

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (date of earliest event reported):
August 24, 2007

AIR INDUSTRIES GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

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

1479 North Clinton Avenue, Bay Shore, NY 11706
Address of principal executive offices

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

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

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

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

Introduction.

On August 24, 2007, Air Industries Group, Inc., a Delaware corporation ("we" or the "Company"), purchased (the "Welding Metallurgy Acquisition") through a wholly-owned indirect subsidiary all of the issued and outstanding capital stock of Welding Metallurgy, Inc. ("Welding Metallurgy"), pursuant to that certain Stock Purchase Agreement, dated as of March 9, 2007, by and among the Company, as purchaser thereunder, and each of John Gantt and Lugenia Gantt, the shareholders of Welding Metallurgy and sellers thereunder (the "Sellers"), as amended by Amendment No.1 thereto dated as of August 2, 2007 (the "Stock Purchase Agreement"). A more detailed description of the Welding Metallurgy Acquisition is set forth below under the heading "Item 2.01--Completion of Acquisition or Disposition of Assets."

In consideration for the Welding Metallurgy stock, we paid the Sellers \$6,050,000, in a combination of cash and by our issuance to the Sellers of a promissory note and restricted shares of our common stock. The cash portion of the purchase price was provided by the proceeds of a term loan of \$4,500,000 under a Loan and Security Agreement dated as of August 24, 2007 by and among our wholly-owned subsidiaries, Air Industries Machining, Corp. ("AIM"), Sigma Metals, Inc. ("Sigma") and Welding Metallurgy, and Steel City Capital Funding LLC (the SCCF Loan Agreement").

Also in connection with the acquisition, Welding Metallurgy entered into a consulting agreement with John Gantt.

Item 1.01 Entry into a Material Definitive Agreement.

Loan and Security Agreement with Steel City Funding LLC

In connection with the Welding Metallurgy Acquisition, AIM, Sigma and Welding Metallurgy entered into the SCCF Loan Agreement, under which they borrowed \$4,500,000 in connection with the Welding Metallurgy Acquisition. The indebtedness under the SCCF Loan Agreement is junior and subordinate to the indebtedness under our Revolving Credit, Term Loan and Security Agreement dated as of November 30, 2005 (the "PNC Bank Credit Facility") with the financial institutions named therein (the "Lenders") and PNC Bank N.A., as agent for the Lenders, as amended. We also entered into the Fourth Amendment to the PNC Bank Credit Facility, dated as of August 24, 2007, which adds Welding Metallurgy as a borrower under the PNC Bank Credit Facility and us as a guarantor of the obligations under the PNC Bank Credit Facility.

Private Debt Financing -- Promissory Note

In partial consideration of the purchase of the Welding Metallurgy capital

stock, we issued to the Sellers a 7% promissory note in the principal amount of \$2,000,000 due August 31, 2011.

Consulting Agreement

Also in connection with the Welding Metallurgy Acquisition, Welding Metallurgy entered into a consulting agreement under which John Gantt, one of the Sellers and the former president of Welding Metallurgy, has agreed to serve as a consultant with respect to the ongoing operations of Welding Metallurgy. The agreement is for an initial term of three months, and will be extended automatically for an additional three months, unless terminated by either party and provides compensation to Mr. Gantt of \$30,000 per month.

Item 2.01 Completion of Acquisition or Disposition of Assets.

On August 24, 2007 (the "Closing Date"), pursuant to the Stock Purchase Agreement, we closed (the "Closing") the Welding Metallurgy Acquisition, by which we acquired through a wholly-owned indirect subsidiary all of the issued and outstanding capital stock of Welding Metallurgy. At Closing we paid the Sellers \$3,500,000 in cash, and issued to Sellers a promissory note in the principal amount of \$2,000,000 which bears no interest until August 24, 2008, and thereafter bears interest at the rate of 7% per annum, together with 2,035,529 restricted shares of our common stock, having a value of \$550,000. To secure payment of the indebtedness under the promissory note, AIM and Sigma pledged to the Sellers, and granted the Sellers a security interest in, all of the outstanding shares of Welding Metallurgy, subject to the prior rights of Steel City Capital Funding LLC. We have agreed to register for resale under the

Securities Act the shares of our common stock issued to the Sellers, at the request of the Sellers, in connection with certain registration statements we may file in the future. One half of the shares of our common stock issued to the Sellers have been deposited in escrow to secure the indemnity obligations of Sellers under the Stock Purchase Agreement for a period of eighteen months from the Closing Date. Under the terms of the Stock Purchase Agreement, the Sellers have agreed that they will not, for a period of five years from the Closing Date, engage in a business which competes with ours, solicit or interfere with our business relationships with our customers, or employ, solicit or otherwise persuade any of our employees to discontinue or alter his or her relationship with us.

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

In connection with the Welding Metallurgy Acquisition, AIM, Sigma and Welding Metallurgy borrowed \$4,500,000 under the SCCF Loan Agreement. Borrowings under the SCCF Loan Agreement bear interest generally at a rate of 6% over the base commercial lending rate of PNC Bank as publicly announced to be in effect from time to time, except under certain circumstances. To secure the payment of the indebtedness under the SCCF Loan Agreement, AIM, Sigma and Welding Metallurgy each granted Steel City Capital Funding LLC a security interest in all its assets, which security interest is junior and subordinate to the security interest granted to the Lenders under the PNC Bank Credit Facility. The indebtedness under the SCCF Loan Agreement is junior and subordinate to the indebtedness under the PNC Bank Credit Facility and is payable on August 24, 2010, or earlier upon the termination of the PNC Bank Credit Facility, acceleration following the occurrence of an Event of Default (as defined) or certain other circumstances. On the Closing Date, we also entered into the Fourth Amendment to the PNC Bank Credit Facility, dated as of August 24, 2007, which adds Welding Metallurgy as a borrower under that credit facility and us as a guarantor of the obligations thereunder. To secure payment of the indebtedness under the SCCF Loan Agreement, AIM and Sigma pledged all of the outstanding shares of Welding Metallurgy to Steel City Capital Funding LLC. We also issued a promissory note to the Sellers in the principal amount of \$2,000,000 due August 31, 2011.

Item 3.02 Unregistered Sale of Equity Securities.

The information required by this Item 3.02 is set forth above under the heading "Item 2.01-- Completion of Acquisition or Disposition of Assets" and in this Item 3.02. The issuance and sale of the promissory note and shares of our common stock to the Sellers in consideration of the purchase of all the outstanding shares of Welding Metallurgy were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

Item 9.01 Financial Statements and Exhibits.

Financial Statements.

(a) Financial Statements of business acquired. To be filed by amendment not later than 71 days after the date of the filing of this Current Report.

(b) Pro forma financial information. To be filed by amendment not later than 71 days after the date of the filing of this Current Report.

Exhibits.

Exhibit No. Description

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|-------|--|
| 10.1 | 7% Promissory Note of Registrant in the principal amount of \$2,000,000 in favor of John and Lugenia Gantt. |
| 10.2 | Consulting Agreement by and among Welding Metallurgy, Inc., Gantt Associates Ltd. and John Gantt, dated as of August 24, 2007. |
| 10.3 | Escrow Agreement dated as of August 24, 2007 by and among the Registrant, John and Lugenia Gantt and Eaton & Van Winkle LLP, as escrow agent. |
| 10.4 | Registration Rights Agreement dated as of August 24, 2007 by and among the Registrant and John and Lugenia Gantt. |
| 10.5 | Fourth Amendment to the Revolving Credit, Term Loan and Security Agreement dated as of November 30, 2005 with the financial institutions named therein (the "Lenders") and PNC Bank N.A., as agent for the Lenders, as amended, dated as of August 24, 2007. |
| 10.6 | Loan and Security Agreement dated as of August 24, 2007 among Air Industries Machining, Corp., Sigma Metals, Inc., Welding Metallurgy, Inc. and Steel City Capital Funding LLC. |
| 10.7 | Pledge Agreement dated as of August 24, 2007 by and among Air Industries Machining, Corp. and Sigma Metals, Inc., as pledgors, and Steel City Capital Funding LLC., as pledgee. |
| 10.8 | Pledge Agreement dated as of August 24, 2007 by and among Air Industries Machining, Corp. and Sigma Metals, Inc., as pledgors, and John and Lugenia Gantt, as pledgees. |
| 10.9 | Pledge Agreement dated as of August 24, 2007 by and between Air Industries Group, Inc., as pledgor, and Steel City Capital Funding LLC, as pledgee. |
| 10.10 | Guarantor Suretyship Agreement dated as of August 24, 2007 between the Registrant and Steel City Capital Funding LLC. |

SIGNATURES

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

Dated: August 28, 2007

AIR INDUSTRIES GROUP, INC.

By: /s/ Peter Rettaliata

Peter Rettaliata
Chief Executive Officer

Exhibit Index

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10.9	Pledge Agreement dated as of August 24, 2007 by and between Air Industries Group, Inc., as pledgor, and Steel City Capital Funding LLC, as pledgee.
10.10	Guarantor Suretyship Agreement dated as of August 24, 2007 between the Registrant and Steel City Capital Funding LLC.

SUBORDINATED PROMISSORY NOTE

\$2,000,000.00

August 24, 2007
New York, New York

For good and valuable consideration, the receipt of which is hereby acknowledged, Air Industries Group, Inc., a Delaware corporation (the "Company"), promises to pay to the order of John Gantt and Lugenia Gantt or their assigns (collectively, the "Holder"), the principal sum of Two Million Dollars (\$2,000,000.00), as such amount may be increased pursuant to Section 1(d) of this Note, together with interest thereon as provided for herein, which shall be payable (i) in one instalment in the principal amount of \$500,000 due on August 24, 2008 and (ii) twelve consecutive quarterly installments of principal in the amount of one-hundred twenty-five thousand dollars, commencing on the November 30, 2008 and continuing through August 31, 2011, as such amount may be increased pursuant to Section 1(d) of this Note, plus accrued interest thereon from August 24, 2008, payable on the last business day of each February, May, August and November, commencing November 28, 2008, and continuing through and including August 31, 2011, or, if earlier, (ii) when, upon or after the occurrence of an Event of Default (as defined below), such amount is declared due and payable by the Holder or made automatically due and payable in accordance with the terms hereof (the "Maturity Date").

Interest shall be accrue on any portion of the principal amount of this Note outstanding from time to time until payment thereof in full, at a simple rate of seven percent (7%) per annum, commencing on August 24, 2008. Notwithstanding the foregoing, effective upon and during the continuance of occurrence of an Event of Default (as hereinafter defined), the outstanding balance of any amount owed under this Note shall bear interest ("Default Interest") at the rate of eleven percent (11%) per annum, with the Default Interest accruing from and including such date of the occurrence of an Event of Default. Interest shall be calculated 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.

