgers University. He completed the Program for Management Development at Harvard Business School in 1996. Mr. Buonanno extensive experience in the aerospace and defense industries and familiarity with the operations of companies in the industry qualify him to serve as a director.

Robert Schroeder has been a Director since October 3, 2008, and serves as a member of the Audit Committee. He is Vice President - Investment Banking of Taglich Brothers, Inc. and specializes in advisory services and capital raising for small public and private companies. Prior to that, Mr. Schroeder served as Senior Equity Analyst publishing sell-side research. Prior to joining Taglich Brothers, he served in various positions in the brokerage and public accounting industry. Mr. Schroeder received a B.S. degree in accounting and economics from New York University. He is a Chartered Financial Analyst and a member of the Association for Investment Management and Research and a member of the New York Society of Security Analysts.

Michael Brand has been a Director since May 2012. He was the President of Goodrich Landing Gear, a unit of Goodrich Corporation, from July 2005 to June, 2012. Prior to joining Goodrich for over 25 years he held senior management positions in the Aerospace industry. He began his career at General Electric Corporation and rose to senior management in its jet engine manufacturing operations. Mr. Brand is a graduate of Clarkson University, with advanced degrees and certificates from Xavier University and the Wharton School. Mr. Brand's extensive experience in the aerospace and defense industries and familiarity with the operations of companies in the industry qualify him to serve as a director

Michael N. Taglich and Robert F. Taglich are brothers.

#### Committees of the Board

Our Board of Directors has established an Audit Committee and a Compensation Committee.

Audit Committee. Messrs. Siegel, Schroeder and Buonanno are members of the Audit Committee. Mr. Siegel serves as Chairman of the Audit Committee and also qualifies as an "audit committee financial expert," as that term is defined in Item 407(d)(5)(ii) of Regulation S-K. The Board has determined that each member of our Audit Committee meets the financial literacy requirements under the Sarbanes-Oxley Act and SEC rules and that Messrs. Siegel, Buonanno and Brand meet the independence requirements under the rules of the Nasdaq Stock Market.

Our Audit Committee is responsible for preparing reports, statements and charters required by the federal securities laws, as well as:

- o overseeing and monitoring the integrity of our consolidated financial statements, our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters, and our internal accounting and financial controls;
- o preparing the report that SEC rules require be included in our annual proxy statement;
- o overseeing and monitoring our independent registered public accounting firm's qualifications, independence and performance;
- o providing the Board with the results of our monitoring and recommendations; and
- o providing to the Board additional information and materials as it deems necessary to make the Board aware of significant financial matters that require the attention of the Board.

Compensation Committee. Our Compensation Committee is composed of Messrs. Siegel and Buonanno. The Compensation Committee is responsible for, among other things:

- o reviewing and approving for the chief executive officer and other executive officers (a) the annual base salary, (b) the annual incentive bonus, including the specific goals and amount, (c) equity compensation, (d) employment agreements, severance arrangements and change in control arrangements, and (e) any other benefits, compensations, compensation policies or arrangements;
- o reviewing and making recommendations to the Board regarding the compensation policy for such other officers as directed by the Board;
- o preparing a report to be included in our annual proxy statement, if required under applicable rules of the SEC and any exchange or automated quotation service that lists our securities, or through whose facilities our securities are traded, that describes: (a) the criteria on which compensation paid to the chief executive officer for the last completed fiscal year is based; (b) the relationship of such compensation to our performance; and (c) the committee's executive compensation policies applicable to executive officers; and
- o acting as administrator of our current benefit plans and making recommendations to the Board with respect to amendments to the plans, changes in the number of shares reserved for issuance thereunder and regarding other benefit plans proposed for adoption.

We do not have a nominating committee and have not adopted a written policy for considering recommendations from stockholders for candidates to serve as directors or with respect to communications from stockholders.

## Item 6. Executive Compensation

### Summary Compensation Table

The following summary compensation table shows, for the periods indicated, information regarding the compensation awarded to, earned by or paid to our principal executive officer, our two most highly compensated executive officers other than our principal executive officer and our two most highly compensated employees not serving as executive officers of Air Industries Group. We refer to our principal executive officer and two most highly compensated executive officers other than our principal executive officer as our "named executive officers."

Executive Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option awards (\$)	Non-equity Incentive Plan Information (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Peter D. Rettaliata	2011	240,246	40,000	-	-	-	-	-	280,246
CEO	2010	231,777(1)	40,000	-	42,967(2)	-	-	-	314,744
Dario A. Peragallo	2011	237,809	40,000	-	-	-	-	5,988(6)	283,797
President of AIM	2010	235,462(1)	40,000	-	42,967(2)	-	-	5,988(6)	324,417
Michael E. Recca	2011	229,327	25,000	-	-	-	-	5,400(6)	259,727
VP	2010	156,000	25,000	-	31,593(3)	-	-	-	212,593
Scott A. Glassman	2011	127,404	7,000	-	-	-	-	3,000(6)	137,404
Chief Accounting Officer	2010	127,692	7,000	-	10,110(4)	-	-	-	144,802
Gary Settoducato	2011	175,000	30,000	-	-	-	-	6,108(6)	211,108
President of WMI	2010	171,634	25,000	-	37,046(5)	-	-	6,108(6)	239,788

(1) Represents salary payments under the individual's employment agreement with the Company. These agreements expired in September 2010.

(2) Represents the fair value of options to purchase 51,716 shares of common stock.

(3) Represents the fair value of options to purchase 38,026 shares of common stock.

(4) Represents the fair value of options to purchase 12,168 shares of common stock.

(5) Represents the fair value of options to purchase 44,589 shares of common stock.

(6) Represents car allowance.

None of our executive officers or key employees named in the above table has an employment agreement providing for a fixed term of employment. All are employees at will terminable at any time without any severance, other than that payable to employees generally.

The annual base compensation of Messrs. Rettaliata, Peragallo, Glassman, Settaducotto and Recca is \$240,000, \$240,000, \$127,000, \$175,000, and \$230,000, respectively, and each individual is eligible for such cash bonuses and equity incentive awards as the Board from time to time determines to be appropriate. In addition, each of these individuals receives a car allowance of no more than \$7,500 per annum and is eligible to participate in such health and welfare plans as are made available to our executives generally.

#### Equity Awards – 2011

We did not grant any awards of equity, whether in the form of shares or options, to any of our executive officers during 2011 and consequently have omitted the table which would have described such awards.

#### Outstanding Equity Awards at 2011 Fiscal Year-End

The following table shows certain information regarding outstanding equity awards held by our named executive officers as of December 31, 2011.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Peter D. Rettaliata	375	-	88.00	9/26/15	-	-
Peter D. Rettaliata	375	-	171.20	9/15/15	-	-
Peter D. Rettaliata	375	-	190.80	9/15/15	-	-
Peter D. Rettaliata	375	-	114.00	9/15/15	-	-
Peter D. Rettaliata	900	600	90.00	9/15/15	-	-
Peter D. Rettaliata	51,716	-	4.50	7/29/15	-	-
Dario Peragallo	375	-	88.00	9/26/15	-	-
Dario Peragallo	375	-	171.20	9/15/15	-	-
Dario Peragallo	375	-	190.80	9/15/15	-	-
Dario Peragallo	375	-	114.00	9/15/15	-	-
Dario Peragallo	900	600	90.00	9/15/15	-	-
Dario Peragallo	51,716	-	4.50	7/29/15	-	-
Scott Glassman	20	5	110.40	12/31/15	-	-
Scott Glassman	12168	-	4.50	7/29/15	-	-
Michael Recca	38,026	-	4.50	2/29/15	-	-
Gary Settaducato	70	15	96.00	12/31/15	-	-
Gary Settaducato	113	23	110.40	12/31/15	-	-
Gary Settaducato	44,589	-	4.50	12/31/15	-	-

## Director Compensation

The directors may receive such remuneration as our Board of Directors may determine from time to time. Each director is entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred in attending meetings of our Board of Directors or committees of our Board of Directors or shareholder meetings or otherwise in connection with the discharge of his or her duties as a director. The compensation committee will assist the directors in reviewing and approving the compensation structure for our directors.

All directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. Officers are elected by and serve at the discretion of the Board of Directors. Employee directors do not receive any compensation for their services as directors. Non-employee directors are entitled to receive compensation per year for serving as directors and may receive option grants from our company. In addition, non-employee directors are entitled to be reimbursed for their actual travel expenses for each Board of Directors meeting attended.

The following table sets forth certain information regarding the compensation paid to our directors during the fiscal year ended December 31, 2011.

Name	DIRECTOR COMPENSATION						Total (\$)
	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	
Michael N. Taglich	62,292	-	2,266	-	-	-	64,558
Robert F. Taglich	62,292	-	2,266	-	-	-	64,558
Robert Schoreder	21,000	-	2,266	-	-	-	23,266
David J. Buonanno	25,500	-	2,266	-	-	-	27,766
Seymour G. Siegel	40,000	-	2,266	-	-	-	42,266

## 2010 Equity Incentive Plan

Our Board of Directors adopted the 2010 Equity Incentive Plan in July 2010. The Plan authorizes the issuance of up to 2,000,000 shares of common stock. The terms of the Plan provide for grants of stock options, stock appreciation rights, restricted stock, stock units, bonus stock, dividend equivalents, other stock related awards and performance awards that may be settled in cash, stock, or other property. The Plan is administered by the Compensation Committee of the Board and has a term of ten years from the date it was adopted by the Board.



We adopted the Plan to provide a means by which employees, directors, and consultants of our Company and those of our subsidiaries and other designated affiliates, which we refer to together as our affiliates, may be given an opportunity to purchase our Common Stock, to assist in retaining the services of such persons, to secure and retain the services of persons capable of filling such positions, and to provide incentives for such persons to exert maximum efforts for our success and the success of our affiliates.

#### Item 7. Certain Relationships and Related Transactions, and Director Independence

In connection with the private placement of our common stock in connection with the NTW Acquisition, we paid Taglich Brothers, Inc., as placement agent, a commission of 8.0% or \$569,208. In addition, we agreed to issue to Taglich Brothers, Inc., 12,000 shares of common stock of the Company as a non-accountable expense allowance and five-year warrants to purchase 118,585 shares of Common Stock, 10.0% of the number of shares sold in the Offering, at an exercise price of \$6.30.

In January 2010 we issued 137,138 Series B Preferred Shares to Taglich Brothers upon the exercise of warrants issued for services in connection with an earlier private placement conducted in 2008.

#### Item 8. Legal Proceedings

Although we are from time to time engaged in legal matters arising out of our day to day operations, there is currently no existing or pending legal proceedings against our us, nor are we involved as a plaintiff in any proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder of our common stock, is an adverse party or has a material interest adverse to our interest.

#### Item 9. Market Price and Dividends on the Registrant’s Common Equity and Related Shareholder Matters

##### Market for Our Common Shares

Our common stock is quoted on OTC Pink under the symbol "AIRI." The prices set forth below reflect the quarterly high and low closing prices of a share of our common shares for the periods indicated as reported by Yahoo Finance.

	<u>High</u>	<u>Low</u>
Quarter Ended March 31, 2010	\$ 16.00	\$ 4.00
Quarter Ended June 30, 2010	\$ 12.00	\$ 4.00
Quarter Ended September 30, 2010	\$ 8.00	\$ 4.00
Quarter Ended December 31, 2010	\$ 10.00	\$ 1.05
Quarter Ended March 31, 2011	\$ 3.20	\$ 2.95
Quarter Ended June 30, 2011	\$ 3.00	\$ 2.95
Quarter Ended September 30, 2011	\$ 3.98	\$ 2.95
Quarter Ended December 31, 2011	\$ 3.00	\$ 2.95
Quarter Ended March 31, 2012	\$ 9.64	\$ 2.95
Quarter Ended June 30, 2012	\$ 6.27	\$ 3.17

##### Holders

On September 14, 2012, there were approximately 388 stockholders of record of our common shares. The number of record holders does not include persons who held our common stock in nominee or “street name” accounts through brokers.

## Dividends

We have not declared or paid any cash dividends on our common shares since the consummation of the reverse merger in 2005 whereby we became a publicly traded company. We intend to commence paying quarterly dividends on our common stock during the fourth quarter of 2012. All determinations relating to our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospects and other factors the Board of Directors may deem relevant. Further, the payment of any cash dividends requires the consent of our principal lender.

## Item 10. Recent Sales of Unregistered Securities

We issued 839,108 shares of Series B Preferred as dividends for the quarter ended December 31, 2009 and 1,004,926 shares of Series B Preferred as dividends for the quarter ended March 31, 2010 in lieu of cash payments. The issuances were exempt from the registration requirements of the Securities Act under Section 2(3) of the Securities Act.

On January 5, 2010, we issued 137,138 shares of Series B Convertible Preferred to Taglich Brothers, Inc. upon the exercise of a warrant issued for services rendered in connection with the offering commencing in September 2008 of the Company's junior subordinated notes, together with shares of Series B Convertible Preferred Stock. We received nominal consideration upon exercise of the warrant. The issuance was exempt from the registration requirements of the Securities Act under the exemption provided by section 4(2) of the Securities Act.

Effective October 15, 2010, we issued an aggregate of 3,400,000 shares of common stock to the holders of our Series B Convertible Preferred upon the automatic conversion of the Series B Convertible Preferred Stock in connection with the 1-for-400 reverse stock-split of our common stock. The issuance of these shares was exempt from the registration requirements of the Securities Act under Section 3(a)(9) of the Securities Act.

On July 29, 2010, we granted five-year options to purchase 51,716 shares of common stock to each of Peter D. Rettaliata, our President and CEO, Dario Peragallo, President of AIM, and Gary Settoducato, President of WMI, and five-year options to purchase 12,168 shares of common stock to Scott A Glassman, our Chief Accounting Officer. The exercise price of these options, which vested immediately, was \$4.50 per share. The grant of these options was exempt from the registration requirements of the Securities Act under the exemptions provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

On July 11, 2011, we granted options to purchase 3,000 shares of common stock to each of Michael N. Taglich, Robert F. Taglich, Robert Schroeder, David J. Buonanno and Seymour G. Siegel, non-employee directors, pursuant to our 2010 Equity Incentive Plan. The options, which vested immediately, expire on July 1, 2016, and have an exercise price of \$2.95 per share. The grant of these options was exempt from the registration requirements of the Securities Act under the exemptions provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

From June 22, 2012 to July 29, 2012, we sold an aggregate of 1,185,851 shares of common stock (the "Shares") to 150 "accredited investors," as that term is defined in Rule 501 under Regulation D, for total consideration of \$7,115,106 in a private offering, the net proceeds of which were used to finance the acquisition of the assets of Nassau Tool Works, Inc. (the "2012 Share Offering"). The Shares were issued pursuant to exemptions from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

Taglich Brothers, Inc. acted as placement agent for the 2012 Share Offering. In consideration for its services a placement agent, we paid Taglich Brothers, Inc. \$569,208, representing a sales commission equal to 8% of the gross proceeds, and issued to Taglich Brothers, Inc. 12,000 shares of common stock as a non-accountable allowance and five-year warrants to purchase an additional 118,585 shares of common stock for nominal consideration. The exercise price of the warrants is \$6.30 per share. The exercise price and number of shares of common stock issuable upon exercise of the warrants are subject to adjustment for stock dividends, stock splits, and recapitalizations, as well as mergers and certain corporate reorganizations. The warrants also includes a cashless exercise feature. The issuance was exempt from the registration requirements of the Securities Act under the exemption provided by section 4(2) of the Securities Act.

Michael N. Taglich, Chairman of our Board of Directors, is President and Chairman of Taglich Brothers, Inc. Robert F. Taglich, a member of our Board of Directors, is a Managing Director of Taglich Brothers, Inc., and Robert Schroeder, a member of our Board of Directors, is Vice President - Investment Banking of Taglich Brothers, Inc. We believe that the terms of the placement agent agreement with Taglich Brothers, Inc. were not less favorable than could have been obtained from an unaffiliated third party.

The issuance of the shares of common stock and warrant to Taglich Brothers, Inc. were exempt from the registration requirements of the Securities Act under the exemptions provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder. Taglich Brothers, Inc. is an accredited investor within the meaning of Rule 501 (a) of Regulation D.

On June 29, 2012, we issued 867,461 shares of common stock to certain holders of our junior subordinated notes in exchange for approximately \$5,204,000 principal amount of those notes. The issuance of these shares was exempt from the registration requirements of the Securities Act under Section 3(a)(9) of the Securities Act. The certificates evidencing these shares are endorsed with a restrictive legend.

In connection with the NTW Acquisition we issued 33,333 shares of common stock to each of Vincent DiCarlo and Robert E. Hunt, the principals of Nassau Tool Works, Inc., in payment of part of the purchase price for the acquisition of the assets of Nassau Tool Works, Inc. The issuance of these shares was exempt from the registration requirements of the Securities Act under the exemption provided by Section 4(2) thereof. The certificates evidencing these shares are endorsed with a restrictive legend.

On September 10, 2012, we granted options to purchase 3,000 shares of common stock to each of Micheal N. Taglich, Robert F. Taglich, Robert Schroeder, David J. Buonanno, Seymour G. Siegel and Michael Brand, non-employee directors, pursuant to our 2010 Equity Incentive Plan. The options, which vested immediately, expire on September 1, 2017, and have an exercise price of \$6.00. The grant of these options was exempt from the registration requirements of the Securities Act under the exemptions provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

#### **Item 11. Description of Registrant's Securities to be Registered**

We are authorized to issue 20,000,000 shares of common stock, \$.001 par value per share, and 8,003,716 shares of preferred stock, \$.001 par value per share.

##### **Common Stock**

As of September 14, 2012, we had outstanding 5,711,093 shares of common stock without giving effect to the exercise of outstanding options and warrants.

Holders of our common stock are entitled to receive dividends when and as declared by our Board out of funds legally available therefore. Upon dissolution of our company, the holders of common stock are entitled to share, pro rata, in our net assets after payment of or provision for all of our debts and liabilities, and subject to the preferential rights of any class of preferred stock or other senior security which we may issue. Each share of common stock is entitled to participate on a pro rata basis with each other share of such stock in dividends and other distributions declared on shares of common stock.

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders and may not cumulate their votes for the election of directors. The holders of common stock do not have preemptive rights to subscribe for additional shares of any class that we may issue, and no share of common stock is entitled in any manner to any preference over any other share of such stock.

##### **Preferred Stock**

We are authorized to issue a total of 8,003,716 shares of "blank check" preferred stock, \$.001 par value per share, of which no shares are issued and outstanding. We previously designated 1,000 preferred shares as Series A Convertible Preferred Stock and 4,000,000 shares have been designated Series B Convertible Preferred Stock. The shares of Series A and Series B Preferred Stock that we previously issued have been automatically converted into common stock and cannot be reissued.

In accordance with our Certificate of Incorporation, our Board of Directors may, by resolution, issue additional preferred stock in one or more series at such time or times and for such consideration as the Board of Directors may determine. The Board of Directors is expressly authorized to provide for such designations, preferences, voting power (or no voting power), relative, participating, optional or other special rights and privileges as it determines.

We may issue preferred stock to effect a business combination, to raise capital or for other reasons. In addition, preferred stock could be utilized as a method of discouraging, delaying or preventing a change in control of our company.

#### **Item 12. Indemnification of Directors and Officers**

Under Section (b) of Article Ten of our Articles of Incorporation, as well as Article VII of our By-Laws, we have agreed to indemnify our officers, directors, employees and agents to the fullest extent permitted by the laws of the State of Delaware, as amended from time to time. Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities, including reimbursement for expenses incurred, arising under the Securities Act of 1933, as amended, or the Securities Act. In addition, under paragraph (i) of Section (a) of Article Ten of our Certificate of Incorporation, our directors are not subject to personal liability to us or our stockholders for monetary damages for breach of their fiduciary duties as directors to the fullest extent provided by Delaware law. Section 102 (b) (7) of the Delaware General Corporation Law provides for the elimination of such personal liability, except for liability (i) for any breach of the director's duty of loyalty to the Registrant or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us pursuant to the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

#### **Item 13: Financial Statements and Supplementary Data**

The information required by this item may be found beginning on page F-1 of this Form 10.

#### **Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not Applicable

#### **Item 15. , Financial Statements and Exhibits**

Documents filed as part of this Report:

##### 1. Financial Statements

(a) Financial Statements filed as part of this registration statement:

1) Air Industries Group, Inc. – Years ended December 31, 2011 and 2010

Independent Auditors' Report

Consolidated Balance Sheets as at December 31, 2011 and 2010.

Consolidated Statements of Operations for the Years ended December 31, 2011 and 2010

Consolidated Statements of Stockholders Equity for the Years ended December 31, 2011 and 2010

Consolidated Statements of Cash Flows for the Years ended December 31, 2011 and 2010

Notes to Consolidated Financial Statements

2) Air Industries Group, Inc. – Six months ended June 30, 2012 and 2011

Independent Accountants' Review Report

Condensed Consolidated Balance Sheets as of June 30, 2012 (unaudited) and December 31, 2011

Condensed Consolidated Statements of Income for the six months and three months ended June 30, 2012 (unaudited) and June 30, 2011 (unaudited)

Condensed Consolidated Statements of Stockholders' Equity for the period ended June 30, 2012 (unaudited)

Condensed Consolidated Statements of Cash Flows for the period ended June 30, 2012 (unaudited)

Notes to Consolidated Financial Statements

3) Nassau Tool Works, Inc.

Independent Auditors' Report

Balance Sheet as of December 31, 2011.

Statement of Earnings for the Year ended December 31, 2011

Statement of Stockholders' Equity for the Year ended December 31, 2011 .

Statement of Cash Flows for the Year ended December 31, 2011

Notes to Financial Statements

4) Pro-Forma Financial Information

Pro-forma Statement of Operations of Air Industries, Inc. and Nassau Tool Works, Inc. for the Year ended December 31, 2011

Pro-forma Statement of Operations of Air Industries, Inc. and Nassau Tool Works, Inc. for the Six Months ended June 30, 2012

2. Financial Statement Schedules:

None

3. Exhibits

Exhibit No. Description

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- |     |   |
|-----|---|
| 2.1 | Debtor's Amended Plan of Reorganization (incorporated by reference to Exhibit 2.1 of Registrant's Current Report on Form 8-K filed January 14, 2005).   |
| 2.2 | Merger Agreement, dated as of November 14, 2005, among Gales Industries Incorporated, two of its stockholders, Gales Industries Merger Sub, Inc., and Ashlin Development Corporation (incorporated herein by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed November 21, 2005). |
| 3.1 | Certificate of Incorporation of the Registrant (incorporated by referenceto Exhibit 3.1 of Registrant's Current Report on Form 8-K filed February 15, 2006).  |
| 3.2 | Certificate of Amendment to Certificate of Incorporation changing our corporate name (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed July 2, 2009).  |
| 3.3 | Certificate of Amendment to Certificate of Incorporation increasing the number of shares of our authorized capital stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed April 7, 2008).   |
| 3.4 | Certificate of Designation (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 18, 2007).  |

- 3.5 Certificate of Amendment of Certificate of Designation as filed with the Office of the Secretary of State of Delaware on October 16, 2009 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed October 16, 2009).
- 3.6 Certificate of Amendment of Certificate of Designation as filed with the Office of the Secretary of State of Delaware on September 10, 2010.
- 3.7 Certificate of Amendment to Certificate of Incorporation as filed with the Office of the Secretary of State of Delaware on September 20, 2010, as amended on September 29, 2012, providing for a 1 for 400 reverse stock split.
- 3.8 By-Laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed February 15, 2006).
- 4.1 Form of Warrant Agreement dated as of December 31, 2008 between the Registrant and Taglich Brothers, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed January 7, 2009).
- 10.1 Stock Purchase Agreement, dated as of July 25, 2005, by and among Gales Industries Incorporated, Air Industries Machining, Corp., Luis Peragallo, Jorge Peragallo, Peter Rettaliata and Dario Peragallo (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed December 6, 2005.)
- 10.2 Contract of Sale, dated as of November 7, 2005, by and between DPPR Realty Corp. and Gales Industries Incorporated for the purchase of the property known as 1480 North Clinton Avenue, Bay Shore, NY (incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8-K filed December 6, 2005).
- 10.3 Contract of Sale, dated as of November 7, 2005, by and between KPK Realty Corp. and Gales Industries Incorporated for the purchase of the property known as 1460 North Fifth Avenue and 1479 North Clinton Avenue, Bay Shore, NY (incorporated by reference to Exhibit 10.6 of the Registrant's Current Report on Form 8-K filed December 6, 2005).
- 10.4 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 of the Registrant's Current Report on Form 8-K filed December 6, 2005).
- 10.5 Revolving Credit, Term Loan, Equipment Line and Security Agreement, dated as of November 30, 2005, by and between Air Industries Machining, Corp., PNC Bank, National Association, as Lender, and PNC Bank, National Association, as Agent (incorporated by reference to Exhibit 10.19 of the Registrant's Current Report on Form 8-K filed December 6, 2005).
- 10.6 Mortgage and Security Agreement, dated as of November 30, 2005, by and between Air Industries Machining, Corp. and PNC Bank (incorporated by reference to Exhibit 10.20 of the Registrant's Current Report on Form 8-K filed December 6, 2005).
- 10.7 Long Term Agreement, dated as of August 18, 2000, between Air Industries Machining, Corp. and Sikorsky Aircraft Corporation (incorporated by reference to Exhibit 10.21 of the Registrant's Current Report on Form 8-K filed December 6, 2005).
- 10.8 Long Term Agreement, dated as of September 7, 2000, between Air IndustriesMachining, Corp. and Sikorsky Aircraft Corporation (incorporated by reference to Exhibit 10.22 of the Registrant's Current Report on Form 8-K filed December 6, 2005).

- 10.9 Stock Purchase Agreement, dated January 2, 2009, between Gales Industries Incorporated, Sigma Metals, Inc. ("Sigma Metals"), and George Elkins, Carole Tate and Joseph Coonan, the shareholders of Sigma Metals (incorporated by reference to Exhibit 10.01 of the Registrant's Current Report on Form 8-K filed January 2, 2009).
- 10.10 Form of Subscription Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report filed on Form 8-K filed April 18, 2009).
- 10.11 Form of Promissory Note (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report filed on Form 8-K filed April 18, 2009).
- 10.12 Stock Purchase Agreement, dated March 9, 2009, between Gales Industries Incorporated and John Gantt and Lugenia Gantt, the shareholders of Welding Metallurgy, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed March 14, 2009).
- 10.13 Amendment No. 1 dated August 2, 2009 to the Stock Purchase Agreement, dated March 9, 2009, between Gales Industries Incorporated and John Gantt and Lugenia Gantt, the shareholders of Welding Metallurgy, Inc. (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K/A filed August 3, 2009).
- 10.14 7% Promissory Note of Registrant in the principal amount of \$2,000,000 in favor of John and Lugenia Gantt (incorporated by reference from the Registrant's Current Report on Form 8-K filed August 26, 2009).
- 10.15 Registration Rights Agreement dated as of August 24, 2009 by and among the Registrant and John and Lugenia Gantt (incorporated by reference from the Registrant's Current Report on Form 8-K filed August 26, 2009).
- 10.16 Amended and Restated Promissory Note dated as of August 26, 2009 payable to John John and Lugenia Gantt (the "Amended and Restated Gantt Note") (incorporated by reference from Exhibit 10.46 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007 (the "2007 Form 10-K")).
- 10.17 Amendment dated as of October 9, 2009 to Amended and Restated Gantt Note (incorporated by reference from Exhibit 10.47 to the Registrant's 2007 Form 10-K).
- 10.18 Loan and Security Agreement dated as of August 24, 2009 among Air Industries Machining, Corp., Sigma Metals, Inc., Welding Metallurgy, Inc. and Steel City Capital Funding LLC. (incorporated by reference from the Registrant's Current Report on Form 8-K filed August 26, 2009).
- 10.19 Eighteenth Amendment to the Revolving Credit, Term Loan and Security Agreement dated as of November 30, 2005 with the financial institutions named therein (the "Lenders") and PNC Bank N.A., as agent for the Lenders, as amended.
- 10.20 Securities Purchase Agreement for sale of junior subordinated notes and series B convertible preferred stock (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 7, 2010).
- 10.21 Junior Subordinated Note due 2010 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed October 7, 2010).

- 10.22 Asset Purchase Agreement dated as of June 20, 2012 among the Registrant, Nassau Tool Works, Inc., Vincent DiCarlo and Robert E. Hunt.
- 10.23 Assignment and Assumption Agreement dated as of June 20, 2012 between the Registrant and NTW Operating Inc.
- 10.24 2010 Equity Incentive Plan.
- 10.25. Subscription documents for purchase of common stock and conversion of junior subordinated notes into common stock.
- 10.26. Placement Agent Agreement dated as of May 21, 2012 between the Registrant and Taglich Brothers Inc.
- 14.1 Code of Ethics (incorporated by reference to Exhibit 14.1 to the Registrant's Registration Statement on Form SB-2 (Registration No. 333-144561) filed July 13, 2009 and declared effective July 27, 2009).
- 21.1 Subsidiaries
  - 101.INS\*\* XBRL Instance Document
  - 101.SCH\*\* XBRL Taxonomy Extension Schema Document
  - 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document
  - 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document
  - 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document
  - 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AIR INDUSTRIES GROUP, INC.

Dated: October 1, 2012

By: /s/ Peter D. Rettaliata

Peter D. Rettaliata  
President and CEO  
(principal executive officer)

**Air Industries Group, Inc.**

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# RotenbergMeril

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Air Industries Group, Inc.

We have audited the accompanying consolidated balance sheets of Air Industries Group, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010 and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Rotenberg Meril Solomon Bertiger & Guttilla, P.C.*

ROTENBERG MERIL SOLOMON BERTIGER & GUTTILLA, P.C.  
Saddle Brook, New Jersey  
March 12, 2012

**AIR INDUSTRIES GROUP, INC.**  
**Consolidated Balance Sheets at December 31,**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 577,000	\$ 537,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$950,000 and \$523,000	6,042,000	4,381,000
Inventory	22,521,000	21,443,000
Prepaid Expenses and Other Current Assets	330,000	207,000
Taxes Receivable	-	16,000
Deposits - Customers	2,000	59,000
<b>Total Current Assets</b>	<b>29,472,000</b>	<b>26,643,000</b>
Property and Equipment, net	3,971,000	3,935,000
Capitalized Engineering Costs - net of Accumulated Amortization of \$2,990,000 and \$2,410,000	969,000	1,039,000
Deferred Financing Costs, net, deposit and other assets	671,000	701,000
Intangible Assets, net	1,607,000	1,775,000
Goodwill	291,000	291,000
<b>TOTAL ASSETS</b>	<b>\$ 36,981,000</b>	<b>\$ 34,384,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Current Portion Notes Payable and Capitalized Lease Obligations	\$ 14,055,000	\$ 12,940,000
Accounts Payable and Accrued Expenses	7,432,000	5,866,000
Lease Impairment - Current	85,000	96,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Income Taxes Payable	41,000	-
<b>Total Current Liabilities</b>	<b>21,651,000</b>	<b>18,940,000</b>
<b>Long term liabilities</b>		
Notes Payable and Capitalized Lease Obligation - Net of Current Portion	8,992,000	11,536,000
Lease Impairment - Net of Current Portion	175,000	260,000
Deferred Gain on Sale - Net of Current Portion	523,000	561,000
Deferred Rent	974,000	800,000
<b>Total Liabilities</b>	<b>32,315,000</b>	<b>32,097,000</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred Stock Par Value \$.001-Authorized 8,003,716 shares		
Designated as Series "A" Convertible Preferred - \$.001 par Value, 1,000 Shares Authorized 0 Shares issued and outstanding as of December 31, 2011 and December 31, 2010, respectively.	-	-
Designated as Series "B" Convertible Preferred -\$.001 Par Value, 4,000,000 shares authorized, 0 and 0 shares issued and outstanding as of December 31, 2011 and December 31, 2010, respectively; Liquidation Value, \$ 0	-	-
Common Stock - \$.001 Par, 20,000,000 Shares Authorized, 3,579,114 and 3,579,114 Shares Issued and Outstanding as of December 31, 2011 and December 31, 2010, respectively	4,000	4,000
Additional Paid-In Capital	26,141,000	26,009,000
Accumulated Deficit	(21,479,000)	(23,726,000)
<b>Total Stockholders' Equity</b>	<b>4,666,000</b>	<b>2,287,000</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 36,981,000</b>	<b>\$ 34,384,000</b>

See notes to consolidated financial statements

**AIR INDUSTRIES GROUP, INC.**  
**Consolidated Statements of Operations for the Years ended December 31,**

	<u>2011</u>	<u>2010</u>
Net Sales	\$ 53,745,000	\$ 48,601,000
Cost of Sales - Operational	42,817,000	39,977,000
Cost of Sales - Inventory Revaluation	-	1,157,000
Gross Profit	10,928,000	7,467,000
Operating Expenses	6,549,000	6,915,000
Total Operating Expenses	6,549,000	6,915,000
Income from operations	4,379,000	552,000
Interest and financing costs	(2,102,000)	(3,786,000)
Other income (expense), net	27,000	(17,000)
Income (loss) before provision for income taxes	2,304,000	(3,251,000)
Provision for income taxes	57,000	-
Income (Loss) From Continuing Operations	2,247,000	(3,251,000)
Income From Discontinued Operations	-	342,000
Net Income (Loss)	2,247,000	(2,909,000)
Dividend attributable to preferred stockholders	-	1,436,000
Net income (loss) attributable to common stockholders	\$ 2,247,000	\$ (4,345,000)
Income (Loss) per share (basic)		
Continuing Operations	\$ 0.63	\$ (2.89)
Discontinued Operations	-	0.21
Total	\$ 0.63	\$ (2.68)
Income (Loss) per share (diluted)		
Continuing Operations	\$ 0.63	\$ (2.89)
Discontinued Operations	-	0.21
Total	\$ 0.63	\$ (2.68)
Weighted average shares outstanding (basic)	3,579,114	1,623,081
Weighted average shares outstanding (diluted)	3,579,254	1,623,081

See notes to consolidated financial statements

**AIR INDUSTRIES GROUP, INC.**  
**Consolidated Statements of Stockholders Equity For the Years**  
**Ended December 31, 2011 and 2010**

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
<b>Balance, January 1, 2010</b>	-	\$ -	2,627,714	\$ 3,000	179,245	\$ -	\$ 24,063,000	\$ (20,817,000)	\$ 3,249,000
Non-cash dividends for Series B Preferred Stock	-	-	2,739,886	3,000	-	-	-	-	3,000
Issuance of Series B Preferred on Exercise of Warrant	-	-	137,138	-	-	-	-	-	-
Dividend on Series B Preferred Stock - 2009	-	-	-	-	-	-	460,000	-	460,000
Conversion of Series B Preferred to Common Stock	-	-	(5,504,738)	(6,000)	3,399,869	4,000	-	-	(2,000)
Gain on Sale of Subsidiary	-	-	-	-	-	-	1,118,000	-	1,118,000
Stock compensation expense	-	-	-	-	-	-	368,000	-	368,000
Net loss	-	-	-	-	-	-	-	(2,909,000)	(2,909,000)
<b>Balance, December 31, 2010</b>	-	\$ -	-	\$ -	3,579,114	\$ 4,000	\$ 26,009,000	\$ (23,726,000)	\$ 2,287,000
Stock compensation expense	-	-	-	-	-	-	131,000	-	131,000
Net income	-	-	-	-	-	-	-	2,247,000	2,247,000
<b>Balance, December 31, 2011</b>	-	\$ -	-	\$ -	3,579,114	\$ 4,000	\$ 26,140,000	\$ (21,479,000)	\$ 4,665,000

See notes to consolidated financial statements

AIR INDUSTRIES GROUP, INC.  
Consolidated Statements of Cash Flows For Year Ended December 31,

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ 2,247,000	\$ (2,909,000)
Adjustments to Reconcile Net Income (Loss) to Net Cash provided by Operating Activities		
Depreciation of property and equipment	1,503,000	1,767,000
Amortization of intangible assets	168,000	168,000
Amortization of capitalized engineering costs	580,000	992,000
Bad debt expense	427,000	346,000
Non-cash compensation expense	131,000	368,000
Non-cash interest expense including amortization of debt discounts	-	1,323,000
Amortization of deferred financing costs	136,000	279,000
Gain on sale of real estate	(38,000)	(38,000)
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(2,088,000)	848,000
Assets Held for Sale	-	188,000
Inventory	(1,078,000)	125,000
Prepaid Expenses and Other Current Assets	(123,000)	61,000
Income Taxes Receivable	-	33,000
Deposits	57,000	35,000
Other Assets	(87,000)	(198,000)
Increase (Decrease) in Operating Liabilities		
Accounts payable and accrued expenses	1,567,000	236,000
Deferred Rent	174,000	190,000
Income Taxes payable	57,000	-
Liabilities Held For Sale	-	(914,000)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>3,633,000</u>	<u>2,900,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capitalized engineering costs	(510,000)	(343,000)
Purchase of property and equipment	(778,000)	(770,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(1,288,000)</u>	<u>(1,113,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Notes payable - Sellers	(377,000)	(285,000)
Capital lease obligations	(398,000)	(368,000)
Notes payable-Jr. Subordinated Debt	(130,000)	(50,000)
Notes payable - SFFC	-	(4,460,000)
Notes payable - Revolver	(284,000)	849,000
Notes payable - Term Loan PNC	(1,000,000)	3,000,000
Cash paid for deferred financing costs	(20,000)	(175,000)
Payments related to Lease Impairment	(96,000)	(223,000)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(2,305,000)</u>	<u>(1,712,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	40,000	75,000
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	537,000	462,000
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 577,000</u>	<u>\$ 537,000</u>
Supplemental cash flow information		
Cash paid during the year for interest	<u>\$ 1,895,000</u>	<u>\$ 2,345,000</u>
Supplemental cash flow information		
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>
Supplemental schedule of non-cash investing and financing activities		
Property and equipment acquired under capital leases	<u>\$ 827,000</u>	<u>\$ -</u>
Non-cash dividends on Series B Preferred Stock	<u>\$ -</u>	<u>\$ 1,436,000</u>

See notes to consolidated financial statements

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. FORMATION AND BASIS OF PRESENTATION**

**Organization**

Air Industries Group, Inc. (the "Company" or "AIRI"), a Delaware corporation, was incorporated on January 13, 2006.

The financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corporation ("AIM"), Welding Metallurgy, Inc. ("Welding") and Sigma Metals Inc. (discontinued as of October 31, 2008) ("Sigma"). See Note 2 Disposition.

At a Special Meeting of Stockholders on July 29, 2010, the stockholders approved an amendment to the certificate of incorporation to effect a one-for-four hundred (1-for-400) reverse split of our common stock. All share figures and results are reflected on a post-split basis.

**Basis of Presentation**

The Company is highly leveraged and will need to generate substantial cash flow from operations to satisfy its debt service obligations. As of December 31, 2011, the Company's gross indebtedness was approximately \$23,047,000, including approximately \$12,880,000 payable to its bank lenders secured by substantially all its assets. Because the Company is required to maintain a "lock box" account with PNC Bank N.A. ("PNC") into which substantially all of the Company's cash receipts are paid, if PNC was to cease lending, the Company would lack the funds to continue its operations. On November 30, 2010, the Company refinanced its bank debt with PNC for a term of three years. See Note 8 Notes Payable and Capital Lease Obligations.

The ability of the Company to maintain its current level of operations is subject to the cooperation of PNC and other parties which hold its notes. If PNC was to reduce the amounts loaned to the Company, the Company would have no choice other than to reduce its operations and seek to liquidate certain assets. Any forced liquidation of assets would likely yield less than the amounts at which such assets are valued by the Company.

Certain account balances in 2010 have been reclassified to conform with the current period presentation.

**Note 2. DISPOSITION**

**Sigma**

On April 16, 2007, the Company purchased all of the outstanding capital stock of Sigma for approximately \$7,500,000.

During 2008, Sigma's results began to deteriorate and we concluded that to revive the business would require a significant investment. Therefore, in the third quarter of 2008, the Board of Directors decided to discontinue the operations of Sigma. Operations were discontinued on October 31, 2008.

The Company reached an agreement to sell certain assets of the business to the former stockholders of Sigma in October 2008. In January 2009, the sale was closed. The Company sold assets including certain accounts receivable, property and equipment, customer list and the rights, title and interest in the name Sigma Metals, Inc. and the domain name Sigmametalsinc.com.

On December 30, 2010, the Company entered into an Asset Purchase Agreement, between its subsidiaries to transfer any remaining assets. Immediately following that transaction, the Company sold its holdings in Sigma to a member of management. The Company recognized the transaction as an increase of additional paid-in capital of \$1,118,000.



AIR INDUSTRIES GROUP, INC.  
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The Company's financial statements reflect Sigma as discontinued operations. The results of operations of this entity is treated as income from discontinued operations, net of tax and separately stated on the Consolidated Statements of Operations below income (loss) from continuing operations. See Note 15 Discontinued Operations.

**Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principal Business Activity**

The Company through its AIM subsidiary is primarily engaged in manufacturing aircraft structural parts, and assemblies for prime defense contractors in the aerospace industry in the United States. The Company's customers consist mainly of publicly- traded companies in the aerospace industry. Welding is a specialty welding and products provider whose significant customers include the world's largest aircraft manufacturers, subcontractors, and original equipment manufacturers.

**Principles of Consolidation**

The accompanying consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. Significant inter-company accounts and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents**

Cash and cash equivalents include all highly liquid instruments with an original maturity of three months or less.

**Accounts Receivable**

Accounts receivable are reported at their outstanding unpaid principal balances net of allowances for uncollectable accounts. The Company provides for allowances for uncollectible receivables based on management's estimate of uncollectible amounts considering age, collection history, and any other factors considered appropriate. The Company writes off accounts receivable against the Allowance for Doubtful Accounts when a balance is determined to be uncollectible.

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Accounts Receivable Gross	\$ 6,992,000	\$ 4,904,000
Allowance for Doubtful Accounts	(950,000)	(523,000)
Accounts Receivable Net	<u>\$ 6,042,000</u>	<u>\$ 4,381,000</u>

**Inventory Valuation**

The Company values inventory at the lower of cost on a first-in-first-out basis or market.

AIM generally purchases inventory only when it has non-cancellable contracts from its customers for orders of its finished goods. Welding generally produces pursuant to customer orders and maintains relatively low inventory levels. AIM occasionally produces finished goods in excess of purchase order quantities in anticipation of future purchase order demand; historically this excess has been used in fulfilling future purchase orders. The Company periodically evaluates inventory items that are not secured by purchase orders and establishes reserves for obsolescence accordingly. The Company also reserves for excess quantities, slow-moving goods, and for other impairment of value.

