

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

FORM 10-K

Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: December 31, 2015

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, 2015, the aggregate market value of our common stock held by non-affiliates was \$68,233,558, based on 6,722,518 shares of outstanding common stock held by non-affiliates, and a price of \$10.15 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 7,560,040 shares of the registrant's common stock outstanding as of March 1, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2016 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, 2015

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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.

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.

We became a public company in 2005 when our net sales were approximately \$30 million. At that time we had been manufacturing components and subassemblies for the defense and commercial aerospace industry for over 45 years and had established long term relationships with leading defense and aerospace manufacturers. On August 30, 2013, we reincorporated as a Nevada corporation and changed our name to Air industries Group. Since becoming public we have completed a series of acquisitions of defense related businesses. Since January 1, 2014, we have made the following acquisitions:

- In April 2014, we acquired Woodbine Products, Inc. ("WPI"). WPI was founded in 1954 and is a fabricator of precision sheet metal assemblies for aerospace applications;
- In June 2014, we acquired Eur-Pac Corporation ("Eur-Pac" or "EPC"). 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 Electronic Connection Corporation ("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 Welding, Inc. ("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;
- In March 2015, we acquired Sterling Engineering Corporation ("Sterling"). Founded in 1941, Sterling provides complex machining services and its business is concentrated with aircraft jet engine and ground turbine manufacturers; and
- In September 2015, we acquired Compac Development Corporation ("Compac"). Founded in 1976, Compac specializes in the manufacture of RFI/EMI (Radio Frequency Interference – Electro-Magnetic Interference) shielded enclosures for electronic components.

As a result of our acquisition program, including those noted above, our revenues in 2015, with a contribution of only \$7,362,000 from Sterling and Compac, were \$80,442,000.

We currently divide our operations into three operating segments: Complex Machining; Aerostructures and Electronics; and Turbine Engine Components. 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, Northrop Grumman, the United States Department of Defense, GKN Aerospace, Lockheed, Boeing, Raytheon, Piper Aircraft, M7 Aerospace, Vought Aerospace, Ametek/Hughes-Treidler 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. It appears that our revenues, particularly those of our Complex Machining segment, 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 future 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, which went into effect 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, our Aerostructures and Electronics segment 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 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 the business of Nassau Tool Works in 2012 expanded our capabilities in the “turning” of metal components. This enhanced capability was important in our Complex Machining segment 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 29, 2016, our 18-month "firm backlog" was approximately \$81 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 and realignment. 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. In November 2015, Lockheed Martin acquired Sikorsky from United Technologies.

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, 2016, we employed approximately 366 people. Of these, approximately 42 were in administration, 29 were in sales and procurement, and 295 were in manufacturing.

Air Industries Machining, one of the components of our Complex Machining segment, 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, 2016, expires December 31, 2018 and covers all of AIM's production personnel, of which there are approximately 104 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.

While we have increased our commercial aerospace and industrial business, a large percentage 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 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 included reductions in spending by the Department of Defense. During 2014 and 2015, we experienced a reduction in sales in our Complex Machining segment that we believe was the result of a slowing of orders as a result of the Sequester. In December 2015, the US Government agreed upon a spending budget for the Department of Defense for the 2016 and 2017 Fiscal Years and eliminated the Sequester. While we expect that spending will increase pursuant to these budgets, there can be no assurance that this increase will materialize or that it will lead to an increase in orders for our products.

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 approximately 35.9% and two customers represented approximately 47.3% of total sales for the years ended December 31, 2015 and 2014, 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.

Our Complex Machining segment 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, the McDonnell Douglas (Boeing) C-17 Globemaster, the F-16 Falcon and the F-18 Hornet. Boeing closed its C-17 production line in 2015. 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.

Some of the products we produce have long lead times.

Some of the products we produce, particularly those of our Complex Machining segment, require months to produce and we sometimes produce products in excess of the number ordered intending to sell the excess as spares when orders arise. As a result, our inventory turns slowly and often represents more than 40% of our assets. Any requirement to write down the value of our inventory due to obsolescence or a drop in the price of materials could have a material adverse effect on our consolidated financial position or 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 replacement of, or in addition to, the PNC Facility would contain similar provisions.

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

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 2015 Equity Incentive Plan allows for the issuance of up to 350,000 shares of common stock, either as stock grants or options, to employees, officers, directors, advisors and consultants of the company. 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, 2015, we had outstanding under the 2013 Plan options to purchase 564,342 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. We also had outstanding as of December 31, 2015, warrants to purchase 164,585 shares of common stock. The issuance of shares of our common stock upon exercise of outstanding stock options and warrants, or the possible issuance of shares upon exercise of further stock options granted under our stock option plans, 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 with approximately six years remaining in the term which ends January 2022. The annual rent was \$117,000 for the first lease year, decreased to \$103,278 for the lease year which began in January 2016, increases by approximately 3% per annum each year thereafter until the seventh lease year when the rent will be approximately \$103,000.

The operations of a portion of our Complex Machining segment 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 2015 was approximately \$684,000 and increases by 3% each subsequent year. The lease grants us 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 remaining portion of the operations of our Complex Machining segment 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 approximately \$360,000 through October 30, 2018.

The operations of our Aerostructures and Electronics segment are principally 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 \$614,000 for 2015 and increases by an agreed upon amount each anniversary of the commencement of the lease through December 31, 2026.

The balance of our Aerostructures and Electronics segment 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; and a 9,200 square foot space in Bay Shore, New York. The space is occupied under a lease which has an annual base rent of approximately \$70,000 and expires April 30, 2018.

The operations of our Turbine Engine Components segment are conducted in a 33,850 square foot facility on a four acre parcel in South Windsor, Connecticut, which we own and a 74,923 square foot facility on a 24 acre parcel in Barkhamsted, Connecticut, which we own.

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

On December 7, 2015, we entered into a contract with an unaffiliated third party pursuant to which the purchaser will acquire our South Windsor, Connecticut property for \$1,700,000, subject to routine closing adjustments. The closing of the transaction is anticipated to occur in the first week of April 2016. Upon closing of the transaction, we will enter into a lease for the property with an initial term of 15 years, with an option to renew the lease for an additional five years. In addition to rent, initially \$155,000 per annum, subject to annual increase, we also will be responsible for real estate taxes and the maintenance of the buildings and the property.

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 is listed on the NYSE MKT under the symbol “AIRI.” 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 Yahoo Finance.

	High	Low
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
Quarter Ended March 31, 2015	\$ 10.52	\$ 9.70
Quarter Ended June 30, 2015	\$ 10.74	\$ 9.91
Quarter Ended September 30, 2015	\$ 10.13	\$ 8.06
Quarter Ended December 31, 2015	\$ 9.17	\$ 6.98

 Holders

On March 1, 2016, there were approximately 230 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

We have paid quarterly dividends to our shareholders each quarter commencing with the first quarter of 2013 through the third quarter of 2015. It has been our practice to pay cash dividends to our shareholders when our Board of Directors deemed appropriate. All determinations relating to our dividend policy are made at the discretion of our Board of Directors and 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 and, even if such financial covenants are met, since we are highly leveraged, our Board of Directors would consider any opinion our senior lender might express with regards to the payment of any cash dividends.

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, 2015:

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	564,342	\$ 7.35	385,658
Equity compensation plans not approved by security holders	164,585	\$ 7.85	None
Total	728,927		385,658

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 fiscal year ended December 31, 2015.

Purchases of Our Equity Securities

No repurchases of our common stock were made during the fiscal year ended December 31, 2015.

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.

We became a public company in 2005 when our net sales were approximately \$30 million. At that time we had been manufacturing components and subassemblies for the defense and commercial aerospace industry for over 45 years and had 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 we provide at the time we became a public company. Although prior to becoming a public company, we were 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, 2014 we have acquired the following businesses:

- 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;
- In March 2015, we acquired Sterling. Sterling provides complex machining services and its business is concentrated with aircraft jet engine and ground turbine manufacturers; and
- In September 2015, we acquired Compac. Compac specializes in the manufacture of RFI/EMI (Radio Frequency Interference – Electro-Magnetic Interference) shielded enclosures for electronic components.

As a result of the foregoing acquisitions, our revenues in 2015, with a contribution of \$7,362,000 from Sterling and Compac, were \$80,442,000.

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 Financial Accounting Standards Board (“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; Aerostructures and Electronics; and Turbine Engine Components. 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, 2014, are shown below:

<i>Acquisitions</i>	<i>Date of Acquisition</i>
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
Compac Development Corporation	September 1, 2015

Years ended December 31, 2015 and 2014:

Selected Financial Information:

	2015	2014
Net sales	\$ 80,442,000	\$ 64,331,000
Cost of sales	63,161,000	50,233,000
Gross profit	17,281,000	14,098,000
Operating expenses, acquisition costs and interest costs	(18,513,000)	(13,658,000)
Other income (expense) net	114,000	(141,000)
Income tax benefit	286,000	368,000
Net (loss) income	<u>\$ (832,000)</u>	<u>\$ 667,000</u>

Balance Sheet Data:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	\$ 529,000	\$ 1,418,000
Working capital	2,166,000	16,132,000
Total assets	88,250,000	66,180,000
Total stockholders' equity	\$ 28,805,000	\$ 28,272,000

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

	Year Ended December 31,	
	2015	2014
COMPLEX MACHINING		
Net Sales	\$ 42,356,000	\$ 44,220,000
Gross Profit	10,412,000	8,691,000
Pre Tax Income (Loss)	1,825,000	711,000
Assets	48,353,000	40,611,000
AEROSTRUCTURES & ELECTRONICS		
Net Sales	27,134,000	18,273,000
Gross Profit	6,553,000	4,812,000
Pre Tax Income (Loss)	386,000	(554,000)
Assets	20,229,000	16,788,000
TURBINE ENGINE COMPONENTS		
Net Sales	10,952,000	1,838,000
Gross Profit	316,000	595,000
Pre Tax Income (Loss)	(3,329,000)	142,000
Assets	19,076,000	8,150,000
CORPORATE		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Income (Loss)	-	-
Assets	592,000	631,000
CONSOLIDATED		
Net Sales	80,442,000	64,331,000
Gross Profit	17,281,000	14,098,000
Pre Tax Income (Loss)	(1,118,000)	299,000
Benefit from Income Taxes	286,000	368,000
Net (Loss) Income	(832,000)	667,000
Assets	\$ 88,250,000	\$ 66,180,000

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, 2015 and 2014. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report.

For 2015, we had three operating segments: Complex Machining comprised of AIM and NTW; Aerostructures and Electronics comprised of WMI (including Decimal and Woodbine), Eur-Pac (including ECC), MSI and beginning in October 2015, Compac; and Turbine Engine Components comprised of AMK and beginning in March 2015, Sterling.

Net Sales:

Consolidated net sales for the year ended December 31, 2015 were approximately \$80,442,000, an increase of \$16,111,000, or 25.0%, compared with \$64,331,000 for the year ended December 31, 2014. Net sales of our Complex Machining segment were approximately \$42,356,000, a decrease of \$1,864,000, or 4.2%, from \$44,220,000 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 and Electronics segment were approximately \$27,134,000 and increased by \$8,861,000, or 48.5%, from \$18,273,000 in the prior year. This can be attributed to greater volume from Miller Stuart as well as acquisitions that took place during 2015 and 2014. Compac was acquired in September 2015 while full year contributions from Eur-Pac (June 2014) and ECC (September 2014) were experienced. Net sales in our Turbine Engine Components segment were approximately \$10,952,000 and increased \$9,114,000, or 495.9%, from \$1,838,000 in the prior year. The increase during 2015 reflects the acquisition of Sterling Engineering and a full-year of AMK Welding which was acquired in October of 2014.

As indicated in the table below, four customers represented 59.3% and two customers represented 47.3% of total sales for the years ended December 31, 2015 and 2014, respectively.

Customer	Percentage of Sales	
	2015	2014
Sikorsky Aircraft	20.5%	26.8
Goodrich Landing Gear Systems	15.4%	20.5
United States Department of Defense	12.0%	*
Northrup Grumman Corporation	11.4%	*

* 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, four customers represented 61.1% and three customers represented 50.4% of gross accounts receivable at December 31, 2015 and 2014, respectively.

Customer	Percentage of Receivables	
	December 2015	December 2014
Goodrich Landing Gear Systems	26.6%	29.0
Northrop Grumman Corporation	13.6%	11.4
Sikorsky Aircraft	10.5%	*
GKN Aerospace	10.4%	10.0

* Customer was less than 10% of Gross Accounts Receivable at December 31, 2014.

Sikorsky Aircraft and Goodrich Landing Gear Systems are units of United Technologies Corporation.

Gross Profit:

Consolidated gross profit from operations for the year ended December 31, 2015 was \$17,281,000 and an increase of approximately \$3,183,000, or 22.6%, as compared to gross profit of \$14,098,000 for the year ended December 31, 2014. Consolidated gross profit as a percentage of sales was 21.5% and 21.9% for the years ended December 31, 2015 and 2014, respectively. The increase in gross profit resulted largely from improvements in our Complex Machining and Aerostructures and Electronics segments. The improvement in our Complex Machining segment was the result of cost reductions. The improvement in our Aerostructures and Electronics segment can be attributed to greater volume from Miller Stuart as well as acquisitions that took place during 2015 and 2014. Compac was acquired in September 2015 while full year contributions from Eur-Pac (June 2014) and ECC (September 2014) were experienced. The slight decrease in the overall gross margin percentage results primarily from low margins in our Turbine Engine Components sector. The sector began its operations in 2014 with the acquisition of AMK and expanded in 2015 when Sterling was acquired. AMK and Sterling have yet to reach their anticipated potential.

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

Consolidated SG&A costs for the year ended December 31, 2015 totaled approximately \$16,655,000 and increased by \$4,292,000 or 34.7% compared to \$12,363,000 for the year ended December 31, 2014. Approximately \$2,424,000 or 56.5% of the increase in SG&A costs relates to the acquisitions during the 2015 and 2014 fiscal years. The acquisitions in 2015 consisted of Sterling in March and Compac in September while the acquisitions in 2014, Eur-Pac (June 2014), ECC (September 2014) and AMK (October 2014), contributed a full year of costs.

Interest and financing costs of approximately \$1,858,000 for the year ended December 31, 2015 increased \$563,000 or 43.5% as compared to \$1,295,000 for the year ended December 31, 2014. This increase can be attributed to additional amounts of debt incurred from term loans due to the AMK and Sterling acquisitions, the purchase of inventory from Circor Aerospace and cash usage for operations.

The Company recognized an income tax benefit of approximately \$286,000 for year ended December 31, 2015 compared to an income tax benefit of \$368,000 for the year ended December 31, 2014. The tax benefit for 2015 was primarily the result of a change in deferred tax positions at December 31, 2015 for expired options, state tax rate changes and a true-up of deferred tax assets related to inventory. In 2014, 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 likely than not to be realized.

Net loss for the year ended December 31, 2015 was \$(832,000), a decrease of \$1,499,000, or 224.7%, compared to net income of \$667,000 for the year ended December 31, 2014, 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. We are required to maintain a lockbox account with PNC, into which substantially all of its cash receipts are paid. If PNC were to cease lending, we would lack funds to continue our operations.

The Loan Facility has been amended many times during its term. The Company entered into an amendment to the Loan Facility in November 2015 and paid an amendment fee of \$40,000. At December 31, 2015, the Loan Facility consisted of a \$33,000,000 revolving loan (which includes an inventory sub-limit of \$15,000,000) and four term loans (Term Loan A, Term Loan B, Term Loan C, and Term Loan D), described below.

Under the terms of the Loan Facility 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 4.00% per annum at December 31, 2015 and 2014, and an outstanding balance of \$29,604,000 and \$17,672,000, respectively. The maturity date of the revolving credit note is November 30, 2016.

As a requirement of our Loan Facility substantially all of our cash receipts from operations are deposited into our lockbox account at PNC. Each day, the Company's cash collections are swept directly by the bank and 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. 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 \$2,676,000, representing an additional \$1,328,000, to partially fund the acquisition of Woodbine. The repayment terms of Term Loan A consists of thirty-two consecutive monthly principal installments, the first thirty-one in the amount of \$31,859 which commenced on the first business day of May 2014, and continued 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, 2015 and 2014, the balance due under Term Loan A was \$2,039,000 and \$2,421,000, 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 in the amount of \$58,333 which commenced on the first business day of December 2014, and continued 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. At December 31, 2015 and 2014, the balance due under Term Loan B was \$2,742,000 and \$3,442,000, respectively.

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 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 commenced 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, 2015 and 2014, the balance due under Term Loan C was \$2,118,000 and \$2,500,000, 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 in the amount of \$62,847 which commenced on the first business day of April 2015, and continued 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 (3.50%) with respect to LIBOR Rate Loans. At December 31, 2015, the balance due under Term Loan D was \$2,934,000.

The Loan Facility was amended in February 2016 to increase the revolving loan to \$37,500,000, including an overdraft facility of \$4,500,000. Under the terms of the Loan Facility, as amended, the revolving loan 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. We paid a fee of \$75,000 in connection with the amendment.

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 December 31, 2015, the Company was not in compliance with the Fixed Charge Coverage Ratio covenant. Because the Loan Facility contains a subjective acceleration clause which could permit PNC to require repayment prior to maturity, the revolving loan is classified as current in the accompanying condensed consolidated balance sheet. The failure to maintain the requisite Fixed Charge Coverage Ratio constitutes a default under the Loan Facility and, PNC, at its option, may give notice to the Company that all amounts under the Loan Facility are immediately due and payable. Consequently, all amounts due under the Term Loans are also classified as current. As of the date of issuance of the accompanying financial statements, PNC has not given such notice. In addition, the Company has requested a waiver from PNC for the failure to meet the Fixed Charge Coverage Ratio covenant. At December 31, 2015, the Company was in compliance with all other terms of the Loan Facility. At December 31, 2014, the Company was in compliance with all terms of the Loan Facility.

As of December 31, 2015, our debt for borrowed monies in the amount of \$44,805,000 consisted of the revolving credit note due to PNC in the amount of \$29,604,000, the term loans due to PNC in the amount of \$9,833,000, a note in the amount of \$350,000, and capitalized lease obligations of \$5,018,000. This represents an increase of \$17,084,000 in our debt for borrowed monies at December 31, 2014 of \$27,721,000, when the revolving note due to PNC was \$17,672,000, the term loans due to PNC were \$8,363,000, we had a note due to the sellers of WMI with a balance of \$41,000, and capitalized lease obligations were \$1,645,000. The increase in the amount outstanding under the revolving credit note principally reflects amounts borrowed to support our acquisitions and the increase in our inventory.

On April 1, 2014, we acquired 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 with the proceeds from the issuance of 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, which was subsequently refinanced by PNC, with the remainder coming from our working capital.

On March 1, 2015, we acquired all of the common stock of Sterling for \$5.4 million in cash and 425,005 shares of the common stock of AIRI. The common stock was valued at \$9.89 per share, which was the closing share price on February 27, 2015. The acquisition was financed with the proceeds from the issuance of Term Loan D in the amount of \$3,500,000.

On September 1, 2015, the Company, through its wholly-owned subsidiary WMI, acquired certain assets, including production equipment, inventory and intangible assets, of Compac in an asset acquisition for \$1.2 million in cash plus a working capital adjustment of \$271,000. We financed the acquisition of Compac out of our working capital.

On December 7, 2015, we entered into a contract with an unaffiliated third party (the "purchaser"), whereby the purchaser will acquire our South Windsor, Connecticut property for \$1,700,000, subject to routine closing adjustments. The closing of the transaction is anticipated to occur in the first week of April 2016. Upon closing of the transaction, we will enter into a lease for the property with an initial term of 15 years, with an option to renew the lease for an additional five years. In addition to rent, initially \$155,000 per annum, subject to annual increase, we also will be responsible for real estate taxes and the maintenance of the buildings and the property. The net proceeds from the sale of the property will be applied to the amounts owed to PNC.

On September 8, 2015, we borrowed \$350,000 from Michael N. Taglich, Chairman of our Board of Directors, and issued to him our promissory note in the principal amount of \$350,000 to evidence our obligation to repay the loan. The note bears interest at the rate of 4% per annum and is payable on September 7, 2016. Our obligation to pay the note is subordinated to our indebtedness to PNC.

We have paid quarterly dividends to our shareholders each quarter commencing with the first quarter of 2013 through the third quarter of 2015. 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. 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. On April 24, 2015 we paid a dividend equal to \$0.15 per common share or \$1,134,000 to all shareholders of record as of April 13, 2015. On August 12, 2015, we paid a dividend equal to \$0.15 per common share or \$1,134,000 to all shareholders of record as of August 3, 2015. On December 1, 2015, we paid a dividend equal to \$0.15 per common share or \$1,133,000 to all shareholders of record as of November 23, 2015. It has been our practice to pay cash dividends to our shareholders when our Board of Directors deemed appropriate. 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 and, even if such financial covenants are met, since we are highly leveraged, our Board of Directors would consider any opinion our senior lender might express with regards to the payment of any cash dividends.

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, 2015	Year ended December 31, 2014
Cash (used in) provided by		
Operating activities	\$ (894)	\$ (2,799)
Investing activities	(8,560)	(9,663)
Financing activities	8,565	13,319

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, 2015, our net cash used in operating activities of \$894,000 was comprised of a net loss of \$832,000 less \$4,982,000 of cash used by changes in operating assets and liabilities plus adjustments for non-cash items of \$4,920,000. Adjustments for non-cash items consisted primarily of depreciation of property and equipment of \$3,090,000, amortization of capitalized engineering costs, intangibles and other items of \$1,807,000, bad debt expense of \$176,000, representing amounts reserved for as potentially uncollectible, and non-cash compensation of \$100,000, and deferred income taxes of \$484,000. These non-cash items were offset by \$38,000 of deferred gain on the sale of real estate. The increase in operating assets and liabilities consisted of a net increase in Operating Assets of \$9,087,000 and a net increase in Operating Liabilities of \$4,105,000. The increase in Operating Assets was comprised of an increase in inventory of \$8,412,000, and a net increase in prepaid expenses and other current assets, and deposits and other assets of \$766,000, partially offset by a decrease in accounts receivable of \$91,000 due to the timing of shipments to and cash receipts from customers. The net increase in Operating Liabilities was comprised of increases in accounts payable and accrued expenses of \$3,593,000 due to the timing of the receipt and payment of invoices, an increase in deferred rent of \$29,000, and an increase in deferred revenue of \$540,000, partially offset by, a decrease in income taxes payable of \$57,000.

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, 2015.

For the year ended December 31, 2015 cash used in investing activities was \$8,560,000. This was comprised of \$6,340,000 for the acquisitions of Sterling and Compac, net of cash acquired, \$656,000 for capitalized engineering costs and \$1,564,000 for the purchase of property and equipment.

Cash Provided By Financing Activities

Cash provided by financing activities consists of 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, 2015, cash provided by financing activities was \$8,565,000. This was comprised of additional borrowings of \$3,500,000 under our term loans and \$11,933,000 under our revolving credit facility, partially offset by repayments on our term loans of \$2,030,000, proceeds from capital lease refinance of \$500,000, proceeds from note payable of \$350,000, partially offset by, repayments under our capital leases of \$717,000, \$41,000 paid to the former shareholders of WMI, \$4,468,000 used for dividends, deferred financing costs of \$402,000 and \$60,000 related to lease impairment.

CONTRACTUAL OBLIGATIONS

The following table sets forth our future contractual obligations as of December 31, 2015:

	Payment due by period (in thousands)				
	Total	Less than 1 year*	1-3 years	3-5 years	More than 5 years
Debt and capital leases	\$45,395	\$41,135	\$2,666	\$1,594	\$-
Operating leases	17,179	1,973	3,784	3,007	8,415
Total	\$62,574	\$43,108	\$6,450	\$4,601	\$8,415

* The revolving line of credit and term loans with our senior lender are classified as due in less than 1 year, see Note 9 to our Consolidated Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of December 31, 2015.

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.

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, 2015 and 2014.

Recently Issued Accounting Pronouncements

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.

In February 2015, the FASB issued amended guidance to the consolidation standard which updates the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendment modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, among other provisions. This amended guidance will be effective for the Company beginning fiscal year 2016. Early adoption is permitted. The Company is currently assessing the impact the adoption of the amended guidance will have on its consolidated financial statements but the adoption is not expected to have a significant impact on the Company's consolidated financial statements.

In April 2015, the FASB issued amended guidance which requires debt issuance costs to be presented as a direct deduction from the carrying value of the associated debt liability rather than as separate assets on the balance sheet. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. This amended guidance will be effective for the Company beginning fiscal year 2016. Early adoption is permitted, and the new guidance will be applied on a retrospective basis. The Company does not expect the adoption of this amended guidance to have a significant impact on its consolidated financial statements.

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." On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year and the amendments are now effective prospectively for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The Company is currently assessing the impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330) Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value when the FIFO or average cost method is used. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and should be applied prospectively. Earlier adoption is permitted. The Company is currently assessing the impact the adoption of the amended guidance will have on its consolidated financial statements but the adoption is not expected to have a significant impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments". To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this update eliminate the requirement to retrospectively account for those adjustments. The amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update, with earlier application permitted for financial statements that have not been issued. The Company does not expect the adoption of this amended guidance to have a significant impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes", which requires companies to classify all deferred tax assets and liabilities as non-current on the balance sheet instead of separating deferred taxes into current and non-current amounts. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods thereafter, with early adoption permitted and either with prospective or retrospective application permitted. We do not expect this new guidance to have a material impact on our 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, 2015. Based on that evaluation, due to the material weaknesses in the Company's internal control over financial reporting discussed below, the CEO and CAO concluded that our disclosure controls and procedures were not effective as of December 31, 2015.

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 controls 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 controls over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal controls 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 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.

Our management relies upon the criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in designing a system intended to meet the needs of our Company and provide reasonable assurance for its assessment.

In connection with their review of our internal controls over financial reporting for the fiscal year ended December 31, 2015, and after our independent registered public accountants met with the Audit Committee to discuss the Company's internal control environment, our Chief Executive Officer and Chief Accounting Officer concluded that our internal controls over financial reporting were not effective as of December 31, 2015. In particular, our controls over financial reporting were not effective due to a material weakness as a result of the inability of our internal accounting personnel to identify, analyze, record and disclose the tax and financial reporting implications of certain complex accounting matters related to non-standard and unusual transactions. To remedy this weakness we plan to supplement our accounting staff with additional experienced financial professionals, redefining and realigning responsibilities and by defining additional controls, reporting processes and procedures to address the accounting requirements and disclosures for non-standard and unusual transactions. In addition, until we locate and engage appropriate accounting personnel, we will engage third party consultants to assist in accounting for non-recurring complex transactions.