This Note may be prepaid in whole or in part at any time. All payments made pursuant to this Note shall be applied first to reimbursable expenses (including the expenses and costs described in Section 4(f) below), interest accrued, if any, and then principal.

This Note is issued pursuant to that certain Stock Purchase Agreement, dated as of March 9, 2007, as amended by Amendment No.1 thereto dated as of August 2, 2007 (the "Stock Purchase Agreement"), entered into between the Company and the Holder.

The following is a statement of rights of the Holder and the conditions to which this Note is subject, and to which the Holder, by acceptance of this Note, agrees:

1. Subordination. (a) This Note will be subordinate and inferior to the Company's Senior Indebtedness (as hereinafter defined). The Company for itself, its successors and assigns, covenants and agrees and the Holder of this Note, for himself, his successors and assigns, by his acceptance of this Note likewise covenants and agrees that, to the extent provided

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below, the payment of all amounts due pursuant to this Note is hereby expressly subordinated and junior in right of payment to the extent and in the manner hereinafter set forth, to the Company's Senior Indebtedness. As used herein, the term "Senior Indebtedness" shall mean the principal of, and interest and premium, if any, on any and all, (i) indebtedness of the Company for borrowed money or obligations with respect to which the Company is a guarantor, to banks, insurance companies, or other financial institutions or entities regularly engaged in the business of lending money, in each case as in effect as of the date hereof or as may be borrowed hereafter for working capital of the Company or one of its subsidiaries, or the acquisition by the Company of one or more businesses, and (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor, provided that such indebtedness issued in exchange for or to refinance Senior Indebtedness or arising from the satisfaction of Senior Indebtedness by a Guarantor is on commercially reasonable terms as of the date of incurrence not to exceed the principal amount under such Senior Indebtedness and provided further that the Company provides the Holder with prior written notice of such action.

(b) Upon the acceleration of any Senior Indebtedness or upon the maturity of all or any portion of the principal amount of any Senior Indebtedness by lapse of time, acceleration or otherwise, all such Senior Indebtedness which has been so accelerated or matured shall first indefeasibly be paid in full before any payment is made by the Company or any person acting on behalf of the Company on account of any obligations evidenced by this Note.

(c) The Company shall not pay any principal portion of this Note, or interest accrued thereon, before the scheduled due date thereof if at such time

there exists a Blockage Event (as hereafter defined) and written notice thereof has been given to the Company and the Holder by the holders of the Senior Indebtedness.

(d) A "Blockage Event" is deemed to exist for the period of time commencing on the date of receipt by the Holder of written notice of the occurrence of a Default or an Event of Default (as defined in the instruments evidencing the Senior Indebtedness), which notice shall specify such Default or Event of Default, and ending on:

(i) the date such Default or Event of Default under the Senior Indebtedness, as applicable, is cured or waived, provided that such Default or Event of Default is in the payment of any amount due thereunder; or

(ii) in the case of any other Default or Event of Default under the Senior Indebtedness, the earlier of (A) the date on which such Default or Event of Default shall have been cured or waived and (B) the date that is 180 days after the occurrence of such Default or Event of Default, provided that a Blockage Event with respect to a single specified Default or Event of Default may be deemed to occur only once for each twelve-month period, provided, further, that no Default or Event of Default that existed at the commencement of, or during the pendency of, a Blockage Event shall serve as the basis for the institution of any subsequent Blockage Event.

The Holder has the right, but not the obligation, to cure any such Default or Event of Default under Senior Indebtedness to the extent it can be

cured by the payment of money. If the Holder shall have cured any such Default or Event of Default under Senior Indebtedness to the extent such Default or Event of Default can be cured by the payment of money, then such amount of interest as shall have accrued on this Note during the continuance of the Blockage Event (each, an "Additional Principal Amount") shall be added to the aggregate principal amount then owing to the Holder pursuant to this Note. The Company shall pay equal quarterly installments of each Additional Principal Amount pursuant to the first paragraph of this Note from the date such Additional Principal Amount is incurred pursuant to the first paragraph through and including August 31, 2011, subject to all principal amounts being declared due and payable or made automatically due and payable when, upon or after the occurrence of an Event of Default under this Note.

(e) At any time there exists a Blockage Event, (i) the Company shall not, directly or indirectly, make any payment of any part of this Note, (ii) the Holder shall not demand or accept from the Company or any other person any such payment or cancel, set-off or otherwise discharge any part of the indebtedness represented by this Note, and (iii) neither the Company nor the Holder shall otherwise take or permit any action prejudicial to or inconsistent with the priority position of any holder of Senior Indebtedness over the Holder of this Note.

(f) No right of any holder of Senior Indebtedness to enforce the subordination provisions of this obligation shall be impaired by any act or failure to act by the Company or the Holder or by their failure to comply with this Note or any other agreement or document evidencing, related to or securing the obligations hereunder. Without in any way limiting the generality of the preceding sentence, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder and without impairing or releasing the subordination provided in this Note or the obligations of the Holder to the holders of Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment of any Senior Indebtedness provided that such change does not materially impact Holder in an adverse manner; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing any Senior Indebtedness; (iii) release any person or entity liable in any manner for the collection of any Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company or any other person or entity.

(g) In the event that the Company shall make any payment or prepayment to the Holder on account of the obligations under this Note which is prohibited by this Section, such payment shall be held by the Holder, in trust for the benefit of, and shall be paid forthwith over and delivered to, the holders of Senior Indebtedness (pro rata as to each of such holders on the basis of the respective amounts and priorities of Senior Indebtedness held by them) to the extent necessary to pay all Senior Indebtedness due to such holders of Senior Indebtedness in full in accordance with its terms (whether or not such Senior Indebtedness is due and owing), after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness.

(h) After all Senior Indebtedness indefeasibly is paid in full and until the obligations under the Note are paid in full, the Holder shall be subrogated to the rights of holders of Senior Indebtedness to the extent that distributions otherwise payable to the Holder have been applied to the payment of Senior Indebtedness. For purposes of such subrogation, no payments or

distributions to holders of such Senior Indebtedness of any cash, property or securities to which the Holder would be entitled except for the provisions of this Section and no payment over pursuant to the provisions of this Section to holders of such Senior Indebtedness by the Holder, shall, as between the Company, its creditors other than holders of such Senior Indebtedness, and the Holder, be deemed to be a payment by the Company to or on account of such Senior Indebtedness, it being understood that the provisions of this Section are solely for the purpose of defining the relative rights of the holders of such Senior Indebtedness, on the one hand and the Holder, on the other hand.

(i) In any insolvency, receivership, bankruptcy, dissolution, liquidation or reorganization proceeding, or in any other proceeding, whether voluntary or involuntary, by or against the Company under any bankruptcy or insolvency law or laws relating to relief of debtors, to compositions, extensions or readjustments of indebtedness:

(i) the claims of any holders of Senior Indebtedness against the Company shall be paid indefeasibly in full in cash or such payment shall have been provided for in a manner acceptable to the holders of at least a majority of the then outstanding principal amount of the Senior Indebtedness before any payment is made to the Holder;

(ii) until all Senior Indebtedness is indefeasibly paid in full in cash or such payment shall have been provided for in a manner acceptable to the holders of at least a majority of the then outstanding principal amount of the Senior Indebtedness before any payment is made to the Holder, any distribution to which the Holder would be entitled but for this Section shall be made to holders of Senior Indebtedness, except for distribution of securities issued by the Company which are subordinate and junior in right of payment to the Senior Indebtedness; and

(iii) the holders of Senior Indebtedness shall have the right to enforce, collect and receive every such payment or distribution and give acquittance therefor. If, in or as a result of any action case or proceeding under Title 11 of the United States Code, as amended from time to time, or any comparable statute, relating to the Company, the holders of the Senior Indebtedness return, refund or repay to the Company, or any trustee or committee appointed in such case or proceeding receive any payment or proceeds of any collateral in connection with such action, case or proceeding alleging that the receipt of such payments or proceeds by the holders of the Senior Indebtedness was a transfer voidable under state or federal law, then the holders of the Senior Indebtedness shall not be deemed ever to have received such payments or proceeds for purposes of this Note in determining whether and when all Senior Indebtedness has been paid in full and the Company shall pay or cause to be paid, and the Holder shall be entitled to receive any such funds, proceeds or collateral to satisfy all amounts due hereunder.. In the event the holders of Senior Indebtedness receive amounts in excess of payment in full (cash) of amounts outstanding in respect of Senior Indebtedness (without giving effect to whether claims in respect of the Senior Indebtedness are allowed in any insolvency proceeding), the holders of Senior Indebtedness shall pay such excess amounts to the Holder.

(k) By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the holder of any Senior Indebtedness in order to implement the foregoing provisions of this Section.

2. Events of Default. If any of the events specified in this Section shall occur (herein individually referred to as an "Event of Default"), the Holder may, so long as such condition exists, in addition to any other right, power or remedy granted to the Holder under this Note, the Stock Purchase Agreement, the Security Agreement (as hereinafter defined), or applicable law, either by suit in equity or by action at law, or both, declare the entire principal amount (and accrued interest thereon) and all other amounts immediately due and payable, without presentment, demand or notice of any kind, all of which are expressly waived, provided, however, that upon the occurrence of any Event of Default described in Section 2(c) or 2(d) hereof, the entire principal amount (and accrued interest thereon) and all other amounts shall automatically become due and payable:

(a) Payment of any portion of the principal of this Note or interest accrued thereon shall be delinquent for a period of 10 days or more after the due date thereof;

(b) If the Company shall fail to observe any covenant or other provision contained in this Note (other than with respect to payment), the Stock Purchase Agreement or the Security Agreement and such failure of observance shall be continuing for 10 days after the Holder has given written notice thereof;

(c) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action;

(d) If, within 45 days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company stayed, or if the stay of any such order or proceeding shall thereafter be set aside, or if there is appointed without the consent or acquiescence of the Company of any trustee, receiver or liquidator of the Company or of all or any substantial part of the properties of the Company, such appointment shall not have been vacated;

(e) Any declared default of the Company under any Senior Indebtedness whether now existing or hereafter created that gives the holder thereof the right to accelerate such Senior Indebtedness, and such Senior Indebtedness is in fact accelerated by the holder.

(f) One or more judgments for the payment of money in an amount in excess of \$100,000 in the aggregate shall be rendered against the Company or any of its subsidiaries (or any combination thereof) and shall remain undischarged for a period of ten consecutive days during which execution shall not be effectively stayed, or any action is legally taken by a judgment creditor to levy upon any such judgment; or

(g) Any representation or warranty made by the Company in the Security Agreement or any other agreement between the Company and Holder is false or incorrect in any material respect when made.