### **Capitalized Engineering Cost**

The Company has contractual agreements with customers to produce parts, which the customers design. Though the Company has not designed and thus has no proprietary ownership of the parts, the manufacturing of these parts requires pre-production engineering and programming of the Company's machines. The pre-production costs associated with a particular contract are capitalized and then amortized beginning with the first shipment of product pursuant to such contract. These costs are amortized on a straight line basis over the estimated length of the contract, or if shorter, three years.

If the Company is reimbursed for all or a portion of the pre-production expenses associated with a particular contract, only the unreimbursed portion would be capitalized. The Company may also progress bill customers for certain engineering costs being incurred. Such billings are recorded as progress billings (a reduction of the associated inventory) until the appropriate revenue recognition criteria have been met. The Terms and Conditions contained in customer purchase orders may provide for liquidated damages in the event that a stop-work order is issued prior to the final delivery of the product.

### **Property and Equipment**

Property and equipment are carried at cost net of accumulated depreciation and amortization. Repair and maintenance charges are expensed as incurred. Property, equipment, and improvements are depreciated using the straight-line method over the estimated useful lives of the assets or the particular improvements. Expenditures for repairs and improvements in excess of \$1,000 that add to the productive capacity or extend the useful life of an asset are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings.

### **Long-Lived and Intangible Assets**

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit.

Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. There has been no impairment as of December 31, 2011 and 2010.

### **Deferred Financing Costs**

Costs incurred with obtaining and executing debt arrangements are capitalized and amortized on the effective interest method over the term of the related debt.

### **Revenue Recognition**

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Payments received in advance from customers for products delivered are recorded as customer advance payments until earned, at which time revenue is recognized. The Terms and Conditions contained in our customer purchase orders often provide for liquidated damages in the event that a stop work order is issued prior to the final delivery. The Company utilizes a Returned Merchandise Authorization or RMA process for determining whether to accept returned products. Customer requests to return products are reviewed by the contracts department and if the request is approved, a credit is issued upon receipt of the product. Net sales represent gross sales less returns and allowances.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Use of Estimates**

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant management estimates are the useful lives of property and equipment, provisions for inventory obsolescence, accrued expenses and various contingencies. Actual results could differ from those estimates. Changes in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known.

**Credit and Concentration Risks**

There were three customers that represented 75.5% of total sales for the year ended December 31, 2011 and two customers that represented 65.4% of total sales for the year ended December 31, 2010. This is set forth in the table below.

Customer	Percentage of Sales	
	2011	2010
1	44.4	49.3
2	19.2	16.1
3	11.9	*

\* Customer was less than 10% of sales in 2010

There were five customers that represented 82.2% of gross accounts receivable at December 31, 2011 and three customers that represented 52.6% of gross accounts receivable at December 31, 2010. This is set forth in the table below.

Customer	Percentage of Receivables	
	2011	2010
1	26.2	12.6
2	18.3	19.1
3	13.3	20.9
4	12.9	*
5	11.5	*

\* Customer was less than 10% of receivables in 2010

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

Substantially all of the workforce at AIM is subject to a union contract with the United Service Workers Union TUJAT Local 355 (the "Union"). The contract expires on December 31, 2015.

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

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Income Taxes**

The Company accounts for income taxes in accordance with accounting guidance now codified as FASB ASC 740, "Income Taxes," which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The Company has adopted the provisions of FASB ASC 740-10-05 "Accounting for Uncertainty in Income Taxes." The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

**Earnings per share**

Basic earnings per share is computed by dividing the net income applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Potentially dilutive shares, using the treasury stock method, are included in the diluted per-share calculations for all periods when the effect of their inclusion is dilutive. The following securities have been excluded from the calculation as their effect would be anti-dilutive:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Stock Options	291,316	291,428
Warrants	19,865	19,865

**Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model.

**Goodwill**

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of \$291,000 relates to the acquisition of Welding Metallurgy. Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount.

In September 2011, the FASB issued ASU 2011-08 (ASU 2011-08), "Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment" ASU 2011-08 updated the guidance on the periodic testing of goodwill for impairment. The updated guidance gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The update ASU 2011-08 is effective for fiscal years beginning after December 15, 2012 for non-public entities, with early adoption permitted. The Company adopted ASU 2011-08 effective October 1, 2011. The adoption did not have a material effect on the Company's financial position, results of operation or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist. As discussed above, the Company adopted ASU 2011-08 and performed a qualitative assessment in the fourth quarter of 2011 to determine whether it was more likely than not that the fair value of Welding Metallurgy was less than its carrying amount.

The Company has determined that there has been no impairment of goodwill at December 31, 2011 and 2010.

**Freight Out**

Freight out is included in operating expenses and amounted to \$90,000 and \$110,000 for the years ended December 31, 2011 and 2010, respectively.

**Subsequent Events**

Management has evaluated subsequent events through March 12, 2012, the date at which the financial statements were available to be issued.

**Note 4. INVENTORY**

The components of inventory at December 31, consisted of the following:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Raw Materials	\$ 5,209,000	\$ 5,523,000
Work In Progress	12,094,000	10,692,000
Finished Goods	7,021,000	7,299,000
Inventory Reserve	(1,803,000)	(2,071,000)
Total Inventory	<u>\$ 22,521,000</u>	<u>\$ 21,443,000</u>

The Company periodically evaluates inventory and establishes reserves for obsolescence, excess quantities, slow-moving goods, and for other impairment of value. During the year ended December 31, 2010, the Company increased its reserve by approximately \$1,157,000 for slow-moving inventory that the Company determined may no longer have any value. The increase is specifically identified in Cost of Goods Sold.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 5. PROPERTY AND EQUIPMENT**

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

	<u>2011</u>	<u>2010</u>	
Machinery and Equipment	\$ 3,700,000	\$ 3,483,000	5 - 8 years
Capital Lease Machinery and Equipment	3,877,000	2,695,000	5 - 8 years
Tools and Instruments	3,417,000	3,105,000	1.5 - 7 years
Automotive Equipment	55,000	55,000	5 years
Furniture and Fixtures	219,000	212,000	5 - 8 years
Leasehold Improvements	595,000	595,000	Term of Lease
Computers and Software	158,000	158,000	4-6 years
Deposit on new Machinery	-	192,000	
<b>Total Property and Equipment</b>	<b>12,021,000</b>	<b>10,495,000</b>	
Less: Accumulated Depreciation	(8,050,000)	(6,560,000)	
<b>Property and Equipment, net</b>	<b>\$ 3,971,000</b>	<b>\$ 3,935,000</b>	

Depreciation expense for the year ended December 31, 2011 and 2010 were approximately \$1,503,000 and \$1,767,000, respectively.

In May 2011, the Company acquired new machinery in the amount of \$1,182,000. The Company paid \$355,000 in cash and the balance was financed by a new capital lease in the amount of \$827,000.

**Note 6. INTANGIBLE ASSETS**

The components of the intangibles assets at December 31, consisted of the following:

	<u>2011</u>	<u>2010</u>	
Customer Relationships	\$ 890,000	\$ 890,000	11 to 14 years
Trade Names	770,000	770,000	20 years
Technical Know-how	660,000	660,000	10 years
Professional Certifications	15,000	15,000	.25 to 2 years
<b>Total Intangible Assets</b>	<b>2,335,000</b>	<b>2,335,000</b>	
Less: Accumulated Amortization	(728,000)	(560,000)	
<b>Intangible Assets, net</b>	<b>\$ 1,607,000</b>	<b>\$ 1,775,000</b>	

The expense for the amortization of the intangibles for both the years ended December 31, 2011 and 2010 was \$168,000.

AIR INDUSTRIES GROUP, INC.  
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Future amortization of intangibles is as follows:

For the twelve months ending	Amount
December 31, 2012	\$ 168,000
December 31, 2013	168,000
December 31, 2014	168,000
December 31, 2015	168,000
December 31, 2016	168,000
Thereafter	767,000
Total	\$ 1,607,000

**Note 7. SALE AND LEASEBACK TRANSACTION**

On October 24, 2006, the Company consummated a Sale & Leaseback Arrangement, whereby the Company sold the buildings and real property comprising its corporate headquarters in Bay Shore, New York (the "Property") for a purchase price of \$6,200,000. The Company accounted for the transaction under the provisions of FASB ASC 840-40, "Leases – Sale-Leaseback Transactions." The Company realized a gain on the sale of \$1,051,000 of which \$300,000 was recognized during the year ended December 31, 2006. The remaining \$751,000 is being recognized ratably over the remaining term of the twenty year lease at approximately \$38,000 per year. The gain is included in Other Income in the accompanying Consolidated Statement of Operations. The unrecognized portion of the gain in the amount of \$561,000 and \$599,000 as of December 31, 2011 and 2010, respectively, is classified as Deferred Gain on Sale in the accompanying Consolidated Balance Sheet.

Simultaneous with the closing of the sale of the Property, the Company entered into a 20-year triple-net lease (the "Lease") with the Purchaser for the property. Base annual rent is approximately \$540,000 for the first five years, \$560,000 for the sixth year, and thereafter increases 3% per year. The Lease grants AIM an option to renew the Lease for an additional period of five years. The Company has on deposit with the Purchaser \$127,500 as security for the performance of its obligations under the Lease. In addition, the Company deposited \$393,000 with the landlord as security for the completion of certain repairs and upgrades to the Property. This amount is included in the caption Deferred Finance costs, net, Deposit and Other Assets on the accompanying Consolidated Balance Sheet. Pursuant to the terms of the Lease, the Company is required to pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance. These costs will be offset against the funds that are deposited with the landlord. The lease also contains customary representations, warranties, obligations, conditions and indemnification provisions and grants the Purchaser customary remedies upon a breach of the lease by the Company, including the right to terminate the Lease and hold the Company liable for any deficiency in future rent. See Note 11 Commitments and Contingencies.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 8. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS**

Notes payable and capital lease obligations at December 31, consist of the following:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Revolving credit notes payable to PNC Bank N.A. ("PNC") and secured by substantially all assets	\$ 10,880,000	\$ 11,164,000
Term loan, PNC	2,000,000	3,000,000
Capital lease obligations	1,871,000	1,508,000
Notes payable to sellers of acquired businesses	1,976,000	2,354,000
Junior subordinated notes	6,320,000	6,450,000
Subtotal	<u>23,047,000</u>	<u>24,476,000</u>
Less: Current portion of notes and capital obligations	<u>(14,055,000)</u>	<u>(12,940,000)</u>
Notes payable and capital lease obligations, net of current portion	<u>\$ 8,992,000</u>	<u>\$ 11,536,000</u>

**PNC Bank N.A. ("PNC")**

On November 30, 2005, the Company executed a credit facility with PNC (the "Loan Facility"), secured by substantially all of its assets. The Loan Facility provided for maximum borrowings of \$19,000,000 consisting of the following:

- (i) a \$14,000,000 revolving loan
- (ii) a \$3,500,000 term loan and
- (iii) a \$1,500,000 equipment financing loan

On November 30, 2010, the Company executed a renewal and amendment to the Loan Facility with PNC providing for the following:

- (i) a \$16,000,000 revolving loan
- (ii) a \$3,000,000 term loan and
- (iii) included Welding Metallurgy as one of the borrowers

The revolving loan originally bore interest, at the option of the Company, that is based on (i) the higher of (A) PNC's base commercial lending rate as published from time to time ("PNC Rate") plus 0.25% or (B) the Federal Funds rate plus 0.5%, or (ii) the Eurodollar Rate for the Interest Period selected by the Company plus 2.5%. The revolving loan had an interest rate of 5.50% per annum at both December 31, 2011 and 2010, and an outstanding balance of \$10,880,000 and \$11,164,000, respectively. The revolving loan was payable in full in April 2010 but the maturity date was extended to November 15, 2013 by the renewal and amendment executed on November 30, 2010 as discussed below. The interest rates were amended as part of the Ninth Amendment to the Loan Facility (see discussion below).

Each day, the Company's cash collections are swept directly by the bank to reduce the revolving loans and we then borrow according to a borrowing base. As such, the Company generally has no cash on hand. Because the revolving loans contain a subjective acceleration clause which could permit PNC to require repayment prior to maturity, the loans are classified with the current portion of notes and capital lease obligations.



AIR INDUSTRIES GROUP, INC.  
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The new term loan in the amount of \$3,000,000 matures in December 2013 and bears interest, at the option of the Company equal to (a) the greater of (i) the sum of the PNC Rate plus 6.5% and (ii) 11.5%, with respect to Domestic Rate Loans or (b) the greater of (i) the sum of the Eurodollar Rate plus 8.5% and (ii) 10.5%, with respect to Eurodollar Rate Loans. The proceeds of this term loan were used to repay the entire balance due Steel City Capital Funding LLC (see below). Repayment under the term loan shall consist of 36 consecutive monthly principal installments, the first 35 of which will be in the amount of \$83,330 commencing on the first business day of January 2011, with the 36<sup>th</sup> and final payment of any unpaid balance of principal and interest payable on the first business day of December 2013. Additionally, there is a mandatory prepayment of equal to 50% of Excess Cash Flow (as defined) for each fiscal year commencing with the fiscal year 2011, payable upon the delivery of the financial statements to PNC for such fiscal period, but no later than 90 days after the end of the fiscal year. This has been calculated to be approximately \$1,295,000 for the year ended December 31, 2011. At December 31, 2011 and 2010, the balance due under the term loan was \$2,000,000 and \$3,000,000, respectively.

To the extent that the Company disposes of collateral used to secure the Loan Facility, other than inventory, the Company must promptly repay the draws on the credit facility in amount equal to the net proceeds of such sale.

The terms of the Loan Facility require that, among other things, the Company maintain certain financial ratios and levels of working capital. As of December 31, 2011 and 2010, the Company was in compliance with all terms of its credit facility with PNC bank.

The Loan Facility also is secured by all assets of the Company and the Company's receivables are payable directly into a lockbox controlled by PNC (subject to the terms of the Loan Facility). PNC may use some elements of subjective business judgment in determining whether a material adverse change has occurred in the Company's condition, results of operations, assets, business, properties or prospects allowing it to demand repayment of the Loan Facility.

The Company executed Amendments Eleven to Fourteen to the Loan Facility in 2010. These Amendments included the following:

- Waived prior defaults
- Amended the financial ratios
- Amended the formula to determine the amounts of revolving advances permitted to be borrowed under the Loan Facility.
- Reduced the availability reserve so that the excess availability created by the reduction will be utilized to payoff in full the term loan and equipment loans.
- Amended the revolving interest rate to (a) the sum of PNC Rate plus 2.25% or (b) the greater of (i) the sum of the Eurodollar rate plus 3.5% and (ii) 5.5%.
- The Company paid amendment fees ranging from \$10,000 to \$25,000.

Effective November 30, 2010, the Fifteenth Amendment to the Loan Facility was signed. The terms of the Fifteenth Amendment included the following:

- Waived prior defaults
- Extended the due date of the Loan Facility to November 15, 2013
- Amend the financial ratios
- Increase the inventory sub-limit to \$11,250,000
- Increase the Maximum Revolving advance to \$16,000,000
- Include Welding Metallurgy as a borrower under the revolving portion of the Loan Facility
- Include a term loan in the amount of \$3,000,000 (discussed above)
- The Company paid an amendment fee of \$95,000.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Steel City Capital Funding LLC ("SCCF")**

In connection with the Welding acquisition, SCCF provided a Term Loan (the "SCCF Loan Agreement") of \$4,500,000, which was originally payable on August 24, 2010. Borrowings under the SCCF Loan Agreement originally bore interest, payable monthly, generally at a rate of 6% over the base commercial lending rate of PNC as publicly announced to be in effect from time to time.

The Company executed Amendments Five through Eight to the SCCF Loan Agreement in 2010. These Amendments included the following:

- Waived prior defaults
- Amended the financial ratios to include all entities (except Sigma) in the calculations
- Amended the interest rate to (a) the sum of (i) the greater of (1) PNC Rate or (2) 4.75% plus (ii) 6% for domestic loans and (b) the sum of (i) the greater of (1) the Eurodollar Rate or (2) 2.25% plus (ii) 8.5% for Eurodollar Rate loans.
- Prohibited cash payments to vendors of Sigma in excess of \$150,000 in the aggregate during each of (i) the period September 1, 2009 through December 31, 2009, and (ii) each calendar year commencing January 1, 2010.
- The Company paid amendment fees of ranging from \$10,000 to \$15,000.

On November 30, 2010, the Company entered into a renewal and amendment of the credit facility with PNC. Under the terms of that amendment, SCCF was paid in full. This payment was funded by the proceeds of the \$3,000,000 term loan with PNC as well as with proceeds from the revolving line of credit. The Company paid a fee of \$10,000 to SCCF to terminate the SCCF Loan Agreement. At both December 31, 2011 and 2010, there was no balance owed on the SCCF Loan Agreement.

At December 31, 2011, future minimum principal payments of the new PNC term loan are as follows:

For the twelve months ending	Amount
December 31, 2012	\$ 2,000,000
PNC Term Loan Payable	2,000,000
Less: Current portion	(2,000,000)
Long-term portion	\$ -

Interest expense related to these credit facilities amounted to approximately \$918,000 and \$989,000 for the years ended December 31, 2011 and 2010, respectively.

**Capital Leases Payable – Equipment**

The Company is committed under several capital leases for manufacturing and computer equipment. All leases had bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled \$1,871,000 and \$1,508,000 as of December 31, 2011 and 2010, respectively, with various interest rates ranging from 7.7% to 9.5%.

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As of December 31, 2011, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

For the twelve months ending	Amount
December 31, 2012	\$ 711,000
December 31, 2013	711,000
December 31, 2014	424,000
December 31, 2015	207,000
December 31, 2016	104,000
Total future minimum lease payments	2,157,000
Less: imputed interest	(286,000)
Less: current portion	(574,000)
Total Long Term Portion	\$ 1,297,000

In May 2011, the Company entered into a five-year capital lease for new machinery. The purchase price of the machinery was approximately \$1,182,000. The Company paid approximately \$355,000 in cash and entered into a new capital lease in the amount of \$827,000. Monthly payments on the new lease began in July 2011 in the amount of \$17,267 through June 2016. The interest rate on this lease is 9.2%.

**Notes Payable - Sellers**

As of December 31, the balances owed to the sellers by acquisition are:

	2011	2010
AIM	\$ -	\$ 48,000
Welding	1,976,000	2,306,000
Subtotal	1,976,000	2,354,000
Less: Current Portion	(601,000)	(378,000)
Total long-term portion	\$ 1,375,000	\$ 1,976,000

**AIM**

On November 30, 2005, in connection with the acquisition of AIM, the Company issued notes payable for an aggregate of \$1,627,000 to three former AIM shareholders, two of whom have remained as part of the Company's senior management and are also stockholders of the Company.

The remaining principal balance at December 31, 2010 of \$48,000 along with accrued interest in the amount of \$500 was paid on January 4, 2011 and there is no further obligation under this note.

**Welding**

In connection with the acquisition of Welding, the Company incurred a note payable ("Old Note") to the former stockholders of Welding.

AIR INDUSTRIES GROUP, INC.  
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In August 2008, the Company and the former stockholders reached an agreement restructuring the Company's obligation under this note by executing an Amended and Restated Subordinated Promissory Note ("New Note"). The principal balance of this New Note was \$2,050,000 (consisting of \$2,000,000 principal amount of the promissory note dated August 25, 2007, plus an unpaid working capital adjustment in the amount of \$50,000) bearing interest at 7% per annum. Payments due under the New Note were: \$25,000 on each of October 31, 2008 and December 31, 2008, an additional \$50,000 on March 31, 2009, followed by 19 equal consecutive quarterly installments of \$100,000, commencing on June 30, 2009 and continuing through December 31, 2013, payable on the last business day of each March, June, September and December, commencing June 30, 2009 and continuing through and including December 31, 2013, with one final payment of \$50,000 on March 31, 2014, plus accrued interest thereon at the rate of 7% per annum from August 28, 2008.

The Company made the payments due on October 31, 2008 and December 31, 2008, leaving a principal balance due of \$2,044,000 due at December 31, 2008. The balance owed at December 31, 2009 amounted to \$2,044,000.

Our obligation under the Old Note and New Note were subordinate to our indebtedness to PNC and SCCF. In March 2009, the Company received a notice from SCCF, exercising their right to block payments under the New Note. Accordingly, the payment due on March 31, 2009 was not made. In April 2009, the Company received a notice from the holders of the New Note that an event of default had occurred, and accordingly, interest under the New Note would now accrue at 11% per annum. Per the terms of the fourth amendment to the SCCF Loan, all payments have been blocked until April 30, 2010. As a result of this, the Company had entered into a modification agreement with the holder of the New Note to amend the payment terms. The Company paid a fee to the holder of \$50,000 to modify the loan agreement to block the payments until April 30, 2010 and accrue interest at a rate of 9% per annum.

On October 1, 2010, the Company entered into letter agreement with the former stockholders of Welding. It was agreed that all interest that had been accrued and not yet paid would be capitalized into the principal balance of the note, making the new balance of the note \$2,397,967. Payments on the note began on October 1, 2010. It was further agreed that payments would be made according to the following schedule: equal monthly installments of \$40,000 on the first business day of each month until December 31, 2011, followed by equal monthly installments of \$60,000 on the first business day of each month commencing on January 1, 2012 and continuing until the entire principal amount of the obligation is paid in full, which is estimated to be in January 2015. Interest shall accrue at the rate of 7% per annum, and each payment will first apply to interest and then principal. At December 31, 2011 and 2010, the balance owed under the note was \$1,976,000 and \$2,306,000 respectively.

As of December 31, 2011, the future minimum payments for the note payable to the former stockholders of Welding Metallurgy are as follows:

For the twelve months ending	Amount
December 31, 2012	\$ 601,000
December 31, 2013	644,000
December 31, 2014	690,000
December 31, 2015	41,000
Former WMI Shareholder Notes Payable	1,976,000
Less: Current portion	(601,000)
Long-term portion	<u>\$ 1,375,000</u>

Interest expense related to notes payable to the former stockholder was \$149,000 and \$182,000 for the year ended December 31, 2011 and 2010, respectively.

#### Junior Subordinated Notes

In 2008, the Company sold in a series of private placements to accredited investors \$5,545,000 of principal in junior subordinated notes, together with 983,324 shares of its common stock and 207,600 shares of Series B Convertible Preferred Stock ("Series B Preferred"), for a total purchase price of \$5,545,000. The notes, which were originally payable on May 31, 2010, or earlier upon completion of one or a series of financings resulting in aggregate gross proceeds of at least \$10 million, bear interest at the rate of 1% per month (or 12% per annum).

AIR INDUSTRIES GROUP, INC.  
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In the first quarter ended March 31, 2009, the Company sold in a private placement to accredited investors, an additional \$445,000 of principal in notes together with 35,600 shares of our Series B Preferred for a total purchase price of \$445,000.

The notes are subordinated to the Company's senior indebtedness.

In connection with the offering of the Company's junior subordinated notes and Series B Preferred which commenced in September 2008 (see Note 9 Stockholders' Equity), the Company issued to Taglich Brothers, Inc. ("Taglich"), as placement agent, a junior subordinated note in the principal amount of \$510,000 and 39,640 shares of Series B Preferred. The terms of the note issued to Taglich are identical to the notes. In addition, the Company issued a warrant to purchase 137,138 shares of its Series B Preferred to Taglich (see Note 9 Stockholders' Equity). In connection with the amounts raised in 2009, the Company issued Taglich 3,560 shares of Series B Preferred and will issue to Taglich a note on the same terms as the junior subordinated note referred to above for commission of \$44,500.

In May 2010, the maturity dates of the notes were extended by the holders to September 30, 2010. On October 1, 2010, a payment in the amount of \$50,000 was made to one of the note holders in full satisfaction of a note. During November 2010, the maturity dates of the notes were extended to November 18, 2013. During December 2011, payments of \$30,000 and \$100,000 were made to two individual note holders in full satisfaction of their notes.

The balance owed at December 31, 2011 and 2010 amounted to \$6,320,000 and \$6,450,000, respectively.

Amortization of debt discount amounted to \$0 and \$1,323,000 for the years ended December 31, 2011 and 2010, respectively. Interest expense amounted to \$777,000 and \$778,000 for the years ended December 31, 2011 and 2010, respectively.

#### **Note 9. STOCKHOLDERS' EQUITY**

##### **Authorized Shares**

At a Special Meeting of Stockholders on July 29, 2010, the stockholders approved an amendment to the certificate of incorporation to effect a one-for-four hundred (1-for-400) reverse split of our common stock, conversion of our Series B Preferred into 3,400,000 shares of common stock and reduce the number of authorized shares of common stock from 250,000,000 to 20,000,000.

##### **Common Stock Issuances**

There were no issuances of common stock during the years ended December 31, 2011 and 2010.

On July 29, 2010 at a Special Meeting of Stockholders, the stockholders approved an amendment to the certificate of designation for the Series B Preferred providing for the automatic conversion of the outstanding shares of Series B Preferred, together with any dividends that are or may become payable prior to the conversion date, into 3,400,000 shares of Common Stock.

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**Series B Convertible Preferred Stock**

The Company established, designated and fixed the terms, preferences, limitations and relative rights of four million (4,000,000) shares of the authorized and unissued preferred stock of the Company as Series B Preferred. Rights included the following:

1. Holders of the shares of Series B Preferred were entitled to receive 7% cumulative dividend of the original Series B Preferred issue price.
2. Dividends accrued and were payable quarterly on January 2, April 1, July 1 and October 1 of each year.
3. The Company could elect to deliver additional shares of Series B Preferred in lieu of cash payments.
4. The liquidation value was an amount equal to the greater of \$10 per share or such amount per share as would have been payable had each such share been converted into Common Stock immediately prior to a liquidation event (as defined).
5. Each holder of outstanding shares of Series B Preferred was entitled to the number of votes equal to the number of whole shares of Common Stock into which the shares of Series B Preferred held by such holder are then convertible, at each meeting of stockholders of the Corporation (or by written action of stockholders in lieu of meeting) with respect to all matters presented to the stockholders of the Corporation for their action or consideration. The holders of Series B Preferred will generally vote together with the holders of Common Stock as a single class.
6. Each share of Series B Preferred was convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and no assessable shares of Common Stock as is determined by dividing (i) the Series B Preferred Original Issue Price (\$10) by (ii) the Series B Preferred Conversion Price (as defined) in effect at the time of conversion.

Issuances and conversions of Series B Preferred for the year ended December 31, 2010 were as follows:

The Company issued 839,108 shares of Series B Preferred as dividends for the quarter ended December 31, 2009 and 1,004,926 shares of Series B Preferred as dividends for the quarter ended March 31, 2010 in lieu of cash payments. Dividends amounted to \$1,436,000 for the year ended December 31, 2010.

On January 5, 2010, the Company issued 137,138 shares of Series B Preferred for the exercise of 137,138 warrants. See Note 14 Related Party Transactions.

On July 29, 2010, at a Special Meeting of Stockholders, the stockholders approved an amendment to the certificate of designation for the Series B Preferred providing for the automatic conversion of the outstanding shares of Series B Preferred, together with any dividends that were payable prior to the conversion date, into 3,400,000 shares of Common Stock. This represented approximately 95% of the outstanding shares of Common Stock after giving effect to the one-for-four hundred (1-for-400) reverse stock split.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 10. EMPLOYEE BENEFITS PLANS**

The Company employs both union and non-union employees and maintains several benefit plans.

**Union**

Medical benefits for union employees are provided through a policy with Insperity (f/k/a Administaff), the costs of which are substantially borne by the Company. In addition, the Company is obligated to make contributions for union dues and a security fund (pension) for the benefit of each union employee. Contributions to the security fund amounted to \$282,000 and \$271,000 for the years ended December 31, 2011 and 2010, respectively.

The FASB has issued ASU No. 2011-09, "Compensation - Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan" ("ASU 2011-09"). ASU 2011-09 will require additional disclosures about an employer's participation in a multiemployer pension plan. Previously, disclosures were limited primarily to the historical contributions made to the plans. ASU 2011-09 applies to nongovernmental entities that participate in multiemployer plans. For nonpublic entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2012. Early adoption is permissible. ASU 2011-09 should be applied retrospectively for all prior periods presented. The Company will adopt ASU 2011-09 effective January 1, 2012 and does not expect the adoption to have a material impact on the Company's consolidated financial statements.

**Others**

All other Company employees including those of Welding are covered under a co-employment agreement with Insperity.

The Company has two defined contribution plans under Section 401(k) of the Internal Revenue Code (the "Plans"). Pursuant to the Plans, qualified employees may contribute a percentage of their pretax eligible compensation to the Plan. The Company does not match any contributions that employees may make to either Plan.

**Note 11. COMMITMENTS AND CONTINGENCIES**

**Real Estate Leases**

The Company leases its facilities under various operating lease agreements, which contain renewal options and escalation provisions. Rent expense was \$1,376,000 and \$1,263,000 for the years ended December 31, 2011 and 2010, respectively. The Company is responsible for paying all operating costs under the term of the leases. As of December 31, 2011, the aggregate future minimum lease payments are as follows:

<b>For the twelve months ending</b>	<b>Plant Avenue</b>	<b>Fifth Avenue</b>	<b>Total Rents</b>
	<b>Annual Rent</b>	<b>Annual Rent</b>	
December 31, 2012	\$ 579,000	\$ 626,000	\$ 1,205,000
December 31, 2013	596,000	644,000	1,240,000
December 31, 2014	614,000	664,000	1,278,000
December 31, 2015	633,000	684,000	1,317,000
December 31, 2016	-	704,000	704,000
Thereafter	-	8,073,000	8,073,000
<b>Total Rents</b>	<b>\$ 2,422,000</b>	<b>\$ 11,395,000</b>	<b>\$ 13,817,000</b>

AIR INDUSTRIES GROUP, INC.  
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The leases provide for scheduled increases in base rent. Rent expense is charged to operations using the straight-line method over the term of the lease which results in rent expense being charged to operations at inception of the lease in excess of required lease payments. This excess is shown as deferred rent in the accompanying balance sheet.

Sigma was located in the Plant Avenue facility and following discontinuing operations, a portion of the facility was vacant. The Company recorded a charge for \$579,000 at December 31, 2009 representing the estimated discounted future cost of part of the Plant Avenue facility.

As of December 31, 2011, the estimated discounted future cost will be charged to expense as follows:

For the twelve months ending	Amount
December 31, 2012	\$ 85,000
December 31, 2013	72,000
December 31, 2014	59,000
December 31, 2015	44,000
Total future minimum lease payments	260,000
Less: current portion	(85,000)
Total Long-Term Portion	\$ 175,000

On July 1, 2010, the Company entered into a sub-lease with a third party to rent a portion of the vacant space at the Plant Avenue facility. Under the terms of the sub-lease, the sub-tenant would occupy approximately 17,787 square feet for the months of July 2010 through October 2010. Beginning in November 2010, the sub-tenant would occupy approximately 27,787 square feet. The space is being sub-leased for \$3.00 per square foot, with a discount in the first month of 50%. The sub-lease is a month-to-month lease and can be terminated by either party with 90 days written notice.

#### Litigation

Sigma Metals, Inc: Several former vendors to Sigma had commenced legal action against Sigma seeking to recover amounts owed to them. All of these have been settled except for one that is still deciding to commence litigation seeking the recovery of approximately \$71,000. Settlement discussions have commenced with this vendor but there is not yet a definitive resolution.

#### Employment Contracts

In September 2005, the Company entered into employment agreements (the "Agreements") with two senior executives that became effective November 30, 2005. The Agreements were for an initial period of five years until September 2010 and, absent notice of non-renewal given ninety (90) days prior thereto, were to be automatically extended for successive three (3) one year periods unless terminated. The Board, at its sole discretion, determined whether a bonus was issued, provided that in the case of two executives, the amount of the bonus was to be predicated on their performance and the achievement by the Company of its operating targets set forth in its annual budget, and in the case of these two executives, provided further, in no event was the amount of their bonuses be less than 50% of their salary at that time.

On June 21, 2010, notice of non-renewal was given to the executive officers and the Agreements terminated in accordance with their terms on September 25, 2010.

On July 29, 2010, the Company granted five-year options to each senior executive to purchase 51,716 shares of Common Stock at a price of \$4.50 per share. These options vested immediately upon issuance.



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**Note 12. INCOME TAXES**

The provision for income taxes at December 31, 2011 was comprised of federal alternative minimum tax of \$57,000.

The components of net deferred tax assets as of December 31, are set forth below:

Deferred tax assets:	2011	2010
Net operating loss carry forwards	\$ 289,000	\$ 1,322,000
Capital loss carry forwards	1,088,000	1,088,000
Bad debts	380,000	291,000
Stock based compensation - options and restricted stock	466,000	413,000
Capitalized engineering costs	356,000	-
Goodwill and Intangibles	-	1,511,000
Account payable, accrued expenses and reserves	9,000	18,000
Deferred rent	390,000	320,000
Deferred gain on sale of real estate	224,000	240,000
Section 1231 loss carryover	86,000	-
Total deferred tax assets before valuation allowance	3,288,000	5,203,000
Valuation allowance	(1,217,000)	(3,366,000)
Total deferred tax assets after valuation allowance	2,071,000	1,837,000
<b>Deferred tax liabilities:</b>		
Property and equipment	(801,000)	(365,000)
Capitalized engineering costs	-	(122,000)
Amortization - Welding Transaction	(643,000)	(777,000)
Inventory - 263A adjustment	(627,000)	(573,000)
Total Deferred Tax Liability	(2,071,000)	(1,837,000)
Net deferred tax asset	\$ -	\$ -

Realization of deferred tax assets is dependent on future earnings. Due to the uncertainty of realization of the net deferred tax assets, the Company has provided a valuation allowance. In assessing the realizability of it, management considers whether it is more likely than not that some or perhaps all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making the assessment. The valuation allowance at December 31, 2011 and 2010 amounted to \$1,217,000 and \$3,366,000, respectively.

The Company has net operating losses totaling \$722,000 which will expire in fiscal 2029 and 2030. The Company also has a capital loss carry forward from the sale of Sigma of \$2,719,000 which will expire in fiscal 2015.

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At December 31, 2011 and 2010, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company does not expect that its unrecognized tax benefits will materially increase within the next twelve months. The Company recognizes interest and penalties related to uncertain tax positions in general and administrative expense. As of December 31, 2011 and 2010, the Company has not recorded any provisions for accrued interest and penalties related to uncertain tax positions.

In certain cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. The Company files U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2008 through 2010 tax years generally remain subject to examination by federal and state tax authorities.

**Note 13. STOCK OPTIONS AND WARRANTS**

**Stock-Based Compensation**

During 2005, the Company's Board of Directors approved a stock option plan and reserved 25,000 shares of its Common Stock for issuance under the plan. The stock option plan permits the Company to grant non-qualified and incentive stock options to employees, directors, and consultants. The fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model using weighted average assumptions for grants as follows: expected life – 3.5 – 5 years, risk-free interest rate – 0.92% - 1.8%, volatility – 25% and no dividends.

The expected life is the number of years that the Company estimates, based upon history, that options will be outstanding prior to exercise or forfeiture. Expected life is determined using the "simplified method" permitted by Staff Accounting Bulletin No. 107. In addition to the inputs referenced above regarding the option pricing model, the Company adjusts the stock-based compensation expense for estimated forfeiture rates that are revised prospectively according to forfeiture experience. The stock volatility factor is based on the New York Stock Exchange ARCA Defense Index.

During the year ended December 31, 2011, the Board of Directors approved the issuance of 15,000 options to the non-employee members of the Company's Board of Directors. These options vested immediately.

At a Special Meeting of Stockholders held on July 29, 2010, the stockholders approved the 2010 Equity Incentive Plan and the issuance of 275,788 options under the plan to various key employees of the Company. This plan had previously been unanimously adopted by the Board of Directors.

The Company recorded expenses of \$131,000 and \$368,000 in its consolidated statement of operations for the year ended December 31, 2011 and 2010, respectively, and is included as a component of general and administrative expense.

AIR INDUSTRIES GROUP, INC.  
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A summary of the status of the Company's stock options as of December 31, 2011, and changes during the two years then ended is presented below.

	Options	Wtd. Avg. Exercise Price
Balance, December 31, 2009	15,922	\$ 119.35
Granted during the period	275,788	4.50
Exercised during the period	-	-
Terminated/Expired during the period	(279)	104.80
Balance, December 31, 2010	291,431	\$ 10.68
Granted during the period	15,000	2.95
Exercised during the period	-	-
Terminated/Expired during the period	(115)	(105.39)
Balance, December 31, 2011	306,316	\$ 10.27
Exercisable at December 31, 2011	304,469	\$ 9.94

The following table summarizes information about stock options at December 31, 2011:

Range of Exercise Prices	Remaining Number Outstanding	Wtd. Avg. Life	Wtd. Avg. Exercise Price
\$0.00 - 5.00	290,788	4 years	\$ 4.42
\$5.01 - 90.00	1,350	6 years	\$ 88.00
\$90.01 - 100.00	5,868	3 years	\$ 92.17
\$100.01 - 110.00	833	3 years	\$ 108.00
\$110.01 - 170.00	3,527	2 years	\$ 111.89
\$170.01 - 200.00	3,950	3 years	\$ 181.00
	306,316	4 years	\$ 10.26

As of December 31, 2011, there was \$74,000 of unrecognized compensation cost related to non-vested stock option awards, which is to be recognized over the remaining weighted average vesting period of four years.

The aggregate intrinsic value at December 31, 2011 was \$0. The aggregate intrinsic value was calculated based on the positive difference between the closing market price of the Company's Common Stock and the exercise price of the underlying options.

AIR INDUSTRIES GROUP, INC.  
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**Warrants**

The following tables summarize the Company's outstanding warrants as of December 31, 2011 and changes during the two years then ended:

	<b>Warrants</b>	<b>Wtd. Avg. Exercise Price</b>
Balance, December 31, 2009	20,208	\$ 99.46
Granted during the period	-	-
Exercised during the period	(343)	110.64
Terminated/Expired during the period	-	-
Balance, December 31, 2010	19,865	\$ 99.26
Granted during the period	-	-
Exercised during the period	-	-
Terminated/Expired during the period	-	-
Balance, December 31, 2011	19,865	\$ 99.26
Exercisable at December 31, 2011	19,865	\$ 99.26

The following table summarizes information about warrants at December 31, 2011:

Range of Exercise Prices	<b>Warrants</b>	<b>Wtd. Avg. Life</b>	<b>Wtd. Avg. Exercise Price</b>
\$0.00 - 5.00	250	2 years	\$ 43.60
\$5.01 - 90.00	1,704	1 year	\$ 76.00
\$90.01 - 100.00	10,347	1 year	\$ 88.00
\$100.01 - 110.00	7,564	1 year	\$ 121.74
	19,865	1 year	\$ 99.26

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 14. RELATED PARTY TRANSACTIONS**

On December 31, 2008, the Company issued a warrant to purchase 137,138 shares of its Series B Preferred to Taglich for nominal consideration. The Company believes that the terms of the warrant are not less favorable than could have been obtained from an unaffiliated third party. On January 5, 2010, Taglich exercised this warrant and were issued 137,138 shares of Series B Preferred. See Note 9 Stockholders' Equity.

In connection with the offering of the Company's junior subordinated notes and Series B Preferred raised in 2009, the Company issued Taglich 3,560 shares of Preferred Series B and will pay Taglich a commission of \$44,500. See Note 8 Notes Payable and Capital Lease Obligation. In addition, the Company granted Taglich the right to designate a total of three nominees for election to the Board of Directors,

**Note 15. DISCONTINUED OPERATIONS**

During the quarter ended September 30, 2008, the Company's Board of Directors decided to discontinue the operations at Sigma. Operations were discontinued on October 31, 2008. On December 30, 2010, the Company's holdings in Sigma were sold. See Note 2 Disposition. Accordingly, Sigma's results of operations have been reported as discontinued operations for year ended December 31, 2010.

	<b>December 31,</b>
	<b>2010</b>
Net Sales	\$ -
Cost of Sales	20,000
Gross loss	<u>(20,000)</u>
Operating costs and expenses	245,000
Loss from operations	<u>(265,000)</u>
Interest and financing costs	(1,000)
Other Income	608,000
Income	<u>\$ 342,000</u>

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**Note 16. SEGMENT REPORTING**

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

The Company is operating in two segments. As discussed above, Sigma was discontinued in October 2008. Financial information about the Company's operating segments for the year ended December 31, 2011 and 2010 are as follows:

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Air Industries Machining</b>		
Net Sales	\$ 42,668,000	\$ 40,477,000
Gross Profit	8,013,000	5,487,000
Pre Tax Income	3,527,000	376,000
Assets	27,735,000	29,077,000
<b>Sigma Metals</b>		
Income From Discontinued Operations	-	342,000
Assets Held for Sale	-	-
<b>Welding Metallurgy</b>		
Net Sales	11,077,000	8,124,000
Gross Profit	2,915,000	1,980,000
Pre Tax Income	1,288,000	1,005,000
Assets	8,028,000	6,047,000
<b>Corporate</b>		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss	(2,511,000)	(4,632,000)
Assets	7,883,000	8,937,000
<b>Consolidated</b>		
Net Sales	53,745,000	48,601,000
Gross Profit	10,928,000	7,467,000
Income from Discontinued Ops	-	342,000
Pre Tax Income (Loss)	2,304,000	(3,251,000)
Provision for Taxes	57,000	-
Net Income (Loss)	2,247,000	(2,909,000)
Elimination of Assets	(6,665,000)	(9,677,000)
Assets	36,981,000	34,384,000

**Air Industries Group, Inc.**

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of  
Air Industries Group, Inc.  
Bay Shore, NY 11706

We have reviewed the accompanying condensed consolidated balance sheet of Air Industries Group, Inc. and Subsidiaries (the "Company") as of June 30, 2012, and the related condensed consolidated statements of income for the three and six months ended June 30, 2012 and 2011 and the condensed consolidated statements of stockholders' equity and cash flows for the six months ended June 30, 2012 and 2011. Our review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the condensed consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the condensed consolidated financial statements.

Our responsibility is to conduct the review in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the condensed consolidated financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards of the PCAOB, the consolidated balance sheet of the Company as of December 31, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 15, 2012, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.