In addition, our Chief Executive Officer and Chief Accounting Officer determined, after our independent registered public accountants met with the Audit Committee to discuss the Company's internal control environment, that we have a material weakness with respect to inventory accounting, in particular with respect to tracking for the aging of certain items reserving for slow moving inventory and obsolescence and, consequently, valuation of our inventory. In recent years, we have expanded our business in part through acquisitions, primarily of private companies. The companies we have acquired have not had the level of accounting systems and controls, in particular with respect to inventory, appropriate for a public company. To remedy this weakness we plan to supplement our accounting staff with additional experienced financial professionals to be located at certain of the companies we acquired and to upgrade the systems utilized by these companies so that they maintain records and produce the reports necessary for a public company.

The material weaknesses discussed above will not be considered remediated until the necessary personnel have been engaged and the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively

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 changes in our internal control over financial reporting that occurred during our fiscal quarter and year ended December 31, 2015 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 2016 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 2016 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 2016 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 2016 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 2016 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 (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 31, 2015).
- 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 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.24 to the Registrant's Form 10).
- 10.14 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).
- 10.15 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8 (Registration No. 333-206341) filed on August 13, 2015).
- 10.16 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).
- 10.17 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).
- 10.18 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).
- 10.19 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").
- 10.20 Amended and Restated PNC Loan Agreement (incorporated by reference from Exhibit 10.23 to the Registrant's 2013 Form 10-K.)
- 10.21 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).
- 10.22 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).

- 10.23 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).
- 10.24 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).
- 10.25 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).
- 10.26 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).
- 10.27 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).
- 10.28 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).
- 10.29 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).
- 10.30 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).
- 10.31 Term Note (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed October 2, 2014).
- 10.32 Capital Market Advisory Agreement dated as of January 1, 2014 between the Registrant and Taglich Brothers, Inc. (incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 31, 2015).
- 10.33 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).
- 10.34 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).
- 10.35 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).
- 10.36 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).
- 10.37 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).

- 10.38 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).
- 10.39 Offer Letter to Daniel R. Godin (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 31, 2015).
- 10.40 Asset Purchase Agreement dated as of August 31, 2013 between the Registrant, on the one hand, and Compaq Development Corporation, Peter C. Rao and Vito Valenti, the shareholders of Compaq Development Corporation, on the other hand (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 1, 2015).
- 10.41 Fifth Amended and Restated Revolving Credit Note (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed November 23, 2015).
- 10.42 Tenth Amendment to Amended and Restated Loan and Security Agreement with PNC Bank, N.A (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 23, 2015).
- 10.43 Eleventh Amendments to Amended and Restated Loan and Security Agreement with PNC Bank, N.A (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 12, 2016).
- 10.44 Sixth Amended and Restated Revolving Credit Note (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed February 12, 2016).
- 10.45 Promissory Note dated as of September 8, 2015 payable to Michael N. Taglich in the principal amount of \$350,000.
- 10.46 Real Estate Purchase and Sale Contract dated December 7, 2015 for the sale of 283 Sullivan Avenue, South Windsor, CT ("South Windsor Contract").
- 10.47 First Amendment to South Windsor Contract dated January 26, 2016.
- 10.48 Second Amendment to South Windsor Contract dated February 24, 2016.
- 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.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: April 4, 2016

AIR INDUSTRIES GROUP

By: /s/ Daniel R. Godin

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

By: /s/ James Sartori

James Sartori
VP, Chief Accounting Officer
(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 April 4, 2016 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	VP, Chief Accounting Officer
<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, 2015 and 2014 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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 consolidated 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 consolidated 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, 2015 and 2014 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
April 4, 2016

AIR INDUSTRIES GROUP
Consolidated Balance Sheets

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 529,000	\$ 1,418,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$985,000 and \$1,566,000, respectively	13,662,000	11,916,000
Inventory	36,923,000	28,651,000
Deferred Tax Asset, net	1,725,000	1,421,000
Prepaid Expenses and Other Current Assets	1,583,000	831,000
Assets Held for Sale	1,700,000	-
Total Current Assets	56,122,000	44,237,000
Property and Equipment, Net	15,299,000	9,557,000
Capitalized Engineering Costs - Net of Accumulated Amortization of \$4,595,000 and \$4,184,000, respectively	1,027,000	712,000
Deferred Financing Costs, Net, Deposits and Other Assets	1,094,000	869,000
Intangible Assets, Net	3,852,000	4,513,000
Deferred Tax Asset, Net	338,000	858,000
Goodwill	10,518,000	5,434,000
TOTAL ASSETS	\$ 88,250,000	\$ 66,180,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	\$ 40,893,000	\$ 19,508,000
Accounts Payable and Accrued Expenses	12,053,000	6,948,000
Lease Impairment - Current Portion	-	56,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Deferred Revenue	958,000	418,000
Dividends Payable	-	1,066,000
Income Taxes Payable	14,000	71,000
Total Current Liabilities	53,956,000	28,105,000
Long Term Liabilities		
Notes Payable and Capitalized Lease Obligations - Net of Current Portion	3,912,000	8,213,000
Lease Impairment - Net of Current Portion	-	4,000
Deferred Gain on Sale - Net of Current Portion	371,000	409,000
Deferred Rent	1,206,000	1,177,000
TOTAL LIABILITIES	59,445,000	37,908,000
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock - Par Value \$.001 - Authorized 1,000,000 Shares, None Issued and Outstanding at December 31, 2015 and 2014	-	-
Common Stock - Par Value \$.001 - Authorized 25,000,000 Shares, 7,560,040 and 7,108,677 Shares Issued and Outstanding as of December 31, 2015 and 2014, respectively	7,000	7,000
Additional Paid-In Capital	44,155,000	42,790,000
Accumulated Deficit	(15,357,000)	(14,525,000)
TOTAL STOCKHOLDERS' EQUITY	28,805,000	28,272,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 88,250,000	\$ 66,180,000

See Notes to Consolidated Financial Statements

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

	<u>2015</u>	<u>2014</u>
Net Sales	\$ 80,442,000	\$ 64,331,000
Cost of Sales	63,161,000	50,233,000
Gross Profit	17,281,000	14,098,000
Operating Expenses	16,557,000	11,960,000
Acquisition Costs	98,000	403,000
Income from Operations	626,000	1,735,000
Interest and Financing Costs	(1,858,000)	(1,295,000)
Other Income (Expense), Net	114,000	(141,000)
(Loss) Income before Benefit from Income Taxes	(1,118,000)	299,000
Benefit from Income Taxes	286,000	368,000
Net (Loss) Income	\$ (832,000)	\$ 667,000
(Loss) Income per share - basic	\$ (0.11)	\$ 0.10
(Loss) Income per share - diluted	\$ (0.11)	\$ 0.10
Weighted average shares outstanding - basic	7,478,223	6,591,755
Weighted average shares outstanding - diluted	7,478,223	6,915,688

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2015 and 2014

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u> <u>Capital</u>	<u>Deficit</u>	<u>Stockholders'</u> <u>Equity</u>
Balance, January 1, 2014	-	\$ -	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
Issuance of Shares For Acquisitions and Restricted Stock Grants	-	-	425,005	-	4,666,000	-	4,666,000
Issuance of Shares For Records Correction	-	-	539	-	-	-	-
Exercise of Options/Warrants	-	-	25,819	-	-	-	-
Dividends Paid	-	-	-	-	(3,401,000)	-	(3,401,000)
Stock Compensation Expense	-	-	-	-	100,000	-	100,000
Net Loss	-	-	-	-	-	(832,000)	(832,000)
Balance, December 31, 2015	-	\$ -	7,560,040	\$ 7,000	\$ 44,155,000	\$ (15,357,000)	\$ 28,805,000

See Notes to Consolidated Financial Statements

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

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss)	\$ (832,000)	\$ 667,000
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation of property and equipment	3,090,000	2,364,000
Amortization of intangible assets	1,262,000	1,163,000
Amortization of capitalized engineering costs	341,000	375,000
Bad debt expense	176,000	299,000
Non-cash compensation expense	100,000	42,000
Amortization of deferred financing costs	204,000	49,000
Gain on sale of real estate	(38,000)	(38,000)
Deferred income taxes	(215,000)	(1,043,000)
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts receivable	91,000	(2,417,000)
Inventory	(8,412,000)	(1,646,000)
Prepaid expenses and other current assets	(748,000)	(244,000)
Deposits and other assets	(18,000)	(164,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable and accrued expenses	3,593,000	(577,000)
Deferred rent	29,000	45,000
Deferred revenue	540,000	(249,000)
Income taxes payable	(57,000)	(1,425,000)
NET CASH USED IN OPERATING ACTIVITIES	(894,000)	(2,799,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for acquisitions	(6,945,000)	(8,930,000)
Cash acquired in acquisitions	605,000	173,000
Capitalized engineering costs	(656,000)	(335,000)
Purchase of property and equipment	(1,564,000)	(571,000)
NET CASH USED IN INVESTING ACTIVITIES	(8,560,000)	(9,663,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable - sellers	(41,000)	(691,000)
Note payable - revolver, net	11,933,000	3,142,000
Proceeds from note payable - term loans	3,500,000	7,328,000
Payments of note payable - term loans	(2,030,000)	(913,000)
Proceeds from note payable	350,000	-
Capital lease obligations	(717,000)	(143,000)
Proceeds from capital lease refinance	500,000	-
Deferred financing costs	(402,000)	(151,000)
Payments related to lease impairment	(60,000)	(67,000)
Dividends paid	(4,468,000)	(3,748,000)
Proceeds from public issuance in 2014 and private placement in 2013	-	9,530,000
Costs to raise capital	-	(968,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	8,565,000	13,319,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(889,000)	857,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,418,000	561,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 529,000	\$ 1,418,000

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

	2015	2014
Supplemental cash flow information		
Cash paid during the period for interest	\$ 1,649,000	\$ 1,074,000
Supplemental cash flow information		
Cash paid during the period for income taxes	\$ 445,000	\$ 2,494,000
Supplemental schedule of non-cash investing and financing activities		
Dividends payable	\$ -	\$ 1,066,000
Acquisition of property and equipment financed by capital lease	\$ 1,811,000	\$ -
Conversion of junior subordinated notes	\$ -	\$ 1,000,000
Classification of assets held for sale	\$ 1,700,000	\$ -
Purchase of assets of Compac and assumption of liabilities in the acquisition as follows:		
Fair Value of tangible assets acquired	\$ 406,000	\$ -
Intangible assets	600,000	-
Goodwill	560,000	-
Liabilities assumed	(95,000)	-
Cash paid for acquisition	\$ 1,471,000	\$ -
Purchase of stock of The Sterling Engineering Corporation and assumption of liabilities in the acquisition as follows:		
Fair Value of tangible assets acquired	\$ 8,181,000	\$ -
Goodwill	4,540,000	-
Cash acquired	588,000	-
Liabilities assumed	(3,169,000)	-
Common stock issued	(4,666,000)	-
Cash paid for acquisition	\$ 5,474,000	\$ -
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	-	635,000
Cash acquired	-	184,000
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

See Notes to Consolidated Financial Statements

AIR INDUSTRIES GROUP
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 newly 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 Corp. (“AIM”), Welding Metallurgy, Inc. (“WMI” or “Welding”), Miller Stuart, Inc. (“Miller Stuart”), Nassau Tool Works, Inc. (“NTW”), Woodbine Products, Inc. (“Woodbine” or “WPI”), Decimal Industries, Inc. (“Decimal”), Eur-Pac Corporation (“Eur-Pac” or “EPC”), Electronic Connection Corporation (“ECC”), AMK Welding, Inc. (“AMK”), Air Realty Group, LLC (“Air Realty”) The Sterling Engineering Corporation (“Sterling”) effective March 1, 2015, and Compac Development Corporation (“Compac”) effective September 1, 2015, (together, the “Company”).

Note 2. ACQUISITIONS

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.

The acquisition of Woodbine was accounted for under Financial Accounting Standards Board (“FASB”) ASC 805, “Business Combinations” (“ACS 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

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 a portion of 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	\$	<u>1,898,000</u>

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 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, 2015. The note was paid in 2014 with 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		635,000
Cash acquired		184,000
Liabilities assumed		(453,000)
Total	\$	<u>6,953,000</u>

AIR INDUSTRIES GROUP
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sterling

On March 1, 2015, the Company acquired all of the common stock of Sterling for \$5.4 million in cash and 425,005 shares of the common stock of AIRI. The common stock was valued at \$9.89 per share, which was the closing share price on February 27, 2015. The cash consideration is subject to adjustment for working capital changes. The Company has also entered into employment and non-compete agreements for two and three year periods with two of the principals of Sterling. In connection with these agreements, the Company granted 52,000 shares of restricted common stock to these individuals, which was accounted for as additional purchase price. The Company financed the acquisition of Sterling with the proceeds from the issuance of Term Loan D (see Note 9).

At the time of acquisition, Sterling had capital lease obligations for equipment with a remaining balance of approximately \$1.3 million. On April 21, 2015, the Company refinanced the \$1.3 million capital lease obligations with the same financing company. This refinancing generated approximately \$500,000 of cash for the Company. This capital lease obligation has been accounted for and summarized with the remainder of the Company's capital leases as disclosed in Note 9.

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

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

Fair value of tangible assets acquired	\$ 8,181,000
Goodwill	4,540,000
Cash acquired	588,000
Liabilities assumed	(3,169,000)
Total	<u>\$ 10,140,000</u>

Compac

On September 1, 2015, the Company, through its wholly-owned subsidiary WMI, acquired certain assets, including production equipment, inventory and intangible assets, of Compac in an asset acquisition for \$1.2 million in cash plus a working capital adjustment of \$271,000.

Compac located in Bay Shore, New York specializes in the manufacture of RFI/EMI (Radio Frequency Interference – Electro-Magnetic Interference) shielded enclosures for electronic components.

In connection with the asset purchase, the Company has assumed Compac's lease for its Bay Shore facility which extends through April 30, 2018 and has annual rent of approximately \$80,000, which is offset by rent received from the sub-tenant of approximately \$20,000 per year.

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

Fair value of tangible assets acquired	\$ 406,000
Intangible assets	600,000
Goodwill	560,000
Liabilities assumed	(95,000)
Total	<u>\$ 1,471,000</u>

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The below table sets forth selected financial information for the 2014 and 2015 acquisitions, which are included in our reported results of operations, for the years ended December 31, 2015 and 2014.

For the Year Ended December 31, 2015

	Woodbine	Eur-Pac	ECC	AMK	Sterling	Compac
Net Sales	\$ 753,000	\$ 4,802,000	\$ 605,000	\$ 4,057,000	\$ 6,894,000	\$ 467,000
Income (loss) from operations	\$ 21,000	\$ (642,000)	\$ 176,000	\$ (1,949,000)	\$ (1,196,000)	\$ (14,000)

For the Year Ended December 31, 2014

	Woodbine	Eur-Pac	ECC	AMK	Sterling	Compac
Net Sales	\$ 1,047,000	\$ 2,756,000	\$ 281,000	\$ 1,838,000	\$ -	\$ -
Income (loss) from operations	\$ 300,000	\$ 637,000	\$ 67,000	\$ 359,000	\$ -	\$ -

The below table sets forth selected proforma financial information as if AMK and Sterling were owned for the years ended December 31, 2015 and 2014.

For the Year Ended December 31, 2015

Net Sales	\$ 82,281,000
Income (loss) from operations	\$ 773,000

For the Year Ended December 31, 2014

Net Sales	\$ 77,935,000
Income (loss) from operations	\$ 1,313,000

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Sterling manufactures components for aircraft and ground turbine engines. Compac specializes in the manufacture of RFI/EMI (Radio Frequency Interference – Electro-Magnetic Interference) shielded enclosures for electronic components. The Company's customers consist mainly of publicly 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

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 deferred revenues 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, 2015 and 2014.

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.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$2,914,000 or 3.6% of net sales that were billed but not shipped under such bill and hold arrangements as of December 31, 2015.

Payments received in advance from customers for products delivered are recorded as deferred revenue until earned, at which time revenue is recognized. The Terms and Conditions contained in our customer purchase orders often provide for liquidated damages in the event that a stop work order is issued prior to the final delivery.

The Company utilizes a Returned Merchandise Authorization or RMA process for determining whether to accept returned products. Customer requests to return products are reviewed by the contracts department and if the request is approved, a credit is issued upon receipt of the product. Net sales represent gross sales less returns and allowances.

AIR INDUSTRIES GROUP
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 allowance for doubtful accounts, 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 four customers that represented 59.3% of total sales, and two customers that represented 47.3% of total sales for the years ended December 31, 2015 and 2014, respectively. This is set forth in the table below.

Customer	Percentage of Sales	
	2015	2014
1	20.5	26.8
2	15.4	20.5
3	12.0	*
4	11.4	*

* Customer was less than 10% of sales for the year ended December 31, 2014
Customers 1 and 2 are owned by the same corporate entity.

There were four customers that represented 61.1% of gross accounts receivable and three customers that represented 50.4% of gross accounts receivable at December 31, 2015 and 2014, respectively. This is set forth in the table below.

Customer	Percentage of Receivables		
	December		December
	2015		2014
1	26.6		29.0
2	13.6		11.4
3	10.5		*
4	10.4		10.0

* Customer was less than 10% of gross accounts receivable at December 31, 2014
Customers 1 and 3 are owned by the same corporate entity.

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:

	2015	2014
Weighted average shares outstanding used to compute basic earnings per share	7,478,223	6,591,755
Effect of dilutive stock options and warrants	-	323,933
Weighted average shares outstanding and dilutive securities used to compute diluted earnings per share	7,478,223	6,915,688

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

	December 31, 2015	December 31, 2014
Stock Options	234,000	22,888
Warrants	46,800	46,800
	280,800	69,688

The following securities have been excluded from the calculation even though the exercise price was less than the average market price of the common shares because the effect of including these potential shares was anti-dilutive due to the net loss incurred during that period:

	December 31, 2015	December 31, 2014
Stock Options	330,342	-
Warrants	117,785	-
	448,127	-

AIR INDUSTRIES GROUP
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 \$10,518,000 at December 31, 2015 relates to the acquisitions of Welding (\$291,000), NTW (\$162,000), Woodbine (\$2,565,000), Eur-Pac (\$1,656,000), ECC (\$109,000), AMK (\$635,000), Sterling (\$4,540,000) and Compac (\$560,000). 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 2015 to determine whether it was more likely than not that the fair value of each of Welding, including Woodbine, NTW, Eur-Pac, ECC, AMK, Sterling and Compac was less than its carrying amount.

The Company has determined that there has been no impairment of goodwill at December 31, 2015 and 2014.

Freight Out

Freight out is included in operating expenses and amounted to \$197,000 and \$98,000 for the years ended December 31, 2015 and 2014, respectively.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED 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,” 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

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.

In February 2015, the FASB issued amended guidance to the consolidation standard which updates the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendment modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, among other provisions. This amended guidance will be effective for the Company beginning fiscal year 2016. Early adoption is permitted. The Company is currently assessing the impact the adoption of the amended guidance will have on its consolidated financial statements but the adoption is not expected to have a significant impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued amended guidance which requires debt issuance costs to be presented as a direct deduction from the carrying value of the associated debt liability rather than as separate assets on the balance sheet. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. This amended guidance will be effective for the Company beginning fiscal year 2016. Early adoption is permitted, and the new guidance will be applied on a retrospective basis. The Company does not expect the adoption of this amended guidance to have a significant impact on its consolidated financial statements.

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.” On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year and the amendments are now effective prospectively for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The Company is currently assessing the impact on its consolidated financial statements.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330) Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value when the FIFO or average cost method is used. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and should be applied prospectively. Earlier adoption is permitted. The Company is currently assessing the impact the adoption of the amended guidance will have on its consolidated financial statements but the adoption is not expected to have a significant impact on the Company’s consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments”. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this update eliminate the requirement to retrospectively account for those adjustments. The amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update, with earlier application permitted for financial statements that have not been issued. The Company does not expect the adoption of this amended guidance to have a significant impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes, which requires companies to classify all deferred tax assets and liabilities as non-current on the balance sheet instead of separating deferred taxes into current and non-current amounts. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods thereafter, with early adoption permitted and either with prospective or retrospective application permitted. We do not expect this new guidance to have a material impact on our 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 2014 have been reclassified to conform to the current year presentation.

Subsequent Events

Management has evaluated subsequent events through the date of this filing.

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, 2015	December 31, 2014
Accounts Receivable Gross	\$ 14,647,000	\$ 13,482,000
Allowance for Doubtful Accounts	(985,000)	(1,566,000)
Accounts Receivable Net	<u>\$ 13,662,000</u>	<u>\$ 11,916,000</u>

The allowance for doubtful accounts for the years ended December 31, 2015 and 2014 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, 2015				
Allowance for Doubtful Accounts	\$ 1,566,000	\$ 177,000	\$ 758,000	\$ 985,000
Year ended December 31, 2014				
Allowance for Doubtful Accounts	\$ 783,000	\$ 816,000	\$ 33,000	\$ 1,566,000

Note 5. INVENTORY

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

	December 31, 2015	December 31, 2014
Raw Materials	\$ 9,188,000	\$ 7,168,000
Work In Progress	19,743,000	14,886,000
Finished Goods	11,838,000	10,072,000
Inventory Reserve	(3,846,000)	(3,475,000)
Total Inventory	<u>\$ 36,923,000</u>	<u>\$ 28,651,000</u>

The Company periodically evaluates inventory and establishes reserves for obsolescence, excess quantities, slow-moving goods, and for other impairment of value.

	Balance at Beginning of Year	Additions to Reserve	Deductions from Reserves	Balance at End of Year
Year ended December 31, 2015				
Reserve for Inventory	\$ (3,475,000)	\$ (785,000)	\$ 414,000	\$ (3,846,000)
Year ended December 31, 2014				
Reserve for Inventory	\$ (2,742,000)	\$ (743,000)	\$ 10,000	\$ (3,475,000)

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, 2015	December 31, 2014	
Land	\$ 300,000	\$ 200,000	
Buildings and Improvements	1,658,000	1,680,000	31.5 years
Machinery and Equipment	15,109,000	12,495,000	5 - 8 years
Capital Lease Machinery and Equipment	5,869,000	1,800,000	5 - 8 years
Tools and Instruments	6,993,000	5,566,000	1.5 - 7 years
Automotive Equipment	191,000	162,000	5 years
Furniture and Fixtures	425,000	294,000	5 - 8 years
Leasehold Improvements	910,000	646,000	Term of Lease
Computers and Software	482,000	372,000	4 - 6 years
Total Property and Equipment	31,937,000	23,215,000	
Less: Accumulated Depreciation	(16,638,000)	(13,658,000)	
Property and Equipment, net	<u>\$ 15,299,000</u>	<u>\$ 9,557,000</u>	

Depreciation expense for the years ended December 31, 2015 and 2014 was approximately \$3,090,000 and \$2,364,000, respectively.

Note 7. INTANGIBLE ASSETS

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

	December 31, 2015	December 31, 2014	
Customer Relationships	\$ 6,555,000	\$ 6,255,000	5 to 14 years
Trade Names	1,480,000	1,280,000	15-20 years
Technical Know-how	660,000	660,000	10 years
Non-Compete	150,000	50,000	5 years
Professional Certifications	15,000	15,000	.25 to 2 years
Total Intangible Assets	8,860,000	8,260,000	
Less: Accumulated Amortization	(5,008,000)	(3,747,000)	
Intangible Assets, net	<u>\$ 3,852,000</u>	<u>\$ 4,513,000</u>	

The expense for amortization of the intangibles for the years ended December 31, 2015 and 2014 was approximately \$1,262,000 and \$1,163,000, respectively.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future amortization of intangibles as of December 31, 2015 is as follows:

For the year ending	Amount
December 31, 2016	\$ 1,279,000
December 31, 2017	754,000
December 30, 2018	284,000
December 31, 2019	284,000
December 31, 2020	284,000
Thereafter	967,000
Total	\$ 3,852,000

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 located 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 Statements of Operations. The unrecognized portion of the gain in the amount of \$409,000 and \$447,000 as of December 31, 2015 and 2014, respectively, is classified as Deferred Gain on Sale in the accompanying Consolidated Balance Sheets.

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 the Company an option to renew the Lease for an additional period of five years. The Company has on deposit with the purchaser \$89,000 as security for the performance of its obligations under the Lease. In addition, the Company has on deposit \$150,000 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 in the accompanying Consolidated Balance Sheets. 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.

Note 9. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Notes payable and capital lease obligations consist of the following:

	December 31, 2015	December 31, 2014
Revolving credit note payable to PNC Bank N.A. ("PNC")	\$ 29,604,000	\$ 17,672,000
Term loans, PNC	9,833,000	8,363,000
Capital lease obligations	5,018,000	1,645,000
Related party notes payable	350,000	-
Other note payable	-	41,000
Subtotal	44,805,000	27,721,000
Less: Current portion of notes and capital obligations	(40,893,000)	(19,508,000)
Notes payable and capital lease obligations, net of current portion	\$ 3,912,000	\$ 8,213,000

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 an amendment to the Loan Facility in November 2015 and paid an amendment fee of \$40,000. At December 31, 2015, the Loan Facility consisted of a \$33,000,000 revolving loan (which includes an inventory sub-limit of \$15,000,000) and four term loans (Term Loan A, Term Loan B, Term Loan C, and Term Loan D), described below.

Under the terms of the Loan Facility 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 4.00% per annum at December 31, 2015 and 2014, and an outstanding balance of \$29,604,000 and \$17,672,000, 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 the Company then borrows according to a borrowing base. 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 \$2,676,000, representing an additional \$1,328,000, to partially fund the acquisition of Woodbine. The repayment terms of Term Loan A consists of thirty-two consecutive monthly principal installments, the first thirty-one in the amount of \$31,859 which commenced on the first business day of May 2014, and continued 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, 2015 and 2014, the balance due under Term Loan A was \$2,039,000 and \$2,421,000, 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 in the amount of \$58,333 which commenced on the first business day of December 2014, and continued 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. At December 31, 2015 and 2014, the balance due under Term Loan B was \$2,742,000 and \$3,442,000, respectively.

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 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 commenced 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, 2015 and 2014, the balance due under Term Loan C was \$2,118,000 and \$2,500,000, respectively.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 in the amount of \$62,847 which commenced on the first business day of April 2015, and continued 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 (3.50%) with respect to LIBOR Rate Loans. At December 31, 2015, the balance due under Term Loan D was \$2,934,000.