4. Miscellaneous.

(a) Waiver and Amendment. The rights and remedies herein reserved to any party shall be cumulative and in addition to any other or further rights and remedies available at law or in equity. The waiver by any party hereto of any breach of any provision of this Note shall not be deemed to be a waiver of the breach of any other provision or any subsequent breach of the same provision. This Note and its terms may be changed, waived or amended only by the written consent of the Company and the Holder and, if any such change, waiver, or amendment is with respect to the subordination provisions, the holders of at least a majority in the then-outstanding principal amount of the Senior Indebtedness.

(b) Governing Law. This Note shall be governed by and construed in accordance with the law of the State of New York without regard to conflict of law provisions. Any legal suit, action or proceeding arising out of or based upon this Note shall be instituted in any federal or state court only in the County of Suffolk, State of New York. The aforementioned choice of venue is intended to be mandatory and not permissive in nature, thereby precluding the possibility of litigation arising out of this Note in any jurisdiction other than that specified in this Section. The Holder and the Company each waive, to the fullest extent permitted by applicable law, any right it may have to assert the doctrine of forum non conveniens or similar doctrine or to object to venue with respect to any proceeding brought in accordance with this Section, and stipulates that the state and federal courts located in the City and County of New York, State of New York, shall have in personam jurisdiction and venue over them for the purpose of litigation any dispute, controversy or proceeding arising out of or related to this Note.

(c) Successors and Assigns. All of the terms and provisions of this Note shall be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs and permitted assigns.

(d) Headings. The section headings contained in this Note are intended solely for convenience of reference and do not themselves constitute a part of this Note.

(e) Severability. In case any provision contained herein (or part thereof) shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or other unenforceability shall not affect any other provision (or the remaining part of the affected provision) hereof; but this Note shall be construed as if such invalid, illegal, or unenforceable provision (or part thereof) had never been contained herein, but only to the extent that such provision is invalid, illegal, or unenforceable.

(f) Costs of Collection. The Company shall reimburse Holder for all reasonable costs and expenses, including without limitation, reasonable attorneys' fees and expenses, incurred in connection with (i) drafting, negotiating, executing and delivering any amendment, modification or waiver of, or consent with respect to, any matter relating to the rights of Holder hereunder; (ii) creating, perfecting and maintaining perfection of the Liens (as defined in the Security Agreement) and security interests in the Collateral (as defined in the Security Agreement) in favor of the Holder and (iii) enforcing any provisions of this Note or the Security Agreement and/or collecting any amounts due under this Note.

(g) Notices. All notices, requests, demands or other communications which are required to be or may be given or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered in person or after dispatch by a recognized overnight courier to the appropriate party to whom the same is so given or made:

To Holder at: John Gantt
 Lugenia Gantt
 183 Montecito Crescent
 Melville, New York 11747

with a copy to: Ruskin Moscou Faltischek, P.C.
 1425 Rexcopp Plaza
 East Tower, 15th Floor
 Uniondale, New York 11556
 Attention: Adam P. Silvers, Esq.

To Company at: Air Industries Group, Inc.
 1479 North Clinton Avenue
 Bay Shore, NY 11706

or to such other address as a party has designated by notice in writing to the other party in the manner provided by this Section. All such notices, requests, demands or other communications shall be deemed to have been received on the date of delivery thereof (if delivered by hand) and on the next day after sending thereof (if by overnight courier).

(h) Assignment by the Company. Neither this Note nor any of the rights, interests or obligations hereunder may be assigned, by operation of law or otherwise, in whole or in part, by the Company, without the prior written consent of the Holder.

(i) No Set-Off. All payments by the Company under this Note shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

(j) Waiver of Presentment, Demand, Etc. To the fullest extent permitted by applicable law, the Company expressly waives presentment, demand, protest, notice of dishonor, notice of non-payment, notice of maturity, notice of protest, presentment for the purpose of accelerating maturity of the obligations under this Note, diligence in collection, and the benefit of any exemption or insolvency laws.

(k) Senior Lenders. For so long as any amount shall be outstanding hereunder, upon request of a Holder the Company shall promptly advise the Holder of the identity of the holders of the Senior Indebtedness and of the amount, principal and interest, due each such lender.

(l) Blockage Event. Within ten days of the occurrence thereof, the Company shall advise each Holder of the occurrence of a Blockage Event and of the termination of a Blockage Event.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and issued as of the date first written above.

AIR INDUSTRIES GROUP, INC.

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata

Title: CEO and President

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (the "Agreement"), dated as of the 24th day of August, 2007, by and between Welding Metallurgy Inc., a New York corporation with an address c/o Air Industries Group, Inc., 1479 Clinton Avenue, Bay Shore, New York, 11706 ("WMI" or the "Company") and Gantt Associates LTD, a New York corporation having an office at 31 & 31A Lamar Street, West Babylon, New York ("Gantt Associates") and John Gantt, an individual having an address at 183 Montecito Crescent Melville, New York (the "Consultant"). WMI, Gantt Associates and the Consultant are hereinafter sometimes individually referred to as a "Party" and jointly as the "Parties."

RECITALS:

WHEREAS, WMI desires that Gantt Associates make the services of the Consultant available to serve as a consultant and the Consultant desires to serve WMI in such capacity on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Parties hereto, intending to be legally bound, agree as follows:

1. Engagement. WMI hereby engages Gantt Associates to make the Consultant available to serve as a consultant and the Consultant agrees to serve in such capacity. During the Term (as hereinafter defined), Consultant shall report directly to WMI's President, or to such person(s) as may be directed by WMI's President, and shall discharge to the best of his abilities all duties and responsibilities as may be reasonably assigned to him from time to time. During the Term, the Consultant shall be required to devote no more than twenty (20) hours of work per week, it being further agreed that when practicable, the Company shall allow the Consultant to provide his services by telephonic communication.

2. Term. The initial term of the engagement under this Agreement shall be for a period of approximately three months commencing on the date hereof and ending on November 24, 2007 (the "Initial Term"). Upon expiration of the Initial Term, the engagement under this Agreement shall continue for an additional three month period unless either Gantt Associates or the Company gives written notice to the other no later than November 1, 2007, of his or its determination to allow this Agreement to expire as of the end of the Initial Term. The engagement under this Agreement shall terminate immediately upon the death of the Consultant or upon the onset of any disability which prevents the Consultant from rendering services to WMI. The period during which Gantt Associates is engaged by WMI is referred to as the "Term."

3. Compensation. The compensation for the services to be provided to WMI hereunder during the Term shall be Thirty Thousand Dollars (\$30,000.00) per month, payable to Gantt Associates in accordance with WMI's regular payroll practices, but no less frequently than twice a month and no later than the end of the month during which services are rendered. If the first or the last month of the Term begins or ends other than on the first or last day of a calendar month the amount due Gantt Associates for services rendered during such month shall be pro-rated based upon the number of days in such month during which the Consultant is engaged by WMI.

In addition to the foregoing, WMI shall promptly reimburse Gantt Associates for all expenses incurred by it in the performance of its duties hereunder, including, without limitation, those incurred for business travel, provided that without the prior consent of the President of WMI Consultant shall not incur more than \$2,000 of expenses in any month and further provided that Gantt Associates provides the Company with such receipts or other evidence of its expenses as are required by the Company's policies.

4. Nonsolicitation of Customers and Employees. At all times during the Term and for a period of five (5) years from the date hereof, (a) the Consultant shall not, directly or indirectly, for himself or on behalf of or in conjunction with any other person, solicit or attempt to solicit the business or patronage of any customer of the Company on behalf of a business which provides products or services competitive with those of WMI, nor shall Consultant interfere with the business relationship of WMI with any customer of WMI, and (b) the Consultant shall whether individually, as a director, manager, member, stockholder, partner, owner, employee, consultant or agent of any business, or in any other capacity, directly or indirectly, employ, solicit, disturb, entice away, or in any other manner persuade any employee of WMI or its affiliated entities (the "Corporation") to discontinue or alter his or her relationship with the Corporation.

5. Noncompetition. At all times during the Term and for a period of five (5) years from the date hereof, the Consultant whether individually, as a director, manager, member, stockholder, partner, owner, employee, consultant or agent of any business, or in any other capacity, shall not engage, directly or indirectly through any other person, in any business, enterprise or employment which competes with the business of the Corporation as conducted on the date hereof. The Consultant acknowledges and agrees that the business of the Corporation is of a worldwide nature and that any geographic limitation on the foregoing covenant would be ineffective to adequately protect the interests of

the Corporation. The Consultant further acknowledges and agrees that the foregoing covenant is an integral part of his agreement to be engaged hereunder, is fair and reasonable in light of all of the facts and circumstances of the relationship between the Consultant, WMI and the Corporation. In the event any court of competent jurisdiction determines that, notwithstanding the foregoing acknowledgments, the scope of the restricted activities of the foregoing covenant is excessive or not enforceable, or that the foregoing covenant is not enforceable unless it is subject to a geographic limitation, this Agreement shall be deemed amended to reflect the maximum restrictions on activities and geographic scope allowable pursuant to such court's determination.

WMI acknowledges that Consultant is a certified welding inspector and that nothing contained herein shall be deemed to prevent him from acting as a welding inspector for any entity not engaged in a business competitive with that of the Company or, in any event for any of Northrop Grumman, Boeing Corp., Lockheed Martin, Senior Flexonic and Sandia Laboratories. Further, Consultant shall be permitted to perform welding inspection services for businesses competitive with

the Company so long as Consultant provides no other services to any such entity and upon request of WMI advises such entity of the restrictions contained herein. To the extent that there is an inconsistency or ambiguity between this section and Section 7.1 of that certain Stock Purchase Agreement dated as of March 9, 2007 by and between Air Industries Group, Inc. ("Air Industries"), formerly, Gales Industries Incorporated, and John Gantt and Lugenia Gantt, the terms of this Agreement shall govern.

6. Promissory Note. The Parties and the Consultant agree that the covenants contained in Sections 4 and 5 of this Agreement shall terminate in the event of a default by Air Industries Group, Inc. under that certain Subordinated Promissory Note pursuant to which Air Industries has agreed to pay to the Consultant and Lugenia Gantt or their assigns, the principal sum of Two Million Dollars (\$2,000,000.00).