Rotenberg Meril Solomon Bertiger & Guttilla, P.C.  
Saddle Brook, New Jersey  
September 14, 2012



**AIR INDUSTRIES GROUP, INC.**  
**Condensed Consolidated Balance Sheets**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,235,000	\$ 577,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,067,000 and \$950,000	10,544,000	6,042,000
Inventory	26,595,000	22,521,000
Prepaid Expenses and Other Current Assets	188,000	330,000
Deposits - Customers	126,000	2,000
<b>Total Current Assets</b>	<b>38,688,000</b>	<b>29,472,000</b>
Property and Equipment, net	5,140,000	3,971,000
Capitalized Engineering Costs - net of Accumulated Amortization of \$3,101,000 and \$2,990,000	906,000	969,000
Deferred Financing Costs, net, deposit and other assets	586,000	671,000
Intangible Assets, net	6,498,000	1,607,000
Goodwill	453,000	291,000
<b>TOTAL ASSETS</b>	<b>\$ 52,271,000</b>	<b>\$ 36,981,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Notes Payable and Capitalized Lease Obligations - Current Portion	\$ 17,297,000	\$ 14,055,000
Accounts Payable and Accrued Expenses	8,076,000	7,432,000
Lease Impairment - Current	91,000	85,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Income Taxes Payable	626,000	41,000
<b>Total Current Liabilities</b>	<b>26,128,000</b>	<b>21,651,000</b>
<b>Long term liabilities</b>		
Notes Payable and Capitalized Lease Obligation - Net of Current Portion	6,766,000	8,992,000
Lease Impairment - Net of Current Portion	167,000	175,000
Deferred Gain on Sale - Net of Current Portion	504,000	523,000
Deferred Rent	1,022,000	974,000
<b>Total Liabilities</b>	<b>34,587,000</b>	<b>32,315,000</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred Stock Par Value \$.001-Authorized 8,003,716 shares Designated as Series "A" Convertible Preferred - \$.001 par Value, 1,000 Shares Authorized 0 Shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively.	-	-
Designated as Series "B" Convertible Preferred -\$.001 Par Value, 4,000,000 shares authorized, 0 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively; Liquidation Value, \$ 0	-	-
Common Stock - \$.001 Par, 20,000,000 Shares Authorized, 5,672,760 and 3,579,114 Shares Issued and Outstanding as of June 30, 2012 and December 31, 2011, respectively	6,000	4,000
Additional Paid-In Capital	38,018,000	26,141,000
Accumulated Deficit	(20,340,000)	(21,479,000)
<b>Total Stockholders' Equity</b>	<b>17,684,000</b>	<b>4,666,000</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 52,271,000</b>	<b>\$ 36,981,000</b>

See independent accountants' review report and notes to condensed consolidated financial statements

**AIR INDUSTRIES GROUP, INC.**  
**Condensed Consolidated Statements of Income**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net Sales	\$ 15,240,000	\$ 13,123,000	\$ 31,278,000	\$ 25,723,000
Cost of Sales	11,804,000	10,551,000	24,570,000	20,692,000
Gross Profit	<u>3,436,000</u>	<u>2,572,000</u>	<u>6,708,000</u>	<u>5,031,000</u>
Operating Expenses	2,140,000	1,523,000	3,816,000	3,100,000
Income from operations	<u>1,296,000</u>	<u>1,049,000</u>	<u>2,892,000</u>	<u>1,931,000</u>
Interest and financing costs	(472,000)	(523,000)	(970,000)	(1,043,000)
Other (expense) income, net	<u>(142,000)</u>	<u>(10,000)</u>	<u>(135,000)</u>	<u>(3,000)</u>
Income before provision for income taxes	682,000	516,000	1,787,000	885,000
Provision for income taxes	363,000	25,000	648,000	25,000
Net income attributable to common stockholders	<u>\$ 319,000</u>	<u>\$ 491,000</u>	<u>\$ 1,139,000</u>	<u>\$ 860,000</u>
Income per share - basic	<u>\$ 0.09</u>	<u>\$ 0.14</u>	<u>\$ 0.31</u>	<u>\$ 0.24</u>
Income per share - diluted	<u>\$ 0.08</u>	<u>\$ 0.14</u>	<u>\$ 0.31</u>	<u>\$ 0.24</u>
Weighted average shares outstanding - basic	<u>3,703,011</u>	<u>3,579,114</u>	<u>3,641,062</u>	<u>3,579,114</u>
Weighted average shares outstanding - diluted	<u>3,783,324</u>	<u>3,579,114</u>	<u>3,670,457</u>	<u>3,579,114</u>

See independent accountants' review report and notes to condensed consolidated financial statements

**AIR INDUSTRIES GROUP, INC.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(Unaudited)**

**Six Months ended June 30, 2012**

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
<b>Balance, January 1, 2012</b>	-	\$ -	-	\$ -	3,579,114	\$ 4,000	\$ 26,141,000	\$ (21,479,000)	\$ 4,666,000
Issuance of Shares For Acquisition	-	-	-	-	66,667	-	300,000	-	300,000
Issuance of Shares For Private Placement	-	-	-	-	1,147,518	1,000	6,331,000	-	6,332,000
Issuance of Shares For conversion of Junior Subordinated Notes	-	-	-	-	867,461	1,000	5,203,000	-	5,204,000
Issuance of Shares For Costs Associated with Private Placement	-	-	-	-	12,000	-	-	-	-
Stock compensation expense	-	-	-	-	-	-	43,000	-	43,000
Net income	-	-	-	-	-	-	-	1,139,000	1,139,000
<b>Balance, June 30, 2012</b>	-	\$ -	-	\$ -	5,672,760	\$ 6,000	\$ 38,018,000	\$ (20,340,000)	\$ 17,684,000

**Six Months ended June 30, 2011**

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
<b>Balance, January 1, 2011</b>	-	\$ -	-	\$ -	3,579,114	\$ 4,000	\$ 26,009,000	\$ (23,726,000)	\$ 2,287,000
Stock compensation expense	-	-	-	-	-	-	60,000	-	60,000
Net income	-	-	-	-	-	-	-	860,000	860,000
<b>Balance, June 30, 2011</b>	-	\$ -	-	\$ -	3,579,114	\$ 4,000	\$ 26,069,000	\$ (22,866,000)	\$ 3,207,000

See independent accountants' review report and notes to condensed consolidated financial statements

AIR INDUSTRIES GROUP, INC.  
Condensed Consolidated Statements of Cash Flows For the Six months Ended June 30,

	2012	2011
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 1,139,000	\$ 860,000
Adjustments to Reconcile Net Income to Net Cash provided by Operating Activities		
Depreciation of property and equipment	715,000	791,000
Amortization of intangible assets	84,000	84,000
Amortization of capitalized engineering costs	225,000	360,000
Bad debt expense	241,000	188,000
Non-cash compenstion expense	43,000	60,000
Amortization of deferred financing costs	27,000	88,000
Gain on sale of real estate	(19,000)	(19,000)
Adjustments to Lease Impairment	53,000	-
<b>Changes in Assets and Liabilities</b>		
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(3,680,000)	(1,177,000)
Inventory	1,280,000	(303,000)
Prepaid Expenses and Other Current Assets	143,000	33,000
Deposits	(124,000)	50,000
Other Assets	57,000	3,000
Increase (Decrease) in Operating Liabilities		
Accounts payable and accrued expenses	(735,000)	813,000
Deferred Rent	47,000	95,000
Income Taxes payable	586,000	25,000
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>82,000</b>	<b>1,951,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for acquisition	(11,400,000)	-
Capitalized engineering costs	(162,000)	(296,000)
Purchase of property and equipment	(243,000)	(288,000)
Deposit for new property and equipment	(116,000)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(11,921,000)</b>	<b>(584,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Private Placement	6,885,000	-
Payment of Issuance costs for Private Placement	(553,000)	-
Notes payable - Sellers	(295,000)	(210,000)
Capital lease obligations	(282,000)	(195,000)
Notes payable - Revolver	3,397,000	(677,000)
Notes payable - Term Loan PNC	3,400,000	(500,000)
Cash paid for deferred financing costs	-	(20,000)
Payments related to Lease Impairment	(55,000)	(50,000)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>12,497,000</b>	<b>(1,652,000)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>658,000</b>	<b>(285,000)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>577,000</b>	<b>537,000</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 1,235,000</b>	<b>\$ 252,000</b>
<b>Supplemental cash flow information</b>		
Cash paid during the year for interest	\$ 860,000	\$ 944,000
<b>Supplemental cash flow information</b>		
Cash paid during the year for income taxes	\$ 64,000	\$ -
<b>Supplemental schedule of non-cash investing and financing activities</b>		
Junior Subordinated Debt Converted to Common Stock	\$ 5,204,000	\$ -
Property and equipment acquired under capital lease	\$ -	\$ 827,000
<b>Purchase of substantially all assets of Nassau Tool Works, Inc and assumption of liabilities in the acquisition as follows:</b>		
Fair Value of Tangible Assets acquired	\$ 7,941,000	
Intangible assets, subject to amortization	\$ 4,975,000	
Goodwill	162,000	
Liabilities assumed	(660,000)	
Due to Seller	(718,000)	

Common Stock

(300,000)

Cash paid for acquisition

\$ 11,400,000

See independent accountants' review report and notes to condensed consolidated financial statements

**Note 1. FORMATION AND BASIS OF PRESENTATION**

**Organization and Principal Business Activity**

Air Industries Group, Inc. (the "Company" or "AIRI"), a Delaware corporation, was incorporated on January 13, 2006.

The accompanying condensed consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corporation ("AIM"), Welding Metallurgy, Inc. ("Welding") and Nassau Tool Works, Inc. ("NTW") which was acquired on June 20, 2012.

The Company through its AIM subsidiary is primarily engaged in manufacturing aircraft structural parts, and assemblies for prime defense contractors in the aerospace industry in the United States. The Company's customers consist mainly of publicly-traded companies in the aerospace industry. Welding is a specialty welding and products provider whose significant customers include the world's largest aircraft manufacturers, subcontractors, and original equipment manufacturers. NTW is a manufacturer of aerospace components, principally landing gear for F-16 and F-18 fighter aircraft.

**Basis of Presentation**

These condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. These unaudited interim condensed consolidated financial statements, which, in the opinion of management, reflect all adjustments (including normal recurring adjustments) necessary for a fair presentation, should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2011. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for any future interim period or for the entire fiscal year. The results of NTW are included as of June 20, 2012.

**Note 2. ACQUISITION**

On March 15, 2012, the Company, through a newly created subsidiary, entered into a contract with NTW and its shareholders (the "NTW Sellers") to purchase substantially all of the assets, and to assume certain liabilities, for \$12.0 million (\$12,000,000), subject to positive or negative adjustments based on net working capital at closing. The acquisition was completed on June 20, 2012, and the assets, liabilities and the business of NTW is now operated through our new third subsidiary of the Company. The two former shareholders of NTW have joined the management team of the Company pursuant to management contracts.

The acquisition of NTW, Inc was financed by a combination of debt and equity. The Company increased its borrowings from its existing revolving loan and term facilities which have been expanded (see Note 8), and raised equity from a Private Placement during June 2012 (see Note 9).

NTW founded in 1959 is a manufacturer of aerospace components, principally landing gear for F-16 and F-18 fighter aircraft. In recent years approximately 80% of NTW's net sales are direct to the US Government, specifically the US Navy and Air Force. NTW believes that some of its products are ultimately shipped abroad to support foreign military sales by the US Government. NTW supplies both individual components for repair and complete landing gear for refurbishment. The balance of NTW's net sales involve machining, turning, deep-hole drilling, and trepanning projects for other aerospace manufacturers.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The acquisition of NTW by AIRI results in a larger enterprise, with greater diversification of customers and aircraft platforms. The combined company has enhanced technical capabilities which we believe will lead to increased sales of landing gear product to our existing and prospective customers.

The acquisition of NTW was accounted for under ASC 805, "Business Combinations." The total purchase price was allocated to assets acquired and liabilities assumed based on a study of their relative fair values. The final valuation has been completed. The purchase price allocation is set forth below.

Fair Value of Tangible Assets acquired	\$ 7,941,000
Intangible assets, subject to amortization	4,975,000
Goodwill	162,000
Liabilities assumed	(660,000)
<b>Total</b>	<b>\$ 12,418,000</b>

The cost of the acquisition totaled \$12,418,000. The purchase price of the acquisition is as follows:

1. At closing, the NTW Sellers were paid \$11,400,000.
2. The issuance of 66,667 shares of common stock valued at \$300,000.
3. \$200,000 paid in July after the release of a lien on certain property and equipment purchased.
4. \$518,000 to be paid for a working capital adjustment. See below.

It was determined that an increase in the NTW Sellers' working capital adjustment in the amount of \$518,000 was necessary and is reflected in the purchase price allocation above. At June 30, 2012, this amount is due and payable to the NTW Sellers and is included on the condensed consolidated balance sheet in accounts payable and accrued expenses.

In addition, in July 2012, the Company paid \$107,000 of liabilities of NTW not assumed under the acquisition agreement. Such amount will either be repaid by NTW or offset against amounts owed to the NTW Sellers.

**Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounts Receivable**

Accounts receivable are reported at their outstanding unpaid principal balances net of allowances for uncollectable accounts. The Company provides for allowances for uncollectible receivables based on management's estimate of uncollectible amounts considering age, collection history, and any other factors considered appropriate. The Company writes off accounts receivable against the Allowance for Doubtful Accounts when a balance is determined to be uncollectible.

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(Unaudited)</b>	
Accounts Receivable Gross	\$ 11,611,000	\$ 6,992,000
Allowance for Doubtful Accounts	(1,067,000)	(950,000)
<b>Accounts Receivable Net</b>	<b>\$ 10,544,000</b>	<b>\$ 6,042,000</b>

**Inventory Valuation**

Inventory at June 30, 2012 and 2011 was computed based on a “gross profit” method.

The Company valued inventory at December 31, 2011 at the lower of cost on a first-in-first-out basis or market.

**Long-Lived and Intangible Assets**

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit.

Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. There has been no impairment as of June 30, 2012 and December 31, 2011.

**Credit and Concentration Risks**

There were two customers that represented 60.6% and 73.5% of total sales for the three months ended June 30, 2012 and 2011, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	2012	2011
	(Unaudited)	(Unaudited)
1	31.6	21.5
2	29.0	52.0

There were two customers that represented 64.9% and 67.1% of total sales for the six months ended June 30, 2012 and 2011, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	2012	2011
	(Unaudited)	(Unaudited)
1	33.7	47.9
2	31.2	19.2



AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

There were four customers that represented 69.8% of gross accounts receivable at June 30, 2012 and five customers that represented 82.2% of gross accounts receivable at December 31, 2011. This is set forth in the table below.

Customer	Percentage of Receivables	
	June	December
	2012	2011
	<u>(Unaudited)</u>	
1	26.6	18.3
2	19.7	12.9
3	11.8	26.2
4	11.7	13.3
5	*	11.5

\* Customer was less than 10% of receivables at June 30, 2012

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

Substantially all of the workforce at AIM is subject to a union contract with the United Service Workers Union TUJAT Local 355 (the "Union"). The contract expires on December 31, 2015.

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

#### Earnings per share

Basic earnings per share is computed by dividing the net income applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Potentially dilutive shares, using the treasury stock method, are included in the diluted per-share calculations for all periods when the effect of their inclusion is dilutive. The following securities have been excluded from the calculation as their effect would be anti-dilutive:

	June 30, 2012	June 30, 2011
Stock Options	15,548	291,428
Warrants	250	19,865

#### Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model.

The Company recorded expenses of \$21,000 and \$29,000 for the three months ended June 30, 2012 and 2011, respectively and expenses of \$43,000 and \$60,000 for the six months ended June 30, 2012 and 2011, respectively, in its consolidated statement of operations. These expenses are included as a component of general and administrative expense.

#### Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of \$453,000 is comprised of \$291,000 that relates to the acquisition of Welding and \$162,000 that relates to the acquisition of NTW. Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist. The Company has determined that there has been no impairment of goodwill at June 30, 2012 and December 31, 2011.

**Subsequent Events**

Management has evaluated subsequent events through September 13, 2012, the date at which the financial statements were available to be issued.

**Note 4. INVENTORY**

The components of inventory at December 31, 2011 consisted of the following:

Raw Materials	\$	5,209,000
Work In Progress		12,094,000
Finished Goods		7,021,000
Inventory Reserve		(1,803,000)
<b>Total Inventory</b>	<b>\$</b>	<b>22,521,000</b>

**Note 5. PROPERTY AND EQUIPMENT**

The components of property and equipment consisted of the following:

	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>	
	<u>(Unaudited)</u>		
Machinery and Equipment	\$ 5,501,000	\$ 3,700,000	5 - 8 years
Capital Lease Machinery and Equipment	3,877,000	3,877,000	5 - 8 years
Tools and Instruments	3,456,000	3,417,000	1.5 - 7 years
Automotive Equipment	55,000	55,000	5 years
Furniture and Fixtures	231,000	219,000	5 - 8 years
Leasehold Improvements	612,000	595,000	Term of Lease
Computers and Software	173,000	158,000	4-6 years
<b>Total Property and Equipment</b>	<b>13,905,000</b>	<b>12,021,000</b>	
<b>Less: Accumulated Depreciation</b>	<b>(8,765,000)</b>	<b>(8,050,000)</b>	
<b>Property and Equipment, net</b>	<b>\$ 5,140,000</b>	<b>\$ 3,971,000</b>	

Depreciation expense for the three months ended June 30, 2012 and 2011 were approximately \$359,000 and \$379,000, respectively. Depreciation expense for the six months ended June 30, 2012 and 2011 were approximately \$715,000 and \$791,000, respectively.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Note 6. INTANGIBLE ASSETS**

The components of the intangibles assets consisted of the following:

	<b>June 30, 2012 (Unaudited)</b>	<b>December 31, 2011</b>	
Customer Relationships	\$ 5,815,000	\$ 890,000	5 to 14 years
Trade Names	770,000	770,000	20 years
Technical Know-how	660,000	660,000	10 years
Non-Compete	50,000	-	5 years
Professional Certifications	15,000	15,000	.25 to 2 years
Total Intangible Assets	<u>7,310,000</u>	<u>2,335,000</u>	
Less: Accumulated Amortization	<u>(812,000)</u>	<u>(728,000)</u>	
Intangible Assets, net	<u>\$ 6,498,000</u>	<u>\$ 1,607,000</u>	

The expense for the amortization of the intangibles for both the three and six months ended June 30, 2012 and 2011 was approximately \$42,000 and 84,000 respectively.

**Note 7. SALE AND LEASEBACK TRANSACTION**

On October 24, 2006, the Company consummated a Sale and Leaseback Arrangement, whereby the Company sold the buildings and real property comprising its corporate headquarters in Bay Shore, New York (the "Property") for a purchase price of \$6,200,000. The Company accounted for the transaction under the provisions of FASB ASC 840-40, "Leases – Sale-Leaseback Transactions." The Company realized a gain on the sale of \$1,051,000 of which \$300,000 was recognized during the year ended December 31, 2006. The remaining \$751,000 is being recognized ratably over the remaining term of the twenty year lease at approximately \$38,000 per year. The gain is included in Other Income in the accompanying Condensed Consolidated Statement of Income. The unrecognized portion of the gain in the amount of \$542,000 and \$561,000 as of June 30, 2012 and December 31, 2011, respectively, is classified as Deferred Gain on Sale in the accompanying Condensed Consolidated Balance Sheet.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Note 8. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS**

Notes payable and capital lease obligations at consist of the following:

	<b>June 30, 2012 (Unaudited)</b>	<b>December 31, 2011</b>
Revolving credit notes payable to PNC Bank N.A. ("PNC") and secured by substantially all assets	\$ 14,278,000	\$ 10,880,000
Term loan, PNC	5,400,000	2,000,000
Capital lease obligations	1,589,000	1,871,000
Notes payable to sellers of acquired business	1,681,000	1,976,000
Junior subordinated notes	1,115,000	6,320,000
Subtotal	24,063,000	23,047,000
Less: Current portion of notes and capital obligations	(17,297,000)	(14,055,000)
Notes payable and capital lease obligations, net of current portion	<u>\$ 6,766,000</u>	<u>\$ 8,992,000</u>

**PNC Bank N.A. ("PNC")**

The Company has a credit facility with PNC (the "Loan Facility"), secured by substantially all of its assets. Simultaneously with the acquisition of NTW, the Company entered in to an amendment to the Loan Facility and paid an amendment fee of \$50,000. The Loan Facility now provides for maximum borrowings of \$23,400,000 (increased from \$19,000,000) consisting of the following:

- (i) a \$18,000,000 revolving loan (includes inventory sub-limit of \$12,250,000)
- (ii) a \$5,400,000 term loan and
- (iii) adds NTW as one of the borrowers

The Company borrowed an additional \$2,840,000 under the revolving loan as part of the acquisition of NTW. The revolving loan bears interest at (a) the sum PNC's base commercial lending rate as published from time to time ("PNC Rate") plus 2.00% or (b) the greater of the sum of the Eurodollar rate plus 3.5. The revolving loan had an interest rate of 5.50% per annum at both June 30, 2012 and December 31, 2011, and an outstanding balance of \$14,278,000 and \$10,880,000, respectively. The maturity date of the revolving loan was extended from November 15, 2013 to November 30, 2016.

Each day, the Company's cash collections are swept directly by the bank to reduce the revolving loans and we then borrow according to a borrowing base. As such, the Company generally has no cash on hand. Because the revolving loans contain a subjective acceleration clause which could permit PNC to require repayment prior to maturity, the loans are classified with the current portion of notes and capital lease obligations.

The Company borrowed an additional \$3,900,000 under the term loan as part of the acquisition of NTW. The balance of the term loan is now \$5,400,000. The maturity date of the term loan was extended from December 2013 to June 2015 and bears interest, at the option of the Company equal to (a) the greater of (i) the sum of the PNC Rate plus 6.5% and (ii) 11.5%, with respect to Domestic Rate Loans or (b) the greater of (i) the sum of the Eurodollar Rate plus 8.5% and (ii) 10.5%, with respect to Eurodollar Rate Loans. Repayment under the term loan shall consist of 36 consecutive monthly principal installments, the first 35 of which will be in the amount of \$150,000 commencing on the first business day of July 2012, with the 36<sup>th</sup> and final payment of any unpaid balance of principal and interest payable on the first business day of June 2015. Additionally, there is a mandatory prepayment equal to 50% of Excess Cash Flow (as defined) for each fiscal quarter commencing with the fiscal quarter ended September 30, 2012, payable upon the delivery of the financial statements to PNC for such fiscal period, but no later than 45 days after the end of the fiscal period. At June 30, 2012 and December 31, 2011, the balance due under the term loan was \$5,400,000 and \$2,000,000, respectively.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the extent that the Company disposes of collateral used to secure the Loan Facility, other than inventory, the Company must promptly repay the draws on the credit facility in amount equal to the net proceeds of such sale.

The terms of the Loan Facility require that, among other things, the Company maintain certain financial ratios and levels of working capital. As of June 30, 2012 and December 31, 2011, the Company was in compliance with all terms of its credit facility with PNC.

The Loan Facility also is secured by all assets of the Company and the Company's receivables are payable directly into a lockbox controlled by PNC (subject to the terms of the Loan Facility). PNC may use some elements of subjective business judgment in determining whether a material adverse change has occurred in the Company's condition, results of operations, assets, business, properties or prospects allowing it to demand repayment of the Loan Facility.

As of June 30, 2012 the future minimum principal payments for the term loan are as follows

<u>For the twelve months ending</u>	<u>Amount</u>
June 30, 2013	\$ 1,800,000
June 30, 2014	1,800,000
June 30, 2015	<u>1,800,000</u>
PNC Term Loan Payable	5,400,000
Less: Current portion	<u>(1,800,000)</u>
Long-term portion	<u>\$ 3,600,000</u>

Interest expense related to these credit facilities amounted to approximately \$205,000 and \$226,000 for the three months ended June 30, 2012 and 2011, respectively, and \$410,000 and \$476,000 for the six months ended June 30, 2012 and 2011, respectively

On July 16, 2012 the Company entered into the 18<sup>th</sup> amendment to our Credit Facility with PNC bank. This amendment allowed for the repayment of \$115,000 of our Junior Subordinated Notes.

#### **Capital Leases Payable – Equipment**

The Company is committed under several capital leases for manufacturing and computer equipment. All leases had bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled \$1,589,000 and \$1,871,000 as of June 30, 2012 and December 31, 2011, respectively, with various interest rates ranging from 7.7% to 9.5%.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

<u>For the twelve months ending</u>	<u>Amount</u>
June 30, 2013	\$ 711,000
June 30, 2014	671,000
June 30, 2015	212,000
June 30, 2016	207,000
Total future minimum lease payments	1,801,000
Less: imputed interest	(212,000)
Less: current portion	(598,000)
Total Long Term Portion	\$ 991,000

**Notes Payable - Sellers**

As of June 30, 2012 and December 31, 2011, the balance owed to the sellers of Welding is:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(Unaudited)</b>	
Former Welding Stockholders	\$ 1,681,000	\$ 1,976,000
Less: Current Portion	(622,000)	(601,000)
Total long-term portion	\$ 1,059,000	\$ 1,375,000

In connection with the acquisition of Welding on August 24, 2007, the Company incurred a note payable ("Note") to the former stockholders of Welding. Our obligation under the Note is subordinate to our indebtedness to PNC.

The Note and payment terms were adjusted and/or amended several times. On October 1, 2010, the Company entered into letter agreement with the former stockholders of Welding. It was agreed that all interest that had been accrued and not yet paid under prior arrangements would be capitalized into the principal balance of the note, making the new balance of the note \$2,397,967. Payments on the note began on October 1, 2010. It was further agreed that payments would be made according to the following schedule: equal monthly installments of \$40,000 on the first business day of each month until December 31, 2011, followed by equal monthly installments of \$60,000 on the first business day of each month commencing on January 1, 2012 and continuing until the entire principal amount of the obligation is paid in full, which is estimated to be in January 2015. Interest shall accrue at the rate of 7% per annum, and each payment will first apply to interest and then to principal. At June 30, 2012 and December 31, 2011, the balance owed under the note was \$1,681,000 and \$1,976,000 respectively.

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012, the future minimum payments for the note payable to the former stockholders of Welding are as follows:

For the twelve months ending	Amount
June 30, 2013	\$ 622,000
June 30, 2014	667,000
June 30, 2015	392,000
Former WMI Stockholders Notes Payable	1,681,000
Less: Current portion	(622,000)
Long-term portion	\$ 1,059,000

Interest expense related to notes payable to the former stockholders was \$31,000 and \$38,000 for the three months ended March 31, 2012 and 2011, respectively and \$65,000 and \$78,000 for the six months ended June 30, 2012 and 2011 respectively.

**Junior Subordinated Notes**

In 2008, the Company sold in a series of private placements to accredited investors \$5,545,000 of principal in junior subordinated notes, together with 983,324 shares of its common stock and 207,600 shares of Series B Convertible Preferred Stock ("Series B Preferred"), for a total purchase price of \$5,545,000. The notes bear interest at the rate of 1% per month (or 12% per annum).

In the first quarter ended March 31, 2009, the Company sold in a private placement to accredited investors, an additional \$445,000 of principal in notes together with 35,600 shares of our Series B Preferred for a total purchase price of \$445,000.

In connection with the offering of the Company's junior subordinated notes and Series B Preferred which commenced in September 2008, the Company issued to Taglich Brothers, Inc. ("Taglich"), as placement agent, a junior subordinated note in the principal amount of \$510,000 and 39,640 shares of Series B Preferred. The terms of the note issued to Taglich are identical to the notes. In addition, the Company issued a warrant to purchase 137,138 shares of its Series B Preferred to Taglich. In connection with the amounts raised in 2009, the Company issued Taglich 3,560 shares of Preferred Series B and will issue to Taglich a note on the same terms as the Junior Subordinated Notes referred to above for commission of \$44,500.

In conjunction with the Private Placement of our common stock to raise money for the acquisition of NTW, we solicited the holders of our Junior Subordinated Notes to convert their notes to Common Stock at a price of \$6.00 per share. On June 29, 2012, we issued 867,461 shares of our common stock in exchange for approximately \$5,204,000 of our Junior Subordinated Notes. On July 26, 2012, we repaid \$115,000 of our Junior Subordinated Notes along with the accrued interest thereon of approximately \$1,000.

The due date of the remaining notes were extended from November 18, 2013 to mature on November 30, 2016 and are subordinated to the Company's obligations to PNC.

The balance owed at June 30, 2012 and December 31, 2011 amounted to \$1,115,000 and \$6,320,000, respectively.

Interest expense amounted to \$188,000 and \$193,000 for the three months ended June 30, 2012 and 2011, respectively and \$379,000 and \$387,000 for the six months ended June 30, 2012 and 2011 respectively.

**Note 9. STOCKHOLDERS' EQUITY**

**Common Stock Issuances**

In June 2012, the Company issued 1,147,518 shares of its Common Stock in a Private Placement to Accredited Investors. The Company received \$6,332,000 net of commissions and expenses.

Our agent, Taglich, received commissions in the amount of approximately \$539,000, along with 12,000 shares of common stock, and a Warrant to purchase approximately 115,000 shares of Common Stock at \$6.30. The Company also paid approximately \$15,000 of legal fees on behalf of Taglich.

The proceeds from the sale of the Common Stock were used to finance the acquisition of NTW.

On July 12, 2012 the Company issued approximately 38,000 shares of its Common Stock subject to the same Private Placement to Accredited Investors. The Company received approximately \$197,000 net of commissions to Taglich of approximately \$31,000 and legal fees of approximately \$3,000. The Company issued a Warrant to Taglich to purchase approximately 4,000 shares of Common Stock at \$6.30.

**Note 10. COMMITMENTS AND CONTINGENCIES**

**Lease Impairment**

A former subsidiary was located in our Plant Avenue facility and following the discontinuance of its operations, a portion of the facility was vacant. The Company recorded a charge for \$579,000 at December 31, 2009 representing the estimated discounted future cost of part of the Plant Avenue facility.

As of June 30, 2012, the estimated discounted future cost will be charged to expense as follows:

<u>For the twelve months ending</u>	<u>Amount</u>
June 30, 2013	\$ 91,000
June 30, 2014	78,000
June 30, 2015	64,000
June 30, 2016	25,000
Total future minimum lease payments	258,000
Less: current portion	(91,000)
Total Long-Term Portion	<u>\$ 167,000</u>

**Litigation**

Sigma Metals, Inc ("Sigma"): Several former vendors to Sigma had commenced legal action against Sigma seeking to recover amounts owed to them. All of these have been settled except for one that is still deciding to commence litigation seeking the recovery of approximately \$71,000. Settlement discussions have commenced with this vendor but there is not yet a definitive resolution. Such amount is included in accounts payable and accrued expenses at June 30, 2012 and December 31, 2011.



AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Note 11. INCOME TAXES**

The provision for income taxes at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
	(Unaudited)	(Unaudited)
<b>Current</b>		
Federal	\$ 484,889	\$ -
Federal AMT	-	25,000
State	163,517	-
<b>Total Expense</b>	<b>648,406</b>	<b>25,000</b>
<b>Deferred</b>		
Federal	-	-
State	-	-
<b>Total Deferred Taxes</b>	<b>-</b>	<b>-</b>
<b>Net Expense for Income Taxes</b>	<b>\$ 648,406</b>	<b>\$ 25,000</b>

AIR INDUSTRIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The components of net deferred tax assets as of June 30, 2012 and December 31, 2011 are set forth below:

Deferred tax assets:	<b>June 30, 2012 (Unaudited)</b>	<b>December 31, 2011</b>
Net operating loss carry forwards	\$ -	\$ 289,000
Capital loss carry forwards	1,088,000	1,088,000
Bad debts	427,000	380,000
Stock based compensation - options and restricted stock	483,000	466,000
Capitalized engineering costs	396,000	356,000
Account payable, accrued expenses and reserves	9,000	9,000
Deferred rent	406,000	390,000
Inventory - 263A adjustment	627,000	-
Lease Impairment	114,000	-
Deferred gain on sale of real estate	217,000	224,000
Section 1231 loss carryover	86,000	86,000
Total deferred tax assets before valuation allowance	3,853,000	3,288,000
Valuation allowance	(2,523,000)	(1,217,000)
Total deferred tax assets after valuation allowance	1,330,000	2,071,000
Deferred tax liabilities:		
Property and equipment	(721,000)	(801,000)
Amortization - Welding Transaction	(609,000)	(643,000)
Inventory - 263A adjustment	-	(627,000)
Total Deferred Tax Liability	(1,330,000)	(2,071,000)
Net deferred tax asset	\$ -	\$ -

## Financial Statements

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*Year Ended December 31, 2011*

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### Financial Statements

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**Independent Auditors' Report**

Stockholders  
Nassau Tool Works, Inc.  
West Babylon, New York

We have audited the accompanying balance sheet of Nassau Tool Works, Inc. (the "Company") as of December 31, 2011, and the related statement of earnings, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company's financial statements do not include the assets, liabilities, results of operations, cash flows or note disclosures of an affiliated variable interest entity who qualifies for consolidation. In our opinion, disclosure of that information is required to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Nassau Tool Works, Inc. as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Melville, New York  
May 24, 2012

# NASSAU TOOL WORKS, INC.

## Balance Sheet

December 31, 2011

### Assets

#### Current Assets:

Cash and cash equivalents	\$	3,216,698
Accounts receivable		434,914
Inventories, net of progress billings		5,639,818
Total Current Assets		9,291,430

Property and Equipment, net		354,434
Other Assets		411,944
Total Assets	\$	10,057,808

### Liabilities and Stockholders' Equity

#### Current Liabilities:

Accounts payable and accrued expenses	\$	1,453,737
Customer deposits		68,480
Total Current Liabilities		1,522,217

Due to Stockholders - Subordinated		123,858
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#### Commitments

#### Stockholders' Equity:

Common stock, no par value; 200 shares authorized, 150 shares issued		8,700
Additional paid-in capital		200,000
Retained earnings		8,603,033
Total Stockholders' Equity		8,811,733
Less Cost of 50 Shares Held in Treasury		(400,000)
Total Stockholders' Equity		8,411,733
Total Liabilities and Stockholders' Equity	\$	10,057,808

See notes to financial statements.

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# NASSAU TOOL WORKS, INC.

## Statement of Earnings

Year Ended December 31, 2011

Revenues:	
Net sales	\$ 16,223,739
Costs and Expenses:	
Cost of goods sold	9,927,306
Selling, general and administrative expenses	1,526,316
Interest expense	68,574
	<u>11,522,196</u>
Earnings from Operations	4,701,543
Other Income	610
Net Earnings	<u>\$ 4,702,153</u>

See notes to financial statements.

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# NASSAU TOOL WORKS, INC.

## Statement of Stockholders' Equity

Year Ended December 31, 2011

	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance, January 1, 2011	\$ 3,400,807	\$ 8,700	\$ 200,000	\$ 3,592,107	\$ (400,000)
Prior Period Adjustments	1,028,055	-	-	1,028,055	-
Distributions to Stockholders	(719,282)	-	-	(719,282)	-
Net Earnings	4,702,153	-	-	4,702,153	-
Balance, December 31, 2011	\$ 8,411,733	\$ 8,700	\$ 200,000	\$ 8,603,033	\$ (400,000)

See notes to financial statements.

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**Statement of Cash Flows**

*Year Ended December 31, 2011*

<b>Cash Flows from Operating Activities:</b>	
Net earnings	\$ 4,702,153
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>	
Depreciation	83,996
Bad debts	(32,845)
<b>Changes in operating assets and liabilities:</b>	
<b>Decrease in assets:</b>	
Accounts receivable	1,016,806
Inventories, net of progress billings	70,952
<b>(Decrease) increase in liabilities:</b>	
Accounts payable and accrued expenses	(1,445,372)
Customer deposit	68,480
<b>Total adjustments</b>	<b>(237,983)</b>
<b>Net Cash Provided by Operating Activities</b>	<b>4,464,170</b>
<b>Cash Flows from Investing Activities:</b>	
Capital expenditures	(33,226)
Increase in cash surrender value of life insurance policies	(29,562)
<b>Net Cash Used in Investing Activities</b>	<b>(62,788)</b>
<b>Cash Flows from Financing Activities:</b>	
Principal payments on bank debt	(700,000)
Principal payments on loan payable	(39,784)
Repayments to affiliate	(975,000)
Distributions to stockholders	(719,282)
Repayments of loans on officer's life insurance	(5,229)
<b>Net Cash Used in Financing Activities</b>	<b>(2,439,295)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,962,087</b>
Cash and Cash Equivalents, beginning of year	1,254,611
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 3,216,698</b>

*See notes to financial statements.*



## Notes to Financial Statements

Year Ended December 31, 2011

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### 1. Summary of Significant Accounting Policies

**Description of business** - Nassau Tool Works, Inc. (the "Company") is engaged in critical manufacturing of aircraft landing gear components of major aircraft manufacturers throughout the United States and Canada.

**Concentration of credit risk** - Financial instruments which potentially subject the Company to a concentration of credit risk consist primarily of cash and accounts receivable. The Company places its cash in checking and money market accounts with financial institutions insured by the FDIC. At times, such investments exceed the FDIC insurance limit or are not covered by FDIC insurance; however, these amounts are typically accessed upon demand and therefore bear minimal risk. The Company performs ongoing credit evaluations of its customers and generally does not require collateral.

**Fair value** - The Company adopted the standards related to "Fair Value Measurements and Disclosures" which provides guidance for using fair value to measure assets and liabilities. Under these standards, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (exit price). The Company must classify fair value measurements in one of the following categories:

Level 1 - Inputs which are defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs which are defined as inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 - Inputs are defined as unobservable inputs for the assets or liabilities.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may effect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

**Revenue recognition** - The Company recognizes revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates and returns.

**Inventories** - Inventories are valued at the lower of cost or market using the first-in, first-out ("FIFO") method.

**Estimates** - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Allowance for doubtful accounts** - Management must make estimates of the uncollectability of accounts receivable. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. There was no allowance for doubtful accounts at December 31, 2011.

**Depreciation** - Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

**Notes to Financial Statements**

*Year Ended December 31, 2011*

**Income taxes** - As a sub-chapter "S" Corporation and a limited liability company, the Company is not subjected to federal and state income taxes. Accordingly, the Company's profits and losses are passed directly to its stockholders for inclusion in their income tax returns. Accordingly, no provision for federal or state income taxes is included in the financial statements.

**Uncertain tax positions** - It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more-likely-than-not to be sustained upon examination by taxing authorities. To the extent that the Company prevails in matters for which a liability for an unrecognized tax benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected. The Company's policy is to recognize interest and penalties related to income tax issues as components of income tax expense. As of December 31, 2011, the Company does not believe it has any uncertain tax positions that would require either recognition or disclosure in the accompanying financial statements. The Company is subject to examination by the Internal Revenue Service for years 2008 through 2011.

**Statement of cash flows** - For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Shipping and handling costs** - The Company has included freight-out as a component of selling, general and administrative expenses, which amounted to approximately \$39,000 for the year ended December 31, 2011.

**2. Inventories**

Inventories consist of the following:

*December 31, 2011*

Work in Process	\$	6,411,700
Hardware		498,385
Less Progress Billings		(1,270,267)
	\$	5,639,818

Inventories are presented net of progress billings in accordance with the specified contractual arrangements with the United States Government ("USG"), which results in the transfer of title of the related inventory from the Company to the USG.

**3. Property and Equipment**

Property and equipment, at cost, consists of the following:

*December 31, 2011*

Machinery and Equipment	\$	9,198,938
Transportation Equipment		167,583
Leasehold Improvements		335,814
Furniture and Fixtures		204,619
Less Accumulated Depreciation		(9,552,520)
	\$	354,434

## Notes to Financial Statements

Year Ended December 31, 2011

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### 4. Other Assets

Other assets at December 31, 2011 include approximately \$412,000 of cash surrender value on life insurance policies, net of outstanding loans of approximately \$64,000.

### 5. Notes Payable - Bank

The Company has available a \$1,500,000 revolving line of credit that bears interest at the bank's lending rate (3.25% at December 31, 2011), expires on May 31, 2012 and is payable on demand. There were no amounts outstanding against the line of credit as of December 31, 2011.

### 6. Due to Stockholders - Subordinated

Amounts due to stockholders at December 31, 2011 are due on demand and bear interest at 9.00% per annum. These amounts are subordinated to the line of credit as described above in Note 5. Included in accrued expenses at December 31, 2011 is approximately \$172,000 of accrued interest related to this loan.

### 7. Supplementary Information to Cash Flow Statement

Interest paid for the year ended December 31, 2011 was approximately \$9,700.

Taxes paid for the year ended December 31, 2011 was approximately \$3,000.

### 8. Major Customers

The Company derived revenue from two customers approximating 42% and 28%, respectively, of total revenue for the year ended December 31, 2011.

Accounts receivable related to these customers was approximately \$0 and \$22,000, respectively, at December 31, 2011.

### 9. Profit-Sharing Plan and 401(k) Savings Plan

The Company maintains a profit-sharing plan pursuant to the Internal Revenue Code covering all employees who have attained 21 years of age with six months or more of service. The amount of employer contributions is determined annually by the board of directors. The Company also has a 401(k) savings plan. Employees can contribute to the Plan up to a maximum of 20% of gross compensation. The employer may make matching contributions equal to a discretionary percentage determined by the board of directors. The Company contributed approximately \$18,000 for the year ended December 31, 2011.

### 10. License Agreement

On May 18, 2001, the Company entered into a ten year license agreement with Boeing Aircraft ("Licensor") for the right to use the Licensor's technical data in connection with the manufacture and sale of certain landing gear parts and technical services. Either party can terminate the agreement with 90 days written notice. In August 2009, the license agreement was amended to clarify the license fee calculation and extend the agreement until June 30, 2012.

The license agreement provides for an initial payment of \$25,000, annual payments of \$10,000, plus license fees of 8% of any licensed products sold by the Company. License fees expensed under this agreement for the year ended December 31, 2011 approximated \$663,000.

**Notes to Financial Statements**

*Year Ended December 31, 2011*

**11. Related Party**

The Company leases its office and manufacturing facilities on a month-to-month basis from Edison Realty, LLC ("Edison") (an affiliate owned by the Company's stockholders). Total rental expense to its affiliate was \$360,000 for the year ended December 31, 2011, of which, \$229,000 remained unpaid and is included in accounts payable and accrued expenses at December 31, 2011.

The Company has guaranteed a mortgage on the aforementioned property. The amount outstanding at December 31, 2011 was approximately \$2,799,000. Management believes that Edison (with total unaudited assets and revenues (income tax basis) of approximately \$1,183,000 and \$360,000, respectively, as of, and for the year ended December 31, 2011) is a Variable Interest Entity. Edison engages primarily in holding real estate and leasing it to the Company for its operations, as discussed above. Management believes the Company's maximum exposure to economic loss as a result of its relationship with Edison is not likely to be material.

During 2011, the Company fully repaid principal in the aggregate of \$975,000 to Edison. The note was payable on demand and carried interest at 7.5% per annum. Included in accrued expenses at December 31, 2011 is approximately \$195,000 of interest related to this loan.