The Loan Facility was amended in February 2016 to increase the revolving loan to \$37,500,000, including an overdraft facility of \$4,500,000. Under the terms of the Loan Facility, as amended, the revolving loan 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. We paid a fee of \$75,000 in connection with the amendment.

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 December 31, 2015, the Company was not in compliance with the Fixed Charge Coverage Ratio covenant. Because the Loan Facility contains a subjective acceleration clause which could permit PNC to require repayment prior to maturity, the revolving loan is classified as current in the accompanying condensed consolidated balance sheet. The failure to maintain the requisite Fixed Charge Coverage Ratio constitutes a default under the Loan Facility and, PNC, at its option, may give notice to the Company that all amounts under the Loan Facility are immediately due and payable. Consequently, all amounts due under the Term Loans are also classified as current. As of the date of issuance of the accompanying financial statements, PNC has not given such notice. In addition, the Company has requested a waiver from PNC for the failure to meet the Fixed Charge Coverage Ratio covenant. At December 31, 2015, the Company was in compliance with all other terms of the Loan Facility. At December 31, 2014, 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, 2015 the future minimum principal payments for the term loans are as follows:

<u>For the year ending</u>	Amount
December 31, 2016	\$ 6,090,000
December 31, 2017	1,117,000
December 31, 2018	1,117,000
December 31, 2019	1,058,000
December 31, 2020	416,000
Thereafter	35,000
PNC Term Loans payable	9,833,000
Less: Current portion	(9,833,000)
Long-term portion	<u>\$ -</u>

Interest expense related to these credit facilities amounted to approximately \$1,414,000 and \$853,000 for the years ended December 31, 2015 and 2014, respectively.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$5,018,000 and \$1,645,000 as of December 31, 2015 and 2014, respectively, with various interest rates ranging from approximately 4% to 7%.

As of December 31, 2015, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

<u>For the year ending</u>	<u>Amount</u>
December 31, 2016	\$ 1,348,000
December 31, 2017	1,348,000
December 31, 2018	1,318,000
December 31, 2019	1,139,000
December 31, 2020	455,000
Thereafter	-
Total future minimum lease payments	5,608,000
Less: imputed interest	(590,000)
Less: current portion	(1,106,000)
Total Long Term Portion	<u>\$ 3,912,000</u>

Related Party Note Payable

On September 8, 2015, the Company issued a promissory note (the “Taglich Note”) to Michael Taglich in the principal amount of \$350,000. The Taglich Note bears interest at the rate of 4% per annum. The principal and interest are due to be paid on September 7, 2016. The Company’s obligation under the Taglich Note is subordinated to its indebtedness to PNC.

Interest expense related to the Taglich Note was \$1,000 for the year ended December 31, 2015.

Other Notes Payable

In connection with the acquisition of Welding on August 24, 2007, the Company incurred a note payable (“WMI Note”) to the former stockholders of Welding. The Company’s obligation under the WMI Note was subordinated to its indebtedness to PNC.

The WMI Note and payment terms were adjusted and/or amended several times and on January 5, 2015 the remaining balance of \$41,000 was paid and the obligation was satisfied. At December 31, 2015 and 2014, the balance owed under the WMI Note was \$0 and \$41,000, respectively.

Interest expense related to the WMI Note was \$0 and \$30,000 for the years ended December 31, 2015 and 2014, respectively.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 were 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 was \$0 at both December 31, 2015 and 2014.

Interest expense on the Junior Subordinated Notes amounted to \$0 and \$61,000 for the years ended December 31, 2015 and 2014, respectively.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	December 31, 2015	December 31, 2014
Accounts Payable	\$ 9,722,000	\$ 5,636,000
Accrued Expenses	1,807,000	812,000
Other Payables	524,000	500,000
	<u>\$ 12,053,000</u>	<u>\$ 6,948,000</u>

Note 11. STOCKHOLDERS' EQUITY

Common Stock Issuances

During the year ended December 31, 2015, the Company issued 25,819 shares of its common stock pursuant to the cashless exercise of Stock Options.

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 March 1, 2015, in connection with the acquisition of Sterling, the Company issued 425,005 shares of its common stock to the former stockholders of Sterling.

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.

During the year ended December 31, 2015, the Company granted 52,000 shares of restricted common stock pursuant to an agreement in connection with the acquisition of Sterling. The value of \$463,000 related to this grant has been recorded as additional paid in capital.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dividends

On January 24, 2014, the Company paid a dividend equal to \$0.125 per common share to all shareholders of record as of January 9, 2014. The approximate amount of the dividend was \$717,000.

On April 22, 2014, the Company paid a dividend equal to \$0.15 per common share to all shareholders of record as of April 15, 2014. The approximate amount of the dividend was \$885,000.

On July 10, 2014 the Company paid a dividend equal to \$0.15 per common share to all shareholders of record as of June 30, 2014. The approximate amount of the dividend was \$1,064,000.

On November 3, 2014, the Company paid a dividend equal to \$0.15 per common share to all shareholders of record as of October 20, 2014. The approximate amount of the dividend was \$1,065,000.

On January 15, 2015 the Company paid a dividend equal to \$0.15 per common share or \$1,066,000 to all shareholders of record as of January 2, 2015.

On April 24, 2015 the Company paid a dividend equal to \$0.15 per common share or \$1,134,000 to all shareholders of record as of April 13, 2015.

On August 12, 2015, the Company paid a dividend equal to \$0.15 per common share or \$1,134,000 to all shareholders of record as of August 3, 2015.

On December 1, 2015, the Company paid a dividend equal to \$0.15 per common share or \$1,133,000 to all shareholders of record as of November 23, 2015.

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 operations. The Company did not account for the derivative liability in its consolidated financial statements as it was determined to not be material.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2018.

Medical benefits for union employees are provided through a policy with Insperty, 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 \$247,000 and \$242,000 for the years ended December 31, 2015 and 2014, 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 Insperty.

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 pre-tax eligible compensation to the Plan. The Company does not match any contributions that employees may make to the Plans.

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 \$2,225,000 and \$2,270,000 for the years ended December 31, 2015 and 2014, respectively. The Company is responsible for paying all operating costs under the terms of the leases. As of December 31, 2015, the aggregate future minimum lease payments are as follows:

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ending	Plant Avenue	Fifth Avenue	Lamar Street	Motor Parkway	Porter Street	Clinton Avenue	Total Rents
	Annual Rent	Annual Rent	Annual Rent	Annual Rent	Annual Rent	Annual Rent	
December 31, 2016	\$ 615,000	\$ 704,000	\$ 360,000	\$ 103,000	\$ 115,000	\$ 76,000	\$ 1,973,000
December 31, 2017	543,000	725,000	360,000	106,000	115,000	78,000	1,927,000
December 31, 2018	559,000	747,000	300,000	110,000	115,000	26,000	1,857,000
December 31, 2019	576,000	769,000	-	113,000	48,000	-	1,506,000
December 31, 2020	593,000	792,000	-	116,000	-	-	1,501,000
Thereafter	3,272,000	5,040,000	-	103,000	-	-	8,415,000
Total Rents	\$ 6,158,000	\$ 8,777,000	\$ 1,020,000	\$ 651,000	\$ 393,000	\$ 180,000	\$17,179,000

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, 2015, the accrued lease impairment was \$0.

On December 7, 2015, the Company executed a Sale - Leaseback Arrangement, whereby the Company agreed to sell the buildings and real property located in South Windsor, Connecticut (the "Property") for a purchase price of \$1,700,000. The contract expects to close in April 2016. At December 31, 2015, the Company classified the Property as Assets Held for Sale with a balance of \$1,700,000.

Simultaneous with the closing of the sale of the Property, the Company will enter into a 15-year lease (the "Lease") with the purchaser for the property. Base annual rent is approximately \$155,000 for the first year and increases approximately 3% per year, each year thereafter. The Lease grants the Company an option to renew the Lease for an additional period of five years. 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 representations, warranties, obligations, conditions and indemnification provisions in favor of the purchaser and grants the purchaser 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.

The Company will account for the transaction under the provisions of FASB ASC 840-40, "Leases – Sale-Leaseback Transactions".

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. INCOME TAXES

The provision for (benefit from) income taxes as of December 31, is set forth below:

	<u>2015</u>	<u>2014</u>
Current		
Federal	\$ -	\$ 939,000
State	53,000	16,000
Prior year overaccruals		
Federal	(123,000)	10,000
State	-	(290,000)
Total (Benefit) Expense	<u>(70,000)</u>	<u>675,000</u>
Deferred Tax Benefit	<u>(216,000)</u>	<u>(1,043,000)</u>
Net Benefit from Income Taxes	<u>\$ (286,000)</u>	<u>\$ (368,000)</u>

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>2015</u>	<u>2014</u>
U.S. statutory income tax rate	-34.0%	34.0%
State taxes	4.7%	10.0%
Permanent differences, overaccruals and non-deductible items	3.0%	-167.0%
Rate change and provision to return true-up	-40.2%	0.0%
Expired stock options	40.8%	0.0%
Total	<u>-25.7%</u>	<u>-123.0%</u>

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of net deferred tax assets at December 31, 2015 and December 31, 2014 are set forth below:

	December 31, <u>2015</u>	December 31, <u>2014</u>
Deferred tax assets		
Current:		
Net operating losses	\$ 462,000	\$ -
Bad debts	336,000	650,000
Inventory - 263A adjustment	8,000	9,000
Accounts payable, accrued expenses and reserves	919,000	762,000
Total current deferred tax assets before valuation allowance	<u>1,725,000</u>	<u>1,421,000</u>
Valuation allowance	-	-
Total current deferred tax assets after valuation allowance	<u>1,725,000</u>	<u>1,421,000</u>
Non-current:		
Capital loss carry forwards	-	1,088,000
Section 1231 loss carry forward	4,000	4,000
Stock based compensation - options and restricted stock	79,000	527,000
Capitalized engineering costs	432,000	522,000
Deferred rent	410,000	483,000
Amortization - NTW Transaction	789,000	663,000
Inventory reserves	680,000	-
Lease impairment	-	22,000
Deferred gain on sale of real estate	126,000	179,000
Other	257,000	-
Total non-current deferred tax assets before valuation allowance	<u>2,777,000</u>	<u>3,488,000</u>
Valuation allowance	(4,000)	(1,092,000)
Total non-current deferred tax assets after valuation allowance	<u>2,773,000</u>	<u>2,396,000</u>
Deferred tax liabilities:		
Property and equipment	(2,091,000)	(1,082,000)
Amortization - NTW Goodwill	(13,000)	(11,000)
Amortization - AMK Goodwill	(18,000)	(4,000)
Amortization - Welding Transaction	(313,000)	(441,000)
Total non-current deferred tax liabilities	<u>(2,435,000)</u>	<u>(1,538,000)</u>
Net non current deferred tax asset	<u>\$ 338,000</u>	<u>\$ 858,000</u>

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

During the year ended December 31, 2014, the Company provided a valuation allowance on the deferred tax assets related to capital loss and section 1231 loss carryforwards. The valuation allowance at December 31, 2015 and 2014 amounted to \$4,000 and \$1,092,000, respectively. Management believes that the remainder of the net deferred tax assets are more likely than not to be realized.

At December 31, 2015 and 2014, 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, 2015 and 2014, 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 2012 through 2015 tax years generally remain subject to examination by federal and state tax authorities.

Note 15. STOCK OPTIONS AND WARRANTS

Stock-Based Compensation

On March 30, 2015, the Board of Directors adopted the Company's 2015 Equity Incentive Plan ("2015 Plan"). The 2015 Plan is virtually identical to the Company's 2013 Equity Incentive Plan. The 2015 Plan was approved by the Company's stockholders on June 25, 2015. The Plan authorized the grant of rights with respect to up to 350,000 shares. No stock options have been issued under the Plan as of December 31, 2015.

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 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, 2015 and 2014, the Board of Directors approved the issuance of 18,000 and 24,000 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.

At various dates during 2015, the Board of Directors approved the issuance of 81,000 options to certain management employees. These options vest ratably over two to four years.

The Company recorded stock based compensation expense of \$100,000 and \$42,000 in its consolidated statement of operations for the years ended December 31, 2015 and 2014, respectively, and such amounts were included as a component of general and administrative expense.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	2015	2014
Risk-free interest rates	1.31% - 1.49%	1.55% - 1.68%
Expected life (in years)	5 - 6	5 - 7
Expected volatility	25 %	25 %
Dividend yield	5.9 %	5.6% - 6.1%
Weighted-average grant date fair value per share	\$1.10	\$1.10

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, 2015 and 2014, and changes during the two years then ended are presented below.

	Options	Wtd. Avg. Exercise Price
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)	103.45
Balance, December 31, 2014	528,539	9.01
Granted during the period	99,000	10.20
Exercised during the period	(46,473)	4.50
Terminated/Expired during the period	(16,724)	84.78
Balance, December 31, 2015	564,342	\$ 7.35
Exercisable at December 31, 2015	410,190	\$ 6.56

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about stock options at December 31, 2015:

Range of Exercise Prices	Remaining Number Outstanding	Wtd. Avg. Life	Wtd. Avg. Exercise Price
\$0.00 - \$5.00	199,696	3.6 years	\$4.37
\$5.01 - \$20.00	364,646	4.2 years	8.98
\$0.00 - \$20.00	564,342	4.0 years	\$7.35

As of December 31, 2015, there was \$184,000 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, 2015 was based on the Company's closing stock price of \$8.15 was \$945,232. 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, 2015 was 316,842.

The weighted average fair value of options granted during the years ended December 31, 2015 and 2014 was \$1.10 and \$1.10 per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2015 and 2014 was \$169,626 and \$191,552, respectively. The total fair value of shares vested during the years ended December 31, 2015 and 2014 was \$33,845 and \$51,828, respectively.

Warrants

The following tables summarize the Company's outstanding warrants as of December 31, 2015 and changes during the two years then ended:

	Warrants	Wtd. Avg. Exercise Price
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
Granted during the period	-	-
Exercised during the period	-	-
Terminated/Expired during the period	-	-
Balance, December 31, 2015	164,585	\$ 7.85
Exercisable at December 31, 2015	164,585	\$ 7.85

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

	2015	2014
Risk-free interest rates	n/a	1.55% - 1.56%
Expected life (in years)	n/a	5
Expected volatility	n/a	20.56%
Dividend yield	n/a	6%
Weighted-average grant date fair value per share	n/a	\$0.67-\$1.38

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about warrants at December 31, 2015:

Range of Exercise Prices	Warrants	Wtd. Avg. Life	Wtd. Avg. Exercise Price
\$6.30	107,785	1.5 years	\$6.30
\$8.72 - \$11.25	56,800	3.4 years	10.80
\$6.30 - \$11.25	<u>164,585</u>	2.1 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.

As discussed in Note 9, on September 8, 2015, the Company issued a promissory note payable to Michael Taglich, one of the co-founders of Taglich Brothers and a director of the Company in the principal amount of \$350,000.

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.

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, ECC, and Compac beginning September 1, 2015 ; and Turbine Engine Components which consists of AMK and Sterling, beginning March 2015. Along with our operating subsidiaries, we report the results of our corporate division as an independent segment.

AIR INDUSTRIES GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Corporate level operating costs are allocated to segments. These costs include corporate costs such as legal, audit, tax and other professional fees including those related to being a public company.

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
COMPLEX MACHINING		
Net Sales	\$ 42,356,000	\$ 44,220,000
Gross Profit	10,412,000	8,691,000
Pre Tax Income (Loss)	1,825,000	711,000
Assets	48,353,000	40,611,000
AEROSTRUCTURES & ELECTRONICS		
Net Sales	27,134,000	18,273,000
Gross Profit	6,553,000	4,812,000
Pre Tax Income (Loss)	386,000	(554,000)
Assets	20,229,000	16,788,000
TURBINE ENGINE COMPONENTS		
Net Sales	10,952,000	1,838,000
Gross Profit	316,000	595,000
Pre Tax Income (Loss)	(3,329,000)	142,000
Assets	19,076,000	8,150,000
CORPORATE		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Income (Loss)	-	-
Assets	592,000	631,000
CONSOLIDATED		
Net Sales	80,442,000	64,331,000
Gross Profit	17,281,000	14,098,000
Pre Tax Income (Loss)	(1,118,000)	299,000
Benefit from Income Taxes	286,000	368,000
Net (Loss) Income	(832,000)	667,000
Assets	\$ 88,250,000	\$ 66,180,000

PROMISSORY NOTE

\$350,000

as of September 8, 2015

FOR VALUE RECEIVED, Air Industries Group (the "Maker"), promises to pay to the order of Michael Taglich (the "Holder") at 790 New York Avenue, Suite 209, Huntington, New York 11743 the principal sum of \$350,000 on September 7, 2016 (the "Maturity Date") together with interest thereon as provided herein.

The Maker further agrees to pay interest on the Maturity Date (and thereafter upon demand) on the unpaid principal sum of this Note at the rate of 4.00% per annum. Interest shall be calculated from September 8, 2015, on the basis of a 365/366 day year and the actual number of days elapsed. In no event shall the Holder hereof, or any permitted successor or assign, be entitled to receive, collect or retain any amount of interest paid hereon in excess of that permitted by applicable law. The Maker shall have the right, at any time and from time to time, upon three business days notice to the Holder, to prepay this Note in whole or in part together with accrued interest on the amount prepaid, but without premium or penalty. All payments to Holder shall be made in United States dollars.

Any sum required to be withheld from the payment of interest due hereunder pursuant to United States law shall be promptly paid by Maker for and on behalf of Holder to the appropriate tax authority and Maker shall furnish Holder with official tax receipts or other appropriate evidence sufficient to enable Holder to support a claim for income tax credit in respect of any sum so withheld.

If any of the following events ("Events of Default") shall occur and be continuing: (a) the failure of the Maker to pay when due any amount due under this Note; (b) the filing of any petition by or against the Maker, or commencement of any proceedings for the relief or readjustment of any indebtedness of the Maker under any law relating to bankruptcy, insolvency or reorganization or relief of debtors and the continuance of such event for 60 consecutive days unless dismissed, bonded to the satisfaction of the court of competent jurisdiction or discharged; (c) the appointment of a receiver or conservator of any property of the Maker; or (d) the sale by Maker of all or any substantial portion of its assets; then, or at any time after the happening and during the continuance of any Event of Default, the Holder may declare this Note and all amounts payable hereunder to be immediately due and payable, whereupon this Note, and all amounts due hereunder shall become and be immediately due and payable, all without presentment, protest, demand or notice of any kind, all of which are expressly waived by the Maker; provided, however, that in the event of an entry of an order for relief with respect to the Maker or any endorser or guarantor of this Note under the Federal Bankruptcy Code, this Note, and all such amounts shall automatically become and be due and payable, all without presentment, protest, demand or notice of any kind, all of which are expressly waived by the Maker.

The Maker agrees to pay on demand all reasonable costs and expenses in connection with the preparation, execution, delivery, administration, modification, amendment and enforcement (whether through legal proceedings, negotiations or otherwise) of this Note and any other document to be delivered hereunder (such costs and expenses shall include without limitation, the reasonable fees and expenses of legal counsel.) The obligations of the Maker under this Paragraph shall survive the payment in full of this Note.

The Maker hereby waives presentment for payment, demand, notice of dishonor and protest of this Note. This Note shall be governed by, and construed in accordance with, the laws of the State of New York. None of the terms or provisions of this Note may be waived, altered, modified or amended except as the Holder may consent thereto in writing.

Without limiting the right of the Holder to bring any action or proceeding against the Maker or against property of the Maker arising out of or relating to this Note (an AAction@) in the courts of other jurisdictions, the Maker hereby irrevocably submits to the jurisdiction of any New York State or Federal Court sitting in New York County, New York, respectively, and the Maker hereby irrevocably agrees that any Action may be heard and determined in any such State or Federal court.

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be sent by certified mail, return receipt requested, by Express Mail, or by a recognized overnight delivery courier service: (i) to the Maker at 360 Motor Parkway, Suite, Hauppauge, New York 11788, (ii) to the Holder at its address first above written; and (iii) in either case, at such other address as the party shall have furnished in writing in accordance with the provisions of this Note. Any notice or other communication given by the means permitted hereunder shall be deemed given and effective at the time of deposit thereof in the mails or with a recognized overnight courier.

Air Industries Group

By: /s/ Daniel R. Godin
Daniel R. Godin

By: /s/ Michael Taglich
Michael Taglich

REAL ESTATE PURCHASE AND SALE CONTRACT

by and between

**GRAND/SAKWA AIG LLC,
a Michigan limited liability company**

as BUYER

and

**AIR REALTY GROUP LLC,
a Connecticut limited liability company**

as SELLER

Property: The real property located at 283 Sullivan Avenue, South Windsor, CT and described on Exhibit A

REAL ESTATE PURCHASE AND SALE CONTRACT

THIS REAL ESTATE PURCHASE AND SALE CONTRACT (this "**Agreement**" or "**Purchase Agreement**") made and entered into effective as of the 7th day of December, 2015, by and between AIR REALTY GROUP LLC, a Connecticut limited liability company ("**Seller**"), having a mailing address at 283 Sullivan Avenue, South Windsor, Connecticut 06074, and GRAND/SAKWA AIG, LLC, a Michigan limited liability company, or its assigns, having a mailing address at 28470 Thirteen Mile Road, Suite 220, Farmington Hills, MI 48334 ("**Buyer**");

WITNESSETH:

WHEREAS, Seller is the fee simple owner of and is willing to sell the real property and the improvements thereon, the address of which is 283 Sullivan Avenue, South Windsor, CT, 06074 as more fully described in **Exhibit A** attached hereto, and Buyer is willing to purchase such real property from Seller, upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **Definitions.** In addition to other words and terms defined elsewhere in this Agreement, as used herein the following words and terms shall have the following meanings, respectively, unless the context hereof otherwise clearly requires:

(a) "**Closing**" shall mean the consummation of the purchase and sale of all of the Premises (as defined below) in accordance with the terms of this Agreement; and "**Closing Date**" shall mean the date on which the Closing actually occurs. The Closing Date shall occur no later than _____, 2015.

(b) "**Due Diligence Materials**" shall mean:

- (i) Copies of Real Estate Tax Bills for the prior 3 years;
- (ii) Reviewed and/or audited (if available) financial statements for Parent for the previous 2 years;
- (iii) List of any capital improvements to the Premises that have been completed in the past 3 years;
- (iv) Copy of any easement and/or operating agreements that govern the Premises;
- (v) Copy of insurance certificate;
- (vi) Copies of any surveys of the Premises;

- (vii) Site plan and any as-built plans for the Premises;
- (viii) Copies of certificates of occupancy for the tenant space(s);
- (ix) Copies of any existing environmental reports;
- (x) Copies of any existing property condition reports;
- (xi) Roof information (e.g. age, condition, warranty status); and
- (xii) Schedule of any current or pending litigation.

(c) “**Earnest Money Deposit**” shall mean the deposit of \$20,000 to be given by Buyer to Escrow Agent pursuant to Section 3(a) of this Agreement, as well as all interest earned thereon in the interest-bearing money market account in which Escrow Agent is required to place the Earnest Money Deposit.

(d) “**Effective Date**” of this Agreement shall mean that date upon which the last of the Buyer and Seller has executed and delivered this Agreement and the Deposit has cleared.

(e) “**Escrow Agent**” shall mean Title Source, Inc., the address of which is 662 Woodard Avenue, 9th Floor, Detroit, Michigan 48226.

(f) “**Guaranty**” shall mean the Guaranty of all rent and all other tenant obligations for the Lease, to be entered into at Closing by Air Industries Group, a Nevada corporation, Parent (“**Parent**”), as guarantor, in the form attached as Exhibit G hereto.

(g) “**Hazardous Materials**” shall mean all toxic or hazardous materials, chemicals, wastes, pollutants or similar substances, including, without limitation, Petroleum (as hereinafter defined), asbestos insulation and/or urea formaldehyde insulation, which are regulated, governed, restricted or prohibited by any federal, state or local law, decision, statute, rule, regulation or ordinance currently in existence or hereafter enacted or rendered (hereinafter collectively referred to as the “Hazardous Materials Laws”) including, but not limited to, those materials or substances defined as “hazardous substances,” “hazardous materials,” “toxic substances” or “pollutants” in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., the Clean Air Act, 42 U.S.C. Section 7401 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., and any applicable statutes, ordinances or regulations under the laws of the State in which the Premises are located, and any rules and regulations promulgated thereunder, all as presently or hereafter amended. “Petroleum” for purposes of this Agreement shall include, without limitation, oil or petroleum of any kind and in any form including but not limited to oil, petroleum, fuel oil, oil sludge, oil refuse, oil mixed with other waste, crude oil, gasoline, diesel fuel and kerosene.

(h) “**Improvements**” shall mean the building(s) on the Property, and the other related improvements and all appurtenances thereto, including but not limited to all pavement, accessways, curb cuts, parking, drainage systems and facilities, landscaping, and utility facilities and connections for sanitary sewer, potable water, irrigation, electricity, telephone and telecommunications and natural gas, if applicable or required by the Lease, to the extent the same form a part of the Premises; provided, however, Improvements shall not include any personal property or trade fixtures located on or placed on the Premises by Seller.

(i) “**Inspection Period**” shall mean that period of time starting on the Effective Date of this Agreement and terminating on the date that is thirty (30) days from the Effective Date.

(j) “**Lease**” shall mean the Lease Agreement for the Premises to be entered into at Closing between Buyer, as landlord, and Seller, as tenant, whereby such Lease Agreement(s) shall be in the form attached hereto on Exhibit H. The Lease term shall be fifteen (15) years, together with three (3) successive five-year extensions.

(k) “**Permits**” shall mean all of the governmental permits, including licenses and authorizations, required for the construction, ownership and operation of the Improvements on the Premises, including without limitation certificates of occupancy, building permits, signage permits, site use approvals, zoning certificates, environmental and land use permits and any and all necessary approvals from state or local authorities.

(l) “**Permitted Exceptions**” shall mean those items described on Exhibit B attached hereto and those items approved in writing by Buyer during its Inspection Period with respect to title for the Premises.

(m) “**Personalty**” shall mean all items of tangible personal property owned or leased by Seller which are located on and which are used or useful in connection with the maintenance and operation of the Premises.

(n) “**Plans**” shall mean the final “as-built” plans and specifications for the Improvements, which are to be furnished by Seller to Buyer pursuant to Section 5(a)(i) of this Agreement.