7. Protection of Confidential Information. Consultant acknowledges that he has been and will be provided with information about, and his engagement by WMI will, throughout the Term, bring him into close contact with, many confidential affairs of the Corporation, including proprietary information about the business of the Corporation for example, but not by way of limitation, costs, finances, internal financial statements, projections, markets, sales, customers, vendors, products, key personnel, operational methods, formulas, methods of production, technical processes and methods, plans for future developments, software, data bases, computer programs, specifications, documentation, designs, trade secrets, technology, know-how, research and development, inventions, patents and copyrights (and any renewals, reissues, extensions, divisions, continuations and continuations in part thereof and registrations, applications, patents of addition and inventors certificates) and other information not available to the public (collectively "Confidential Information"), all of which are highly confidential and proprietary and all of which were or will be developed or acquired by the Corporation great effort and expense. Consultant further acknowledges that the services to be performed by him under this Agreement are of a special unique, unusual, extraordinary and intellectual character and that the nature of the relationship of Consultant with the Corporation is such that Consultant is capable of competing with the Corporation. In recognition of the foregoing, Consultant agrees that during the Term and thereafter he will:

(a) keep secret all Confidential Information of the Corporation and not disclose the same to anyone outside of the Corporation except in furtherance of WMI's affairs or with WMI's prior written consent;

(b) not make use of any of such Confidential Information for his own purposes or the benefit of anyone other than the Corporation, provided, however, that the restrictions contained in clauses (a) and (b) shall not apply at any time to Confidential Information which is then in the public domain (provided the Consultant was not responsible directly or indirectly for the fact that such secrets or information have entered the public domain without WMI's consent), and that these restrictions shall not apply to Confidential Information that is required to be disclosed by law, by subpoena or by any government, regulatory or self regulatory body, provided the Consultant uses reasonable efforts to advise WMI of the prospective disclosure of Confidential Information and discloses only such Confidential Information which counsel advises needs to be disclosed; and

(c) deliver promptly to WMI on termination of this Agreement, or at any time WMI may so request, all Confidential Information, including but not limited to memoranda, notes, records, computer software discs, reports and other confidential documents (and all copies thereof) relating to the business and affairs of the Corporation, that he may then possess or have under his control, except that he may retain personal notes, notebooks, journals and diaries provided that such materials do not contain Confidential Information.

8. Property Rights and Inventions. All rights in and to all data, information, reports, inventions, know-how, improvements, designs, devices, apparatus, practices, processes, methods or products, whether patentable or not, which are made, developed, perfected, devised, conceived or first reduced to practice by Consultant either solely or jointly with others, derived in whole or in part from Confidential Information (the "Inventions") (i) shall be and remain the sole and exclusive property of WMI, (ii) shall be considered trade secrets of WMI subject to the confidential requirement herein, and (iii) shall remain free of any claim of Consultant or any person deriving any rights or interest from Consultant.

9. Specific Remedies. It is understood by the Consultant that the covenants contained in Sections 4, 5, 6 and 7 are essential elements of this Agreement and that, but for the agreement of the Consultant to comply with such covenants, WMI would not have agreed to enter into this Agreement. The Consultant acknowledges that the Corporation may have no adequate remedy at law if he violates any of the terms of Sections 4, 5, 6 or 7. The Consultant therefore understands and agrees that the Corporation shall have, without prejudice as to any other remedies, the right upon application to any court of proper jurisdiction and without posting of any bond or other security whatsoever, to a temporary restraining order, preliminary injunction, injunction, specific performance or other equitable relief, it being acknowledged and agreed that any such breach will cause irreparable injury to the Corporation and that money damages will not provide an adequate remedy to the Corporation.

10. Independent Contractor. This Agreement does not create an employer/employee relationship between the Consultant and WMI. The Consultant agrees that he renders all services hereunder as an independent contractor and not as an employee or agent of WMI. The Consultant also agrees that he shall not have any rights to receive any employee benefits, such as health and accident insurance, sick leave or vacation as are in effect generally for employees of WMI. The Consultant will not enter into any agreements or incur obligations on behalf of WMI nor commit WMI in any other manner without prior written consent from a duly authorized officer or representative of WMI.

11. Conflicts of Interests. Gantt Associates represents and warrants that it has the full power and right to enter into this Agreement and that there are no outstanding agreements, assignments, licenses, encumbrances or rights in other parties, private or public, which might interfere with, or preclude the carrying out of, the obligations under this Agreement.

12. Successors; Binding Effect; Third Party Beneficiaries. WMI may assign this Agreement in whole or in part without the Consultant's consent. No assignment shall enlarge or expand the scope of the Consultant's services hereunder without the prior written consent of the Consultant.

This Agreement is personal to Gantt Associates and the Consultant and, without the prior written consent of WMI, shall not be assignable by Gantt Associates or the Consultant. Air Industries and its subsidiaries shall each be deemed third party beneficiaries of this Agreement with the right to enforce the provisions of Sections 4,5,6 and 7 hereof. Except for the foregoing, this Agreement shall not create any rights in favor of any party other than the parties hereto or their respective successors and assigns.

13. Law Governing; Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York (without giving effect to the principles of conflicts of law). The Parties agree that the federal or state courts located in the State of New York shall have exclusive jurisdiction in connection with any dispute arising out of this Agreement. Any litigation proceeding under this Agreement shall be confidential in nature to the fullest extent permitted by applicable law.

14. Severability. If any provision of this Agreement, or any part of any of them, is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of the covenants or rights or remedies which shall be given full effect without regard to the invalid portions provided that as so construed each of the parties receives substantially all of the benefits and remains subject to all of the burdens contemplated hereby. If any of the covenants set forth herein is held to be invalid or unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or area of such provision and in its reduced form said provision shall then be enforceable.

15. Headings. The headings of this Agreement are for convenience of reference only and shall not affect in any manner any of the terms and conditions hereof.

16. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same agreement.

17. Modifications and Waivers. No term, provision or condition of this Agreement may be modified or discharged unless such modification or discharge is agreed to in writing and signed by each of the Parties hereto. No waiver by either Party hereto of any breach by the other party hereto of any term, provision or condition of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

18. Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter herein and supersedes all prior agreements, negotiations and discussions between the parties hereto, there being no extraneous agreements. This Agreement may be amended only in writing executed by the parties hereto affected by such amendment.

19. Notices. Any notice or other written communications required or permitted to be given or made under this Agreement shall be given or made by either Party to the other in writing and shall be delivered by personal service or first class mail, postage prepaid, or overnight courier addressed to a Party at the address set forth above or at such other address as one Party may give notice of to the other Party. Notices or written communications shall be deemed to have been sufficiently given or made: (i) if by personal service, when performed; (ii) if mailed, three (3) days after being deposited in the mail, postage prepaid; or (iii) if by overnight courier, one (1) day after delivery to the overnight courier company.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the day and year first set forth above.

WELDING METTALURGY INC.

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Title: President

GANTT ASSOCIATES LTD

By: /s/ John Gantt

Name: John Gantt
Title: President

By: /s/ John Gantt

JOHN GANTT

ESCROW AGREEMENT

This ESCROW AGREEMENT (this "Agreement") is made and entered into as of August 24, 2007, by and among Air Industries Group, Inc. (formerly known as Gales Industries Incorporated), a Delaware corporation (the "Purchaser"), John Gantt and Lugenia Gantt (the "Sellers"), and Eaton & Van Winkle LLP (the "Escrow Agent").

WHEREAS, pursuant to that certain Stock Purchase Agreement, dated as of March 9, 2007, as amended by Amendment No 1. to the Stock Purchase Agreement dated as of August 2, 2007 (the "Purchase Agreement"), by and between the Purchaser and the Sellers, the Purchaser has agreed to purchase, and the Sellers, who own all of the outstanding capital stock of Welding Metallurgy, Inc. (the "Company"), have agreed to sell and transfer to the Purchaser, all of the outstanding shares of common stock of the Company in exchange for consideration ("Consideration"), consisting of cash amounts and newly issued shares of the Purchaser's common stock, \$.001 par value per share (the "Purchaser Common Stock") and otherwise on the terms and conditions set forth in the Purchase Agreement (such transaction, the "Acquisition");

WHEREAS, as an inducement for the Purchaser to enter into the Purchase Agreement, Purchaser has required that certificates for an aggregate of 1,017,764 of the shares of Purchaser Common Stock representing the Consideration (the "Escrow Shares") be deposited with the Escrow Agent to provide the Purchaser collateral security for the indemnity obligations of the Sellers to the Purchaser under the Purchase Agreement, subject to the terms and conditions set forth herein;

WHEREAS, the Purchaser, the Sellers and the Escrow Agent desire to set forth the terms and conditions pursuant to which the Escrow Shares will be held by the Escrow Agent and disbursed to Purchaser and/or the Sellers, as the case may be.

NOW, THEREFORE, in consideration of the mutual premises, agreements and covenants set forth herein and in the Purchase Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending legally to be bound, hereby agree as follows. Any capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in the Purchase Agreement.

1. The Purchaser and each of the Sellers does hereby appoint and designate the Escrow Agent as Escrow Agent for the purposes set forth herein, and Escrow Agent does hereby accept such appointment under the terms and conditions set forth herein.

2. (a) Simultaneously with the execution of this Agreement, Purchaser is depositing with the Escrow Agent the Escrow Shares, together with a stock power duly executed by each of the Sellers with respect thereto.

(b) The Escrow Agent shall hold, subject to the terms and conditions hereof, the Escrow Shares. In the event of any stock split, corporate reorganization, recapitalization, merger, consolidation or any other non-cash dividend or distribution with respect to the Escrow Shares, the Sellers shall promptly deposit such securities or other property received by them in connection with such event with the Escrow Agent, together with any necessary stock powers, and such property will be held pursuant to the terms of this Agreement.

3. The Escrow Shares shall be held by Escrow Agent to satisfy any potential amounts owed to Purchaser by the Sellers with respect to their indemnification obligations pursuant to Article 10 of the Purchase Agreement. The Escrow Shares shall be valued at a per share price equal to the average of the last sales prices of the Purchaser Common Stock for the five (5) trading days immediately preceding the date on which shares of Escrow Shares are applied to satisfy the Sellers' indemnification obligation to the Purchaser.

4. (a) If at any time prior to the termination of this Agreement, the Escrow Agent receives joint written instructions from Purchaser and the Sellers to make a payment to Purchaser as required under the Purchase Agreement and pursuant to Section 6 and 7 hereof, then Escrow Agent shall make payments out of the Escrow Shares to Purchaser in accordance with such instructions.

(b) On the first business day after the three-year anniversary of the date of this Agreement (the "Termination Date"), Escrow Agent shall return to the Sellers any remaining portion of the Escrow Shares still held in escrow pursuant to the terms of this Agreement, reduced by the amounts, if any, which are the subject of Unresolved Claims (as hereinafter defined).

(c) Subsequent to the Termination Date, the Escrow Agent shall retain the portion of the Escrow Shares which relate to all Unresolved Claims until such time as such Unresolved Claims are resolved in accordance with the terms hereof, at which time the portion of the Escrow Shares relating to the settled Unresolved Claim, if any, shall be distributed to the appropriate party in accordance with joint written instructions from Purchaser and the Sellers.

5. The term "Unresolved Claims" shall mean any claim or request for indemnification by the Purchaser against the Sellers pursuant to the Purchase

Agreement made against the Escrow Shares in accordance with this Agreement prior to the Termination Date, which claim or request shall be the subject of a Notice of Request as referred to in Section 6 below. All Unresolved Claims shall remain as such until such time as they have been paid in full or otherwise fully settled or discharged in accordance with the provisions of Section 7 below.