**12. Prior Period Adjustments**

As of December 31, 2010, the Company erroneously recorded the following items:

1. Omission of accrued expenses resulting in an increase in the January 1, 2011 (or "opening") stockholders' equity of \$135,682.
2. Omission of revenue resulting in a decrease in the opening stockholders' equity of \$358,300.
3. Omission of cost of goods sold resulting in a decrease in the opening stockholders' equity of \$805,437.

The prior period adjustments are summarized as follows:

	As Previously Stated	As Restated	Under/(Over) Statement of Stockholders' Equity
Accounts Payable and Accrued Expenses	\$ 2,388,021	\$ 2,523,703	\$ (135,682)
Revenue	14,643,598	15,001,898	358,300
Cost of Goods Sold	12,223,284	13,028,721	805,437
Net Adjustment from Restatement			1,028,055
Stockholders' Equity, at January 1, 2011, as previously stated			3,400,807
Stockholders' Equity, at January 1, 2011, as restated			\$ 4,428,862

**13. Subsequent Events**

The Company has evaluated events and transactions that occurred between January 1, 2012 and May 24, 2012, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements. The Company is currently negotiating the sale of substantially all of its assets to Air Industries Group, Inc. for approximately \$12,000,000. No additional events or transactions occurring during this subsequent event reporting period which require recognition or disclosure in the combined financial statements.

Pro-forma Statement of Operations of Air Industries, Inc. and Nassau Tool Works, Inc. for the Year ended December 31, 2011

	AIRI Consolidated	NTW	Adjustments	AIRI - NTW Consolidated
Net Sales	\$ 53,745,000	\$ 16,224,000		\$ 69,969,000
Cost of Sales	42,817,000	9,927,000	117,600 (a)	52,861,600
Gross Profit	10,928,000	6,297,000	(117,600)	17,107,400
Operating Expenses	6,549,000	1,526,000	846,420 (b)	8,921,420
Income from operations	4,379,000	4,771,000	(964,020)	8,185,980
Interest and financing costs	(2,102,000)	(69,000)	214,945 (c)	(1,956,055)
Other (expense) income, net	27,000	-		27,000
Income before provision for income taxes	2,304,000	4,702,000	(749,075)	6,256,925
Provision for income taxes	57,000	1,880,800 (d)	(299,630) (d)	1,638,170
Net income attributable to common stockholders	\$ 2,247,000	\$ 2,821,200	\$ (449,445)	\$ 4,618,755
Income per share - basic				\$ 0.81
Income per share - diluted				\$ 0.81
Weighted average shares outstanding - basic				5,711,093
Weighted average shares outstanding - diluted				5,711,233

(a) Represents the difference in salary between what was paid to the former owners as compared to what they are currently being paid; additional depreciation expense; additional medical insurance costs

(b) Represents the difference in salary between what was paid to the former owners as compared to what they are currently being paid; amortization of intangibles; and additional medical insurance costs

(c) Represents the change in interest expense due to the conversion of \$5,204,000 in Junior subordinated Debt to Common stock, and the increased interest expense on the additional borrowings from PNC.

(d) Represents 40% estimate tax provision/benefit of NTW as if it was a C corporation

Pro-forma Statement of Operations of Air Industries, Inc. and Nassau Tool Works, Inc. for the Six Months ended June 30, 2012

	AIRI Consolidated	NTW	Adjustments	AIRI - NTW Consolidated
Net Sales	\$ 31,278,000	\$ 6,919,479		\$ 38,197,479
Cost of Sales	24,570,000	3,640,957	59,000 (a)	28,269,957
Gross Profit	6,708,000	3,278,522	(59,000)	9,927,522
Operating Expenses	3,816,000	747,777	433,000 (b)	4,996,777
Income from operations	2,892,000	2,530,745	(492,000)	4,930,745
Interest and financing costs	(970,000)	-	79,000 (c)	(891,000)
Other (expense) income, net	(135,000)	-		(135,000)
Income before provision for income taxes	1,787,000	2,530,745	(413,000)	3,904,745
Provision for income taxes	648,000	1,012,298 (d)	(165,200) (d)	1,495,098
Net income attributable to common stockholders	\$ 1,139,000	\$ 1,518,447	\$ (247,800)	\$ 2,409,647
Income per share - basic				\$ 0.42
Income per share - diluted				\$ 0.42
Weighted average shares outstanding - basic				5,711,093
Weighted average shares outstanding - diluted				5,740,487

(a) Represents the difference in salary between what was paid to the former owners as compared to what they are currently being paid; additional depreciation expense; additional medical insurance costs

(b) Represents the difference in salary between what was paid to the former owners as compared to what they are currently being paid; amortization of intangibles; and additional medical insurance costs

(c) Represents the change in interest expense due to the conversion of \$5,204,000 in Junior subordinated Debt to Common stock, and the increased interest expense on the additional borrowings from PNC.

(d) Represents 40% estimate tax provision/benefit of NTW as if it was a C corporation

# Delaware

*The first State*

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF DESIGNATION OF "AIR INDUSTRIES GROUP, INC.", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF SEPTEMBER, A.D. 2010, AT 1:33 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

AND I DO HEREBY FURTHER CERTIFY THAT THE EFFECTIVE DATE OF THE AFORESAID CERTIFICATE OF DESIGNATION IS THE THIRTIETH DAY OF SEPTEMBER, A.D. 2010.

4089436 8100

100922082

You may verify this certificate online  
at [corp.delaware.gov/authver.shtml](http://corp.delaware.gov/authver.shtml)



  
Jeffrey W. Bullock, Secretary of State  
**AUTHENTICATION: 8236981**

**DATE: 09-20-10**

CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF DESIGNATION  
OF  
SERIES B CONVERTIBLE PREFERRED STOCK  
OF  
AIR INDUSTRIES GROUP, INC.

Air Industries Group, Inc., a corporation organized and existing under the laws of the State of Delaware (herein referred to as the "Corporation"), in accordance with the provisions of Section 151 (g) of the General Corporation Law of the State of Delaware, does hereby certify:

A resolution providing for an amendment to the Certificate of Designation of the Series B Convertible Preferred Stock of the Corporation was duly adopted by the Board of Directors of the Corporation, and approved by holders of a majority of the outstanding shares of Series B Convertible Preferred Stock at a special meeting of the stockholders of the Corporation duly called and held, which resolution provides as follows:

RESOLVED, that the Certificate of Designation creating the Series B Convertible Preferred Stock of the Corporation, filed with the Delaware Secretary of State on April 11, 2007, as amended on October 21, 2009, be further amended by adding a new Section 5A after Section 5(c) to read as follows:

"5A. Automatic Conversion.

(a) The outstanding shares of Series B Preferred Stock shall be converted into 3,400,000 shares of common stock ("New Common Shares") automatically and without any action on the part of the holders thereof (the "Automatic Conversion") upon the filing with the Office of the Secretary of State of a certificate of amendment to the certificate of incorporation of the Corporation effecting a one-for-four hundred (1-for-400) reverse stock split of the outstanding shares of the Common Stock (the "Effective Time"). The number of New Common Shares which each holder of Series B Preferred Stock shall be entitled to receive upon Automatic Conversion of the shares owned by such holder shall be determined in based upon the relative percentage of the total outstanding shares of Series B Preferred Stock owned by such holder immediately prior to the Effective Time.

(b) Upon such Automatic Conversion, the number of authorized shares of Preferred Stock shall be automatically reduced by the number of shares of Preferred Stock that had been designated as Series B Preferred Stock, and all references to the Series B Preferred Stock shall be deleted herefrom and shall be of no further force or effect.

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Any notice with respect to the Automatic Conversion shall be sent by first class or registered mail, postage prepaid, to each record holder of Series B Preferred Stock at such holder's address last shown on the records of the transfer agent for the Series B Preferred Stock (or the records of the Corporation, if it serves as its own transfer agent). Upon receipt of any such notice, each holder of shares of Series B Preferred Stock shall surrender his, her or its certificate or certificates for all such shares to the Corporation at the place designated in such notice, and shall thereafter receive certificates for the number of New Common Shares to which such holder is entitled based upon such holder's relative percentage ownership of all outstanding shares of Series B Preferred Stock immediately prior to the Effective Time. Following the Effective Time, all outstanding shares of Series B Preferred Stock shall be deemed to have been converted into shares of Common Stock, which shall be deemed to be outstanding of record, and all rights with respect to the Series B Preferred Stock so converted, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock) will terminate, except only the right of the holders thereof, upon surrender of their certificate or certificates therefor, to receive certificates for the number of shares of Common Stock into which such Series B Preferred Stock has been converted. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. As soon as practicable after the Effective Time and the surrender of the certificate or certificates for Series B Preferred Stock, the Corporation shall cause to be issued and delivered to such holder, or on his, her or its written order, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof and cash as provided in Subsection 4(b) in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion.

(c) All certificates evidencing shares of Series B Preferred Stock required to be surrendered for conversion in accordance with the provisions of this Section 5A shall, from and after the Effective Time, be deemed to have been retired and cancelled and the shares of Series B Preferred Stock represented thereby converted into Common Stock for all purposes, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date. The Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the number of authorized shares of Series B Preferred Stock accordingly."

This Certificate of Amendment shall become effective on September 30, 2010, assuming on or prior to that date it has been filed in the Office of the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment of Certificate of Designation to be executed by its duly authorized officer this 20th day of September, 2010.

AIR INDUSTRIES GROUP, INC.

By: /s/ PeterD. Rettaliata  
Peter D. Rettaliata  
President and Chief Executive Officer

# Delaware

The first State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "AIR INDUSTRIES GROUP, INC.", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF SEPTEMBER, A.D. 2010, AT 1:32 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

AND I DO HEREBY FURTHER CERTIFY THAT THE EFFECTIVE DATE OF THE AFORESAID CERTIFICATE OF AMENDMENT IS THE THIRTIETH DAY OF SEPTEMBER, A.D. 2010.

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You may verify this certificate online  
at [corp.delaware.gov/authver.shtml](http://corp.delaware.gov/authver.shtml)



  
Jeffrey W. Bullock, Secretary of State  
**AUTHENTICATION: 8236959**

**DATE: 09-20-10**

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CERTIFICATE OF AMENDMENT  
OF CERTIFICATE OF INCORPORATION OF  
AIR INDUSTRIES GROUP, INC.  
(Pursuant to Section 242 of  
the Delaware General Corporation Law)

Air Industries Group, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the Delaware General Corporation Law (the "DGCL"), does hereby certify that:

1. The name of the Corporation is Air Industries Group, Inc.

2. The Board of Directors of the Corporation at a meeting duly called duly adopted resolutions setting forth amendments to the Corporation's Certificate of Incorporation, as amended (the "Certificate of Incorporation"), declaring such amendments to be advisable and directing that the amendments be considered at the 2010 special meeting of the stockholders of the Corporation followed by a majority vote in favor of the amendments by the stockholders at such special meeting.

A. Amending Article FOURTH

(i) so that the first sentence thereof in its entirety reads as follows:

"FOURTH: The total number of shares of each class that the corporation shall have the authority to issue is 28,003,716 shares, consisting of:

- (a) 20,000,000 shares of common stock (the "Common Stock"), par value \$.001 per share; and
- (b) 8,003,716 shares of preferred stock (the "Preferred Stock"), par value \$.001 per share."

and (ii) by inserting the following paragraph at the end of Section A thereof so that the issued shares of the Corporation's Common Stock on the date hereof (the "Old Common Stock") shall be combined into a smaller number of shares of Common Stock in the ratio of one new share of Common Stock ("New Common Stock") for each 400 shares of Old Common Stock immediately upon the filing of this Certificate of Amendment.

"3. Reverse Split. Effective upon the filing of this Certificate of Amendment of Certificate of Incorporation with the Secretary of State of the State of Delaware (the "Effective Time"), the shares of the Corporation's Common Stock issued and outstanding immediately prior to the Effective Time (the "Old Common Stock"), will be automatically reclassified as and combined into shares of Common Stock (the "New Common Stock") such that each four hundred shares of Old Common Stock shall be reclassified as and combined into one share of New Common Stock. Notwithstanding the previous sentence, no fractional shares of New Common Stock shall be issued to the holders of record of Old Common Stock in connection with the foregoing reclassification of shares of Old Common Stock. In lieu thereof, upon surrender after the Effective Time of a certificate that formerly represented shares of Old Common Stock that were issued and outstanding immediately prior to the Effective Time, any person who otherwise would be entitled to receive a fractional share of New Common Stock as a result of the reclassification, following the Effective Time, shall be entitled to receive a cash payment in an amount equal to the product obtained by multiplying (a) the number of shares of Old Common Stock owned of record at the Effective Time not evenly divisible by 400, by (b) the Volume Weighted Average Price ("VWAP") per share of Old Common Stock for the 20 trading days immediately preceding June 24, 2010. Each stock certificate that immediately prior to the Effective Time represented shares of Old Common Stock shall, from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent that number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified (as well as the right to receive cash in lieu of any fractional shares of New Common Stock as set forth above); provided, however, that each holder of record of a certificate that represented shares of Old Common Stock shall receive, upon surrender of such certificate, a new certificate representing the number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified as set forth above."

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B. Adding a new Article TWELTH which reads as follows:

"The Board of Directors shall have the power to adopt, amend or repeal any or all of the provisions of the Corporation's By-laws, except that the Board of Directors may not adopt a provision which is intended to prevent a change in control of our Corporation, such as a classified or "staggered Board, increase the threshold necessary to call a meeting of stockholders beyond 10% of the outstanding shares entitled to vote or is in furtherance of the implementation of a "poison pill", subject to the power of the stockholders at any meeting of the stockholders (or by written consent in lieu of a meeting of stockholders) to adopt, amend or repeal any or all of the provisions of the Corporation's By-laws."

3. That this Certificate of Amendment was duly adopted in accordance with the provisions of Section 242 of the DGCL.

4. This Certificate of Amendment shall become effective on September 30, 2010, assuming on or prior to that date it has been filed in the Office of the Secretary of State of the State of Delaware.

Executed on this 20th day of September, 2010.

Air Industries Group, Inc.

By: /s/ Peter D. Rettaliata

Peter D. Rettaliata

President and Chief Executive Officer

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# Delaware

*The first State*

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF AMENDMENT TO EFFECTIVE DATE OF CERTIFICATE OF AMENDMENT OF "AIR INDUSTRIES GROUP, INC.", FILED IN THIS OFFICE ON THE TWENTY-NINTH DAY OF SEPTEMBER, A.D. 2010, AT 3:27 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE EFFECTIVE DATE OF THE AFORESAID CERTIFICATE OF AMENDMENT IS THE FIFTEENTH DAY OF OCTOBER, A.D. 2010.


A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

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Jeffrey W. Bullock, Secretary of State  
**AUTHENTICATION: 8259761**

**DATE: 09-29-10**

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CERTIFICATE OF AMENDMENT  
TO  
CERTIFICATE OF AMENDMENT  
OF CERTIFICATE OF INCORPORATION OF  
AIR INDUSTRIES GROUP, INC.  
(Pursuant to Section 103(d) of  
the Delaware General Corporation Law)

Air Industries Group, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the Delaware General Corporation Law (the "DGCL"), does hereby certify that:

1. The name of the Corporation is Air Industries Group, Inc.
2. On September 20, 2010, the Corporation filed a Certificate of Amendment to its Certificate of Incorporation amending Article FOURTH and adding a new Article TWELTH.
3. The Certificate of Amendment as filed on September 20, 2010 provided for an effective date of September 30, 2010.
4. This Certificate of Amendment has been filed pursuant to Section 103(d) of the General Corporation Law to amend the effective date of the Certificate of Amendment filed on September 20, 2010 to October 15, 2010.

Executed on this 29th day of September, 2010.

Air Industries Group, Inc.

By: /s/ Peter D. Rettaliata  
Peter D. Rettaliata  
President and Chief Executive Officer

**EIGHTEENTH AMENDMENT TO REVOLVING CREDIT, TERM LOAN, EQUIPMENT LINE OF CREDIT AND SECURITY AGREEMENT**

THIS EIGHTEENTH AMENDMENT TO REVOLVING CREDIT, TERM LOAN, EQUIPMENT LINE OF CREDIT AND SECURITY AGREEMENT (this "Agreement") is entered into July 11, 2012 by and among AIR INDUSTRIES MACHINING, CORP. (as successor by merger with Gales Industries Acquisition Corp., Inc.), a corporation organized under the laws of the State of New York ("Air"), WELDING METALLURGY, INC. (as successor by merger with WMS MERGER CORP.), a corporation organized under the laws of the State of New York ("WM"), NASSAU TOOL WORKS, INC. (formerly known as NTW Operating Inc.), a corporation organized under the laws of the State of New York ("Nassau" and collectively with Air and WM, the "Borrower"), AIR INDUSTRIES GROUP, INC. (f/k/a Gales Industries Incorporated), a corporation organized under the laws of the State of Delaware ("Air Group" and collectively with the Borrower, the "Obligor"), the financial institutions which are now or which hereafter become a party hereto (collectively, the "Lenders" and individually a "Lender") and PNC BANK, NATIONAL ASSOCIATION ("PNC"), as agent for Lenders (PNC, in such capacity, the "Agent").

**RECITALS**

Whereas, Borrower and PNC entered into a certain Revolving Credit, Term Loan, Equipment Line of Credit and Security Agreement dated November 30, 2005 (which has been, is being and may be further amended, replaced, restated, modified and/or extended, the "Loan Agreement"); and

Whereas, Borrower and PNC have agreed to modify the terms of the Loan Agreement as set forth in this Agreement.

Now, therefore, in consideration of PNC's continued extension of credit and the agreements contained herein, the parties agree as follows:

**AGREEMENT**

- 1) **ACKNOWLEDGMENT OF BALANCE.** Borrower acknowledges that the most recent statement of account sent to Borrower with respect to the Obligations is correct.
- 2) **MODIFICATIONS.** The Loan Agreement be and hereby is modified as follows:
  - (a) The following definition is hereby added to Section 1.2 of the Loan Agreement to read as follows:
 

"Eighteenth Amendment Closing Date" shall mean July 16, 2012.
- 3) **GUARANTOR'S RATIFICATION.** Air Group hereby reaffirms its continuing obligations under the terms of that certain Guaranty and Suretyship Agreement dated August 24, 2007 executed by Air Group (the "Guaranty"), and acknowledges that (i) it has read this Agreement, (ii) the Obligations under the Loan Agreement are secured by the Guaranty, and (iii) it makes such reaffirmation with full knowledge of the terms thereof.
- 4) **CONSENT TO REPAYMENT OF TAGLICH BROTHERS SUBORDINATED CREDIT FACILITY.** Notwithstanding anything to the contrary in the Loan Agreement and/or any Other Document, the Agent on behalf of the Lenders hereby consents and agrees to the Obligor repaying a portion of the Taglich Brothers Subordinated Credit Facility in an amount not to exceed \$115,000.
- 5) **ACKNOWLEDGMENTS.** Borrower acknowledges and represents that:
  - (A) the Loan Agreement and Other Documents, as amended hereby, are in full force and effect without any defense, claim, counterclaim, right or claim of set-off;
  - (B) to the best of its knowledge, no default by the Agent or Lenders in the performance of their duties under the Loan Agreement or the Other Documents has occurred;

(C) all representations and warranties of the Borrower contained herein, in the Loan Agreement and in the Other Documents are true and correct in all material respects as of this date, except for any representation or warranty that specifically refers to an earlier date;

(D) Borrower has taken all necessary action to authorize the execution and delivery of this Agreement; and

(E) this Agreement is a modification of an existing obligation and is not a novation.

6) **PRECONDITIONS.** As a precondition to the effectiveness of any of the modifications, consents, or waivers contained herein, the Borrower agrees to:

(A) provide the Agent with this Agreement, properly executed;

(B) provide the Agent with secretary's certificates and resolutions from the Borrower and Guarantor, in form and substance acceptable to the Agent;

(C) pay all legal fees incurred by the Agent in entering into this Agreement to Wilentz, Goldman & Spitzer; and

(D) pay all other fees and costs incurred by the Lenders in entering into this Agreement.

7) **MISCELLANEOUS.** This Agreement shall be construed in accordance with and governed by the laws of the State of New York, without reference to that state's conflicts of law principles. This Agreement, the Loan Agreement and the Other Documents constitute the sole agreement of the parties with respect to the subject matter thereof and supersede all oral negotiations and prior writings with respect to the subject matter thereof. No amendment of this Agreement, and no waiver of any one or more of the provisions hereof shall be effective unless set forth in writing and signed by the parties hereto. The illegality, unenforceability or inconsistency of any provision of this Agreement shall not in any way affect or impair the legality, enforceability or consistency of the remaining provisions of this Agreement, the Loan Agreement or the Other Documents. This Agreement, the Loan Agreement and the Other Documents are intended to be consistent. However, in the event of any inconsistencies among this Agreement, the Loan Agreement and/or any of the Other Documents, the terms of this Agreement, then the Loan Agreement, shall control. This Agreement may be executed in any number of counterparts and by the different parties on separate counterparts. Each such counterpart shall be deemed an original, but all such counterparts shall together constitute one and the same agreement.

8) **DEFINITIONS.** The terms used herein and not otherwise defined or modified herein shall have the meanings ascribed to them in the Loan Agreement. The terms used herein and not otherwise defined or modified herein or defined in the Loan Agreement shall have the meanings ascribed to them by the Uniform Commercial Code as enacted in State of New York.

IN WITNESS WHEREOF, the undersigned have signed and sealed this Agreement the day and year first above written.

ATTEST: **AIR INDUSTRIES MACHINING, CORP.**

By: /s/ Dario Peragallo  
Name: **DARIO PERAGALLO**  
Title: **Secretary**

By: /s/ Peter Rettaliata  
Name: **PETER RETTALIATA**  
Title: **President**



ATTEST:

WELDING METALLURGY, INC. (as successor  
by merger with WMS Merger Corp.)

By: /s/ Dario Peragallo  
Name: DARIO PERAGALLO  
Title: Secretary

By: /s/ Peter Rettaliata  
Name: PETER RETTALIATA  
Title: President

ATTEST:

NASSAU TOOL WORKS, INC.  
(formerly known as NTW Operating Inc.)

By: /s/ Dario Peragallo  
Name: DARIO PERAGALLO  
Title: Secretary

By: /s/ Peter Rettaliata  
Name: PETER RETTALIATA  
Title: President

ATTEST:

AIR INDUSTRIES GROUP, INC.  
(f/k/a Gales Industries Incorporated)

By: /s/ Dario Peragallo  
Name: DARIO PERAGALLO  
Title: Secretary

By: /s/ Peter Rettaliata  
Name: PETER RETTALIATA  
Title: President

PNC BANK, NATIONAL ASSOCIATION  
Lender and as Agent

By: /s/ Katherine M. Garland  
Name: KATHERINE M. GARLAND  
Title: Bank Officer

## ASSET PURCHASE AGREEMENT

**ASSET PURCHASE AGREEMENT** (this "Agreement") made and entered into as of June 20, 2012 (the "Signing Date"), among NASSAU TOOL WORKS, INC., a New York corporation (the "Company"), VINCENT DICARLO, JR. ("DiCarlo"), ROBERT E. HUNT ("Hunt," together with DiCarlo, the "Shareholders") and AIR INDUSTRIES GROUP, INC., a Delaware corporation (the "Purchaser").

### Preliminary Statement

The Company is engaged in the manufacture and assembly of parts and components for aircraft, including without limitation landing gears for military and civilian aircraft (the "Business").

The Shareholders own all of the outstanding shares of the capital stock of the Company.

The Company desires to sell, assign and deliver to Purchaser, and the Purchaser desires to purchase and acquire from the Company, substantially all of the assets and rights of the Company, on the terms and subject to the conditions set forth in this Agreement.

In consideration of the mutual representations, warranties, covenants and agreements contained in this Agreement, and for good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties agree as follows:

## **ARTICLE 1 PURCHASE AND SALE OF THE ASSETS**

### **1.1 Purchase and Sale of the Assets.**

(a) On the terms and subject to the conditions of this Agreement, on the Closing Date (as defined in Section 2.1) the Company shall sell, assign and deliver to the Purchaser or its assignee, and the Purchaser shall purchase and acquire from the Company, all of the right, title and interest of the Company in and to the assets and rights of the Company constituting the Business, including, without limitation, (i) its good will, corporate name (and any derivatives or combinations thereof) and all other intangible assets; (ii) all accounts receivable of the Company; (iii) all machinery, equipment and other items of personal property owned by the Company; (iv) all rights of the Company in and to trade names, service marks, trademarks, inventions, trade secrets, logos, proprietary processes, computer software and all other information, know-how and intellectual property rights; (v) all rights of the Company in and to insurance and insurance policies; (viii) all books and records of the Company, including a list of customers, the Company's accounting records, mailing lists and other records and files of or relating to the Purchased Assets; (ix) all of the Company's right, title and interest in and to all contracts, leases, licenses, commitments and other agreements to which the Company is a party or in which the Company has rights; (x) all Permits and applications therefor held by the Company to the extent transferable to Purchaser; (xi) all telephone numbers, e-mail addresses, websites and fax numbers associated with the Business; and (xii) all claims, causes of action and choses in action (all of such assets and rights being hereinafter collectively referred to as the "Purchased Assets"), free and clear of all Liabilities and Liens, except as expressly assumed by the Purchaser under Section 1.2(a).

(b) Anything contained in Section 1.1 (a) above to the contrary notwithstanding, the Company shall not sell, transfer, convey or assign and the Purchaser shall not purchase (i) cash on hand or on deposit in banking accounts maintained by the Company on the Closing Date, (ii) any real property, leaseholds and other interests in land and buildings owned by Company, (iii) any right to a refund for taxes paid by the Company or the Shareholders in respect of the Business, and (iv) the life insurance, automobiles and those other assets, properties and rights, listed on Schedule 1.1(b) (the assets, properties and rights referred to in clauses (i) through (iv) are referred to as the "Excluded Assets").

(c) At or prior to the Closing Date, the Company will amend its certificate of incorporation to change its corporate name to a new name bearing no resemblance to Nassau Tool Works, Inc. and which will not interfere in any jurisdiction with the use by the Purchaser (either alone or in conjunction with other words) of all or any part of such name (the "Name Change Amendment") and the Company will cease and desist from using in its corporate name Nassau Tool Works, Inc. in the conduct of any business.

(d) The Company and the Shareholders hereby irrevocably constitute and appoint the Purchaser, its successors and assigns, effective the Closing Date, the true and lawful attorney of the Company with full power of substitution, in the name of the Purchaser, or on behalf of and for the benefit of the Purchaser, to collect all accounts receivable and other items being transferred, conveyed and assigned to the Purchaser as provided herein, to endorse, without recourse, checks, notes and other instruments in the name of the Company, to institute and prosecute, in the name of the Company or otherwise, all proceedings which the Purchaser may deem proper in order to collect, assert or enforce any claim, right or title of any kind in or to the Purchased Assets, to defend and compromise any and all actions, suits or proceedings in respect of any of the Purchased Assets, and to do all such acts and things in relation thereto as the Purchaser may deem advisable. The Company and the Shareholders agree that the foregoing powers are coupled with an interest and shall be irrevocable by the Company and the Shareholders directly or indirectly by the dissolution of the Company or in any manner or for any reason. The Company and the Shareholders further agree that the Company and the Shareholders shall promptly transfer and deliver to the Purchaser any cash or other property received by the Company or the Shareholders after the Closing Date in respect of any accounts receivable or otherwise relating to the other Purchased Assets.

(e) Anything contained in this Agreement to the contrary notwithstanding, this Agreement shall not constitute an agreement or an attempted agreement to transfer, sublease or assign any contract, license, lease, commitment, sales order, purchase order or other agreement, or any claim or right of any benefit arising thereunder or resulting therefrom if any such attempted transfer, sublease or assignment thereof, without the consent of any other party thereto, would constitute a breach thereof or in any way affect the rights of the Purchaser thereunder. The Company and the Shareholders shall, between the Signing Date and the Closing Date and, if requested by the Purchaser, after the Closing Date, use reasonable commercial efforts to obtain the consent of any party or parties to any such contracts, licenses, leases, commitments, sales orders, purchase orders or other agreements to the transfer, sublease or assignment thereof by the Company to the Purchaser hereunder in all cases in which such consent is required for transfer, sublease or assignment. If any such consent is not obtained, or if an attempted assignment thereof would be ineffective or would affect the rights of the Company thereunder such that the Purchaser would not in fact receive all such rights, the Company shall perform such agreement for the account of the Purchaser or otherwise cooperate with the Purchaser in any arrangement necessary or desirable to provide for the Purchaser the benefits under any such agreement, including, without limitation, enforcement for the benefit of the Purchaser of any and all rights of the Company against the other party thereto arising out of the breach, termination or cancellation of such agreement by such other party or otherwise.

## **1.2 No Assumption of Liabilities.**

Upon the terms and conditions of this Agreement, Purchaser agrees, at the Closing, to assume all liabilities and obligations of the Company under any Contract set forth on Schedule 3.12, excluding (i) any liability relating to work performed prior to the close of business on the Closing Date, (ii) any liability to any banks or other institutional lenders to the Company and (iii) any liability or obligation set forth on Schedule 1.2(a) (the “Assumed Liabilities”). Except for those liabilities specifically assumed by Purchaser, nothing in this Agreement shall be construed to impose upon the Purchaser the assumption of any claim against or liability or obligation of the Company, arising out of the Business, or the use, operation or possession of the Purchased Assets, through the Closing, or thereafter to the extent such obligations and liabilities first arise after the Closing Date by reason of the breach or default by the Company. The Purchaser does not and shall not assume, pay, perform or discharge any liabilities or obligations of the Company other than the Assumed Liabilities, and, without limiting the foregoing, it is expressly agreed by the parties hereto that the Purchaser shall not assume any of the following liabilities or obligations of the Company: (i) liabilities or obligations for Federal, state, local or other taxes, including without limitation income taxes, property or sales taxes or reports, or other taxes of any kind or description which relate to periods prior to the Closing Date; (ii) liabilities and obligations which may arise by reason of or with respect to the dissolution or liquidation of the Company; (iii) liabilities or obligations of the Company to the Shareholders or any person or entity affiliated therewith; (iv) liabilities or obligations of the Company to its employees and consultants or which arise by reason of any default by any insurer under a policy for the benefit of the Company’s employees, consultants or family members and (v) liabilities arising out of any action taken or failed to have been taken by the Company or the Shareholders prior to the close of business on the Closing Date.

### 1.3 Purchase Price Adjustments; Allocation.

(a) In consideration of the sale, assignment and delivery of the Purchased Assets as contemplated herein in addition to the assumption of the Assumed Liabilities, the Purchaser shall pay the Company as provided herein and the Company shall accept a purchase price consisting of sixty-six thousand six hundred sixty seven shares of the common stock of Air Industries Group, Inc. (the "Stock Portion") and Eleven Million Six Hundred Thousand Dollars (\$11,600,000, the "Cash Purchase Price") as adjusted in accordance with Section 1.3(b) and 1.3(c).

(b) The Cash Purchase Price shall be subject to adjustment as follows:

- (i) The Cash Purchase Price shall be increased to the extent the Actual Adjusted Working Capital of the Company is more than the adjusted working capital as reflected on the Audited Balance Sheet, as defined in Section 7.5 below (the "Working Capital Surplus Amount").
- (ii) The Cash Purchase Price shall be decreased to the extent the Actual Adjusted Working Capital of the Company is less than adjusted working capital as reflected on the Audited Balance Sheet (the "Working Capital Deficit Amount").

For purposes of this Agreement, the term adjusted working capital of the Company shall be deemed to be equal to the current assets of the Company over the current liabilities of the Company, excluding cash and cash equivalents, for the period ended December 31, 2011 (base year) and at the as of the close of business on June 18, 2012, or such other date as of which the Purchaser has assumed the risk of ownership of the Purchased Assets (the "Assumed Closing Date"). For purposes of this calculation, current assets include all assets properly classified as a current asset in accordance with GAAP, including without limitation, accounts receivable and inventories, net of progress billings, and current liabilities includes all liabilities properly classified as a current liability in accordance with GAAP, including without limitation, accounts payable, accrued expenses and customer deposits.

The Cash Purchase Price as so adjusted is hereinafter referred to as the "Adjusted Cash Purchase Price" and together with the Stock Portion, the "Adjusted Purchase Price."

(c) The Adjusted Purchase Price shall be allocated to the Purchased Assets and the covenant not to compete set forth in Section 9.3 below. The Company and the Purchaser shall cooperate in so allocating the Adjusted Purchase Price and file with the Internal Revenue Service an Asset Acquisition Statement on Form 8594.

#### 1.4 Determination of Adjusted Cash Purchase Price.

(a) The Company shall prepare and deliver to Purchaser not less than two business days prior to the Closing a reasonable good faith estimate of the Company's adjusted working capital as of the Assumed Closing Date (the "Estimated Adjusted Working Capital"). Such estimate shall be subject to the approval of Purchaser not to be unreasonably withheld. The Company shall provide the Purchaser access to such back up data related to the preparation of the estimate of the Estimated Adjusted Working Capital as may be reasonably requested. Upon receipt of the Estimated Adjusted Working Capital, the parties shall determine whether there is a Working Capital Surplus or Deficit Amount and the "Estimated Cash Purchase Price," based upon the Estimated Working Capital.

(b) Not later than thirty (30) days following the Closing Date, the Purchaser, with the full cooperation of the Company, shall prepare a statement of the Company's adjusted working capital amount (the "Closing Statement") as at the Closing Date (the "Actual Adjusted Working Capital") and deliver the Closing Statement to the Company, together with a certificate of its principal financial and accounting officer specifying the Adjusted Cash Purchase Price. The Closing Statement shall be prepared on a basis consistent with the Books and Records of the Company and the methodology used in preparing the Audited Balance Sheet. The Purchaser shall also prepare and deliver to the Seller a statement reflecting the operations of the Company during the Interim Period to enable the parties to calculate any adjustment required by Section 1.3(c) and Seller shall have rights to review such statement comparable to the rights with respect to the Closing Statement.

(b) The Company shall have fifteen (15) days from the date of receipt of the Closing Statement to review the Closing Statement and the Adjusted Cash Purchase Price reflected thereon. If the Company does not agree with the Closing Statement, the Company, within such fifteen (15) day period, shall deliver a written objection to Purchaser that shall specify in reasonable detail the basis for the objection and a computation of the Adjusted Cash Purchase Price asserted by Company (the "Objection"). Upon Purchaser's receipt of the Objection, Purchaser and the Company shall negotiate in good faith to resolve the Objection, but if the Objection cannot be resolved by negotiation within thirty (30) days after Purchaser's receipt of the Objection, Purchaser and the Company shall submit any disputed items included in the Objection, to a reputable certified public accounting firm as to which Purchaser and the Company have no reasonable objection (the "Accounting Arbitrator"), who shall review the same, together with the Closing Statement (together with any relevant accounting records, the "Determination Materials") and, based solely upon the Determination Materials, determine the Adjusted Cash Purchase Price and notify the parties in writing of its determination of the Adjusted Cash Purchase Price within thirty (30) days following the receipt of the Determination Materials, which determination shall be final, conclusive and binding on all parties. The date upon which the Adjusted Cash Purchase Price is determined is hereinafter referred to as the "Adjustment Date".

(d) The fees and expenses of the Accounting Arbitrator shall be shared equally by Company and Purchaser.

## 1.5 Compliance with NYS Tax Bulk Sales Law.

At the Closing, Purchaser shall deliver to the Company a completed New York State Tax Bulk Sales Notice (Form AU – 196.10 Notification of Sale, Transfer or Assignment in Bulk), in the form annexed hereto as Exhibit 1.5. The Company is responsible for filing said Notice.

## ARTICLE 2 CLOSING

### 2.1 Time and Place of Closing.

The consummation of the purchase and sale contemplated by this Agreement (the "Closing") shall be held at the offices of Stiene & Associates, P.C., 187 East Main Street, Huntington, NY 11743 on or about June 20, 2012, commencing at 10:00 A.M., local time, or at such other time and place as the parties hereto may agree in writing (the date on which the Closing actually occurs is hereinafter referred to as the "Closing Date"). The Closing shall be effective as of 12:01 AM local time on the Closing Date (the "Effective Time"). Notwithstanding that the Closing shall for purposes of determining the ownership of the Purchased Assets be deemed effective on the Closing date, the Purchaser shall be deemed to have assumed the risk of loss of ownership of the Purchased Assets as of the close of business on June 18, 2012.

### 2.2 Transactions at the Closing.

At the Closing:

(a) The Company shall deliver to Purchaser (i) a bill of sale and other instruments of assignment executed by the President of the Company transferring and conveying to Purchaser all right, title and interest to the Purchased Assets, and (ii) the items set forth in Article 7.

(b) Purchaser shall deliver to the Company (i) eleven million four hundred eighty-five thousand dollars (\$11,485,000), by wire transfer in immediately available funds to Sellers' attorneys IOLA Trust Account, Purchaser receiving a credit of one-hundred fifteen thousand dollars (\$115,000) paid for accounting and legal services rendered to the Company, (ii) an instrument of assumption executed by a duly authorized officer of the Purchaser under which the Purchaser assumes the Assumed Obligations, and (iii) the items set forth in Article 8.

(c) Upon determination of the Actual Adjusted Working Capital if there is (i) a Working Capital Surplus, Purchaser shall promptly pay the same to the Company and (ii) a Working Capital Deficit Amount, the Company shall promptly pay the same to Purchaser.

## 2.3 Post-Closing Actions

(a) At the request of Purchaser, the Company shall, at any time and from time to time after the Closing Date, execute and deliver such other instruments of transfer and conveyance and do all such further acts and things as may be requested by the Purchaser to transfer, convey, assign and deliver to the Purchaser or to aid and assist the Purchaser in collecting and reducing to possession, any and all of the Purchased Assets, or to vest in the Purchaser good, valid and marketable title to the Purchased Assets.

(b) At the request of the Company, the Purchaser shall, at any time and from time to time after the Closing Date, execute and deliver such other instruments of assumption and do all such further acts and things as may be reasonably requested by the Company to implement the assumption of each such liability and obligation assumed hereunder. The assumption by the Purchaser of the Assumed Liabilities shall in no way expand the rights or remedies of third parties against the Purchaser as compared to the rights and remedies which such parties would have had against the Company had this Agreement not been consummated.

## ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SHAREHOLDERS

The Company and the Shareholders, jointly and severally, hereby represent and warrant to the Purchaser as follows:

### 3.1 Organization and Qualification.

(a) The Company is a corporation duly organized, validly existing and in good standing under the Laws of the State of New York. The Company is duly qualified and in good standing as a foreign corporation in each of the jurisdictions set forth on **Schedule 3.1(a)**, which constitute all of the jurisdictions where such qualification is deemed necessary by the Company. The Company has furnished to Purchaser a complete and correct copy of the Company's certificate of incorporation and by-laws, each as amended or restated, as in effect as of the Signing Date (the "Company Charter Documents"). The Company is not in violation of any of the provisions of the Company Charter Documents.

(b) The Shareholders are the owners of all right, title and interest (legal and beneficial) in and to all of the outstanding shares of capital stock of the Company.

### 3.2 No Violation.

The execution, delivery and performance by the Company of this Agreement and any other instrument or document executed and delivered hereunder by the Company (a) does not conflict with the Company Charter Documents, (b) does not violate any Law or Order applicable to the Company or the Purchased Assets, (c) does not result in the creation or imposition of any Lien on the Purchased Assets, and (d) does not result in a breach of or constitute a default (or an event which with the passage of time or giving of notice, or both, would constitute a default) under, or cause or permit the acceleration of the maturity of or give rise to any right of termination, cancellation, imposition of fees or penalties under, any Contract to which the Company is a party or by which the Company, or any of the Purchased Assets, may be bound. No notice to, filing with, or Consent of, any Regulatory Authority is necessary for the consummation by the Company of the transactions contemplated in this Agreement.



### **3.3 Authorization; Validity; Enforceability.**

The Company has the power to execute, deliver and perform its obligations under this Agreement. The Purchase Documents have been duly executed and delivered, and constitute legal, valid and binding obligations of the Company, enforceable in accordance with their respective terms, except as enforceability may be limited by applicable equitable principles (whether applied in a proceeding at law or in equity) or by bankruptcy, insolvency, reorganization, moratorium, or similar Laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general equitable principles, and by equitable defenses that may be applied to the remedy of specific performance.

### **3.4 Compliance with Laws; Permits and Orders.**

The Company is not engaging in any activity or omitting to take any action that is or creates a material violation of any Law. The Company possesses all Permits necessary for the lawful operation of its business as presently conducted and is in compliance with all such Permits and all applicable Laws and Orders issued by any court or Regulatory Authority and all such Permits are transferable to the Purchaser, except for such Permits the absence of which would not require a material modification in the methods of operation of the Company. No event has occurred or circumstance exists that (with or without notice or lapse of time) (i) may constitute or result in a violation by the Company of any Law, or (ii) may give rise to any obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature. The Company has not received any notice or other communication (whether oral or written) from any Regulatory Authority or any other Person regarding any actual, alleged, possible, or potential violation of, or failure to comply with, any Law.

### **3.5 Books and Records.**

The books of account and other records of the Company, all of which have been made available to Purchaser, are complete and correct in all material respects and have been maintained in accordance with sound business practices. The books, records, and accounts of the Company accurately and fairly reflect, in reasonable detail, the transactions and the assets and Liabilities of the Companies.

### **3.6 Absence of Undisclosed Liabilities.**

The Company has no Liability and there is no Lien or other encumbrance on the assets of the Company, that is not fully reflected or reserved against in the Audited Balance Sheet or fully disclosed in a Schedule annexed hereto ("Undisclosed Liabilities"), and the Company does not have Knowledge of any basis for or threat of an assertion against the Company of any Undisclosed Liability, except for Liabilities incurred since December 31, 2012 (the "Cutoff Date") in the Ordinary Course of Business consistent with past practice, none of which are individually material.

### **3.7 Ownership of Purchased Assets.**

Except as set forth on **Schedule 3.7 or 3.9(e)**, the Company has good and indefeasible or marketable, as appropriate, title to, or a valid leasehold interest in, or a valid license to use, the Purchased Assets. The Purchased Assets, together with the real property and building in which the Business is currently located, constitute all of the assets necessary for the operation of the Business and are individually and in the aggregate, in good condition and state of repair, reasonable wear and tear and normal depreciation excepted. Upon delivery to Purchaser of a bill of sale or other instrument of assignment executed by the chief executive officer of the Company on behalf of the Company transferring and conveying to Purchaser all right, title and interest to the Purchased Assets and payment of the Purchase Price, good, valid and marketable title to the Purchased Assets, free and clear of all Liens, will be transferred to the Purchaser.

