

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

FORM 10-K

Q Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: December 31, 2014

£ Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File No. 001-35927

AIR INDUSTRIES GROUP

(Name of small business issuer in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

80-0948413

(I.R.S. Employer Identification No.)

360 Motor Parkway, Suite 100, Hauppauge, New York 11788
(Address of Principal Executive Offices)

(631) 881-4920
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Exchange on which Registered</u>
Common Stock, par value \$0.001	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Non-Accelerated Filer Accelerated Filer Smaller Reporting Company

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

As of June 30, 2014, the aggregate market value of our common stock held by non-affiliates was \$68,004,859, based on 6,267,729 shares of outstanding common stock held by non-affiliates, and a price of \$10.85 per share, which was the last reported sale price of our common stock on the NYSE MKT on that date.

There were a total of 7,108,677 shares of the registrant's common stock outstanding as of March 1, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

AIR INDUSTRIES GROUP FORM 10-K For the Fiscal Year Ended December 31, 2014

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We are an Emerging Growth Company

We qualify as an "emerging growth company" as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include:

- a requirement to have only two years of audited financial statements and only two years of related Management's Discussion and Analysis of Financial Condition and Results of Operations disclosure; and
- an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002.

We may take advantage of these provisions until the end of the fiscal year ending after the fifth anniversary of our initial public offering, December 31, 2018, or such earlier time that we are no longer an emerging growth company and if we do, the information that we provide stockholders may be different than you might get from other public companies in which you hold equity. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenue, have more than \$700 million in market value of our shares of common stock held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt over a three-year period.

The JOBS Act permits an "emerging growth company" like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies.

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.

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").

PART I

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, a Nevada corporation, and its directly and indirectly wholly-owned subsidiaries: Air Industries Machining, Corp. ("AIM"), Welding Metallurgy, Inc. ("Welding Metallurgy" or "WMI"), Nassau Tool Works, Inc. ("NTW"), Miller Stuart, Inc. ("MSI"), Woodbine Products, Inc. ("Woodbine" or "WPI"), Eur-Pac Corporation ("Eur-Pac" or "EPC"), Electronic Connection Corporation ("ECC"), AMK Welding, Inc. ("AMK"), and The Sterling Engineering Corporation ("Sterling").

We are an aerospace and defense company. We manufacture and design structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, jet engines 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 Black Hawk and CH-47 Chinook helicopters, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2 Hawkeye, Boeing's 777, Airbus' 380 commercial airliners and the US Navy F-18 and USAF F-16 fighter aircraft. Our Turbine Engine sector makes components for jet engines that are used on the USAF F-15, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground turbine applications.

Air Industries Machining Corp. became a public company in 2005 when its net sales were approximately \$30 million. AIM has manufactured components and subassemblies for the defense and commercial aerospace industry for over 45 years and has established long term relationships with leading defense and aerospace manufacturers. In June 2007, we changed our name to Air Industries Group, Inc. On August 30, 2013, we reincorporated as a Nevada corporation and changed our name to Air industries Group. Since becoming public we have completed the following acquisitions of defense related businesses:

- In August 2007, we acquired Welding Metallurgy, which has provided specialty welding services and metal fabrications to the defense and commercial aerospace industry since 1979;
- In June 2012, we acquired the assets and ongoing operations of the predecessor of NTW, which was founded in 1959 and whose principal business was the fabrication and assembly of landing gear components and complete landing gear for F-16 and F-18 fighter aircraft for the US and foreign governments;
- In July 2013, we acquired the assets and business of Decimal Industries, Inc. ("Decimal"). Decimal was founded in 1968 and its principal business is the fabrication of brazed and welded precision sheet metal assemblies for the aerospace industry;
- In November 2013, we acquired MSI. MSI was founded in 1966 and specializes in electromechanical systems, harness and cable assemblies, electronic equipment and printed circuit boards;
- In April 2014, we acquired Woodbine. WPI was founded in 1954 and is a fabricator of precision sheet metal assemblies for aerospace applications;
- In June 2014, we acquired Eur-Pac. EPC was founded in 1947 and specializes in military packaging and supplies all branches of the United States Defense Department with ordnance parts and kits, hose assemblies, hydraulic, mechanical and electrical assemblies;
- In September 2014, we acquired ECC. ECC was founded in 1989 and specializes in wire harnesses and leads for the aerospace and other industries;
- In October 2014, we acquired AMK. AMK has been a provider of welding services to the aerospace industry since 1964. For more than ten years it was owned by Dynamic Materials Corporation and was part of what once was a group of aerospace companies owned by DMC;
- Most recently, effective March 1, 2015, we acquired Sterling. Founded in 1941, Sterling provides complex machining services and its business is concentrated with aircraft jet engine and ground turbine manufacturers.

As a result of the foregoing acquisitions, our revenues in 2014, with a contribution of only \$1,838,000 from AMK and with no contribution from Sterling (each of which had revenues for all of 2014 of \$6,378,000 and \$9,065,000, respectively), were \$64,331,000.

We currently divide our operations into three operating segments: Complex Machining, which consists of AIM and NTW; Aerostructures and Electronics, which consists of WMI, WPI, MSI, Eur-Pac and ECC; and beginning in 2014, Turbine Engine Components, which includes AMK and beginning March 2015, will include Sterling. As our businesses continue to develop and evolve, and we acquire additional companies, we may deem it appropriate to reallocate our companies into different operating segments and, once we achieve sufficient integration among our businesses, report as a unified company

Our Market

We operate in both the military and, to a lesser degree, commercial aviation industries. Defense revenues represent a preponderance of our sales. Our principal customers include Sikorsky Aircraft, Goodrich Landing Gear Systems, Northrup Grumman, the United States Department of Defense, GKN Aerospace, Lockheed, Boeing, Raytheon, Piper Aircraft, M7 Aerospace, Vought Aerospace, Ametek/Hughes-Treitler and Airbus.

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 that we are the largest supplier of flight critical parts to Sikorsky's Black Hawk helicopter. We also make products for the CH-47 Chinook helicopter, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2 Hawkeye, Boeing's 777, Airbus' 380 commercial airliners, and the US Navy F-18 and USAF F-16 fighter aircraft. Our Turbine Engine Components segment makes components for jet engines that are used on the USAF F-15, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground turbine applications.

Many of our products are "flight critical" and essential to aircraft performance and safety on takeoff, during flight and when landing. These products require advanced certifications as a condition to being a supplier. For many of our products we are the sole or one of a limited number of sources of supply. Many of the parts we supply 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 is usually many years after production has stopped. In addition, as more fuel efficient engines are developed they will be substituted for engines currently in use.

The Department of Defense announced plans to significantly reduce spending beginning in Fiscal 2013. In addition, on March 1, 2013, as a result of the continuing budget impasse, automatic government spending cuts termed the Sequester were implemented. We believe that the fact that many of the products we supply are flight critical to aircraft currently in service may lessen the effect on our revenues of reductions in defense spending. Nevertheless, it appears that our revenues, particularly those at AIM and NTW, have been impacted by a slowing of orders in anticipation of a reduction or shift in the mix of defense spending and there can be no assurance that our financial condition and results of operations will not be materially 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, or the perception on the part of our customers that such changes are about to occur. The President's proposed budget for Fiscal 2016, beginning October 1, 2015, provides for an increase in defense spending. Nevertheless, there can be no assurance that any such increase will increase demand for the products we supply or otherwise redound to our benefit.

Sales and Marketing

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 rely heavily upon subcontractors to supply quality parts meeting specifications on a timely and cost effective basis. These customers and other customers we supply routinely rate their suppliers based on a variety of performance factors. One of our principal goals is to be highly rated and thus relied upon by all of our customers.

The large prime contractors 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. We believe that the various capabilities we have acquired through our acquisition program increase the likelihood we will qualify for and be awarded larger, more complex projects. As an example of our successful efforts to move up the supplier chain, WMI has grown from being a supplier of welding services to being a supplier of welding subassemblies and is now a product integrator, providing customers with complete structural assemblies.

As part of our effort to become a product integrator and increase our value to our customers, we have recruited the personnel to fabricate complete, fully-assembled products, and, more recently, design products. In our marketing efforts we let customers know that we now 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, and customers have now engaged us for these services.

As we acquire new businesses, we often gain new or enhanced technical capabilities. We seek to exploit these new capabilities by introducing to our customer newly acquired products and capabilities we previously lacked. Businesses we acquire often bring to us customers we have not previously supplied and we market to these customers the products and services they need which we historically provided. This marketing effort has enabled us to grow some of the businesses we acquired and increased our value to our customers. For example, the acquisition of NTW in 2012 expanded our capabilities in the "turning" of metal components. This enhanced capability was important in AIM winning a large multi-year commercial aerospace contract to supply Thrust Struts to a unit of UTAS for use in the Pratt & Whitney Geared Turbo Fan jet engine.

Initial contracts are usually obtained through competitive bidding against other qualified subcontractors, while follow-on contracts are usually retained by successfully performing initial contracts. The long term business of each of our current operating segments 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 participate in the resolution of pre-production design and build issues, and initial contracts are obtained as single source awards and follow-on pricing is determined through negotiations. Despite these efforts we estimate that a minority of our sales are based on negotiated prices.

Our Backlog

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

Within our Complex Machining and Turbine Engine Components segments, the production cycle of products can extend from several months to a year or longer. This gives rise to significant backlogs as customers must order product with sufficient lead time to ensure timely delivery. In contrast, the production cycle for a significant majority of the products produced in our aerospace and electronics segment is much shorter, a matter of several weeks or a few months. This shorter cycle allows customers to delay orders resulting in a much smaller backlog.

We have a number of long-term multi-year General Purchase Agreements or GPA's with several of our 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. Shipments are authorized periodically by the customer to fit their production schedule.

Our "firm backlog" includes only fully authorized orders received for products to be delivered within the forward 18-month period. As of February 28, 2015, our 18-month "firm backlog" was approximately \$95 million.

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 strive for continuous improvement 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; 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, physical and technical resources, and the capabilities to timelier respond under much larger contracts.

Raw Materials and Replacement Parts

The manufacturing process for certain products, particularly those for which we serve as product integrator, requires significant purchases of raw materials, hardware and subcontracted details. As a result, much of our success in profitably meeting customer demand for these products 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.

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 consolidation of the prime contractors has caused a similar consolidation of suppliers. Major contractors seek to streamline and reduce the cost of managing 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. We have made the effort to do so since becoming a public company in 2005. 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, as the cost of upgrading their systems to achieve the level of connectivity necessary to work interactively with prime contractors, to the extent they have not already done so, will adversely impact their profit margins. Our acquisitions are part of our strategy to react to and benefit from this market environment.

We intend to increase our business through internal growth and accretive acquisitions. Our ability to make acquisitions is dependent, in part, on our available cash and upon our ability to raise debt or equity as necessary to complete any acquisition.

Employees

As of March 1, 2015, we employed approximately 379 people. Of these, approximately 41 were in administration, 35 were in sales and procurement, and 303 were in manufacturing.

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, of which there are approximately 112 people. 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 of our employees are covered under a co-employment agreement with Insperity, Inc.

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 that 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. New York and Connecticut, the states where all of our production facilities are located, also have stringent laws and regulations governing the handling, storage and disposal of hazardous substances, 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. We have never been subject to such fines or disqualifications.

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. 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.

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. If any of the 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. The Department of Defense has announced plans to significantly reduce spending beginning in Fiscal 2014 and beyond. 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.

On March 1, 2013, the US Government imposed across the board spending reductions commonly referred to as “the Sequester”. These spending reductions included spending by the Department of Defense. During 2014, we experienced a reduction in sales at AIM and NTW that we believe is the result of a slowing of orders as a result of the Sequester and the resulting reduction or shift in the components of defense spending. We have also experienced slowdowns, albeit to a lesser degree, at WMI .

We depend on revenues from a few significant relationships, in particular with United Technology Corporation. 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. Two customers represented 47.3% and three customers represented 56.0% of total sales for the years ended December 31, 2014 and 2013, respectively. 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. Boeing has announced that it will close its C-17 production line in 2015. NTW derives most of its revenues from the F-16 Falcon and the F-18 Hornet. These aircraft platforms constituted approximately 80% of the revenues of the operations of NTW during 2013 and 2014. 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 and perhaps intensify as the overall market remains static or declines. 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 a sole or 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 we win contracts, there can be no assurance that the prices that we have bid will be sufficient to allow us to generate a profit from any particular contract. There are significant costs involved with producing a small number of initial units of any new 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.

The prices of raw materials we use are volatile.

The prices of raw materials used in our manufacturing processes are volatile. If the prices of raw materials rise we may not be able to pass along such increases to our customers and this could have an adverse impact on our consolidated financial position and results of operations. Significant increases in the prices of raw materials could adversely impact our customers' demand for certain products which could lead to a reduction in our revenues and have a material adverse impact on our revenues and on our consolidated financial position and results of operations.

We do not own the intellectual property rights to products we produce.

Nearly all the parts and subassemblies we produce are built to customer specifications and the customer owns the intellectual property, if any, related to the product. Consequently, if a customer desires to use another manufacturer to fabricate its part or subassembly, it would be free to do so.

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 incur 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 and through acquisitions. This 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.

There can be no assurance that we have the management expertise to successfully integrate the operations of 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.

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. We have never been subject to such fines or disqualification.

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 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. Future payments of principal and interest or a change in policy by our lender 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.

Our Indebtedness may limit our ability to pay dividends.

The terms of our Loan Facility with PNC requires that we maintain certain financial covenants and that we may pay a dividend only if after taking such dividend into effect we satisfy certain prescribed financial conditions. It is likely that any loan facility we might enter into in replace of the PNC Facility would contain similar provisions.

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

The market for our common stock – as measured by the volume of trading - is limited. The lack of a robust 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.

The number of shares of our common stock eligible for resale is enormous relative to the trading volume of our common stock. 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. Furthermore, we may sell additional shares of common stock if the Board deems it in our best interest.

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 2013 Equity Incentive Plan allows for the issuance of up to 600,000 shares of common stock, either as stock grants or options, to employees, officers, directors, advisors and consultants of the company. As of December 31, 2014, we had outstanding under the Plan options to purchase 528,247 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 are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

The JOBS Act permits "emerging growth companies" like us to rely on some of the reduced disclosure requirements that are already available to companies having a public float of less than \$75 million, for as long as we qualify as an emerging growth company. During that period, we are permitted to omit the auditor's attestation on internal control over financial reporting that would otherwise be required by the Sarbanes-Oxley Act. Companies with a public float of \$75 million or more must otherwise procure such an attestation beginning with their second annual report after their initial public offering. For as long as we qualify as an emerging growth company, we are also excluded from the requirement to submit "say-on-pay", "say-on-pay frequency" and "say-on-parachute" votes to our stockholders and may avail ourselves of reduced executive compensation disclosure compared to larger companies. In addition, as described in the following risk factor, as an emerging growth company we can take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies.

Until such time as we cease to qualify as an emerging growth company, investors may find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

As an "emerging growth company" we may take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies.

Section 107 of the JOBS Act also provides that, as an emerging growth company, we can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" for further discussion of the extended transition period for complying with new or revised accounting standards.

At such time as we cease to qualify as an "emerging growth company" under the JOBS Act, the costs and demands placed upon management will increase.

We will continue to be deemed an emerging growth company until the earliest of (i) the last day of the fiscal year during which we had total annual gross revenues of \$1,000,000,000 (as indexed for inflation), (ii) the last day of the fiscal year following the fifth anniversary of the date of the first sale of common stock under a registration statement under the Securities Act, December 31, 2018, (iii) the date on which we have, during the previous 3-year period, issued more than \$1,000,000,000 in non-convertible debt; or (iv) the date on which we are deemed to be a 'large accelerated filer' as defined by the SEC, which would generally occur upon our attaining a public float of at least \$700 million. Once we lose emerging growth company status, we expect the costs and demands placed upon management to increase, as we would have to comply with additional disclosure and accounting requirements, particularly if our public float should exceed \$75 million.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to 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. PROPERTIES

Our executive offices are located at 360 Motor Parkway, Suite 100, Hauppauge, New York 11788. We occupy our executive offices under a lease for approximately seven years until January 2022. The lease currently provides for an annual rental of \$117,000 which changes by an agreed upon amount each anniversary of the commencement of the lease through January 20, 2022.

The operations of AIM are conducted 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 and entered into a 20-year triple-net lease for the property. Base annual rent for 2014 was approximately \$662,000 and increases by 3% 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 had an annual base rent of approximately \$596,000 for 2014 and increases by an agreed upon amount each anniversary of the commencement of the lease through December 31, 2026.

The operations of NTW are conducted in a 60,000 square foot facility in West Babylon, New York. The space is occupied under a lease which provides for an annual base rent of \$30,000 per month through October 30, 2018.

The operations of MSI are conducted in a 6,750 square foot facility in Hauppauge, New York. This space is occupied under a lease which provides for annual base rent of \$4,200 per month through May 31, 2015. We are currently negotiating an extension of the term of the lease to December 31, 2015. We are also evaluating moving the operations of MSI to one of our other locations.

Eur-Pac and ECC are located in a 16,000 square foot facility in Waterbury, Connecticut. The space is occupied under a lease which has an annual base rent of approximately \$115,000 and expires May 31, 2019.

The operations of AMK are conducted in a 33,850 square foot facility on a four acre parcel in South Windsor, Connecticut, which we own.

The operations of Sterling are conducted in a 74,923 square foot facility on a 24 acre parcel in Barkhamsted, Connecticut, which we own.

In March 2015, the AMK property in South Windsor and the Sterling property in Barkhamsted were transferred to Air Industries Realty LLC, which is wholly owned by Air Industries Group.

ITEM 3. LEGAL PROCEEDINGS

From time to time we may be engaged in various lawsuits and legal proceedings in the ordinary course of our business. We are currently not aware of any legal proceedings the ultimate outcome of which, in our judgment based on information currently available, would have a material adverse effect on our business, financial condition or operating results. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder of our common stock, is an adverse party or has a material interest adverse to our interest.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Our Common Stock

Our common stock has been listed on the NYSE MKT since June 12, 2013 under the symbol "AIRI." Prior to June 12, 2013, our common stock was quoted on OTC Bulletin Board under the symbol "AIRI." Prior to February 11, 2013, our common stock was quoted on OTC Pink under the symbol "AIRI.PK." The prices set forth below reflect the quarterly high and low closing prices of a share of our common stock for the periods indicated as reported by YahooFinance.

	High	Low
Quarter Ended March 31, 2013	\$ 7.27	\$ 6.00
Quarter Ended June 30, 2013	\$ 6.24	\$ 5.97
Quarter Ended September 30, 2013	\$ 7.91	\$ 5.97
Quarter Ended December 31, 2013	\$ 9.50	\$ 7.61
Quarter Ended March 31, 2014	\$ 9.64	\$ 7.97
Quarter Ended June 30, 2014	\$ 12.48	\$ 9.50
Quarter Ended September 30, 2014	\$ 11.00	\$ 9.00
Quarter Ended December 31, 2014	\$ 12.12	\$ 9.80

Holders

On March 1, 2015, there were approximately 262 stockholders of record of our common stock. The number of record holders does not include persons who held our common stock in nominee or "street name" accounts through brokers.