(o) “**Premises**” shall mean the Property, together with all of the Improvements, tenements, hereditaments and appurtenances belonging or in any way appertaining to the Property, and all of Seller’s rights, title and interest in and to (i) any and all property lying in the bed of any street, road or avenue, open or proposed, in front of or adjoining such real property to the center line thereof, (ii) any strips and gores of land adjacent to, abutting or used in connection with such real property, (iii) any easements and rights, if any, inuring to the benefit of such real property or to Seller in connection therewith, and (iv) all tangible and intangible personal property, including fixtures, located on or about or arising out of the ownership of the Property; and, to the extent assignable, all right, title and interest in and to all licenses, permits and franchises issued by any State, Federal or local municipal authorities, relating to the use, maintenance or operation of the Property.

(p) “**Property**” shall mean the parcel of land described on Exhibit A hereto.

(q) “**Purchase Price**” shall mean One Million Seven Hundred Thousand and 00/100 Dollars (\$1,700,000.00).

(r) “**Tenant**” shall mean Seller in its capacity as lessee under the Lease.

(s) “**Title Company**” shall mean Title Source, Inc. or another title insurance company selected by Buyer and licensed in Connecticut, which shall issue the owner’s policy of title insurance required hereunder.

2. Purchase and Sale of Premises. Subject to the terms, provisions and conditions set forth herein, Seller hereby agrees to sell the Premises to Buyer, and Buyer hereby agrees to purchase the Premises from Seller.

3. Purchase Price for Premises. The Purchase Price for the Premises shall be payable in the following manner:

(a) Earnest Money Deposit. Not later than two (2) days following the date on which Buyer shall receive a counterpart of this Agreement fully executed by Buyer and Seller, Buyer shall deposit with Escrow Agent the Earnest Money Deposit hereunder, to be held and disbursed in accordance with the terms of this Agreement. After clearance of funds, Escrow Agent shall hold the Earnest Money Deposit in an interest bearing money market account at a federally insured financial institution reasonably acceptable to Buyer and Escrow Agent, and interest earned thereon shall be reported under the United States Taxpayer Identification Number _____ of Buyer. All interest earned on the Earnest Money Deposit, or any portion thereof, shall be deemed to constitute a portion of the Earnest Money Deposit and shall be disbursed in accordance with the terms of this Agreement. The principal amount of the Earnest Money Deposit shall be credited to the cash due from Buyer at Closing.

(b) Balance of Purchase Price. The balance of the Purchase Price, less any apportionments set forth in Section 7 hereof and interest earned on the Earnest Money Deposit, shall be paid in full by Buyer at the Closing by wire transfer of immediately available federal funds as Seller shall direct.

4. Closing Date.

(a) The Closing shall take place on a date mutually acceptable to Buyer and Seller not later than thirty (30) days following expiration of the Inspection Period, provided that Buyer has given a Notice to Proceed pursuant to Section 5b)(v) hereof, but in no event later than thirty (30) days after the expiration of the Inspection Period, which time is of the essence as to Buyer's obligations hereunder.

5. Conditions to Buyer's Obligation to Close. Buyer's obligation to purchase the Property on the Closing Date is subject to the satisfaction of the following contingencies and conditions in the manner and within the time limits herein specified:

(a) On the Effective Date of this Agreement:

Seller shall deliver to Buyer (at no cost to Buyer) copies of the Due Diligence Materials and any and all other tests, surveys, examinations, plans, appraisals, permits, licenses, environmental studies or reports and other studies or investigations for or regarding the Premises which the Seller may have in its possession or control.

(b) Within the Inspection Period:

(i) Within ten (10) days after the Effective Date hereof, Seller shall have delivered to Buyer a Commitment from the Title Company for an owner's title insurance policy (ALTA form) with respect to the Premises, naming Buyer as the Proposed Insured in the amount of the Purchase Price applicable to that Premises and with standard exceptions deleted (the "**Title Commitment**"), and within the Inspection Period, Buyer shall have reviewed and approved the Title Commitment or approved the Title Commitment subject to satisfaction of specified objectives.

(ii) Buyer shall have obtained, reviewed and approved an ALTA as built survey for such Premises in a form acceptable to Buyer.

(iii) Buyer shall have otherwise determined, in its sole and absolute discretion, that the Premises is satisfactory in all respects, including, without limitation, the physical and environmental condition thereof pursuant to Buyer's inspections conducted in accordance with Section 8 below.

(iv) Buyer's (at its expense) receipt of Satisfactory Zoning (PZR) Report and Satisfactory Property Condition Report ("PCR"); provided, however, notwithstanding anything to the contrary contained in this Agreement, if the PCR discloses any "immediate required repairs", Buyer may elect to close and cause one hundred twenty five percent of the repair and replacement costs for the immediate required repairs to be held in escrow with the Title Company to be used by Buyer to repair and/or replace such items (subject to Seller agreeing thereto).

(v) This Purchase Agreement shall terminate upon expiration of the Inspection Period unless Buyer has delivered to Seller a written notice that Buyer shall proceed with the purchase of the Premises, (the "**Notice to Proceed**"). If the Notice to Proceed has been timely delivered, the parties shall each be required to consummate the Closing subject only to the conditions for Closing set forth in this Agreement.

(c) On the Closing Date:

(i) Tenant shall be open and operating its business at the Premises.

(ii) The representations and warranties of Seller set forth in Section 11 hereof shall be true, correct and complete in all material respects on and as of the Closing Date.

(iii) Each physical/engineering and environmental assessment approved by Buyer during the Inspection Period shall continue to accurately reflect the environmental condition of the Premises.

(iv) Seller shall not have filed or have had filed against it a petition seeking relief under the bankruptcy or other similar laws of the United States or any state thereof.

(v) Buyer shall have received the Title Commitment for the Premises "marked-up", or an equivalent title insurance "proforma" effectively dated as of the Closing, deleting all requirements thereunder so as to obligate the Title Company unconditionally to issue to Buyer an original owner's policy of title insurance for the Premises in the amount of the Purchase Price applicable to the Premises, subject only to the Permitted Exceptions.

(vi) Title Company shall deliver to Buyer a "closing protection" or "insured closing" letter, evidencing the authority of any agent of Title Company which conducts the Closing and issues the Buyer's owner's policy of title insurance for or on behalf of Title Company.

(d) If the foregoing contingencies set forth in this Section 5 are not satisfied within the respective time periods set forth above, then in addition to any rights afforded by Section 4 and Section 15 of this Agreement Buyer shall be entitled to terminate this Agreement by delivering written notice thereof to Seller and Escrow Agent in accordance with and subject to the provisions of Section 10.(b) below (the "**Termination Notice**"), whereupon the Earnest Money Deposit for the rejected Premises and all interest earned thereon shall be returned to Buyer and this Agreement shall terminate and become null and void and all parties hereto shall be relieved of all obligations hereunder.

6. Deliveries at Closing. At Closing the parties shall deliver to each other the documents and items indicated below:

(a) Seller shall deliver to Buyer:

(i) An appropriate customary "Seller's Title Affidavit" or other acceptable evidence attesting to the absence of liens, lien rights, rights of parties in possession (other than Tenant) and other encumbrances arising under Seller (other than the Permitted Exceptions) naming Title Company as benefited parties, so as to enable Title Company to delete the "standard" exceptions for such matters from Buyer's owner's policy of title insurance for the Premises and otherwise insure any "gap" period occurring between the Closing and the recordation of the closing documents.

(ii) A duly executed Assignment of Licenses, Permits, Plans, Contracts and Warranties with respect to the Premises in the form attached as Exhibit C, together with all of the documents assigned thereby.

(iii) A duly executed Warranty Deed with respect to the Premises, subject to no exceptions other than the Permitted Exceptions, in substantially the form attached as Exhibit D, and otherwise as approved by the Title Company and revised as needed to conform to the requirements of state law for the state in which the Premises are located.

(iv) A duly executed Warranty Bill of Sale for nominal consideration with respect to the Personalty for the respective Premises in the form attached as Exhibit E.

(v) A duly executed counterpart of the Lease in the form set forth on Exhibit F hereto, and a recordable Memorandum of Lease if the latter is requested by either party or required by the Title Company.

(vi) A duly executed Guaranty for the Lease executed by Parent in the form set forth on Exhibit G hereto.

(vii) A duly executed counterpart of the closing statement.

(viii) An appropriate FIRPTA Affidavit or Certificate by Seller, evidencing that Seller is not a foreign person or entity under Section 1445(f)(3) of the Internal Revenue Code, as amended.

(ix) All certificates of insurance, insuring Buyer as the owner of each of the Premises, which are required by the Lease for such Premises to be furnished by the Tenant to the landlord.

(x) Such other closing documents as are reasonably necessary and proper in order to consummate the transaction contemplated by this Agreement, including those (if any) required to be delivered by Seller pursuant to Section 5(c) above, including recordable Non-Disturbance Agreements from any secured lender of Buyer in the form set forth in the Lease.

(b) Buyer shall deliver to Seller:

(i) The Purchase Price, less all the deductions, prorations, and credits provided for herein.

(ii) A duly executed counterpart of the closing statement.

(iii) A duly executed counterpart of the Lease, and a recordable Memorandum of Lease if the latter is requested by either party or required by the Title Company.

7. Closing and Other Costs, Adjustments and Prorations. The Closing costs shall be allocated and other closing adjustments and prorations made between Seller and Buyer as follows:

(a) The Seller shall be charged with the following items, all of which shall be directly paid by Seller or which shall be paid out of the Purchase Price at Closing and credited against, and shall reduce dollar-for-dollar, the Purchase Price payable to Seller at the Closing: the usual and customary costs and expenses set forth in a settlement statement with respect to the conveyance of a commercial property (excluding only those expenses specifically described below as the responsibility of Buyer) and including without limitation (i) all real estate conveyance taxes and other transfer taxes, if any, for the Premises imposed by state or local authorities (paid by a grantee); (ii) costs of removing any lien, assessment or encumbrance required to be discharged hereunder in order to convey title to the Premises as herein provided, including, without limitation, any prepayment penalties or fees incurred in connection therewith; (iii) one-half (1/2) of the cost of the owner's policy of title insurance (standard 1992 ALTA Policy, including any cost to delete the "standard" exceptions for parties in possession, matters of survey and construction lien claims); and (iv) one-half (1/2) of each of the costs and fees charged by the Escrow Agent and the recording costs for any Memorandum of Lease.

(b) The Buyer shall pay the following items in addition to the Purchase Price payable to Seller at Closing: (i) fees and expenses of Buyer's counsel, (ii) recording costs for the Warranty Deed, (iii) the cost of obtaining any appraisals, environmental assessments and building condition reports; and (iv) one-half (1/2) of each of the costs and fees charged by the Escrow Agent and recording any Memorandum of Lease.

(c) As the Lease is to be entered into between Buyer and Tenant effective as of the Closing Date, it shall not be necessary for rent or any other charges payable under the Leases to be prorated at Closing, and all rent and other charges payable under the Lease shall be the property of Buyer.

(d) Taxes, assessments and other charges shall not be prorated as of Closing, as Seller shall be responsible for such matters related to the period prior to Closing, and Tenant shall be responsible for such matters from and after Closing. Certified, confirmed and ratified special assessments liens as of the Closing Date are to be paid by Seller. Seller shall also pay and be responsible for any "rollback" taxes or retroactively assessed taxes which arise out of or relate to any prior use of any of the Premises or any improper or inadequate assessment of the Premises for the period prior to the Closing, which obligation shall expressly survive the Closing.

8. Inspections During the Inspection Period, Buyer is authorized to complete various inspections of the Premises at Buyer's expense, including but not limited to, a satisfactory environmental report, zoning analysis, building analysis, and soil tests, as well as a complete review of all contracts, licenses, permits, warranties, surveys, the title commitment and other matters deemed necessary by Buyer. Buyer may terminate the Purchase Agreement at any time within the Inspection Period for any reason, or no reason, in which event the entire Initial Deposit shall be immediately returned to Buyer if the Purchase Agreement has not previously been terminated. Buyer through its agents, employees and independent contractors shall have the right from time to time during the Inspection Period and continuing through the Closing Date, upon 24 hours prior notice to Seller, to enter the Premises for the purpose of inspecting the same and performing environmental and other tests thereon. Buyer shall indemnify and hold harmless Seller and its respective contractors, agents, employees and affiliates from and against any claims, losses, damages and costs arising out of any inspection of and testing at any of the Premises by Buyer, its agents and representatives. Buyer shall not, and shall not permit its agents or representatives or vendors to unreasonably disrupt or hinder Seller's activities at the Premises, or to enter the Premises without commercially reasonable liability insurance in place.

9. Title to Premises; State of Title to be Conveyed. At the Closing, Seller shall convey fee simple title to the Premises to Buyer, free from all liens, encumbrances, restrictions, rights-of-way and other matters, excepting only the Permitted Exceptions and any other matter consented to in writing by Buyer pursuant to Section 12(a) hereof.

10. **Escrow Agent.** By its execution hereof, Escrow Agent shall accept the escrow contemplated herein. The Earnest Money Deposit shall be held by the Escrow Agent, in trust, on the terms hereinafter set forth.

(a) After clearance of funds, the Earnest Money Deposit shall be held by Escrow Agent in an account meeting the requirements of Section 3 above, and shall not be commingled with any funds of the Escrow Agent or others. Escrow Agent shall promptly advise Seller and Buyer that the Earnest Money Deposit is made and the account number under which it has been deposited following clearance of funds.

(b) Escrow Agent shall deliver the Earnest Money Deposit to Seller or to Buyer, as the case may be, under the following conditions:

(i) To Buyer upon receipt of notice of termination of this Agreement by Buyer at any time prior to the expiration of the Inspection Period.

(ii) To Seller on the Closing Date, provided Closing shall occur pursuant to the Agreement.

(iii) To Seller upon receipt of written demand therefor ("**Seller's Demand for Deposit**") stating that Buyer has defaulted in the performance of Buyer's obligation to close under this Agreement and the facts and circumstances underlying such default, provided, however, that the Escrow Agent shall not honor such demand until more than ten (10) days after the Escrow Agent shall have sent a copy of such demand to Buyer in accordance with the provisions of Section 10(c) of this Agreement nor thereafter, if the Escrow Agent shall have received a "Notice of Objection" (as hereinafter defined) from Buyer within such ten (10) day period.

(iv) To Buyer upon receipt of written demand therefor ("**Buyer's Demand for Deposit**") stating that this Agreement has been terminated in accordance with the provisions hereof for any reason other than as provided in Section 10(b)(i) above, or that Seller has defaulted in the performance of any of Seller's obligations under this Agreement and the facts and circumstances underlying the same; provided, however, that the Escrow Agent shall not honor such demand until more than ten (10) days after the Escrow Agent shall have sent a copy of such demand to Seller in accordance with the provisions of Section 10(c) of this Agreement nor thereafter, if the Escrow Agent shall have received a Notice of Objection from Seller within such ten (10) day period.

(c) Within two (2) business days of the receipt by the Escrow Agent of a Seller's Demand for Deposit or a Buyer's Demand for Deposit the Escrow Agent shall send a copy thereof to the other party in the manner provided in Section 16 of this Agreement. The other party shall have the right to object to the delivery of the Deposit by sending written notice (the "**Notice of Objection**") of such objection to the Escrow Agent in the manner provided in Section 16 of this Agreement, which Notice of Objection shall be deemed null and void and ineffective if such Notice of Objection is not received by the Escrow Agent within the time periods prescribed in Section 10(b) of this Agreement. Such notice shall set forth the basis for objecting to the delivery of the Deposit. Upon receipt of a Notice of Objection, the Escrow Agent shall promptly send a copy thereof to the party who sent the written demand.

(d) In the event the Escrow Agent shall have received the Notice of Objection within the time periods prescribed in Section 10(b) of this Agreement, the Escrow Agent shall continue to hold the Earnest Money Deposit until (i) the Escrow Agent receives written notice from Seller and Buyer directing the disbursement of the Earnest Money Deposit, in which case the Escrow Agent shall then disburse the Earnest Money Deposit in accordance with such joint direction, or (ii) litigation shall occur between Seller and Buyer, in which event the Escrow Agent shall deliver the Earnest Money Deposit to the clerk of the court in which said litigation is pending, or (iii) the Escrow Agent takes such affirmative steps as the Escrow Agent may, at the Escrow Agent's option, elect in order to terminate the Escrow Agent's duties including, but not limited to depositing the Earnest Money Deposit in the appropriate court for Oakland County, Michigan and bringing an action for interpleader, the costs thereof to be deducted from the amount so deposited into the registry of the court; provided, however, that upon disbursement of the deposited amount pursuant to court order or otherwise, the prevailing party shall be entitled to collect from the losing party the amount of such costs and expenses so deducted by the Escrow Agent.

(e) The duties of the Escrow Agent are only as herein specifically provided, and Escrow Agent shall incur no liability whatever except for willful misconduct or gross negligence as long as the Escrow Agent has acted in good faith. The Seller and Buyer each release the Escrow Agent from any act done or omitted to be done by the Escrow Agent in good faith in the performance of its duties hereunder.

(f) Upon making delivery of the Earnest Money Deposit in the manner herein provided, the Escrow Agent shall have no further liability hereunder.

(g) The Escrow Agent shall either execute this Agreement or indicate in writing that it has accepted the role of Escrow Agent pursuant to this Agreement which in either case will confirm that the Escrow Agent is holding and will hold the Earnest Money Deposit in escrow, pursuant to the provisions of this Agreement.

11. Seller's Covenants, Representations and Warranties. In order to induce Buyer to enter into this Agreement and purchase the Property, Seller, jointly and severally, makes the following covenants, agreements, representations and warranties, all of which shall survive the Closing and the purchase and sale of the Premises:

(a) Seller has obtained all necessary authorizations and consents to enable it to execute and deliver this Agreement and to consummate the transaction contemplated hereby, including without limitation all authorizations and consents required to be obtained from governmental authorities during the course of, and upon completion of, construction of the Improvements.

(b) Seller holds, or prior to the Closing Date shall hold, fee simple title to the Premises, free of all liens, assessments and encumbrances except for the applicable Permitted Exceptions for each respective Premises, and liens and encumbrances which will be paid and discharged at or prior to the Closing. Seller has no actual knowledge of any condition or state of facts which would preclude, limit or restrict the business operations conducted or contemplated, pursuant to the terms of the Lease to be conducted by Tenant.

(c) Except for construction warranties with respect to the Improvements, there are no service or maintenance contracts or other agreements affecting the Premises to which Buyer will be bound upon Closing, except for those contracts which Seller intends to keep in place and on which Seller shall remain liable as Tenant under the Lease.

(d) The Premises and the proposed use thereof by Tenant and the condition thereof do not violate any applicable deed restrictions, zoning or subdivision regulations, urban redevelopment plans, local, state or federal environmental law or regulation or any building code or fire code applicable to the Premises, and are not designated by any governmental agency to be in a flood plain area.

(e) (i) There shall exist no event which, with the giving of notice or the passage of time or both, would constitute an Event of Default under the Lease for the Premises; and (ii) all leasing commissions and fees with respect to the Lease, if any, have been paid in full.

(f) There is no pending or, to Seller's knowledge, threatened litigation or other proceeding affecting the title to or the use or operation of the Premises.

(g) Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended, and Seller shall certify its taxpayer identification number at Closing.

(h) To Seller's actual knowledge, there are no federal, state, county or municipal plans to restrict or change access from any highway or road to the Premises.

(i) All of the financial data regarding the construction, ownership and operation of the Premises that Seller has provided to Buyer is materially true, complete and correct.

(j) No Hazardous Materials are, will be, or to the best of Seller's knowledge, have been, stored, treated, disposed of or incorporated into, on or around the Premises in violation of any applicable statutes, ordinances or regulations; the Premises are in material compliance with all applicable environmental, health and safety requirements; any business currently or, to the best of Seller's knowledge, heretofore operated on the Premises has disposed of its waste in accordance with all applicable statutes, ordinances and regulations; and Seller has no notice of any pending, or, to the best of Seller's knowledge, threatened, action or proceeding arising out of the condition of the Premises or any alleged violation of environmental, health or safety statutes, ordinances or regulations.

(k) The Property is contained in one or more separate parcels for real estate tax assessment purposes, which parcels do not contain any land other than the Property.

All of the representations, warranties and agreements of Seller set forth herein and elsewhere in this Agreement shall be true upon the execution of this Agreement and shall be reaffirmed and repeated in writing at and as of the Closing Date, but not subsequent to the Closing Date, and shall survive the Closing Date for a period of one (1) year after the Closing.

12. Covenants of Seller Pending Closing. Between the date hereof and the Closing Dates, Seller shall:

(a) Continue to operate the Premises as they are being operated on the Effective Date, and to keep the Premises in same condition, subject to wear, tear and casualty; and

(b) Within five (5) business days following receipt thereof (but in any event at least one day prior to the Closing Date), provide Buyer with copies of any letters or notices received by Seller relating to or in any manner affecting the Premises.

13. Eminent Domain. If prior to the date of the Closing, Seller or Buyer acquires knowledge of any pending or threatened action, suit or proceeding to condemn or take all or any part of the Premises under the power of eminent domain, then Seller or Buyer shall immediately give notice thereof to the other. In such event, at Buyer's option, Buyer may terminate this Agreement, as to the Premises. If Buyer elects not to terminate this Agreement as to the Premises, Buyer shall be entitled to all condemnation proceeds due the lessor under the Lease.

14. Casualty. If prior to the date of the Closing any of the Premises, or any portion thereof, shall be damaged or destroyed by reason of fire, storm, accident or other casualty, then Seller shall immediately give notice thereof to Buyer. In the event more than twenty five percent (25%) of the Premises is damaged by reason of fire, storm, accident or other casualty (or any portion of the Premises if Seller does not have full replacement cost insurance in place as of the date of such damage), the Buyer, at its option, may terminate this Agreement. If Buyer elects not to terminate this Agreement, Buyer shall be entitled to all insurance proceeds and a credit in the amount of any deductible; provided, however, Buyer shall not be entitled to any insurance proceeds from the destruction or damage to Seller's personal property or trade fixtures and those insurance proceeds payable to Buyer should be available to Seller, or tenant under the Lease to restore the Premises as provided in the Lease.

15. Remedies Upon Default.

(a) In the event Buyer breaches or defaults under any of the terms of this Agreement prior to or on the Closing Date, the sole and exclusive remedy of Seller shall be to receive from Escrow Agent the full amount of the Earnest Money Deposit, and Buyer shall have no right therein. Buyer and Seller acknowledge and agree that (i) the Earnest Money Deposit and any interest earned thereon if received in accordance with the terms of this Agreement is a reasonable estimate of and bears a reasonable relationship to the damages that would be suffered and costs incurred by Seller as a result of having withdrawn the Property from sale and the failure of Closing to occur due to a default of Buyer under this Agreement; (ii) the actual damages suffered and costs incurred by Seller as a result of such withdrawal and failure to close due to a default of Buyer under this Agreement would be extremely difficult and impractical to determine; (iii) Buyer seeks to limit its liability under this Agreement to the amount of the Earnest Money Deposit and any interest earned thereon if the transaction contemplated by this Agreement does not close due to a default of Buyer under this Agreement; and (iv) such amount shall be and constitute valid liquidated damages.

(b) In the event Seller defaults under any of the terms of this Agreement on or prior to the Closing Date (including, without limitation, by failing or refusing to deliver any items required to be delivered pursuant to Section 5 or Section 6 of this Agreement) and Buyer is ready and able to close, Buyer shall be entitled to (i) receive a refund of the Earnest Money Deposit and terminate this Agreement, or (ii) compel specific performance of this Agreement, if Buyer elects to compel specific performance, Buyer may also recover all of its costs and attorneys' fees in seeking such specific performance, or (iii) if specific performance is not possible or if Buyer elects not to pursue specific performance, receive a refund of the Earnest Money Deposit (if Closing does not occur) and recover the cost of any 3rd party reports obtained by Buyer and its reasonable attorney's fees and costs (provided such actual costs shall not exceed the amount of \$36,000) which shall include damages resulting from a breach of any warranty or representation of Seller as of the Closing even if the same is not discovered until after the Closing, to the extent the same survive the Closing.

16. **Notices.** All notices, elections, requests and other communication hereunder shall be in writing and shall be deemed given (i) when delivered, or (ii) when transmitted by facsimile or telecopy transmission, with receipt acknowledge upon transmission; addressed as follows (or to such other person or at such other address, of which any party hereto shall have given written notice as provided herein) (refusal to accept delivery by either party shall be deemed delivery):

If to Seller: Air Realty Group LLC
283 Sullivan Avenue
South Windsor, CT 06074
Attn: _____
Phone: _____
Fax: _____

with a copy to: Eaton & Van Winkle LLP
3 Park Avenue, 16th Floor
New York, NY 10016
Attn: Vincent J. McGill, Esq.
Phone: (212) 561-3604
Fax: (212) 779-9928

If to Buyer: Grand/Sakwa Acquisition Services, LLC
28470 Thirteen Mile Road, Suite 220
Farmington Hills, MI 48334
Attn: Jason Miller
Fax: (248) 855-0915

with a copy to: Honigman Miller Schwartz and Cohn LLP
2290 First National Building
660 Woodward Avenue
Detroit, MI 48226
Attention: Howard N Luckoff, Esq.
Phone: (248) 566-8467
Fax: (248) 566-8468

If to Escrow Agent: Title Source, Inc.
662 Woodward Avenue, 9th Floor
Detroit, Michigan 48226
Attention: Janet Meisel Voisine, Esq.
Phone: (888) 848-5355
Fax: (877) 401-9437

17. Brokerage Commissions. Seller and Buyer each represents and warrants to the other party that no finders or brokers have been involved with the introduction of Buyer and Tenant, the purchase and sale of the Premises or the execution and delivery of the Lease and the leasing of the Premises pursuant. In the event of a breach of the foregoing warranties, the breaching party agrees to save, defend, indemnify and hold harmless the non-breaching party from and against any claims, losses, damages, liabilities and expenses, including but not limited to attorneys' fees. The obligations of this Section shall survive the Closing or earlier termination of this Agreement.

18. Buyer's Covenants, Representations and Warranties. In order to induce Seller to enter into this Agreement and sell the Property, Buyer makes the following covenants, agreements, representations and warranties, all of which shall survive the Closing and the purchase and sale of each of the respective Premises: (i) Buyer has full right and authority to enter into the transaction contemplated hereby on the terms and conditions set forth herein; and (ii) the provisions of this Agreement do not conflict with or violate the provisions of any existing agreements between the Buyer and any third parties.