### **3.8 Accounts Receivable and Accounts Payable.**

**Schedule 3.8** contains a complete and accurate aged list of all accounts receivable and accounts payable of the Company as of end of the calendar month immediately preceding the Signing Date. All accounts receivable shown on **Schedule 3.8** represent, and all accounts receivable on the Closing Date will represent, sales actually made or services actually performed in the Ordinary Course of Business in bona fide transactions completed in accordance with the terms and provisions contained in any documents relating thereto, and will not be subject to any defenses, counterclaims, or rights of setoff other than those arising in the Ordinary Course of Business and for which adequate reserves will have been established and are fully collectible to the extent not reserved for in the balance sheet on which they are shown.

### **3.9 Personal Property.**

(a) **Schedule 3.9(a)** contains (i) a true and correct list and a description (including serial number, vehicle registration, tag number and location) of all vehicles owned by the Company and those leased by the Company, other than those not being acquired by the Purchaser, (ii) a true and correct list of all other Equipment owned by the Company; and (iii) a true and correct list of all other items of personal property owned by the Company.

(b) The Company has good and transferable title to all of its Equipment, vehicles, and other items of owned personal property free and clear of all Liens, other than Permitted Encumbrances and other than as disclosed on Schedule 3.9(b) all of which shall be removed prior to Closing. Copies of all documents evidencing Liens disclosed on Schedule 3.9(b) have been provided to Purchaser. The sale of the Purchased Assets will not cause a Default under any Contract or Permitted Encumbrance.

(c) Schedule 3.9(c) contains a list of all leases for vehicles, Equipment or other items of personal property leased by the Company except for those leases pertaining to vehicles not to be acquired by Purchaser. True and correct copies of each lease listed on Schedule 3.9(c) and any amendments, extensions, and renewals thereof have been provided to Purchaser. Each of the leases described on Schedule 3.9(c) is in full force and effect and there are no existing Defaults by the Company or, to the Knowledge of any Shareholder, any other party to such lease. No rights of the Company under such leases have been assigned or otherwise transferred as security for any obligation of the Company. Except as described on Schedule 3.9(c), no Third Party consents are required as a result of the transactions contemplated by this Agreement.

### **3.10 Inventories.**

(a) All inventory reflected on the Audited Balance Sheet or included in the computation of the Actual Adjusted Working capital as of the Closing Date ("Inventory"), except Inventory in transit and Inventory sold or disposed of in the Ordinary Course of Business since the Cutoff Date consistent with past practices (i) is now and at the Closing Date will be located on the Premises, (ii) has been or will be acquired by the Company only in bona fide transactions entered into in the Ordinary Course of Business, (iii) is of good and merchantable quality except to the extent adequately reserved for in the Audited Balance Sheet and the work papers underlying the Closing Statement, (iv) is not now and at the Closing Date will not be subject to any write-down or write-off in excess of the reserves established, and (v) is valued at the lesser of cost or net realizable market value, with appropriate adjustments for obsolete, damaged, discontinued and slow moving Inventory in accordance with GAAP. Except as described in **Schedule 3.10**, the Company has now and on the Closing Date will have valid legal title to its Inventory free and clear of any Liens, other than Permitted Encumbrances and Liens disclosed on **Schedule 3.9(b)**. The Company has no obligation with respect to the return of Inventory in the possession of wholesalers, retailers, or other customers. The Inventory is adequate and appropriate for the conduct of the business of the Company as it is currently being conducted. Inventory levels are not in excess of the normal operating requirements of the Company in the Ordinary Course of Business.

All Inventory has been manufactured in conformity with all applicable contractual commitments and all express and implied warranties. **Schedule 3.10(b)** includes copies of the Company's standard terms and conditions of sale. No product manufactured, sold, leased, or delivered by the Company is subject to any guaranty, warranty or other indemnity beyond the applicable standard terms and conditions of sale set forth in Schedule 3.10(b) and the Contracts to which the Company is a party. **Schedule 3.10(b)** contains a list of all pending warranty claims.

Except as set forth on Schedule 3.10(c), in respect of any item included in Inventory as of the Closing Date which is the subject of a contract or purchase order providing for a fixed priced, the portion of the purchase price received to date by the Company plus the amount included in Accounts Receivable or Inventory (Work in Progress), represents an equitable allocation of the price for such item based on the costs incurred by the Company with respect to the production of such item to date and the costs reasonably anticipated by the Company that remain to be incurred to complete such item.

### 3.11 Personnel and Labor Matters.

(a) **Schedule 3.11** contains a list, as of the Signing Date, of the names of all Company personnel (collectively, "Personnel"). The Company has provided to Purchaser a copy of all written agreements between the Company and any Personnel and, in the case of those persons whose agreements are not in writing, the Company has provided Purchaser with a summary of the material terms of such agreements, and all of such written and oral agreements are included in the Contracts referenced on Schedule 3.11. Except as reflected in written agreements provided to Purchaser, all employees are employed on an at-will basis.

(b) None of the individuals listed on **Schedule 3.11** is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, noncompetition, or proprietary rights agreement, between such individual and any other Person that in any way materially adversely affects or will affect (i) the performance of his or her duties to the Company, whether as an employee or otherwise, or to the customers of the Company, or (ii) the ability to conduct the Business.

(c) The Company is not (i) a party to, and does not have any obligation pursuant to any agreement, collective bargaining or otherwise, with any party regarding the rates of pay or working conditions of any of the Personnel, or (ii) obligated under any Contract, Order or Law to recognize or bargain with any labor organization or union on behalf of such Personnel. There are no pending or, to the Knowledge of the Company, threatened Labor Claims. The Company is not liable for any unpaid wages, bonuses, or commissions (other than those not yet due) or any Tax, penalty, assessment, or forfeiture for failure to comply with any of the foregoing. To the best of the company's knowledge, There is no outstanding policy, practice, plan, agreement or arrangement with respect to severance payments with respect to any Personnel.

(d) The Company has taken reasonable measures to protect its trade secrets and intellectual property, including, without limitation, causing all Personnel to execute a non-disclosure agreement and an assignment of rights to all inventions agreement in favor of the Company.

### 3.12 Contracts.

(a) **Schedule 3.12(a)** contains a true and correct list of all Contracts, oral or written, to which the Company is party as of the Signing Date and, in the case of oral Contracts, a description of the material terms thereof, provided, however a Contract need be listed on Schedule 3.12 if it (1) does not concern the employment of Personnel and (2) does not involve the payment or receipt of more than \$25,000 or can be terminated solely by the Company on no more than 30 days notice without liability to the Company of more than \$5,000.

(b) Each of the Contracts is in full force and effect and there exists no Default under any Contract by the Company or, to the Knowledge of the Company and the Shareholders, any other party to such Contracts or any event which, with the passage of time, will create a Default thereunder by the Company or, to the Knowledge of the Company and the Shareholders, any other party to such Contracts. Except as set forth on **Schedules 3.12(a)**, each Contract listed therein is fully assignable without the Consent of any Third Party.

(c) The Company has not received notice (written or oral) of any threatened termination, cancellation, or limitation of, or any amendment, modification, or change to any Contract.

(d) Except as indicated on **Schedule 3.12(d)**, neither the Company nor any Related Person of the Company has or had any interest in any property (whether real, personal or mixed and whether tangible or intangible) used in or pertaining to the business of the Company. Except as disclosed in **Schedule 3.12 (d)**, the Company does not have nor does any Related Person of the Company own, or has ever owned, of record or as a beneficial owner, an equity interest or any other financial or profit interest in any Person that has had business dealings or a material financial interest in any transaction with the Company. Except as set forth in **Schedule 3.12(d)**, neither the Company nor any Related Person of the Company is a party to any Contract with, or has any claim or right against, the Company.

### **3.13 Intellectual Property.**

(a) The Company does not own any Intellectual Property Rights, other than know-how and other rights protected under common law and any items set forth on **Schedule 3.13 (a)**.

(b) Except for off-the-shelf Computer Software used in the Ordinary Course of Business, the Company does not use Intellectual Property that is owned by, or is licensed from, a Third Party.

(c) No Computer Software or process of the Company has manifested significant operating problems, other than such problems that are correctable in the Ordinary Course of Business.

(d) The Company has complied with all privacy regulations as mandated by Law and/or as required by Third Parties.

(e) No Litigation is pending or, to the Knowledge of the Company, threatened, and the Company has not received any notice that the Company has infringed upon or its business conflicts with any rights claimed by any Third Party.

### **3.14 Absence of Changes.**

(a) Since the Cutoff Date, the Company has used commercially reasonable efforts to preserve the Business intact, to keep available to the Company the services of all current officers and employees of the Company and to preserve the goodwill of the suppliers, customers, employees and others having business relations with the Company as of such date. Since the Cutoff Date, the Company has conducted its Business in the ordinary course, has maintained its rates and charges without reduction and has maintained its assets and properties in at least as good order and condition as existed on such date, ordinary wear and tear excepted.

(b) Except as set forth on **Schedule 3.14**, since the Cutoff Date, the Company has not: (a) suffered any adverse change in, or the occurrence of any events which, individually or in the aggregate, has or have had, or might reasonably be expected to have, a Material Adverse Effect on the Business; (b) incurred damage to or destruction of any of the Purchased Assets individually having a replacement cost in excess of \$50,000, whether or not covered by insurance; (c) incurred any obligation or liability (fixed or contingent) not in the Ordinary Course of Business in excess of \$50,000; (d) written off as uncollectible any accounts receivable or any portion thereof, except for write-downs, write-ups, and write-offs in the Ordinary Course of Business, none of which is material in amount; (e) encumbered any of the Purchased Assets with any Liens in addition to Liens in existence as of the Cutoff Date other than Permitted Encumbrances; (f) sold, transferred or leased any asset that would otherwise have been included in the Purchased Asset individually having a replacement cost in excess of \$20,000, or canceled or compromised any debt or material claim, except in the ordinary course of business; (g) sold, assigned, transferred or granted any rights under or with respect to any licenses, agreements, patents, inventions, trademarks, trade names, copyrights or formulae or with respect to know-how or any other intangible asset; (h) amended or terminated any Contracts which otherwise would have been required to be set forth on Schedule 3.12; (i) waived or released any other rights of material value to the Company; (j) declared or paid any dividend on its capital stock, or set apart any money for distribution to or for its Shareholders; (k) compromised any account receivable or any portion thereof for less than the face amount thereof; (l) redeemed any portion of its capital stock; (1) entered into, or amended the terms of, any employment or consulting agreement; (m) entered into any transactions not in the Ordinary Course of Business which would, individually, materially adversely affect the Business.

### **3.15 Litigation.**

There is no Litigation pending or, to the Knowledge of the Company, threatened against the Company, at law or in equity, or before or by any Regulatory Authority. The Company is not a party to or bound by any Order that affects the Business.

### **3.16 Real Property; Environmental Matters.**

(a) The real property and buildings located at 34 Lamar Lane, West Babylon, New York 11704, currently occupied by the Business (the "Premises") constitute all of the real property necessary for the operation of the Business. The Company enjoys peaceful and undisturbed possession of the Premises free and clear of all Liens other than Permitted Liens. The Premises have no defects which could materially impair the day to day use thereof for the conduct of the Business as currently conducted. The current use of the Premises is authorized under town planning law free from any conditions prejudicial to the carrying out of the Business and no notices or complaints have been received in relation to the Premises from any public authority or other party. On the Closing Date the Purchaser will obtain the right to use the Premises pursuant to the Lease referred to in Section 7.

(b) Except as set forth on **Schedule 3.16**, (i) the Company is in compliance with all applicable Environmental Laws; (ii) the Company has not transported, stored and disposed of any materials upon real property owned or leased by it in contravention of applicable Environmental Laws; (iii) there has not occurred, nor is there presently occurring, a Release of any materials by the Company on, into or beneath the surface of any parcel of real property in which the Company has an ownership interest or any leasehold interest except in compliance with applicable Environmental Laws; (iv) the Company has not transported or disposed of, or allowed or arranged for any third parties to transport or dispose of, any materials to or at a site which, pursuant to CERCLA, has been placed on the National Priorities List; (v) the Company has not received written notice that the Company is a potentially responsible party for a federal or state environmental cleanup site or for corrective action under RCRA; and (vi) the Company has not undertaken (or been requested to undertake) any response or remedial actions at the request of any federal, state or local governmental entity; in each of the foregoing cases of causes (i) through (vi), except as to circumstances which could not reasonably be expected to have a Material Adverse Effect on the Business.

### **3.17 Insurance.**

There are no outstanding or unsatisfied written requirements imposed or made by any of the Company's current insurance companies with respect to current policies covering any of the Purchased Assets, or by any governmental authority requiring or recommending, with respect to any of the Purchased Assets, that any repairs or other work be done on or with respect to, or requiring or recommending any equipment or facilities be installed on or in connection with, any of the Purchased Assets. As of the Signing Date there are no disputes with underwriters of any insurance policies or bonds maintained by the Company.

### **3.18 Employee Benefit Plans.**

The Company has delivered to Purchaser copies of any (a)"employee benefit plan", within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), whether or not it is subject to ERISA, or (b) any other benefit plan, insurance plan, pension plan, arrangement, agreement, program, policy, understanding, custom or practice (whether it is written or oral, funded or unfunded, actual or contingent ("Company Plan")) maintained by the Company for the benefit of its employees.

### 3.19 Taxes.

(a) Since inception of the Company, the Company and its Shareholders have elected to be treated as a subchapter S corporation for federal and state income tax purposes. The validity of the election of "S Corporation" status by the Company has not been challenged by the Internal Revenue Service nor is there any basis for such a challenge. Since at least prior to March 1, 2002, the Company has not been taxed other than as a "small business corporation".

(b) All Tax Returns required to be filed by or on behalf of the Company have been duly and timely filed with the appropriate Taxing Authority in all jurisdictions in which such Tax Returns are required to be filed (after giving effect to any valid extensions of time in which to make such filings), and all such Tax Returns are true, complete and correct in all respects; and (ii) all Taxes payable by or on behalf of the Company or by the Shareholders in respect of the operations of the Company have been fully and timely paid (whether or not shown on any Tax Return). With respect to any period for which Tax Returns of or relating to the Company have not yet been filed or for which Taxes are not yet due or owing, the Company has made sufficient accruals for such Taxes on the face of the most recent balance sheet included in the Financial Statements of the Company and on its books and records. All required estimated Tax payments sufficient to avoid any underpayment penalties have been made by or on behalf of the Company. No basis exists for the imposition of additional Taxes by any Taxing Authority.

(c) The Company has complied in all respects with all applicable Laws relating to the payment and withholding of Taxes and has duly and timely withheld and paid over to the appropriate Taxing Authority all amounts required to be so withheld and paid under all applicable Laws.

(d) No claim has been made by a Taxing Authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction and no basis exists for such a claim.

(d) All deficiencies asserted or assessments made as a result of any examinations by any Taxing Authority of the Tax Returns of the Company have been fully paid, and there are no other audits or investigations by any Taxing Authority in progress, and neither the Company nor the Shareholders has received any notice from any Taxing Authority that it intends to conduct such an audit or investigation. No issue has been raised by a Taxing Authority in any prior examination of the Company which, by application of the same or similar principles, could reasonably be expected to result in a proposed deficiency for any subsequent taxable period.

(e) The Company has not (i) requested any extension of time within which to file any Tax Return, which Tax Return has since not been filed, (ii) granted any extension or waived the statute of limitations for the assessment or collection of Taxes, which Taxes have not since been paid, or (iii) granted to any Person any power of attorney that is currently in force with respect to any Tax matter.



(f) The Company is not a party to any tax sharing, allocation, indemnity or similar agreement or arrangement (whether or not written) ("Tax Sharing Agreement") pursuant to which it will have any obligation to make any payments after the Closing.

(g) There are no Liens as a result of any unpaid Taxes upon any of the assets of the Company, other than Permitted Encumbrances.

(h) There is no taxable income of the Company that will be required under applicable Tax Law to be reported by the Purchaser for a taxable period beginning after the Closing Date which taxable income was realized prior to the Closing Date.

(i) The Company has not participated in any reportable transaction, as defined in Treasury Regulation Section 1.6011-4(b)(1), or a transaction substantially similar to a reportable transaction.

### **3.20. Customers, Suppliers, Distributors and Agents.**

Except as set forth on **Schedule 3.20**, neither the Company nor any Shareholder has any knowledge that any purchaser whose purchases represented more than 5% of the Company's sales during 2011 ("Principal Customer") or supplier to the Company whose sales to the Company represent more than 5% of the Company's purchases during 2011 ("Principal Supplier") will cease to continue such relationship, or will substantially reduce the extent of such relationship, at any time prior to or after the Closing Date. Neither the Company nor any Shareholder has any knowledge of (i) any contemplated material and adverse modification or change in the business relationship of the Company with, or (ii) any existing condition or state of facts which will materially adversely affect, or has a reasonable likelihood of materially adversely affecting the business relationship of the Company with any Principal Customer or Principal Supplier or which has prevented or will prevent the Business from being carried on under its new ownership after the Closing in substantially the same manner as it is currently carried on.

### **3.21 Brokers and Finders.**

The Company has not incurred any obligation or Liability to any party for any brokerage fees, agent's commissions, or finder's fees in connection with the transactions contemplated by this Agreement.

### **3.22 Correctness of Representations.**

No representation or warranty of the Company or the Shareholders in this Agreement or in any Exhibit, certificate, or Schedule attached hereto or furnished pursuant hereto, contains, or on the Closing Date will contain, any untrue statement of material fact or omits, or on the Closing Date will omit, to state any fact necessary in order to make the statements contained therein not misleading in any material respect, and all such statements, representations, warranties, Exhibits, certificates, and Schedules shall be true and complete in all material respects on and as of the Closing Date as though made on that date.

**ARTICLE 4**  
**REPRESENTATIONS AND WARRANTIES OF PURCHASER**

Purchaser hereby represents and warrants to the Company as follows:

**4.1 Organization and Qualification.**

Purchaser is a corporation duly organized, validly existing, and in good standing under the Laws of the State of Delaware and has all necessary power and authority to conduct its business and to own, lease, or operate its properties in the places where such business is conducted and such properties are owned, leased, or operated.

**4.2 Authority; Validity and Binding Effect.**

Purchaser has full power and authority to enter into each of the Purchase Documents to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Purchaser of each of the Purchase Documents to which Purchaser is a party have been duly and validly authorized and approved by all necessary action on the part of Purchaser. Each of the Purchase Documents to which Purchaser is a party are the legal, valid, and binding obligations of Purchaser enforceable against Purchaser in accordance with their terms, except as enforceability may be limited by applicable equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar Laws affecting creditors' rights generally, and by the exercise of judicial discretion in accordance with equitable principles. Neither the execution and delivery by Purchaser of any of the Purchase Documents to which Purchaser is a party nor the consummation by Purchaser of the transactions contemplated hereby or thereby will (i) violate Purchaser's Certificate of Incorporation or Bylaws, (ii) violate any provisions of Law or any Order of any court or any Regulatory Authority to which Purchaser is subject, or by which its assets or properties are bound, or (iii) conflict with, result in a breach of, or constitute a Default under any Contract to which Purchaser is a party or by which its assets or properties are bound.

**4.3 Governmental Approval and Consents.**

No consent, approval, or authorization of or declaration, filing, or registration with any Regulatory Authority is required in connection with the execution, delivery, and performance by Purchaser of this Agreement or the consummation of the transactions contemplated hereby.

**4.4 Brokers and Finders.**

Neither Purchaser nor any Related Person of Purchaser has incurred any Liability to any Person for any brokerage fees, agent's commissions, or finder's fees in connection with the transactions contemplated by this Agreement.

#### **4.5 Correctness of Representations.**

No representation or warranty of Purchaser in this Agreement or in any Exhibit, certificate, or Schedule attached hereto or furnished pursuant hereto contains, or on the Closing Date will contain, any untrue statement of material fact or omits or, on the Closing Date will omit, to state any fact necessary in order to make the statements contained therein not misleading in any material respect, and all such statements, representations, Exhibits, and certificates shall be true and complete on and as of the Closing Date as though made on that date.

### **ARTICLE 5 COVENANTS OF THE COMPANY AND THE SHAREHOLDERS**

The Company and each of the Shareholders covenants and agrees with the Purchaser as follows:

#### **5.1 Access and Information.**

From the Signing Date to the Closing Date and during normal business hours, the Company shall afford to Purchaser, its lenders, counsel, accountants, and other representatives, reasonable access to the Company's offices for the purpose of conducting its due diligence investigation of the Company, the Business and the Purchased Assets, and the Company and the Shareholders shall furnish such persons with all information (including financial and operating data) concerning the Company as they reasonably may request.

#### **5.2 Conduct of Business Prior to Closing.**

From the Signing Date to the Closing Date, and except to the extent that Purchaser shall otherwise consent in writing, the Company shall, and the Shareholders shall cause the Company to operate the Business substantially as previously operated and only in the regular and Ordinary Course of Business consistent with past practices.

#### **5.3 Certain Acts Prohibited.**

From the Signing Date to the Closing Date, without the prior written consent of Purchaser, the Company shall not, and Shareholders shall not cause or permit the Company to, take any of the actions described in Section 3.14(b) of this Agreement, except that after notice to Purchaser, the Company may pay dividends to its Shareholders in such amount as it shall determine provided that after giving effect to such distributions, the Actual Adjusted Working Capital of the Company as of the Closing shall be no less than 80% of the Adjusted Working Capital as of December 31, 2012.

#### **5.4 Other Transactions.**

The Company and the Shareholders shall deal exclusively and in good faith with Purchaser with regard to the transactions contemplated by this Agreement and will not, and will direct its Related Persons, financial advisors, accountants, agents, and counsel not to (i) solicit submission of any Acquisition Proposals, (ii) participate in any discussions or negotiations regarding, or furnish any non-public information to any other Person regarding the Company other than Purchaser and its representatives or otherwise cooperate in any way or assist, facilitate, or encourage any Acquisition Proposal by any Person other than the Purchaser, or (iii) enter into any agreement or understanding, whether in writing or, if legally binding, oral, that would have the effect of preventing the consummation of the transactions contemplated by this Agreement. If, notwithstanding the foregoing, the Company or any Shareholder, or his or her Related Persons, representatives or agents should receive any Acquisition Proposal or any inquiry regarding any such proposal from a Third Party, such persons shall promptly inform Purchaser and its counsel in writing of the facts and terms thereof.

#### **5.5 Notification of Changes; Supplemental Disclosure.**

(a) Between the Signing Date and the Closing Date, the Company shall promptly notify Purchaser in writing of (i) any Material Adverse Change, (ii) the institution of, or if known by the Company or any Shareholder, the threat of institution of, Litigation or Labor Claim against the Company, and (iii) any matter hereafter arising or discovered that, if existing or known on the Signing Date, would have been required to be disclosed on a Schedule to this Agreement in order for the representations and warranties set forth in Article 3 to be true as of the Signing Date.

(b) If any information provided by the Company to Purchaser pursuant to Section 5.5(a) shall disclose the existence or occurrence of a circumstance or event that is material and adverse when compared to the information disclosed in the Schedules to this Agreement on the Signing Date, except as provided in the last sentence of this Section, such information shall not in any respect be deemed to amend the schedules to this Agreement and the Purchaser shall have the right, at Purchaser's election, to either (i) terminate this Agreement by written notice to that effect (specifying the basis for such termination to the Company) within ten (10) days after its receipt of such supplemental disclosure; and upon such timely termination, the Purchaser shall be released of all of its obligations hereunder or, (ii) to consummate the transactions provided for herein, in which case Purchaser's Knowledge of such information shall be disregarded, and to the extent such information discloses facts or circumstances that constitute a breach of any representation, warranty, covenant or agreement of the Company or any Shareholder contained herein, all of Purchaser's rights and remedies with respect to such breach (including Purchaser's right to be indemnified as provided in Article 11 hereof) shall be preserved and may be asserted against the Company and the Shareholders without regard to Purchaser's Knowledge of such information, it being agreed that Purchaser, in entering into this Agreement, has bargained for the correctness of each representation, warranty, covenant and agreement of the Company and the Shareholders contained herein. Purchaser shall notify the Company in writing within ten (10) days after Purchaser's receipt of such supplemental disclosure of its election under this Section 5.5(b). If the Purchaser shall not timely notify the Company of Purchaser's election under this Section 5.5(b), such disclosed information shall be deemed to amend the Schedules to this Agreement as of the Signing Date.

## 5.6 Required Approvals.

Each Party agrees to cooperate with each other Party and use reasonable commercial efforts to promptly prepare and file all necessary filings and other documents and to obtain as promptly as practicable all necessary Consents of all Third Parties and Regulatory Authorities necessary or advisable for it to consummate the transactions contemplated by the Purchase Documents; provided, however, that Purchaser shall not be required to consummate the transactions contemplated by the Purchase Documents if, in the reasonable good faith judgment of Purchaser, any conditions or restrictions imposed by any Third Party or Regulatory Authority in connection with any such Consent materially impair (or could reasonably be expected to materially impair) the ability of Purchaser to consummate the transactions contemplated hereby or thereby or could reasonably be expected to result in a Material Adverse Effect on the Business following the Closing. Each Party shall have the right to review and comment upon in advance, and to the extent practicable each will consult the other Parties on, in each case subject to applicable Laws relating to the exchange of information, all the information relating to Purchaser or the Company, as the case may be, that appears in any filing made with, or other written materials submitted to, any Third Party or Regulatory Authority in connection with the transactions contemplated by the Purchase Documents. In exercising the foregoing right, each of the Purchaser and the Company shall act reasonably and as promptly as practicable. Each of the Purchaser and the Company agree that it will keep the other apprised of the status of matters relating to completion of the transactions contemplated by this Agreement, including, subject to applicable Laws relating to the exchange of information, promptly furnishing the other with copies of notice or other communications received by Purchaser or the Company, as the case may be, from any Third Party or Regulatory Authority with respect to the transactions contemplated hereby.

## **ARTICLE 6 MUTUAL COVENANTS**

Purchaser, the Company and the Shareholders shall each take all actions contemplated by this Agreement, and, subject to Purchaser's and the Company's, as applicable, right to terminate this Agreement pursuant to Article 10 hereof, do all things reasonably necessary to effect the consummation of the transactions contemplated by this Agreement. Except as otherwise provided in this Agreement, Purchaser, the Company and the Shareholders shall each refrain from knowingly taking or failing to take any action which would render any of the representations or warranties contained in Articles 3 or 4, as applicable, of this Agreement inaccurate in any material respect as of the Closing Date. Each Party shall promptly notify the other Party of any action, suit, or proceeding that shall be instituted or threatened against such Party to restrain, prohibit, or otherwise challenge the legality of any transaction contemplated by this Agreement.

**ARTICLE 7**  
**CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER**

The obligation of Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction, on or before the Closing Date, of each of the following conditions, all or any of which may be waived in writing, in whole or in part, by Purchaser:

**7.1 Representations and Warranties.**

All information required to be furnished or delivered by the Company pursuant to this Agreement shall have been furnished or delivered as of the date hereof and as of the Closing Date, as required hereunder; each of the representations and warranties made by Company and the Shareholders in Article 3 shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as though such representations and warranties had been made on and as of the Closing Date (except that such representations and warranties may be untrue or incorrect as a result of actions or transactions expressly permitted by this Agreement or actions or transactions of the Company or the Shareholders made with the prior written consent of Purchaser), provided that for purposes of this Section 7.1, if any representation or warranty made by the Company or any Shareholder includes within its terms a materiality qualifier, such qualifier shall be disregarded solely for purposes of determining compliance with this Section 7.1.

**7.2 Compliance by the Company.**

The Company shall have duly performed in all material respects all of the covenants, agreements, and conditions contained in this Agreement to be performed by it on or prior to the Closing Date. Purchaser shall have received from the Company all applicable closing deliveries including those set forth in Section 2.2(a), and such certificates or other evidence, dated as of the Closing Date, as Purchaser or its counsel shall reasonably request to evidence the performance of all covenants and the fulfillment by the Company, or such other satisfaction at or prior to the Closing Date, of the terms and conditions of this Agreement.

**7.3 No Injunction; Etc.**

No Litigation, regulation, or legislation shall be pending or threatened which seeks to enjoin, restrain, or prohibit Purchaser, or to obtain substantial damages from Purchaser, in respect of the consummation of the transactions contemplated hereby, or which seeks to enjoin the operation of the Company or all or a material portion of the Company's business, which, in the reasonable judgment of Purchaser, would make it inadvisable to consummate the transactions contemplated by this Agreement.

**7.4 Consents; Authorizations; Approval of Legal Matters.**

Purchaser shall have received a true and correct copy of each Consent and waiver that is (a) required for the transfer of the Assets or (b) otherwise required for the execution, delivery, and performance of this Agreement by the Company. All authorizations, orders, or approvals of any Regulatory Authority shall have been obtained. Purchaser shall have received a certificate dated as of the Closing Date, executed by the chief executive officer of the Company to the foregoing effect, and Purchaser shall be satisfied with the terms, conditions, and restrictions of and obligations under each such authorization, order, or approval.

#### **7.5. Audited Financial Statements.**

The Company will deliver to the Purchaser its balance sheet as at December 31, 2011 and its statement of operations for the year ended December 31, 2011, together with the audit report of a reputable independent accounting firm registered with the PCAOB thereon, which shall not contain any qualifications, except with respect to such qualifications as result from the failure of the auditor to be present at the opening inventory (the "Audited Financial Statements"). The balance sheet included in the Audited Financial Statements is referred to herein as the "Audited Balance Sheet."

#### **7.6 Lease.**

At the Closing the Company shall enter into a lease with Purchaser for the Premises for a term of approximately sixty months commencing on the date of the Closing and ending as of the last day of the sixtieth month commencing after the month during which the date of the Closing occurs (the "Lease Term"). The Company agrees to grant the Purchaser an option to purchase the real property upon which Leased Premises are located, free and clear of all liens claims and encumbrances other than those set forth in the Lease, for a purchase price of five million (\$5,000,000) dollars at any time during the Lease Term. The form of the lease is annexed hereto as Exhibit 7.6 (the "Lease"). The Company agrees that Purchaser may record a copy of the Lease in the land records of the county in which the Real Property is located.

#### **7.7 Employment Agreements.**

Purchaser shall enter into employment agreements with Vincent DiCarlo, Jr. and Robert E. Hunt for a term expiring December 31, 2013, subject to the Purchaser's right to extend for an additional year, providing for annual compensation of \$150,000 and otherwise substantially in the forms of Exhibit 7.7-1 and 7.7-2, respectively (the "Employment Agreements").

#### **7.8 Name Change Amendment.**

The Name Change Amendment shall have been filed with the Department of State of the State of New York and become effective.

#### **7.9 No Material Adverse Change.**

There shall not have been any Material Adverse Change related to the Business or the Purchased Assets since the Signing Date, and Purchaser shall have received a certificate dated as of the Closing Date, executed by the chief executive officer of the Company to such effect.

## **ARTICLE 8**

### **CONDITIONS PRECEDENT TO OBLIGATIONS OF COMPANY**

The obligation of the Company to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction, on or before the Closing Date hereunder, of each of the following conditions, all or any of which may be waived, in whole or in part, by the Company:

#### **8.1 Representations and Warranties.**

All information required to be furnished or delivered by Purchaser pursuant to this Agreement shall have been furnished or delivered as of the date hereof and as of the Closing Date as required hereunder; each of the representations and warranties made by Purchaser in Article 4 shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as though such representations and warranties had been made on and as of the Closing Date.

#### **8.2 Compliance by Purchaser.**

Purchaser shall have duly performed in all material respects all of the covenants, agreements, and conditions contained in this Agreement to be performed by Purchaser on or before the Closing Date. The Company shall have received from Purchaser all applicable closing deliveries, including those set forth in Section 2.2(b), and such certificates or other evidence, duly executed by Purchaser, dated as of the Closing Date, as the Company or its counsel shall reasonably request to evidence the performance of all covenants and the fulfillment by Purchaser, or such other satisfaction at or prior to the Closing Date, of the terms and conditions of this Agreement.

#### **8.3 No Litigation; Etc.**

No action, proceeding, investigation, regulation, or legislation shall be pending or overtly threatened by a Third Party which seeks to enjoin, restrain, or prohibit the Company, or to obtain substantial damages from the Company, in respect of the consummation of the transactions contemplated hereby, which, in the reasonable judgment of the Company, would make it inadvisable to consummate such transactions.

## **ARTICLE 9**

### **POST CLOSING MATTERS**

#### **9.1 Personnel Matters.**

The Company shall be responsible for: (i) the payment of all earned but unpaid salaries, bonus, vacation pay, sick pay, holiday pay, severance pay and other like obligations and payments to the employees, consultants and other personnel that provide services to the Company (collectively, the "Personnel") for all periods ending on or prior to the Effective Time; (ii) all incurred but unreported or unpaid medical claims of the Personnel occurring prior to the Effective Time and for the cost associated with confinement in any medical care, nursing, rehabilitation or similar facility which commences prior to the Effective Time; and (iii) all Liabilities associated with any leaves taken by the Personnel prior to the Closing Date in connection with the Family and Medical Leave Act of 1993 or any policy, program or plan.



## **9.2 Non-Solicitation.**

Until the expiration of five (5) years after the Effective Time and, in the case of each Shareholder if later, five years after the expiration of his Employment Agreement, neither the Company nor any Shareholder shall directly or indirectly solicit for employment or any other contractual relationship, or employ any employee or independent consultant who is then an employee of, or who is contractually obligated to perform services as an independent consultant to the Company, or who has terminated such employment without the consent of Purchaser within two (2) years of such solicitation or offer.

## **9.3 Covenant Not to Compete.**

The Company and each Shareholder agrees that for a period of five years commencing on the Closing Date, and, in the case of each Shareholder, if later, commencing on the date of the expiration or termination of his Employment Agreement, it or he will not, within the Territory, either directly or indirectly, own, manage, operate, join, control or participate in the ownership, management, operation or control of, any business, whether in corporate, proprietorship or partnership form or otherwise, which is engaged in the manufacture and assembly of landing gears and components for civilian or military aircraft. The Parties hereto specifically acknowledge and agree that the foregoing covenant and agreement is made and given by the Company and the Shareholders in connection with the sale of the Purchased Assets, including the good will associated with the Business, and in order to protect and preserve to the Purchaser the benefit of its bargain in the purchase of the Purchased Assets and good will, that the remedy at law for any breach of the foregoing will be inadequate, and that the Purchaser, in addition to any other relief available to it, shall be entitled to seek temporary and permanent injunctive relief without the necessity of proving actual damage or posting any bond in connection with the issuance of such temporary or permanent injunction. In the event that the provisions of this Section should ever be deemed to exceed the limitation provided by applicable Law, then the parties hereto agree that such provisions shall be reformed to set forth the maximum limitations permitted.

## **ARTICLE 10 TERMINATION**

### **10.1 Termination.**

This Agreement may be terminated:

(a) by the mutual consent of Purchaser and Company;

(b) by Purchaser if any condition in Article 7 becomes impossible to perform or satisfy or has not been satisfied in full (in either case, other than as a result of a breach or default by Purchaser in the performance of its obligations hereunder) or waived by Purchaser in writing at or prior to the Closing Date;

(c) by the Company if any condition in Article 8 becomes impossible to perform or satisfy or has not been satisfied in full (in either case, other than as a result of a default by Company or the Shareholders in the performance of their obligations hereunder) and the performance of such condition has not been waived by the Company in writing at or prior to the Closing Date; or

(d) by either Party (other than a Party that is in material default of its obligations under this Agreement) if the Closing shall not have occurred on or before May 15, 2012.

#### **10.2 Effect of Termination.**

(a) If this Agreement is terminated by either Party, other than as a result of a default by Company or the Shareholders in the performance of their obligations hereunder or the failure of the Company or Shareholders to comply with the conditions of Article 7, the Purchaser shall pay or reimburse the Company for all of the legal and accounting expenses of the Company incurred in connection with this Agreement and the transactions contemplated hereby upon presentation to Purchaser of invoices from the provider of such services in an amount not to exceed \$100,000, provided there shall be deducted from such \$100,000 any amounts previously advanced by Purchaser to Seller or the Company in respect of such fees and expenses.

(b) As to any damages of either Party arising from the effect of termination or abandonment of this Agreement by the other Party, such Party is entitled to pursue its rights or remedies against the other Party to the extent such rights or remedies may be available at law or in equity.

### **ARTICLE 11 INDEMNIFICATION**

#### **11.1 Agreement of Company and Shareholders to Indemnify.**

(a) Subject to the terms and conditions of this Article 11, the Company and the Shareholders, jointly and severally, agree to indemnify, defend, and hold harmless the Purchaser from, against, for, and in respect of any and all Losses asserted against, relating to, imposed upon, or incurred by the Purchaser by reason of, resulting from, based upon, or arising out of:

(i) the breach of any representation, warranty or covenant of the Company or any Shareholder contained in or made pursuant to any Purchase Document or in any certificate, Schedule, or Exhibit furnished by the company or any member in connection herewith or therewith;

(ii) the business activities of the Company prior to close of business on the the Closing Date;

(iii) any and all actions, suits, claims, proceedings, investigations, demands, assessments, audits, fines, judgments, costs and other expenses (including, without limitation, reasonable legal fees and expenses) incident to any of the foregoing or to the enforcement of this Section 11.1; and

(iv) any matter covered by Article 12.

(b) Subject to the terms and conditions of this Article 11, the Purchaser, agrees to indemnify, defend, and hold harmless the Company and the Shareholders from, against, for, and in respect of any and all Losses asserted against, relating to, imposed upon, or incurred by the Purchaser by reason of, resulting from, based upon, or arising out of the operation of the Business after the close of business on the Closing Date.

## **11.2 Procedures for Indemnification.**

(a) An Indemnification Claim shall be made by the Indemnitee by delivery of a written declaration to the Indemnitor requesting indemnification and specifying the basis on which indemnification is sought and the amount of asserted Losses and, in the case of a Third Party Claim, containing (by attachment or otherwise) such other information as the Indemnitee shall have concerning such Third Party Claim.

(b) If the Indemnification Claim involves a Third Party Claim, the procedures set forth in Section 11.3 hereof shall be observed.

(c) If the Indemnification Claim involves a matter other than a Third Party Claim, the Indemnitor shall have thirty (30) Business Days to object to such Indemnification Claim by delivery of a written notice of such objection to the Indemnitee specifying in reasonable detail the basis for such objection. Failure to timely so object shall constitute a final and binding acceptance of the Indemnification Claim by the Indemnitor and the Indemnification Claim shall be paid in accordance with Section 11.2(d) hereof.

(d) Upon determination of the amount of an Indemnification Claim that is binding on both the Indemnitor and the Indemnitee, the Indemnitor shall pay the amount of such Indemnification Claim by wire transfer of immediately available funds.

## **11.3 Defense of Third Party Claims.**

(a) In the event of a Third Party Claim, the Indemnitor shall have thirty (30) days (or such lesser time as may be necessary to comply with statutory response requirements for litigation claims that are included in such Third Party Claims) from receipt of the Indemnification Claim (the "Notice Period") to notify the Indemnitee, (i) whether or not the Indemnitor disputes its liability to the Indemnitee with respect to such claim, and (ii) notwithstanding any such dispute, whether or not the Indemnitor will, at its sole cost and expense, defend the Indemnitee against such claim.

(b) In the event that the Indemnitor notifies the Indemnitee within the Notice Period that it will defend the Indemnitee against such claim then, except as hereinafter provided, the Indemnitor shall have the right to defend the Indemnitee by appropriate proceedings.. If the Indemnitee desires to participate in, but not control, any such defense or settlement, it may do so at its sole cost and expense. If in the reasonable opinion of the Indemnitee, any such claim or the litigation or resolution of any such claim involves an issue or matter that could have a Material Adverse Effect on the Indemnitee, including the administration of the Tax Returns of the Indemnitee or a dispute with a significant customer or supplier of the Company, the Indemnitee shall have the right to control the defense or settlement of any such claim or demand and its reasonable costs and expenses shall be included as part of the indemnification obligation of the Indemnitor. If the Indemnitee should elect to exercise such right, the Indemnitor shall have the right to participate in, but not control, the defense or settlement of such claim at its sole cost and expense.

(c) The Indemnitee and the Indemnitor shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available records relating to such claim and furnishing, without expense to the Indemnitor and the Indemnitee such information as may be reasonably necessary for the preparation of the defense of any such claim or for testimony as witness in any proceeding relating to such claim.

#### **11.4 Settlement of Third Party Claims.**

No settlement of a Third Party Claim involving the asserted Liability of the Indemnitee under this Section 11.4 shall be made without the prior written consent by or on behalf of the Indemnitee, which consent shall not be unreasonably withheld or delayed. In the event of any dispute regarding the reasonableness of a proposed settlement, the Party that will bear the larger financial Loss resulting from such settlement shall make the final determination in respect thereto, which determination shall be final and binding on all involved Parties. Any settlement of a Third Party Claim shall include an unconditional release of the Indemnitee from all Liability in respect of such asserted Liability.

#### **11.5 Duration.**

The indemnification rights of the Parties hereto for Losses resulting from a breach of representations and warranties contained in any Purchase Document (other than the representations and warranties of the Company and the Shareholders set forth in Section 3.16 [Environmental Matters] and 3.19 [Tax Matters]) are subject to the condition that the Indemnitor shall have received written notice of the Losses for which indemnity is sought within one year after the Closing Date. The indemnification rights of the Purchaser for Losses resulting from a breach of any representation and warranty set forth in Section 3.16, 3.19 or under Article 12, shall be effective for all purposes hereunder without limitation as to the time within which such notice may be given.

## 11.6 Limitations.

(a) The Company and the Shareholders shall be obligated to indemnify the Purchaser only when the aggregate of all Losses suffered or incurred by the Purchaser as to which a right of indemnification is provided under Section 11.1(a) exceeds two hundred thousand Dollars (\$200,000) (the "Threshold Amount"). After the aggregate of all Losses suffered or incurred by the Indemnitee exceeds the Threshold Amount, the Company and the Shareholders shall be obligated to indemnify the Purchaser for all such Losses without reduction by the Threshold Amount. Notwithstanding the above, the Threshold Amount shall not apply to the indemnification rights of the Parties hereto for Losses resulting from those Liabilities described in Sections 3.16 or 3.19 and Article 12.

(b) No Indemnitor shall be liable for Losses in excess of the actual Losses suffered by the Indemnitee as a result of the act, circumstance, or condition for which indemnification is sought.

## 11.7 Adjustment to Purchase Price.

Any payment of an Indemnification Claim or Tax Indemnity hereunder shall be accounted for as an adjustment to the Purchase Price.