Dividends

On both April 1, and July 5, 2013, we paid dividends of \$0.0625 per share on our common stock. On both October 15, 2013 and January 9, 2014, we paid dividends of \$0.125 per share on our common stock. On April 22, 2014, July 10, 2014, November 3, 2014 and January 15, 2015 we paid dividends of \$0.15 per share on our common stock. We intend to continue to pay a dividend each fiscal quarter. However 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 compliance with financial covenants of the loan agreement with our principal lender.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes shares of our Common Stock to be issued upon exercise of options and warrants, the weighted-average exercise price of outstanding options and warrants and options available for future issuance pursuant to our equity compensation plans as of December 31, 2014:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	528,539	\$ 8.98	71,753
Equity compensation plans not approved by security holders	164,585	\$ 7.85	None
Total	693,124	\$ 8.71	71,753

Recent Sales of Unregistered Securities

Except as previously reported in our periodic reports filed under the Exchange Act, we did not issue any unregistered securities during the fourth quarter of the fiscal year ended December 31, 2014.

Purchases of Our Equity Securities

No repurchases of our common stock were made during the fourth quarter of our fiscal year ended December 31, 2014.

ITEM 6. SELECTED FINANCIAL DATA

Not required.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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

Business Overview

We are an aerospace company operating primarily in the defense industry, though the proportion of our business represented by the commercial sector is increasing. We manufacture and design structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, jet engines and other components. We also provide sheet metal fabrication of aerostructures, tube bending and welding services. Our Turbine Engine Components sector makes components for jet engines and ground turbines. Our products are currently deployed on a wide range of high profile military and commercial aircraft.

AIM became a public company in 2005 when its net sales were approximately \$30 million. AIM has manufactured components and subassemblies for the defense and commercial aerospace industry for over 45 years and has established long-term relationships with leading defense and aerospace manufacturers. Since becoming public, we have completed a series of acquisitions of defense related businesses which have enabled us to broaden the range of products and services beyond those which were provided by AIM. For example, where AIM was primarily a machining shop, as a result of acquisitions, we now have capabilities and expertise in metal fabrication, welding and tube bending; the production of electromechanical systems, harness and cable assemblies; the fabrication of electronic equipment and printed circuit boards; the machining of turbine engine components, and the assembly of packages or "kits" containing supplies for all branches of the United States Defense Department, including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies.

Since January 1, 2013 we have acquired the following businesses:

- In July 2013 we acquired the assets and business of Decimal. Decimal's principal business is the fabrication of brazed and welded precision sheet metal assemblies for the aerospace industry;
- In November 2013, we acquired MSI. MSI specializes in electromechanical systems, harness and cable assemblies, electronic equipment and printed circuit boards;
- In April 2014 we acquired WPI. WPI is a fabricator of precision sheet metal assemblies for aerospace applications;
- In June 2014 we acquired Eur-Pac. EPC specializes in military packaging and supplies all branches of the United States Defense Department with ordnance parts and kits, hose assemblies, hydraulic, mechanical and electrical assemblies;
- In September 2014 we acquired ECC. ECC specializes in wire harnesses and leads for the aerospace and other industries;
- In October 2014 we acquired AMK. AMK has been a provider of welding services to the aerospace industry since 1964;
- Most recently, effective March 1, 2015, we acquired Sterling. Sterling provides complex machining services and its business is concentrated with aircraft jet engine and ground turbine manufacturers.

As a result of the foregoing acquisitions, our revenues in 2014, with a contribution of only \$1,838,000 from AMK and no contribution from Sterling (each of which had revenues for all of 2014 of \$6,378,000 and \$9,065,000, respectively), were \$64,331,000.

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

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

While our revenues are largely determined by the number of contracts we are awarded, the volume of product delivered and price of product under each contract, our costs are determined by a number of factors. The principal factors impacting our costs are the cost of materials and supplies, labor, financing and the efficiency at which we can produce our products. The cost of materials used in the aerospace industry is highly volatile. In addition, the market for the skilled labor we require to operate our plants is highly competitive. The profit margin of the various products we sell varies based upon a number of factors, including the complexity of the product, the intensity of the competition for such product and, in some cases, the ability to deliver replacement parts on short notice. Thus, in assessing our performance from one period to another, a reader must understand that changes in profit margin can be the result of shifts in the mix of products sold.

A very large percentage of the products we produce are used on military as opposed to civilian aircraft. These products can be replacements for aircraft already in the fleet of the armed services, or for the production of new aircraft. Reductions to the Defense Department budget have reduced the demand for both new production and replacement spares. This has reduced our sales, particularly in our complex machining segment. In response to the reduction in military sales, we are focusing greater efforts on the civilian aircraft market though we still remain dependent upon the military for an overwhelming portion of our revenues.

Segment Data

We follow 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.

We currently divide our operations into three operating segments: Complex Machining which consists of AIM and NTW; Aerostructures and Electronics which consists of WMI, WPI, MSI, Eur-Pac and ECC; and beginning in 2014, Turbine Engine Components which includes AMK and beginning March 2015, will include Sterling. As our businesses continue to develop and evolve, and we acquire additional companies, we may deem it appropriate to reallocate our companies into different operating segments and, once we achieve sufficient integration among our businesses, report as a unified company. Along with our operating subsidiaries, we report the results of our corporate division as an independent segment.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. 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

The results of operations of the businesses we have acquired are included in our financial results from their respective dates of acquisition. Acquisitions completed since January 1, 2013, are shown below:

<i>Acquisitions</i>	<i>Date of Acquisition</i>
Decimal Industries, Inc.	July 1, 2013
Miller Stuart, Inc.	November 6, 2013
Woodbine Products, Inc.	April 1, 2014
Eur-Pac Corporation	June 1, 2014
Electronic Connection Corporation	September 1, 2014
AMK Welding, Inc.	October 1, 2014
The Sterling Engineering Corporation	March 1, 2015

Years ended December 31, 2014 and 2013:

Selected Financial Information:

	2014	2013
Net sales	\$ 64,331,000	\$ 62,833,000
Cost of sales	50,233,000	47,598,000
Gross profit	14,098,000	15,235,000
Operating expenses, acquisition costs and interest costs	(13,658,000)	(11,962,000)
Other income (expense) net	(141,000)	296,000
Income taxes benefit	368,000	170,000
Net Income	<u>\$ 667,000</u>	<u>\$ 3,739,000</u>

Balance Sheet Data:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 1,418,000	\$ 561,000
Working capital	16,176,000	12,531,000
Total assets	65,920,000	50,172,000
Total stockholders' equity	\$ 28,272,000	\$ 21,613,000

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

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
COMPLEX MACHINING		
Net Sales	\$ 44,220,000	\$ 49,203,000
Gross Profit	8,691,000	11,753,000
Pre Tax Income	1,074,000	4,273,000
Assets	60,409,000	33,207,000
AEROSTRUCTURES AND ELECTRONICS		
Net Sales	18,273,000	13,630,000
Gross Profit	4,812,000	3,482,000
Pre Tax Loss	(554,000)	(203,000)
Assets	21,386,000	11,619,000
TURBINE ENGINE COMPONENTS		
Net Sales	1,838,000	-
Gross Profit	595,000	-
Pre Tax Income	142,000	-
Assets	8,150,000	-
CORPORATE		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss	(363,000)	(501,000)
Assets	20,066,000	9,647,000
CONSOLIDATED		
Net Sales	64,331,000	62,833,000
Gross Profit	14,098,000	15,235,000
Pre Tax Income	299,000	3,569,000
Provision for Taxes	(368,000)	(170,000)
Net Income	667,000	3,739,000
Elimination of Assets	(44,091,000)	(4,301,000)
Assets	\$ 65,920,000	\$ 50,172,000

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, 2014 and 2013. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report.

For 2014, we had three operating segments: Complex Machining comprised of AIM and NTW; Aerostructures and Electronics comprised of WMI (including Decimal and Woodbine Products), Eur-Pac (including ECC) and MSI and Turbine Engine Components comprised of AMK. For 2013, we had two operating segments, Complex Machining and Aerostructures and Electronics. Our Turbine Engine Component segment started with our acquisition of AMK on October 1, 2014 and beginning in March 2015, will include our newly acquired subsidiary, Sterling. We also separately report our corporate overhead.

Net Sales:

Consolidated net sales for the year ended December 31, 2014 were approximately \$64,331,000, an increase of \$1,498,000, or 2.4%, compared with \$62,833,000 for the year ended December 31, 2013. Net sales of our Complex Machining segment were approximately \$44,220,000, a decline of \$4,983,000, or (10.1%), from \$49,203,000 in the prior year. The nature of the parts manufactured by our Complex Machining segment are such that they tend to be larger, more complex and higher priced than many of the parts supplied by our other segments. For example, the landing gear for an F-18 fight aircraft can cost approximately \$2,200,000, consequently, even a slight decline in the number of parts sold can lead to a significant decline in revenues and gross profit. The decline in sales at our Complex Machining segment was due to delays and reductions in government procurement orders due to Sequestration. Net sales of our Aerostructures & Electronics segment were approximately \$18,273,000 and increased by \$4,643,000, or 34.1%, from \$13,630,000 in the prior year. The increase in sales was entirely related to acquisitions completed during 2013 and 2014. Net sales in our Turbine Engine Components segment were \$1,838,000 for the year ended December 31, 2014, reflecting the operations of AMK from October 1, 2014.

As indicated in the table below, two customers represented 47.3% and three customers represented 56.0% of total sales for the years ended December 31, 2014 and 2013, respectively.

Customer	Percentage of Sales	
	2014	2013
Sikorsky Aircraft	26.8	27.7
Goodrich Landing Gear Systems	20.5	18.3
United States Department of Defense	*	10.0

* Customer was less than 10% of sales for the year ended December 31, 2014.
Sikorsky Aircraft and Goodrich Landing Gear Systems are units of United Technologies Corporation.

As indicated in the table below, three customers represented 50.4% and two customers represented 42.9% of gross accounts receivable at December 31, 2014 and 2013, respectively.

Customer	Percentage of Receivables	
	December 2014	December 2013
Goodrich Landing Gear Systems	29.0	20.1
Northrup Grumman Corporation	11.4	*
GKN Aerospace	10.0	22.8

* Customer was less than 10% of Gross Accounts Receivable at December 31, 2013.

Gross Profit:

Consolidated gross profit from operations for the year ended December 31, 2014 was \$14,098,000, a decrease of approximately \$(1,137,000), or (7.5%), as compared to gross profit of \$15,235,000 for the year ended December 31, 2013. Consolidated gross profit as a percentage of sales was 21.9% and 24.2% for the years ending December 31, 2014 and 2013, respectively. The decline in gross profit and gross margin percentage results primarily from a decline in both revenue and gross margin percentage within the Complex Machining sector which experienced a decline in sales and a change in the mix of sales as higher margin after-market sales accounted for most of the decline in sales.

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

Consolidated SG&A costs for the year ended December 31, 2014 totaled approximately \$12,363,000 and increased by \$1,741,000, or 16.4%, compared to \$10,622,000 for the year ended December 31, 2013. Approximately \$1,390,000, or 91.2%, of the increase in SG&A costs relates to the acquisitions during the year of Woodbine on April 1, Eur-Pac on June 1, and AMK on October 1, 2014 and a full year of costs at MSI versus just two months in 2013.

Interest and financing costs remained relatively constant at approximately \$1,295,000 for the year ended December 31, 2014 compared to \$1,340,000 for the year ended December 31, 2013, a decrease of approximately \$(45,000), or (3.4%).

The Company recognized an income tax benefit of approximately \$368,000 for year ended December 31, 2014 compared to an income tax benefit of \$170,000 for the year ended December 31, 2013. The tax benefit in 2014 was primarily the result of the reversal of prior period deferred tax liabilities and the over accrual of 2013 income taxes. In 2013, the tax benefit was the result of the Company's determination that it no longer needed to provide a valuation allowance on certain deferred tax assets. This was based upon the fact that management believes that due to the sustained profitability of the Company and the probability that such profitability will continue, the net deferred tax assets is more like than not to be realized.

Net income for the year ended December 31, 2014 was \$667,000, a decrease of \$(3,072,000), or (82.2%), compared to net income of \$3,739,000 for the year ended December 31, 2013, for the reasons discussed above.

Impact of Inflation

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

LIQUIDITY AND CAPITAL RESOURCES

We are highly leveraged and rely upon our ability to continue to borrow from PNC Bank N.A. ("PNC") to support operations and acquisitions. Substantially all of our assets are pledged as collateral under our existing loan agreements with PNC. Our Company is required to maintain a lockbox account with PNC, into which substantially all of its cash receipts are paid. If PNC were to cease lending, our Company would lack funds to continue its operations.

Our Loan Facility with PNC was amended four times in 2014 most recently on December 31, 2014 in connection with mortgage refinancing related to the acquisition of AMK. In March 2015, the Loan Facility was amended again in connection with the acquisition of Sterling.

The Loan Facility now provides for maximum borrowings under a revolving loan of \$23,000,000 (including an inventory sub-limit of \$15,000,000) limited to the borrowing base as defined and four term loans, Term Loan A, initially in the amount of \$2,613,000, a second, Term Loan B which was issued October 1st in connection with the acquisition of AMK, initially in the amount of \$3,500,000, a third, Term Loan C which was issued December 31st to satisfy the seller note issued in connection with the acquisition of AMK, initially in the amount of \$2,500,000 and the fourth, Term Loan D which was issued in March 2015 in connection with the acquisition of Sterling, initially in the amount of \$3,500,000. The maturity date of Term Loan A is November 30, 2016, and it is to be paid in thirty-one consecutive monthly principal installments, which commenced on the first business day of September 2014, and continue on the first business day of each month thereafter. The first thirty of the installments shall be in the amount of \$31,859, with a thirty-first and final payment of any unpaid balance of principal and interest on the last business day of November 2016. The maturity date of Term Loan B is the first business day of November 2019, and it is to be paid in sixty consecutive monthly principal installments, which commence on the first business day of December 2014, and continue on the first business day of each month thereafter. The first fifty-nine of the installments shall be in the amount of \$58,333, with a sixtieth and final payment of any unpaid principal and interest on the first business day of November 2019. The maturity date of Term Loan C is the first business day of January 2021, and it is to be paid in seventy two consecutive monthly principal installments, which commence on the first business day of February 2015, and continue on the first business day of each month thereafter. The first seventy-one of the installments shall be in the amount of \$34,722, with a seventy second and final payment of any unpaid principal and interest on the first business day of January 2021. The maturity date of Term Loan D is November 30, 2016, and it is to be paid in twenty (20) consecutive monthly principal installments, the first nineteen (19) of which shall be in the amount of \$62,847.22 commencing on the first business day of April, 2015, and continuing on the first business day of each month thereafter, with a twentieth (20th) and final payment of any unpaid balance of principal and interest payable on the last business day of November, 2016.

On April 1, 2014, we acquired, through WMI, all of the common stock of WPI for \$2.4 million and 30,000 shares of the common stock of AIRI, valued at \$9.68 per share, which was the closing share price on April 1, 2014. Additionally, a working capital adjustment in the amount of approximately \$165,000 was paid in September of 2014.

On June 1, 2014, we acquired all of the common stock of EPC for \$1.6 million and 20,000 shares of the common stock of AIRI, valued at \$9.78 per share, which was the closing price on that date. Additionally, a working capital adjustment was due to the former stockholders of EPC in the amount of approximately \$78,000 and was paid in August 2014.

On September 1, 2014, we acquired all of the common stock of ECC for \$209,000. We financed the acquisition of ECC out of our working capital.

On June 3, 2014, in connection with our Registered Direct Offering ("the Offering"), we issued 1,170,000 shares of our common stock pursuant to a "shelf" registration statement on Form S-3 (File NO. 333-191748), declared effective by the Securities and Exchange Commission on December 11, 2013. Taglich Brothers, Inc. ("Taglich Brothers") acted as the exclusive placement agent for the Offering. The gross proceeds of the offering were \$10,530,000, comprised of \$9,530,000 in cash and \$1,000,000 in the conversion of our Junior Subordinated Notes. We paid Taglich Brothers a commission of approximately \$842,000 and issued to it warrants to purchase up to 46,800 shares of common stock at a per share price of \$11.25. Additionally, the Company paid legal fees on behalf of Taglich Brothers in the amount of \$75,000 and paid a qualified independent underwriter approximately \$50,000 for its services. We netted cash of approximately \$8,562,000 from the Offering. The proceeds were used to acquire EPC, pay down debt, and applied to working capital.

On October 1, 2014, we acquired all of the common stock of AMK Technical Services, (“AMK”) for \$6.9 million. The acquisition was financed by a new term loan (Term Loan B) from PNC in the amount of \$3,500,000, a mortgage on the property of AMK in the amount of \$2,500,000 in favor of the sellers of AMK, with the remainder coming from our general working capital.

As of December 31, 2014, our debt for borrowed monies in the amount of \$27,721,000 consisted of the revolving credit note due to PNC in the amount of \$17,672,000, the term loans due to PNC in the amount of \$8,363,000, a note due the sellers of WMI in the aggregate amount of \$41,000 and capitalized lease obligations of \$1,645,000. This represents an increase of \$10,225,000 in our debt for borrowed monies at December 31, 2013 of \$17,496,000, when the revolving note due to PNC was \$12,029,000, the term loan due to PNC was \$1,948,000, the note due the sellers of WMI was \$732,000, the principal of the outstanding Junior Subordinated Notes was \$1,000,000 and capitalized lease obligations were \$1,787,000. The increase in the amount outstanding under the revolving credit note and term loans principally reflects amounts borrowed to support our acquisitions and the increase in our inventory.

Anticipated uses of Cash

As a requirement of our Loan Facility substantially all of our cash receipts from operations are deposited into our lockbox account at PNC. These cash receipts are used to reduce our indebtedness under our revolving credit note and are then borrowed according to a borrowing base to support our operations.

Subject to the discretion of our Board of Directors and compliance with PNC’s loan covenants, we intend to continue to make quarterly dividend payments on our common stock. On January 24, 2014, we paid a dividend equal to \$0.125 per share or \$733,000 to all shareholders of record as of January 9, 2014. On April 22, 2014, we paid a dividend equal to \$0.15 per share or \$885,000 to all shareholders of record as of April 15, 2014. On July 10, 2014, we paid a dividend equal to \$0.15 per share or \$1,064,000 to all shareholders of record as of June 30, 2014 and on November 3, 2014, we paid a dividend equal to \$0.15 per share or \$1,065,000 to all shareholders of record as of October 20, 2014. On January 15, 2015 we paid a dividend equal to \$0.15 per common share or \$1,066,000 to all shareholders of record as of January 2, 2015.

We have paid quarterly dividends to our shareholders each quarter commencing with the first quarter of 2013.

Cash Flow

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

	Year ended December 31, 2014	Year ended December 31, 2013
Cash (used in) provided by		
Operating activities	\$ (2,799)	\$ 8,889
Investing activities	(9,663)	(1,118)
Financing activities	13,319	(7,700)
Net increase in cash and cash equivalents	<u>\$ 857</u>	<u>\$ 71</u>

Cash (Used In) Provided By Operating Activities

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

For the year ended December 31, 2014, our net cash used in operating activities of \$2,799,000 was comprised of net income of \$667,000 less \$6,677,000 of cash used by changes in operating assets and liabilities plus adjustments for non-cash items of \$3,211,000. Adjustments for non-cash items consisted primarily of depreciation of property and equipment of \$2,364,000, amortization of capitalized engineering costs, intangibles and other items of \$1,587,000, bad debt expense of \$299,000 representing all amounts more than 120 days past due, and non-cash compensation of \$42,000. These non-cash items were offset by \$38,000 of deferred gain on the sale of real estate and \$1,043,000 of deferred income taxes. The decrease in operating assets and liabilities consisted of a net decrease in Operating Assets of \$4,627,000 and a net decrease in Operating Liabilities of \$2,050,000. The decrease in Operating Assets was comprised of a decrease in accounts receivable of \$2,417,000 due to the timing of shipments to and cash receipts from customers, a decrease in inventory of \$1,802,000, and a net decrease in prepaid expenses and other current assets of \$408,000. The net decrease in Operating Liabilities was comprised of decreases in accounts payable and accrued expenses of \$577,000 due to the timing of the receipt and payment of invoices, a decrease in income taxes payable of \$1,425,000 and decreases in customer deposits of \$93,000, partially offset by an increase in deferred rent of \$45,000.