19. Miscellaneous Provisions.

(a) Assignment; Binding Effect. Buyer may assign all of its rights and obligations hereunder, without the written consent of Seller, to (i) any entity which is wholly owned and controlled and managed by the owner(s) of Buyer; provided however, that any assignee of Buyer shall assume all of the obligations of Buyer hereunder in writing delivered no later than five (5) days before Closing date, with written documentation of relationship to Buyer. In the event of any permitted assignment hereunder Buyer shall thereupon be relieved of all further liability under this Agreement; except that the Earnest Money Deposit shall not be released or otherwise adversely affected as a result of any such assignment, and provided that Buyer shall not be released from any liability for its breach of any representation or warranty made by it as Buyer under the Agreement. Seller shall have the right to assign its rights and obligations hereunder, provided that the Seller named herein shall deliver written notice thereof to Buyer and shall remain liable for any breach of the representations and warranties and performance of the covenants set forth herein. Subject to the foregoing, this Agreement shall be binding upon and shall inure to the benefit of Seller and Buyer and their respective successors and assigns.

(b) Captions. The several headings and captions of the Sections and subsections used herein are for convenience of reference only and shall in no way be deemed to limit, define or restrict the substantive provisions of this Agreement.

(d) Entire Agreement; Recording. This Agreement constitutes the entire agreement of Buyer and Seller with respect to the purchase and sale of the Premises, and supersedes any prior or contemporaneous agreement with respect thereto. No amendment or modification of this Agreement shall be binding upon the parties unless made in writing and signed by both Seller and Buyer. Neither this Agreement nor any Memorandum thereof shall be recorded by any party and, if recorded by any party, the other party hereto may immediately terminate all of its obligations under this Agreement.

(e) Time of Essence. Time is of the essence with respect to Seller's and Buyer's performance of all of the terms, conditions and covenants of this Agreement.

(f) Cooperation. Buyer and Seller shall cooperate fully with each other to carry out effectively the purchase and sale of the Property, in accordance herewith and the satisfaction and compliance with all of the conditions and requirements set forth herein, and shall execute such instruments and perform such acts as may be reasonably requested by either party hereto.

(g) Governing Law. This Agreement and the rights of the parties hereunder shall be governed by and construed in accordance with the laws and customs of the State of Connecticut.

(h) Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument.

(i) Attorneys' Fees. In the event any party to this Agreement should bring suit against the other party in respect to any matters provided for herein, the prevailing party shall be entitled to recover from the non-prevailing party its costs of court, legal expenses and reasonable attorneys' fees. As used herein, the "prevailing party" shall include, without limitation, any party who dismisses an action for recovery hereunder in exchange for payment of the sums allegedly due, performance of covenants allegedly breached or consideration substantially equal to the relief sought in the action.

(j) Certain References. As used in this Agreement, the words "hereof," "herein," "hereunder" and words of similar import shall mean and refer to this entire Agreement and not to any particular article, section or paragraph of this Agreement, unless the context clearly indicates otherwise.

(k) Time Periods. Unless otherwise expressly provided herein, all periods for performance, approval, delivery or review and the like shall be determined on a "calendar" day basis. If any day for performance, approval, delivery or review shall fall on a Saturday, Sunday or legal holiday, the time therefor shall be extended to the next business day. All references to "business days" shall mean any day other than a Saturday, Sunday or a national bank holiday.

(l) Authority. Each person executing this Agreement, by his or her execution hereof, represents and warrants that they are fully authorized to do so, and that no further action or consent on the part of the party for whom they are acting is required to the effectiveness and enforceability of this Agreement against such party following such execution.

(m) Severability. If any provision of this Agreement should be held to be invalid or unenforceable, the validity and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(n) Waiver. One or more waivers of any covenant, term or condition of this Agreement by either party shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition. The consent or approval by either party to or of any act by the other party requiring such consent or approval shall not be deemed to waive or render unnecessary consent to or approval of any subsequent similar act.

(o) Relationship of the Parties. Nothing herein contained shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal and agent or of partnership or of joint venture between the parties hereto, it being understood and agreed that no provision contained herein, nor any acts of the parties hereto shall be deemed to create the relationship between the parties hereto other than the relationship of seller and buyer. This Agreement has been drafted by both parties.

(p) Termination. This Agreement shall be void and of no force and effect unless signed by Seller and delivered to Buyer no later than five (5) business days following the date of Buyer's execution and delivery of this Agreement.

(the remainder of this page intentionally left blank)

IN WITNESS WHEREOF, the parties hereto have executed this Real Estate Purchase and Sale Contract on the date first above written.

BUYER:

GRAND/SAKWA AIG LLC
a Michigan limited liability company

By: /s/ Gary Sakwa
Name: Gary Sakwa
Title: Authorized Rep.
Date: 12-7-15

SELLER:

AIR REALTY GROUP LLC,
a Connecticut limited liability company

By: /s/ James Sartori
Name: James Sartori
Title: CAO
Date: 12/7/15

ESCROW AGENT:

TITLE SOURCE, INC.

By: /s/ Deborah Lawrence Aoten
Name: Deborah Lawrence Aoten
Title: Vice President
Date: 12/7/15

EXHIBIT A

DESCRIPTION OF THE PROPERTY

[Legal Description for Property to be inserted]

EXHIBIT B

PERMITTED EXCEPTIONS

EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage, and the Company will not pay costs, attorneys' fees, or expenses that arise by reason of:

1. Rights or claims of parties in possession not shown by the public records.
2. Taxes or special assessments for the Grand List 2014, First Installment, not yet due and payable, and subsequent years.
3. Terms, conditions and easements of a sanitary sewer caveat dated April 16, 1971 from Alva Rossi and Margaret Rossi to The Town of South Windsor; recorded in Volume 136 at Page 124 in the Office of the Town Clerk, Town of South Windsor, Connecticut..
4. Covenants, conditions, terms, easements and agreements contained in Conservation Easement Agreement made by and between Dynamic Materials Corporation, a Connecticut corporation, and Town of South Windsor, a municipal corporation, dated May 31, 2004 and recorded June 24, 2004 in Book 1622 Page 246 in the Office of the Town Clerk, Town of South Windsor, Connecticut.
5. Terms, covenants and conditions contained in Drainage Connection Concurrence between AMK / A Division of DMC and State of Connecticut, Department of Transportation, dated June 29, 2006 and recorded on July 13, 2006 in Book 1831 Page 248 in the Office of the Town Clerk, Town of South Windsor, Connecticut.
6. Covenants, conditions, terms, easements and agreements contained in Sewer Line Access Easement in favor of Town of South Windsor, dated June 7, 2007 and recorded June 25, 2007 in Book 1914 Page 1, in Book 1622 Page 246 in the Office of the Town Clerk, Town of South Windsor, Connecticut.
7. Matters set forth on Map Nos. 3074 and 3457, as filed in the Office of the Town Clerk, Town of South Windsor, Connecticut.
8. Survey by Lawrence R. Geissler, Jr., of Design Professionals, Inc., dated December 31, 2014, Project No. 1650, shows the following exceptions to title:

- a. variations between locations of tree lines and fences and locations of record lines.

EXHIBIT C

FORM OF ASSIGNMENT OF LICENSES, PERMITS, PLANS, CONTRACTS AND WARRANTIES

THIS ASSIGNMENT OF LICENSES, PERMITS, PLANS, CONTRACTS AND WARRANTIES (this "Assignment") is made and entered into as of the ____ day of _____, 2015, by _____, a _____, having a mailing address at _____ ("Assignor"), in favor of GRAND/SAKWA AIG LLC, a Michigan limited liability company having a mailing address at 28470 Thirteen Mile Road, Suite 220, Farmington Hills, MI 48334 ("Assignee");

WITNESSETH:

WHEREAS, Assignor has this day conveyed to Assignee certain real property situate in _____ County, Connecticut, more particularly described on Exhibit A attached hereto and made a part hereof, together with all improvements thereon (the "Real Property"); and

WHEREAS, in conjunction with the conveyance of the Real Property, Assignor has agreed to assign all of its right, title and interest in and to certain licenses, permits, plans, contracts and warranties relating to the design, development, construction, ownership, operation, management and use of the Real Property.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties agree as follows:

1. Assignment. Assignor does, to the extent permitted by law, hereby transfer, assign and set over to Assignee to the extent assignable all of Assignor's right, title and interest in and to (i) all general intangibles relating to the design, development, construction, ownership, operation, management and use of the Real Property, (ii) all certificates of occupancy, zoning variances, licenses, building, use or other permits, approvals, authorizations and consents obtained from and all materials prepared for filing or filed with any governmental agency in connection with the design, development, construction, ownership, operation, management and use of the Real Property, (iii) all architectural drawings, plans, specifications, soil tests, feasibility studies, appraisals, engineering reports and similar materials relating to the Real Property, and (iv) all contract rights (including without limitation rights to indemnification), payment and performance bonds or warranties or guaranties relating to the Real Property (the items described in this 1 being hereinafter referred to as the "Licenses, Permits, Plans, Contracts and Warranties").

2. Representations and Warranties of Assignor. Assignor represents and warrants to Assignee that (i) the Licenses, Permits, Plans, Contracts and Warranties are in full force and effect, (ii) Assignor has duly and punctually performed or caused to be performed all and singular the terms, covenants and conditions of the Licenses, Permits, Plans, Contracts and

Warranties to be performed by or on behalf of Assignor, (iii) Assignor has not received any notice of default, nor is Assignor aware of any default (or facts which, with the passage of time would result in a default) under any of the Licenses, Permits, Plans, Contracts and Warranties, (iv) Assignor has not received any notice of non-renewal or revocation of any of the Licenses, Permits, Plans, Contracts and Warranties and (v) Assignor has not sold, assigned, transferred, mortgaged or pledged its right, title and interest in any of the Licenses, Permits, Plans, Contracts and Warranties.

3. Further Assurances. Assignor covenants with Assignee that it will execute or procure any additional documents necessary to establish the rights of Assignee hereunder and shall, at the cost of Assignee, take such action as Assignee shall reasonably request to enforce any rights under any of the Licenses, Permits, Plans, Contracts and Warranties that are, by their terms, not assignable to Assignee.

4. Binding Effect. This Assignment shall be binding upon and inure to the benefit of Assignor, Assignee and their respective successors and assigns.

IN WITNESS WHEREOF, Assignor has executed this Assignment as of the date set forth above.

a _____

ATTEST:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

(CORPORATE SEAL)

EXHIBIT D

FORM OF DEED

[TBA]

EXHIBIT E

FORM OF BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS:

That AIR REALTY GROUP LLC, a Connecticut limited liability company, hereinafter referred to as the Grantor, for and in consideration of the sum of TEN AND NO/DOLLARS (\$10.00) paid by GRAND/SAKWA AIG LLC, a Michigan limited liability company, hereinafter referred to as the Grantee, the sufficiency and receipt of which are hereby acknowledged, has granted, bargained, sold, transferred and delivered, and by these presents does grant, bargain, sell, transfer and deliver unto the Grantee, its successors and assigns, all of its right, title and interest in and to all items, goods, chattels, equipment and other tangible personal property which are presently existing and located on and used or useful in connection with the construction, maintenance and operation of the real property described on Exhibit A attached hereto, and that all of said personal property is free and clear of and from all claims, liens or encumbrances, and Grantor fully warrants the title thereof and will defend Grantee's title thereto against the lawful claims of all parties whomsoever.

TO HAVE AND TO HOLD the same unto the Grantee, its successors and assigns forever.

IN WITNESS WHEREOF, the Grantor has caused these presents to be executed as of this ____ day of _____, 2015.

Signed, sealed and delivered in the presence of:

AIR REALTY GROUP LLC,
a Connecticut limited liability company

Name: _____

By: _____

Name: _____

Title: _____

Name: _____

(CORPORATE SEAL)

EXHIBIT F

FORM OF LEASE

LEASE AGREEMENT

Between

GRAND/SAKWA AIG LLC,
a Michigan limited liability company,
as Landlord,

and

AIR REALTY GROUP LLC,
a Connecticut limited liability company,
as Tenant,

Dated
as of

_____, 2015

LEASE AGREEMENT

THIS LEASE AND AGREEMENT (the “**Lease**”) is made and entered into effective as of the ____day of _____, 2015 (the “**Effective Date**”) by and between **GRAND/SAKWA AIG LLC**, a limited liability company (the “**Landlord**”) and **AIR REALTY GROUP LLC**, a Connecticut limited liability company (the “**Tenant**”)

W I T N E S S E T H:

WHEREAS, Landlord is the owner of fee simple title to certain real property located in the City of South Windsor, County of Hartford, State of Connecticut and described in **Exhibit A** attached hereto “**Land**”, upon which a building has been constructed (“**Building**”), (the Building, together with related site improvements the “**Improvements**”); (the Land and the Improvements, together with all licenses, rights, privileges and easements appurtenant thereto shall be collectively referred to herein, and all tangible personal property, including fixtures located therein as the “**Premises**”); and

WHEREAS, Tenant desires to lease from Landlord, and Landlord has agreed to lease to Tenant, the Premises upon the terms and conditions as more particularly hereinafter provided and described.

NOW, THEREFORE, for and in consideration of the premises hereof, the sums of money to be paid hereunder, and the mutual and reciprocal obligations undertaken herein, the parties hereto do hereby covenant, stipulate and agree as follows:

ARTICLE I.
AGREEMENT TO LEASE

1.1 Demise. Landlord does hereby demise, and lease to Tenant, and Tenant does hereby lease and take as tenant from Landlord, the Premises upon those terms and conditions hereinafter set forth.

1.2 Condition. Tenant acknowledges and agrees that the Premises is and shall be leased by Landlord to Tenant in its present “as is” condition and that Landlord makes absolutely no representations or warranties whatsoever with respect to the Premises or the condition thereof. Tenant acknowledges that Landlord has not investigated and does not warrant or represent to Tenant that the Premises are fit for the purposes intended by Tenant or for any other purpose or purposes whatsoever, and Tenant acknowledges that the Premises are to be leased to Tenant in their existing condition, i.e., “as-is”, on and as of the Possession Date (as hereinafter defined). Tenant acknowledges that Tenant shall be solely responsible for any and all actions, repairs, permits, approvals and costs required for the rehabilitation, renovation, use, occupancy and operation of the Premises in accordance with applicable governmental requirements, including, without limitation, all governmental charges and fees, if any, which may be due or payable to applicable authorities. Tenant agrees that, by leasing the Premises, Tenant warrants and represents that Tenant has examined and approved all things concerning the Premises which Tenant deems material to Tenant’s leasing and use of the Premises. Tenant further acknowledges and agrees that (i) neither Landlord nor any agent of Landlord has made any representation or warranty, express or implied, concerning the Premises or which have induced Tenant to execute this Lease, (ii) any other representations and warranties are expressly disclaimed by Landlord, and (iii) Tenant has previously owned the Premises, is familiar with both the physical and economic condition of the Premises and is responsible for all aspects of the Premises.

1.3 Quiet Enjoyment. Landlord covenants and agrees that so long as Tenant shall timely pay all rents due to Landlord from Tenant under this Lease under and keep, observe and perform all covenants, promises and agreements on Tenant's part to be kept, observed and performed hereunder, Tenant shall and may peacefully and quietly have, hold and occupy the Premises free of any interference from Landlord; subject, however, and nevertheless to the terms, provisions and conditions of this Lease and subject to the terms of any mortgage encumbering the Premises.

ARTICLE II.
TERM

2.1 Term. The initial term of this Lease (the "**Term**") shall, unless sooner terminated as elsewhere provided in this Lease, commence on the Effective Date and shall terminate and expire at 11:59 p.m. on the date immediately preceding the 15th anniversary of the Rental Commencement Date. The Initial Term, together with any Extension Period (defined in Section 2.4 as hereinafter defined) shall be collectively referred to herein as the "**Term**".

2.2 Rental Commencement Date. For the purposes of this Lease, the "**Rental Commencement Date**" shall be the Effective Date hereof.

2.3 Possession Date. For the purposes of this Lease, the "**Possession Date**" shall be the date on which Landlord grants Tenant exclusive possession of the Premises, which shall be the Effective Date hereof.

2.4 Term Extensions. The term of the Lease shall automatically be extended beyond the Initial Term for up to three (3) successive five (5) year Extension Periods upon the same terms, covenants, conditions and rent as set herein (each, an "**Extension Period**") (other than any prior Extension Period) unless Tenant notifies Landlord in writing in accordance with the notice provisions hereof at least twelve (12) months before the last day of the Initial Term or nine (9) months before the last day of the then current Extension Period, as applicable (the "**Notice Date**") that the Lease shall terminate at the end of such current term without further extension. Notwithstanding the foregoing, Landlord, at its sole option, and notwithstanding other remedies for Tenant's default set forth herein, may refuse, by written notice to Tenant, to extend the Term of this Lease if, at the Notice Date or at the time of commencement of an Extension Period, Tenant is in default under any provision of this Lease as to which default Landlord has given notice to Tenant in accordance with this Lease hereof and such default remains uncured after the expiration of any applicable cure period, by and upon the delivery of such notice, all remaining rights of extension shall automatically expire.

2.5 Termination. Notwithstanding any present or future law to the contrary, this Lease shall not be terminated by Tenant for any failure of Landlord to perform pursuant to the terms and conditions of this Lease or otherwise for any reason except as expressly provided herein.

ARTICLE III.
RENT

3.1 Base Rent. Beginning on the Rental Commencement Date, and subject to proration as set forth below, Tenant shall pay monthly net base rent for the Premises in the amount set forth on Exhibit B attached hereto ("**Base Rent**"), together with all applicable sales and use taxes thereon. Base Rent shall be paid by Tenant to Landlord in equal monthly installments, in advance, on the first (1st) day of each calendar month commencing on the first (1st) day of the calendar month immediately following the Rental Commencement Date, it being agreed that Base Rent payable with respect to the period between the Rental Commencement Date and the first day of the following calendar month shall be due at the time that the first payment of Base Rent is due.

For the purposes of this Lease, the term "**Lease Year**" shall mean and be defined as each twelve month period commencing on the first day of the calendar month immediately following the Rental Commencement Date; provided, however, that the first Lease Year shall include the period from the Effective Date to the first day of the next following calendar month after the Rental Commencement Date. Base Rent shall be proportionately prorated for any extended or partial Lease Year (i.e., the first Lease Year and/or the final Lease Year).

3.2 Additional Rent; Rent Defined. If Landlord shall, upon no less than ten (10) days prior written notice to Tenant (other than in the event of an emergency for which only notices which are reasonable under the circumstances shall be given), make any expenditure for which Tenant is responsible or liable under this Lease, or if Tenant shall become obligated to Landlord or others under this Lease for any sum other than Base Rent as hereinabove provided, the amount thereof shall be deemed to constitute additional rent ("**Additional Rent**") and shall be due and payable by Tenant to Landlord or others, together with all applicable sales taxes thereon, if any, within thirty (30) days after receipt of an invoice therefor.

For the purpose of this Lease, the term "**Rent**" shall mean and be defined as all Base Rent, and Additional Rent due from Tenant to Landlord hereunder and all other sums due under this Lease for the purpose of Section 592(b)(6) of the Bankruptcy Code, 11 U.S.C. 502(b)(6). Except as may be expressly otherwise provided in this Lease, there shall be no abatement, diminution or reduction of Base Rent, Additional Rent or any other sums due under this Lease under any circumstances including, without limitation, due to charges or other compensation claimed by or allowed to Tenant or any person claiming under it, nor shall there be any abatement or diminution or reduction of the performance of the obligations of Tenant under any circumstances.

3.3 Payment of Rent. Each of the foregoing amounts of Rent and other sums shall (upon receipt of an invoice as to Additional Rent only) be paid to Landlord or others without demand and without deduction, set-off, claim or counterclaim of any nature whatsoever which Tenant may have or allege to have against Landlord, and all such payments shall, upon receipt by Landlord, be and remain the sole and absolute property of Landlord. All such Rent and other sums shall be paid to Landlord in legal tender of the United States at the address to which notices to Landlord are to be given or to such other party or to such other address as Landlord may designate from time to time by written notice to Tenant. If Landlord shall at any time accept any such Rent or other sums after the same shall become due and payable, such acceptance shall not excuse a delay upon subsequent occasions, or constitute or be construed as a waiver of any of Landlord's rights hereunder.

3.4 Past Due Rent. If Tenant fails to make any payment of Rent or any other sums or amounts to be paid by Tenant under the Lease on or before the date such payment is due and payable, any such past due payment shall bear interest from the date such payment became due to the date of payment thereof by Tenant at a rate which is equal to the lesser of (i) twelve percent (12%) per annum, or (ii) the maximum interest rate then allowable under the laws of the State in which the Premises are located. Any payment of Rent not paid within any permitted grace period specifically set forth in this Lease shall incur a late charge for reimbursement of Landlord's anticipated out-of-pocket expenses due to such failure of five percent (5%) of the amount of such payment. Such late charge and interest shall constitute Additional Rent and shall be due and payable with the next installment of Rent due hereunder. Notwithstanding the foregoing or anything else to the contrary contained in this Section, Tenant shall not be responsible for the late charge set forth in this Section if the first time Tenant fails to pay Base Rent when due Tenant pays such Base Rent within ten (10) days after delivery of written notice of such default.

3.5 No Diminution or Abatement of Rent. No abatement, diminution or reduction (i) of Rent, charges or other compensation, or (ii) of Tenant's other obligations hereunder shall be allowed to Tenant or any person claiming under Tenant, under any circumstances or for any reason whatsoever, except as expressly provided otherwise herein.

ARTICLE IV.
USE AND OPERATION OF PREMISES

4.1 Permitted Use. Tenant covenants that it shall, throughout the Term of this Lease, use and occupy the Premises only for lawful industrial and office uses or other lawful uses consistent with applicable zoning and which do not conflict with covenants, restrictions or other matters of record affecting title to the Premises.

4.2 Compliance with Laws. Tenant shall at all times keep and maintain the Premises in compliance with all applicable laws, ordinances, statutes, rules, regulations, orders, directions and requirements of all federal, state, county and municipal governments and of all other governmental agencies or authorities having or claiming jurisdiction over the Premises or the business activities conducted thereon or therein and of all of their respective departments, bureaus, agencies or officers, and of any insurance underwriting board or insurance inspection bureau having or claiming such jurisdiction or any other body exercising similar functions and of all insurance companies from time to time selected by Tenant to write policies of insurance covering the Premises and any business or business activity conducted thereon or therein. Without limiting the foregoing, to the extent any governmental entity requires more parking spaces to be located on the Premises or more striped spaces to be located on the Premises, Tenant shall be responsible for complying with any such requirement.

4.3 Hazardous Materials and Sewage Prohibited. Tenant hereby agrees that Tenant, its employees, agents, invitees, licensees, contractors or subtenants (if permitted), shall handle, store, dispose of and use any and all Hazardous Materials (as hereinafter defined) located on the Premises which are standard for Tenant's intended use of the Premises in accordance with Environmental Requirements (as hereinafter defined). Except for such Hazardous Materials which are standard for or used in connection with such uses, Tenant shall at all times from and after the Effective Date keep the Premises free of Hazardous Materials. Neither Tenant nor any of its employees, agents, invitees, licensees, contractors or subtenants (if permitted) shall use, generate, manufacture, refine, treat, process, produce, store, deposit, handle, transport, release, or dispose of Hazardous Materials in, on or about the Premises or into the groundwater thereof, in violation of any federal, state or municipal law, decision, statute, rule, ordinance or regulation currently in existence or hereafter enacted or rendered.

Tenant shall give Landlord prompt written notice of any claim received by Tenant from any person, entity, or governmental agency that a release or disposal of Hazardous Materials has occurred on the Premises or the groundwater thereof. Landlord shall give Tenant prompt written notice of any claim received by Landlord from any person, entity, or governmental agency that a release or disposal of Hazardous Materials has occurred on the Premises or the groundwater thereof.

Commencing upon the Effective Date and continuing during the Term of this Lease, Tenant shall indemnify, defend and hold Landlord, its successors and assigns, and their respective directors, officers, employees and agents, harmless from and against any claims (including third party claims), demands, penalties, fines, liabilities, settlements, damages, costs or expenses of whatever kind or nature, known or unknown, including reasonable attorneys' fees, fees of environmental consultants and other experts and laboratory fees, contingent or otherwise, arising out of or in any way related to the following matters: (i) the release, use, storage, treatment, transportation, transfer, manufacture, refinement, handling, production, disposal or threatened release of any Hazardous Materials, on, over, under, from or affecting the Premises or the air, soil, water vegetation, buildings, personal property, persons or animals thereon (collectively a "**Release**"); (ii) any personal injury (including wrongful death) or property damages (real or personal) arising out of or related to such Release; (iii) any lawsuit brought or threatened, settlement reached or governmental order relating to such Release; (iv) any violation of or liability pursuant to environmental laws which is based upon or in any way related to such Release; (v) any Pre-Existing Environmental Condition (as hereinafter defined); and/or (vi) the breach of any warranty, representation or covenant contained in this Section. The indemnity provided in this Section shall survive the expiration or termination of this Lease and is not limited or otherwise affected by Landlord's knowledge of any matter. Tenant further agrees that Tenant shall be responsible, at its sole cost and expense, for all Corrective Action (as hereinafter defined) relative to: (a) any and all Hazardous Materials in soil, groundwater or surface water on or about the Premises in amounts, concentrations or levels that meet or exceed Environmental Requirements, and (b) any Pre-Existing Environmental Condition.

As used herein, the term “**Hazardous Materials**” shall mean and be defined as any and all toxic or hazardous substances, chemicals, materials or pollutants, of any kind or nature, which are regulated, governed, restricted or prohibited by any federal, state or local law, decision, statute, rule, or ordinance currently in existence or hereafter enacted or rendered, and shall include (without limitation), all oil, gasoline and petroleum based substances. As used herein, the term “**Pre-Existing Environmental Condition**” means presence of: (i) Hazardous Materials in soil, groundwater or surface water on or about the Premises which first existed or first occurred prior to the Effective Date; or (ii) any other environmental condition which first existed or first occurred prior to the Effective Date. “**Environmental Requirements**”, as used herein, shall mean all applicable federal, state, and local government laws (including common law), rules, regulations, statutes, codes, ordinances, directives, guidance documents, cleanup or other standards, and any other governmental requirements or standards which pertain to, regulate, or impose liability or standards of conduct concerning the use, storage, human exposure to, handling, transportation, release, cleanup or disposal of Hazardous Substances. “**Corrective Action**” shall mean investigation, assessment, monitoring, sampling, analysis, cleanup, removal, disposal, on-site treatment, off-site treatment, active remediation, passive remediation, remediation alternatives including but not limited to risk-based corrective action, if applicable, and/or other activities approved, concurred in or required by the governmental agency having jurisdiction over the Premises.