## ARTICLE 12 TAX MATTERS

(a) The Company and each Shareholder shall jointly and severally indemnify the Purchaser, and each Purchaser Affiliate and hold them harmless from and against (without duplication), any loss, claim, liability, expense, or other damage attributable to (i) all Taxes (or the non-payment thereof) of the Company, and those of the Shareholders attributable to the activities of the Company, for all Taxable periods ending on or before the Closing Date and the portion through the end of the Closing Date for any Taxable period that includes (but does not end on) the Closing Date ("Pre-Closing Tax Period"), (ii) any and all Taxes of any Person (other than the Company) imposed on the Company as a transferee or successor, by contract or pursuant to any law, rule, or regulation, which Taxes relate to an event or transaction occurring before the Closing. The indemnity provided under this Article 12 shall be referred to herein as the "Tax Indemnity."

(b) With regard to cooperation on tax matters:

(i) Purchaser, the Company and the Shareholders shall cooperate fully, as and to the extent reasonably requested by the other Party, in connection with the filing of Tax Returns and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other Party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Company and the Shareholders agree (A) to retain all books and records with respect to Tax matters pertinent to the Company relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Purchaser, the Company or the Shareholders, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (B) to give the other Party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other Party so requests, the Purchaser, the Company or the Shareholders, as the case may be, shall allow the other Party to take possession of such books and records.

(ii) Purchaser, the Company and the Shareholders further agree, upon request, to use commercially reasonable efforts to obtain any certificate or other document from any governmental authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

(iii) Purchaser, the Company and the Shareholders further agree, upon request, to provide the other Party with all information that any Party may be required to report pursuant to Section 6043 of the Code and all Treasury Regulations promulgated thereunder.

(c) All transfer, documentary, deed recording, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with consummation of the transactions contemplated by this Agreement shall be paid by the Company when due, and the Company will, at its own expense, file all necessary Tax Returns and other documentation with respect to all such Taxes, fees and charges, and, if required by applicable law, Purchaser will, and will cause its Affiliates to, join in the execution of any such Tax Returns and other documentation.

## **ARTICLE 13 GENERAL PROVISIONS**

### **13.1 Definitions.**

(a) Except as otherwise provided herein, the capitalized terms set forth below shall have the following meanings:

**"Acquisition Proposal"** means any proposals or offers from any Person other than Purchaser relating to any acquisition of all or a substantial part of the Purchased Assets, or the sale or issuance of the outstanding membership interests of the Company or of any capital stock of any corporation formed by the Company or the Members or any of their Related Persons to which all or a substantial part of the Purchased Assets or membership interests of the Company may be contributed, or any merger or consolidation of the Company, or of any corporation or other entity formed by the Company, the Shareholders or any of their Related Persons to which all or a substantial part of the Purchased Assets, or the membership interests of the Company, may be contributed.

**"Affiliated Group"** means any affiliated group within the meaning of Section 1504 of the Code or any comparable or analogous group under state, local or foreign Law.

**“Assumed Closing Date”** shall mean the date as of which the Purchaser is deemed to have assumed the risk of loss of the Purchased Assets.

**"Books and Records"** means all existing data, databases, books, records, correspondence, business plans and projections, records of sales, customer and vendor lists, files, papers, and, to the extent permitted under applicable Law, copies of historical personnel, payroll and medical records of each of the Personnel in the possession of the Company, including employment applications, employment agreements, confidentiality and non-compete agreements, corrective action reports, disciplinary reports, notices of transfer, notices of rate changes, other similar documents, and any summaries of such documents regularly prepared by the Company; all reported medical claims made for each of the Personnel; and all manuals and printed instructions of the Company.

**"Business Day"** means any day on which national banks are open for business in the State of New York.

**“Code”** means the Internal Revenue Code of 1986, as amended.

**"Computer Software"** means all computer programs, materials, tapes, source and object codes, and all prior and proposed versions, releases, modifications, updates, upgrades and enhancements thereto, as well as all documentation and listings related thereto used by the Company.

**"Consent"** means any consent, approval, authorization, clearance, exception, waiver or similar affirmation by any Person pursuant to any Contract, Law, Order or Permit.

**"Contract"** means any written or oral agreement, arrangement, authorization, collective bargaining or other labor agreement, commitment, contract, obligation, debt, note, bond, insurance contract or plan, power of attorney, lease, Lien, encumbrance, equipment lease, mortgage, indenture, pension or other health or welfare benefit plan, or other instrument, license, plan, practice, restriction, severance plan, policy or arrangement, understanding, or undertaking of any kind or character, or other document to which the Company is a Party, that is binding on the Company, or to which the Assets are subject, pursuant to which the Company enjoys any right or benefit.

**"Default"** means (1) any breach or violation of, default under, contravention of, or conflict with, any Contract, Law, Order, or Permit, (2) any occurrence of any event that with the passage of time or the giving of notice or both would constitute a breach or violation of, default under, contravention of, or conflict with, any Contract, Law, Order, or Permit, or (3) any occurrence of any event that with or without the passage of time or the giving of notice would give rise to a right of any Person to exercise any remedy or obtain any relief under, terminate or revoke, suspend, cancel, or modify or change the current terms of, or renegotiate, or to accelerate the maturity or performance of, or to increase or impose any Liability under, any Contract, Law, Order, or Permit.

**"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, substances, 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; Materials Transportation Act; Occupational Safety and Health Act; and Endangered Species Act of 1973, each as amended.

**"Equipment"** means all machinery, equipment, furniture, tools, computers, terminals, computer equipment, office equipment, business machines, telephones and telephone systems, parts, accessories, and the like, wherever located, and any and all assignable warranties of Third Parties with respect thereto.

**"Equipment Charges"** means rental charges payable or receivable and other payments or receipts applicable to the Equipment.

**"GAAP"** means generally accepted accounting principles as employed in the United States of America, applied consistently with prior periods and with the Company's historical practices and methods, provided that standards of materiality applicable to the Company shall be employed without regard to standards of materiality used by the Company in prior periods, and provided further, that the Company's historical practices and methods shall not be consistently applied to the extent they are not in accordance with GAAP.

**"Governmental Body"** means any government or governmental or regulatory body thereof, or political subdivision thereof, whether federal, state, local or foreign, or any agency, instrumentality or authority thereof, or any court or arbitrator (public or private).

**"Indebtedness"** means, for any Person without double counting, (A) all indebtedness or other obligations of such Person for borrowed money or for the deferred purchase price of property or services, (B) all indebtedness created or arising under any Lien with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (C) all obligations under leases that are or should be, in accordance with GAAP, recorded as capital leases in respect of which such Person is liable as lessee, (D) liabilities in respect of unfounded vested benefits under any Employee Benefit Plan and (E) all obligations owed pursuant to any interest rate hedging arrangement.

**"Indemnification Claim"** means a claim for indemnification under Article 12.

**"Indemnitee"** means the Party seeking indemnification hereunder.



**"Indemnitor"** means the Party against whom indemnification is sought hereunder.

**"Information"** means information or documentation owned by the Company which information may include, but is not necessarily limited to, financial data, business plans, personnel information (to the extent permitted under applicable Law), drawings, samples, devices, trade secrets, technical information, results of research and other data in either oral or written form; provided, however, that "Information" does not include information which is or becomes generally available to the public other than as a result of a disclosure by Purchaser or its representatives.

**"Intellectual Property"** means the tangible and intangible rights or interests and intellectual property rights evidenced by, embodied in, or associated with (A) any idea, algorithms, design, concept, technique, methodology, process, invention, discovery or improvement, whether or not patentable, including all United States and foreign patents, patent applications, patent license rights, industrial design registrations, patentable inventions and certificates of invention, and all continuations, continuations in part, re-issues and re-examinations relating thereto, (B) any works of authorship or expression which includes but is not limited to Computer Software, databases and business plans, whether or not copyrightable, including moral rights and copyrights recognized by law, together with any renewal or extension thereof, (C) any logos, trademarks, domain names, service marks, trade names and trade dress, and all goodwill relating thereto, (D) any trade secrets, technology licenses, confidential information, shop rights and other intellectual property rights owned or claimed and embodied therein, or associated therewith, or similar rights protectable under any laws or international conventions throughout the world, and (E) in each case of the foregoing items (A) through (D), the right to apply for registrations, certificates, or renewals with respect thereto and the right to prosecute, enforce, obtain damages relating to, settle or release any past, present, or future infringement thereof.

**"IRS"** means the Internal Revenue Service of the United States of America.

**"Knowledge"** and the phrases "to the Knowledge of the Company," "the Company has received notice," "to the Company's Knowledge," "the Company is aware" and any other similar phrases as used with respect to a Person (including references to such Person being aware of a particular matter) means the personal Knowledge after due inquiry of the Shareholders, and the Knowledge of any such Persons obtained or which would have been obtained from a reasonable investigation.

**"Labor Claims"** means claims, investigations, charges, citations, hearings, consent decrees, or litigation concerning: wages, compensation, bonuses, commissions, awards, or payroll deductions; equal employment or human rights violations regarding race, color, religion, sex, national origin, age, handicap, veteran's status, marital status, disability, or any other recognized class, status, or attribute under any federal, state, local or foreign equal employment Law prohibiting discrimination; representation petitions or unfair labor practices; grievances or arbitrations pursuant to current or expired collective bargaining agreements; occupational safety and health; workers' compensation; wrongful termination, negligent hiring, invasion of privacy or defamation; immigration or any other claim based on the employment relationship or termination of the employment relationship.

**"Law"** means any code, directive, law (including common law), ordinance, regulation, reporting or licensing requirement, rule, or statute applicable to a Person or its assets, Liabilities, or business, including those promulgated, interpreted or enforced by any Regulatory Authority.

**"Liability"** means any direct or indirect, primary or secondary, liability, indebtedness, obligation, penalty, cost or expense (including costs of investigation, collection and defense), claim, deficiency, guaranty or endorsement of or by any Person (other than endorsements of notes, bills, checks, and drafts presented for collection or deposit in the Ordinary Course of Business) of any type, secured or unsecured whether accrued, absolute or contingent, direct or indirect, liquidated or unliquidated, matured or unmatured, known or unknown or otherwise.

**"License"** means any license, franchise, notice, permit, easement, right, certificate, authorization, approval or filing to which any Person is a party or that is or may be binding on any Person or its securities, property or business.

**"Lien"** means any conditional sale agreement, covenant, default of title, easement, encroachment, encumbrance, hypothecation, infringement, lien, mortgage, pledge, reservation, restriction, right of way, security interest, title retention or other security arrangement, or any adverse right or interest, charge, or claim of any nature whatsoever of, on, or with respect to any property or property interest.

**"Litigation"** means any suit, action, administrative or other audit (other than regular audits of financial statements by outside auditors) proceeding, arbitration, cause of action, charge, claim, complaint, compliance review, criminal prosecution, grievance inquiry, hearing, inspection, investigation (governmental or otherwise), notice (written or oral) by any Person alleging potential Liability or requesting information relating to or affecting the Company, or the transactions contemplated by this Agreement.

**"Loss"** means any and all direct or indirect Litigation, payments, obligations, recoveries, deficiencies, fines, penalties, interest, assessments, losses, diminution in the value of assets, damages, punitive, exemplary or consequential damages (including, but not limited to, lost income and profits and interruptions of business), Liabilities, costs, expenses (including (A) interest, penalties and reasonable attorneys' fees and expenses, (B) reasonable attorneys' fees and expenses necessary to enforce rights to indemnification hereunder, and (C) consultant's fees and other costs of defense or investigation), and interest on any amount payable to a third Party as a result of the foregoing, whether accrued, absolute, contingent, known, unknown, or otherwise as of the Closing Date or thereafter.

"**Material**" or "**material**" for purposes of this Agreement shall be determined in light of the facts and circumstances of the matter in question; provided that any specific monetary amount stated in this Agreement shall determine materiality in that instance.

"**Material Adverse Effect**" or "**Material Adverse Change**" when used in connection with a Party means any change, event, violation, inaccuracy or circumstance the effect of which is both material and adverse to (A) the property, business, operations, assets (tangible and intangible) or financial condition of such Party and its parent or subsidiaries, taken as a whole, or (B) the ability of such Party to perform any of its material obligations under this Agreement or the Purchase Documents to which it is a party.

"**Order**" means any decree, injunction, judgment, order, ruling, writ, quasi-judicial decision or award or administrative decision or award of any federal, state, local, foreign or other court, arbitrator, mediator, tribunal, administrative agency or Regulatory Authority to which any Person is a party or that is or may be binding on any Person or its securities, assets or business.

"**Ordinary Course of Business**" an action taken by a Person will be deemed to have been taken in the Ordinary Course of Business only if that action: (A) is consistent in nature, scope and magnitude with the past practices of such Person and is taken in the ordinary course of the normal, day-to-day operations of such Person; (B) does not require authorization by the board of directors or stockholders of such Person (or by any Person or group of Persons exercising similar authority) and does not require any other separate or special authorization of any nature; and (C) is similar in nature, scope and magnitude to actions customarily taken, without any separate or special authorization, in the ordinary course of the normal, day-to-day operations of other Persons that are in the same line of business as such Person.

"**Party**" means any party hereto and "**Parties**" means all parties hereto.

"**Permit**" means any Regulatory Authority approval, authorization, certificate, easement, filing, franchise, license, notice, permit, or right to which any Person is a party or that is or may be binding upon or inure to the benefit of any Person or its securities, assets, or business.

"**Permitted Encumbrances**" means (A) Liens for Taxes not yet due and payable (other than Taxes arising out of the transactions contemplated by this Agreement); (B) such Liens not related to money, if any, that, in the aggregate, do not have a Material negative impact on the value or present use of any of the assets or properties of the Company; and (C) other Liens relating to the assets or properties of the Company that are not related to borrowed money and that (y) secure the liabilities of the Company and (z) have been properly disclosed to Purchaser on an appropriate Schedule to this Agreement; and (D) Liens, if any, relating to Purchaser's financing to which the assets and properties of the Company are subject at Closing.

**"Person"** means a natural person or any legal, commercial or governmental entity, such as, but not limited to, a corporation, general partnership, joint venture, limited partnership, limited liability company, limited liability partnership, trust, business association, group acting in concert, or any person acting in a representative capacity.

**"Personal Property Taxes"** means ad valorem taxes imposed upon the Company's assets and properties.

**"Pre-Closing Tax Period"** means any taxable year or period (or portion thereof) that ends on or before the Closing Date.

**"Purchase Documents"** means this Agreement and the other documents or agreements to be executed in connection herewith, including without limitation, the Audited Financial Statements.

**"Purchaser Indemnitees"** means Purchaser and its officers, directors, employees, agents and other Related Persons.

**"Regulatory Authority"** means any federal, state, county, local, foreign or other governmental, public or regulatory agencies, authorities (including self-regulatory authorities), instrumentalities, commissions, boards or bodies having jurisdiction over the Parties.

**"Related Person"** means with respect to a particular individual: (A) each other member of such individual's Family; (B) any Person that is directly or indirectly controlled by any one or more members of such individual's Family; (C) any Person in which members of such individual's Family hold (individually or in the aggregate) a Material Interest; and (D) any Person with respect to which one or more members of such individual's Family serves as a director, officer, partner, executor or trustee (or in a similar capacity). With respect to a specified Person other than an individual: (aa) any Person that directly or indirectly controls, is directly or indirectly controlled by or is directly or indirectly under common control with such specified Person; (bb) any Person that holds a Material Interest in such specified Person; (cc) each Person that serves as a director, officer, partner, executor or trustee of such specified Person (or in a similar capacity); (dd) any Person in which such specified Person holds a Material Interest; and (ee) any Person with respect to which such specified Person serves as a general partner or a trustee (or in a similar capacity). For purposes of this definition, (I) "control" (including "controlling," "controlled by," and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and shall be construed as such term is used in the rules promulgated under the Securities Act; (II) the "Family," of an individual includes (1) the individual, (2) the individual's spouse, (3) any other natural person who is the parent, child, grandparent, grandchild or sibling of the individual or the individual's spouse and (4) any other natural person who resides with such individual; and (III) "Material Interest" means direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of voting securities or other voting interests representing at least five percent (5%) of the outstanding voting power of a Person or equity securities or other equity interests representing at least five percent (5%) of the outstanding equity securities or equity interests in a Person.

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

**"Tax"** means any federal, state, county, local, or foreign tax, charge, fee, levy, impost, duty, or other assessment, including income, gross receipts, excise, employment, sales, use, transfer, recording, license, payroll, franchise, severance, documentary, stamp, occupation, windfall profits, environmental, federal highway use, commercial rent, customs duty, capital stock, paid-up capital, profits, withholding, Social Security, single business and unemployment, disability, real property, personal property, registration, ad valorem, value added, alternative or add-on minimum, estimated, or other tax or governmental fee of any kind whatsoever, imposed or required to be withheld by any Regulatory Authority, including any interest, penalties, and additions imposed thereon or with respect thereto, and including liability for the Taxes of any other person under Treas. Reg. 1.1502-6 (or any similar provision of state, local, or foreign law) as a transferee or successor, by contract, or otherwise.

**"Taxing Authority"** means the IRS and any other federal, state, local or foreign Governmental Body responsible for the administration of any Tax.

**"Tax Return"** means any return (including any informational return) report, statement, schedule, notice, form or other document or information filed with or submitted to, or required to be filed with or submitted to any Taxing Authority in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of compliance with any legal requirement relating to any Tax.

**"Territory"** means the United States of America.

**"Third Party"** means any Person other than a Party.

**"Third Party Claim"** means any Litigation instituted against the Indemnitee which, if prosecuted successfully, would be a matter for which the Indemnitee is entitled to indemnification under this Agreement.

**"Treasury Regulations"** means the Federal income tax regulations promulgated under the Code, as such regulations may be amended from time to time.

### **13.2 Fees and Expenses.**

Except as otherwise specifically provided elsewhere in this Agreement, regardless of whether the transactions contemplated by this Agreement are consummated, the Company and Purchaser each shall pay its respective fees and expenses in connection with the transactions contemplated by this Agreement.

### 13.3 Notices.

All notices, requests, demands, and other communications hereunder shall be in writing and shall be (a) delivered in person or by courier or overnight service or (b) mailed by first class registered or certified mail, postage prepaid, return receipt requested, as follows:

If to the Company or the Shareholders:

c/o Vincent DiCarlo, Jr., President  
34 Lamar Street  
West Babylon, NY 11704  
Telephone: (631) 643-5000  
Facsimile: (631) 643-5062

with a copy (which shall not constitute notice) to:

Stiene & Associates, P.C.  
Attention: Charles G. Stiene Esq.  
187 East Main Street  
Huntington, NY 11743  
Telephone: (631) 935-1616  
Facsimile: (631) 935-1223

If to Purchaser:

Air Industries Group, Inc.  
1479 North Clinton Avenue  
Bay Shore, New York 11706-4051  
Attention: Peter D. Rettaliata, President  
Telephone: (631) 968-0722  
Facsimile:

with a copy (which shall not constitute notice) to:

Eaton & Van Winkle, LLP  
Three Park Avenue, 16<sup>th</sup> floor  
New York, NY 10016  
Attention: Vincent J. McGill, Esq.  
Telephone: 212 779-9910  
Facsimile: 212 779-9928

or to such other address as the parties hereto may designate in writing to the other in accordance with this Section 13.3. Any Party may change the address to which notices are to be sent by giving written notice of such change of address to the other parties in the manner above provided for giving notice. If delivered personally or by courier, the date on which the notice, request, instruction or document is delivered shall be the date on which such delivery is made and if delivered by mail as aforesaid, the date on which such notice, request, instruction or document is received shall be the date of delivery.

### **13.4 Assignment**

Prior to the Closing, this Agreement shall not be assignable by any of the Parties hereto without the written consent of the others; provided, however, that (a) prior to or at the Closing, Purchaser may assign any or all of its rights and obligations under this Agreement to any of its Related Persons without the consent of the Company, but no such assignment shall relieve Purchaser of any of its obligations under this Agreement. From and after any such assignment, the word "Purchaser" shall mean such assignee.

### **13.5 No Benefit to Others.**

The representations, warranties, covenants, and agreements contained in this Agreement are for the sole benefit of the Parties hereto and, in the case of Article 11 hereof, the Purchaser Indemnitees, and their respective heirs, executors, administrators, legal representatives, successors and assigns, and they shall not be construed as conferring any Third Party beneficiary or any other rights on any other Persons.

### **13.6 Headings and Gender; Construction; Interpretation.**

(a) The table of contents and the captions and section headings contained in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement. All references in this Agreement to "Section" or "Article" shall be deemed to be references to a Section or Article of this Agreement.

(b) Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed followed by the words "without limitation."

(e) Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Purchaser or Sellers, whether under any rule of construction or otherwise. No Party to this Agreement shall be considered the draftsman. On the contrary, this Agreement has been reviewed, negotiated and accepted by all Parties and their attorneys and shall be construed and interpreted according to the ordinary meaning of the words so as fairly to accomplish the purposes and intentions of all the Parties.

### **13.7 Amendment of Agreement.**

Neither this Agreement, nor any provision hereof, may be changed, waived, discharged, supplemented, or terminated orally, but only by an agreement in writing signed by the Party against which the enforcement of such change, waiver, discharge or termination is sought. The failure or delay of any Party at any time or times to require performance of any provision of this Agreement shall in no manner affect its right to enforce that provision. No single or partial waiver by any Party of any condition of this Agreement, or the breach of any term of this Agreement or the inaccuracy or warranty of this Agreement, whether by conduct or otherwise, in any one or more instances shall be construed or deemed to be a further or continuing waiver of any such condition, breach or inaccuracy or a waiver of any other condition, breach or inaccuracy.

### **13.8 Waiver.**

The rights and remedies of the Parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any Party in exercising any right, power, or privilege under this Agreement or the Purchase Documents will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power, privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the Purchase Documents can be discharged by one Party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other Party; (b) no waiver that may be given by a Party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one Party will be deemed to be a waiver of any obligation of such Party or of the right of the Party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the Purchase Documents.

### **13.9 Governing Law.**

The Parties agree that this Agreement shall be governed by and construed in all respects in accordance with the laws of the State of New York without giving effect to the conflict of laws principles thereof. The Parties agree and acknowledge that the State of New York has a reasonable relationship to the Parties and/or this Agreement. As to any dispute, claim, or litigation arising out of or relating in any way to this Agreement or the transaction at issue in this Agreement, the Parties hereby agree and consent to be subject to the exclusive jurisdiction of the United States District Court for the Southern District or Eastern District of New York or the state courts of the State of New York located in New York, Nassau or Suffolk Counties. Each Party hereby irrevocably waives, to the fullest extent permitted by Law, (a) any objection that it may now or hereafter have to laying venue of any suit, action or proceeding brought in such court, (b) any claim that any suit, action or proceeding brought in such court has been brought in an inconvenient forum, and (c) any defense that it may now or hereafter have based on lack of personal jurisdiction in such forum.

### **13.11 Partial Invalidity.**

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but in case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision or provisions had never been contained herein unless the deletion of such provision or provisions would result in such a material change as to cause completion of the transactions contemplated hereby to be unreasonable. To the extent the deemed deletion of the invalid, illegal or unenforceable provision or provisions is reasonably likely to have a Material Adverse Effect, the Parties shall endeavor in good faith to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as practicable to that of the invalid, illegal or unenforceable provisions.



**13.12. Restatement.**

This Agreement is an amendment and restatement in its entirety of the Asset Purchase Agreement entered into among the Parties as of March 16, 2012. Upon execution and delivery of this Agreement, the Agreement of March 16, 2012, shall be deemed void and of no force or effect.

**IN WITNESS WHEREOF**, each Party hereto has caused this Agreement to be executed under seal on its behalf by its duly authorized officers, all as of the day and year first above written.

**PURCHASER:**

AIR INDUSTRIES GROUP, INC.

By: /s/Peter D. Rettaliata  
Peter D. Rettaliata  
President

**THE COMPANY:**

NASSAU TOOL WORKS, INC.

By: /s/ Vincent DiCarlo, Jr.  
Vincent DiCarlo, Jr.  
Chief Executive Officer

**SHAREHOLDERS:**

/s/ Vincent DiCarlo, Jr.  
Vincent DiCarlo, Jr.

/s/ Robert E. Hunt  
Robert E. Hunt

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Assignment"), made as of June 20, 2012, by and between Air Industries Group, Inc., a Delaware corporation having an address at 1479 North Clinton Avenue, Bay Shore, New York 11706 ("Assignor"), and NTW Operating Inc., a New York corporation, 1479 North Clinton Avenue, Bay Shore, New York 11706 ("Assignee").

WITNESSETH:

WHEREAS, pursuant to that certain Asset Purchase Agreement, dated as of March 16, 2012, among the Assignor, as Buyer, Nassau Tool Works, Inc., a New York corporation ("Seller"), and Vincent Dicarlo, Jr. and Robert E. Hunt, as the shareholders of Seller (the "Asset Purchase Agreement"), a copy of which is attached hereto as Exhibit A, the Assignor has agreed to purchase from Seller, and the Seller has agreed to sell to the Assignor, substantially all of the assets of Seller constituting the business of Seller with respect to the manufacture and assembly of parts and components for aircraft, including without limitation landing gears for military and civilian aircraft (the "Business"), as a going concern; and

WHEREAS, the Assignor wishes to assign to the Assignee all of the Assignor's interest in and to the Asset Purchase Agreement, and the Assignee agrees to accept such assignment and assume all of the obligations of the Assignor under the Asset Purchase Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee hereby agree as follows:

1. Assignor hereby transfers and assigns to Assignee all of Assignor's rights, obligations, liabilities and interests as Buyer under the Asset Purchase Agreement; provided, however, that the Assignor hereby agrees to remain jointly liable with the Assignee for all obligations of the Buyer (as such term is defined in the Asset Purchase Agreement) under the Asset Purchase Agreement.

2. Assignee hereby accepts the foregoing assignment, and Assignee hereby assumes all of the Assignor's rights, obligations, liabilities and interests under the Asset Purchase Agreement to the same extent as though it had originally been named as a party thereto and agrees to observe, perform and fulfill all of the terms and conditions of the Asset Purchase Agreement to the same extent as if it had been originally named as a party thereto.

3. Assignee agrees to defend, indemnify and hold harmless Assignor and its affiliates, officers, directors, shareholders, employees, partners, agents and representatives from and against all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies, including interest, penalties and reasonable attorneys' fees, costs and expenses arising out of, resulting from or related in any way whatsoever to the obligations under the Asset Purchase Agreement assumed by Assignee herein, other than those obligations arising prior to the date hereof. Assignor agrees to defend, indemnify and hold harmless Assignee and its affiliates, officers, directors, shareholders, employees, partners, agents and representatives from and against all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies, including interest, penalties and reasonable attorneys' fees, costs and expenses arising out of, resulting from or related in any way whatsoever to the obligations under the Asset Purchase Agreement assumed by Assignee herein which arose or accrued prior to and relate to the period prior to the date hereof.

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4. This Assignment and the obligations of Assignor and Assignee hereunder shall be binding upon and inure to the benefit of Assignor and Assignee and their respective successors and assigns, shall be governed by and construed in accordance with the laws of the State of New York and may not be modified or amended in any manner other than by a written agreement signed by the party to be charged therewith. Assignor and Assignee agree to execute any and all other assignments, documents, certificates and other instruments as may at any time be deemed reasonably necessary to further evidence or consummate this Assignment.

5. This Assignment may be executed in one or more counterparts, each of which is deemed an original and all of which shall constitute the Assignment.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment as of the day and year first above set forth.

ASSIGNOR:

AIR INDUSTRIES GROUP, INC.

By: /s/ Peter Rettaliata  
Name: Peter Rettaliata  
Title: President

ASSIGNEE:

NTW OPERATING INC.

By: /s/ Peter Rettaliata  
Name: Peter Rettaliata  
Title: President

AIR INDUSTRIES GROUP, INC

2010 EQUITY INCENTIVE PLAN

1. Purposes of the Plan.

The purposes of this Equity Incentive Plan are to attract and retain the best available personnel, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business.

2. Definitions.

As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any Committee appointed to administer the Plan.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act.

(c) "Applicable Laws" means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein.

(d) "Award" means the grant of an Option, SAR, Dividend Equivalent Right, Restricted Stock, Performance Unit, Performance Share, or other right or benefit under the Plan.

(e) "Award Agreement" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.

(f) "Board" means the Board of Directors of the Company.

(g) "Cause" means, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that such termination is for "Cause" as such term is expressly defined in a then-effective written agreement between the Grantee and the Company or such Related Entity, or in the absence of such then-effective written agreement and definition, is based on, in the determination of the Administrator, the Grantee's:

- (i) refusal or failure to act in accordance with any specific, lawful direction or order of the Company or a Related Entity;
  - (ii) unfitness or unavailability for service or unsatisfactory performance (other than as a result of Disability);
  - (iii) performance of any act or failure to perform any act, in bad faith and to the detriment of the Company or a Related Entity;
  - (iv) dishonesty, intentional misconduct or material breach of any agreement with the Company or a Related Entity; or
  - (v) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person.
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(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Committee" means any committee appointed by the Board to administer the Plan.

(j) "Common Stock" means the common stock of the Company.

(k) "Company" means Air Industries Group, Inc., a Delaware corporation.

(l) "Consultant" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(m) "Continuous Service" means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant, is not interrupted or terminated. Continuous Service shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or Related Entity, (ii) transfers between locations of the Company or among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). For purposes of Incentive Stock Options, no such approved leave of absence may exceed ninety (90) days, unless re-employment upon expiration of such leave is guaranteed by statute or contract.

(n) "Corporate Transaction" means any of the following transactions:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company (including the capital stock of the Company's subsidiary corporations) in connection with the complete liquidation or dissolution of the Company;

(iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than eighty percent (80%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger; or

(iv) an acquisition by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than eighty percent (80%) of the total combined voting power of the Company's outstanding securities, but excluding any such transaction that the Administrator determines shall not be a Corporate Transaction.

(o) "Director" means a member of the Board or the board of directors of any Related Entity.

(p) "Disability" means that a Grantee is permanently unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.

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(q) "Dividend Equivalent Right" means a right entitling the Grantee to compensation measured by dividends paid with respect to Common Stock.

(r) "Employee" means any person, including an Officer or Director, who is an employee of the Company or any Related Entity. The payment of a director's fee by the Company or a Related Entity shall not be sufficient to constitute "employment" by the Company.

(s) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(t) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) Where there exists a public market for the Common Stock, the Fair Market Value shall be (A) the closing price for a Share for the last market trading day prior to the time of the determination (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange or national market system determined by the Administrator to be the primary market for the Common Stock, or (B) if the Common Stock is not traded on any such exchange or national market system, the average of the closing bid and asked prices of a share on the OTC Bulletin Board or other inter-dealer quotation service for the day prior to the time of the determination (or, if no such prices were reported on that date, on the last date on which such prices were reported), in each case, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or (ii) In the absence of an established market for the Common Stock of the type described in subparagraph (i), above, the Fair Market Value shall be determined by the Administrator in good faith.

(u) "Grantee" means an Employee, Director or Consultant who receives an Award pursuant to an Award Agreement under the Plan.

(v) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(w) "Non-Qualified Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(x) "Officer" means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(y) "Option" means an option to purchase Shares pursuant to an Award Agreement granted under the Plan.

(z) "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(aa) "Performance Shares" means Shares or an Award denominated in Shares which may be earned in whole or in part upon attainment of performance criteria established by the Administrator.

(bb) "Performance Units" means an Award which may be earned in whole or in part upon attainment of performance criteria established by the Administrator and which may be settled for cash, Shares or other securities or a combination of cash, Shares or other securities as established by the Administrator.

(cc) "Plan" means this 2010 Equity Incentive Plan.

(dd) "Registration Date" means the first to occur of:

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(i) the closing of the first sale to the general public of (A) the Common Stock or (B) the same class of securities of a successor corporation (or its Parent) issued pursuant to a Corporate Transaction in exchange for or in substitution of the Common Stock, pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended; and

(ii) in the event of a Corporate Transaction, the date of the consummation of the Corporate Transaction if the same class of securities of the successor corporation (or its Parent) issuable in such Corporate Transaction shall have been sold to the general public pursuant to a registration statement filed with and declared effective by, on or prior to the date of consummation of such Corporate Transaction, the Securities and Exchange Commission under the Securities Act of 1933, as amended.

(ee) "Related Entity" means any Parent, Subsidiary and any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or a Subsidiary holds a substantial ownership interest, directly or indirectly.

(ff) "Restricted Stock" means Shares issued under the Plan to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions, and other terms and conditions as established by the Administrator.

(gg) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor thereto.

(hh) "SAR" means a stock appreciation right entitling the Grantee to Shares or cash compensation, as established by the Administrator, measured by appreciation in the value of Common Stock.

(ii) "Share" means a share of the Common Stock.

(jj) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

(kk) "Related Entity Disposition" means the sale, distribution or other disposition by the Company of all or substantially all of the Company's interests in any Related Entity effected by a sale, merger or consolidation or other transaction involving that Related Entity or the sale of all or substantially all of the assets of that Related Entity.

### 3. Stock Subject to the Plan.

(a) Subject to the provisions of Section 10, below, the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Stock Options) is 2,000,000 Shares. The Shares to be issued pursuant to Awards may be authorized, but unissued, or reacquired Common Stock.

(b) Any Shares covered by an Award (or portion of an Award) which is forfeited or canceled, expires or is settled in cash, shall be deemed not to have been issued for purposes of determining the maximum aggregate number of Shares which may be issued under the Plan. If any unissued Shares are retained by the Company upon exercise of an Award in order to satisfy the exercise price for such Award or any withholding taxes due with respect to such Award, such retained Shares subject to such Award shall become available for future issuance under the Plan (unless the Plan has terminated). Shares that actually have been issued under the Plan pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan, except that if unvested Shares are forfeited, or repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

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#### 4. Administration of the Plan.

##### (a) Plan Administrator.

(i) Administration with Respect to Directors and Officers. With respect to grants of Awards to Directors or Employees who are also Officers or Directors of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the Applicable Laws and to permit such grants and related transactions under the Plan to be exempt from Section 16(b) of the Exchange Act in accordance with Rule 16b-3. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board.

(ii) Administration With Respect to Consultants and Other Employees. With respect to grants of Awards to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the Applicable Laws. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. The Board may authorize one or more Officers to grant such Awards and may limit such authority as the Board determines from time to time. Except for the power to amend the Plan as provided in Section 13 and except for determinations regarding Employees who are subject to Section 16 of the Exchange Act or certain key Employees who are, or may become, as determined by the Board or the Committee, subject to Section 162(m) of the Code compensation deductibility limit, and except as may otherwise be required under applicable stock exchange rules, the Board or the Committee may delegate any or all of its duties, powers and authority under the Plan pursuant to such conditions or limitations as the Board or the Committee may establish to any Officer or Officers of the Company

(iii) Administration Errors. In the event an Award is granted in a manner inconsistent with the provisions of this subsection, such Award shall be presumptively valid as of its grant date to the extent permitted by Applicable Laws.

(b) Powers of the Administrator. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion:

(i) to select the Employees, Directors and Consultants to whom Awards may be granted from time to time hereunder;

(ii) to determine whether and to what extent Awards are granted hereunder;

(iii) to determine the number of Shares or the amount of other consideration to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions of any Award granted hereunder;

(vi) to amend the terms of any outstanding Award granted under the Plan, provided that any amendment that would adversely affect the Grantee's rights under an outstanding Award shall not be made without the Grantee's written consent;

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(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan, including without limitation, any notice of Award or Award Agreement, granted pursuant to the Plan;

(viii) to establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford Grantees favorable treatment under such laws; provided, however, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan; and

(ix) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be conclusive and binding on all persons.

5. Eligibility. Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants. Incentive Stock Options may be granted only to Employees of the Company, a Parent or a Subsidiary. An Employee, Director or Consultant who has been granted an Award may, if otherwise eligible, be granted additional Awards. Awards may be granted to such Employees, Directors or Consultants who are residing in foreign jurisdictions as the Administrator may determine from time to time.

## 6. Terms and Conditions of Awards.

(a) Type of Awards. The Administrator is authorized under the Plan to award any type of arrangement to an Employee, Director or Consultant that is not inconsistent with the provisions of the Plan and that by its terms involves or might involve the issuance of (i) Shares, (ii) an Option, a SAR or similar right with a fixed or variable price related to the Fair Market Value of the Shares and with an exercise or conversion privilege related to the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or (iii) any other security with the value derived from the value of the Shares. Such awards include, without limitation, Options, SARs, sales or bonuses of Restricted Stock, Dividend Equivalent Rights, Performance Units or Performance Shares, and an Award may consist of one such security or benefit, or two (2) or more of them in any combination or alternative.

(b) Designation of Award. Each Award shall be designated in the Award Agreement. In the case of an Option, the Option shall be designated as either an Incentive Stock Option or a Non-Qualified Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of Shares subject to Options designated as Incentive Stock Options which become exercisable for the first time by a Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options, to the extent of the Shares covered thereby in excess of the foregoing limitation, shall be treated as Non-Qualified Stock Options. For this purpose, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the date the Option with respect to such Shares is granted.

(c) Conditions of Award. Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of, increase in share price, earnings per share, total stockholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value added, personal management objectives, or other measure of performance selected by the Administrator. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement.

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(d) Acquisitions and Other Transactions. The Administrator may issue Awards under the Plan in settlement, assumption or substitution for, outstanding awards or obligations to grant future awards in connection with the Company or a Related Entity acquiring another entity, an interest in another entity or an additional interest in a Related Entity whether by merger, stock purchase, asset purchase or other form of transaction.

(e) Deferral of Award Payment. The Administrator may establish one or more programs under the Plan to permit selected Grantees the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Grantee to payment or receipt of Shares or other consideration under an Award. The Administrator may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, Shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Administrator deems advisable for the administration of any such deferral program.

(f) Award Exchange Programs. The Administrator may establish one or more programs under the Plan to permit selected Grantees to exchange an Award under the Plan for one or more other types of Awards under the Plan on such terms and conditions as determined by the Administrator from time to time.

(g) Separate Programs. The Administrator may establish one or more separate programs under the Plan for the purpose of issuing particular forms of Awards to one or more classes of Grantees on such terms and conditions as determined by the Administrator from time to time.

(h) Early Exercise. The Award Agreement may, but need not, include a provision whereby the Grantee may elect at any time while an Employee, Director or Consultant to exercise any part or all of the Award prior to full vesting of the Award. Any unvested Shares received pursuant to such exercise may be subject to a repurchase right in favor of the Company or a Related Entity or to any other restriction the Administrator determines to be appropriate.

(i) Term of Award. The term of each Award shall be the term stated in the Award Agreement, provided, however, that the term of an Incentive Stock Option shall be no more than ten (10) years from the date of grant thereof. However, in the case of an Incentive Stock Option granted to a Grantee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.

(j) Transferability of Awards. Except as otherwise provided in this Section, all Awards under the Plan shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by the Grantee other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. Notwithstanding the preceding sentence, the Board or the Committee may provide that any Award of Non-Qualified Stock Options may be transferable by the recipient to family members or family trusts established by the Grantee. The Board or the Committee may also provide that, in the event that a Grantee terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, a third party, including but not limited to a "blind" trust, may be authorized by the Board or the Committee to act on behalf of and for the benefit of the respective Grantee with respect to any outstanding Awards. Except as otherwise provided in this Section, during the life of the Grantee, Awards under the Plan shall be exercisable only by him or her except as otherwise determined by the Board or the Committee. In addition, if so permitted by the Board or the Committee, a Grantee may designate a beneficiary or beneficiaries to exercise the rights of the Grantee and receive any distributions under the Plan upon the death of the Grantee.

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(k) Time of Granting Awards. The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other date as is determined by the Administrator. Notice of the grant determination shall be given to each Employee, Director or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

#### 7. Award Exercise or Purchase Price, Consideration, Taxes and Reload Options.

(a) Exercise or Purchase Price. The exercise or purchase price, if any, for an Award shall be as follows:

(i) In the case of an Incentive Stock Option: (A) granted to an Employee who, at the time of the grant of such Incentive Stock Option owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be not less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant; or (B) granted to any Employee other than an Employee described in the preceding clause, the per Share exercise price shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Non-Qualified Stock Option, the per Share exercise price shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant unless otherwise determined by the Administrator.

(iii) In the case of other Awards, such price as is determined by the Administrator.

(iv) Notwithstanding the foregoing provisions of this Section 7(a), in the case of an Award issued pursuant to Section 6(d), above, the exercise or purchase price for the Award shall be determined in accordance with the principles of Section 424(a) of the Code.

(b) Consideration. Subject to Applicable Laws, the consideration to be paid for the Shares to be issued upon exercise or purchase of an Award including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). In addition to any other types of consideration the Administrator may determine, the Administrator is authorized to accept as consideration for Shares issued under the Plan the following, provided that the portion of the consideration equal to the par value of the Shares must be paid in cash or other legal consideration permitted by the Delaware General Corporation Law:

(i) cash;

(ii) check;

(iii) delivery of Grantee's promissory note with such recourse, interest, security, and redemption provisions as the Administrator determines is appropriate;

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(iv) if the exercise or purchase occurs on or after the Registration Date, surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require including withholding of Shares otherwise deliverable upon exercise of the Award) which have a Fair Market Value on the date of surrender or attestation equal to the aggregate exercise price of the Shares as to which said Award shall be exercised (but only to the extent that such exercise of the Award would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price unless otherwise determined by the Administrator);

(v) with respect to options, if the exercise occurs on or after the Registration Date, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (A) shall provide written instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (B) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction; or

(vi) any combination of the foregoing methods of payment.

(c) Taxes. No Shares shall be delivered under the Plan to any Grantee or other person until such Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any foreign, federal, state, or local income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares or the disqualifying disposition of Shares received on exercise of an Incentive Stock Option. Upon exercise of an Award, the Company shall withhold or collect from Grantee an amount sufficient to satisfy such tax obligations.

(d) Reload Options. In the event the exercise price or tax withholding of an Option is satisfied by the Company or the Grantee's employer withholding Shares otherwise deliverable to the Grantee, the Administrator may issue the Grantee an additional Option, with terms identical to the Award Agreement under which the Option was exercised, but at an exercise price as determined by the Administrator in accordance with the Plan.

## 8. Exercise of Award.

(a) Procedure for Exercise; Rights as a Stockholder.

(i) Any Award granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator under the terms of the Plan and specified in the Award Agreement.

(ii) An Award shall be deemed to be exercised upon the later of (x) receipt by the Company of written notice of such exercise in accordance with the terms of the Award by the person entitled to exercise the Award and (y) full payment for the Shares with respect to which the Award is exercised, including, to the extent selected, use of the broker-dealer sale and remittance procedure to pay the purchase price as provided in Section 7(b)(v).

(iii) Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to Shares subject to an Award, notwithstanding the exercise of an Option or other Award. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Award. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in the Award Agreement or Section 10, below.

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(b) Exercise of Award Following Termination of Continuous Service.

(i) An Award may not be exercised after the termination date of such Award set forth in the Award Agreement and may be exercised following the termination of a Grantee's Continuous Service only to the extent provided in the Award Agreement.