Cash Used in Investing Activities

Cash used in investing activities consists of capital expenditures for property and equipment, capitalized engineering costs and the cash payments for the businesses we acquire. A description of capitalized engineering costs can be found below and in footnote 3 Summary of Significant Accounting Policies in our Consolidated Financial Statements for the year ended December 31, 2014.

For the year ended December 31, 2014 cash used in investing activities was \$9,663,000. This was comprised of \$8,757,000 for the acquisitions of WPI, EPC, ECC, and AMK, net of cash acquired, \$335,000 for capitalized engineering costs and \$571,000 for the purchase of property and equipment.

Cash Provided By Financing Activities

Cash provided by financing activities consists of the net proceeds from the sale of our equity securities, dividend payments, the borrowings and repayments under our credit facilities with our senior lender, and increases in and repayment of capital lease obligations and other notes payable.

For the year ended December 31, 2014, cash provided by financing activities was \$13,319,000. This was comprised of \$8,562,000 in net proceeds from the offering of our common stock, additional borrowings of \$7,328,000 under our term loans and \$3,142,000 under our revolving credit facility, partially offset by repayments on our term loans of \$913,000, repayments under our capital leases of \$143,000, and \$691,000 paid to the former shareholders of WMI; \$3,748,000 used for dividends, deferred financing costs of \$151,000 and \$67,000 related to lease impairment.

CONTRACTUAL OBLIGATIONS

The following table sets forth our future contractual obligations as of December 31, 2014:

	Payment due by period (in thousands)				
	Total	Less than 1 year*	1-3 years	3-5 years	More than 5 years
Long term debt and capital leases	\$ 27,956	\$ 19,593	\$ 5,105	\$ 2,800	\$ 458
Operating leases	18,930	1,931	3,746	3,337	9,916
Total	\$ 46,886	\$ 21,524	\$ 8,851	\$ 6,137	\$ 10,374

* The revolving line of credit with our senior lender is classified as due in less than 1 year

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of December 31, 2014.

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.

We generally purchase raw materials and supplies uniquely suited to the production of larger more complex parts, such as landing gear, only when non-cancellable contracts for orders have been received for finished goods. We occasionally produce larger more complex products, such as landing gear, 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. We purchase supplies and materials useful in a variety of products as deemed necessary even though orders have not been received. 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 impairments of value.

The Company presents inventory net of progress billings in accordance with the specified contractual arrangements with the United States Government, which results in the transfer of title of the related inventory from the Company to the United States Government, when such progress payments are received.

Capitalized Engineering Costs

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 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/or 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 deposits 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. Freight out is included in operating expenses.

The Company recognizes certain revenues under a bill and hold arrangement with two of its large customers. For any requested bill and hold arrangement, the Company makes an evaluation as to whether the bill and hold arrangement qualifies for revenue recognition. The customer must initiate the request for the bill and hold arrangement. The customer must have made this request in writing in addition to their fixed commitment to purchase the item. The risk of ownership has passed to the customer, payment terms are not modified and payment will be made as if the goods had shipped.

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 accounts for uncertainties in income taxes under 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 accounts for the impairment of goodwill under the provisions of 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 Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist, using a three-step approach. Step "zero" is 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. 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.

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, 2014 and 2013.

Recently Issued Accounting Pronouncements

Effective January 1, 2014, the Company adopted Accounting Standards Update No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 is expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This guidance is effective prospectively for the Company for annual and interim periods beginning January 1, 2014. The adoption of ASU 2013-11 did not have a material effect on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC 605, "Revenue Recognition" and most industry-specific guidance and creates ASC 606, "Revenue from Contracts with Customers."

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the effects of the adoption of ASU 2014-09 on its consolidated financial statements.

In November 2014, the FASB issued ASU 2014-17, "Business Combinations: Pushdown Accounting" (ASU 2014-17"). ASU 2014-17 provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period as a change in accounting principle in accordance with ASC Topic 250, "Accounting Changes and Error Corrections". If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. ASU 2014-17 also requires an acquired entity that elects the option to apply pushdown accounting in its separate financial statements to disclose information in the current reporting period that enables users of financial statements to evaluate the effect of pushdown accounting. We adopted the amendments in ASU 2014-17, effective November 18, 2014, as the amendments in the update are effective upon issuance. The adoption did not have an impact on our consolidated financial statements and disclosures.

In January 2015, the FASB issued ASU 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items ("ASU 2015-01"). ASU 2015-01 eliminates the concept of an extraordinary item from accounting principles generally accepted in the United States of America. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, ASU 2015-01 will still retain the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. ASU 2015-01 becomes effective for interim and annual periods beginning on or after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the effects of adopting ASU 2015-01 on its consolidated financial statements but the adoption is not expected to have a significant impact on the Company's consolidated financial statements.

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

JOBS Act

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company," we may, under Section 7(a)(2)(B) of the Securities Act, delay adoption of new or revised accounting standards applicable to public companies until such standards would otherwise apply to private companies. We may take advantage of this extended transition period until the first to occur of the date that we (i) are no longer an "emerging growth company" or (ii) affirmatively and irrevocably opt out of this extended transition period. We have elected to take advantage of the benefits of this extended transition period. Our consolidated financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Until the date that we are no longer an "emerging growth company" or affirmatively and irrevocably opt out of the exemption provided by Securities Act Section 7(a)(2)(B), upon issuance of a new or revised accounting standard that applies to our consolidated financial statements and that has a different effective date for public and private companies, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting standard.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements

The financial statements required by this item begin on page F-1 hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO"), its principal executive officer, and Chief Accounting Officer ("CAO"), its principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of December 31, 2014. Based on that evaluation, the CEO and CAO concluded that our disclosure controls and procedures were effective as of December 31, 2014.

Management's Report on Internal Control over Financial Reporting

Section 404 of the Sarbanes-Oxley Act of 2002 requires that management document and test the Company's internal control over financial reporting and include in this Annual Report on Form 10-K a report on management's assessment of the effectiveness of our internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting refers to the process designed by, or under the supervision of our Chief Executive Officer and our Chief Accounting Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, and includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management designed an evaluation process that meets the needs of its company and that provides reasonable assurance for its assessment based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission.

In connection with their review of our internal controls over financial reporting for the fiscal year ended December 31, 2014, our Chief Executive Officer and Chief Accounting Officer have concluded that our internal controls over financial reporting were effective as of December 31, 2014.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. The rules of the Securities and Exchange Commission do not require an attestation of the Management's report by our registered public accounting firm in this annual report.

Change in Internal Control over Financial Reporting

There have been no other changes in our internal control over financial reporting that occurred during our fiscal quarter and year ended December 31, 2014 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting..

ITEM 9B. OTHER INFORMATION.

None

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Incorporated by reference from the information in our Proxy Statement for our 2015 Annual Meeting of Stockholders, which we will file with the SEC within 120 days of the end of the fiscal year to which this Annual Report relates.

Item 11. Executive Compensation

Incorporated by reference from the information in our Proxy Statement for our 2015 Annual Meeting of Stockholders, which we will file with the SEC within 120 days of the end of the fiscal year to which this Annual Report relates.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference from the information in our Proxy Statement for our 2015 Annual Meeting of Stockholders, which we will file with the SEC within 120 days of the end of the fiscal year to which this Annual Report relates.

Item 13. Certain Relationships and Related Transactions and Director Independence

Incorporated by reference from the information in our Proxy Statement for our 2015 Annual Meeting of Stockholders, which we will file with the SEC within 120 days of the end of the fiscal year to which this Annual Report relates.

Item 14. Principal Accountant Fees and Services

Incorporated by reference from the information in our Proxy Statement for our 2015 Annual Meeting of Stockholders, which we will file with the SEC within 120 days of the end of the fiscal year to which this Annual Report relates.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibit No. Description

- 2.1 Agreement and Plan of Merger dated July 29, 2013 between Air Industries Group, Inc. and Air Industries Group (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed August 30, 2013).
- 2.2 Articles of Merger between Air Industries Group and Air Industries Group, Inc. filed with the Secretary of State of Nevada on August 28, 2013 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed August 30, 2013).
- 2.3 Certificate of Merger between Air Industries Group and Air Industries Group, Inc. filed with the Secretary of State of Nevada on August 29, 2013 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed August 30, 2013).
- 3.1 Articles of Incorporation of Air Industries Group (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed August 30, 2013).
- 3.2 Amended and Restated By-Laws of the Registrant.
- 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).
- 4.2 Form of Placement Agent's Warrant Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed May 29, 2014).
- 10.1 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).
- 10.2 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).
- 10.3 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).
- 10.4 Long Term Agreement, dated as of September 7, 2000, between Air Industries Machining, 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).
- 10.5 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).
- 10.6 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).

- 10.7 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).
- 10.8 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).
- 10.9 Amended and Restated Promissory Note dated as of August 26, 2009 payable to 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").
- 10.10 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).
- 10.11 Amended and Restated Revolving Credit, Term Loan and Security Agreement (the "PNC Loan Agreement") dated June 27, 2013 by and among PNC Bank, National Association, as Lender and Agent, and Air Industries Machining, Corp., Welding Metallurgy, Inc., Nassau Tool Works, Inc. and Air Industries Group, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 27, 2013).
- 10.12 Guarantor's Ratification by Air Industries Group, Inc. under PNC Agreement (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed June 27, 2013).
- 10.13 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).
- 10.14 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).
- 10.15 Asset Purchase Agreement dated as of June 20, 2012 among the Registrant, Nassau Tool Works, Inc., Vincent DiCarlo and Robert E. Hunt (incorporated by reference to Exhibit 10.22 to the Registrant's Form 10).
- 10.16 Assignment and Assumption Agreement dated as of June 20, 2012 between the Registrant and NTW Operating Inc. (incorporated by reference to Exhibit 10.23 to the Registrant's Form 10).
- 10.17 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.24 to the Registrant's Form 10).
- 10.18 Subscription documents for purchase of common stock and conversion of junior subordinated notes into common stock. (incorporated by reference to Exhibit 10.25 to the Registrant's Form 10).
- 10.19 Placement Agent Agreement dated as of May 21, 2012 between the Registrant and Taglich Brothers Inc. (incorporated by reference to Exhibit 10.26 to the Registrant's Form 10).
- 10.20 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8 (Registration No. 333-191560) filed on October 4, 2013).
- 10.21 Common Stock Purchase Agreement dated October 25, 2013 with Kimura Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 29, 2013).
- 10.22 First Amendment to PNC Loan Agreement (incorporated by reference from Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K").
- 10.23 Amended and Restated PNC Loan Agreement (incorporated by reference from Exhibit 10.23 to the Registrant's 2013 Form 10-K.)

- 10.24 Amended and Restated Revolving Credit Note issued under the PNC Loan Agreement (incorporated by reference from Exhibit 10.24 to the Registrant's 2013 Form 10-K.)
- 10.25 Second Amendment to Term Note issued under the PNC Loan Agreement (incorporated by reference from Exhibit 10.25 to the Registrant's 2013 Form 10-K.) .
- 10.26 Stock Purchase Agreement dated as of April 1, 2014 by and among WMI and the shareholders of Woodbine Products, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed April 2, 2014).
- 10.27 Third Amendment to Amended and Restated Loan and Security Agreement with PNC Bank, N.A (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed April 2, 2014).
- 10.28 Form of Subscription Agreement, dated as of May 28, 2014(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 29, 2014).
- 10.29 Placement Agent Agreement, dated as of May 28, 2014, between the Registrant and Taglich Brothers, Inc.(incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 29, 2014).
- 10.30 Stock Purchase Agreement dated as of June 4, 2014, by and among the Registrant and the shareholders of Eur-Pac Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 4, 2014).
- 10.31 Stock Purchase Agreement dated as of October 1, 2014, between the Registrant and Dynamic Materials Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed (October 2, 2014).
- 10.32 Promissory Note of Registrant payable to AMK Welding, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed October 2, 2014).
- 10.33 Mortgage and Security Agreement in favor of Dynamic Materials Corporation (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed October 2, 2014).
- 10.34 Term Note (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed October 2, 2014).
- 10.35 Capital Market Advisory Agreement dated as of January 1, 2014 between the Registrant and Taglich Brothers, Inc.
- 10.36 Agreement and Plan of Merger dated as of February 27, 2015, by and among the Registrant, SEC Acquisition Corp., The Sterling Engineering Corporation ("Old Sterling") and the shareholders of Old Sterling (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 5, 2015).
- 10.37 Term Note in the principal amount of \$3,500,000 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed March 10, 2015).
- 10.38 Open End Mortgage Deed and Security Agreement with respect to South Windsor, Connecticut premises (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed March 10, 2015).

- 10.39 Collateral Assignment of Rents, Leases and Profits with respect to South Windsor, Connecticut premises (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed March 10, 2015).
- 10.40 Open End Mortgage Deed and Security Agreement with respect to Barkhamsted, Connecticut premises (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed March 10, 2015).
- 10.41 Collateral Assignment of Rents, Leases and Profits with respect to Barkhamsted, Connecticut premises (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed March 10, 2015).
- 10.42 Offer Letter to Daniel R. Godin.
- 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.
- 23.1 Consent of Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
- 31.1 Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Securities Exchange Act of 1934.
- 31.2 Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act of 1934.
- 32.1 Certification of principal executive officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
- 32.2 Certification of principal financial officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
- 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

SIGNATURES

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

Dated: March 31, 2015

AIR INDUSTRIES GROUP

By: /s/ Daniel R. Godin

Daniel R. Godin
President and CEO
(principal executive officer)

By: /s/ James Sartori

James Sartori
Chief Accounting Officer and Treasurer
(principal financial and accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on March 31, 2015 in the capacities indicated.

<u>Signature</u>	<u>Capacity</u>
<u>/s/ Daniel R. Godin</u> Daniel R. Godin	President and CEO
<u>/s/James Sartori</u> James Sartori	Chief Accounting Officer and Treasurer
<u>/s/ Michael N. Taglich</u> Michael N. Taglich	Chairman of the Board
<u>/s/ Seymour G. Siegel</u> Seymour G. Siegel	Director
<u>/s/ Robert F. Taglich</u> Robert F. Taglich	Director
<u>/s/ David J. Buonanno</u> David J. Buonanno	Director
<u>/s/ Robert Schroeder</u> Robert Schroeder	Director
<u>/s/ Michael Brand</u> Michael Brand	Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Air Industries Group

We have audited the accompanying consolidated balance sheets of Air Industries Group and Subsidiaries (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of income, 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 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, 2014 and 2013 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.

/s/ ROTENBERG MERIL SOLOMON BERTIGER & GUTTILLA, P.C.
ROTENBERG MERIL SOLOMON BERTIGER & GUTTILLA, P.C.
Saddle Brook, New Jersey
March 31, 2015

AIR INDUSTRIES GROUP
Consolidated Balance Sheets

	December 31,	December 31,
	2014	2013
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,418,000	\$ 561,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,566,000 and \$783,000, respectively	11,916,000	8,584,000
Inventory	28,391,000	26,222,000
Deferred Tax Asset	1,421,000	1,051,000
Prepaid Expenses and Other Current Assets	875,000	510,000
Total Current Assets	44,021,000	36,928,000
Property and Equipment, Net		
Property and Equipment, Net	9,557,000	6,523,000
Capitalized Engineering Costs - Net of Accumulated Amortization of \$4,184,000 and \$3,879,000, respectively	712,000	752,000
Deferred Financing Costs, Net, Deposit and Other Assets	825,000	605,000
Intangible Assets, Net	4,513,000	4,726,000
Deferred Tax Asset	858,000	185,000
Goodwill	5,434,000	453,000
TOTAL ASSETS	\$ 65,920,000	\$ 50,172,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	\$ 19,508,000	\$ 14,969,000
Accounts Payable and Accrued Expenses	6,948,000	6,855,000
Lease Impairment - Current	56,000	71,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Customer Deposits	158,000	251,000
Dividends Payable	1,066,000	717,000
Income Taxes Payable	71,000	1,496,000
Total Current Liabilities	27,845,000	24,397,000
Long Term Liabilities		
Notes Payable and Capitalized Lease Obligations - Net of Current Portion	8,213,000	2,527,000
Lease Impairment - Net of Current Portion	4,000	56,000
Deferred Gain on Sale - Net of Current Portion	409,000	447,000
Deferred Rent	1,177,000	1,132,000
TOTAL LIABILITIES	37,648,000	28,559,000

AIR INDUSTRIES GROUP
Consolidated Balance Sheets (Continued)

	December 31, 2014	December 31, 2013
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock Par Value \$.001 - Authorized 1,000,000 Shares, None Issued and Outstanding at December 31, 2014 and 2013	-	-
Common Stock - Par Value \$.001 - Authorized 25,000,000 Shares, 7,108,677 and 5,844,093 Shares Issued and Outstanding as of December 31, 2014 and 2013, respectively	7,000	6,000
Additional Paid-In Capital	42,790,000	36,799,000
Accumulated Deficit	(14,525,000)	(15,192,000)
TOTAL STOCKHOLDERS' EQUITY	28,272,000	21,613,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 65,920,000	\$ 50,172,000

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Income For the Years Ended December 31,

	2014	2013
Net Sales	\$ 64,331,000	\$ 62,833,000
Cost of Sales	50,233,000	47,598,000
Gross Profit	14,098,000	15,235,000
Operating Expenses	11,960,000	10,594,000
Acquisition Costs	403,000	28,000
Income from Operations	1,735,000	4,613,000
Interest and Financing Costs	(1,295,000)	(1,340,000)
Other (Expense) Income, Net	(141,000)	296,000
Income before Provision for Income Taxes	299,000	3,569,000
Benefit from Income Taxes	368,000	170,000
Net income	\$ 667,000	\$ 3,739,000
Income per share - basic	\$ 0.10	\$ 0.65
Income per share - diluted	\$ 0.10	\$ 0.63
Weighted average shares outstanding - basic	6,591,755	5,739,014
Weighted average shares outstanding - diluted	6,915,688	5,932,726

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2014 and 2013

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, January 1, 2013	-	\$ -	5,711,093	\$ 6,000	\$ 37,913,000	\$ (18,931,000)	\$ 18,988,000
Issuance of Shares For Private Placement	-	-	133,000	-	997,000	-	997,000
Dividends Paid	-	-	-	-	(1,432,000)	-	(1,432,000)
Dividends Payable	-	-	-	-	(717,000)	-	(717,000)
Stock Compensation Expense	-	-	-	-	38,000	-	38,000
Net Income	-	-	-	-	-	3,739,000	3,739,000
Balance, December 31, 2013	-	-	5,844,093	6,000	36,799,000	(15,192,000)	21,613,000
Issuance of Shares For Public Offering	-	-	1,170,000	1,000	9,561,000	-	9,562,000
Issuance of Shares For Acquisitions	-	-	50,000	-	485,000	-	485,000
Exercise of Options/Warrants	-	-	44,584	-	-	-	-
Dividends Paid	-	-	-	-	(3,031,000)	-	(3,031,000)
Dividends Payable	-	-	-	-	(1,066,000)	-	(1,066,000)
Stock Compensation Expense	-	-	-	-	42,000	-	42,000
Net Income	-	-	-	-	-	667,000	667,000
Balance, December 31, 2014	-	\$ -	7,108,677	\$ 7,000	\$ 42,790,000	\$ (14,525,000)	\$ 28,272,000