Tenant shall not discharge or permit to be discharged from the Premises any Hazardous Materials on, in or from the Premises. Any sewage which is produced or generated in connection with the use or operation of the Premises shall be handled and disposed of by Tenant as required by and in compliance with all applicable local, state and federal laws, ordinances and rules or regulations.

4.4 Mold and Other Environmental Conditions. Tenant shall, during the Term of this Lease and any renewals thereof, (i) provide prompt written notification to Landlord of any adverse change to the Premises, such as changes to any environmental condition, including the presence of biocontaminants, such as mold; (ii) promptly undertake appropriate assessment, remedial and preventative actions sufficient to meet any guidelines or regulations adopted by applicable authoritative bodies or regulatory agencies in connection with a determination of any adverse change, and, in any event with respect to mold contamination, Tenant shall undertake (a) removal of the mold, (b) abatement of the underlying cause of the mold (including water intrusion), and (c) repair of any leaks and associated water damage at the Premises.

4.5 Compliance With Restrictions, Etc. Tenant, at its expense, shall comply with all restrictive covenants or other title exceptions affecting the Premises and comply with and perform all of the obligations set forth therein to the extent that the same are applicable to the Premises or to the extent that the same, if not complied with or performed, would impair or prevent the continued use, occupancy and operation of the Premises. Further, in addition to Tenant's payment obligations under this Lease, Tenant shall pay all reasonable, legal sums charged, levied or assessed under any restrictive covenants, declaration, reciprocal easement agreement or other title exceptions affecting the Premises promptly as the same become due and shall furnish Landlord evidence of payment thereof and indemnify, defend and hold harmless Landlord for any claim against Landlord for any such matters.

ARTICLE V.
TAXES AND ASSESSMENTS

5.1 Real Estate Taxes and Assessments. From and after the Effective Date and continuing throughout the Term of this Lease Tenant's obligations with respect to Real Estate Taxes (as hereinafter defined) shall be as follows:

(a) Tenant shall pay directly to the taxing authorities, twenty (20) days prior to the date Real Estate Taxes may be paid without penalties or interest, the ad valorem real estate taxes, any payments in lieu of ad valorem taxes, property taxes, and all assessments, annual benefits, levies, fees and all other governmental charges, general and special, ordinary and extraordinary, foreseen and unforeseen, attributable and levied upon or assessed and payable by Landlord with respect to the Premises (collectively the "**Real Estate Taxes**"). Real Estate Taxes shall also include (i) other taxes, other charges and impositions imposed by the State in which the Premises is located or any subdivision thereof which: (A) are in replacement of or in addition to all or any part of ad valorem taxes as sources of revenue, and (B) are based in whole or in part upon the land of which the Premises are a part or any interest therein or the ownership thereof, or the rents or other income therefrom, including, without limitation, income, single business, franchise, excise, license, privilege, sales, use, and occupancy taxes; (ii) taxes or surcharges of any kind or nature upon, against or with respect to the parking areas or the number of parking spaces in the Premises.

(b) Tenant shall deliver to Landlord evidence of the payment of the Real Estate Taxes no later than fifteen (15) days after the date Real Estate Taxes can be paid without penalties or interest.

(c) Tenant shall pay and discharge, when due, all taxes assessed during the Term of this Lease against any leasehold interest or personal property of any kind owned by or placed in the Premises by Tenant. In addition to the Rent and any other sums or amounts required to be paid by Tenant to Landlord pursuant to the provisions of this Lease, Tenant shall also pay to Landlord, simultaneously with such payment of such Rent or other sums or amounts, the amount of any applicable sales, use or excise tax on any such Rent or other sums or amounts so paid by Tenant to Landlord, whether the same be levied, imposed or assessed by the State in which the Premises is located or any other federal, state, county or municipal governmental entity or agency. Any such sales, use or excise taxes shall be paid by Tenant to Landlord at the same time that each of the amounts with respect to which such taxes are payable are paid by Tenant to Landlord.

(d) If Landlord does not appeal the real estate tax assessment after request of Tenant, Tenant may, as long as it pays all real estate taxes first, upon notice to Landlord, appeal the real estate tax assessment attributable to the Premises and Landlord shall cooperate, including timely signing all required applications and documents and, if required, being named as a plaintiff.

ARTICLE VI. UTILITIES

From and after the Effective Date Tenant shall be liable for and shall pay directly all charges, rents and fees (together with any applicable taxes or assessments thereon) when due for water, gas, electricity, air conditioning, heat, septic, sewer, refuse collection, telephone, telecommunications cable and any other utility charges or similar items in connection with the use or occupancy of the Premises during the Term of this Lease. Landlord shall not be responsible or liable in any way whatsoever for the impairment, interruption, stoppage, or other interference with any utility services to the Premises.

ARTICLE VII. INSURANCE

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

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

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

(c) "All Risk" property insurance against fire, theft, vandalism, malicious mischief, sprinkler leakage and such additional perils as are now, or hereafter may be, included in a standard extended coverage endorsement from time to time in general use in the State in which the Premises is located upon property of every description and kind owned by Tenant and/or under Tenant's care, custody or control located in the Building or the Premises or for which Tenant is legally liable or installed by or on behalf of Tenant, including by way of example and not by way of limitation, fixtures, fittings and affixed installations in an amount equal to the full replacement cost thereof.

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

(e) Business interruption and rent loss insurance, against the loss of Base and Additional Rent for no less than one (1) year as provided herein.

(f) Workers' Compensation Insurance (including employers' liability insurance) covering all persons employed at the Premises to the extent required by the laws of the State in which the Premises is located.

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

Tenant represents, said representation being specifically designed to induce Landlord to execute this Lease, that Tenant's personal property, fixtures, goods and inventory and any other items which Tenant may bring to the Premises or which may be under Tenant's care, custody and control which may be subject to any claim for damages or destruction shall never exceed the amount of insurance which Tenant is required to carry pursuant to this Lease. Tenant shall name Landlord, its managing agent, if any, and Landlord's mortgagee[s] as an additional named insureds, as their interests may appear, with Landlord (or its mortgagee(s)) being designated as "loss payee" in all fire/casualty real property cases only. If at any time the amount of personal property, fixtures, goods and inventory or other items located at the Premises shall exceed said amount, Tenant covenants to so notify Landlord and at the same time increase the amount of insurance required to be carried pursuant to Subsection 7.1(c) to an amount sufficient to cover the aforesaid to preclude any liability on Landlord's part to Tenant. Should Tenant fail to do so, or fail to maintain insurance coverage adequate to cover the aforesaid, naming Landlord, its managing agent, if any, and Landlord's mortgagee[s] as an additional named insured, then, after written notice and a ten (10) day opportunity to cure, Tenant shall be in default hereunder and shall be deemed to have breached its covenants as set forth herein.

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

All policies of insurance required pursuant to this Section shall be from a company rated in the A.M. Best Key Rating Guide with a policyholder's service rating of A and a financial rating of X or such other rating as may be required by Landlord's mortgagee. The insurance company shall be licensed to do business in the State in which the Premises is located and a certificate(s) evidencing the existence of such policy shall be delivered to Landlord, together with evidence of the payment of the premiums therefore upon the execution of this Lease. Each insurance company shall agree to provide a notice of cancellation or non-renewal to Landlord and any mortgagee at least thirty (30) days prior to said event becoming effective. At least thirty (30) days prior to the expiration or termination date of any policy, Tenant shall deliver a renewal or replacement policy, or certificate(s) evidencing the existence thereof, to Landlord together with proof of the payment of the premium therefor. No deductible on any insurance required hereunder shall exceed Ten Thousand and 00/100 (\$10,000.00) Dollars. If Tenant shall fail to comply with the provisions of this Article VII, Landlord shall have the right on no less than three (3) days prior written notice (unless Landlord needs to accelerate the implementation of such insurance due to the lapse or possible lapse of such insurance), but not the obligation, to procure such insurance and pay the premiums thereof and Landlord shall be entitled to repayment by Tenant immediately on demand, as Additional Rent.

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

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

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

- (A) Any work or thing done in, on or about the Premises or any part thereof by Tenant or permitted by Tenant;
- (B) Any use, occupation, condition or operation of the Premises by Tenant;
- (C) Any act or omission on the part of Tenant or any of its agents, employees, invitees, licensees or subtenants on or within the Premises or any part thereof, or any occurrence on any of the same;
- (D) Any accident, injury (including death) or damage to any third party or property owned by someone other than Tenant and not under the care, custody or control of Tenant occurring in, on or about the Premises or any part thereof;
- (E) Any failure on the part of Tenant to perform or comply with any of the covenants, agreements, terms or conditions contained in this Lease.

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

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

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

7.5 Carriers and Features. All insurance policies required to be carried by Tenant as provided in this Article shall be issued by insurance companies reasonably approved by Landlord authorized and licensed to do business in the State in which the Premises is located. The insurance companies must have (as determined by Landlord at its discretion): (i) an investment grade rating for claims paying ability assigned by a credit rating agency approved by Landlord and (ii) a general policy rating of A or better and a financial class of X or better by A.M. Best Company, Inc. All such policies shall be for periods of not less than one year and Tenant shall renew the same at least thirty (30) days prior to the expiration thereof. All such policies shall name Landlord as additional insured and any wholly or principally owned subsidiaries of Landlord that may now or hereafter exist, as well as any mortgagee or collateral assignee of Landlord, and shall require not less than thirty (30) days written notice to Landlord prior to any cancellation thereof or any change reducing coverage thereunder. In addition to the foregoing, all policies of insurance required in this Article shall contain above shall contain clauses or endorsements to the effect that (i) no act or negligence of Tenant, or anyone acting for Tenant, or failure to comply with the provisions of any policy which might otherwise result in a forfeiture of the insurance or any part thereof, shall in any way affect the validity or enforceability of the insurance insofar as Landlord is concerned, and (ii) Landlord shall not be liable for any insurance premiums thereon or subject to any assessments thereunder.

Tenant shall pay the premiums for all insurance policies which Tenant is obligated to carry under this Article and, at least thirty (30) days prior to the date any such insurance must be in effect, deliver to Landlord a copy of the policy or policies, or a certificate or certificates thereof (on ACORD 27 forms or equivalent), along with evidence that the premiums therefor have been paid for at least the next ensuing annual period.

7.6 Failure to Procure Insurance. In the event Tenant shall fail to procure insurance required under this Article and fail to maintain the same in full force and effect continuously during the Term of this Lease, Landlord shall be entitled to, upon no less than three (3) days' written notice to Tenant (unless Landlord needs to accelerate the implementation of such insurance due to the lapse or possible lapse of such insurance), procure the same and Tenant shall immediately reimburse Landlord for such premium expense as past due Additional Rent.

7.7 Mutual Waiver of Subrogation. Tenant agrees that, if any property owned by it and located in the Premises shall be stolen, damaged or destroyed by an insured peril, Landlord shall not have any liability to Tenant, nor to any insurer of Tenant, for or in respect of such theft, damage or destruction, and Tenant and Landlord shall require all policies of risk insurance carried by it on its property in the Premises to contain or be endorsed with a provision in and by which the insurer designated therein shall waive its right of subrogation against Landlord or Tenant, as the case may be. Landlord agrees that, if any property owned by it and located in the Premises shall be stolen, damaged or destroyed by an insured peril, Tenant shall not have any liability to Landlord, nor to any insurer of Landlord, for or in respect of such theft, damage or destruction, and Landlord shall require all policies of risk insurance carried by it on its property in the Premises to contain or be endorsed with a provision in and by which the insurer designated therein shall waive its right of subrogation against Tenant.

ARTICLE VIII.
ADDITIONS, ALTERATIONS AND REMOVALS

8.1 Prohibition. Except as hereinafter expressly provided in Section 8.2, no portion of the Premises shall be demolished, removed or materially altered by Tenant in any manner whatsoever without the prior written consent and approval of Landlord, which may be withheld by Landlord in its sole and absolute discretion.

8.2 Permitted Renovations.

(a) Tenant shall be entitled and obligated to undertake all alterations to the Premises required by any applicable law or ordinance.

(b) Tenant shall be entitled to undertake non-structural alterations, renovations or modifications to the Premises which cost no more than Two Hundred Thousand Dollars (\$200,000) per year without Landlord's prior consent.

(c) Tenant shall not be entitled to undertake any structural alterations, renovations or modifications (collectively, "**Structural Work**") to the Premises without Landlord's prior written consent; provided, however, Landlord's prior consent shall not be required for structural repairs or replacements of existing structural elements (e.g. replacing roof, the roof membrane roof covering, exterior walls, structural support beams); provided further however that Tenant shall give Landlord written notice before causing such structural repairs or replacements to be performed and shall also comply with the provisions of Section 9.2 below. Prior to performing any Structural Work, Tenant shall request Landlord's consent, which consent shall be given or withheld within [thirty (30)] days of Tenant's request. Landlord's consent shall not be unreasonably withheld or delayed, but may be conditioned upon Tenant's full compliance with the requirements of Section 9.2 below. Landlord may retain expert consultants in connection with the review of any proposed Structural Work, and the reasonable cost thereof shall be reimbursed by Tenant. Structural Work shall also include system wide repairs or replacements to the mechanical systems and exterior elevations.

(d) When performing any alterations or renovations to the Improvements, Tenant shall comply with all of the following requirements:

(i) No such alterations shall be undertaken by Tenant which materially and adversely affect the value of the Premises or without Landlord's consent, materially decrease the square footage of the Improvements.

(ii) Before the commencement of any such alterations, Tenant or its agents shall furnish to Landlord either plans and specifications therefor depicting the scope of the Alterations or a reasonable detailed itemization thereof.

(iii) Before the commencement of any such alterations, Tenant shall obtain the approval thereof by all governmental departments or authorities having or claiming jurisdiction of or over the Premises, if required by such departments or authorities, and with any public utility companies having an interest therein, if required by such utility companies. In any such work, Tenant shall comply with all applicable laws, ordinances, requirements, orders, directions, rules and regulations of the federal, state, county and municipal governments and of all other governmental authorities having or claiming jurisdiction of or over the Premises and of all their respective departments, bureaus and offices, and with the requirements and regulations, if any, of such public utilities, of the insurance underwriting board or insurance inspection bureau having or claiming jurisdiction, or any other body exercising similar functions, and of all insurance companies then writing policies covering the Premises or any part thereof.

(iv) Tenant represents and warrants to Landlord that all such alterations will be performed in a good and workmanlike manner, in accordance with the terms, provisions and conditions of this Lease, the plans and specifications or itemization thereof approved by Landlord and all governmental requirements.

(v) Landlord shall have the right to inspect any such work on prior notice at all times during normal working hours accompanied by an authorized Tenant representative and to maintain at the Premises for that purpose (at its own expense) such inspector(s) as it may deem necessary so long as such inspections do not interfere with Tenant's work (but Landlord shall not thereby assume any responsibility for the proper completion of the alterations in accordance with the terms of this Lease, nor any liability arising from the improper performance thereof).

(vi) All such alterations shall be performed at Tenant's cost and expense and free of any expense to Landlord and free of any liens on Landlord's title to or Tenant's leasehold interest in the Premises.

(vii) Upon substantial completion of any such alterations Tenant shall procure a certificate of occupancy or other written approval, if available and if required, from the appropriate governmental authorities verifying the substantial completion thereof and shall provide a copy of same to Landlord.

(viii) Tenant shall, and hereby agrees to, indemnify and save and hold Landlord harmless from and against and reimburse Landlord for any and all loss, damage, cost and expense (including, without limitation, reasonable attorneys' fees) incurred by or asserted against Landlord which is occasioned by or results, directly or indirectly, from any construction or renovation activities conducted upon the Premises by or at the direction of Tenant; whether or not the same is caused by or is the fault of Tenant or any contractor, subcontractor, laborer, supplier, materialman or any other third party.

(e) Upon expiration of or termination of the Term, Tenant shall not be required to remove any alterations or renovations made to the Improvements by Tenant. Landlord represents and warrants that Tenant shall have no obligation to remove any Improvements made to the Premises prior to the Effective Date hereof.

ARTICLE IX.
MAINTENANCE AND REPAIRS

9.1 Repairs by Tenant. From and after the Effective Date and continuing throughout the Term of this Lease Tenant shall at all times and at its sole cost and expense, put, keep, replace and maintain the Premises (including, without limitation, the roof, plumbing systems, electric systems and HVAC systems) in repair and in safe and substantial order and condition, shall make all repairs thereto, both inside and outside, structural and non-structural, ordinary and extraordinary, howsoever the necessity or desirability for repairs may occur, and whether or not necessitated by wear, tear, obsolescence or defects, latent or otherwise, and shall use all reasonable precautions to prevent waste, damage or injury. Tenant shall also, at its own cost and expense, put, keep, replace and maintain all landscaping, signs, sidewalks, roadways, driveways and parking areas within the Premises in good repair and in good, safe and substantial order and condition and free from dirt, standing water, rubbish and other obstructions or obstacles.

9.2 Landlord's Obligation. Landlord shall not be required to make any alterations, reconstructions, replacements, changes, additions, improvements or repairs of any kind or nature whatsoever to the Premises or any portion thereof (including, without limitation, any portion of the Improvements) at any time during the Term of this Lease.

ARTICLE X.
DAMAGE OR DESTRUCTION

10.1 Restoration and Repair. If, during the Term of this Lease, the Improvements shall be destroyed or damaged in whole or in part by fire, windstorm or any other cause whatsoever, Tenant shall give Landlord prompt notice thereof and shall repair, reconstruct or replace the Improvements, or the portion thereof so destroyed or damaged (whichever is reasonably required), at least to the extent of the value and character thereof existing immediately prior to such occurrence. All work shall be started as soon as practicable and completed, at Tenant's sole reasonable cost and expense. Tenant shall, however, immediately take such action as is necessary to assure that the Premises (or any portion thereof) do not constitute a nuisance or otherwise present a health or safety hazard.

10.2 Escrow of Insurance Proceeds. In the event of a casualty resulting in a loss payment for the Improvements in an amount greater than ONE HUNDRED THOUSAND AND NO/100 DOLLARS (\$100,000.00), the proceeds of all insurance policies maintained by Tenant shall be deposited in Landlord's name in a joint escrow account at a bank or other financial institution agreed to by Landlord and Tenant, and shall be used by Tenant for the repair, reconstruction or restoration of the Improvements together with its own funds advanced by Tenant, which, together with the insurance proceeds, are sufficient to fully restore the Improvements. Such proceeds and such additional funds as are deposited by Tenant shall be disbursed periodically upon receipt of partial lien waivers and certification of the architect or engineer having supervision of the work that such amounts are the amounts paid or payable for the repair, reconstruction or restoration. Tenant shall obtain and make receipted bills available to Landlord and, upon completion of said work, full and final waivers of lien. In the event of a casualty resulting in a loss payment for the Improvements in an amount equal to or less than the amount stated above, the proceeds shall be paid to Tenant, and shall be applied towards repair, reconstruction and restoration.

10.3 Uninsured Losses. Nothing contained herein shall relieve Tenant of its obligations under this Article if the destruction or damage is not covered, either in whole or in part, by insurance.

ARTICLE XI.
CONDEMNATION

11.1 Complete Taking. If the whole of the Premises shall be taken or condemned for any public or quasi-public use or purpose, by right of eminent domain or by purchase in lieu thereof, or if a substantial portion of the Premises shall be so taken or condemned that the portion or portions remaining is or are not sufficient and suitable, in the mutual reasonable judgment of Landlord and Tenant, for the continued operation of the business contemplated by this Lease to be conducted thereon, therein or therefrom so as to effectively render the Premises untenable, then this Lease and the Term hereby granted shall cease and terminate as of the date on which the condemning authority takes possession and all Rent shall be paid by Tenant to Landlord up to that date or refunded by Landlord to Tenant if Rent has previously been paid by Tenant beyond that date.

11.2 Partial Taking. If a portion of the Premises is taken, and the portion or portions remaining can, in the mutual reasonable judgment of Landlord and Tenant, be adapted and used for the conduct of Tenant's business operation, such that the Premises are not effectively rendered untenable or unfit for Tenant's business purposes, then the Tenant shall promptly restore the remaining portion or portions thereof to a condition comparable to their condition at the time of such taking or condemnation, less the portion or portions lost by the taking, and this Lease shall continue in full force and effect except that the Rent payable hereunder shall, if necessary, be equitably adjusted to take into account the portion or portions of the Premises lost by the taking.

11.3 Award. The entire award for the Premises or the portion or portions thereof so taken shall be apportioned between Landlord and Tenant as follows: (i) if this Lease terminates due to a taking or condemnation, Landlord shall be entitled to the entire award (except for any separate award made to Tenant for its moving expenses, interruption of or damage to Tenant's business, any unamortized leasehold improvements paid for by Tenant (regardless of whether such improvements are part of the Improvements or Landlord's property pursuant to this Lease) and the value of any Tenant's property, pursuant to a separate independent action taken by Tenant against the condemning authority); (ii) if this Lease does not terminate due to such taking or condemnation, Tenant shall be entitled to the award to the extent required for restoration of the Premises, and Landlord shall be entitled to the balance of the award not applied to restoration. If this Lease does not terminate due to a taking or condemnation, Tenant shall, with due diligence, restore the remaining portion or portions of the Premises in the manner hereinabove provided. In such event, the proceeds of the award to be applied to restoration shall be deposited with a bank or financial institution agreeable to Landlord and Tenant as if such award were insurance proceeds, and the amount so deposited will thereafter be treated in the same manner as insurance proceeds are to be treated under Section 7.2 of this Lease until the restoration has been completed and Tenant has been reimbursed for all the costs and expenses thereof. If the award is insufficient to pay for the restoration, Tenant shall be responsible for the remaining cost and expense of such restoration.

11.4 Disputes. If Landlord and Tenant cannot agree in respect of any matters to be determined under this Article, a determination shall be requested of the court having jurisdiction over the taking or condemnation; provided, however, that if said court will not accept such matters for determination, either party may have the matters determined by a court otherwise having jurisdiction over the parties.

ARTICLE XII.
LANDLORD'S RIGHT TO INSPECT

Landlord and its agents, mortgagees, proposed mortgagees, purchasers and their employees or representatives shall have the right to enter upon the Premises or any portion thereof during Tenant's normal business hours on prior notice (other than in the event of an emergency) only Tenant's representative shall be welcome to participate in any such inspections, after twenty four (24) hours prior notice to Tenant, to inspect the operation, sanitation, safety, maintenance and use of the same, or any portions of the same and to assure itself that Tenant is in full compliance with its obligations under this Lease (but Landlord shall not thereby assume any responsibility for the performance of any of Tenant's obligations hereunder, nor any liability arising from the improper performance thereof). In making any such inspections, Landlord shall not unduly interrupt or interfere with the conduct of Tenant's business.

ARTICLE XIII.
ASSIGNMENT AND SUBLETTING BY TENANT

Tenant may not assign its interest in this Lease or sublet the whole or any part of the Premises without the prior consent of Landlord, which consent will not be unreasonably withheld, delayed or conditioned. Tenant shall remain primarily liable and responsible under this Lease in the event of any such assignment or sublease and shall not be released from its obligations hereunder nor shall the guaranty of the Lease by Air Industries Group be terminated or released. Any assignment of this Lease or subletting of the Premises without notification to and consent by Landlord shall not be effective as to Landlord and Landlord shall not be bound thereby.

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

- (a) The proposed assignee ("**Proposed Assignee**") refuses to provide Landlord with financial statements covering a period of at least 12 months ending no earlier than six months and no later than three months prior to the effective date of the proposed assignment;
- (b) The Proposed Assignee shall not agree in writing to assume all of the obligations of Tenant under this Lease from and after the date of assignment;
- (c) Tenant or Proposed Assignee shall fail to pay to Landlord a processing fee of One Thousand Five Hundred (\$1,500.00) Dollars (increased by 2% each year commencing 1/1/17) in connection with the proposed sublet or assignment of this lease;
- (d) Tenant shall fail to furnish Landlord with a true and correct copy of the sublease or assignment and assumption not less than thirty (30) days prior to execution for Landlord's review and approval and a fully executed counterpart of the sublease or assignment and assumption of this Lease, as applicable, within ten (10) days after the date of the execution of same;

- (e) The Proposed Assignee is not solvent or is generally held in disrepute;
- (f) Without consent of Landlord, Tenant may assign this Lease to a corporation or other entity which is a direct or indirect subsidiary of Guarantor.
- (g) Without consent of Landlord Tenant may assign this Lease or the holders of the equity interests of Tenant may sell or assign such interests to a third party which acquires all or substantially all of the business then being conducted by Tenant at the Premises.
- (h) Without consent of Landlord, Tenant may sell or transfer a minority of its equity interests or otherwise assign or sublease to an affiliate or subsidiary of Tenant or its parent company; up to forty-nine percent (49%) of the Premises, or transfer equity interests in connection with going public.
- (i) Under no circumstances shall Tenant or Guarantor be released from any liability under this Lease or Guaranty.

ARTICLE XIV.
LANDLORD'S INTEREST NOT SUBJECT TO LIENS

14.1 Liens, Generally. Tenant shall not create or cause to be imposed, claimed or filed upon the Premises, or any portion thereof, or upon the interest of Landlord therein, any lien, charge or encumbrance whatsoever. If, because of any act or omission of Tenant, any such lien, charge or encumbrance shall be imposed, claimed or filed, Tenant shall, at its sole cost and expense, cause the same to be fully paid and satisfied or otherwise discharged of record (by bonding or otherwise) within thirty (30) days after the date such lien is recorded and Tenant has notice of same and Tenant shall indemnify, defend and save and hold Landlord harmless from and against any and all reasonable costs, liabilities, suits, penalties, claims and demands whatsoever, and from and against any and all reasonable attorneys' fees, at both trial and all appellate levels, resulting or on account thereof and therefrom. In the event that Tenant shall fail to comply with the foregoing provisions of this Section, Landlord shall have the option of paying, satisfying or otherwise discharging (by bonding or otherwise) such lien, charge or encumbrance and Tenant agrees to reimburse Landlord, as Additional Rent, for all sums so paid and for all costs and expenses incurred by Landlord in connection therewith, together with interest thereon as provided in this Lease, until paid.