(ii) Where the Award Agreement permits a Grantee to exercise an Award following the termination of the Grantee's Continuous Service for a specified period, the Award shall terminate to the extent not exercised on the last day of the specified period or the last day of the original term of the Award, whichever occurs first.

(iii) Any Award designated as an Incentive Stock Option to the extent not exercised within the time permitted by law for the exercise of Incentive Stock Options following the termination of a Grantee's Continuous Service shall convert automatically to a Non-Qualified Stock Option and thereafter shall be exercisable as such to the extent exercisable by its terms for the period specified in the Award Agreement.

(c) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Award previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Grantee at the time that such offer is made.

9. Conditions Upon Issuance of Shares.

(a) Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

10. Adjustments Upon Changes in Capitalization. Subject to any required action by the stockholders of the Company, the Administrator may, in its discretion, proportionately adjust the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, as well as any other terms that the Administrator determines require adjustment for (a) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares, (b) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (c) as the Administrator may determine in its discretion, any other transaction with respect to Common Stock to which Section 424(a) of the Code applies; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive. Except as the Administrator determines, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Award.

11. Corporate Transactions and Related Entity Dispositions. Except as may be provided in an Award Agreement:

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(a) The Administrator shall have the authority, exercisable either in advance of any actual or anticipated Corporate Transaction or Related Entity Disposition or at the time of an actual Corporate Transaction or Related Entity Disposition and exercisable at the time of the grant of an Award under the Plan or any time while an Award remains outstanding, to provide for the full automatic vesting and exercisability of one or more outstanding unvested Awards under the Plan and the release from restrictions on transfer and repurchase or forfeiture rights of such Awards in connection with a Corporate Transaction or Related Entity Disposition, on such terms and conditions as the Administrator may specify. The Administrator also shall have the authority to condition any such Award vesting and exercisability or release from such limitations upon the subsequent termination of the Continuous Service of the Grantee within a specified period following the effective date of the Corporate Transaction or Related Entity Disposition. Effective upon the consummation of a Corporate Transaction or Related Entity Disposition, all outstanding Awards under the Plan, shall remain fully exercisable until the expiration or sooner termination of the Award.

(b) The portion of any Incentive Stock Option accelerated under this Section 11 in connection with a Corporate Transaction or Related Entity Disposition shall remain exercisable as an Incentive Stock Option under the Code only to the extent the \$ 100,000 dollar limitation of Section 422(d) of the Code is not exceeded. To the extent such dollar limitation is exceeded, the accelerated excess portion of such Option shall be exercisable as a Non-Qualified Stock Option.

12. Effective Date and Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated. Subject to Section 13 below, and Applicable Laws, Awards may be granted under the Plan upon its becoming effective.

13. Amendment, Suspension or Termination of the Plan.

(a) The Board may at any time amend, suspend or terminate the Plan. To the extent necessary to comply with Applicable Laws, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) No Award may be granted during any suspension of the Plan or after termination of the Plan.

(c) Any amendment, suspension or termination of the Plan (including termination of the Plan under Section 12, above) shall not affect Awards already granted, and such Awards shall remain in full force and effect as if the Plan had not been amended, suspended or terminated, unless mutually agreed otherwise between the Grantee and the Administrator, which agreement must be in writing and signed by the Grantee and the Company.

14. Reservation of Shares.

(a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

(b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

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15. No Effect on Terms of Employment/Consulting Relationship. The Plan shall not confer upon any Grantee any right with respect to the Grantee's Continuous Service, nor shall it interfere in any way with his or her right or the Company's right to terminate the Grantee's Continuous Service at any time, with or without cause.

16. Unfunded Plan. Unless otherwise determined by the Board or the Committee, the Plan shall be unfunded and shall not create (or construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Grantee or other person. To the extent any person holds any rights by virtue of a Award granted under the Plan, such right (unless otherwise determined by the Board or the Committee) shall be no greater than the right of an unsecured general creditor of the Company.

17. No Effect on Retirement and Other Benefit Plans. Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

18. Stockholder Approval. The grant of Incentive Stock Options under the Plan shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted excluding Incentive Stock Options issued in substitution for outstanding Incentive Stock Options pursuant to Section 424(a) of the Code. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws. The Administrator may grant Incentive Stock Options under the Plan prior to approval by the stockholders, but until such approval is obtained, no such Incentive Stock Option shall be exercisable. In the event that stockholder approval is not obtained within the twelve (12) month period provided above, all Incentive Stock Options previously granted under the Plan shall be exercisable as Non-Qualified Stock Options.

**AIR INDUSTRIES GROUP, INC.**

**SUBSCRIPTION DOCUMENTS BOOKLET**

**INSTRUCTIONS**

**And**

**SUBSCRIPTION DOCUMENTS**

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**AIR INDUSTRIES GROUP, INC.**

**INSTRUCTIONS TO SUBSCRIBERS**

**And**

**JUNIOR SUBORDINATED NOTE HOLDERS**

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INSTRUCTIONS TO SUBSCRIBERS

Persons and entities (“Subscribers”) wishing to subscribe for shares of the common stock of Air Industries Group, Inc (the “Company”) to be paid for either in cash or in exchange for junior subordinated notes (“Junior Subordinated Notes”) of the Company must complete the following steps:

- (1) Complete and sign the Confidential Investor Questionnaire in the form attached hereto; and
- (2) Complete and sign the Securities Purchase or Exchange Agreement in the form attached hereto (the “SPA”).

Completed documents should be returned to Taglich Brothers, Inc. (the “Placement Agent”) at the following address:

***TAGLICH BROTHERS, INC.***  
***790 New York Avenue, Suite 290***  
***Huntington, NY 11743***  
***Attention: Mr. Robert Lorenzo***

The portion, if any, of the subscription amount to be paid in cash should be sent by wire transfer to CSC Trust Company of Delaware as escrow agent for the Company (the “Escrow Agent”), in accordance with the following instructions:

**PNC Bank**  
**300 Delaware Avenue**  
**Wilmington, DE 19801**  
**ABA # 031100089**  
**Acct Name: CSC Trust Company of Delaware**  
**Account Number: 5605012373**

**OBI: FFC: Air Industries Group, Inc. Escrow 79-1733**

If any of the subscription amount is to be satisfied by the exchange of Junior Subordinated Notes, the Notes, duly endorsed in blank, should be delivered to Taglich Brothers, Inc. at the above address.

The Escrow Agent shall not release the subscription funds received from a Subscriber to the Company and the Placement Agent will not release surrendered Notes to the Company unless the conditions set forth in the SPA to the Subscriber’s purchase of shares of the Company’s common stock shall have been satisfied.

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**AIR INDUSTRIES GROUP, INC.**

**CONFIDENTIAL INVESTOR QUESTIONNAIRE**

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**CONFIDENTIAL INVESTOR QUESTIONNAIRE**

**AIR INDUSTRIES GROUP, INC.**

The information contained herein is being furnished to Air Industries Group, Inc., a Delaware corporation (the “Company”), and Taglich Brothers, Inc. (the “Placement Agent”) in order for the Company to determine whether the undersigned’s subscription for shares of the Company’s common stock (the “Shares”) may be accepted pursuant to Section 4(2) of the Securities Act of Securities, as amended (the “Securities Act”), and/or Rule 506 of Regulation D promulgated thereunder (“Regulation D”). The Shares are being offered without registration under the Securities Act or the securities laws of any state or any other jurisdiction. Under the Securities Act and/or certain state securities laws, the Company may be required to determine that an individual, an investing entity and/or each individual equity owner of an investing entity meets certain suitability requirements before selling the Shares to such individual or entity.

The undersigned subscriber understands that: (i) the Company and the Placement Agent will rely upon the following information; (ii) the purchase and sale of the Shares hereunder will not be registered under the Securities Act in reliance upon the exemptions from registration provided by Section 4(2) of the Securities Act and/or Rule 506 of Regulation D; (iii) this Confidential Investor Questionnaire is not an offer to sell or a solicitation of any offer to buy or sell the Shares or any other securities to the undersigned; and (iv) **no subscription for any Shares will be accepted unless the Subscriber is an Accredited Investor.**

**Your answers will be kept strictly confidential. However, by signing this Questionnaire, you agree that the Company and/or the Placement Agent may present this Questionnaire to such parties as they deem appropriate if called upon to establish the Company’s entitlement to an exemption under the Securities Act or any applicable state securities laws.**

**(Questionnaire Begins on following Page.)**

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**PLEASE ANSWER ALL QUESTIONS.**

If the appropriate answer is "None" or "Not Applicable," so state. Attach additional sheets if necessary to complete your answers to any item. The undersigned makes the following representations and warranties:

[Print or type your response]

1. Name: \_\_\_\_\_

Name of spouse or additional Subscriber: \_\_\_\_\_

If an Entity, type of Entity (e.g. Corporation, LLC, Partnership, Trust, etc.) and State of Organization:

\_\_\_\_\_ State: \_\_\_\_\_

2. Home address or, if other than an individual, principal office address:

\_\_\_\_\_  
\_\_\_\_\_

Telephone number: \_\_\_\_\_

Social Security Number: \_\_\_\_\_

Tax Identification Number: \_\_\_\_\_

3. I am an accredited investor (as defined in Rule 501(a) of Regulation D) because (check each appropriate description):

\_\_\_\_\_ I am a natural person whose individual net worth, or joint net worth with my spouse, excluding the value of our principal residence, exceeds \$1,000,000.

\_\_\_\_\_ I am a natural person who had individual income exceeding \$200,000 in each of the two most recent years or joint income with my spouse exceeding \$300,000 in each of those years and I have a reasonable expectation of reaching the same income level in the current year.

\_\_\_\_\_ I am a broker-dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended.

\_\_\_\_\_ I am an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, not formed for the specific purpose of acquiring the Securities, with total assets exceeding \$5,000,000.

\_\_\_\_\_ I am a corporation, Massachusetts or similar business trust or partnership, not formed for the specific purpose of acquiring the Securities, with total assets exceeding \$5,000,000.

\_\_\_\_\_ I am a trust, not formed for the specific purpose of acquiring the Securities, with total assets exceeding \$5,000,000 and whose purchase is directed by a “sophisticated person,” as defined in Rule 506(b)(2)(ii) of Regulation D.

(For the purposes of this questionnaire, a “sophisticated person” means any person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment.)

\_\_\_\_\_ I am an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and (i) investment decisions for such plan are made by a plan fiduciary, as defined in Section 3(21) of such Act, which is a bank, savings and loan association, insurance company or registered investment adviser or (ii) such plan has total assets exceeding \$5,000,000 or (iii) if a self directed plan, investment decisions are made solely by accredited investors.

\_\_\_\_\_ I am an entity in which all of the equity owners are accredited investors.

\_\_\_\_\_ I am a member of the Board of Directors or an executive officer of the Company.

\_\_\_\_\_ I am a bank as defined in Section 3(a)(2) of the Securities Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual or fiduciary capacity.

\_\_\_\_\_ I am an insurance company as defined in Section 2(13) of the Securities Act.

\_\_\_\_\_ I am an investment company registered under the Investment Company Act of 1940, as amended (the “ICA”).

\_\_\_\_\_ I am a business development company as defined in Section 2(a)(48) of the ICA.

\_\_\_\_\_ I am a Small Business Investment Company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958, as amended.

\_\_\_\_\_ I am a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended.

\_\_\_\_\_ I am a plan which has total assets in excess of \$5,000,000 and which is established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for the benefit of its employees.

\_\_\_\_\_ I am a revocable trust which may be amended or revoked at any time by the grantors thereof, and all such grantors are Accredited Investors.

\_\_\_\_\_ I am an Accredited Investor for the following reasons (describe reasons, if not previously provided):

4. Do you have sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of an investment in the Company and are you willing and able to bear the economic risk of an investment in the Company?

Yes \_\_\_\_\_ No \_\_\_\_\_

5. Do you understand the nature of an investment in the Shares and the risks associated with such an investment?

Yes \_\_\_\_\_ No \_\_\_\_\_

6. Do you intend to purchase the Shares solely for your own account, for investment and not with the intent to resell them?

Yes \_\_\_\_\_ No \_\_\_\_\_

7. Are you an entity formed for the purpose of acquiring the Shares?

Yes \_\_\_\_\_ No \_\_\_\_\_

8. Are you an entity whose stockholders, partners, members or other beneficial owners have individual discretion as to their participation or non-participation in particular investments made by you, and one or more of such stockholders, partners, members or other beneficial owners have contributed or will contribute capital to you for the purpose of your acquisition of Securities (i.e., your investors have been permitted to determine whether their capital will form part of the specific capital invested by you in the Shares)?

Yes \_\_\_\_\_ No \_\_\_\_\_

The foregoing responses are complete and accurate to the best of my knowledge and belief. I will provide such further information as may be requested by the Company or the Placement Agent to verify my responses. I will notify the Company and the Placement Agent in writing regarding any material change in my responses prior to the closing of the purchase by me of the Shares. Absent such notification, the issuance of the Shares in my name shall be deemed to be an automatic affirmation by me of the truth and accuracy of the statements and information set forth above.

Date: \_\_\_\_\_

\_\_\_\_\_  
Exact Name in Which Title is to be Held

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Print Name of Signatory and Capacity in which Signed (if an Entity)

\_\_\_\_\_  
Signature (if Joint Tenants or Tenants in Common)

\_\_\_\_\_  
Print Name of above Signatory



**AIR INDUSTRIES GROUP, INC.**

**SECURITIES PURCHASE OR EXCHANGE AGREEMENT**

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**SECURITIES PURCHASE OR EXCHANGE AGREEMENT**

**AIR INDUSTRIES GROUP, INC.**

**SECURITIES PURCHASE OR EXCHANGE AGREEMENT** (as amended or supplemented from time to time, this "AGREEMENT"), dated as of \_\_\_\_\_, 2012, between Air Industries Group, Inc., a Delaware corporation (the "COMPANY") with its principal offices at 1479 N. Clinton Avenue, Bay Shore, New York 11706, and the undersigned (the "Subscriber").

**WITNESSETH:**

**WHEREAS**, the Company is offering to sell in a private placement a minimum of 750,000 shares and a maximum of 1,250,000 shares of its common stock, \$0.001 par value (the "Common Stock"), for a purchase price of \$6.00 per share (the "Offering"), all as described in the Company's Confidential Private Placement Memorandum dated May 15, 2012 (the "PPM");

**WHEREAS**, the Company is also offering to issue shares of its common stock, \$0.001 par value (the "Common Stock"), in exchange for its outstanding junior subordinated notes (the "Notes") at the rate of one share for each \$6.00 principal amount and accrued interest of the Notes (the "Exchange Offer"), all as described in the PPM;

**WHEREAS**, the parties desire that, upon the terms and subject to the conditions contained herein, the Company (i) shall issue and sell to the Subscriber for cash, and the Subscriber shall purchase from the Company for cash, the number of shares of the Company's Common Stock as are indicated on the signature page hereto (the "Shares") or (ii) shall issue and sell to the Subscriber, and the Subscriber shall acquire from the Company, the number of shares of the Company's Common Stock as are indicated on the signature page hereto (the "Shares") in exchange for the principal amount of Notes indicated on the signature page (the "Surrendered Notes"); and

**WHEREAS**, the Company and the Subscriber are executing and delivering this Agreement in reliance upon an exemption from the registration requirements of the Securities Act of Securities, as amended (the "SECURITIES ACT"), afforded the provisions of Section 3(a)(9) or by the provisions of Section 4(2), Section 4(6) and/or Regulation D ("REGULATION D"), as promulgated by the United States Securities and Exchange Commission (the "COMMISSION") under the Securities Act.

**NOW, THEREFORE**, in consideration of the mutual covenants and other agreements contained in this Agreement the Company and the Subscriber hereby agree as follows:

1. **SUBSCRIPTION FOR SECURITIES.**

(a) Upon execution and delivery of this Agreement, and subject to the terms and conditions hereof, including the satisfaction of the conditions described in subsection (b) below, the Company shall deliver one or more certificates for the Shares to the Subscriber, each registered in the name of the Subscriber, against, (i) in the case of Shares to be paid for in cash, receipt of the purchase price for the Shares or (ii) in the case of Shares to be issued in exchange for Surrendered Notes, receipt of the Surrendered Notes.

(b) Subscriber's obligation to purchase the Shares is subject to the fulfillment of each of the following conditions:

(i) The representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the date of such purchase;

(ii) The Company shall have performed and complied with all covenants, conditions and agreements required by this Agreement to be performed or complied with by them on or prior to the date of such purchase;

(iii) There shall be in effect no injunction, writ, preliminary restraining order or any order of any nature directing that the transactions contemplated by this Agreement, including without limitation the purchase of the Shares, not be consummated as herein provided;

(iv) not less than 750,000 shares of Common Stock shall have been sold in the Offering; and

(v) The acquisition of substantially all the assets of Nassau Tool Works, Inc. by a newly-formed wholly-owned subsidiary of the Company ("Acquisition Subsidiary") shall have been completed.

2. **COMPANY REPRESENTATIONS, WARRANTIES AND COVENANTS.** The Company represents and warrants to and agrees with Subscriber that, except as set forth in PPM delivered by the Company to the Subscriber:

(a) **DUE INCORPORATION.** The Company and each of its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has the requisite corporate or other power to own its properties and to carry on its business as disclosed in the PPM. The Company and each of its Subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in each jurisdiction where the nature of the business conducted or property owned by it makes such qualification necessary, other than those jurisdictions in which the failure to so qualify would not have a Material Adverse Effect. For purpose of this Agreement, a "MATERIAL ADVERSE EFFECT" shall mean a material adverse effect on the financial condition, results of operations, properties or business of the Company and its Subsidiaries taken as a whole. For purposes of this Agreement, "SUBSIDIARY" means, with respect to any entity at any date, any corporation, limited or general partnership, limited liability company, trust, estate, association, joint venture or other business entity) of which more than 50% of (i) the outstanding capital stock having (in the absence of contingencies) ordinary voting power to elect a majority of the board of directors or other managing body of such entity, (ii) in the case of a partnership or limited liability company, the interest in the capital or profits of such partnership or limited liability company or (iii) in the case of a trust, estate, association, joint venture or other entity, the beneficial interest in such trust, estate, association or other entity business is, at the time of determination, owned or controlled directly or indirectly through one or more intermediaries, by such entity.

(b) **AUTHORITY.** The Company has the full right, power and authority to execute, deliver and perform under this Agreement. This Agreement has been duly executed by the Company and this Agreement and the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action and each constitute, the legal, valid and binding obligations of the Company, enforceable in accordance with their respective terms.

(c) **OUTSTANDING SECURITIES.** All of the issued and outstanding shares of the Company's Common Stock have been duly and validly authorized and issued, are fully paid and nonassessable (with no personal liability attaching to the holders thereof or to the Company) and are free from preemptive rights or rights of first refusal held by any person. All of the issued and outstanding shares of Common Stock have been issued pursuant to either a current effective registration statement under the Securities Act or an exemption from the registration requirements thereof, and were issued in accordance with all applicable Federal and state securities laws.

(d) **ENFORCEABILITY.** This Agreement and any other agreements delivered together with this Agreement or in connection herewith (collectively "TRANSACTION DOCUMENTS") have been duly authorized, executed and delivered by the Company and are valid and binding agreements, enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity regardless of whether enforcement is sought in a court of law or equity). The Company has full corporate power and authority necessary to enter into and deliver the Transaction Documents and to perform its obligations thereunder.

(e) **CONSENTS.** No consent, approval, authorization, filing with or notice to any person, entity or public authority, or order of any court, governmental agency or body or arbitrator having jurisdiction over the Company or any of its Subsidiaries, or the Company's stockholders is required for the execution by the Company of the Transaction Documents and compliance and performance by the Company of its obligations under the Transaction Documents, including, without limitation, the issuance and sale of the Shares, other than filings required by Federal or state securities laws, which filings have been or will be made by the Company on a timely basis.

(f) **NO VIOLATION OR CONFLICT.** Assuming the representations and warranties of the Subscriber in Section 3 are true and correct, neither the issuance and sale of the Shares nor the performance of the Company's obligations under this Agreement and all other agreements entered into by the Company relating thereto by the Company will:

(i) violate, conflict with, result in a breach of, or constitute a default (or an event which with the giving of notice or the lapse of time or both would be reasonably likely to constitute a default in any material respect) under (A) the certificate of incorporation or bylaws of the Company, each as amended as of the date hereof, (B) to the Company's knowledge, any decree, judgment, order, law, treaty, rule, regulation or determination applicable to the Company or any of its Subsidiaries of any court, governmental agency or body, or arbitrator having jurisdiction over the Company or such Subsidiary or over the properties or assets of the Company or such Subsidiary, or (C) the terms of any bond, debenture, note or any other evidence of indebtedness, or any agreement, stock option or other similar plan, indenture, lease, mortgage, deed of trust or other instrument to which the Company or such Subsidiary is a party, or by which the Company or such Subsidiary is bound, or to which any of the properties of the Company or such Subsidiary is subject, except the violation, conflict, breach, or default of which would not have a Material Adverse Effect; or

(ii) result in the creation or imposition of any lien, charge or encumbrance upon the Shares or any of the assets of the Company or any of its Subsidiaries.

(g) **THE SHARES.** The Shares upon issuance:

(i) will be free and clear of any security interests, liens, claims or other encumbrances, subject to restrictions upon transfer under the Securities Act and any applicable state securities laws;

(ii) will have been duly and validly authorized and duly and validly issued, and upon payment of the purchase price specified in this Agreement the Shares will be fully paid and non-assessable (with no personal liability attaching to the holders thereof or to the Company) and will be free from preemptive rights or rights of first refusal held by any person; provided Subscriber's representations herein are true and accurate and Subscriber takes no actions or fails to take any actions required for the purchase of the Shares to be in compliance with all applicable laws and regulations; and

(iii) will have been issued in reliance upon an exemption from the registration requirements of and will not result in a violation of Section 5 under the Securities Act.

(h) **LITIGATION.** There is no pending or, to the best knowledge of the Company, threatened action, suit, proceeding or investigation before any court, governmental agency or body, or arbitrator having jurisdiction over the Company or any of its Subsidiaries that would affect the execution by the Company or the performance by the Company of its obligations under the Transaction Documents. There is no pending or, to the knowledge of the Company, or threatened action, suit, proceeding or investigation before any court, governmental agency or body, or arbitrator having jurisdiction over the Company or any of its Subsidiaries, which litigation if adversely determined would have a Material Adverse Effect.

(i) **FINANCIAL STATEMENTS.** The consolidated financial statements of the Company and its Subsidiaries included in the PPM (hereinafter collectively, the "Financial Statements"), were prepared in accordance with generally accepted accounting principles consistently applied and present and reflect fairly the financial position of the Company and its Subsidiaries at the respective balance sheet dates and the results of its operations and cash flows for the periods then ended. The Company has made and kept books and records and accounts which are in reasonable detail and which fairly and accurately reflect the activities of the Company, subject only to year-end adjustments.

(j) **ABSENCE OF CERTAIN CHANGES.** Since December 31, 2011 ("LATEST FINANCIAL DATE"), there has been no event, occurrence, development or state of circumstances or facts relating to the Company's business, financial condition or affairs not disclosed in the PPM which, to the Company's knowledge, has had or would reasonably be expected to have, a Material Adverse Effect. The PPM does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which made.

(k) **NO UNDISCLOSED LIABILITIES.** Neither the Company nor any of its Subsidiaries has any liabilities of any kind or nature, whether accrued or contingent, matured or unmatured, known or unknown, which are material, individually or in the aggregate, which are not disclosed in the Financial Statements or the PPM, other than those incurred in the ordinary course of the Company's or such Subsidiary's businesses since the Latest Financial Date, and which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(l) **DEFAULTS.** Neither the Company nor any of its Subsidiaries is in violation of its certificate of incorporation or bylaws. Neither the Company nor any of its Subsidiaries is in default under or in violation of any note, loan agreement, security agreement, mortgage, contract, franchise agreement, distribution agreement, lease, alliance agreement, joint venture agreement, other agreement, license, permit, consent, approval or instrument to which it is a party, and no event has occurred which, with or without the lapse of time or giving of notice, or both, would constitute such default thereof by the Company or such Subsidiary or would cause acceleration of any obligation of the Company or such Subsidiary or would adversely affect the business, operations, or financial condition of the Company, except where such default or event, whether with or without the lapse of time or giving of notice, or both, has not and will not have a Material Adverse Effect. To the best of the knowledge of the Company, no party to any note, loan agreement, security agreement, mortgage, contract, franchise agreement, distribution agreement, lease, alliance agreement, joint venture agreement, other agreement, license, permit, consent, approval or instrument with or given to the Company or any of its Subsidiaries is in default thereunder and no event has occurred with respect to such party, which, with or without the lapse of time or giving of notice, or both, would constitute a default by such party or would cause acceleration of any obligations of such party. The Company and its Subsidiaries are (i) not subject to nor in default with respect to any order of any court, arbitrator or governmental body or subject to or party to any order of any court or governmental authority arising out of any action, suit or proceeding under any statute or other law respecting antitrust, monopoly, restraint of trade, unfair competition or similar matters, or (ii) to the Company's knowledge not in violation of any statute, rule or regulation of any governmental authority which violation would have a Material Adverse Effect. There are no material (i.e., involving an asserted liability in excess of twenty-five thousand dollars (\$25,000)) claims, actions, suits, proceedings or labor disputes, inquiries or investigations (whether or not purportedly on behalf of the Company or such Subsidiary), pending or, to the best of the Company's knowledge, threatened, against the Company or any Subsidiary, at law or in equity or by or before any Federal, state, county, municipal or other governmental department, the Securities and Exchange Commission (the "Commission"), the Financial Industry Regulatory Authority, board, bureau, agency or instrumentality, domestic or foreign, whether legal or administrative or in arbitration or mediation, nor is there any basis for any such action or proceeding. Neither the Company, nor any of its assets are subject to, nor is the Company in default with respect to, any order, writ, injunction, judgment or decree that could adversely affect the financial condition, business, assets or prospects of the Company.

(m) **COMPLIANCE WITH LAWS.** The Company and each of its Subsidiaries is in compliance with all laws, rules and regulations of all Federal, state, local and foreign government agencies having jurisdiction over the Company or affecting the business, assets or properties of the Company, except where the failure to comply has not and will not have a Material Adverse Effect. The Company and each of its Subsidiaries possesses all licenses, permits, consents, approvals and agreements (collectively, "Licenses") which are required to be issued by any and all applicable Federal, state, local or foreign authorities necessary for the operation of its business and/or in connection with its assets or properties, except where the failure to possess such Licenses has not and will not have a Material Adverse Effect.

(n) **TAXES.** The Company and each of its Subsidiaries has timely filed or will timely file with the appropriate taxing authorities all returns in respect of taxes required to be filed through the date hereof and has timely paid or will timely pay all taxes that it is required to pay or has established an adequate reserve therefore. There are no pending or, to the knowledge of the Company, threatened audits, investigations or claims for or relating to any liability of the Company or any of its Subsidiaries in respect of taxes.

(o) **USE OF PROCEEDS.** The proceeds from sale of the Shares to Subscriber will be used by the Company for the purposes set forth in the PPM.

(p) **NOT AN INTEGRATED OFFERING.** Neither the Company, nor any person acting on its behalf, has knowingly, either directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offer of the Shares pursuant to this Agreement to be integrated with prior offerings by the Company for purposes of the Securities Act or any applicable stockholder approval provisions, which would impair the exemptions relied upon in for the offer and sale of the Shares to Subscriber or the Company's ability to timely comply with its obligations hereunder. Nor will the Company take any action or steps that would knowingly cause the offer or issuance of the Shares to be integrated with other offerings which would impair the exemptions relied upon for the offer and sale of the Shares to Subscriber or the Company's ability to timely comply with its obligations hereunder. The Company will not knowingly conduct any offering, other than the exchange offer of common stock for Junior Subordinated Notes described in the PPM, that will be integrated with the offer or issuance of the Shares, which would impair the exemptions relied upon for the offer and sale of the Shares to Subscriber or the Company's ability to timely comply with its obligations hereunder.

(q) **NO GENERAL SOLICITATION.** Neither the Company, nor to its knowledge, any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with the offer or sale of the Shares.

(r) **STOP TRANSFER.** The Company will not issue any stop transfer order or other order impeding the sale, resale or delivery of any of the Shares, except as may be required by any applicable federal or state securities laws and unless contemporaneous notice of such instruction is given to the Subscriber.

(s) **BROKERS.** Except for commissions payable to the Placement Agent and warrants to purchase shares of common stock issuable to the Placement Agent as described in the PPM, there are no finder's fees or brokerage commissions payable with respect to the transactions contemplated by this Agreement due to the actions of the Company.

(t) **INVESTMENT COMPANY.** The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

3. **SUBSCRIBER'S REPRESENTATIONS AND WARRANTIES.** Subscriber hereby represents and warrants to and agrees with the Company that:

(a) **ORGANIZATION AND STANDING.** If the Subscriber is an entity, Subscriber is a corporation, partnership or other entity duly incorporated or organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has the requisite corporate power to own its assets and to carry on its business.

(b) **AUTHORIZATION AND POWER.** Subscriber has the requisite power and authority to enter into and perform this Agreement and to purchase the Shares. The execution, delivery and performance of this Agreement by Subscriber and the consummation by Subscriber of the transactions contemplated hereby have been duly authorized by all necessary corporate or partnership action, and no further consent or authorization of Subscriber or its Board of Directors, stockholders or partners, members, as the case may be, is required. This Agreement has been duly authorized, executed and delivered by Subscriber and constitutes a valid and binding obligation of the Subscriber enforceable against the Subscriber in accordance with the terms hereof.

(c) **NO CONFLICTS.** The execution, delivery and performance of this Agreement and the consummation by Subscriber of the transactions contemplated hereby do not and will not (i) result in a violation of Subscriber's charter documents or bylaws or other organizational documents or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of any agreement, indenture or instrument or obligation to which Subscriber is a party or by which its properties or assets are bound, or result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to Subscriber or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a material adverse effect on Subscriber). Subscriber is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or to purchase the Shares, provided that for purposes of the representation made in this sentence, Subscriber is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

(d) **INFORMATION CONCERNING THE OFFERING AND THE COMPANY.** Subscriber has been furnished with the PPM. In addition, the Subscriber has received in writing from the Company such other information concerning its operations, financial condition and other matters as the Subscriber has requested in writing (such other information is collectively, the "OTHER WRITTEN INFORMATION"), and considered all factors the Subscriber deems material in deciding on the advisability of investing in the Shares. Subscriber has carefully read, and understands the information in the PPM, including without limitation, the information set forth under the caption "Risk Factors."

(e) **INFORMATION CONCERNING SUBSCRIBER.** The Subscriber is an "accredited investor", as such term is defined in Rule 501(a) of Regulation D, is experienced in investments and business matters, has made investments of a speculative nature and has purchased unregistered securities in private placements in the past and, with its representatives, has such knowledge and experience in financial, tax and other business matters as to enable the Subscriber to utilize the information made available by the Company to evaluate the merits and risks of and to make an informed investment decision with respect to the proposed purchase, which represents a speculative investment. The Subscriber has the authority and is duly and legally qualified to purchase and own the Shares. The Subscriber is able to bear the risk of such investment for an indefinite period and to afford a complete loss thereof. The information set forth on the signature page hereto regarding the Subscriber is accurate.

(f) **PURCHASE OF SECURITIES.** The Subscriber is acquiring the Shares as principal for its own account for investment only and not with a view toward, or for resale in connection with, the public sale or any distribution thereof, but Subscriber does not agree to hold the Shares for any minimum amount of time.

(g) **COMPLIANCE WITH SECURITIES ACT.** The Subscriber understands and agrees that the Shares have not been registered under the Securities Act or any applicable state securities laws, by reason of their issuance in a transaction that does not require registration under the Securities Act (based in part on the accuracy of the representations and warranties of Subscriber contained herein), and that such Shares must be held indefinitely unless a subsequent disposition is registered under the Securities Act or any applicable state securities laws or is exempt from such registration.

(h) **LEGEND.** The certificates evidencing the Shares shall bear the following or similar legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF Securities, AS AMENDED. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE BE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAW OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO AIR INDUSTRIES GROUP, INC. THAT SUCH REGISTRATION IS NOT REQUIRED."

(i) **COMMUNICATION OF OFFER.** The offer to sell the Shares was directly communicated to the Subscriber by the Company or the Placement Agent and no other person has solicited an investment in the Shares on behalf of the Company. At no time was the Subscriber presented with or solicited by any leaflet, newspaper or magazine article, radio or television advertisement, or any other form of general advertising or solicited or invited to attend a promotional meeting otherwise than in connection and concurrently with such communicated offer.

(j) **AUTHORITY; ENFORCEABILITY.** This Agreement has been duly authorized, executed and delivered by the Subscriber and is a valid and binding agreement of Subscriber, enforceable against the Subscriber in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity; and Subscriber has full corporate power and authority necessary to enter into this Agreement and to perform its obligations hereunder.



(k) **NO GOVERNMENTAL REVIEW.** Subscriber understands that no United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Shares or the suitability of the investment in the Shares nor have such authorities passed upon or endorsed the merits of the offering of the Shares.

(m) **NO TAX ADVICE.** Subscriber acknowledges that no representation has been made and no advice has been given to Subscriber by the Company or the Placement Agent as to the potential tax consequences of the Subscriber's investment in the Shares and that the Subscriber has been urged to consult with his or her own tax advisors, with specific reference to the Subscriber's own situation, with respect to such consequences.

(n) **OWNERSHIP OF SURRENDERED NOTES.** The Subscriber is the registered owner of the Surrendered Notes, and the Surrendered Notes are not subject to any pledge, lien restriction or other encumbrance which prohibits the surrender of the Notes to the Company in exchange for Shares pursuant hereto.

4. **EXEMPT OFFERING.** The offer and issuance of the Shares to the Subscriber is being made pursuant to the exemption from the registration provisions of the Securities Act afforded by Section 3(a)(9), Section 4(2) or Section 4(6) of the Securities Act and/or Rule 506 of Regulation D promulgated thereunder.

5. **BROKER COMMISSIONS.** The Company on the one hand, and Subscriber on the other hand, agree to indemnify the other against and hold the other harmless from any and all liabilities to any persons claiming brokerage commissions or similar fees, other than Placement Agent. The Company represents that there are no other parties entitled to receive fees, commissions, or similar payments in connection with the Offering described in this Agreement.

6. **COVENANTS REGARDING INDEMNIFICATION.**

(a) The Company agrees to indemnify, hold harmless, reimburse and defend the Subscriber, the Subscriber's officers, directors, agents, affiliates, control persons, and principal shareholders, against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Subscriber or any such person which results, arises out of or is based solely upon (i) any material misrepresentation by Company or material breach of any warranty by Company in this Agreement or in any Exhibits or Schedules attached hereto, or other agreement delivered pursuant hereto; or (ii) after any applicable notice and/or cure periods, any material breach or default in performance by the Company of any covenant or undertaking to be performed by the Company hereunder, or any other agreement entered into by the Company and Subscriber relating hereto.

(b) Subscriber agrees to indemnify, hold harmless, reimburse and defend the Company and each of the Company's officers, directors, agents, affiliates, control persons against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Company or any such person which results, arises out of or is based solely upon (i) any material misrepresentation by Subscriber in this Agreement or in any Exhibits or Schedules attached hereto, or other agreement delivered pursuant hereto; or (ii) after any applicable notice and/or cure periods, any material breach or default in performance by Subscriber of any covenant or undertaking to be performed by Subscriber hereunder, or any other agreement entered into by the Company and Subscriber, relating hereto.

(c) Any person entitled to indemnification under Section 6(a) or (b) of this Agreement (an “indemnified party”) shall notify promptly the person obligated to provide such indemnification (the “indemnifying party”) in writing of the commencement of any action or proceeding brought by a third person against the indemnified party with respect to a Claim (a “Third Party Claim”) for which the indemnified party may be entitled to indemnification from the indemnifying party under this Section 6, but the omission of such notice shall not relieve the indemnifying party from any liability which it may have to any indemnified party under Section 6 of this Agreement, except to the extent that such failure shall materially adversely affect any indemnifying party or its rights hereunder. The indemnifying party shall be entitled to participate in, and, to the extent that it chooses, to assume the defense of any Third Party Claim with counsel reasonably satisfactory to the indemnified party; and, after notice from the indemnifying party to the indemnified party that it so chooses, the indemnifying party shall not be liable for any legal or other expenses or disbursements subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that (i) if the indemnifying party fails to take reasonable steps necessary to defend diligently the Third Party Claim within twenty (20) days after receiving notice from the indemnified party of such Third Party Claim; (ii) if the indemnified party who is a defendant in such Third Party Claim which is also brought against the indemnifying party reasonably shall have concluded that there are legal defenses available to the indemnified party which are not available to the indemnifying party; or (iii) if representation of both parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct, the indemnified party shall have the right to assume or continue its own defense as set forth above (but with no more than one firm of counsel for all indemnified parties in each jurisdiction, except to the extent any indemnified party or parties reasonably shall have concluded that there are legal defenses available to such party or parties which are not available to the other indemnified parties or to the extent representation of all indemnified parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct) and the indemnifying party shall be liable for any reasonable expenses therefor; provided, that no indemnifying party shall be subject to any liability for any settlement of a Third Party Claim made without its consent (which may not be unreasonably withheld, delayed or conditioned). If the indemnifying party assumes the defense of any Third Party Claim hereunder, such indemnifying party shall not enter into any settlement without the consent of the indemnified party if such settlement attributes liability to the indemnified party.

7. **REGISTRATION RIGHTS.** The Company shall grant to the Subscriber the registration rights described below:

7.1 **Mandatory Registration.** The Company shall prepare and file a registration statement on Form 10 registering its shares of common stock under section 12 (g) of the Securities Exchange Act of 1934, as amended (the “Exchange Act Registration Statement”) as soon as practicable but no later than August 15, 2012, and thereafter use its reasonable best efforts to respond to all comments from the staff of the Division of Corporation Finance, Securities and Exchange Commission (the “Commission”) and obtain an indication from the Commission that it has completed its review of and has no further comments on the Exchange Act Registration Statement, in each case as soon as practicable. The date on which the Commission informs the Company that it has completed its review of the Exchange Act Registration Statement shall be referred to herein as the “SEC Clearance Date.” Not later than fifteen days after the earlier of (i) the date the Exchange Act Registration Statement becomes effective or (ii) the SEC Clearance Date (the “Filing Deadline”), the Company shall prepare and file a registration statement on Form S-1 (or such other suitable form as may then be prescribed by the Commission) under the Securities Act, and the rules and regulations of the Commission thereunder, to effect the registration under the Securities Act of the Shares and such other shares of common stock or other securities issued or issuable upon any stock split, dividend or other distribution, recapitalization or similar event with respect to the Shares (together, the “Registrable Securities”) to permit the public disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified by the Subscriber and his or its permitted assigns or transferees (collectively, the “Holder”); provided, however, such intended method of disposition shall not include an underwritten offering of the Registrable Securities (the “Registration Statement”). Notwithstanding the foregoing, the Company may withdraw the Exchange Act Registration Statement prior to the 60th day after the filing of the Exchange Act Registration Statement if the SEC Clearance Date is not expected to occur within sixty-five (65) days after the filing of the Exchange Act Registration Statement and the Board of Directors of the Company determines that it would be detrimental to the Company and its stockholders for the Exchange Act Registration Statement to become effective prior to the SEC Clearance Date. In such event, the Company shall re-file the Exchange Act Registration Statement as soon as practicable after any such withdrawal.

7.2 Registration Procedures. In connection with the registration of the Registrable Securities under the Securities Act as provided in Section 7.1 the Company shall:

(i) prepare and file with the Commission by the Filing Deadline the Registration Statement (including such audited financial statements as may be required by the Securities Act or the rules and regulations promulgated thereunder) and thereafter use its reasonable best efforts to cause such registration statement to be declared effective by the Commission as soon as practicable;

(ii) prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection therewith as may be necessary to keep the Registration Statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by the Registration Statement, until the earlier to occur of two (2) years after the date upon which the Registration Statement was declared effective by the Commission and the date that all Registrable Securities covered by such Registration Statement have been sold (the "Effectiveness Period"), subject to the right of the Company to suspend the effectiveness thereof for not more than for a period of thirty (30) non-consecutive calendar days (in the aggregate) during any twelve (12) month period because the Company is negotiating a merger, consolidation, acquisition or sale of all or substantially all of its assets or a similar transaction which, in the reasonable judgment of the Company's board of directors, requires the Registration Statement to be amended to include information in connection with such pending transaction (including the parties thereto) and such information is not yet available or capable of being publicly disclosed;

(iii) furnish to the Holder such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus contained in the Registration Statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under Rule 424 under the Securities Act, in conformity with the requirements of the Securities Act, and such other documents, as such seller may reasonably request in order to facilitate the public sale or other disposition of the Registrable Securities owned by the Holder;

(iv) use its reasonable efforts to register or qualify all Registrable Securities and other securities covered by the Registration Statement under such other securities laws or blue sky laws as the Holder shall reasonably request, to keep such registrations or qualifications in effect for so long as the Registration Statement remains in effect, and take any other action which may be reasonably necessary to enable the Holder to consummate the disposition of the Registrable Securities in such jurisdictions, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not but for the requirements of this subdivision (iv) be obligated to be so qualified or to consent to general service of process in any such jurisdiction;

(v) use its best efforts to cause all Registrable Securities covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the Holder to consummate the disposition of such Registrable Securities;

(vi) notify the Holder promptly and confirm such advice in writing promptly after the Company has knowledge thereof:

(A) when the Registration Statement, the prospectus or any prospectus supplement related thereto or post-effective amendment to the Registration Statement has been filed, and, with respect to the Registration Statement or any post-effective amendment thereto, when the same has become effective;

(B) of any request by the Commission for amendments or supplements to the Registration Statement or the prospectus or for additional information;

(C) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings by any Person for that purpose; and

(D) of the receipt by the Company of any notification with respect to the suspension of the qualification of any Registrable Securities for sale under the securities or blue sky laws of any jurisdiction or the initiation or threat of any proceeding for such purpose;

(vii) notify the Holder, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon discovery that, or upon the happening of any event as a result of which, the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the request of the Holder promptly prepare and furnish to the Holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(viii) use its best efforts to obtain the withdrawal of any order suspending the effectiveness of the Registration Statement at the earliest possible moment;

(ix) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve (12) months, but not more than eighteen (18) months, beginning with the first full calendar month after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder;

(x) enter into such agreements and take such other actions as Holder shall reasonably request in writing (at the expense of the Holder) in order to expedite or facilitate the disposition of such Registrable Securities;

(xi) use its best efforts to list all Registrable Securities covered by the Registration Statement on any national securities exchange (if any) on which any of the Registrable Securities are then listed; and

(xii) use its reasonable best efforts to cause its Common Stock (i) to be quoted on an inter-dealer quotation system such as the OTC Bulletin Board and OTC QB as soon as practicable after the Registration Statement is declared effective by the SEC and (ii) if otherwise eligible pursuant to applicable listing requirements, to be listed on a national securities exchange.