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Cash Flows For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 667,000	\$ 3,739,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation of property and equipment	2,364,000	1,709,000
Amortization of intangible assets	1,163,000	1,163,000
Amortization of capitalized engineering costs	375,000	430,000
Bad debt expense	299,000	394,000
Non-cash compensation expense	42,000	38,000
Amortization of deferred financing costs	49,000	69,000
Negative goodwill resulting from the bargain purchase acquisition	-	(361,000)
Gain on sale of real estate	(38,000)	(38,000)
Deferred income taxes	(1,043,000)	(1,236,000)
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	(2,417,000)	2,871,000
Inventory	(1,802,000)	440,000
Prepaid expenses and other current assets	(244,000)	35,000
Deposits	(46,000)	134,000
Other assets	(118,000)	20,000
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	(577,000)	(892,000)
Deferred rent	45,000	75,000
Income taxes payable	(1,425,000)	48,000
Customer deposits	(93,000)	251,000
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,799,000)	8,889,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for acquisitions	(8,930,000)	(457,000)
Cash acquired in acquisitions	173,000	7,000
Capitalized engineering costs	(335,000)	(380,000)
Purchase of property and equipment	(571,000)	(288,000)
NET CASH USED IN INVESTING ACTIVITIES	(9,663,000)	(1,118,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from public issuance in 2014 and private placement in 2013	9,530,000	997,000
Costs to raise capital	(968,000)	-
Notes payable - sellers	(691,000)	(644,000)
Capital lease obligations	(143,000)	(996,000)
Note payable - revolver	3,142,000	(3,637,000)
Proceeds from note payable - term loans	7,328,000	-
Payments of note payable - term loans	(913,000)	(1,800,000)
Deferred financing costs	(151,000)	(102,000)
Payments related to lease impairment	(67,000)	(85,000)
Dividends paid	(3,748,000)	(1,433,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	13,319,000	(7,700,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	857,000	71,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	561,000	490,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,418,000	\$ 561,000

AIR INDUSTRIES GROUP
Consolidated Statements of Cash Flows For the Year Ended December 31, (Continued)

	<u>2014</u>	<u>2013</u>
Supplemental cash flow information		
Cash paid during the period for interest	\$ 1,074,000	\$ 1,188,000
Supplemental cash flow information		
Cash paid during the period for income taxes	\$ 2,494,000	\$ 1,061,000
Supplemental schedule of non-cash investing and financing activities		
Conversion of junior subordinated notes	\$ 1,000,000	\$ -
Dividends payable	\$ 1,066,000	\$ 717,000
Purchase of substantially all assets of AMK Welding, Inc. and assumption of liabilities in the acquisition as follows:		
Fair Value of tangible assets acquired	\$ 5,637,000	\$ -
Intangible assets, subject to amortization	950,000	-
Goodwill	651,000	-
Cash acquired	168,000	-
Liabilities assumed	(453,000)	-
Due to seller	(2,500,000)	-
Cash paid for acquisition	\$ 4,453,000	\$ -
Purchase of stock of Woodbine Products, Inc.		
Fair value of tangible assets acquired	\$ 309,000	\$ -
Goodwill	2,565,000	-
Liabilities assumed	(19,000)	-
Common stock issued	(290,000)	-
Cash paid for acquisition	\$ 2,565,000	\$ -
Purchase of stock of Eur-Pac Corporation		
Fair value of tangible assets acquired	\$ 412,000	\$ -
Goodwill	1,656,000	-
Liabilities assumed	(170,000)	-
Common stock issued	(195,000)	-
Cash paid for acquisition	\$ 1,703,000	\$ -
Purchase of stock of Electronic Connection Corporation		
Fair value of tangible assets acquired	\$ 126,000	\$ -
Goodwill	109,000	-
Cash acquired	5,000	-
Liabilities assumed	(31,000)	-
Cash paid for acquisition	\$ 209,000	\$ -
Purchase of certain assets of Decimal Industries, Inc.		
Fair value of tangible assets acquired	\$ -	\$ 975,000
Due to sellers of Decimal Industries, Inc.	-	(660,000)
Cash paid for acquisition	\$ -	\$ 315,000
Purchase of stock of Miller Stuart, Inc		
Fair value of tangible assets acquired	\$ -	\$ 506,000
Cash acquired	-	7,000
Liabilities assumed	-	(10,000)
Negative goodwill resulting from the bargain purchase acquisition	-	(361,000)
Cash paid for acquisition	\$ -	\$ 142,000

See Notes to Consolidated Financial Statements

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization

On August 30, 2013, Air Industries Group, Inc. ("Air Industries Delaware") changed its state of incorporation from Delaware to Nevada as a result of a merger with and into its recently formed wholly-owned subsidiary, Air Industries Group, a Nevada corporation ("Air Industries Nevada" or "AIRI") and the surviving entity, pursuant to an Agreement and Plan of Merger. The reincorporation was approved by the stockholders of Air Industries Delaware at its 2013 Annual Meeting of Stockholders. Air Industries Nevada is deemed to be the successor.

The accompanying consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corporation ("AIM"), Welding Metallurgy, Inc. ("WMI" or "Welding"), Miller Stuart, Inc. ("Miller Stuart"), Nassau Tool Works, Inc. ("NTW"), Woodbine Products, Inc. ("Woodbine" or "WPI") effective April 1, 2014, Eur-Pac Corporation ("Eur-Pac" or "EPC") effective June 1, 2014, Electronic Connection Corporation ("ECC"), effective September 1, 2014, and AMK Welding, Inc. ("AMK") effective October 1, 2014 (together, the "Company").

Note 2. ACQUISITIONS

Decimal

On July 1, 2013, the Company through its WMI subsidiary acquired certain assets including production equipment, inventory and intangible assets of Decimal Industries, Inc. ("Decimal"). The assets are being operated as part of WMI. Decimal is a long established Long Island based manufacturer of precision welded and brazed aerospace chassis and other components housing avionics, radars and other electronic devices in aircraft and naval vessels. Decimal's customers include major aerospace contractors. The acquisition not only adds to the existing customer base, but brings new capabilities to WMI and the group.

The acquisition of Decimal was accounted for under FASB ASC 805, "Business Combinations" ("ASC 805"). The purchase price of the assets was \$975,000, which included inventory of approximately \$665,000 valued at a percentage of completion including anticipated profit on sale and certain fixed assets with an approximate value of \$310,000. The purchase price was paid as follows: \$315,000 in cash at closing with the balance payable in eight equal monthly installments without interest in the amount of \$76,667 commencing in August 2013, with a final payment in the amount of \$46,766. The two owners of Decimal have become employees of the Company and are under contract until June 2018. As part of the transaction, the facility of Decimal had been leased for 12 months until June 2014. The Company combined and relocated the operations of Decimal into WMI's facility in Hauppauge. At December 31, 2013, \$277,000 was owed to the sellers of Decimal and is included in accounts payable and accrued expenses on the consolidated balance sheet.

Miller Stuart

On November 6, 2013, the Company, through its WMI subsidiary, acquired all of the common stock of Miller Stuart for \$142,000 of which \$25,000 was due at the date of closing, with the remainder due on December 6, 2013. As a result of the acquisition, Miller Stuart became a division of WMI. Miller Stuart is a manufacturer of aerospace components whose customers include major aircraft manufacturers and the US Military. Miller Stuart specializes in electromechanical systems, harness and cable assemblies, electronic equipment and printed circuit boards. The acquisition of Miller Stuart will add to the existing customer base of AIRI and enhance the types of parts that AIRI can offer to its existing customers.

The acquisition of Miller Stuart was accounted for under ASC 805, and its results of operations have been included with WMI. The purchase price allocation is set forth below.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value of tangible assets acquired (including cash acquired of \$7,000)	\$ 513,000
Liabilities assumed	(10,000)
Negative goodwill resulting from the bargain purchase acquisition	(361,000)
Total	\$ 142,000

As a result of the acquisition, the Company recognized a non-cash bargain purchase gain of \$361,000 which is included in other income (expense), net in the December 31, 2013 consolidated statement of income.

Woodbine

On April 1, 2014, the Company, through its wholly-owned subsidiary Welding, acquired all of the common stock of Woodbine for \$2.4 million and 30,000 shares of the common stock of AIRI. The common stock was valued at \$9.68 per share, which was the closing share price on April 1, 2014. Additionally, a working capital adjustment in the amount of \$165,000 was paid to the former stockholders of Woodbine during June of 2014. The Company financed the acquisition of Woodbine by increasing its borrowings on its existing revolving loan and term loan facilities (see Note 9).

Woodbine, founded in 1954, is a long established manufacturer of aerospace components whose customers include major aircraft component suppliers. Woodbine specializes in welded and brazed chassis structures housing electronics in aircraft. Woodbine's products and customers are very complementary to those of Decimal, the assets and business of which was acquired in July 2013 as described above.

The acquisition of Woodbine was accounted for under ASC 805. The purchase price allocation is set forth below.

Fair value of tangible assets acquired	\$ 309,000
Goodwill	2,565,000
Liabilities assumed	(19,000)
Total	\$ 2,855,000

Eur-Pac

On June 1, 2014, the Company acquired all of the common stock of Eur-Pac for \$1.6 million and 20,000 shares of the common stock of AIRI. The common stock was valued at \$9.78 per share, which was the closing share price on that date. Additionally, a working capital adjustment in the amount of \$78,000 was paid in August 2014. The Company financed the acquisition of Eur-Pac with the proceeds of its Registered Direct Offering (see Note 11).

Eur-Pac specializes in military packaging and supplies. Eur-Pac's primary business is "kitting" of supplies for all branches of the United States Defense Department including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies.

The acquisition of Eur-Pac was accounted for under ASC 805. The purchase price allocation is set forth below.

Fair Value of tangible assets acquired	\$ 412,000
Goodwill	1,656,000
Liabilities assumed	(170,000)
Total	\$ 1,898,000

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ECC

On September 1, 2014, the Company through its wholly-owned subsidiary Eur-Pac, acquired all of the common stock of ECC for \$209,000. The Company financed the acquisition from its regular working capital.

ECC is a manufacturer of stripped, terminated, bonded and tinned lead wires, used by a variety of contractors, manufacturers and OEMs.

The acquisition of ECC was accounted for under ASC 805. The purchase price allocation is set forth below.

Fair value of tangible assets acquired	\$ 126,000
Goodwill	109,000
Cash acquired	5,000
Liabilities assumed	(31,000)
Total	<u>\$ 209,000</u>

AMK

On October 1, 2014, the Company acquired all of the common stock of AMK, for \$6.9 million. At closing, the Company paid \$4,453,000 and issued a Seller Note and Mortgage of \$2,500,000. The note bore interest at the rate of 5% per annum and interest and principal were due and payable on or before December 31, 2014. The note was paid in 2014 from the proceeds from the issuance of Term Loan B and the mortgage released in January 2015 (see Note 9).

AMK is a long established provider of sophisticated welding and machining services for diversified aerospace and industrial customers.

The acquisition of AMK was accounted for under ASC 805. The purchase price allocation is set forth below.

Fair value of tangible assets acquired	\$5,637,000
Intangible assets, subject to amortization	950,000
Goodwill	651,000
Cash acquired	168,000
Liabilities assumed	(453,000)
Total	<u>\$6,953,000</u>

The below table sets forth selected financial information for the 2014 acquisitions for the period from the acquisition date through December 31, 2014.

	Woodbine	Eur-Pac	ECC	AMK
Net sales	\$ 1,047,000	\$ 2,756,000	\$ 281,000	\$ 1,838,000
Income from operations	\$ 300,000	\$ 637,000	\$ 67,000	\$ 359,000

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. NTW is a manufacturer of aerospace components, principally landing gear for F-16 and F-18 fighter aircraft. Welding is a specialty welding and products provider whose significant customers include the world's largest aircraft manufacturers, subcontractors, and original equipment manufacturers. Miller Stuart is a manufacturer of aerospace components whose customers include major aircraft manufacturers and the US Military. Miller Stuart specializes in electromechanical systems, harness and cable assemblies, electronic equipment and printed circuit boards. Woodbine is a manufacturer of aerospace components whose customers include major aircraft component suppliers. Woodbine specializes in welded and brazed chassis structures housing electronics in aircraft. Eur-Pac specializes in military packaging and supplies. Eur-Pac's primary business is "kitting" of supplies for all branches of the United States Defense Department including ordnance parts, hose assemblies, hydraulic, mechanical and electrical assemblies. AMK is a provider of sophisticated welding and machining services for diversified aerospace and industrial customers. The Company's customers consist mainly of publically-traded companies in the aerospace industry.

Principles of Consolidation

The accompanying consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. Significant intercompany 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 uncollectible 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.

Inventory Valuation

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

The Company generally purchases raw materials and supplies uniquely suited to the production of larger more complex parts, such as landing gear, only when non-cancellable contracts for orders have been received for finished goods. It occasionally produces larger more complex products, such as landing gear, 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 purchases supplies and materials useful in a variety of products as deemed necessary even though orders have not been received. 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 impairments of value.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company presents inventory net of progress billings in accordance with the specified contractual arrangements with the United States Government, which results in the transfer of title of the related inventory from the Company to the United States Government, when such progress payments are received.

The Company presents inventory net of progress billings in accordance with the specified contractual arrangements with the United States Government, which results in the transfer of title of the related inventory from the Company to the United States Government, when such progress payments are received.

Capitalized Engineering Costs

The Company has contractual agreements with customers to produce parts, which the customers design. Even 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, 2014 and 2013.

Deferred Financing Costs

Costs incurred with obtaining and executing debt arrangements are capitalized and amortized using 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/or 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.

The Company recognizes certain revenues under a bill and hold arrangement with two of its large customers. For any requested bill and hold arrangement, the Company makes an evaluation as to whether the bill and hold arrangement qualifies for revenue recognition as follows:

- The customer requests that the transaction be on a bill and hold basis. A customer must initiate the request for any bill and hold arrangement. Upon request for a bill and hold, the Company requires a signed letter from the customer upon which the customer specifically requests the bill and hold arrangement. Upon receipt of the letter, the Company begins its evaluation process to determine whether a bill and hold arrangement can be granted.
- The customer has made fixed commitment to purchase in written documentation. All customers' orders are through firm written purchase orders.
- The goods are segregated from other inventory and are not available to fill any other customers' orders. The Company's goods are made to customers' or their customer's specifications and could not be sold to others.
- The risk of ownership has passed to the customer. The product is complete and ready for shipment. The earnings process is complete. An internal evaluation is made as to whether the product is complete and ready for shipment. This involves a review of the purchase order and a completed inspection process by the Company's quality control department.
- The date is determined by which the Company expects payment and the Company has not modified its normal billing and credit terms for this buyer. Payment is expected as if the goods had been shipped.
- The customer has the expected risk of loss in the event of a decline in the market value of goods. All goods are made to firm purchase orders with fixed prices. Any decline in value would not affect the pricing of the goods. The Company has not at any point, agreed to a price reduction on a bill and hold arrangement.

The Company had approximately \$772,000 or 1.2% of net sales that were billed but not shipped under such bill and hold arrangements as of December 31, 2014.

Payments received in advance from customers for products delivered are recorded as customer deposits 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.

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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 whether to accrue for 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 two customers that represented 47.3% of total sales, and three customers that represented 56.0% of total sales for the years ended December 31, 2014 and 2013, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	2014	2013
1	26.8	27.7
2	20.5	18.3
3	*	10.0

* Customer was less than 10% of sales for the year ended December 31, 2014

There were three customers that represented 50.4% of gross accounts receivable and two customers that represented 42.9% of gross accounts receivable at December 31, 2014 and 2013, respectively. This is set forth in the table below.

Customer	Percentage of Receivables	
	December	December
	2014	2013
1	29.0	20.1
2	11.4	*
3	10.0	22.8

* Customer was less than 10% of Gross Accounts Receivable at December 31, 2013

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.

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

AIR INDUSTRIES GROUP
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 accounts for uncertainties in income taxes under 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 is a reconciliation of the denominators of basic and diluted earnings per share computations:

	2014	2013
Weighted average shares outstanding used to compute basic earnings per share	6,591,755	5,739,014
Effect of dilutive stock options and warrants	323,933	193,712
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	6,915,688	5,932,726

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

	December 31, 2014	December 31, 2013
Stock Options	22,888	24,548
Warrants	46,800	-
	69,688	24,548

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$5,434,000 relates to the acquisitions of Welding (\$291,000), NTW (\$162,000), Woodbine (\$2,565,000), Eur-PAC (\$1,656,000), ECC (\$109,000), and AMK (\$651,000). Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances occur that more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company accounts for the impairment of goodwill under the provisions of 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 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 2014 to determine whether it was more likely than not that the fair value of each of Welding, including Woodbine, NTW, Eur-Pac, ECC, and AMK was less than its carrying amount.

The Company has determined that there has been no impairment of goodwill at December 31, 2014 and 2013.

Freight Out

Freight out is included in operating expenses and amounted to \$98,000 and \$64,000 for the years ended December 31, 2014 and 2013, respectively.

JOBS Act

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an “emerging growth company,” the Company may, under Section 7(a)(2)(B) of the Securities Act, delay adoption of new or revised accounting standards applicable to public companies until such standards would otherwise apply to private companies. An “emerging growth company” is one with less than \$1.0 billion in annual sales, has less than \$700 million in market value of its shares of common stock held by non-affiliates and issues less than \$1.0 billion of non-convertible debt over a three year period. The Company may take advantage of this extended transition period until the first to occur of the date that it (i) is no longer an “emerging growth company” or (ii) affirmatively and irrevocably opts out of this extended transition period. The Company has elected to take advantage of the benefits of this extended transition period. Until the date that it is no longer an “emerging growth company” or affirmatively and irrevocably opts out of the exemption provided by Securities Act Section 7(a)(2)(B), upon issuance of a new or revised accounting standard that applies to its consolidated financial statements and that has a different effective date for public and private companies, the Company will disclose the date on which adoption is required for non-emerging growth companies and the date on which the Company will adopt the recently issued accounting standard.

Recently Issued Accounting Pronouncements

Effective January 1, 2014, the Company adopted Accounting Standards Update No. 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”). ASU 2013-11 is expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This guidance is effective prospectively for the Company for annual and interim periods beginning January 1, 2014. The adoption of ASU 2013-11 did not have a material effect on the Company’s financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC 605, “Revenue Recognition” and most industry-specific guidance and creates ASC 606, “Revenue from Contracts with Customers.”

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the effects of the adoption of ASU 2014-09 on its consolidated financial statements.

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In November 2014, the FASB issued ASU 2014-17, "Business Combinations: Pushdown Accounting" ("ASU 2014-17"). ASU 2014-17 provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period as a change in accounting principle in accordance with ASC Topic 250, "Accounting Changes and Error Corrections". If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. ASU 2014-17 also requires an acquired entity that elects the option to apply pushdown accounting in its separate financial statements to disclose information in the current reporting period that enables users of financial statements to evaluate the effect of pushdown accounting. We adopted the amendments in ASU 2014-17, effective November 18, 2014, as the amendments in the update are effective upon issuance. The adoption did not have an impact on our consolidated financial statements and disclosures.

In January 2015, the FASB issued ASU 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" ("ASU 2015-01"). ASU 2015-01 eliminates the concept of an extraordinary item from accounting principles generally accepted in the United States of America. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, ASU 2015-01 will still retain the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. ASU 2015-01 becomes effective for interim and annual periods beginning on or after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the effects of Adopting ASU 2015-01 on its consolidated financial statements but the adoption is not expected to have a significant impact on the Company's consolidated financial statements.

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

Reclassifications

Certain account balances in 2013 have been reclassified to conform to the current year presentation.