14.2 Mechanics Liens. Landlord's interest in the Premises shall not be subjected to liens of any nature by reason of Tenant's construction, alteration, renovation, repair, restoration, replacement or reconstruction of any improvements on or in the Premises, or by reason of any other act or omission of Tenant (or of any person claiming by, through or under Tenant) including, but not limited to, mechanics' and materialmen's liens. All persons dealing with Tenant are hereby placed on notice that such persons shall not look to Landlord or to Landlord's credit or assets (including Landlord's interest in the Premises) for payment or satisfaction of any obligations incurred in connection with the construction, alteration, renovation, repair, restoration, replacement or reconstruction thereof by or on behalf of Tenant. Tenant has no power, right or authority to subject Landlord's interest in the Premises to any mechanic's or materialmen's lien or claim of lien. If a lien, a claim of lien or an order for the payment of money shall be imposed against the Premises on account of work performed, for or on behalf of Tenant, Tenant shall, within thirty (30) days after written notice of the imposition of such lien, claim or order, cause the Premises to be released therefrom by the payment of the obligation secured thereby or by furnishing a bond or by any other method prescribed or permitted by law. If a lien is released, Tenant shall thereupon establish the release as a matter of record by recording or filing it in the appropriate office of land records of the County in which the Premises is located, and shall furnish Landlord with a copy of same.

14.3 Contest of Liens. Tenant may, at its option, contest the validity of any lien or claim of lien if Tenant shall have first posted an appropriate and sufficient bond in favor of the claimant or paid the appropriate sum into court, if permitted by law, and thereby obtained the release of the Premises from such lien. If judgment is obtained by the claimant under any lien, Tenant shall pay the same immediately after such judgment shall have become final and the time for appeal therefrom has expired without appeal having been taken. Tenant shall, at its own expense, defend the interests of Tenant and Landlord in any and all such suits; provided, however, that Landlord may, at its election, engage its own counsel and assert its own defenses, in which event Tenant shall cooperate with Landlord and make available to Landlord all information and data which Landlord deems necessary or desirable for such defense.

14.4 Notices of Commencement of Construction. If required by the laws of the State in which the Premises is located, prior to commencement by Tenant of any work on the Premises Tenant shall record or file a notice of the commencement of such work (the "**Notice of Commencement**") in the land records of the County in which the Premises are located, identifying Tenant as the party for whom such work is being performed, stating such other matters as may be required by law and requiring the service of copies of all notices, liens or claims of lien upon Landlord. Any such Notice of Commencement shall clearly reflect that the interest of Tenant in the Premises is that of a leasehold estate and shall also clearly reflect that the interest of Landlord as the fee simple owner of the Premises shall not be subject to mechanics or materialmen's liens on account of the work which is the subject of such Notice of Commencement. A copy of any such Notice of Commencement shall be furnished to and approved by Landlord and its attorneys prior to the recording or filing thereof, as aforesaid.

ARTICLE XV.
SUBORDINATION, ATTORNMENMENT AND NON-DISTURBANCE

15.1 Subordination. Provided Tenant receives a recordable SNDA from any mortgagee or ground lessor, this Lease, Tenant's interest hereunder and Tenant's leasehold interest in and to the Premises are hereby agreed by Tenant to be and are hereby made junior, inferior, subordinate and subject in right, title, interest, lien, encumbrance, priority and all other respects to any mortgage or mortgages now or hereafter in force and effect upon or encumbering Landlord's interest in the Premises, or any portion thereof, and to all collateral assignments by Landlord to any third party or parties of any of Landlord's rights under this Lease or the rents, issues and profits thereof or therefrom as security for any liability or indebtedness, direct, indirect or contingent, of Landlord to such third party or parties, and to all future modifications, extensions, renewals, consolidations and replacements of, and all amendments and supplements to any such mortgage, mortgages or assignments, and upon recording of any such mortgage, mortgages or assignments, the same shall be deemed to be prior in dignity, lien and encumbrance to this Lease, Tenant's interest hereunder and Tenant's leasehold interest in and to the Premises irrespective of the dates of execution, delivery or recordation of any such mortgage, mortgages or assignments; provided, however, Tenant's possession and right of use under this Lease in and to the Premises shall not be disturbed by such mortgagee or ground lessor unless and until Tenant shall breach any of the provisions hereof after notice and expiration of the applicable cure period, if any. The foregoing subordination provisions of this Section shall be automatic and self-operative without the necessity of the execution of any further instrument or agreement of subordination on the part of Tenant. However, if Landlord or the holder or proposed holder of any such mortgage, mortgages or assignments shall request that Tenant execute and deliver any further instrument or agreement of subordination of this Lease, Tenant's interest hereunder or Tenant's leasehold interest in the Premises to any such mortgage, mortgages or assignments in confirmation or furtherance of or in addition to the foregoing subordination provisions of this Section, Tenant shall execute and deliver the same to the requesting party within thirty (30) days following Tenant's receipt of such a written request. Tenant's failure to execute a subordination pursuant to this Section or an Estoppel Certificate pursuant to Section 20.2 shall be an Event of Default for which no notice, grace or cure period shall be provided, provided Tenant is notified of the potential for a default when the request is made.

15.2 Attornment. Tenant shall and hereby agrees to attorn, and be bound under all of the terms, provisions, covenants and conditions of this Lease, to any successor of the interest of Landlord under this Lease for the balance of the Term of this Lease remaining at the time of the succession of such interest to such successor. In particular, in the event that any proceedings are brought for the foreclosure of any mortgage or security interest encumbering or collateral assignment of Landlord's interest in the Premises, or any portion thereof, Tenant shall attorn to the purchaser at any such foreclosure sale and recognize such purchaser as Landlord under this Lease, subject, however, to all of the terms and conditions of this Lease. Tenant agrees that neither the purchaser at any such foreclosure sale nor the foreclosing mortgagee or holder of such security interest or collateral assignment shall have any liability for any act or omission of Landlord, be subject to any offsets or defenses which Tenant may have as claim against Landlord, or be bound by any advance rents which may have been paid by Tenant to Landlord for more than the current period in which such rents come due; provided, however, if the foreclosing mortgagee had notice of any default and an opportunity to cure said default, then the foreclosing mortgagee will be subject to offsets and defenses for said default of which it had notice from Tenant.

ARTICLE XVI.
END OF TERM

16.1 Surrender of Premises. Tenant shall, on or before the last day of the Term of this Lease or upon the sooner termination thereof, peaceably and quietly surrender and deliver to Landlord the Premises (including, without limitation, all Improvements and all additions thereto and replacements thereof made from time to time over the Term of this Lease), in order, condition and repair, reasonable wear and tear and casualty excepted, and free and clear of all liens and encumbrances other than those which exist on the Rental Commencement Date or are otherwise specifically approved and acknowledged by Landlord in writing.

16.2 Holding Over. If Tenant or any other person or party shall remain in possession of the Premises or any part thereof following the expiration of the Term or earlier termination of this Lease without an agreement in writing between Landlord and Tenant with respect thereto, the person or party remaining in possession shall be deemed to be a tenant at sufferance, and during any such holdover, the Base Rent payable under this Lease by such tenant at sufferance shall be one hundred and fifty percent (150%) of the rate or rates in effect immediately prior to the expiration of the Term or earlier termination of this Lease, plus Additional Rent. In no event, however, shall such holding over be deemed or construed to be or constitute a renewal or extension of this Lease. The parties agree that: (i) it would be impractical and extremely difficult to fix the actual damage Landlord will suffer in the event of Tenant's holdover without Landlord's consent; and (ii) the foregoing increases in Rent due during any holdover period represent a fair and reasonable estimate of the detriment that Landlord will suffer by reason of Tenant's holdover without consent. Any holding over without Landlord's consent shall entitle Landlord to re-enter the Premises as provided in this Lease and Tenant shall pay to Landlord all reasonable documented damages sustained by Landlord as a result of retention of possession by Tenant, including, without limitation, the loss of any proposed subsequent tenant for any portion of the Premises.

ARTICLE XVII.
LIABILITY OF LANDLORD; INDEMNIFICATION

17.1 Liability of Landlord. Landlord shall not be liable to Tenant, its employees, agents, business invitees, licensees, customers, clients, or guests for any damage, injury, loss, compensation or claim, including, but not limited to, claims for the interruption of or loss to Tenant's business, based on, arising out of or resulting from any cause whatsoever, including, but not limited to: (i) repairs to any portion of the Premises; (ii) interruption in Tenant's use of the Premises; (iii) any accident or damage resulting from the use or operation (by Tenant or any other person or persons) of any equipment within the Premises, including without limitation, heating, cooling, electrical or plumbing equipment or apparatus; (iv) the termination of this Lease by reason of the condemnation or destruction of the Premises in accordance with the provisions of this Lease; (v) any fire, robbery, theft, mysterious disappearance or other casualty; (vi) the actions of any other person or persons; and (vii) any leakage or seepage in or from any part or portion of the Premises, whether from water, rain or other precipitation that may leak into, or flow from, any part of the Premises, or from drains, pipes or plumbing fixtures in the Improvements. Any storage or placement by the Tenant or its employees of goods, property or personal effects in or about the Premises shall be at the sole risk of the Tenant.

17.2 Indemnification of Landlord. Tenant shall defend, indemnify and save and hold Landlord harmless from and against any and all liabilities, obligations, losses, damages, injunctions, suits, actions, fines, penalties, claims, demands, costs and expenses of every kind or nature, including reasonable attorneys' fees and court costs, incurred by Landlord, arising directly or indirectly from or out of: (i) any failure by Tenant to perform any of the terms, provisions, covenants or conditions of this Lease on Tenant's part to be performed; (ii) any accident, injury or damage which shall happen at, in or upon the Premises, however occurring; (iii) any matter or thing growing out of the condition, occupation, maintenance, alteration, repair, use or operation by any person of the Premises, or any part thereof, or the operation of the business contemplated by this Lease to be conducted thereon, thereat, therein, or therefrom; (iv) any failure of Tenant to comply with any laws, ordinances, requirements, orders, directions, rules or regulations of any governmental authority; (v) any contamination of the Premises, or the groundwaters thereof; (vi) any discharge of Hazardous Materials sewage or waste materials from the Premises; or (vii) any other act or omission of Tenant, its employees, agents, invitees, customers, licensees or contractors, provided Tenant shall not be responsible for any indirect or consequential damages or loss of profits arising out of any of the foregoing.

17.3 Survival of Indemnities. Tenant's indemnity obligations under this Article and elsewhere in this Lease arising prior to the expiration or earlier termination of this Lease shall survive any such expiration or termination.

17.4 Notice of Claim or Suit. Tenant shall promptly notify Landlord of any claim, action, proceeding or suit involving the Premises which is instituted or threatened against Tenant or Landlord of which Tenant receives notice or of which Tenant acquires knowledge. In the event Landlord is made a party to any action for damages or other relief against which Tenant has indemnified Landlord, as aforesaid, Tenant shall defend Landlord, pay all costs and shall provide effective counsel to Landlord in such litigation or, at Landlord's option, shall pay all reasonable attorneys' fees and costs incurred by Landlord in connection with its own defense or settlement of said litigation.

17.5 Limitation on Liability of Landlord. In the event Tenant is awarded a money judgment against Landlord, Tenant's sole recourse for satisfaction of such judgment shall be limited to execution against the Premises. In no event shall any officer, director, employee or shareholder of Landlord be personally liable for the obligations of Landlord hereunder.

ARTICLE XIII.
DEFAULT

18.1 Events of Default. Each of the following events shall be an event of default hereunder by Tenant and shall constitute a breach of this Lease (individually an “**Event of Default**”):

(a) If Tenant shall fail to pay, when due, any Rent, or portion thereof, or any other sum due to Landlord from Tenant hereunder, and such failure shall continue for a period of ten (10) days after the due date thereof.

(b) If Tenant shall violate or fail to comply with or perform any other term, provision, covenant, agreement or condition to be performed or observed by Tenant under this Lease, and such violation or failure shall continue for a period of thirty (30) days after written notice thereof from Landlord. However, if said violation cannot be cured within thirty (30) days and should Tenant commence to cure said violation or commence the performance of said provision, covenant, agreement or condition within said thirty (30) days and thereafter diligently pursue said cure, then such failure shall not be an Event of Default hereunder so long as Tenant is diligently pursuing said cure, and so long as said failure is cured in any event within ninety (90) days after the written notice from Landlord.

(c) If, at any time during the Term of this Lease, there shall be filed against Tenant in any court, pursuant to any statute of either the United States or of any State, a petition in bankruptcy or insolvency, or for reorganization or arrangement, or for the appointment of a receiver or trustee of all or any portion of Tenant’s property, including, without limitation, its leasehold interest in the Premises, or if Tenant shall make an assignment for the benefit of its creditors or petitions for or enters into an arrangement with its creditors.

(d) If, at any time during the Term of this Lease, there shall be filed against Tenant in any courts pursuant to any statute of the United States or of any State, a petition in bankruptcy or insolvency, or for reorganization, or for the appointment of a receiver or trustee of all or a portion of Tenant’s property, including, without limitation, its leasehold interest in the Premises, and any such proceeding against Tenant shall not be dismissed within sixty (60) days following the commencement thereof.

(e) If Tenant’s leasehold interest in the Premises or property therein shall be seized under any levy, execution, attachment or other process of court where the same shall not be vacated or stayed on appeal or otherwise within sixty (60) days thereafter, or if Tenant’s leasehold interest in the Premises is sold by judicial sale and such sale is not vacated, set aside or stayed on appeal or otherwise within sixty (60) days thereafter.

18.2 Remedies on Default. If any of the Events of Default hereinabove specified shall occur, Landlord, at any time thereafter, shall have and may exercise any of the following rights and remedies:

(a) Landlord may, on no less than thirty (30) days prior written notice thereof to Tenant, terminate this Lease and, peaceably or pursuant to appropriate legal proceedings, re-enter, retake and resume possession of the Premises for Landlord's own account and, for Tenant's breach of and default under this Lease, recover from Tenant any and all rents and other sums and damages due or in existence at the time of such termination, including, without limitation, (i) all unaccelerated Rent and other sums, charges, payments, costs and expenses agreed and/or required to be paid by Tenant to Landlord hereunder, (ii) all reasonable documented costs and expenses of Landlord in connection with the recovery of possession of the Premises, including reasonable attorneys' fees and court costs, and (iii) all reasonable documented costs and expenses of Landlord in connection with any reletting or attempted reletting of the Premises or any part or parts thereof, including, without limitation, brokerage fees, attorneys' fees and the cost of any alterations or repairs which may be reasonably required to so relet the Premises, or any part or parts thereof.

(b) Landlord may, pursuant to any prior notice required by law, and without terminating this Lease, peaceably or pursuant to appropriate legal proceedings, re-enter, retake and resume possession of the Premises for the account of Tenant, make such alterations of and repairs to the Premises as may be reasonably necessary in order to relet the same or any part or parts thereof and relet or attempt to relet the Premises or any part or parts thereof for such term or terms (which may be for a term or terms extending beyond the Term of this Lease), at such rents and upon such other terms and provisions as Landlord, in its sole, but reasonable, discretion, may deem advisable. Landlord shall use reasonable efforts to mitigate its damages. If Landlord relets or attempts to relet the Premises, Landlord shall at its sole discretion determine the terms and provisions of any new lease or sublease and whether or not a particular proposed new tenant or sublessee is acceptable to Landlord. Upon any such reletting, all rents received by the Landlord from such reletting shall be applied, (i) first, to the payment of all costs and expenses of recovering possession of the Premises, (ii) second, to the payment of any costs and expenses of such reletting, including brokerage fees, attorneys' fees and the cost of any alterations and repairs reasonably required for such reletting; (iii) third, to the payment of any indebtedness, other than Rent, due hereunder from Tenant to the Landlord, (iv) fourth, to the payment of all Rent and other sums due and unpaid hereunder, and (v) fifth, the residue, if any, shall be held by the Landlord and applied in payment of future Rents as the same may become due and payable hereunder. If the rents received from such reletting during any period shall be less than that required to be paid during that period by the Tenant hereunder, Tenant shall promptly pay any such deficiency to the Landlord and failing the prompt payment thereof by Tenant to Landlord, Landlord shall immediately be entitled to institute legal proceedings for the recovery and collection of the same. Such deficiency shall be calculated and paid at the time each payment of rent shall otherwise become due under this Lease, or, at the option of Landlord, at the end of the Term of this Lease. Landlord shall, in addition, be immediately entitled to sue for and otherwise recover from Tenant any other damages occasioned by or resulting from any abandonment of the Premises or other breach of or default under this Lease other than a default in the payment of rent. No such re-entry, retaking or resumption of possession of the Premises by the Landlord for the account of Tenant shall be construed as an election on the part of Landlord to terminate this Lease unless a written notice of such intention shall be given to the Tenant or unless the termination of this Lease be decreed by a court of competent jurisdiction. Notwithstanding any such re-entry and reletting or attempted reletting of the Premises or any part or parts thereof for the account of Tenant without termination, Landlord may at any time thereafter, upon written notice to Tenant, elect to terminate this Lease or pursue any other remedy available to Landlord for Tenant's previous breach of or default under this Lease.

(c) Landlord may, without re-entering, retaking or resuming possession of the Premises, sue for all Rent and all other sums, charges, payments, costs and expenses due from Tenant to Landlord hereunder either: (i) as they become due under this Lease, taking into account that Tenant's right and option to pay the Rent hereunder on a monthly basis in any particular Lease Year is conditioned upon the absence of a default on Tenant's part in the performance of its obligations under this Lease, or (ii) at Landlord's option, accelerate the maturity and due date of the whole or any part of the Rent for the entire then-remaining unexpired balance of the Term of this Lease (the "**Accelerated Rent Amount**"), as well as all other sums, charges, payments, costs and expenses required to be paid by Tenant to Landlord hereunder, including, without limitation, damages for breach or default of Tenant's obligations hereunder in existence at the time of such acceleration, such that all sums due and payable under this Lease shall, following such acceleration, be treated as being and, in fact, be due and payable in advance as of the date of such acceleration. Landlord may then proceed to recover and collect the Present Value, as defined herein, of the Accelerated Rent Amount, and interest on said amount and other sums so sued for from Tenant by distress, levy, execution or otherwise. As used herein, "**Present Value**" shall mean Accelerated Rent Amount discounted at a discount rate equal to the yield on the ten (10) year U.S. Treasury Note.

(d) In addition to the remedies hereinabove specified and enumerated, Landlord shall have and may exercise the right to invoke any other remedies allowed at law or in equity as if the remedies of re-entry, unlawful detainer proceedings and other remedies were not herein provided. Accordingly, the mention in this Lease of any particular remedy shall not preclude Landlord from having or exercising any other remedy at law or in equity. Nothing herein contained shall be construed as precluding the Landlord from having or exercising such lawful remedies as may be and become necessary in order to preserve the Landlord's right or the interest of the Landlord in the Premises and in this Lease, even before the expiration of any notice periods provided for in this Lease, if under the particular circumstances then existing the allowance of such notice periods will prejudice or will endanger the rights and estate of the Landlord in this Lease and in the Premises.

18.3 Landlord May Cure Tenant Defaults. If Tenant shall default in the performance of any term, provisions, covenant or condition on its part to be performed hereunder, Landlord may, on no less than ten (10) days written notice (other than in the event of an emergency) after notice to Tenant and expiration of the applicable cure period (or without notice or shorter notice, as reasonable under the circumstances if, in Landlord's reasonable opinion, an emergency exists, but in any event with prior oral notice via telephone) perform the same for the account and at the expense of Tenant. If, at any time and by reason of such default, Landlord is compelled to pay, or elects to pay, any sum of money or do any act which will require the payment of any sum of money, or is compelled to incur any expense in the enforcement of its rights hereunder or otherwise, such sum or sums, together with interest thereon at the highest rate allowed under the laws of the State where the Premises is located, shall be deemed past due rent subject to Section 3.4 hereof and shall be repaid to Landlord by Tenant promptly when billed therefor, and Landlord shall have all the same rights and remedies in respect thereof as Landlord has in respect of the rents herein reserved.

18.4 Rights Cumulative. The rights and remedies provided and available to Landlord in this Lease are distinct, separate and cumulative remedies, and no one of them, whether or not exercised by Landlord, shall be deemed to be in exclusion of any other.

ARTICLE XIX.
NOTICES

Any notice required or permitted to be given under this Lease shall be deemed given if delivered personally to an officer of the party to be notified or sent by (i) United States registered or certified mail, postage prepaid, return receipt requested or (ii) overnight courier service, and addressed as follows:

If to Landlord: Grand/Sakwa AIG LLC
28470 Thirteen Mile Road, Suite 220
Farmington Hills, MI 48334
Attn: Jason Miller
Phone: (248) 538-6370
Fax: (248) 855-0915

With copy to: Honigman Miller Schwartz and Cohn LLP
2290 First National Building
600 Woodward Avenue
Detroit, MI 48226
Attn: Howard N. Luckoff
Phone: (248)566-8466
Fax: (248) 566-8467

If to Tenant: Air Realty Group LLC
360 Motor Parkway, Suite 100
Happauge, New York 11788
Attn: Daniel Godin
Phone: (631) 881-4920
Fax: (631) 206-9162

With copy to: Eaton and Winkle LLP
3 Park Avenue, 16th Floor
New York, N 10016
Attn: Vincent J. McGill, Esq.
Phone: (212) 561-3604
Fax: (212) 779-9928

or such other address as may be designated by either party by written notice to the other in accordance with the provisions of this Article. All notices, consents, requests, demands, designations or other communications which may or are required to be given by either party to the other under this Lease shall be in writing and shall be deemed to have been duly given and received when (a) personally delivered; or (b) three days after being deposited in the United States mail, certified or registered, postage prepaid; or (c) one business day after being deposited with a nationally recognized overnight courier service; or (d) sent by facsimile transmission or electronic mail to be immediately followed by delivery in accordance with the foregoing (a), (b) or (c), and in all instances addressed as required under this Section. Notwithstanding the foregoing, any notice mailed to the last designated address of any person or party to which a notice may be or is required to be delivered pursuant to this Lease shall not be deemed ineffective if actual delivery cannot be made due to a change of address of the person or party to which the notice is directed or the failure or refusal of such person or party to accept delivery of the notice.

ARTICLE XX.
MISCELLANEOUS

20.1 "Net" Lease. It is understood that this is an absolute net lease. The Base Rent and all other sums payable by Tenant pursuant to this Lease shall be absolutely net to Landlord. All costs, operating expenses, and obligations imposed upon the Premises or incurred in connection with its use, occupancy, care, maintenance, operation and control (including, but not limited to, all costs of replacements, maintenance and repairs (capital and ordinary, structural and non-structural, foreseen and unforeseen, ordinary and extraordinary) of the structure, roof, parking lot, utilities, taxes, insurance and all other payments required in connection with the Premises during the Term of this Lease) shall be paid by Tenant in addition to all items of Base Rent payable by Tenant under this Lease without notice or demand and without setoff, counterclaim, abatement, deduction, etc. Additionally, Tenant shall be responsible for compliance with any and all legal requirements and shall pay any and all current and future costs relative thereto.

20.2 Estoppel Certificates. Tenant shall from time to time, within twenty (20) days after request by Landlord and without charge, give a Tenant Estoppel Certificate in the form attached hereto as **Exhibit C** and containing such other matters as may be reasonably requested by Landlord to any person, firm or corporation specified by Landlord. Landlord shall provide a commercially reasonable estoppel certificate to Tenant's lender in connection with a proposed financing or a proposed assignee permitted pursuant to the provisions of this Lease.

20.3 Brokerage. Landlord and Tenant hereby represent and warrant to each other that they have not engaged, employed or utilized the services of any business or real estate brokers, salesmen, agents or finders in the initiation, negotiation or consummation of the business and real estate transaction reflected in this Lease. On the basis of such representation and warranty, each party shall and hereby agrees to indemnify and save and hold the other party harmless from and against the payment of any commissions or fees to or claims for commissions or fees by any real estate or business broker, salesman, agent or finder resulting from or arising out of any actions taken or agreements made by them with respect to the business and real estate transaction reflected in this Lease.

20.4 No Partnership or Joint Venture. Landlord shall not, by virtue of this Lease, in any way or for any purpose, be deemed to be a partner of Tenant in the conduct of Tenant's business upon, within or from the Premises or otherwise, or a joint venturer or a member of a joint enterprise with Tenant.

20.5 Entire Agreement. This Lease contains the entire agreement between the parties and, except as otherwise provided herein, can only be changed, modified, amended or terminated by an instrument in writing executed by the parties. It is mutually acknowledged and agreed by Landlord and Tenant that there are no verbal agreements, representations, warranties or other understandings affecting the same; and that Tenant hereby waives, as a material part of the consideration hereof, all claims against Landlord for rescission, damages or any other form of relief by reason of any alleged covenant, warranty, representation, agreement or understanding not contained in this Lease. This Lease shall not be changed, amended or modified except by a written instrument executed by Landlord and Tenant.

20.6 Waiver. No release, discharge or waiver of any provision hereof shall be enforceable against or binding upon Landlord or Tenant unless in writing and executed by Landlord or Tenant, as the case may be. Neither the failure of Landlord or Tenant to insist upon a strict performance of any of the terms, provisions, covenants, agreements and conditions hereof, nor the acceptance of any Rent by Landlord with knowledge of a breach of this Lease by Tenant in the performance of its obligations hereunder, shall be deemed a waiver of any rights or remedies that Landlord or Tenant may have or a waiver of any subsequent breach or default in any of such terms, provisions, covenants, agreements and conditions.

20.7 Time. Time is of the essence in every particular of this Lease, including, without limitation, obligations for the payment of money.

20.8 Costs and Attorneys' Fees. If either party shall bring an action to recover any sum due hereunder, or for any breach hereunder, and shall obtain a judgment or decree in its favor, the court may award to such prevailing party its reasonable costs and reasonable attorneys' fees, specifically including reasonable attorneys' fees incurred in connection with any appeals (whether or not taxable as such by law). Landlord shall also be entitled to recover its reasonable attorneys' fees and costs incurred in any bankruptcy action filed by or against Tenant, including, without limitation, those incurred in seeking relief from the automatic stay, in dealing with the assumption or rejection of this Lease, in any adversary proceeding, and in the preparation and filing of any proof of claim. Tenant shall also be entitled to recover its reasonable attorneys' fees and costs incurred in any bankruptcy action filed by or against Landlord, including, without limitation, those incurred in seeking relief from the automatic stay, in dealing with the assumption or rejection of this Lease, in any adversary proceeding, and in the preparation and filing of any proof of claim.

20.9 Captions and Headings. The captions and headings in this Lease have been inserted herein only as a matter of convenience and for reference and in no way define, limit or describe the scope or intent of, or otherwise affect, the provisions of this Lease.