The Company may require the Holder to furnish the Company with such information regarding the Holder and the distribution of the Registrable Securities as the Company may from time to time reasonably request in writing.

The Company will not file any registration statement pursuant to Section 7.1, or amendment thereto or any prospectus or any supplement thereto (including such documents incorporated by reference and proposed to be filed after the initial filing of the Registration Statement) to which the Holder shall reasonably object, provided that the Company may file such document in a form required by law or upon the advice of its counsel.

Subscriber agrees that, upon receipt of any notice from the Company of the occurrence of any event of the kind described in subdivision (vii) of this Section 7.2, Subscriber will forthwith discontinue his or its disposition of Registrable Securities pursuant to the Registration Statement until Subscriber's receipt of the copies of the supplemented or amended prospectus contemplated by subdivision (vii) of this Section 7.2 and, if so directed by the Company, will deliver to the Company all copies, other than permanent file copies, then in Subscriber's possession of the prospectus relating to such Registrable Securities current at the time of receipt of such notice.

**7.3 Registration Expenses.** The Company will pay all expenses incident to the registration of the Registrable Securities, including, without limitation, all registration, filing and listing fees (if any), all fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits required by or incident to such performance and compliance, premiums and other costs of policies of insurance of the Company against liabilities arising out of the public offering of the Registrable Securities being registered, but excluding underwriting discounts and commissions and transfer taxes, if any.

#### **7.4 Indemnification.**

(a) **Indemnification by the Company.** The Company will, and hereby does agree to, indemnify and hold harmless the Holder, its directors and officers, and each other person, if any, who controls such Holder within the meaning of the Securities Act against any losses, claims, damages or liabilities, joint or several, to which such Holder or any such director or officer or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such Holder and each such director, officer and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding, provided that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Holder stating that it is for use in the preparation thereof and, provided further that the Company shall not be liable to any person to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of the Holder's failure to send or give a copy of the final prospectus, as the same may be then supplemented or amended, within the time required by the Securities Act to the person asserting the existence of an untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Registrable Securities to such person if such statement or omission was corrected in such final prospectus or an amendment or supplement thereto. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Holder or any such director, officer or controlling person and shall survive the transfer of such securities by the Holder.

(b) Indemnification by the Holder. The Subscriber agrees, and each other Holder of Registrable Securities must agree, as a condition to including any Registrable Securities in the Registration Statement, to indemnify and hold harmless (in the same manner and to the same extent as set forth in subdivision (a) of this Section 2.4) the Company, each director of the Company, each officer of the Company and each other person, if any, who controls the Company within the meaning of the Securities Act, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by the Subscriber or other Holder specifically stating that it is for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. This indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of the Registrable Securities by the Subscriber or other Holder.

(c) Notices of Claims, etc. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in the preceding subdivisions of this Section 7.4, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action, provided that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding subdivisions of this Section 7.4, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim, the indemnifying party shall be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, to the extent that the indemnifying party may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement of any such action which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability, or a covenant not to sue, in respect to such claim or litigation. No indemnified party shall consent to entry of any judgment or enter into any settlement of any such action the defense of which has been assumed by an indemnifying party without the consent of such indemnifying party.

(d) Other Indemnification. Indemnification similar to that specified in the preceding subdivisions of this Section 7.4 (with appropriate modifications) shall be given by the Company and each Holder with respect to any required registration or other qualification of securities under any Federal or state law or regulation of any governmental authority, other than the Securities Act.

(e) Indemnification Payments. The indemnification required by this Section 7.4 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

(f) Contribution. If the indemnification provided for in the preceding subdivisions of this Section 7.4 is unavailable to an indemnified party in respect of any expense, loss, claim, damage or liability referred to therein, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such expense, loss, claim, damage or liability (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Holder on the other from the distribution of the Registrable Securities by the indemnified party or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Holder on the other in connection with the statements or omissions which resulted in such expense, loss, damage or liability, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Holder on the other in connection with the distribution of the Registrable Securities shall be deemed to be in the same proportion as the total net proceeds received by the Company from the initial sale of the Registrable Securities by the Company to the Holder bears to the gain, if any, realized by the Holder. The relative fault of the Company on the one hand and of the Holder, on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company or by the holder and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission, provided that the foregoing contribution agreement shall not inure to the benefit of any indemnified party if indemnification would be unavailable to such indemnified party by reason of the provisions contained in the first sentence of subdivision (a) of this Section 7.4, and in no event shall the obligation of any indemnifying party to contribute under this subdivision (f) exceed the amount that such indemnifying party would have been obligated to pay by way of indemnification if the indemnification provided for under subdivision (b) of this Section 7.4 had been available under the circumstances.

The Company and the Subscriber agree, and any other Holders must agree as a condition to the inclusion of his or its Registrable Securities in the Registration Statement, that it would not be just and equitable if contribution pursuant to this subdivision (f) were determined by pro rata allocation (even if the holders were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth in the preceding sentence and subdivision (c) of this Section 7.4, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim.

Notwithstanding the provisions of this subdivision (f), under no circumstances shall any Holder be required to contribute any amount in excess of the amount by which the net proceeds received by such Holder from the sale of Registrable Securities exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

7.5. Rule 144. The Company shall timely file the reports required to be filed by it under the Securities Act and the Exchange Act (including but not limited to the reports under Sections 13 and 15(d) of the Exchange Act referred to in subparagraph (c) of Rule 144 adopted by the Commission under the Securities Act) and the rules and regulations adopted by the Commission thereunder (or, if the Company is not required to file such reports, will, upon the request of the Holder, make publicly available other information) and will take such further action as any holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the Commission. The Company will deliver to the Holder, upon request, a written statement as to whether it has complied with the requirements of this Section 7.

7.6. Amendments and Waivers. This Section 7 may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company shall have obtained the written consent to such amendment, action or omission to act, of the holder or holders of not less than 51% of the Registrable Securities. Each holder of any Registrable Securities at the time or thereafter outstanding shall be bound by any consent authorized by this Section 7.6, whether or not such Registrable Securities shall have been marked to indicate such consent.

## 8. MISCELLANEOUS.

(a) **NOTICES.** All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company, to: Air Industries Group, Inc., 1479 Clinton Street, Bay Shore, New York 11706, Attn: Peter D. Rettaliata, President and CEO, facsimile: (631) 206-9152 with a copy by facsimile only to: Eaton & Van Winkle LLP, Three Park Avenue, 16<sup>th</sup> floor, New York, NY 10016, Attn: Vincent J. McGill, Esq., facsimile (212) 779-9928, and (ii) if to the Holder, to the name, address and facsimile number set forth on the signature page of this Agreement, with a copy by telecopier only to the Placement Agent at Taglich Brothers, Inc., 790 New York Avenue, Huntington, NY 11743, Attn: Mr. Robert Lorenzo, facsimile: (631) 757-1333.



(b) **ENTIRE AGREEMENT; ASSIGNMENT.** This Agreement and other documents delivered in connection herewith represent the entire agreement between the parties hereto with respect to the subject matter hereof and may be amended only by a writing executed by approval or written consent of Subscriber. Neither the Company nor the Subscriber has relied on any representations not contained or referred to in this Agreement and the documents delivered herewith. No right or obligation of the Company shall be assigned without prior notice to and the written consent of the Subscriber.

(c) **COUNTERPARTS/EXECUTION.** This Agreement may be executed in any number of counterparts and by the different signatories hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. This Agreement may be executed by facsimile signature and delivered by facsimile transmission.

(d) **LAW GOVERNING THIS AGREEMENT.** This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles that would result in the application of the substantive laws of another jurisdiction. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the civil or state courts of New York or in the federal courts located in New York County. **THE PARTIES AND THE INDIVIDUALS EXECUTING THIS AGREEMENT AND OTHER AGREEMENTS REFERRED TO HEREIN OR DELIVERED IN CONNECTION HEREWITH ON BEHALF OF THE COMPANY AGREE TO SUBMIT TO THE JURISDICTION OF SUCH COURTS AND WAIVE TRIAL BY JURY.** The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement.

(e) **SPECIFIC ENFORCEMENT, CONSENT TO JURISDICTION.** To the extent permitted by law, the Company and Subscriber acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to one or more preliminary and final injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which any of them may be entitled by law or equity. Subject to Section 9(d) hereof, each of the Company and Subscriber hereby waives, and agrees not to assert in any such suit, action or proceeding, any claim that it is not personally subject to the jurisdiction in New York of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. Nothing in this Section shall affect or limit any right to serve process in any other manner permitted by law.

(f) **SURVIVAL.** The representations and warranties, covenants and other agreements of the Company and the Subscriber set forth in this Agreement shall survive the purchase of the Shares by the Subscriber hereunder for a period of one year from the date hereof.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

**ALL INVESTORS MUST COMPLETE THIS PAGE**

IN WITNESS WHEREOF, the parties have executed this Agreement on \_\_\_\_\_, 2012.

Number of Shares to be paid for in cash: \_\_\_\_\_

Purchase Price: \$\_\_\_\_\_ (\$6.00 per Share)

Number of Shares to be exchanged for Notes:

Principal Amount of Notes

Surrendered: \$ \_\_\_\_\_ (\$6.00 per Share)

\_\_\_\_\_  
Exact Name in Which Title is to be Held

\_\_\_\_\_  
(Authorized Signature)

\_\_\_\_\_  
Print Name of Signatory and Capacity in which  
Signed if an Entity

\_\_\_\_\_  
Signature (if Joint Tenants or Tenants in Common)

\_\_\_\_\_  
Print Name of above Signatory

SUBSCRIPTION ACCEPTED:

**AIR INDUSTRIES GROUP, INC.**

By: \_\_\_\_\_

Name:

Title: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
Aggregate Purchase Price Accepted (cash)

\_\_\_\_\_  
Aggregate Principal Amount of Notes Accepted for Exchange

{Signature Page to Securities Purchase and Exchange Agreement for Shares of Air Industries Group, Inc.}

PLACEMENT AGREEMENT

This PLACEMENT AGREEMENT (the "Agreement") dated as of May 21, 2012, by and between **AIR INDUSTRIES GROUP, INC.**, a Delaware corporation (the "Company"), and **TAGLICH BROTHERS, INC.** ("Placement Agent").

WITNESSETH:

WHEREAS, in reliance upon the representations, warranties, terms and conditions hereinafter set forth, the Placement Agent will use its best efforts to privately place (the "Proposed Offering") a minimum amount of \$4,500,000 (the "Minimum Amount") and a maximum amount of \$7,500,000 (the "Maximum Amount") of the Company's Common Stock (the "Shares") , in one or more closings (each a "Closing" and the first such Closing being herein referred to as the "Initial Closing").

WHEREAS, the Shares are being issued pursuant to the Company's Confidential Private Placement Memorandum and exhibits thereto (including the information incorporated by reference therein) dated May 21, 2012, as the same may be amended and/or supplemented from time to time (collectively, the "Memorandum");

WHEREAS, conditioned upon the closing of the Proposed Offering and the acquisition contemplated by the Memorandum, the Company will offer all holders of its Junior Subordinated Notes outstanding (the "Notes") the opportunity to exchange their notes into shares of Common Stock of the Company (the "Note Shares"); and

WHEREAS, the Shares are being issued to the buyers thereof (the "Investors") pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act").

NOW, THEREFORE, in consideration of the premises and the respective promises hereinafter set forth, the Company and the Placement Agent hereby agree as follows:

1. Agreement to Act as Placement Agent.

(a) The Placement Agent shall act on a best efforts basis and does not guarantee that it will be able to raise new capital in any prospective offering. The Company acknowledges that any advice given by the Placement Agent to the Company is solely for the benefit and use of the Board of Directors of the Company and may not be used, reproduced, disseminated, quoted or referred to without the Placement Agent's prior written consent.

(b) The term of the Placement Agent's exclusive engagement will end at the end of the offering period as described in the Memorandum (the "Offering Period"); provided however, either party may terminate the engagement at any time upon ten (10) days written notice to the other party.

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(c) In addition to the right of the Placement Agent to terminate this Agreement on ten (10) days written notice pursuant to (b), this Agreement may be terminated by the Placement Agent by written notice to the Company at any time prior to the Initial Closing if, in the Placement Agent's sole judgment, (i) the Company shall have sustained a loss that is material to the Company, whether or not insured, by reason of fire, earthquake, flood, accident or other calamity, or from any labor dispute or court or government action, order or decree; (ii) trading in securities on any exchange or system shall have been suspended or limited either generally or specifically with respect to the Common Stock; (iii) material governmental restrictions have been imposed on trading in securities generally or specifically with respect to the Common Stock (not in force and effect on the date of this Agreement); (iv) a banking moratorium shall have been declared by Federal or New York or California State authorities; (v) an outbreak of major international hostilities or other national or international calamity shall have occurred; (vi) the Congress of the United States or any state legislative body shall have passed or taken any action or measure, or such bodies or any governmental body or any authoritative accounting institute, or board, or any governmental executive shall have adopted any orders, rules or regulations, which the Placement Agent reasonably believes is likely to have a Material Adverse Effect on the business, financial condition or financial statements of the Company or the market for the Common Stock; (vii) the Common Stock shall have been removed from the trading system on which it currently listed, or the Company shall have received notice from such trading system advising the Company of its intention to have the Common Stock removed from such trading system; or (viii) there shall have been, in the Placement Agent's judgment, a material decline in the Dow Jones Industrial Index or the market price of the Common Stock at any time subsequent to the date of this Agreement.

(d) Upon termination and thereafter, the Placement Agent will be entitled to collect all amounts owed to it pursuant to Section 11.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to and covenants and agrees with the Placement Agent, as of the date hereof and as of the date of each Closing, as follows:

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is qualified and in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted by the Company or the property owned or leased by the Company requires such qualification. Except as described in the Memorandum, the Company has no subsidiaries and does not own any equity interest and has not made any loans or advances to or guarantees of indebtedness to any person, corporation, partnership or other entity.

(b) The capital structure of the Company is as described in the Memorandum.

(c) The Company has the full right, power and authority to execute, deliver and perform under this Agreement. This Agreement has been duly executed by the Company and this Agreement and the transactions contemplated by this Agreement, including without limitation the execution and delivery by the Company of the Placement Agent Warrants, have been duly authorized by all necessary corporate action and this Agreement constitutes, and, upon their execution and delivery, the Placement Agent Warrants will, each constitute, the legal, valid and binding obligations of the Company, enforceable in accordance with their respective terms.

(d) All of the issued and outstanding shares of the Company's Common Stock (the "Common Stock") have been duly and validly authorized and issued, are fully paid and nonassessable (with no personal liability attaching to the holders thereof or to the Company) and are free from preemptive rights or rights of first refusal held by any person. All of the issued and outstanding shares of Common Stock have been issued pursuant to either a current effective registration statement under the 1933 Act or an exemption from the registration requirements thereof, and were issued in accordance with all applicable Federal and state securities laws.

(e) The Shares to be issued at each Closing, the Agent Shares (defined below), the Note Shares and the shares of Common Stock (the "Warrant Shares") that are issuable upon the exercise of the Placement Agent Warrants (defined below), have been duly and validly authorized for issuance and, when issued pursuant to this Agreement, pursuant to such exercise, or pursuant to the conversion of the Notes, will be duly and validly authorized and issued, fully paid and nonassessable and free from preemptive rights or rights of first refusal held by any person and all corporate action required to be taken for the authorization and issuance of the Placement Agent Warrants, the Warrant Shares and the Note Shares has been validly and sufficiently taken.

(f) The following financial statements of the Company (hereinafter collectively, the "Financial Statements") are included in exhibits attached to the Memorandum: (i) consolidated balance sheets as of December 31, 2010 and 2011, and consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2010 and 2011, and the related notes thereto, which have been audited by Rotenberg Meril Solomon Bertiger & Guttilla, P.C. (the "Company Accountants"), independent certified public accountants, (ii) unaudited consolidated balance sheets as of March 31, 2012, consolidated statements of operations for the three months ended March 31, 2011 and 2012, consolidated statements of stockholders' equity for the three months ended March 31, 2012 and consolidated statements of cash flows for the three months ended March 31, 2011 and 2012 and in all such cases, the related notes thereto. The Financial Statements were prepared in accordance with generally accepted accounting principles consistently applied and present and reflect fairly the financial position of the Company at the respective balance sheet dates and the results of its operations and cash flows for the periods then ended, *provided, however*, that the quarterly financial statements included are subject to normal year-end adjustments and lack footnotes and other presentation items. The Financial Statements comply in all material respects with applicable accounting requirements and the rules and regulations of the Securities and Exchange Commission (the "Commission") with respect thereto (that would apply if the Company were registered under the Securities Exchange of 1934) as in effect at the time of the date of the Memorandum. During the period of the Company Accountant's engagement as the Company's independent certified public accountants, there have been no disagreements between such accounting firm and the Company on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure. The Company has made and kept books and records and accounts which are in reasonable detail and which fairly and accurately reflect the activities of the Company, subject only to year-end adjustments.

(g) The Company has good and marketable title to all of its material property and assets and, except as set forth in the Memorandum or the Financial Statements, none of such property or assets of the Company are subject to any lien, mortgage, pledge, charge, encumbrance or other security interest (a "Lien").

(h) Except as may be disclosed in the Memorandum, since December 31, 2011, there has not been any material adverse change in the financial condition or in the operations, business or prospects of the Company from that shown in the Financial Statements or any damage or destruction, not covered by insurance, which affects the business, property or assets of the Company.

(i) Neither the execution nor delivery of this Agreement, the Placement Agent Warrants or the issuance and delivery of the Shares, the Agent Shares, the Note Shares or the Common Stock issuable upon exercise of the Placement Agent Warrants, by the Company, nor the performance by the Company of the transactions contemplated by this Agreement or the Placement Agent Warrants: (i) requires the consent, waiver, approval, license or authorization of or filing with or notice to any person, entity or public authority (except any filings required by Federal or state securities laws, which filings have been or will be made by the Company on a timely basis); (ii) violates or constitutes a default under or breach of any law, rule or regulation applicable to the Company; or (iii) conflicts with or results in a breach or termination of any provision of, or constitutes a default under, or will result in the creation of any Lien upon any of the property or assets of the Company with or without the giving of notice, the passage of time or both, pursuant to (A) the Company's certificate of incorporation (as amended) or by-laws, (B) any mortgage, deed of trust, indenture, note, loan agreement, security agreement, contract, lease, license, alliance agreement, joint venture agreement, or other agreement or instrument, or (C) any order, judgment, decree, statute, regulation or any other restriction of any kind or character to which the Company is a party or by which any of the assets of the Company may be bound.

(j) Except as described in the Memorandum, the Company does not have any indebtedness to any officer, director, 5% stockholder or other Affiliate (as defined in the Rules and Regulations of the SEC under the 1933 Act) of the Company, with the exception of regular accrued payroll.

(k) The Company is in compliance with all laws, rules and regulations of all Federal, state, local and foreign government agencies having jurisdiction over the Company or affecting the business, assets or properties of the Company, except where the failure to comply has not had and could not reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of the Company, taken as a whole (a "Material Adverse Effect"). The Company possesses all licenses, permits, consents, approvals and agreements (collectively, "Licenses") which are required to be issued by any and all applicable Federal, state, local or foreign authorities necessary for the operation of its business and/or in connection with its assets or properties, except where the failure to possess such Licenses has not had and could not reasonably be expected to have a Material Adverse Effect.

(l) The Company is not in default under any note, loan agreement, security agreement, mortgage, contract, franchise agreement, distribution agreement, lease, alliance agreement, joint venture agreement, other agreement, license, permit, consent, approval or instrument to which it is a party, and no event has occurred which, with or without the lapse of time or giving of notice, or both, would constitute such default thereof by the Company or would cause acceleration of any obligation of the Company or would adversely affect the business, operations, or financial condition of the Company, except where such default or event, whether with or without the lapse of time or giving of notice, or both, has not had and could not reasonably be expected to have a Material Adverse Effect. To the knowledge of the Company, no party to any note, loan agreement, security agreement, mortgage, contract, franchise agreement, distribution agreement, lease, alliance agreement, joint venture agreement, other agreement, license, permit, consent, approval or instrument with or given to the Company is in default thereunder and no event has occurred with respect to such party, which, with or without the lapse of time or giving of notice, or both, would constitute a default by such party or would cause acceleration of any obligations of such party.

(m) Except as described in the Memorandum, there are no material (i.e., involving an asserted liability in excess of seventy-five thousand dollars (\$75,000)) claims, actions, suits, proceedings or labor disputes, inquiries or investigations (whether or not purportedly on behalf of the Company), pending or, to the Company's knowledge, threatened, against the Company, at law or in equity or by or before any Federal, state, county, municipal or other governmental department, the SEC, the Financial Industry Regulatory Authority (FINRA), board, bureau, agency or instrumentality, domestic or foreign, whether legal or administrative or in arbitration or mediation, nor is there any basis for any such action or proceeding. Neither the Company, nor any of its assets are subject to, nor is the Company in default with respect to, any order, writ, injunction, judgment or decree that could adversely affect the financial condition, business, assets or prospects of the Company.

(n) The accounts receivable of the Company represent receivables generated from the sale of goods and services in the ordinary course of business. The Company knows of no material disputes concerning accounts receivable of the Company not disclosed in the Memorandum.

(o) The accounts payable of the Company represent bona fide payables to third parties incurred in the ordinary course of business and represent bona fide debts for services and/or goods provided to the Company.

(p) Except as set forth in the Memorandum, the Company does not have (i) any written employment contracts or oral employment contracts not terminable at will by the Company with any 5% percent shareholder, officer or director of the Company; (ii) any consulting agreement or other compensation agreement with any 5% percent shareholder, officer or director of the Company; or (iii) any agreement or contract with any 5% percent shareholder, officer or director of the Company that will result in the payment by the Company or the creation of any commitment or obligation (absolute or contingent), of the Company to pay any severance, termination, "golden parachute," or similar payment to any present or former personnel of the Company following termination of employment. No director, executive officer or other key employee of the Company has advised the Company that he or she intends to resign as director and/or executive officer of the Company or to terminate his or her employment with the Company.

(q) Except as set forth in the Memorandum, there is no labor strike or labor stoppage or slowdown pending, or, to the knowledge of the Company, threatened against the Company, nor has the Company experienced in the last five (5) years any work stoppage or other labor difficulty. The Company is in compliance with all applicable laws, rules and regulations regarding employment practices, employee documentation, terms or conditions of employment and wage and hours and the Company is not engaged in any unfair labor practices, except where the failure to comply has not had and could not reasonably be expected to have a Material Adverse Effect. There are no unfair labor practice charges or complaints against the Company pending before the National Labor Relations Board or any other governmental agency.

(r) Except as disclosed in the Memorandum, the Company has no material liability or obligation of any kind or nature, whether accrued or contingent, matured or unmatured, known or unknown, under any provision of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or any provision of the Internal Revenue Code of 1986, as amended, specifically relating to persons subject to ERISA.

(s) The Company has timely filed or will timely file with the appropriate taxing authorities all returns in respect of taxes required to be filed through the date hereof and has timely paid or will timely pay all taxes that it is required to pay or has established an adequate reserve therefore. There are no pending nor, to the knowledge of the Company, threatened audits, investigations or claims for or relating to any liability of the Company in respect of taxes.

(t) The Company has no liabilities of any kind or nature whether accrued or contingent, matured or unmatured, known or unknown, except as set forth in the Memorandum and those liabilities incurred by the Company in the ordinary course of business since December 31, 2011.

(u) There are no finder's fees or brokerage commissions payable with respect to the transactions contemplated by this Agreement due to the actions of the Company, except as provided in Section 11 of this Agreement.

(v) Except as set forth in the Memorandum, the Company is not currently and has not during the past six (6) months been engaged in negotiations with respect to: (i) any merger or consolidation of the Company where the Company would not be the surviving entity; or (ii) the sale of the Company or any of its assets other than sales in the ordinary course of business.

(w) The Company has the right to conduct its business in the manner in which its business has been heretofore conducted.



(x) The Company is currently in compliance in all respects with all applicable Environmental Laws (as defined below), including, without limitation, obtaining and maintaining in effect all permits, licenses, consents and other authorizations required by applicable Environmental Laws, and the Company is currently in compliance with all such permits, licenses, consents and other authorizations, except where the failure to comply does not and could not reasonably be expected to have a Material Adverse Effect. The Company has not received notice from any property owner, landlord, tenant or Governmental Authority (as defined below) that Hazardous Wastes (as defined below) are being improperly used, stored or disposed of at any property currently or formerly owned or leased by the Company or that any soil or ground water contamination has emanated from any such property. For purposes hereof, the term “Environmental Laws” means, collectively, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Resource Conservation and Recovery Act, as amended, the Toxic Substances Act, as amended, the Clean Air Act, as amended, the Clean Water Act, as amended, any other “Superfund” or “Superlien” law or any other Federal, state or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning any hazardous, toxic or dangerous waste, substance, or material, as now or at any time hereafter in effect. For purposes hereof, the term “Governmental Authority” shall mean the Federal Government of the United States of America, any state or any political subdivision of the Federal Government or any state, including but not limited to courts, departments, commissions, boards, bureaus, agencies, ministries or other instrumentalities. For purposes hereof, the term “Hazardous Wastes” shall mean any regulated quantity of hazardous substances as listed by the Environmental Protection Agency (the “EPA”) and the list of toxic pollutants designated by the United States Congress and/or the EPA or defined by any other Federal, state or local statute, law, ordinance, code, rule, regulation, order, or decree regulating, relating to or imposing liability for standard of conduct concerning any hazardous or toxic substance or material.

(y) The information contained in the Memorandum, taken together, describes in all material respects the business and financial condition of the Company, and such material, taken together, does not contain any misstatement of a material fact or omit to state a material fact necessary to make the information not misleading. The Investors and the Placement Agent shall be entitled to rely on such material notwithstanding any investigation they or any of them may have made. The Memorandum does not include any material nonpublic information regarding the Company or its business, financial condition, affairs or prospects.

(z) Except as set forth in the Memorandum, the Company owns or possesses, or has valid, enforceable rights or licenses to use, the patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, Internet domain names (including any registrations, licenses or rights relating to any of the foregoing), computer software, trade secrets, inventions and know-how that are necessary to carry on its business as presently conducted (each, an “Intellectual Property Right”) free and clear of all Liens. All Intellectual Property Rights that have been licensed by or on behalf of the Company or relating to its business are being used substantially in accordance with the applicable license pursuant to which the Company has the right to use such Intellectual Property Rights. To the knowledge of the Company, the conduct of such businesses by the Company does not violate or infringe upon an Intellectual Property Right of any third party, and the Company has not received any notice of any claim of any such violation or infringement and no officer, director or 5% stockholder of the Company and no Affiliate of any such person has any interest in any Intellectual Property Right used by or useful to the Company in connection with its business.

### 3. Representations, Warranties and Covenants of Placement Agent.

(a) Placement Agent hereby represents and warrants that it is duly authorized to execute this Agreement and perform its duties hereunder, and the execution and delivery by Placement Agent of this Agreement and the consummation of the transactions contemplated by this Agreement have been authorized by all necessary corporate action and will not result in any violation of, or be in conflict with, or constitute a default under, Placement Agent's Certificate of Incorporation or By-Laws, any agreement or instrument to which Placement Agent is a party or Placement Agent's property is bound, or any judgment, decree, order or any statute, rule or regulation applicable to Placement Agent.

(b) In offering the Shares for sale on behalf of the Company, Placement Agent will not offer the Shares for sale, or solicit any offers to buy any Shares, or otherwise negotiate with any person in respect of the Shares, on the basis of any communications or documents relating to the Shares or any investment therein or to the Company or investment therein, other than the Memorandum and any other document satisfactory in form and substance to the Company. Placement Agent will promptly deliver a copy of each amendment or supplement to the Memorandum (i) to all offerees then being or thereafter solicited by Placement Agent, and (ii) to each person who has subscribed for Shares prior to the receipt by such person of such amendment or supplement.

(c) In offering the Shares for sale on behalf of the Company, Placement Agent shall conduct such sales in the manner described in the Memorandum.

### 4. Covenants of the Company.

(a) In connection with the Proposed Offering, the Company will at all times comply with any requirements imposed upon it by (i) the 1933 Act, as now and hereafter amended, and by all applicable state securities laws and regulations, to permit the continuance of offers and sales of the Shares, Agent Shares, Warrant Shares and Note Shares in accordance with the provisions hereof and the Memorandum, (ii) the 1934 Act and (iii) Regulation FD. During such period, the Company will amend and supplement the Memorandum in order to make the Memorandum comply with the requirements of the Act.

(b) If at any time it is known or believed that any event occurred as a result of which the Memorandum or any representation or warranty contained in this section includes an untrue statement of a material fact or, in view of the circumstances under which they were made, omits to state any material fact necessary to make the statements therein not misleading, the Company will notify the Placement Agent and will prepare an amended or supplemented Memorandum which will correct such statement or omission.

(c) The Company will not make any offers or sales of any security under circumstances that would cause the Proposed Offering to fail to qualify for an exemption from the registration requirements of applicable federal and state securities laws .

(d) The Company agrees at all times as long as the Placement Agent Warrants may be exercised, to keep reserved from the authorized and unissued Common Stock, such number of shares of Common Stock as may be, from time to time, issuable upon exercise of the Placement Agent Warrants.

5. Survival of Representations and Warranties. The representations, warranties and covenants of the Company and Placement Agent set forth in Sections 2, 3 and 4 of this Agreement shall survive the execution and delivery of the Shares, Agent Shares, Note Shares and Placement Agent Warrants.

6. Use of Proceeds. The net proceeds to the Company from the sale of the Minimum Amount of Common Stock and the Maximum Amount of Common Stock are estimated to be approximately \$4,075,000 and \$6,835,000, respectively, after deducting the fees and expenses associated with the Proposed Offering. The net proceeds from the sale of the Shares will be used by the Company as disclosed in the Memorandum.

7. Unregistered Securities. None of the shares of Common Stock that are included in the Shares, Agent Shares and Note Shares, and that are issuable upon the exercise of the Placement Agent Warrants have been registered under the 1933 Act, in reliance upon the applicability of Section 4(2), 4(6) and/or Rule 506 of Regulation D of the 1933 Act to the transactions contemplated hereby. The certificates representing the Shares, Agent Shares, Note Shares and the Warrant Shares will bear an investment legend stating that they are “restricted securities” (as defined in Rule 144 under the Securities Act) and may only be publicly offered and sold pursuant to an effective registration statement filed with the SEC or pursuant to an exemption from the registration requirements.

8. Registration Rights. The Placement Agent shall be deemed to be a party to, and entitled to the benefits of, the registration rights set forth in Section 3 of that certain Securities Purchase Agreement executed and delivered by the Company to the Investors (each the “Securities Purchase Agreement”), and the Agent Shares and the shares of Common Stock issuable upon exercise of the Placement Agent Warrants shall be included as Registrable Securities as defined in and pursuant to the Securities Purchase Agreement, but only at the request of the Placement Agent.

9. Conditions. The following obligations of the Company shall be satisfied or fulfilled on or prior to the date of each Closing, unless otherwise agreed to in writing by the Placement Agent:

(a) The Company shall have delivered to the Placement Agent, at the Initial Closing, (i) a currently-dated long-form good standing certificate or telegram from the Secretary of State where the Company is incorporated and each other jurisdiction in which the Company is qualified to do business as a foreign corporation; (ii) the certificate of incorporation (as amended) of the Company, as currently in effect, certified by the Secretary of State of the state where the Company is incorporated; (iii) by-laws of the Company certified by the secretary of the Company; and (iv) certified resolutions of the Board of Directors of the Company approving the execution and delivery of this Agreement, the Securities Purchase Agreement and the Placement Agent Warrants, the issuance and sale of the Shares and Agent Shares, the issuance of Common Stock upon exercise of the Placement Agent Warrants and the registration of the Registrable Securities and the issuance of the Note Shares.

(b) There shall have occurred no event which has a Material Adverse Effect on the Company or any of its businesses, assets, prospects or the Company's securities since the date of this Agreement.

(c) No litigation or administrative proceeding shall have been threatened or commenced against the Company which (i) seeks to enjoin or otherwise prohibit or restrict the consummation of the transactions contemplated by this Agreement or (ii) if adversely determined, would have a Material Adverse Effect on the Company or the Company's securities.

(d) The Company shall have delivered to the Placement Agent a certificate of its principal executive and financial officers dated as of the date of such Closing as to the matters set forth in paragraphs 9(a), (b) and (c) of this Agreement and to the further effect that (i) the Company is not in default, in any respect, under any note, loan agreement, security agreement, mortgage, deed of trust, indenture, contract, alliance agreement, lease, license, joint venture agreement, other agreement or other instrument to which it is a party, except as disclosed in the Financial Statements or the Memorandum and except where such default has not had and could not reasonably be expected to have a Material Adverse Effect; (ii) the Company's representations and warranties contained in this Agreement are true and correct in all respects on such date with the same force and effect as if made on such date, (iii) there has been no amendment or changes to the Company's certificate of incorporation or by-laws or authorizing resolutions from those delivered pursuant to Paragraph 9(a) of this Agreement; and (iv) no event has occurred which, with or without the lapse of time or giving of notice, or both, would constitute a breach of default thereof by the Company, or would cause acceleration of any obligation of the Company, or could adversely affect the business, operations, financial condition or prospects of the Company.

(e) The Placement Agent shall have received the opinion of Eaton & Van Winkle LLP, counsel for the Company, dated as of the date of such Closing in form and substance reasonably satisfactory to the Placement Agent and its counsel.

(f) The Company shall have prepared and filed with the SEC and any states in which such filing is required, a Form D relating to the sale of the Common Stock and such other documents and certificates as are required, including documents required pursuant to state securities laws.

(g) Subscriptions for at least the Minimum Amount of Shares shall have been accepted by the Company.

Indemnification.

(a) Indemnification by Company. The Company agrees to indemnify and hold harmless Placement Agent, its officers, directors and agents from and against any and all losses, liabilities, claims, damages and expenses (each a "Claim" and, collectively, "Claims") whatsoever arising out of (1) a breach by the Company of any warranty set forth in Section 2, (2) failure by the Company to comply with the provisions of Section 2, or (3) any untrue statement of a material fact contained in the Memorandum or the omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company will not be liable in any such case to the extent that any such Claim arises out of or is based upon any such untrue statement or omission contained in the material furnished to the Company by Placement Agent or on Placement Agent's behalf, specifically for inclusion therein, which relates to Placement Agent's activities pursuant to this Agreement.

(b) Indemnification by Placement Agent. Placement Agent agrees to indemnify and hold harmless the Company (its officers, directors and agents) and each person, if any, who controls any of the foregoing within the meaning of the 1933 Act to the same extent as the indemnity from the Company described above against any and all Claims whatsoever (or actions in respect thereto) arising out of or based upon any misrepresentation or alleged misrepresentation, failure or alleged failure by Placement Agent to comply with the covenants and agreements set forth in Section 3.

(c) Any person entitled to indemnification under Section 10(a) or (b) of this Agreement (an "indemnified party") shall notify promptly the person obligated to provide such indemnification (the "indemnifying party") in writing of the commencement of any action or proceeding brought by a third person against the indemnified party with respect to a Claim (a "Third Party Claim") for which the indemnified party may be entitled to indemnification from the indemnifying party under this Section 10, but the omission of such notice shall not relieve the indemnifying party from any liability which it may have to any indemnified party under Section 10 of this Agreement, except to the extent that such failure shall materially adversely affect any indemnifying party or its rights hereunder. The indemnifying party shall be entitled to participate in, and, to the extent that it chooses, to assume the defense of any Third Party Claim with counsel reasonably satisfactory to the indemnified party; and, after notice from the indemnifying party to the indemnified party that it so chooses, the indemnifying party shall not be liable for any legal or other expenses or disbursements subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that (i) if the indemnifying party fails to take reasonable steps necessary to defend diligently the Third Party Claim within twenty (20) days after receiving notice from the indemnified party of such Third Party Claim; (ii) if the indemnified party who is a defendant in such Third Party Claim which is also brought against the indemnifying party reasonably shall have concluded that there are legal defenses available to the indemnified party which are not available to the indemnifying party; or (iii) if representation of both parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct, the indemnified party shall have the right to assume or continue its own defense as set forth above (but with no more than one firm of counsel for all indemnified parties in each jurisdiction, except to the extent any indemnified party or parties reasonably shall have concluded that there are legal defenses available to such party or parties which are not available to the other indemnified parties or to the extent representation of all indemnified parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct) and the indemnifying party shall be liable for any reasonable expenses therefor; provided, that no indemnifying party shall be subject to any liability for any settlement of a Third Party Claim made without its consent (which may not be unreasonably withheld, delayed or conditioned). If the indemnifying party assumes the defense of any Third Party Claim hereunder, such indemnifying party shall not enter into any settlement without the consent of the indemnified party if such settlement attributes liability to the indemnified party.

11. Fees; Other Rights.

(a) As disclosed in the Memorandum, a fee (“Success Fee”) equal to eight percent (8.0%) of the gross proceeds through the sale of the Shares shall be payable to the Placement Agent.

(b) In addition to the sums payable to the Placement Agent as provided elsewhere herein, the Placement Agent shall be entitled to receive at the Closing, as additional compensation for its services, warrants to purchase Common Stock (the “Placement Agent Warrants”) with a five (5) year term for the purchase of a number of shares of Common Stock equal to ten percent (10.0%) of the number of Shares sold in the Proposed Offering. The exercise price of the Placement Agent Warrants will be \$6.30 per share. In addition, the Company has agreed to issue to the Placement Agent 12,000 shares of Common Stock (the “Agent Shares”) as a non-accountable expense allowance.

(c) Upon closing, the Company will reimburse the Placement Agent for up to \$25,000 of its actual and reasonable out-of-pocket expenses incurred in connection with the Proposed Offering, including fees and expenses of its counsel.

(d) The Company shall arrange for, and pay any fees required in connection with, the qualification of the sale of the Shares, Agent Shares and Placement Agent Warrants under the state securities or “blue sky” laws of any state which the Placement Agent reasonably deems necessary.

(e) All payments in connection with the sale of the Shares shall be made pursuant to the terms and conditions of the escrow agreement between Placement Agent and CSC Trust Company of Delaware, an executed copy of which has been delivered to and acknowledged by the Company.

(f) The Placement Agent shall have a right of first offer on future financings for a one year period following completion of the Proposed Offering. The Placement Agent shall be obligated to respond within two weeks when the first offer is presented pursuant to this provision.

(g) If the Proposed Offering shall not be consummated during the Offering Period for reasons other than the termination of this Agreement by the Placement Agent, and during the twelve months following termination of this Agreement the Company issues and sells securities (other than through an underwritten public offering) to any person that the Placement Agent introduced to the Company or with which the Placement Agent had discussions or negotiations during the term of this Agreement on behalf of the Company regarding the Company’s securities, then the Company shall pay the Placement Agent upon such issuance and sale a cash fee equal to that which would have been payable to the Placement Agent had such issuance and sale occurred during the term of this Agreement.

12. Confidentiality. The Placement Agent and the Company mutually agree that they will not disclose any confidential information received from the other party to others, except with the written permission of the other party or as such disclosure may be required by law.

13. Notices. All notices provided for in this Agreement shall be in writing signed by the party giving such notice, and delivered personally or sent by overnight courier or messenger against receipt thereof or sent by registered or certified mail, return receipt requested, or by facsimile transmission, if confirmed by mail as provided in this Section 13. Notices shall be deemed to have been received on the date of personal delivery or facsimile or, if sent by certified or registered mail, return receipt requested, shall be deemed to be delivered on the third business day after the date of mailing. Notices shall be sent to the following addresses:

To the Company:

Air Industries Group, Inc  
1479 N Clinton Avenue,  
Bayshore, New York 11706;  
Telephone 631-328 -7000

Attention: Michael Recca  
Facsimile: 631-206-9152  
Email: mer@mrecca.com

With a copy to:

Eaton & Van Winkle LLP  
3 Park Avenue, 16<sup>th</sup> Floor  
New York, NY 10016  
Attention: Vincent J. McGill, Esq.  
Facsimile: (212) 561-3604

To Placement Agent:

Taglich Brothers, Inc.  
275 Madison Avenue, Suite 1618  
New York, NY 10016  
Facsimile: (212) 661-6824  
Attention: Robert Schroeder

With a copy to:

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.  
666 Third Avenue  
New York, NY 10017  
Facsimile: (212) 692-6830  
Attention: William C. Hicks, Esq.

or to such other address as any party shall designate in the manner provided in this Section 13.

14. Miscellaneous.

(a) This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and supersedes any and all prior or contemporaneous oral and prior written agreements and understandings. This Agreement may not be modified or amended nor may any right be waived except by a writing which expressly refers to this Agreement, states that it is a modification, amendment or waiver and is signed by all parties with respect to a modification or amendment or the party granting the waiver with respect to a waiver. No course of conduct or dealing and no trade custom or usage shall modify any provisions of this Agreement.

(b) This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such state. Each party hereby consents to the exclusive jurisdiction of the Federal and state courts situated in New York County, New York in connection with any action arising out of or based upon this Agreement and the transactions contemplated by this Agreement.

(c) This Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective personal representatives, successors and permitted assigns.

(d) In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

(e) Each party shall, without payment of any additional consideration by any other party, at any time on or after the date of any Closings take such further action and execute such other and further documents and instruments as the other party may request in order to provide the other party with the benefits of this Agreement.

(f) The captions and headings contained herein are solely for convenience and reference and do not constitute a part of this Agreement.

(g) All references to any gender shall be deemed to include the masculine, feminine or neuter gender, the singular shall include the plural and the plural shall include the singular.

(h) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same document.

[Signature page follows]



**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the date first set forth above.

**AIR INDUSTRIES GROUP, INC.**

By: /s/ Peter Rettaliata  
Name: Peter Rettaliata  
Title: President

**TAGLICH BROTHERS, INC.**

By: /s/ Michael Taglich  
Name: Michael Taglich  
Title: President

## Subsidiaries

<u>Name</u>	<u>Jurisdiction of Incorporation</u>	<u>Ownership</u>
Gales Acquisition Group, Inc. (Direct)	Delaware	100%
Air Industries Machining, Corp. (Indirect)	New York	100%
Nassau Tool Works, Inc. (Indirect)	New York	100%
Welding Metallurgy, Inc. (Indirect)	New York	100%