Subsequent Events

Management has evaluated subsequent events through the date of this filing. The Company acquired by merger 100% of the stock of The Sterling Engineering Company of Barkhamsted, CT ("Sterling") as of March 1, 2015. The consideration for the merger was approximately \$2,900,000 in cash and 425,000 shares of common stock. The cash consideration is subject to adjustment for working capital changes. The number of shares of common stock is subject to increase, but not to decrease, to the extent that the Volume Weighted Average Price of the common stock for the twenty-days following closing (March 2 to March 27, 2015) is less than \$10.00 per share. The Company has also entered into employment and non-compete agreements for two and three year periods with three of the principals of Sterling.

Sterling founded in 1941 manufactures components for aircraft and ground turbine engines.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. ACCOUNTS RECEIVABLE

The components of accounts receivable at December 31, are detailed as follows:

	December 31, 2014	December 31, 2013
Accounts Receivable Gross	\$ 13,482,000	\$ 9,367,000
Allowance for Doubtful Accounts	(1,566,000)	(783,000)
Accounts Receivable Net	<u>\$ 11,916,000</u>	<u>\$ 8,584,000</u>

The allowance for doubtful accounts for the years ended December 31, 2014 and 2013 is as follows:

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions From Reserves	Balance at End of Year
Year ended December 31, 2014				
Allowance for Doubtful Accounts	\$ 783,000	\$ 816,000	\$ 33,000	\$ 1,566,000
Year ended December 31, 2013				
Allowance for Doubtful Accounts	\$ 705,000	\$ 400,000	\$ 322,000	\$ 783,000

Note 5. INVENTORY

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

	December 31, 2014	December 31, 2013
Raw Materials	\$ 7,168,000	\$ 6,002,000
Work In Progress	14,886,000	15,665,000
Finished Goods	10,072,000	7,712,000
Progress Payments Received	(260,000)	(416,000)
Inventory Reserve	(3,475,000)	(2,741,000)
Total Inventory	<u>\$ 28,391,000</u>	<u>\$ 26,222,000</u>

The Company periodically evaluates inventory and establishes reserves for obsolescence, excess quantities, slow-moving goods, and for other impairment of value. The Company presents inventory net of progress billings in accordance with the specified contractual arrangements with the United States Government, which results in the transfer of title of the related inventory from the Company to the United States Government, when such progress payments are received.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. PROPERTY AND EQUIPMENT

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

	December 31, 2014	December 31, 2013	
Land	\$ 200,000	\$ -	
Buildings and Improvements	1,680,000	-	31.5 years
Machinery and Equipment	12,514,000	6,251,000	5 - 8 years
Capital Lease Machinery and Equipment	1,800,000	5,261,000	5 - 8 years
Tools and Instruments	5,566,000	5,009,000	1.5 - 7 years
Automotive Equipment	162,000	59,000	5 years
Furniture and Fixtures	275,000	257,000	5 - 8 years
Leasehold Improvements	646,000	646,000	Term of Lease
Computers and Software	372,000	357,000	4-6 years
Total Property and Equipment	23,215,000	17,840,000	
Less: Accumulated Depreciation	(13,658,000)	(11,317,000)	
Property and Equipment, net	<u>\$ 9,557,000</u>	<u>\$ 6,523,000</u>	

Depreciation expense for the years ended December 31, 2014 and 2013 was approximately \$2,364,000 and \$1,709,000, respectively.

Note 7. INTANGIBLE ASSETS

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

	December 31, 2014	December 31, 2013	
Customer Relationships	\$ 6,255,000	\$ 5,815,000	5 to 14 years
Trade Names	1,280,000	770,000	20 years
Technical Know-how	660,000	660,000	10 years
Non-Compete	50,000	50,000	5 years
Professional Certifications	15,000	15,000	.25 to 2 years
Total Intangible Assets	8,260,000	7,310,000	
Less: Accumulated Amortization	(3,747,000)	(2,584,000)	
Intangible Assets, net	<u>\$ 4,513,000</u>	<u>\$ 4,726,000</u>	

The expense for amortization of the intangibles for both of the years ended December 31, 2014 and 2013 was approximately \$1,163,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future amortization of intangibles is as follows:

For the year ending	Amount
December 31, 2015	\$ 1,228,000
December 31, 2016	1,228,000
December 30, 2017	703,000
December 31, 2018	233,000
December 31, 2019	233,000
Thereafter	888,000
Total	\$ <u>4,513,000</u>

Note 8. 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 Income. The unrecognized portion of the gain in the amount of \$447,000 and \$485,000 as of December 31, 2014 and 2013, 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. 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 13 Commitments and Contingencies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Notes payable and capital lease obligations consist of the following:

	December 31, 2014	December 31, 2013
Revolving credit note payable to PNC Bank N.A. ("PNC")	\$ 17,672,000	\$ 12,029,000
Term loans, PNC	8,363,000	1,948,000
Capital lease obligations	1,645,000	1,787,000
Notes payable to sellers of WMI	41,000	732,000
Junior subordinated notes	-	1,000,000
Subtotal	27,721,000	17,496,000
Less: Current portion of notes and capital obligations	(19,508,000)	(14,969,000)
Notes payable and capital lease obligations, net of current portion	<u>\$ 8,213,000</u>	<u>\$ 2,527,000</u>

PNC Bank N.A. ("PNC")

The Company has a credit facility with PNC (the "Loan Facility") secured by substantially all of its assets. The Loan Facility has been amended many times during its term. The Company entered into the latest amendment to the Loan Facility in December 2014 and paid an amendment fee of \$25,000. The Loan Facility now provides for maximum borrowings of approximately \$32,000,000 consisting of the following at December 31, 2014:

- (i) a \$23,000,000 revolving loan (includes inventory sub-limit of \$15,000,000) and
- (ii) Three term loans (Term Loan A, Term Loan B, and Term Loan C).

Under the terms of the Loan Facility the revolving credit note now bears interest at (a) the sum of the Alternate Base Rate plus three quarters of one percent (0.75%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and one half of one percent (2.50%) with respect to LIBOR Rate Loans. Prior to the amendment the revolving credit note bore interest at the sum of the Alternate Base Rate plus three quarters of one percent (0.75%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and three quarters of one percent (2.75%) with respect to Eurodollar Rate Loans. The revolving credit note had an interest rate of 4.0% and 5.50% per annum at December 31, 2014 and 2013, respectively, and an outstanding balance of \$17,672,000 and \$12,029,000, respectively. The maturity date of the revolving credit note is 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. Cash shown on the balance sheet at any date reflects drawdowns against the revolving credit loan for disbursement checks written that have not yet been presented for payment. 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 repayment terms of Term Loan A were amended in 2014. On April 1, 2014, the Company borrowed an additional \$1,328,000 to partially fund the acquisition of Woodbine. The repayment terms of Term Loan A now consists of thirty-two consecutive monthly principal installments, the first thirty-one of which shall be in the amount of \$31,859 commencing on the first business day of May 2014, and continuing on the first business day of each month thereafter, with a thirty-second and final payment of any unpaid balance of principal and interest on the last business day of November 2016. Term Loans A and B bear interest at (a) the sum of the Alternate Base Rate plus one and three quarters of one percent (1.75%) with respect to Domestic Rate Loans and (b) the sum of the LIBOR Rate plus three percent (3.00%) with respect to LIBOR Rate Loans. At December 31, 2014 and 2013, the balance due under Term Loan A was \$1,073,704 and \$1,948,000, respectively.

On October 1, 2014, the Company borrowed \$3,500,000 under Term Loan B for the acquisition of AMK. The repayment of Term Loan B consists of sixty consecutive monthly principal installments, the first fifty-nine of which shall be in the amount of \$58,333 commencing on the first business day of December 2014, and continuing on the first business day of each month thereafter, with a sixtieth and final payment of any unpaid balance of principal and interest on the last business day of November 2019. Term Loan B bears interest at the same rate as Term Loan A. The first interest payment was on the first business day of November 2014. At December 31, 2014, the balance due under Term Loan B was \$3,441,667.

On December 31, 2014, the Company borrowed \$2,500,000 under Term Loan C to refinance the Seller Note and Mortgage of \$2,500,000 issued as part of the acquisition of AMK. The maturity date of the Term Loan C is the first business day of January 2021, and it is to be paid in seventy two consecutive monthly principal installments, which commence on the first business day of February 2015, and continue on the first business day of each month thereafter. The first seventy-one of the installments shall be in the amount of \$34,722 with a seventy second and final payment of any unpaid principal and interest on the first business day of January 2021. Term Loan C bears interest at (a) the sum of the Alternate Base Rate plus two percent (2.00%) with respect to Domestic Rate Loans and (b) the sum of the LIBOR Rate plus three and one-quarter percent (3.25%) with respect to LIBOR Rate Loans. At December 31, 2014, the balance due under Term Loan C was \$2,500,000.

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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 the amount equal to the net proceeds of such sale.

The terms of the Loan Facility require that, among other things, the Company maintain a specified Fixed Charge Coverage Ratio. In addition, the Company is limited in the amount of Capital Expenditures it can make. The Company is also limited to the amount of Dividends it can pay its shareholders as defined in the Loan Facility. As of both December 31, 2014 and 2013, the Company was in compliance with all terms of the Loan Facility.

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 December 31, 2014 the future minimum principal payments for the term loans are as follows:

<u>For the year ending</u>	<u>Amount</u>
December 31, 2015	\$ 1,464,000
December 31, 2016	3,156,000
December 31, 2017	1,117,000
December 31, 2018	1,117,000
December 31, 2019	1,058,000
Thereafter	451,000
PNC Term Loans payable	8,363,000
Less: Current portion	(1,464,000)
Long-term portion	<u>\$ 6,899,000</u>

Interest expense related to these credit facilities amounted to approximately \$853,000 and \$928,000 for the years ended December 31, 2014 and 2013, respectively.

On March 9, 2015, the Company borrowed \$3,500,000 under Term Loan D for the acquisition of Sterling. The repayment of Term Loan D consists of twenty consecutive monthly principal installments, the first nineteen of which shall be in the amount of \$62,847 commencing on the first business day of April 2015, and continuing on the first business day of each month thereafter, with a twentieth and final payment of any unpaid balance of principal and interest on the last business day of November 2016. Term Loan D bears interest at (a) the sum of the Alternate Base Rate plus two and one quarter percent (2.25%) with respect to Domestic Rate Loans and (b) the sum of the LIBOR Rate plus three and one-half percent (3.5%) with respect to LIBOR Rate Loans.

Capital Leases Payable – Equipment

The Company is committed under several capital leases for manufacturing and computer equipment. All leases have bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled \$1,645,000 and \$1,787,000 as of December 31, 2014 and 2013, respectively, with various interest rates ranging from approximately 4% to 7%.

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As of December 31, 2014, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

For the year ending	Amount
December 31, 2015	\$ 416,000
December 31, 2016	416,000
December 31, 2017	416,000
December 31, 2018	400,000
December 31, 2019	225,000
Thereafter	7,000
Total future minimum lease payments	1,880,000
Less: imputed interest	(235,000)
Less: current portion	(331,000)
Total Long Term Portion	<u>\$ 1,314,000</u>

On July 1, 2013, coincident with the acquisition of Decimal, the Company satisfied approximately \$454,000 of capital leases that had maturities of less than one year remaining. As a result of this satisfaction, PNC now has the first lien on the equipment that was previously leased under the capital leases.

Notes Payable - Sellers

As of December 31, 2014 and 2013, the balance owed to the sellers of Welding is:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Former Welding Stockholders	\$ 41,000	\$ 732,000
Less: Current Portion	(41,000)	(691,000)
Total long-term portion	<u>\$ -</u>	<u>\$ 41,000</u>

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 a 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. Interest shall accrue at the rate of 7% per annum, and each payment will first apply to interest and then to principal. At December 31, 2014 and 2013, the balance owed under the Note was \$41,000 and \$732,000, respectively. On January 5, 2015 the remaining balance of \$41,000 was paid and the obligation was extinguished.

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Interest expense related the Note was \$30,000 and \$76,000 for the years ended December 31, 2014 and 2013, respectively.

Junior Subordinated Notes

In 2008 and 2009, the Company sold in a series of private placements to accredited investors \$5,990,000 of principal amount in Junior Subordinated Notes. The notes bear interest at the rate of 1% per month (or 12% per annum).

In connection with the offering of the Company's Junior Subordinated Notes, the Company issued to Taglich Brothers, Inc. ("Taglich Brothers"), as placement agent, a Junior Subordinated Note in the principal amount of \$510,000. The terms of the note issued to Taglich Brothers are identical to the notes. In connection with the amounts raised in 2009, the Company issued to Taglich Brothers a Junior Subordinated 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 NTW Acquisition, the Company 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, the Company issued 867,461 shares of its Common Stock in exchange for approximately \$5,204,000 of its Junior Subordinated Notes. On July 26, 2012, the Company repaid \$115,000 of its Junior Subordinated Notes along with the accrued interest thereon of approximately \$1,000.

The due dates of the remaining Junior Subordinated Notes were extended from November 18, 2013 to mature on November 30, 2016 and are subordinated to the Company's obligations to PNC. The Junior Subordinated Notes were satisfied in June 2014.

The balance owed on the Junior Subordinated Notes is \$0 and \$1,000,000 at December 31, 2014 and 2013, respectively.

Interest expense on the Junior Subordinated Notes amounted to \$61,000 and \$120,000 for the years ended December 31, 2014 and 2013, respectively.

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Note 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The components of accounts payable at December 31, are detailed as follows:

	December 31, 2014	December 31, 2013
Accounts Payable	\$ 5,636,000	\$ 5,142,000
Accrued Expenses	812,000	793,000
Other Payables	500,000	920,000
	\$ 6,948,000	\$ 6,855,000

Note 11. STOCKHOLDERS' EQUITY

Common Stock Issuances

During the year ended December 31, 2014, the Company issued 26,972 shares of its common stock pursuant to the cashless exercise of Warrants and 17,612 shares of its common stock pursuant to the cashless exercise of Stock Options.

On April 1, 2014, in connection with the acquisition of Woodbine, the Company issued 30,000 shares of its common stock to the former stockholders of Woodbine.

On June 3, 2014, in connection with its Registered Direct Offering (“the Offering”), the Company issued 1,170,000 shares of its common stock. These securities were offered pursuant to the Company’s effective “shelf” registration statement on Form S-3 (File NO. 333-191748), which was declared effective by the Securities and Exchange Commission on December 11, 2013. Taglich Brothers acted as the exclusive placement agent for the Offering (see Note 16). The gross proceeds of the offering were \$10,530,000 comprised of \$9,530,000 in cash and \$1,000,000 in the conversion of our Junior Subordinated Notes (see Note 9). The Company paid to Taglich Brothers a commission of approximately \$842,000 and warrants to purchase up to 46,800 shares of common stock at a per share price of \$11.25. Additionally, the Company paid legal fees on behalf of Taglich Brothers in the amount of \$75,000 and paid a qualified independent underwriter approximately \$50,000 for their services. The Company netted cash of approximately \$8,562,000 from the Offering. A portion of these funds were used to finance the acquisition of Eur-Pac Corporation (see Note 2).

On June 4, 2014, in connection with the acquisition of Eur-Pac, the Company issued 20,000 shares of its common stock to the former stockholders of Eur-Pac.

On October 28, 2013, the Company sold 133,000 shares of its common stock pursuant to a Common Stock Purchase Agreement for \$7.50 a share for gross proceeds of \$997,000.

Dividends

On March 11, 2013, the Board of Directors approved and the Company announced a quarterly dividend of \$0.0625 per common share to be paid on April 1, 2013 to all shareholders of record as of the close of business on March 15, 2013. The approximate amount of the dividend was \$359,000.

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On June 20, 2013, the Board of Directors approved and the Company announced a quarterly dividend of \$0.0625 per common share paid on July 5, 2013 to all shareholders of record as of the close of business on July 1, 2013. The approximate amount of the dividend was \$358,000.

On September 17, 2013, the Board of Directors approved and the Company announced a quarterly dividend of \$0.125 per common share paid on October 15, 2013 to all shareholders of record as of the close of business on September 30, 2013. The approximate amount of the dividend was \$716,000.

On December 30, 2013, the Board of Directors approved and the Company announced a quarterly dividend of \$0.125 per common share paid on January 24, 2014 to all shareholders of record as of the close of business on January 9, 2014. The approximate amount of the dividend was \$717,000.

On March 26, 2014, the Board of Directors approved and the Company announced a quarterly dividend of \$0.15 per common share paid on April 22, 2014 to all shareholders of record as of the close of business on April 15, 2014. The approximate amount of the dividend was \$885,000.

On June 19, 2014, the Board of Directors approved and the Company announced a quarterly dividend of \$0.15 per common share paid on July 10, 2014 to all shareholders of record as of the close of business on June 30, 2014. The approximate amount of the dividend was \$1,064,000.

On October 10, 2014, the Board of Directors approved and the Company announced a quarterly dividend of \$0.15 per common share paid on November 3, 2014 to all shareholders of record as of the close of business on October 20, 2014. The approximate amount of the dividend was \$1,065,000.

On December 19, 2014, the Board of Directors approved and the Company announced a quarterly dividend of \$0.15 per common share paid on January 15, 2015 to all shareholders of record as of the close of business on January 2, 2015. The approximate amount of the dividend was \$1,066,000.

Derivative Liabilities

In connection with the issuances of equity instruments or debt, the Company may issue options or warrants to purchase common stock. In certain circumstances, these options or warrants may be classified as liabilities, rather than as equity. In addition, the equity instrument or debt may contain embedded derivative instruments, such as conversion options or listing requirements, which in certain circumstances may be required to be bifurcated from the associated host instrument and accounted for separately as a derivative liability instrument. The Company accounts for derivative liability instruments under the provisions of FASB ASC 815, "Derivatives and Hedging."

Warrants Issued To Taglich Brothers

As discussed above, the Company issued warrants to Taglich Brothers. Such warrants contain "cashless exercise" provisions. As a result, the value of the warrants has to be recognized as a liability. In addition, the Company would be required to revalue the derivative liability at the end of each reporting period with the change in value reported on the consolidated statement of income. The Company did not account for the derivative liability in its consolidated financial statements as it was determined to not be material.

Note 12. EMPLOYEE BENEFITS PLANS

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

Union

Substantially the entire workforce at AIM is subject to a union contract with the United Service Workers Union TUJAT Local 355, EIN 11-1772919 (the "Union"). The contract expires on December 31, 2015.

Medical benefits for union employees are provided through a policy with Insperity, 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 (defined contribution plan) for the benefit of each union employee. Contributions to the security fund amounted to \$242,000 and \$247,000 for the years ended December 31, 2014 and 2013, respectively.

The Company adopted 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 requires 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. The Union's retirement plan is a defined contribution plan. As such, the Company is not responsible for the obligations of other companies in the Union's retirement plan and no further disclosures are required.

Others

All other Company employees, 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 13. 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 \$2,270,000 and \$1,978,000 for the years ended December 31, 2014 and 2013, respectively. The Company is responsible for paying all operating costs under the terms of the leases. As of December 31, 2014, the aggregate future minimum lease payments are as follows:

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For the year ending	Plant Avenue Annual Rent	Fifth Street Annual Rent	Lamar Street Annual Rent	Motor Parkway Annual Rent	Porter Street Annual Rent	Old Willets Path Annual Rent	Total Rents
December 31, 2015	\$ 633,000	\$ 684,000	\$ 360,000	\$ 117,000	\$ 115,000	\$ 22,000	\$ 1,931,000
December 31, 2016	615,000	704,000	360,000	103,000	115,000	-	1,897,000
December 31, 2017	543,000	725,000	360,000	106,000	115,000	-	1,849,000
December 31, 2018	559,000	747,000	300,000	110,000	115,000	-	1,831,000
December 31, 2019	576,000	769,000	-	113,000	48,000	-	1,506,000
Thereafter	3,865,000	5,832,000	-	219,000	-	-	9,916,000
Total Rents	\$ 6,791,000	\$ 9,461,000	\$ 1,380,000	\$ 768,000	\$ 508,000	\$ 22,000	\$18,930,000

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 consolidated balance sheets.