6. If at any time during the term of this Agreement, the Purchaser believes that it is entitled to any portion of the Escrow Shares by way of indemnification from the Seller pursuant to the Purchase Agreement, the Purchaser shall furnish to the Escrow Agent (with a simultaneous copy to the Sellers, with proof of such delivery provided to the Escrow Agent), a written notice (the "Notice of Request") setting forth the dollar amount (and the corresponding number of Escrow Shares) to which the Purchaser believes it is entitled and the reasons for such belief. If the Escrow Agent and the Purchaser do not receive, within twenty (20) business days after receipt of the Notice of Request, a notice from the Sellers (the "Dispute Notice") stating that a dispute (the "Dispute") exists relating to the Purchaser's claim to that portion of the Escrow Shares claimed in the Notice of Request, the Escrow Agent shall, immediately after such twenty business day period, deliver the certificates

representing all of the Escrow Shares to the Purchaser, who shall simultaneously deliver to the Escrow Agent new certificates for a number of shares of Purchaser Common Stock representing the Escrow Shares equal to the difference between (a) the number of Escrow Shares then being held in escrow less (b) the number of Escrow Shares to which the Purchaser is entitled to as set forth in its Notice of Request. The Dispute Notice shall set forth in reasonable detail the amount disputed and the reasons for the Dispute. The Purchaser and the Sellers shall attempt to resolve the Dispute in good faith for a period of thirty (30) days following the receipt by the Escrow Agent and the Purchaser of the Dispute Notice. If the Purchaser and the Sellers are unable to resolve the Dispute within such thirty day period, the Dispute shall be submitted by the Purchaser and the Sellers to arbitration as hereinafter provided and the Escrow Agent shall be so notified. It is understood and agreed that (x) the arbitrator's award in such arbitration shall relate solely to the Dispute, (y) shall determine only whether or not the Purchaser is entitled to all or part of the Escrow Shares claimed for in the Notice of Request and whether the Sellers are entitled to offset any of their indemnification obligations under the Purchase Agreement, and (z) shall in no way involve any other matter relating to the Purchase Agreement or this Agreement including, without limitation, any claim for indemnification by the Purchaser or the Sellers. Further, in the event that the resolution of such Dispute shall depend on the final disposition of a claim made by an unaffiliated third party against the Purchaser for which the Purchaser is seeking indemnification from the Sellers, such arbitrator shall defer final resolution of such Dispute until such third party claim has been resolved or appropriate provision therefor has been made. The Purchaser and the Sellers each agree that the arbitrator's award shall be final and binding upon them with respect to the Dispute.

7. In the event Escrow Agent receives a Dispute Notice in accordance with Section 6 above that a Dispute exists, the Escrow Agent shall retain custody of that portion of the Escrow Shares which relates to the Unresolved Claim until the first to occur of the following events:

(a) Receipt by Escrow Agent of a notice ("Settlement Notice") signed by the Purchaser and the Sellers that the Dispute has been resolved, which notice shall contain instructions to the Escrow Agent regarding delivery of that portion of the Escrow Shares which relates to the Unresolved Claim; or

(b) Receipt by Escrow Agent of a copy of the Arbitrator's Award (as hereinafter defined) issued by the American Arbitration Association acknowledged by the Purchaser and the Sellers; or

(c) Receipt by Escrow Agent of official notice of the confirmation by a court of competent jurisdiction of the arbitrator's award (the "Arbitrator's Award") resolving the Dispute, which confirmation has become a final order from which no appeal has been or can be had.

After the occurrence of any of the foregoing events, the Escrow Agent shall promptly deliver that portion of the Escrow Shares which relates to the Unresolved Claim in accordance with the Settlement Notice or the Arbitrator's Award.

8. Any controversy or claim arising out of the interpretation of the provisions of this Agreement or the obligations of the parties hereto in connection with this Agreement (an "Escrow Dispute") shall be settled either by mutual written agreement of the parties to such Escrow Dispute or by a binding and final arbitration award, as provided below. In the event the terms of a settlement of an Escrow Dispute increase the duties or obligations of the Escrow Agent hereunder and the Escrow Agent has not participated in such settlement so as to be bound thereby, then the settlement of such Escrow Dispute shall be effective as to the Escrow Agent in respect of such increase in duties or liabilities only upon the Escrow Agent's written assent thereto.

Any Escrow Dispute not resolved by mutual agreement of the Sellers and the Purchaser shall be settled by arbitration in New York, New York, or in such other location as the parties may mutually agree, in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "AAA"). In the event of an Escrow Dispute, any party hereto may demand arbitration by written notice to the other parties and, within fifteen (15) days after receipt of such demand, each party shall appoint an arbitrator (each, an "Appointed Arbitrator") who shall together agree on a third Arbitrator, failing which agreement they shall request the AAA to appoint a third and presiding arbitrator ("Presiding Arbitrator", together with the Appointed Arbitrators, the "Arbitrators"), in accordance with the then existing rules of the AAA or any successor organization thereto. The parties acknowledge and agree that individuals may be designated as Appointed Arbitrators by each respective party, whether or not such Appointed Arbitrators are listed on the National Panel of Arbitrators as such list is maintained by the AAA. The parties hereby acknowledge that it is their intent to allow for a reasonable period of time in which the parties may conduct discovery relating an Escrow Dispute. The decision of 2 out of the 3 Arbitrators shall be final and binding on the parties and judgment upon the award rendered by the Arbitrators may be entered in any court having jurisdiction thereof. The costs of the arbitration (including, but not limited to, fees and disbursements of counsel and the Arbitrators) shall be borne by the non-prevailing party or as otherwise determined by the Arbitrators.

9. Upon the later to occur of (a) the Termination Date and (b) the date on which all Unresolved Claims, if any, are settled after the Termination Date (x) the portion of the Escrow Shares remaining on such date shall be distributed in accordance with this Agreement, (y) this Agreement shall be deemed to be terminated, and (z) the Escrow Agent shall be released and discharged from all further obligations hereunder. Under such circumstances, the Purchaser agrees that it shall divide and transfer the Escrow Shares to the distributees of the Sellers in accordance with the Sellers' written instructions.

10. (a) The Escrow Agent undertakes to perform only such duties as are expressly set forth herein. The Escrow Agent may rely and shall be protected in acting or refraining from acting upon any written notice, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper party or parties. The Escrow Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document. The Escrow Agent shall have no duty to solicit any payments that may be due it hereunder.

(b) The Escrow Agent shall not be liable for any action taken or omitted by it in good faith unless a court of competent jurisdiction determines that the Escrow Agent's willful misconduct was the primary cause of any loss to the Purchaser or the Sellers. In the administration of the escrow account hereunder, the Escrow Agent may execute any of its powers and perform its duties hereunder directly or through agents or attorneys and may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Escrow Agent shall not be liable for the performance of agents or for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons.

(c) The Escrow Agent may resign and be discharged from its duties or obligations hereunder by giving notice in writing of such resignation specifying a date when such resignation shall take effect. Such resignation shall not relieve the Escrow Agent of any potential liability of the Escrow Agent hereunder. Upon such resignation, the Purchaser and the Sellers shall mutually select a successor escrow agent.

(d) The Purchaser hereby agrees to pay or reimburse the Escrow Agent, upon request, for all expenses, disbursement and advances, including reasonable attorney's fees, incurred or made by it in connection with the preparation, execution, performance, delivery modification and termination of this Agreement.

(e) The Purchaser and the Sellers jointly and severally shall indemnify, defend and save harmless the Escrow Agent from all loss, liability or expense (including the reasonable fees and expenses of outside counsel) arising out of or in connection with (i) its execution and performance of this Agreement, except to the extent that such loss, liability or expense is due to the gross negligence or willful misconduct of the Escrow Agent, or (ii) its following any instructions or other directions from the Purchaser or the Sellers, except to the extent that its following any such instruction or direction is expressly forbidden by the terms hereof. Notwithstanding anything in this Agreement to the contrary, in no event shall the Escrow Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action. The parties hereto acknowledge that the foregoing indemnities shall survive the resignation or removal of the Escrow Agent or the termination of this Agreement.

(f) The duties and responsibilities of the Escrow Agent hereunder shall be determined solely by the express provisions of this Agreement and no other or further duties or responsibilities shall be implied. The Escrow Agent shall not have any liability under, nor duty to inquire into the terms and provisions of any agreement or instructions, other than outlined in this Agreement.

(g) The Sellers acknowledge that the Escrow Agent is acting as counsel to the Purchaser in the negotiation, preparation and execution of this Agreement and the Purchase Agreement, and agrees that Eaton & Van Winkle LLP may represent the Purchaser in any dispute under this Agreement or the Purchase Agreement.

(h) The Escrow Agent shall not be bound by any waiver, modification, cancellation or rescission of this Agreement unless made in writing and signed by the parties hereto, and a copy thereof is delivered to the Escrow Agent.

(i) In the event of any dispute over the disposition of the Escrow Shares, the Escrow Agent may deposit it with a court of competent jurisdiction in the State of New York and thereafter be relieved of any further liability or obligation under this Agreement.

11. All notices and communications hereunder shall be in writing and shall be deemed to be duly given if sent (i) by registered mail, return receipt requested or (ii) by facsimile transmission, as follows:

If to the Escrow Agent, to:

Eaton & Van Winkle LLP
3 Park Avenue, 16th Fl.
New York, New York 10016
Attention: Vincent J. McGill
Facsimile No.: (212) 779-9928

If to Purchaser, to:

Air Industries Group, Inc.
1479 North Clinton Avenue
Bay Shore, New York 11706
Attention: Peter D. Rettaliata
Facsimile No.: (631) 968-5377

with a copy to:

Eaton & Van Winkle LLP
3 Park Avenue, 16th Fl.
New York, New York 10016
Attention: Vincent J. McGill
Facsimile No.: (212) 779-9928

If to Seller, to:

John Gantt and Lugenia Gantt
183 Montecito Crescent
Melville, New York 11747

with a copy to:

Adam P. Silvers, Esq.
Ruskin Moscou Faltischek, P.C.
1425 Reckson Plaza
Uniondale, New York 11556
(516) 663-6519 direct
(516) 663-6719 fax

or at such other address as any of the above may have furnished to the other parties in writing by registered mail, return receipt requested, or facsimile, and any such notice or communication given in the manner specified in this Paragraph 11 shall be deemed to have been given as of the date so mailed except with respect to the Escrow Agent as to which date shall be deemed to have been given on the date received by the Escrow Agent. In the event that the Escrow Agent, in its sole discretion, shall determine that an emergency exists, the Escrow Agent may use such other means of communications as the Escrow Agent deems advisable.