20.10 Severability. If any provision of this Lease shall be deemed to be invalid, it shall be considered deleted therefrom and shall not invalidate the remaining provisions of this Lease.

20.11 Successors and Assigns. The agreements, terms, provisions, covenants and conditions contained in this Lease shall be binding upon and inure to the benefit of Landlord and Tenant and, to the extent permitted herein, their respective successors and assigns.

20.12 Applicable Law. This Lease shall be governed by, and construed in accordance with, the laws of the State in which the Premises are located.

20.13 Waiver of Jury Trial. TENANT AND LANDLORD HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT EITHER OF THEM OR THEIR HEIRS, PERSONAL REPRESENTATIVES, SUCCESSORS OR ASSIGNS MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS LEASE OR ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION HERewith, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. IN THE EVENT LANDLORD COMMENCES ANY PROCEEDINGS FOR NONPAYMENT OF RENT, TENANT SHALL NOT INTERPOSE ANY COUNTERCLAIM OF WHATEVER NATURE OR DESCRIPTION IN ANY SUCH PROCEEDING, UNLESS THE FAILURE TO RAISE THE SAME WOULD CONSTITUTE A WAIVER THEREOF. THIS SHALL NOT, HOWEVER, BE CONSTRUED AS A WAIVER OF TENANT'S RIGHT TO ASSERT SUCH CLAIMS IN ANY SEPARATE ACTION BROUGHT BY TENANT. THIS PROVISION IS A MATERIAL INDUCEMENT TO LANDLORD'S ACCEPTING THIS LEASE.

20.14 Counterparts. This Lease may be executed in counterparts by the parties hereto and each shall be considered an original, but all such counterparts shall be construed together and constitute one Lease between the parties hereto.

20.15 Mortgagee Protection. Tenant shall give any mortgagees of the Premises by registered or certified mail, return receipt requested, or nationally recognized overnight delivery service, a copy of any notice of default sent to Landlord by Tenant, provided that prior to such notice Tenant has been notified, in writing (by way of Notice of Assignment of Rents and Leases, or otherwise), of the addresses of such mortgagees which has been provided in writing to Tenant. If Landlord shall have failed to cure such default within the time provided for in this Lease, then the mortgagees shall have an additional thirty (30) days within which to cure such default or, if such default cannot be cured within that time, then such additional time as may be necessary if, within such thirty (30) days, any mortgagee has commenced and is diligently pursuing the remedies necessary to cure such default (including, but not limited to, commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated by Tenant while such remedies are being so diligently pursued.

20.16 Guaranty. (a) On or before the Commencement Date, Tenant shall deposit with Landlord, as security for the payment of the Rent due hereunder and the full and faithful performance by Tenant of the covenants and conditions on the part of Tenant to be performed under this Lease, an irrevocable, unconditional, transferable "evergreen" commercial letter of credit issued by an S&P "A" rated commercial bank approved in advance by Landlord and otherwise acceptable in all respects to Landlord, in its sole and absolute discretion (the "Letter of Credit") or a cash security deposit ("Security Deposit"). The initial amount of the Letter of Credit or Security Deposit shall be the sum of One Hundred Fifty-Five Thousand Seven Hundred Ten and no/100 (\$155,710.00) Dollars. If the Letter of Credit is delivered, the Letter of Credit shall have an initial expiration date of not less than one (1) year from the Commencement Date and shall provide for the automatic extension of its expiration date for successive one (1) year periods throughout the Term, unless Landlord is given written notice to the contrary by the issuing bank not less than sixty (60) days prior to the expiration of the Letter of Credit. Not less than thirty (30) days prior to the expiration of the Letter of Credit, or at any time following notice by the issuing bank that it will not renew the Letter of Credit, Tenant shall provide a substitute letter of credit conforming in all respects to the requirements of this Section. In the event: (a) of any default by Tenant under this Lease; or (b) that Tenant has failed to provide a substitute letter of credit as required by this Section, Landlord is hereby authorized to draw upon the Security Deposit or Letter of Credit to cure the default, and shall have the right to retain the cash proceeds of the Letter of Credit, or so much thereof as shall remain after curing any default. In such case, Tenant shall immediately provide Landlord with a substitute letter of credit or additional cash in the amount equal to the aggregate of twelve (12) monthly payments of the then-current Basic Rent.

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

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

20.17 Financial Statements. If Tenant and Guarantor are not public companies and in any event, upon Landlord's written request in connection with a sale or a financing or refinancing, Tenant (and Guarantor) shall promptly furnish Landlord, from time to time, detailed financial statements reflecting Tenant's (and Guarantor's) current financial condition along with such information requested by a mortgagee, proposed mortgagee or purchaser.

20.18 Direct Payment of Rent. Tenant and Landlord acknowledge and agree that Landlord may irrevocably instruct Tenant to make all rent and other payments due and to become due to Landlord under the Lease directly to Landlord's mortgagee, which direction Tenant agrees to follow until further written notice from such mortgagee, and Landlord hereby expressly agrees that (a) Landlord shall have no right or claim against Tenant for or by reason of any payments of rent or other sums due under the Lease made to such mortgagee, and (b) any and all payments made by Tenant to such mortgagee shall constitute full and complete performance of such obligations of Tenant to Landlord under the Lease to the extent of such payments.

20.19 Merger. Notwithstanding anything to the contrary contained in the Lease, if both Landlord's and Tenant's interests or estates in the Premises become vested in the same owner while the Premises is subject to a mortgage, the Lease shall nevertheless not be destroyed by the application of the doctrine of merger except upon the express written consent of the mortgagee.

20.20 Guaranty. Upon execution of this Lease by Tenant, Air Industries Group, a Nevada corporation ("**Guarantor**") shall execute and deliver to Landlord the unconditional and irrevocable Guaranty in the form of Exhibit "D" attached hereto.

20.21 Landlord's Waiver. Landlord agrees, as long as Tenant is not in default, to execute a commercially reasonable form of Landlord's Waiver in favor of an independent third party which provides financing to Tenant which is secured by Tenant's personal property in the Premises.

20.22 Short Form Lease. Upon request of either Landlord or Tenant each, the other shall execute and record, in recordable form, a short form of this Lease.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be duly executed on or as of the day and year first above written.

Signed, sealed and delivered in the presence of:

Name: _____

Name: _____

GRAND/SAKWA AIG LLC,
a Michigan limited liability company

By: _____
Name: _____
Its: _____

“LANDLORD”

AIR REALTY GROUP LLC,
a Connecticut limited liability company

By: _____
Name: _____
Its: _____

“TENANT”

Name: _____

Name: _____

Signed, sealed and delivered in the presence of:

Name: _____

Name: _____

AIR REALTY GROUP LLC,
a Connecticut limited liability company

By: _____
Name: _____
Its: _____

(CORPORATE SEAL)

ACKNOWLEDGMENT OF GUARANTOR

Air Industries Group, a Nevada corporation, as the guarantor under that Guaranty Agreement of even date with respect to the Lease, hereby acknowledges and agrees to the terms of the Lease.

AIR INDUSTRIES GROUP,
a Nevada corporation

By: _____
Name: _____
Its: _____

EXHIBIT A

LEGAL DESCRIPTION

EXHIBIT B

**BASE RENT FOR INITIAL TERM
AND OPTION PERIODS**

Annual Base Rental (payable monthly):	Lease Year	Annual Base Rent	per month	psf
	Year 1	\$155,710	\$12,976	\$4.60
	Year 2	\$160,381	\$13,365	\$4.74
	Year 3	\$165,193	\$13,766	\$4.88
	Year 4	\$170,149	\$14,179	\$5.03
	Year 5	\$175,253	\$14,604	\$5.18
	Year 6	\$180,511	\$15,043	\$5.33
	Year 7	\$185,926	\$15,494	\$5.49
	Year 8	\$191,504	\$15,959	\$5.66
	Year 9	\$197,249	\$16,437	\$5.83
	Year 10	\$203,166	\$16,931	\$6.00
	Year 11	\$209,261	\$17,438	\$6.18
	Year 12	\$215,539	\$17,962	\$6.37
	Year 13	\$222,005	\$18,500	\$6.56
	Year 14	\$228,665	\$19,055	\$6.76
	Year 15	\$235,525	\$19,627	\$6.96

Extension Periods Annual Base Rental (payable monthly):	<u>1st Option Period</u>			
	Lease Year	Annual Base Rent	per month	psf
	Year 16	\$242,591	\$20,216	\$7.17
	Year 17	\$249,869	\$20,822	\$7.38
	Year 18	\$257,365	\$21,447	\$7.60
	Year 19	\$265,086	\$22,090	\$7.83
	Year 20	\$273,038	\$22,753	\$8.07
	<u>2nd Option Period</u>			
	Lease Year	Annual Base Rent	per month	psf
	Year 21	\$281,230	\$23,436	\$8.31
	Year 22	\$289,666	\$24,139	\$8.56
	Year 23	\$298,356	\$24,863	\$8.81
	Year 24	\$307,307	\$25,609	\$9.08
	Year 25	\$316,526	\$26,377	\$9.35
	<u>3rd Option Period</u>			
Lease Year	Annual Base Rent	per month	psf	
Year 26	\$326,022	\$27,169	\$9.63	
Year 27	\$335,803	\$27,984	\$9.92	
Year 28	\$345,877	\$28,823	\$10.22	
Year 29	\$356,253	\$29,688	\$10.52	
Year 30	\$366,941	\$30,578	\$10.84	

EXHIBIT C

TENANT ESTOPPEL CERTIFICATE

THIS TENANT ESTOPPEL CERTIFICATE ("Certificate") is given this ___ day of _____, 20__ by _____ ("Tenant") in favor of _____, a _____, with principal office and place of business at _____ ("Beneficiary").

RECITALS:

A. Pursuant to the terms and conditions of that certain Lease Agreement ("Lease") dated _____, _____ ("Landlord") leased to Tenant certain real property in _____ County, _____ ("Premises"), which Premises are more particularly described in the Lease.

B. Pursuant to the terms and conditions of the Lease, the Beneficiary has requested that the Tenant execute and deliver this Certificate with respect to the Lease.

NOW, THEREFORE, in consideration of the above premises, the Tenant hereby makes the following statements for the benefit of the Assignee:

1. The copy of the Lease attached hereto and made a part hereof as Exhibit A is a true, correct and complete copy of the Lease, which Lease is in full force and effect as of the date hereof, and has not been modified or amended.

2. The Lease sets forth the entire agreement between the Landlord and the Tenant relating to the leasing of the Premises, and there are no other agreements, written or oral, relating to the leasing of the Premises.

3. There exists no uncured or outstanding defaults or events of default under the Lease, or events which, with the passage of time, and the giving of notice, or both, would be a default or event of default under the Lease.

4. No notice of termination has been given by Landlord or Tenant with respect to the Lease.

5. All payments due the Landlord under the Lease through and including the date hereof have been made, including the monthly installment of Base Rent (as defined in the Lease) for the period of _____ to _____ in the amount of \$_____.

6. As of the date hereof, the annual Base Rent under the Lease is \$_____.

7. There are no disputes between the Landlord and the Tenant with respect to any rental due under the Lease or with respect to any provision of the Lease.

8. Notwithstanding any provisions of the Lease to the contrary, the Tenant hereby consents to the [collateral] assignment of the Lease by the Landlord to the Beneficiary, and agrees that no terms and conditions of the Lease shall be altered, amended or changed as a result of such assignment.

9. The Tenant hereby agrees that from and after the date hereof [copies of] all notices which Tenant is required to deliver to the Landlord under the Lease with respect to defaults, events of default or failure to perform by the Landlord under the Lease, shall be delivered to Beneficiary at the following address:

10. The Tenant understands and acknowledges that Beneficiary is relying upon the representations set forth in this Certificate, and may rely thereon in connection with the [collateral] assignment of the Lease to Beneficiary.

IN TESTIMONY WHEREOF, witness the signature of the Tenant as of the day and year first set forth above.

By: _____
Name: _____
Its: _____

EXHIBIT D

GUARANTY

The undersigned, Air Industries Group, a Nevada corporation, whose address is 360 Motor Parkway, Suite 100, Happauge, New York, 11788, in consideration of the leasing of the leased premises described in that certain Lease (hereinafter referred to as the "Lease"), dated _____, 2015 between GRAND/SAKWA AIG LLC, whose address is 28470 Thirteen Mile Road, Suite 220, Farmington Hills, MI 48334 as Landlord (hereinafter referred to as "Landlord"), and AIR REALTY GROUP LLC whose address is 360 Motor Parkway, Suite 100, Happauge, New York, 11788, as Tenant (hereinafter referred to as "Tenant"), does hereby covenant and agree as follows:

The undersigned does hereby guarantee the full, faithful and timely payment and performance by Tenant of all of the payments, covenants and other obligations of Tenant under or pursuant to the Lease. If Tenant shall default at any time in the payment of any rent or any other sums, costs or charges whatsoever, or in the performance of any of the other covenants and obligations of Tenant, under or pursuant to the Lease, then the undersigned, at its expense, shall on demand of Landlord fully and promptly, and well and truly, pay all rent, sums, costs and charges to be paid by Tenant, and perform all the other covenants and obligations to be performed by Tenant, under or pursuant to the Lease, and in addition shall on Landlord's demand pay to Landlord any and all sums due to Landlord, including (without limitation) all interest on past due obligations of Tenant, costs advanced by Landlord, and damages and all expenses (including attorneys' fees and litigation costs), that may arise in consequence of Tenant's default. The undersigned hereby waives all requirements of notice of the acceptance of this Guaranty and all requirements of notice of breach or nonperformance by Tenant.

The obligations of the undersigned hereunder are independent of the obligations of Tenant. A separate action or actions may, at Landlord's option, be brought and prosecuted against the undersigned, whether or not any action is first or subsequently brought against Tenant, or whether or not Tenant is joined in any such action, and the undersigned may be joined in any action or proceeding commenced by Landlord against Tenant arising out of, in connection with or based upon the Lease. The undersigned waives any right to require Landlord to proceed against Tenant or pursue any other remedy in Landlord's power whatsoever, any right to complain of delay in the enforcement of Landlord's rights under the Lease, and any demand by Landlord and/or prior action by Landlord of any nature whatsoever against Tenant, or otherwise.

This Guaranty shall remain and continue in full force and effect and shall not be discharged in whole or in part notwithstanding (whether prior or subsequent to the execution hereof) any alteration, renewal, extension, modification, amendment or assignment of, or subletting, concession, franchising, licensing or permitting under the Lease. The undersigned hereby waives notices of any of the foregoing, and agrees that the liability of the undersigned hereunder shall be based upon the obligations of Tenant set forth in the Lease as the same may be altered, renewed, extended, modified, amended or assigned. For the purpose of this Guaranty and the obligations and liabilities of the undersigned hereunder, "Tenant" shall be deemed to include any and all concessionaires, licensees, franchisees, department operators, assignees, subtenants, permittees or others directly or indirectly operating or conducting a business in or from the Premises, as fully as if any of the same were the named Tenant under the Lease.

The undersigned's obligations hereunder shall remain fully binding although Landlord may have waived one or more defaults by Tenant, extended the time of performance by Tenant, released, returned or misapplied other collateral at any time given as security for Tenant's obligations (including other guaranties) and/or released Tenant from the performance of its obligations under the Lease.

This Guaranty shall remain in full force and effect notwithstanding the institution by or against Tenant, of bankruptcy, reorganization, readjustment, receivership or insolvency proceedings of any nature, or the disaffirmance of the Lease in any such proceedings or otherwise.

If this Guaranty is signed by more than one party, their obligations shall be joint and several, and the release of one of such guarantors shall not release any other of such guarantors.

Neuter terms should also refer, where applicable, to the feminine gender and the masculine gender; the singular reference shall also include the plural of any word if the context so requires.

This Guaranty shall be applicable to and binding upon the heirs, executors, administrators, representatives, successors and assigns of Landlord, Tenant and the undersigned. Landlord may, without notice, assign this Guaranty in whole or in part.

In the event that Landlord should institute any suit against the undersigned for violation of or to enforce any of the covenants or conditions of this Guaranty or to enforce any right of Landlord hereunder, or should the undersigned institute any suit against Landlord arising out of or in connection with this Guaranty, or should either party institute a suit against the other for a declaration of rights hereunder, or should either party intervene in any suit in which the other is a party to enforce or protect its interest or rights hereunder, the prevailing party in any such suit shall be entitled to the fees of its attorney(s) in the reasonable amount thereof, to be determined by the court and taxed as a part of the costs therein.

The execution of this Guaranty prior to execution of the Lease shall not invalidate this Guaranty or lessen the obligations of Guarantor(s) hereunder.

Upon Landlord's written request, the undersigned shall promptly furnish Landlord (in any event, within twenty (20) days of request), from time to time, with financial statements (including, without limitation, operating statements including an annual profit and loss statement for the individual store unit covered by the Lease) reflecting the undersigned's current financial condition, and written evidence of ownership of managing and controlling interests in the undersigned and in any entities which directly or indirectly control or manage the undersigned.

The undersigned shall, without charge and within twenty (20) days after any request of Landlord, certify in writing to any person specified in such request, as to the existence, amendment, validity of this Guaranty, the existence of any default or counterclaim hereunder or under the Lease and any other matter reasonably requested. Any such certificate may be relied upon by any party requesting it and by any person to whom the same may be exhibited.

This Guaranty is made pursuant to, and shall be interpreted and applied in accordance with, the laws of the State of Michigan.

IN WITNESS WHEREOF, the undersigned has executed this Guaranty this ____ day of _____, 2015.

AIR INDUSTRIES GROUP,
a Nevada corporation

By: _____

Name: _____

Its: _____

STATE OF MICHIGAN)
) SS.
COUNTY OF _____)

On this ____ day of _____, 2015, before me personally appeared _____, the _____ of AIR INDUSTRIES GROUP, a Nevada corporation, to me known to be the person who executed the foregoing Guaranty and acknowledged before me that he is duly authorized and did execute same on behalf of said corporation.

Notary Public
_____ County, Michigan
My Commission Expires: _____

FIRST AMENDMENT TO REAL ESTATE PURCHASE AND SALE CONTRACT

This First Amendment to Real Estate Purchase and Sale Contract (“**Amendment**”) is made and entered into as of January 26, 2016, by and between Air Realty Group LLC, a Connecticut limited liability company (“**Seller**”) and Blue Desk LLC, a Michigan limited liability company (“**Buyer**”).

Recitals

- A. Buyer and Seller entered into a Real Estate Purchase and Sale Contract dated December 7, 2015 (the “**Agreement**”) for the sale and purchase of certain Real Property located at 283 Sullivan Avenue, South Windsor, Connecticut 06074.
- B. Seller and Buyer now desire to amend the Agreement in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, and in furtherance of the parties understanding, it is agreed as follows:

- 1. Closing. The last sentence of Section (1)(a) of the Agreement is hereby amended and restated to read in its entirety as follows:
The Closing Date shall occur no later than February 29, 2016.
- 2. Closing Date. Section 4 of the Agreement is hereby amended and restated to read in its entirety as follows:
 - 4. Closing Date. The Closing Date shall occur no later than February 29, 2016.
- 3. Inspection Period. Section (1)(i) of the Agreement is hereby amended and restated to read in its entirety as follows:
 - (i) “Inspection Period” shall mean that period of time starting on the Effective Date of this Agreement and terminating at 6:00 PM eastern time on February 24, 2016.
- 4. Conditions to Buyer’s Obligation to Close. Section 5(b)(i) of the Agreement is hereby amended and restated to read in its entirety as follows:
 - (i) Within ten (10) days after the Effective Date hereof, Seller shall have delivered to Buyer a Commitment from the Title Company for an owner’s title insurance policy (ALTA form) with respect to the Premises, naming Buyer as the Proposed Insured in the amount of the Purchase Price applicable to that Premises and with standard exceptions deleted (the “Title Commitment”), and by February 15, 2016, Buyer shall have reviewed and approved the Title Commitment or approved the Title Commitment subject to satisfaction of specified objectives.

5. Inspections. Section 8 of the Agreement is hereby amended and restated to read in its entirety as follows:

8. Inspections. Until the Closing Date, Buyer is authorized to complete various inspections of the Premises at Buyer's expense, including but not limited to, a satisfactory environmental report, zoning analysis, building analysis, and soil tests, as well as a complete review of all contracts, licenses, permits, warranties, surveys, the title commitment and other matters deemed necessary by Buyer. Buyer may terminate the Purchase Agreement at any time on or before 6:00 PM eastern time on February 24, 2016 for any reason, or no reason, in which event the entire Initial Deposit shall be immediately returned to Buyer if the Purchase Agreement has not previously been terminated. Buyer through its agents, employees and independent contractors shall have the right from time to time until the Closing Date, upon 24 hours prior notice to Seller, to enter the Premises for the purpose of inspecting the same and performing environmental and other tests thereon. Buyer shall indemnify and hold harmless Seller and its respective contractors, agents, employees and affiliates from and against any claims, losses, damages and costs arising out of any inspection of and testing at any of the Premises by Buyer, its agents and representatives. Buyer shall not, and shall not permit its agents or representatives or vendors to unreasonably disrupt or hinder Seller's activities at the Premises, or to enter the Premises without commercially reasonable liability insurance in place.

6. Purchase Agreement in Full Force and Effect. Except as specifically amended herein, all the terms and provisions of the Agreement are hereby ratified and affirmed to be in full force and effect as of the date hereof. To the extent of any conflict between the Agreement, and this Amendment, the terms and provisions of this Amendment shall govern and control. Capitalized terms not separately defined herein have the meaning otherwise ascribed to them in the Agreement.

7. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Remainder of page intentionally left blank]

SIGNATURE PAGE FOR FIRST AMENDMENT
TO REAL ESTATE PURCHASE AND SALE CONTRACT AMONG
AIR REALTY GROUP LLC AND
BLUE DESK LLC

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed effective as of the day and year first written above.

SELLER:

AIR REALTY GROUP LLC,
a Connecticut limited liability company

By: /s/ James Sartori
Name: James Sartori
Its: CAO

BUYER:

BLUE DESK LLC,
a Michigan limited liability company

By: /s/ Greg Sakwa
Name: Greg Sakwa
Title: Authorized Representative

SECOND AMENDMENT TO REAL ESTATE PURCHASE AND SALE CONTRACT

This Second Amendment to Real Estate Purchase and Sale Contract (“**Amendment**”) is made and entered into as of February 24, 2016, by and between Air Realty Group LLC, a Connecticut limited liability company (“**Seller**”) and Blue Desk LLC, a Michigan limited liability company (“**Buyer**”).

Recitals

- A. Buyer and Seller entered into a Real Estate Purchase and Sale Contract dated December 7, 2015, as amended by a First Amendment dated January 26, 2016 (the “**Agreement**”) for the sale and purchase of certain Real Property located at 283 Sullivan Avenue, South Windsor, Connecticut 06074.
- B. Seller and Buyer now desire to amend the Agreement in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, and in furtherance of the parties understanding, it is agreed as follows:

1. Closing. The last sentence of Section (1)(a) of the Agreement is hereby amended and restated to read in its entirety as follows:

The Closing Date shall occur no later than March 31, 2016.

2. Closing Date. Section 4 of the Agreement is hereby amended and restated to read in its entirety as follows:

4. Closing Date. The Closing Date shall occur no later than March 31, 2016.

3. Inspection Period. Section (1)(i) of the Agreement is hereby amended and restated to read in its entirety as follows:

- (i) “Inspection Period” shall mean that period of time starting on the Effective Date of this Agreement and terminating at 6:00 PM eastern time on March 21, 2016.

4. Inspections. Section 8 of the Agreement is hereby amended and restated to read in its entirety as follows:

8. Inspections. Until the Closing Date, Buyer is authorized to complete various inspections of the Premises at Buyer’s expense, including but not limited to, a satisfactory environmental report, zoning analysis, building analysis, and soil tests, as well as a complete review of all contracts, licenses, permits, warranties, surveys, the title commitment and other matters deemed necessary by Buyer. Buyer may terminate the Purchase Agreement at any time on or before 6:00 PM eastern time on March 21, 2016 for any reason, or no reason, in which event the entire Initial Deposit shall be immediately returned to Buyer if the Purchase Agreement has not previously been terminated. Buyer through its agents, employees and independent contractors shall have the right from time to time until the Closing Date, upon 24 hours prior notice to Seller, to enter the Premises for the purpose of inspecting the same and performing environmental and other tests thereon. Buyer shall indemnify and hold harmless Seller and its respective contractors, agents, employees and affiliates from and against any claims, losses, damages and costs arising out of any inspection of and testing at any of the Premises by Buyer, its agents and representatives. Buyer shall not, and shall not permit its agents or representatives or vendors to unreasonably disrupt or hinder Seller’s activities at the Premises, or to enter the Premises without commercially reasonable liability insurance in place.

5. Purchase Agreement in Full Force and Effect. Except as specifically amended herein, all the terms and provisions of the Agreement are hereby ratified and affirmed to be in full force and effect as of the date hereof. To the extent of any conflict between the Agreement, and this Amendment, the terms and provisions of this Amendment shall govern and control. Capitalized terms not separately defined herein have the meaning otherwise ascribed to them in the Agreement.

6. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Remainder of page intentionally left blank]

SIGNATURE PAGE FOR SECOND AMENDMENT
TO REAL ESTATE PURCHASE AND SALE CONTRACT AMONG
AIR REALTY GROUP LLC AND
BLUE DESK LLC

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed effective as of the day and year first written above.

SELLER:

AIR REALTY GROUP LLC,
a Connecticut limited liability company

By: /s/ James Sartori
Name: James Sartori
Its: CAO

BUYER:

BLUE DESK LLC,
a Michigan limited liability company

By: /s/ Greg Sakwa
Name: Greg Sakwa
Title: Authorized Representative

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% *
Miller Stuart, Inc.	New York	100% *
Compac Development Corporation	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%

* Owned indirectly through Welding Metallurgy, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference of our report dated April 4, 2016 on our audits of the consolidated financial statements of Air Industries Group and Subsidiaries (the "Company") as of and for the years ended December 31, 2015 and 2014, respectively, which report was included in the Annual Report on Form 10-K of the Company filed April 4, 2016 in the Company's Registration Statements on Form S-3 (Registration No. 333-198375) and Form S-8 (Registration Nos. 333-191560 and 333-206341).

/s/ Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
Certified Public Accountants
Saddle Brook, New Jersey
April 4, 2016

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: April 4, 2016

/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: April 4, 2016

/s/ James Sartori

James Sartori

VP, 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, 2015, 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: April 4, 2016

/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, 2015, 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: April 4, 2016

/s/ James Sartori

James Sartori

VP, 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.]