One of the Company's former subsidiaries was located in the 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 December 31, 2014, the estimated discounted future cost of the Plant Avenue lease that will be charged to expense for the year ending December 31, 2015 will be \$56,000.

On July 1, 2010, the Company entered into a sublease with a third party to rent a portion of the vacant space at the Plant Avenue facility. Under the terms of the sublease, the sub-tenant occupied approximately 17,787 square feet for the months of July 2010 through October 2010. Beginning in November 2010, the sub-tenant occupied approximately 27,787 square feet. The space was being subleased for \$3.00 per square foot, with a discount in the first month of 50%. The sublease was a month-to-month lease and could be terminated by either party with 90 days written notice. This sublease was terminated on June 30, 2013.

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Note 14. INCOME TAXES

The provision for income taxes as at December 31, are set forth below:

	<u>2014</u>	<u>2013</u>
Current		
Federal	\$ 939,000	\$ 1,135,000
State	16,000	339,000
Prior year overaccruals		
Federal	10,000	(185,000)
State	(290,000)	(223,000)
Total Expense	675,000	1,066,000
Deferred Tax Benefit	(1,043,000)	(1,236,000)
Net Benefit from Income Taxes	\$ (368,000)	\$ (170,000)

The following is a reconciliation of our income tax rate computed using the federal statutory rate to our actual income tax rate as of December 31,

	<u>2014</u>	<u>2013</u>
Federal Tax Rate	34%	34%
Effect of State Taxes	6%	6%
State Franchise Taxes	4%	1%
Permanent Differences	-12%	-3%
Prior Year Over Accrual and Others	-155%	-8%
Change in Valuation Allowance	0%	-35%
Total	-123%	-5%

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Deferred tax assets:		
Current:		
Bad debts	\$ 650,000	\$ 313,000
Inventory - 263A adjustment	762,000	729,000
Account payable, accrued expenses and reserves	9,000	9,000
Total current deferred tax asset before valuation allowance	1,421,000	1,051,000
Valuation Allowance	-	-
Total current deferred tax asset after valuation allowance	\$ 1,421,000	\$ 1,051,000
Non-Current		
Capital loss carry forwards	\$ 1,088,000	\$ 1,088,000
Section 1231 loss carry forward	4,000	4,000
Stock based compensation - options and restricted stock	527,000	521,000
Capitalized engineering costs	522,000	503,000
Deferred rent	483,000	453,000
Amortization - NTW Transaction	663,000	475,000
Lease impairment	22,000	51,000
Deferred gain on sale of real estate	179,000	194,000
Total deferred tax assets before valuation allowance	3,488,000	3,289,000
Valuation allowance	(1,092,000)	(1,092,000)
Total deferred tax assets after valuation allowance	\$ 2,396,000	\$ 2,197,000
Deferred tax liabilities:		
Property and equipment	\$ (1,082,000)	\$ (1,497,000)
Goodwill - NTW Transaction	(11,000)	(7,000)
Goodwill - AMK Transaction	(4,000)	-
Amortization - Welding Transaction	(441,000)	(508,000)
Total Deferred Tax Liability	(1,538,000)	(2,012,000)
Net deferred tax asset	<u>\$ 858,000</u>	<u>\$ 185,000</u>

During 2013, the Company determined that it no longer needed to provide a valuation allowance on the net deferred tax assets except for the capital loss and section 1231 loss carryforwards. This was based upon the fact that management believes that the net deferred tax assets are more likely than not to be realized. The valuation allowance at December 31, 2014 and 2013 amounted to \$1,092,000.

The Company has a capital loss carry forward from the sale of Sigma Metals, Inc., a former subsidiary of the Company, of \$2,719,000 which will expire in fiscal 2015.

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At December 31, 2014 and 2013, 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 interest expense. As of December 31, 2014 and 2013, 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 federal and state income tax returns in jurisdictions with varying statutes of limitations. The 2011 through 2014 tax years generally remain subject to examination by federal and state tax authorities.

Note 15. STOCK OPTIONS AND WARRANTS

Stock-Based Compensation

On June 3, 2013, the Company's Board of Directors adopted and on July 29, 2013, the Company's stockholders approved the 2013 Equity Incentive Plan (the "2013 Plan"). The 2013 Plan is virtually identical to and replaced the 2010 Equity Incentive Plan which was adopted in July 2010. The Company reserved 600,000 shares of its Common Stock for various issuances. The 2013 Plan permits the Company to grant non-qualified and incentive stock options to employees, directors, and consultants.

During the years ended December 31, 2014 and 2013, the Board of Directors approved the issuance of 24,000 and 13,500 options, respectively, to the non-employee members of the Company's Board of Directors. These options vested immediately.

On December 1, 2014, the Board of Directors approved the issuance of 120,000 options to the Company's chief executive officer. These options vest ratably over three years.

On October 1, 2013, the Board of Directors approved the issuance of 99,747 options to certain management employees. These options vest ratably over three years.

The Company recorded expenses of \$42,000 and \$38,000 in its consolidated statement of income for the years ended December 31, 2014 and 2013, respectively, and such amounts were included as a component of general and administrative expense.

The fair values of stock options granted were estimated using the Black-Sholes option-pricing model with the following assumptions for the years ended December 31:

	2014	2013
Risk-free interest rates	1.55% - 1.68%	0.71% - 1.75%
Expected life (in years)	5 - 7	5
Expected volatility	25%	25%
Dividend yield	5.6% - 6.1%	5.6%
Weighted-average grant date fair value per share	\$1.10	\$0.83

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The expected life is the number of years that the Company estimates, based upon history, that the 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. The Company did not use the volatility rate for its common stock as the Company determined that its common stock is thinly traded.

A summary of the status of the Company's stock options as of December 31, 2014, and changes during the two years then ended are presented below.

	Options	Wtd. Avg. Exercise Price
Balance, December 31, 2012	327,338	\$ 9.97
Granted during the period	113,247	6.85
Exercised during the period	(18,253)	4.50
Terminated/Expired during the period	-	-
Balance, December 31, 2013	422,332	9.34
Granted during the period	144,000	10.13
Exercised during the period	(33,133)	4.74
Terminated/Expired during the period	(4,660)	81.72
Balance, December 31, 2014	528,539	\$ 8.98
Exercisable at December 31, 2014	<u>396,627</u>	<u>\$ 9.28</u>

The following table summarizes information about stock options at December 31, 2014:

Range of Exercise Prices	Remaining Number Outstanding	Wtd. Avg. Life	Wtd. Avg. Exercise Price
\$ 0.00 - \$5.00	246,168	.8 years	\$ 4.39
\$ 5.01 - \$90.00	272,831	5.9 years	8.88
\$ 90.01 - \$100.00	3,000	.8 years	90.00
\$ 100.01 - \$110.00	-	-	-
\$ 110.01 - \$170.00	3,216	.3 years	122.78
\$ 170.01 - \$200.00	3,325	.7 years	179.16
	528,539	3.4 years	\$ 8.98

As of December 31, 2014, there was \$175,000 of unrecognized compensation cost related to non-vested stock option awards, which is to be recognized over the remaining weighted average vesting period of three years.

The aggregate intrinsic value at December 31, 2014 was based on the Company's closing stock price of \$10.52 was \$2,177,000. 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. The total number of in-the-money options exercisable as of December 31, 2014 was 531,401.

The weighted average fair value of options granted during the years ended December 31, 2014 and 2013 was \$1.10 and \$0.83 per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2014 and 2013 was \$178,191 and \$61,350, respectively. The total fair value of shares vested during the years ended December 31, 2014 and 2013 was \$51,828 and \$19,806, respectively.

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Warrants

The following tables summarize the Company's outstanding warrants as of December 31, 2014 and changes during the two years then ended:

	Warrants	Wtd. Avg. Exercise Price
Balance, December 31, 2012	118,835	\$ 6.38
Granted during the period	-	-
Exercised during the period	-	-
Terminated/Expired during the period	(250)	43.60
Balance, December 31, 2013	118,585	6.30
Granted during the period	56,800	10.80
Exercised during the period	(10,800)	6.30
Terminated/Expired during the period	-	-
Balance, December 31, 2014	164,585	\$ 7.85
Exercisable at December 31, 2014	<u>164,585</u>	<u>\$ 7.85</u>

The following table summarizes information about warrants at December 31, 2014:

Exercise Price	Warrants	Wtd. Avg. Life	Wtd. Avg. Exercise Price
\$6.30	107,785	2.5 years	\$6.30
\$8.72 - \$11.25	56,800	4.4 years	\$10.80
\$6.30 - \$11.25	164,585	3.2 years	\$7.85

Note 16. RELATED PARTY TRANSACTIONS

Taglich Brothers is a corporation co-founded by two of the directors of the Company. In addition, a third director of the Company is a vice president of Taglich Brothers.

On January 1, 2014, we entered into a Capital Market Advisory Agreement with Taglich Brothers pursuant to which Taglich Brothers provides us, on a non-exclusive basis, business advisory services for a monthly fee of \$7,000, a warrant to purchase 10,000 shares of our common stock at an exercise price of \$8.72 per share, vesting quarterly over a one-year period and any reasonable out of pocket expenses.

As discussed above, in connection with our public offering of 1,170,000 shares of common stock completed on June 3, 2014, we paid Taglich Brothers, which acted as placement agent for the offering, \$842,400, representing 8% of the gross proceeds of the offering as a sales commission, plus an additional \$75,000 in reimbursement of expenses, including counsel fees. In addition, we granted Taglich Brothers placement agent warrants to purchase 46,800 shares of common stock, representing 4% of the shares sold in the offering as additional compensation. The Warrants are exercisable for cash or on a cashless basis at a per share exercise price equal to \$11.25, commencing May 29, 2015 and expiring May 28, 2019.

Note 17. SEGMENT REPORTING

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

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

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company currently divides its operations into three operating segments: Complex Machining which consists of AIM and NTW; Aerostructures and Electronics which consists of WMI, WPI, MSI, Eur-Pac and ECC; and beginning in 2014, Turbine Engine Components which includes AMK and beginning March 2015 will include Sterling. Along with our operating subsidiaries, we report the results of our corporate division as an independent segment.

The accounting policies of each of the segments are the same as those described in the Summary of Significant Accounting Policies. The Company evaluates 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.

		Year Ended December 31,	
		2014	2013
COMPLEX MACHINING			
	Net Sales	\$ 44,220,000	\$ 49,203,000
	Gross Profit	8,691,000	11,753,000
	Pre Tax Income	1,074,000	4,273,000
	Assets	60,409,000	33,207,000
AEROSTRUCTURES AND ELECTRONICS			
	Net Sales	18,273,000	13,630,000
	Gross Profit	4,812,000	3,482,000
	Pre Tax Loss	(554,000)	(203,000)
	Assets	21,386,000	11,619,000
TURBINE ENGINE COMPONENTS			
	Net Sales	1,838,000	-
	Gross Profit	595,000	-
	Pre Tax Income	142,000	-
	Assets	8,150,000	-
CORPORATE			
	Net Sales	-	-
	Gross Profit	-	-
	Pre Tax Loss	(363,000)	(501,000)
	Assets	20,066,000	9,647,000
CONSOLIDATED			
	Net Sales	64,331,000	62,833,000
	Gross Profit	14,098,000	15,235,000
	Pre Tax Income	299,000	3,569,000
	Provision for Taxes	(368,000)	(170,000)
	Net Income	667,000	3,739,000
	Elimination of Assets	(44,091,000)	(4,301,000)
	Assets	\$ 65,920,000	\$ 50,172,000

**AMENDED AND RESTATED BYLAWS
OF
AIR INDUSTRIES GROUP
(A Nevada corporation)**

**ARTICLE I
STOCKHOLDERS**

Section 1.1. *Annual Meetings.* If required by applicable law or under the rules or regulations of any securities exchange or inter-dealer quotation service upon or through which the securities of the Corporation are listed or quoted (a "Listing Body"), an annual meeting of stockholders shall be held each year at such date, time and place, as may be designated by the board of directors (the "Board of Directors") from time to time. At such meeting, the holders of the Corporation's voting securities entitled to vote thereon shall elect the Board of Directors and shall transact such other business as may be brought properly before the meeting.

Section 1.2. *Special Meetings.*

1.2.1. Special meetings of stockholders entitled to vote at such meeting may be called at any time by the Chairman of the Board of Directors, the President (if he is also a member of the Board of Directors) or the Board of Directors, to be held at such date, time and place as may be determined by such person or persons calling the meeting and stated in the notice of the meeting. A special meeting shall be called by the President or the Secretary upon one or more written demands (which shall state the purpose or purposes therefore) signed and dated by the holders of shares representing not less than ten percent of all votes entitled to be cast on any issue(s) that may be properly proposed to be considered at the special meeting. If no place is designated in the notice, the place of the meeting shall be the principal office of the Corporation.

1.2.2. Business transacted at any special meeting of stockholders shall be limited to the purpose or purposes stated in the notice of such meeting.

Section 1.3. *Notice of Meetings.* Whenever stockholders are required or permitted to take any action at a meeting, a notice of the meeting stating the place, if any, date and hour of the meeting, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting. Unless otherwise provided by law, the Articles of Incorporation or these Bylaws, the notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. Notice may be given by any means permitted by law. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation.

Section 1.4. *Adjournments.* Any meeting of stockholders, annual or special, may be adjourned from time to time, to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time, place thereof, if any, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 1.5. *Quorum.* At each meeting of stockholders, except where otherwise provided by law or the Articles of Incorporation or these Bylaws, the holders of a majority in voting power of the outstanding shares of stock entitled to vote on a matter at the meeting, present in person or represented by proxy, shall constitute a quorum. Shares entitled to vote as a separate class or series may take action on a matter at a meeting only if a quorum of those shares is present. For purposes of the foregoing, where a separate vote by class or classes or a series or multiple series is required for any matter, unless stated elsewhere the holders of a majority in voting power of the outstanding shares of such class or classes or a series or multiple series, present in person or represented by proxy, shall constitute a quorum to take action with respect to that vote on that matter. In the absence of a quorum of the holders of any class or series of stock entitled to vote on a matter, the holders of such class or series so present or represented may, by majority vote, adjourn the meeting of such class or series with respect to that matter from time to time in the manner provided by Section 1.4 of these Bylaws until a quorum of such class or series shall be so present or represented. Shares of its own capital stock belonging on the record date for a meeting to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation or any subsidiary of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

Section 1.6. *Organization.*

1.6.1. The chairman of the annual or any special meeting of the stockholders shall be the Chairman of the Board of Directors, or in the absence of the Chairman, any person designated by the Board of Directors. The Secretary, or in the absence of the Secretary, an Assistant Secretary, shall act as the secretary of the meeting, but in the absence of the Secretary and any Assistant Secretary, the chairman of the meeting may appoint any person to act as secretary of the meeting.

1.6.2. The order of business at each such meeting shall be as determined by the chairman of the meeting. The chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the adjournment of any meeting, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof and the opening and closing of the voting polls. The chairman of the meeting shall have absolute authority over matters of procedure and there shall be no appeal from a ruling of the chairman.

1.6.3. If disorder shall arise that prevents continuation of the legitimate business of the meeting, the chairman may announce the adjournment of the meeting and quit the chair and upon the chairman so doing the meeting is immediately adjourned.

1.6.4. The chairman may ask or require that anyone who is not a bona fide stockholder or proxyholder leave the meeting.

Section 1.7. *Inspectors.* Prior to any meeting of stockholders, the Board of Directors may, and shall if required by law, appoint one or more inspectors to act at such meeting and make a written report thereof and may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at the meeting of stockholders, the person presiding at the meeting may, and shall if required by law, appoint one or more inspectors to act at the meeting. The inspectors need not be stockholders of the Corporation, and any director or officer of the Corporation may be an inspector on any matter other than a vote for or against such director's or officer's election to any position with the Corporation or on any other matter in which such officer or director may be directly interested. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall ascertain the number of shares outstanding and the voting power of each, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots, determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors and certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons to assist them in the performance of their duties. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxy or vote, nor any revocation thereof or change thereto, shall be accepted by the inspectors after the closing of the polls. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the Corporation, the inspectors may consider such information as is permitted by applicable law.

Section 1.8. *Voting; Proxies.*

1.8.1. Unless otherwise provided in the Articles of Incorporation, or any certificate of designation authorizing the issuance of any series or class of capital stock of the Corporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after six months from its date, unless coupled with an interest or unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation. Voting at meetings of stockholders need not be by written ballot unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or represented by proxy at such meeting shall so determine. Except where applicable law, the rules or regulations of a Listing Body, the Articles of Incorporation or these Bylaws require a different vote, if a quorum exists, action on a matter other than the election of directors is approved if the votes cast favoring the action exceed the votes cast opposing the action. In an election of directors, a plurality of the votes of the shares present in person or represented by proxy at a meeting and entitled to vote for directors is required in order to elect a director. For purposes of these Bylaws, "votes cast" shall mean all votes cast in favor of and against a particular proposal or matter, but shall not include "abstentions or broker non-votes."

1.8.2. The voting rights of shares of Common Stock shall only be as required by applicable law or the Articles of Incorporation.

Section 1.9 Notice of Stockholder Business and Nominations. Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) by or at the direction of the Chairman of the Board or the Board of Directors pursuant to a resolution adopted by a majority of the whole Board or (ii) by any stockholder of the Corporation that is entitled to vote at the meeting with respect to the election of directors or the business to be proposed by such stockholder, as the case may be, who complies with the notice procedures set forth below and that is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation as provided below.

For nominations or other business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such business must be a proper subject for stockholder action under applicable law. To be timely, a stockholder's notice shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not less than 75 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days, or delayed by more than 60 days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of the seventy-fifth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (A) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and a beneficial owner on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

Notwithstanding anything in the second sentence of the preceding paragraph to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least 80 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by the preceding paragraph also shall be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation. For purposes of this Section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act.

Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (i) by or at the direction of the Chairman of the Board or the Board of Directors pursuant to a resolution adopted by a majority of the whole Board or (ii) by any stockholder of the Corporation that is entitled to vote at the meeting with respect to the election of directors, that complies with the notice procedures set forth in the second paragraph of this Section and that is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation as provided below. Nominations by stockholders of persons for election to the Board of Directors may be made at a special meeting of stockholders if the stockholder's notice as required by the preceding paragraph shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not earlier than the ninetieth day prior to the special meeting and not later than the close of business on the later of the sixtieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

Only persons who are nominated in accordance with the procedures set forth in this Section shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section.

Except as otherwise provided by law, the Articles of Incorporation or this Section, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section and, if any proposed nomination or business is not in compliance with this Section, to declare that such defective nomination or proposal shall be disregarded.

Notwithstanding the foregoing provisions of this Section, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section. Nothing in this Section shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy materials with respect to a meeting of stockholders pursuant to Rule 14a-8 under Exchange Act or (ii) of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Articles of Incorporation to elect directors under specified circumstances or to consent to specific actions taken by the Corporation.

Section 1.10. *Fixing Date for Determination of Stockholders of Record.*

1.10.1. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

1.10.2. In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Nevada, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

1.10.3. In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 1.11. *Consent of Stockholders in Lieu of Meeting Prohibited.* Any action required or permitted to be taken at any annual or special meeting of the stockholders may not be taken by written consent in lieu of a meeting.