12. The provisions of this Agreement may be waived, altered, amended or supplemented, in whole or in part, only by a writing signed by all of the parties hereto.

13. Neither this Agreement nor any right or interest hereunder may be assigned in whole or in part by any party without the prior consent of the other parties.

14. This Agreement 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. All signatures of the parties to this Agreement may be transmitted by facsimile, and such facsimile will, for all purposes, be deemed to be the original signature of such party whose signature it reproduces and will be binding upon such party.

15. In the event that the Escrow Agent shall be uncertain as to its duties or rights hereunder or shall receive instructions, claims or demands from any party hereto which, in its opinion, conflict with any of the provisions of this Agreement, it shall be entitled to refrain from taking any action and its sole obligation shall be to keep safely the Escrow Shares until it shall be directed otherwise in writing by all of the other parties hereto or by a final order or judgment of a court of competent jurisdiction.

16. Any corporation or other business entity into which the Escrow Agent may be merged or converted or with which it may be consolidated, or any corporation or other business entity resulting from any merger, conversion or consolidation to which the Escrow Agent shall be a party, or any corporation or other business entity to which substantially all the corporate trust business of the Escrow Agent may be transferred, shall be the successor Escrow Agent under this Agreement without any further action of the parties hereto.

17. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to its principles of conflicts of laws and, except as provided in Section 8 hereof, any action brought hereunder shall be brought in the courts of the State of New York, located in the County of New York or the court of the United States of America for the Southern District of New York. Each party hereto irrevocably waives any objection on the grounds of venue, forum non-conveniens or any similar grounds and irrevocably consents to service of process by mail or in any other manner permitted by applicable law and consents to the jurisdiction of said courts.

18. In the event that any party to this Agreement is unable to perform its obligations under the terms of this Agreement because of acts of God, strikes, equipment or transmission failure or damage reasonably beyond its control, or other cause reasonably beyond its control, such party shall not be liable for damages to the other parties for any unforeseeable damages resulting from such failure to perform or otherwise from such causes. Performance under this Agreement shall resume when the affected party is able to perform substantially that party's duties.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date and year first above written.

EATON & VAN WINKLE LLP

By: /s/ Vincent McGill

Name:Vincent McGill
Title:Partner

AIR INDUSTRIES GROUP, INC.

By: /s/ Peter D. Rettaliata

Name:Peter D. Rettaliata
Title:President

SELLERS:

/s/ John Gantt

JOHN GANTT

/s/ Lugenia Gantt

LUGENIA GANTT

This REGISTRATION RIGHTS AGREEMENT ("Agreement") is entered into as of the 24th day of August, 2007, by and among AIR INDUSTRIES GROUP, INC., a Delaware corporation (the "Company"), and JOHN GANTT and LUGENIA GANTT (together, the "Investors", and each an "Investor").

R E C I T A L S:

The Investors and the Company desire to enter into this Agreement to provide the Investors with certain rights relating to the registration of shares of Common Stock (as defined below) held by them.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS. The following capitalized terms used herein have the following meanings:

"Agreement" means this Agreement, as amended, restated, supplemented, or otherwise modified from time to time.

"Commission" means the Securities and Exchange Commission, or any other federal agency then administering the Securities Act or the Exchange Act.

"Common Stock" means the common stock, par value \$0.001 per share, of the Company.

"Company" is defined in the preamble to this Agreement.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect at the time.

"Indemnified Party" is defined in Section 4.3.

"Indemnifying Party" is defined in Section 4.3.

"Investor" is defined in the preamble to this Agreement.

"Investor Indemnified Party" is defined in Section 4.1.

"Maximum Number of Shares" means the dollar amount or number of any securities that can be sold in such offering without adversely affecting the proposed offering price, the timing, the distribution method, or the probability of success of such offering.

"Notices" is defined in Section 6.3.

"Piggy-Back Registration" is defined in Section 2.2.1.

"Register," "registered" and "registration" means a registration effected by preparing and filing a registration statement or similar document in compliance with the requirements of the Securities Act, and the applicable rules and regulations promulgated thereunder, and such registration statement becoming effective.

"Registrable Securities" means all of the shares of Common Stock acquired by the Investors pursuant to the Stock Purchase Agreement dated March 9, 2007 between the Investors and the Company, as amended by Amendment No. 1 thereto dated as of August 2, 2007. Registrable Securities include any warrants, shares of capital stock or other securities of the Company issued as a dividend or other distribution with respect to or in exchange for or in replacement of such shares of Common Stock, as applicable. As to any particular Registrable Securities, such securities shall cease to be Registrable Securities when: (a) a Registration Statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been sold, transferred, disposed of or exchanged in accordance with such Registration Statement; (b) such securities shall have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent public distribution of them shall not require registration under the Securities Act; (c) such securities shall have ceased to be outstanding, or (d) counsel for the Company makes a definitive determination to the Company that the Registrable Securities are salable under Rule 144(k) or are salable under Rule 144 and represent less than 1% of the outstanding shares of the Company and may be sold in one or more transactions without regard to the trading volume of the Company's Common Stock.

"Registration Statement" means a registration statement filed by the Company with the Commission in compliance with the Securities Act and the rules and regulations promulgated thereunder for a public offering and sale of Common Stock (other than a registration statement on Form S-4 or Form S-8, or its successor, or any registration statement covering only securities proposed to be issued in exchange for securities or assets of another entity).

"Securities Act" means the Securities Act of 1933, as amended, and

the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect at the time.

"Underwriter" means a securities dealer who purchases any Registrable Securities as principal in an underwritten offering and not as part of such dealer's market-making activities.

2. REGISTRATION RIGHTS.

2.1 Piggy-Back Registration.

2.1.1. Piggy-Back Rights. If the Company proposes to file a Registration Statement under the Securities Act with respect to an offering of equity securities, or securities or other obligations exercisable or exchangeable for, or convertible into, equity securities, by the Company for its own account or for shareholders of the Company for their account (or by the Company and by shareholders of the Company), other than a Registration Statement (i) filed in connection with any employee stock option or other benefit plan,

(ii) for an exchange offer or offering of securities solely to the Company's existing shareholders, (iii) for an offering of debt that is convertible into equity securities of the Company or (iv) for a dividend reinvestment plan, then the Company shall (x) give written notice of such proposed filing to the holder of Registrable Securities as soon as practicable but in no event less than ten (10) days before the anticipated filing date, which notice shall describe the amount and type of securities to be included in such offering, the intended method(s) of distribution, and the name of the proposed managing Underwriter or Underwriters, if any, of the offering, and (y) offer to the holder of Registrable Securities in such notice the opportunity to register the sale of such number of shares of Registrable Securities as such holders may request in writing within five (5) days following receipt of such notice (a "Piggy-Back Registration"). The Company shall cause such Registrable Securities to be included in such registration and shall use reasonable efforts to cause the managing Underwriter or Underwriters of a proposed underwritten offering to permit the Registrable Securities requested to be included in a Piggy-Back Registration to be included on the same terms and conditions as any similar securities of the Company and to permit the sale or other disposition of such Registrable Securities in accordance with the intended method(s) of distribution thereof. The holder of Registrable Securities proposing to distribute their securities through a Piggy-Back Registration that involves an Underwriter or Underwriters shall enter into an underwriting agreement in customary form with the Underwriter or Underwriters selected for such Piggy-Back Registration.

2.1.2. Reduction of Offering. If the managing Underwriter or Underwriters for a Piggy-Back Registration that is to be an underwritten offering advises the Company and the holder of Registrable Securities in writing that the dollar amount or number of shares of Common Stock which the Company desires to sell, taken together with shares of Common Stock, if any, as to which registration has been demanded pursuant to written contractual arrangements with persons having the right to demand that the Company register their shares and the Registrable Securities as to which registration has been requested under this Section 2.1, and the shares of Common Stock, if any, as to which registration has been requested pursuant to the written contractual piggy-back registration rights of other shareholders of the Company, exceeds the Maximum Number of Shares, then the Company shall include in any such registration:

(i) If the registration is undertaken for the Company's account: (A) first, the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares; (B) second, to the extent that the Maximum Number of Shares has not been reached under the foregoing clause (A), the shares of Common Stock, if any, including the Registrable Securities, as to which registration has been requested pursuant to written contractual piggy-back registration rights of security holders (pro rata in accordance with the number of shares of Common Stock which each such person has actually requested to be included in such registration, regardless of the number of shares of Common Stock with respect to which such persons have the right to request such inclusion) that can be sold without exceeding the Maximum Number of Shares; and

(ii) If the registration is a "demand" registration undertaken at the demand of persons pursuant to written contractual arrangements with such persons, (A) first, the shares of Common Stock for the account of the demanding persons that can be sold without exceeding the Maximum Number of Shares; (B) second, to the extent that the Maximum Number of Shares has not been reached under the foregoing clause (A), the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares; and (C) third, to the extent that the Maximum Number of Shares has not been reached under the foregoing clauses (A) and (B), the shares of Common Stock, if any, including the Registrable Securities as to which registration has been requested pursuant to written contractual piggy-back registration rights (pro rata in accordance with the number of shares of Common Stock which each such person has actually requested to be included in such registration, regardless of the number of shares of Common Stock with respect to which such persons have the right to request such inclusion) that can be sold without exceeding the Maximum Number of Shares.

2.1.3. Withdrawal. The holder of Registrable Securities may elect to withdraw such holder's request for inclusion of Registrable Securities in any Piggy-Back Registration by giving written notice to the Company of such request to withdraw prior to the effectiveness of the Registration Statement. The Company may also elect to withdraw a registration statement at any time prior to the effectiveness of the Registration Statement. Notwithstanding any such withdrawal, the Company shall pay all expenses incurred by the holders of Registrable Securities in connection with such Piggy-Back Registration as provided in Section 3.3.

3. REGISTRATION PROCEDURES.

3.1 Filings; Information. Whenever the Company elects to file a Registration Statement and in connection therewith is required to include any Registrable Securities pursuant to Section 2, the Company shall use commercially reasonable efforts to effect the registration and sale of such Registrable Securities in accordance with the intended method(s) of distribution thereof as expeditiously as practicable, and in connection with any such request:

3.1.1. Filing Registration Statement. The Company shall prepare and file with the Commission a Registration Statement on any form for which the Company then qualifies or which counsel for the Company shall deem appropriate and which form shall be available for the sale of all Registrable Securities to be registered thereunder in accordance with the intended method(s) of distribution thereof, and shall cause such Registration Statement to become and remain effective for the period required by Section 3.1.3; provided, however, that the Company shall have the right to defer any Piggy-Back Registration for such period as may be applicable to deferment of any demand registration to which such Piggy-Back Registration relates, in each case if the Company shall furnish to the holders a certificate signed by the Chief Executive Officer of the Company stating that, in the good faith judgment of the Board of Directors of the Company, it would be materially detrimental to the Company and its shareholders for such Registration Statement to be effected at such time.