Section 1.12. *Meeting by Remote Communication.* If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication: (a) participate in a meeting of stockholders; and (b) be deemed present in person and vote at a meeting of stockholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the Corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

Section 1.13 *Liability of Stockholder for Unsuccessful Litigation Against the Corporation, a Director, Officer, Employee or Affiliate of the Corporation.*

(a) To the fullest extent permitted by law, in the event that (i) any current or prior stockholder or anyone on their behalf ("Claiming Party") initiates or asserts any claim or counterclaim ("Claim") or joins, offers substantial assistance to, or has a direct financial interest in any Claim against the Corporation and/or any Director, Officer, Employee or Affiliate (together, the "Corporation Parties"), and (ii) the Claiming Party (or the third party that received substantial assistance from the Claiming Party or in whose Claim the Claiming Party had a direct financial interest) does not obtain a judgment on the merits that substantially achieves, in substance and amount, the full remedy sought, then each Claiming Party shall be obligated jointly and severally to reimburse the Corporation Parties the greatest amount permitted by law for all fees, costs and expenses of every kind and description (including but not limited to, all reasonable attorney's fees and other litigation expenses) (collectively, "Litigation Costs") that the Corporation Parties may incur in connection with such Claim.

(b) To the fullest extent permitted by law, in the event that any Claiming Party initiates or asserts any Claim or joins, offers substantial assistance to, or has a direct financial interest in any Claim against any Corporation Parties, then, regardless whether the Claiming Party is successful on its Claim in whole or in part, (i) the Claiming Party shall bear its own Litigation Costs, and (ii) the Claiming Party and the Claiming Party's attorneys shall not be entitled to recover any Litigation Costs or, in a derivative or class action, to receive any fees or expenses as the result of the creation of any common fund, or from a corporate benefit purportedly conferred upon the Corporation.

ARTICLE II BOARD OF DIRECTORS

Section 2.1. *Powers; Number; Qualifications.* The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the Articles of Incorporation. The Board of Directors shall consist of not less than one member, the number thereof to be determined from time to time by resolution of the Board of Directors. Directors must be natural persons at least eighteen years of age but need not be stockholders of the Corporation.

Section 2.2. *Election; Term of Office; Resignation; Removal; Newly Created Directorships; Vacancies; Director Emeritus.*

2.2.1. *Election; Term of Office.* The Board of Directors shall be elected at each annual meeting of stockholders by the holders of the shares of the Corporation entitled to vote thereon. Each director shall hold office until the next annual meeting of stockholders, and until the director's successor is elected and qualified or until the director's prior death, resignation, removal or disqualification.

2.2.2. *Resignation.* Any director may resign at any time upon written notice to the Board of Directors or to the President or the Secretary of the Corporation. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof by the Board of Directors or such officer, and the acceptance of such resignation shall not be necessary to make it effective.

2.2.3. *Removal.* Except as otherwise provided by law, any director may be removed, with or without cause, at any time by the affirmative vote of stockholders holding of record in the aggregate at least two-thirds of the outstanding shares of stock of the Corporation. A vacancy on the Board of Directors caused by any such removal may be filled by a majority of the remaining directors at any time before the end of the unexpired term.

2.2.4. *Newly Created Directorships; Vacancies.* Unless otherwise provided in the Articles of Incorporation or these Bylaws, newly created directorships resulting from any increase in the authorized number of directors between annual meetings shall be filled by the affirmative vote of a majority of the members of the Board of Directors even if the remaining directors constitute less than a quorum. A director elected to fill a vacancy shall be elected for the unexpired term of such director's predecessor in office.

Section 2.3. *Annual and Regular Meetings.* The Board of Directors shall hold its annual meeting without notice on the same day and the same place as, but just following, the annual meeting of stockholders, or at such other date, time and place as may be determined by the Board of Directors. Regular meetings of the Board of Directors shall be held without notice at such dates, times and places as may be determined by the Board of Directors by resolution.

Section 2.4. *Special Meetings; Notice.*

2.4.1. Special meetings of the Board of Directors may be held, with proper notice, upon the call of the Chairman of the Board of Directors or by a majority of the Board of Directors, at such time and place as specified in the notice.

2.4.2. Notice of the date, time and place of each special meeting of the Board of Directors shall be given to each director at least 24 hours prior to such meeting. The notice of a special meeting of the Board of Directors need not state the purposes of the meeting. Notice to each director of any special meeting may be given in person; by telephone, electronically transmitted facsimile, electronic mail or other means of wire or electronic transmission; or by mail or private carrier. Oral notice to a director of any special meeting is effective when communicated. Written notice to a director of any special meeting is effective at the earliest of: (i) the date received; (ii) five days after it is mailed; (iii) the date shown on the return receipt if mailed by registered or certified mail, return receipt requested, if the return receipt is signed by or on behalf of the director to whom the notice is addressed; (iv) or two business days after delivery by a nationally recognized carrier.

Section 2.5. *Participation in Meetings by Conference Telephone Permitted.* Directors or members of any committee designated by the Board of Directors may participate in a meeting of the Board of Directors or of such committee, as the case may be, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Bylaw shall constitute presence in person at such meeting.

Section 2.6. *Quorum; Vote Required for Action.* At all meetings of the Board of Directors a majority of the directors then in office shall constitute a quorum for the transaction of business at such meeting. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. In case at any meeting of the Board of Directors a quorum shall not be present, a majority of the directors present may, without notice other than announcement at the meeting, adjourn the meeting from time to time until a quorum can be obtained.

Section 2.7. *Organization.* The Board of Directors shall elect a Chairman of the Board of Directors from among its members. If the Board of Directors deems it necessary, it may elect a Vice-Chairman of the Board of Directors from among its members to perform the duties of the Chairman of the Board of Directors in such chairman's absence and such other duties as the Board of Directors may assign. The Chairman of the Board of Directors or, in his absence, the Vice-Chairman of the Board of Directors, or in his absence, any director chosen by a majority of the directors present, shall act as chairperson of the meetings of the Board of Directors. The Secretary, any Assistant Secretary, or any other person appointed by the chairperson shall act as secretary of each meeting of the Board of Directors.

Section 2.8. *Action by Directors Without a Meeting.* Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission are filed with the minutes of proceedings of the Board of Directors or committee. Such filings shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 2.9. *Compensation of Directors.* The Board of Directors shall determine and fix the compensation, if any, and the reimbursement of expenses which shall be allowed and paid to the directors. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity or any of its subsidiaries in any other capacity and receiving proper compensation therefore.

Section 2.10. *Committees.* The Board of Directors may, by a vote of the majority of the directors then in office, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent permitted by law and provided in the resolution of the Board of Directors or in these Bylaws, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation.

Section 2.11. *Committee Rules.* Unless the Board of Directors otherwise provides, each committee designated by the Board of Directors may adopt, amend and repeal rules for the conduct of its business. In the absence of a provision by the Board of Directors or a provision in the rules of such committee to the contrary, a majority of the entire authorized number of members of such committee shall constitute a quorum for the transaction of business, the vote of a majority of the members present at a meeting at the time of such vote if a quorum is then present shall be the act of such committee, and in other respects each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article II of these Bylaws. Each committee shall prepare minutes of its meetings which shall be delivered to the Secretary of the Corporation for inclusion in the Corporation's records.

ARTICLE III
OFFICERS

Section 3.1. *Officers; Election.* The Board of Directors shall, annually or at such times as the Board of Directors may designate, appoint a President, a Secretary and a Treasurer, and elect from among its members a Chairman. The Board of Directors may also appoint one or more Vice Presidents, one or more Assistant Vice Presidents, one or more Assistant Secretaries, and one or more Assistant Treasurers and such other officers as the Board of Directors may deem desirable or appropriate and may give any of them such further designations or alternate titles as it considers desirable. The Board of Directors may delegate, by specific resolution, to an officer the power to appoint other specified officers or assistant officers. Any number of offices may be held by the same person. Each officer shall be a natural person who is eighteen years of age or older.

Section 3.2. *Term of Office; Resignation; Removal; Vacancies.* Unless otherwise provided in the resolution of the Board of Directors appointing any officer, each officer shall hold office until the next annual meeting of the Board of Directors at which such officer's successor is appointed and qualified or until such officer's earlier death, resignation or removal. Any officer may resign at any time upon notice given in writing or by electronic transmission to the Corporation. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The Board of Directors may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the appointment of an officer shall not of itself create contractual rights. The Board of Directors may also delegate to an officer the power to remove other specified officers or assistant officers. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled by the Board of Directors. An officer appointed to fill a vacancy shall serve for the unexpired term of such officer's predecessor, or until such officer's earlier death, resignation or removal.

Section 3.3. *Temporary Delegation of Duties.* In the case of the absence of any officer, or his inability to perform his duties, or for any other reason deemed sufficient by the Board of Directors, the Board of Directors may delegate the powers and duties of such officer to any other officer or to any director temporarily, provided that a majority of the directors then in office concur and that no such delegation shall result in giving to the same person conflicting duties.

Section 3.4. *Chairman.* The Chairman of the Board of Directors shall preside at all meetings of the Board of Directors and of the stockholders at which he or she shall be present and shall have and may exercise such powers as may, from time to time, be assigned to him or her by the Board of Directors or as may be provided by law.

Section 3.5. *Chief Executive Officer.* The Chief Executive Officer (the "CEO"), if one is appointed by the Board of Directors, shall perform all duties customarily delegated to the chief executive officer of a corporation and such other duties as may from time to time be assigned to the CEO by the Board of Directors and these Bylaws.

Section 3.6. *President.* If there is no separate CEO, the President shall be the CEO of the Corporation; otherwise, the President shall be responsible to the CEO for the day-to-day operations of the Corporation. The President shall have general and active management of the business of the Corporation; shall see that all orders and resolutions of the Board of Directors are carried into effect; and shall perform all duties as may from time to time be assigned by the Board of Directors or the CEO.

Section 3.7. *Vice Presidents.* The Vice President or Vice Presidents shall have such powers and shall perform such duties as may, from time to time, be assigned to him or her or them by the Board of Directors, the CEO or the President or as may be provided by law.

Section 3.8. *Secretary.* The Secretary shall have the duty to record the proceedings of the meetings of the stockholders, the Board of Directors and any committees thereof in a book to be kept for that purpose, shall authenticate records of the Corporation, shall see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law, shall be custodian of the records of the Corporation, may affix the corporate seal to any document the execution of which, on behalf of the Corporation, is duly authorized, and when so affixed may attest the same, and, in general, shall perform all duties incident to the office of secretary of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board of Directors, the CEO or the President or as may be provided by law.

Section 3.9. *Treasurer.* The Treasurer shall have charge of and be responsible for all funds, securities, receipts and disbursements of the Corporation and shall deposit or cause to be deposited, in the name of the Corporation, all moneys or other valuable effects in such banks, trust companies or other depositories as shall, from time to time, be selected by or under authority of the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his or her duties, with such surety or sureties as the Board of Directors may determine. The Treasurer shall keep or cause to be kept full and accurate records of all receipts and disbursements in books of the Corporation, shall maintain books of account and records and exhibit such books of account and records to any of the directors of the Corporation at any reasonable time, shall receive and give receipts for monies due and payable to the Corporation from any source whatsoever, shall render to the CEO, the President and to the Board of Directors, whenever requested, an account of the financial condition of the Corporation, and, if called to do so, make a full financial report at the annual meeting of the stockholders, and, in general, shall perform all the duties incident to the office of treasurer of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board of Directors, the CEO or the President or as may be provided by law.

Section 3.10. *Assistant Secretaries and Assistant Treasurers.* The Assistant Secretaries and Assistant Treasurers, if any, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the President, the CEO or the Board of Directors. In the absence or at the request of the Secretary or the Treasurer, the Assistant Secretaries or Assistant Treasurers, respectively, shall perform the duties and exercise the powers of the Secretary or Treasurer, as the case may be.

Section 3.11. *Other Officers.* The other officers, if any, of the Corporation shall have such powers and duties in the management of the Corporation as shall be stated in a resolution of the Board of Directors which is not inconsistent with these Bylaws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the Board of Directors.

Section 3.12. *Compensation.* The salaries and other compensation of the officers shall be fixed or authorized from time to time by the Board of Directors. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director of the Corporation.

ARTICLE IV STOCK

Section 4.1. *Stock Certificates and Uncertificated Shares.* The shares of stock in the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the Corporation's stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate theretofore issued until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates, and upon request every holder of uncertificated shares, shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman of the Board of Directors, if any, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Corporation, representing the number of shares of stock registered in certificate form owned by such holder. Any and all the signatures on the certificate may be by a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 4.2. *Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates.* The Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond in such form and amount (not exceeding twice the value of the stock represented by such certificate) and with such surety and sureties as the Secretary may require in order to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

Section 4.3. *Transfer of Stock.* Subject to any transfer restrictions set forth or referred to on the stock certificate or of which the Corporation otherwise has notice, shares of the Corporation shall be transferable on the books of the Corporation upon presentation to the Corporation or to the Corporation's transfer agent of a stock certificate signed by, or accompanied by an executed assignment form, from the holder of record thereof, his duly authorized legal representative, or other appropriate person as permitted by Chapter 78 of the Nevada Revised Statutes or other applicable law. The Corporation may require that any transfer of shares be accompanied by proper evidence reasonably satisfactory to the Corporation or to the Corporation's transfer agent that such endorsement is genuine and effective. Upon presentation of shares for transfer as provided above, the payment of all taxes, if any, therefor, and the satisfaction of any other requirement of law, including inquiry into and discharge of any adverse claims of which the Corporation has notice, the Corporation shall issue a new certificate to the person entitled thereto and cancel the old certificate. Every transfer of stock shall be entered on the stock books of the Corporation to accurately reflect the record ownership of each share. The Board of Directors may make such additional rules and regulations as it may deem expedient concerning the issue, transfer, and registration of certificates for shares of the capital stock of the Corporation.

Section 4.4. *Preferred Stock.* Shares of preferred stock shall be issued by the Corporation only after filing a certificate of designation as described in the Corporation's Articles of Incorporation with the Nevada Secretary of State and satisfying all other requirements of the Articles of Incorporation and Chapter 78 of the Nevada Revised Statutes with respect thereto.

Section 4.5. *Holder of Record.* The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, except as may be required by the laws of Nevada.

ARTICLE V
EXECUTION OF INSTRUMENTS; CHECKS AND ENDORSEMENTS; DEPOSITS; ETC.

Section 5.1. *Execution of Instruments.* Except as otherwise provided by the Board of Directors, the Chairman, the CEO, the President, any Vice President, the Treasurer or the Secretary shall have the power to execute and deliver on behalf of and in the name of the Corporation any instrument requiring the signature of an officer of the Corporation. Unless authorized to do so by these Bylaws or by the Board of Directors, no assistant officer, agent or employee shall have any power or authority to bind the Corporation in any way, to pledge its credit or to render it liable pecuniarily for any purpose or in any amount.

Section 5.2. *Checks and Endorsements.* All checks, drafts or other orders for the payment of money, obligations, notes or other evidences of indebtedness issued in the name of the Corporation and other such instruments shall be signed or endorsed for the Corporation by such officers or agents of the Corporation as shall from time to time be determined by resolution of the Board of Directors, which resolution may provide for the use of facsimile signatures.

Section 5.3. *Deposits.* All funds of the Corporation not otherwise employed shall be deposited from time to time to the Corporation's credit in such banks or other depositories as shall from time to time be determined by resolution of the Board of Directors, which resolution may specify the officers or agents of the Corporation who shall have the power, and the manner in which such power shall be exercised, to make such deposits and to endorse, assign and deliver for collection and deposit checks, drafts and other orders for the payment of money payable to the Corporation or its order.

Section 5.4. *Voting of Securities and Other Entities.* Unless otherwise provided by resolution of the Board of Directors, the Chairman, Chief Executive Officer, or the President, or any officer designated in writing by any of them, is authorized to attend in person, or may execute written instruments appointing a proxy or proxies to represent the Corporation, at all meetings of any corporation, partnership, limited liability company, association, joint venture, or other entity in which the Corporation holds any securities or other interests and may execute written waivers of notice with respect to any such meetings. At all such meetings, any of the foregoing officers, in person or by proxy as aforesaid and subject to the instructions, if any, of the Board of Directors, may vote the securities or interests so held by the Corporation, may execute any other instruments with respect to such securities or interests, and may exercise any and all rights and powers incident to the ownership of said securities or interests. Any of the foregoing officers may execute one or more written consents to action taken in lieu of a formal meeting of such corporation, partnership, limited liability company, association, joint venture, or other entity.

ARTICLE VI MISCELLANEOUS

Section 6.1. *Fiscal Year.* The fiscal year of the Corporation shall be determined by the Board of Directors.

Section 6.2. *Seal.* The Corporation may have a corporate seal in such form as may be approved from time to time by the Board of Directors. The corporate seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced. The impression of the seal may be made and attested by either the Secretary or any Assistant Secretary for the authentication of contracts or other papers requiring the seal.

Section 6.3. *Waiver of Notice of Meetings of Stockholders, Directors and Committees.* Whenever notice is required to be given by law or under any provision of the Articles of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except (i) in the case when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and (ii) in the case when the person attends the meeting for the purpose of objecting to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the notice of the meeting, the person objects to considering the matter when it is presented. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Articles of Incorporation or these Bylaws.

Section 6.4. *Dividends and Other Distributions.* Subject to the provisions of Chapter 78 of the Nevada Revised Statutes, dividends and other distributions may be declared by the Board of Directors in such form, frequency and amounts as the condition of the affairs of the Corporation shall render advisable.

Section 6.5. *Form of Records.* Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be kept on, or by means of, or be in the form of, any information storage device or method, provided that the records so kept can be converted into clearly legible paper form within a reasonable time.

Section 6.6. *Record of Stockholders.* The Secretary shall maintain, or shall cause to be maintained, a record of the names and addresses of the Corporation's stockholders, in a form that permits preparation of a list of stockholders that is arranged by class of stock entitled to vote and, within each such class, by series of shares, that is alphabetical within each class or series, and that shows the address of, and the number of shares of each class or series held by, each stockholder.

Section 6.7. *Addresses of Stockholders.* Each stockholder shall furnish to the Secretary of the Corporation or the Corporation's transfer agent an address to which notices from the Corporation, including notices of meetings, may be directed and if any stockholder shall fail so to designate such an address, it shall be sufficient for any such notice to be directed to such stockholder at such stockholder's address last known to the Secretary or transfer agent.

Section 6.8. *Amendment of Bylaws.* The Board of Directors shall have the power to adopt, amend or repeal, from time to time, these Bylaws. The holders of shares of the capital stock of the Corporation entitled to vote thereon also may adopt additional Bylaws and may amend or repeal any Bylaw, whether or not adopted by them, at an annual stockholders meeting or a special meeting called, wholly or in part, for such purpose. The power of the Board of Directors to adopt, amend or repeal Bylaws may be limited by an amendment to the Articles of Incorporation or an amendment to the Bylaws adopted by the holders of shares of the capital stock of the Corporation entitled to vote thereon that provides that a particular Bylaw or Bylaws may only be adopted, amended or repealed by the holders of shares of the capital stock of the Corporation entitled to vote thereon.