3.1.2. Copies. The Company shall, prior to filing a Registration Statement or prospectus, or any amendment or supplement thereto, furnish without charge to the holder of Registrable Securities included in such registration, and such holder's legal counsel, copies of such Registration Statement as proposed to be filed, each amendment and supplement to such Registration Statement (in each case including all exhibits thereto and documents incorporated by reference therein), the prospectus included in such Registration Statement (including each preliminary prospectus), and such other documents as the holder of Registrable Securities included in such registration or legal counsel for the holder may request in order to facilitate the disposition of the Registrable Securities owned by the holder.

3.1.3. Amendments and Supplements. The Company shall prepare and file with the Commission such amendments, including post-effective amendments, and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective and in compliance with the provisions of the Securities Act until all Registrable Securities and other securities covered by such Registration Statement have been disposed of in accordance with the intended method(s) of distribution set forth in such Registration Statement (which period shall not exceed the sum of one hundred eighty (180) days plus any period during which any such disposition is interfered with by any stop order or injunction of the Commission or any governmental agency or court) or such securities have been withdrawn or, if earlier, the date the Registrable Securities become eligible for sale pursuant to Rule 144(k).

3.1.4. Notification. After the filing of a Registration Statement, the Company shall promptly, and in no event more than two (2) business days after such filing, notify the holder of Registrable Securities included in such Registration Statement of such filing, and shall further notify such holders promptly and confirm such advice in writing in all events within two (2) business days of the occurrence of any of the following: (i) when such Registration Statement becomes effective; (ii) when any post-effective amendment to such Registration Statement becomes effective; (iii) the issuance or threatened issuance by the Commission of any stop order (and the Company shall take all actions required to prevent the entry of such stop order or to remove it if entered); and (iv) any request by the Commission for any amendment or supplement to such Registration Statement or any prospectus relating thereto or for additional information or of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of the securities covered by such Registration Statement, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and promptly make available to the holder of Registrable Securities included in such Registration Statement any such supplement or amendment; except that before filing with the Commission a Registration Statement or prospectus or any amendment or supplement thereto, including documents incorporated by reference, the Company shall furnish to the holder of Registrable Securities included in such Registration Statement and to the legal counsel for the holder, copies of all such documents proposed to be filed sufficiently in advance of filing to provide such holders and legal counsel with a reasonable opportunity to review such documents and comment thereon, and the Company shall not file any Registration Statement or prospectus or amendment or supplement thereto, including documents incorporated by reference, to which the holder or their legal counsel shall object.

3.1.5. State Securities Laws Compliance. The Company shall use its best efforts to (i) register or qualify the Registrable Securities covered by the Registration Statement under such securities or "blue sky" laws of such jurisdictions in the United States as the holder of Registrable Securities included in such Registration Statement (in light of their intended plan of distribution) may request and (ii) take such action necessary to cause such Registrable Securities covered by the Registration Statement to be registered with or approved by such other Governmental Authorities as may be necessary by virtue of the business and operations of the Company and do any and all other

acts and things that may be necessary or advisable to enable the holder of Registrable Securities included in such Registration Statement to consummate the disposition of such Registrable Securities in such jurisdictions; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph or subject itself to taxation in any such jurisdiction.

3.1.6. Agreements for Disposition. The Company shall enter into customary agreements (including, if applicable, an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities. The representations, warranties and covenants of the Company in any underwriting agreement which are made to or for the benefit of any Underwriters, to the extent applicable, shall also be made to and for the benefit of the holders of Registrable Securities included in such registration statement. No holder of Registrable Securities included in such registration statement shall be required to make any representations or warranties in the underwriting agreement except, if applicable, with respect to the holder's organization, good standing, authority, title to Registrable Securities, lack of conflict of such sale with the holder's material agreements and organizational documents, and with respect to written information relating to such holder that the holder has furnished in writing expressly for inclusion in such Registration Statement.

3.1.7. Cooperation. The principal executive officer of the Company, the principal financial officer of the Company, the principal accounting officer of the Company and all other officers and members of the management of the Company shall cooperate fully in any offering of Registrable Securities hereunder, which cooperation shall include, without limitation, the preparation of the Registration Statement with respect to such offering and all other offering materials and related documents, and participation in meetings with Underwriters, attorneys, accountants and potential investors.

3.1.8. Records. The Company shall make available for inspection by the holder of Registrable Securities included in such Registration Statement, any Underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other professional retained by the holder of Registrable Securities included in such Registration Statement or any Underwriter, all financial and other records, pertinent corporate documents and properties of the Company, as shall be necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information requested by any of them in connection with such Registration Statement.

3.1.9. Opinions and Comfort Letters. The Company shall furnish to the holder of Registrable Securities included in any Registration Statement a signed counterpart, addressed to such holder, of (i) any opinion of counsel to the Company delivered to any Underwriter and (ii) any comfort letter from the Company's independent public accountants delivered to any Underwriter. In the event no legal opinion is delivered to any Underwriter, the Company shall furnish to each holder of Registrable Securities included in such Registration Statement, at any time that the holder elects to use a prospectus, an opinion of counsel to the Company to the effect that the Registration Statement containing such prospectus has been declared effective and that no stop order is in effect.

3.1.10. Earnings Statement. The Company shall comply with all applicable rules and regulations of the Commission and the Securities Act, and make available to its shareholders, as soon as practicable, an earnings statement covering a period of twelve (12) months, beginning within three (3) months after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

3.1.11. Listing. The Company shall use its best efforts to cause all Registrable Securities included in any registration to be listed on such exchanges or otherwise designated for trading in the same manner as similar securities issued by the Company are then listed or designated or, if no such similar securities are then listed or designated, in a manner satisfactory to the holders of a majority of the Registrable Securities included in such registration.

Notwithstanding the foregoing, the Company shall be permitted to cease any activities in furtherance of the registration of the Registrable Securities if it elects to terminate its efforts to register its securities and, as the case may be, the securities that were the subject of a demand registration request.

3.2 Obligation to Suspend Distribution. Upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3.1.4(iv), the holder of Registrable Securities included in any registration shall immediately discontinue disposition of such Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such holder receives the supplemented or amended prospectus contemplated by Section 3.1.4(iv) and, if so directed by the Company, each such holder will deliver to the Company all copies, other than permanent file copies then in such holder's possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice.

3.3 Registration Expenses. The Company shall bear all costs and expenses incurred in connection with any Piggy-Back Registration pursuant to Section 2.2, and all expenses incurred in performing or complying with its other obligations under this Agreement, whether or not the Registration Statement becomes effective, including, without limitation: (i) all registration and filing fees; (ii) fees and expenses of compliance with securities or "blue sky" laws (including fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities); (iii) printing expenses; (iv) the Company's internal expenses (including, without limitation, all salaries and expenses of its officers and employees); (v) the fees and expenses incurred in connection with the listing of the Registrable Securities as required by Section 3.1.11; (vi) National Association of Securities Dealers, Inc. fees; (vii) fees and disbursements of counsel for the Company and fees and expenses for independent certified public accountants retained by the Company (including the

expenses or costs associated with the delivery of any opinions or comfort letters requested pursuant to Section 3.1.9); (viii) the fees and expenses of any special experts retained by the Company in connection with such registration and (ix) the fees and expenses of one legal counsel selected by the holder of the Registrable Securities included in such registration. The Company shall have no obligation to pay any underwriting discounts or selling commissions attributable to the Registrable Securities being sold by the holder thereof, which underwriting discounts or selling commissions shall be borne by the holder. Additionally, in an underwritten offering, all selling shareholders and the Company shall bear the expenses of the underwriter pro rata in proportion to the respective amount of shares each is selling in such offering.

3.4 Information. The holder of Registrable Securities shall provide such information as may reasonably be requested by the Company, or the managing Underwriter, if any, in connection with the preparation of any Registration Statement, including amendments and supplements thereto, in order to effect the registration of any Registrable Securities under the Securities Act pursuant to Section 2 and in connection with the Company's obligation to comply with federal and applicable state securities laws.

4. INDEMNIFICATION AND CONTRIBUTION.

4.1 Indemnification by the Company. The Company agrees to indemnify and hold harmless each of the Investors from and against any expenses, losses, judgments, claims, damages or liabilities, whether joint or several, arising out of or based upon any untrue statement (or allegedly untrue statement) of a material fact contained in any Registration Statement under which the sale of such Registrable Securities was registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained in the Registration Statement, or any amendment or supplement to such Registration Statement, or arising out of or based upon any omission (or alleged omission) to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation promulgated thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration; and the Company shall promptly reimburse the Investor for any legal and any other expenses reasonably incurred by the Investors in connection with investigating and defending any such expense, loss, judgment, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such expense, loss, claim, damage or liability arises out of or is based upon any untrue statement or allegedly untrue statement or omission or alleged omission made in such Registration Statement, preliminary prospectus, final prospectus, or summary prospectus, or any such amendment or supplement, in reliance upon and in conformity with information furnished to the Company, in writing, by such selling holder expressly for use therein.

4.2 Indemnification by the Investor. The Investor will, in the event that any registration is being effected under the Securities Act pursuant to this Agreement of any Registrable Securities held by the Investor, indemnify and hold harmless the Company, each of its directors and officers and each underwriter (if any), and each other person, if any, who controls such underwriter within the meaning of the Securities Act, against any losses, claims, judgments, damages or liabilities, whether joint or several, insofar as such losses, claims, judgments, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or allegedly untrue statement of a material fact contained in any Registration Statement under which the sale of such Registrable Securities was registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained in

the Registration Statement, or any amendment or supplement to the Registration Statement, or arise out of or are based upon any omission or the alleged omission to state a material fact required to be stated therein or necessary to make the statement therein not misleading, if the statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company by such selling holder expressly for use therein, and shall reimburse the Company, its directors and officers, and each such controlling person for any legal or other expenses reasonably incurred by any of them in connection with investigation or defending any such loss, claim, damage, liability or action.