Section 6.9. *Severability.* If any provision (or any part thereof) of these By-laws shall be held to be invalid, illegal or unenforceable as applied to any circumstance for any reason whatsoever: (a) the validity, legality and enforceability of such provision in any other circumstance and of the remaining provisions of these By-laws (including, without limitation, each portion of any section of these By-laws containing any provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and (b) to the fullest extent possible, the provisions of these By-laws (including, without limitation, each portion containing any provision held to be invalid, illegal or unenforceable) shall be construed for the benefit of the Corporation to the fullest extent permitted by law so as to (i) give effect to the intent manifested by the provision held invalid, illegal or unenforceable, and (ii) permit the Corporation to protect its directors, officers, employees and agents from personal liability in respect of their good faith service. Reference herein to laws, regulations or agencies shall be deemed to include all amendments thereof, substitutions therefor and successors thereto, as the case may be.

Capital Markets Advisory Agreement

This Capital Market Advisory Agreement (the "Agreement") shall confirm the engagement of Taglich Brothers, Inc. ("Taglich") by Air Industries (the "Company") for the purpose of providing, on a non-exclusive basis, business advisory services (the "Services") as set forth below in consideration for the fees and compensation described hereinafter:

1. **Services.** Subject to the terms and conditions of this Agreement, Taglich will use its best efforts to furnish ongoing business advisory services as the Company may from time to time reasonably request. The Services may include, without limitation, the following
 - a) Identify and evaluate financial transactions; including potential acquisitions and/or mergers.
 - b) Guide the Company in their message to the Investment Community.
 - c) Introduction to Brokers and/or Investors that Taglich feel would be accretive to the Company's goals.
 - d) Hold weekly strategy calls with the Company.
 - e) Set up Investor road shows in various cities.
 - f) Aid in sponsorship to targeted micro-cap conferences.
 2. **Term.** The term of this Agreement shall be for a twelve (12) months period beginning on January 1, 2014. After such twelve (12) month period, this agreement shall automatically be extend for a twelve (12) month period, unless the Company provides thirty (30) days prior written notice to Taglich that the Company does not wish to extend the term for a twelve (12) month period. Such extension shall be at the same Monthly Advisory Fee described in paragraph 3 below.
 3. **Fees and Expenses.** As compensation for the Services provided by Taglich, the Company will pay a Monthly Advisory Fee of Seven Thousand Dollars (\$7,000) per month ("Monthly Advisory Fee"). The first month's advisory fee shall be paid to Taglich on January 15, 2014 (the "Effective Date") and thereafter no later than the fifteenth (15th) day of each month after the Effective Date during the Term of this Agreement. The Company agrees to reimburse Taglich for any reasonable out of pocket expenses.
 4. **Additional Compensation.** The Company shall issue to Taglich Brothers CMA 10,000 warrants with a strike price of \$8.72 and vesting quarterly over a twelve-month period beginning three months after the effective date.
 5. **Representations and Covenants.** The Company recognized that Taglich now renders and may continue to render financial consulting, management, investment banking and other services to other companies that may or may not conduct business and activities similar to those of the Company. Taglich shall be free to render such advice and other services and the Company hereby consents thereto. Taglich shall not be required to devote its full time and attention to the performance of its duties under this Agreement, but shall devote only so much of it time and attention as it deems reasonable or necessary to fulfill its obligation hereunder.
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6. **Indemnification.** The Company and Taglich agree to indemnify the other party to the extent of and in accordance with the provisions of Schedule A hereto, which is incorporated by reference herein and made a part hereof and shall survive the termination, expiration or supersession of this Agreement.

 7. **Acknowledgement.** The Company understands and acknowledges that Taglich Brothers and its affiliates (collectively “Taglich”), provide investment banking, securities trading, financing, and financial advisory services and other commercial and investment banking products and services to a wide range of institutions and individuals. In the ordinary course of business, Taglich and certain of its employees, as well as investment funds in which they may have financial interests, may acquire, hold or sell, long or short positions, or trade or otherwise effect transactions, in debt, equity, and other securities and financial instruments (including bank loans and other obligations) of, or investments in, a party that may be involved in the matters contemplated by this Agreement. The holder of such securities, financial instruments and/or investments may and will exercise all voting and other rights in respect thereof, in its sole discretion. The Company also understands and acknowledges that Taglich is being engaged hereunder as an independent contractor to provide the services described above solely to the Company, and that Taglich is not acting as a fiduciary of the Company, any subsidiary or affiliate of the Company (including the Company’s security holders) or creditors of the Company or any other persons in connection with this engagement.

 8. **Limitation on Services.** Taglich shall not be obligated to provide advice or perform services to the Company that are not specifically addressed in this Agreement. The Company hereby acknowledges that Taglich is not a fiduciary of the Company and that Taglich makes no representations or warranties regarding the Company’s ability to secure financing, whether now or in the future. The obligations of Taglich described in this Agreement consist solely of commercially reasonable best efforts services to the Company, and in no event shall Taglich be required to act as the agent of the Company or to provide legal or accounting services. All final decisions with respect to acts of the Company or its affiliates, whether or not made pursuant to or in reliance upon information or advice furnished by Taglich hereunder, shall be those of the Company or such affiliates, and Taglich shall under no circumstances be liable for any expense incurred or loss suffered by the Company as a consequence of such decisions.

 9. **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the State of New York, without giving effect to its conflict of laws principles or rules. If a dispute or claim shall arise with respect to any of the terms or provisions of this Agreement, or with respect to the performance by any of the parties under this Agreement, then the parties agree to submit the dispute to binding and non-appealable arbitration in a venue located in New York, NY in accordance with the rules of the American Arbitration Association (“AAA”). The prevailing party shall be reimbursed by the non-prevailing party for all reasonable attorney’s fees and costs (including all arbitration costs) incurred by the prevailing party in resolving such dispute. Any award rendered in arbitration may be enforced in any court of competent jurisdiction. Notwithstanding the foregoing, any action by either Taglich or the Company to obtain specific performance of any provision of this Agreement by the other party may be brought in any appropriate judicial forum.

 10. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and authorized assigns. Any attempt by either party to assign (other than by operation of law pursuant to a merger) any rights, duties or obligations which may arise under this Agreement without the prior written consent of the other party shall be void.
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11. **Notices.** Any notice given pursuant to this Agreement shall be in writing and shall be effective immediately upon hand delivery or upon confirmation of delivery by mail, facsimile or e-mail. Notices under this agreement shall be sent to the following:
12. If to Taglich:
- Taglich Brother, Inc.
790 New York Avenue, Suite 209
Huntington, NY 11743
Attention: Richard Oh
Email: ohr@taglichbrothers.com
Fax: 631-757-1500
- If to the Company:
- Air Industries Group, Inc.
1479 North Clinton Avenue
Bay Shore, NY 11706
Attn: Peter D. Rettaliata
Email: peter.rettaliata@airindmc.com
Fax: 631-206-9152
13. **Entire Agreement; Severability.** This document contains the entire agreement between the parties with respect to the subject matter hereof, and neither party is relying on any agreement, representation, warranty, or other understanding not expressly stated herein. No amendment to this Agreement shall be valid unless such amendment is in writing and is signed by authorized representatives of all the parties to this Agreement. In the event that any provision of this Agreement shall be held to be invalid, illegal or unenforceable in any circumstances, the remaining provisions shall nevertheless remain in full force and effect and shall be construed as if the unenforceable portion or portions were deleted.
14. **Survival.** The parties acknowledge that certain provisions of this Agreement must survive any termination or expiration thereof in order to be fair and equitable to the party to whom any promise or duty to perform is owed under such provision prior to such termination or expiration of the Agreement. Therefore, the parties agree that Sections 3, 4, 5, 6, and 9 shall survive the termination or expiration of this Agreement for the period required to meet and satisfy any obligations and promises arising therein and thereunder.
15. **Headings.** The headings contained herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.
16. **Counterparts; Facsimile Signatures.** This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together will constitute one and the same instrument. This Agreement may be executed by signatures delivered by facsimile transmission or electronic mail (e-mail) attachment.
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If the foregoing correctly sets forth our understanding with respect to the subject matter hereto, please confirm the same by executing and returning to us the duplicate copy of this Agreement.

Very truly yours,

TAGLICH BROTHERS, INC.

/s/ Richard Oh

By: Richard Oh

Its: Managing Director

AGREED AND ACCEPTED TO:

Air Industries Group, Inc.

/s/ Peter D. Rettaliata

By: Peter D. Rettaliata

Its: President and CEO

SCHEDULE A TO AGREEMENT

INDEMNIFICATION

(a) In connection with the Company's engagement of Taglich Brothers, Inc. ("Taglich") as its capital markets advisor, the Company hereby agrees to indemnify and hold harmless Taglich and its affiliates, and the respective controlling persons (within the meaning of Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities and Exchange Act of 1934, as amended) directors, officers, shareholders, agents and employees of any of the foregoing (collectively the "Indemnified Persons"), from and against any and all claims, actions, suits, proceedings (including those of shareholders), damages, liabilities and expenses incurred by any of them to a third party, including the reasonable fees and expenses of counsel (collectively a "Claim"), which are related to or arise out of any actions taken or omitted to be taken (including any untrue statements made or any statements omitted to be made) by the Company, and the Company shall reimburse any Indemnified Person, not to exceed the amount of fees actually paid to Taglich by the Company, for all reasonable, out of pocket expenses (including the reasonable fees and expenses of counsel) incurred by such Indemnified Person in connection with investigating, preparing or defending any such claim, action, suit or proceeding, whether or not in connection with pending or threatened litigation in which any Indemnified Person is a party. The Company will not, however, be responsible for any Claim, which is finally judicially determined to have resulted from the gross negligence, willful misconduct, dishonesty or fraud of any Indemnified Person. The Company further agrees that no Indemnified Person shall have any liability to the Company for or in connection with the Company's engagement of Taglich except for any Claim incurred by the Company as a result of such Indemnified Person's gross negligence or willful misconduct.

(b) The Company further agrees that it will not, without the prior written consent of Taglich, settle, compromise or consent to the entry of any judgment in any pending or threatened Claim in respect of which indemnification may be sought hereunder (whether or not any Indemnified Person is an actual or potential party to such Claim) (collectively, a "Settlement"), unless such Settlement compromise or consent includes an unconditional, irrevocable release of each Indemnified Person from any and all liability arising out of such Claim. No Indemnified Person shall enter into a Settlement without the prior written consent of the Company.

(c) Promptly upon receipt by an Indemnified Person of notice of any complaint or the assertion or institution of any Claim with respect to which indemnification is being sought hereunder, such Indemnified Person shall notify the Company in writing of such complaint or of such assertion or institution, but failure to so notify the Company shall not relieve the Company from any obligation it may have hereunder, except and only to the extent such failure results in the forfeiture by the Company of substantial rights and defenses. If the Company so elects, the Company will assume the defense of such Claim, including the employment of counsel reasonably satisfactory to such Indemnified Person and the payment of the reasonable fees and expenses of such counsel. In the event, however, that legal counsel to such Indemnified Person reasonably determines that having common counsel would present such counsel with a conflict of interest or if the defendant in, or target of, any such Claim, includes an Indemnified Person and the Company, and legal counsel to such Indemnified Person reasonably concludes that there may be legal defenses available to it or other Indemnified Persons different from or in addition to those available to the Company, then such Indemnified Person may employ its own separate counsel to represent or defend him, her or it in any such Claim and the Company shall pay the reasonable fees and expenses of such counsel. Notwithstanding anything herein to the contrary, if the Company fails timely or diligently to defend, contest, or otherwise protect against any Claim, the relevant Indemnified Party shall have the right, but not the obligation, to defend, contest, compromise, settle, assert cross claims, or counterclaims or otherwise protect against the same, and shall be fully indemnified by the Company therefore, including without limitation, for the reasonable fees and expenses of its counsel and all amounts paid as a result of such Claim or the compromise or settlement thereof. In addition, with respect to any Claim in which the Company assumes the defense, the Indemnified Person shall have the right to participate in such Claim and to retain his, her or its own counsel therefore at his, her or its own expense.

(d) The Company agrees that if any indemnity sought by an Indemnified Person hereunder is held by a court to be unavailable for any reason (other than by reason of the last sentence of subsection (a)) then (whether or not Taglich is the Indemnified Person), the Company and Taglich shall contribute to the Claim for which such indemnity is held unavailable in such proportion as is appropriate to reflect the relative benefits to the Company, on the one hand, and Taglich on the other, in connection with Taglich's engagement referred to above, subject to the limitation that in no event shall the amount of Taglich or the Company's contribution to such Claim exceed the amount of fees actually received by Taglich from the Company or paid to Taglich by the Company pursuant to this Agreement.

(e) The Company's indemnity, reimbursement and contribution obligations under this Agreement shall be in addition to, and shall in no way limit or otherwise adversely affect any rights that any Indemnified Party may have at law or at equity and (b) shall be effective whether or not the Company is at fault in any way.

(f) The Company understands that Taglich shall not have any obligation hereunder to purchase any of the Securities or to provide financing of any kind to the Company.



CONFIDENTIAL

via email: Daniel Godin daniel.godin3@verizon.net

Mr. Daniel Godin
27 Enfield Lane
Hauppauge, New York 11788

Dear Dan,

I am pleased to offer you the position of Chief Executive Officer of Air Industries Group. We have extensively discussed the opportunities and challenges facing Air Industries and I am enthusiastic about the contribution I believe you will make to the Company's success.

Air Industries currently includes Air Industries Machining, Welding Metallurgy and Nassau Tool Works, all located on Long Island, as well as our recent acquisitions in Connecticut, AMK Welding and Eur-Pac. Air Industries has an extensive network of international channel partners, customers and suppliers to provide total support and sustainment solutions for aircraft.

In this highly visible leadership role, you will report directly to the Board of Directors. Your primary responsibility will be to develop and own the strategy for the profitability and growth of all of Air's businesses. It is expected that you will provide tactical and strategic leadership to this group which already has over \$84M of annual sales. Air Industries has an aggressive growth plan that includes future acquisitions that will increase your business opportunities and responsibilities.

The base salary you are being offered for this position is \$250,000 annually, paid weekly at the rate of \$4,807.69. We anticipate that your start date for work with the Air Industries Group will be as soon as practicable, but no later than December 1, 2014.

In addition to your base salary we are offering an incentive based bonus opportunity in 2015 (reviewable every year) representing a target bonus of 50% of your annualized salary, pro-rated based on time of service. We will work with you to develop the parameters by which your bonus will be determined and there will be the opportunity to receive more than 50% of your annual salary if you overachieve the agreed upon targets for the calendar year.

You will receive a onetime signing bonus of \$50,000 (less federal and state taxes) no later than 30 working days after your start date. This is intended to address the present value of equity that you will forfeit upon leaving your current company.

You will receive a monthly car allowance in the amount of \$800 to defray your costs of local travel. It is anticipated that you will need to travel to meet the needs of the business and that, per the Air Industries travel policy, all reasonable and necessary expenses will be reimbursed after submittal and approval of appropriate documentation.

The Company will make available to you an initial award of options to purchase approximately 120,000 shares of its stock at fair market value as of the date of grant. The options will be embodied in a Stock Option Agreement subject to the terms of the Company's Incentive Stock Plan. The options will vest in stock will vest ratably on a quarterly basis during the first 3 years of your employment by Air Industries.

From time to time, the Air Industries Board of Directors grants equity options to key employees. We consider this a significant incentive for key employees eligible for these grants and you will be included among the employees considered for future awards.

Air Industries offers an industry leading benefits package to employees including:

- Healthcare related benefits including:
 - o Optional employee benefits including: Short Term and Long Term Disability and Flexible Spending Accounts (FSA)
- Air Industries has a 401(k) plan that it has established for the benefit of all employees that meet the plans requirements. You are eligible to enroll in Air Industries 401(k) plan upon the plan eligibility at your 6 month anniversary from your date of hire. Currently, the Company does not match or contribute on behalf of its employees.
- Extensive training and development programs to help employees and supervisors learn new skills, maintain safety or compliance, improve performance and for career development.

As part of our benefits package you will be eligible for one week of vacation for every three months you are employed, inclusive of the week we are shutdown at year end. On your first day of employment we will provide additional information and details about Air Industries benefit programs and general employment conditions. In addition, we will provide you with details about corporate and business operating policies.

This offer is not to be considered a contract guaranteeing employment for any specific duration. As an at-will employee, both you and the company have the right to terminate your employment at any time with or without cause.

In addition to the confirmation of your acceptance of this offer, as a condition of your employment we will require you to execute our customary "Confidentiality, Work Product and Non-competition Agreement in the form we have provided to you.

To fulfill federal identification requirements, you are required to provide us with documentation to support your identity and eligibility to work in the United States. For example, a valid U.S. passport or Alien Registration Receipt Card are acceptable documents to establish both identity and employment eligibility. Additionally a current driver's license or voter's registration card in addition to a social security card or certified birth certificate copy will establish identity and eligibility to work. The types of acceptable documentation listed on the Form I-9 of the U.S. Citizenship and Immigration Services. This offer of employment is valid for ten (10) working days from the date of this letter, unless other arrangements are made.

Daniel, I am looking forward to having you assume this critically important and highly visible position on the Air Industries Leadership Team. Your expertise and experience will be an asset as we move forward to develop the future Air Industries portfolio of business.

If you have any questions, please do not hesitate to contact me at 631-987-1271. I look forward to working with you in the future and hope you will find your time with Air Industries to be a rewarding and fulfilling experience.

Very truly yours,

/s/ Michael Taglich

Michael Taglich
Chairman

AGREED AND ACCEPTED:

/s/ Daniel R.Godin
Daniel Godin

Dated: 11-14-14

Subsidiaries

<u>Name</u>	<u>Jurisdiction of Incorporation</u>	<u>Ownership</u>
Air Industries Machining, Corp.	New York	100%
Welding Metallurgy, Inc.	New York	100%
Nassau Tool Works, Inc.	New York	100%
Woodbine Products, Inc.	New York	100%
Decimal Industries, Inc.	New York	100%
Eur-Pac Corporation	New York	100%
Electronic Connection Corporation	Connecticut	100%
AMK Welding, Inc.	Connecticut	100%
The Sterling Engineering Corporation	Connecticut	100%
Air Realty Group, LLC	Connecticut	100%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference of our report dated March 31, 2015 on our audits of the consolidated financial statements of Air Industries Group and Subsidiaries (the "Company") and its former parent and predecessor by merger, Air Industries Group, Inc. and Subsidiaries (the "Predecessor") as of and for the years ended December 31, 2014 and 2013, respectively, which report was included in the Annual Report on Form 10-K of the Company filed March 31, 2015 in the Company's Registration Statements on Form S-3 (Registration No. 333-198375) and Form S-8 (Registration No. 333- 191560).

/s/ Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
Certified Public Accountants
Saddle Brook, New Jersey
March 31, 2015

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT

I, Daniel R. Godin, certify that:

1. I have reviewed this annual report on Form 10-K of Air Industries Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 31, 2015

/s/ Daniel R. Godin

Daniel R. Godin

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT

I, James Sartori, certify that:

1. I have reviewed this annual report on Form 10-K of Air Industries Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 31, 2015

/s/ James Sartori

James Sartori

Chief Accounting Officer (Principal Financial Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Annual Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission (the "Report"), Daniel R. Godin, Chief Executive Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: March 31, 2015

/s/ Daniel R. Godin

Daniel R. Godin
Chief Executive Officer (Principal Executive Officer)

[A signed original of this written statement required by Section 906 has been provided to Air Industries Group and will be retained by Air Industries Group and furnished to the Securities and Exchange Commission or its staff upon request.]

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Annual Report of Air Industries Group, a Nevada corporation (the "Company"), on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission (the "Report"), James Sartori, Chief Financial Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: March 31, 2015

/s/ James Sartori

James Sartori

Chief Accounting Officer (Principal Financial Officer)

[A signed original of this written statement required by Section 906 has been provided to Air Industries Group and will be retained by Air Industries Group and furnished to the Securities and Exchange Commission or its staff upon request.]