4.3 Conduct of Indemnification Proceedings. Promptly after receipt by any person of any notice of any loss, claim, damage or liability or any action in respect of which indemnity may be sought pursuant to Section 4.1 or 4.2, such person (the "Indemnified Party") shall, if a claim in respect thereof is to be made against any other person for indemnification hereunder, notify such other person (the "Indemnifying Party") in writing of the loss, claim, judgment, damage, liability or action; provided, however, that the failure by the Indemnified Party to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability which the Indemnifying Party may have to such Indemnified Party hereunder, except and solely to the extent the Indemnifying Party is actually prejudiced by such failure. If the Indemnified Party is seeking indemnification with respect to any claim or action brought against the Indemnified Party, then the Indemnifying Party shall be entitled to participate in such claim or action, and, to the extent that it wishes, jointly with all other Indemnifying Parties, to assume control of the defense thereof with counsel satisfactory to the Indemnified Party. After notice from the Indemnifying Party to the Indemnified Party of its election to assume control of the defense of such claim or action, the Indemnifying Party shall not be liable to the Indemnified Party for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that in any action in which both the Indemnified Party and the Indemnifying Party are named as defendants, the Indemnified Party shall have the right to employ separate counsel (but no more than one such separate counsel) to represent the Indemnified Party and its controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Indemnified Party against the Indemnifying Party, with the fees and expenses of such counsel to be paid by such Indemnifying Party if, based upon the written opinion of counsel of such Indemnified Party, representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, consent to entry of judgment or effect any settlement of any claim or pending or threatened proceeding in respect of which the Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such judgment or settlement includes an unconditional release of such Indemnified Party from all liability arising out of such claim or proceeding.

4.4 Contribution.

4.4.1. If the indemnification provided for in the foregoing Sections 4.1, 4.2 and 4.3 is unavailable to any Indemnified Party in respect of any loss, claim, damage, liability or action referred to herein, then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim, damage, liability or action in such proportion as is appropriate to reflect the relative fault of the Indemnified Parties and the Indemnifying Parties in connection with the actions or omissions which resulted

in such loss, claim, damage, liability or action, as well as any other relevant equitable considerations. The relative fault of any Indemnified Party and any Indemnifying Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such Indemnified Party or such Indemnifying Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

4.4.2. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 4.4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding Section 4.4.1. The amount paid or payable by an Indemnified Party as a result of any loss, claim, damage, liability or action referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4.4, no holder of Registrable Securities shall be required to contribute any amount in excess of the dollar amount of the net proceeds (after payment of any underwriting fees, discounts, commissions or taxes) actually received by such holder from the sale of Registrable Securities which gave rise to such contribution obligation. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

5. MISCELLANEOUS.

5.1 Other Registration Rights. The Company represents and warrants that no person, other than the holder of the Registrable Securities, has any right to require the Company to register any shares of the Company's capital stock for sale or to include shares of the Company's capital stock in any registration filed by the Company for the sale of shares of capital stock for its own account or for the account of any other person.

5.2 Assignment; No Third Party Beneficiaries. This Agreement and the rights, duties and obligations of the Company hereunder may not be assigned or delegated by the Company in whole or in part. This Agreement and the rights, duties and obligations of the holder of Registrable Securities hereunder may be freely assigned or delegated by the holder of Registrable Securities in conjunction with and to the extent of any transfer of Registrable Securities by the holder. This Agreement and the provisions hereof shall be binding upon and shall inure to the benefit of each of the parties and their respective successors and the permitted assigns of the Investor or holder of Registrable Securities or of any assignee of the Investor or holder of Registrable Securities. This Agreement is not intended to confer any rights or benefits on any persons that are not party hereto other than as expressly set forth in Article 4 and this Section 6.2.

5.3 Notices. All notices, demands, requests, consents, approvals or other communications (collectively, "Notices") required or permitted to be given hereunder or which are given with respect to this Agreement shall be in writing

and shall be personally served, delivered by reputable air courier service with charges prepaid, or transmitted by hand delivery, telegram, telex or facsimile, addressed as set forth below, or to such other address as such party shall have specified most recently by written notice. Notice shall be deemed given on the date of service or transmission if personally served or transmitted by telegram, telex or facsimile; provided, that if such service or transmission is not on a business day or is after normal business hours, then such notice shall be deemed given on the next business day. Notice otherwise sent as provided herein shall be deemed given on the next business day following timely delivery of such notice to a reputable air courier service with an order for next-day delivery.

To the Company:

Air Industries Group, Inc.
1479 North Clinton Avenue
Bay Shore, New York 11706

Attention: Peter D. Rettaliata, President and CEO

with a copy to:

Eaton & Van Winkle
3 Park Avenue
New York, New York 10016

Attn: Vincent J. McGill, Esq.

To the Investors, to:
John Gantt and Lugenia Gantt
183 Montecito Crescent
Melville, New York 11747

5.4 Severability. This Agreement shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible and be valid and enforceable.

5.5 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.

5.6 Entire Agreement. This Agreement (including all agreements entered into pursuant hereto and all certificates and instruments delivered pursuant hereto and thereto) constitute the entire agreement of the parties with respect to the subject matter hereof and supersede all prior and contemporaneous agreements, representations, understandings, negotiations and discussions between the parties, whether oral or written.

5.7 Modifications and Amendments. No amendment, modification or termination of this Agreement shall be binding upon any party unless executed in writing by such party.

5.8 Titles and Headings. Titles and headings of sections of this Agreement are for convenience only and shall not affect the construction of any provision of this Agreement.

5.9 Waivers and Extensions. Any party to this Agreement may waive any right, breach or default which such party has the right to waive, provided that such waiver will not be effective against the waiving party unless it is in writing, is signed by such party, and specifically refers to this Agreement. Waivers may be made in advance or after the right waived has arisen or the breach or default waived has occurred. Any waiver may be conditional. No waiver of any breach of any agreement or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof nor of any other agreement or provision herein contained. No waiver or extension of time for performance of any obligations or acts shall be deemed a waiver or extension of the time for performance of any other obligations or acts.

5.10 Remedies Cumulative. In the event that the Company fails to observe or perform any covenant or agreement to be observed or performed under this Agreement, the Investor or any other holder of Registrable Securities may proceed to protect and enforce its rights by suit in equity or action at law, whether for specific performance of any term contained in this Agreement or for an injunction against the breach of any such term or in aid of the exercise of any power granted in this Agreement or to enforce any other legal or equitable right, or to take any one or more of such actions, without being required to post a bond. None of the rights, powers or remedies conferred under this Agreement shall be mutually exclusive, and each such right, power or remedy shall be cumulative and in addition to any other right, power or remedy, whether conferred by this Agreement or now or hereafter available at law, in equity, by statute or otherwise.

5.11 Governing Law. This Agreement shall be governed by, interpreted under, and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed within the State of New York, without giving effect to any choice-of-law provisions thereof that would compel the application of the substantive laws of any other jurisdiction.

5.12 Waiver of Trial by Jury. Each party hereby irrevocably and unconditionally waives the right to a trial by jury in any action, suit, counterclaim or other proceeding (whether based on contract, tort or otherwise) arising out of, connected with or relating to this Agreement, the transactions contemplated hereby, or the actions of the Investors in the negotiation, administration, performance or enforcement hereof.

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IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be executed and delivered by their duly authorized representatives as of the date first written above.

AIR INDUSTRIES GROUP, INC.

a Delaware corporation

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Title: President

INVESTORS:

/s/ Gohn Gantt

John Gantt

/s/ Lugenia Gantt

Lugenia Gantt

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

THIS FOURTH AMENDMENT TO REVOLVING CREDIT, TERM LOAN, EQUIPMENT LINE OF CREDIT AND SECURITY AGREEMENT (this "Agreement") is entered into August 24, 2007 by and among AIR INDUSTRIES MACHINING, CORP. (as successor by merger with Gales Industries Acquisition Corp., Inc.), a corporation organized under the laws of the State of New York ("Air"), SIGMA METALS, INC. (as successor by merger with GMS Sub, Corp.), a corporation organized under the laws of the State of New York ("Sigma" and collectively with Air, the "Borrower"), WELDING METALLURGY, INC. (as successor by merger with WMS MERGER CORP.), a corporation organized under the laws of the State of New York ("WM"), AIR INDUSTRIES GROUP, INC. (f/k/a Gales Industries Incorporated), a corporation organized under the laws of the State of Delaware ("Air Group" and collectively with the Borrower and WM, the "Obligor"), the financial institutions which are now or which hereafter become a party hereto (collectively, the "Lenders" and individually a "Lender") and PNC BANK, NATIONAL ASSOCIATION ("PNC"), as agent for Lenders (PNC, in such capacity, the "Agent").

RECITALS

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

Whereas, Obligor and PNC have agreed to modify the terms of the Loan Agreement as set forth in this Agreement by, among other things, adding WM and Air Industries Group, Inc. (f/k/a Gales Industries Incorporated) each as a guaranteeing entity under the Loan Agreement and the Other Documents.

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

AGREEMENT

- 1) ACKNOWLEDGMENT OF BALANCE. Borrower acknowledges that the most recent statement of account sent to Borrower with respect to the Obligations is correct.
- 2) MODIFICATIONS. The Loan Agreement be and hereby is modified as follows:
 - (a) Welding Metallurgy, Inc., a corporation organized under the laws of the State of New York, and Air Industries Group, Inc. (f/k/a Gales Industries Incorporated), a corporation organized under the laws of the State of Delaware, are hereby added as guaranteeing entities under the Loan Agreement and the Other Documents.
 - (b) The following definitions in Section 1.2 of the Loan Agreement are hereby deleted, and are replaced to read as follows:

"Acquisition Agreement" shall mean, collectively, (i) that certain Stock Purchase Agreement including all exhibits and schedules thereto dated as of July 25, 2005 by and among Gales Industries Incorporated, as buyer (the "Original Buyer" and "Gales"), and Air Industries Machining, Corp., Luis Peragallo, Jorge Peragallo, Peter Rettallia and Dario Peragallo, as sellers (collectively, the "Air Industries Seller"), as amended, restated, modified and/or replaced from time to time, and as assigned by the Original Buyer in favor of Gales Industries Acquisition Corp., Inc. (the "Air Industries Buyer"), (ii) that certain Stock Purchase Agreement including all exhibits and schedules thereto dated as of January 2, 2007 by and among Gales, as buyer, and Sigma Metals, Inc., George Elkins, Carole Tate and Joseph Coonan, as sellers (collectively, the "Sigma Seller"), as amended, restated, modified and/or replaced from time to time, and as assigned by Gales in favor of GMS Sub, Corp. (the "Sigma Buyer") and (iii) that certain Stock Purchase Agreement including all exhibits and schedules thereto dated as of March 9, 2007 by and among Air Industries Group, Inc. ("Air Group") (f/k/a Gales), as buyer, and John Gantt and Lugenia Gantt, as sellers (collectively, the "WM Seller" and collectively with the Air Industries Seller and the Sigma Seller, the "Seller"), as amended, restated, modified and/or replaced

from time to time, and as assigned by Gales in favor of the Borrower (the "WM Buyer" and collectively with the Air Industries Buyer and the Sigma Buyer, the "Buyer").

"Capitalized Lease Obligation" shall mean any Indebtedness of Obligor represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"Change of Control" shall mean (a) the occurrence of any event (whether in one or more transactions) which results in a transfer of control of Obligor to a Person who is not an Original Owner or (b) any merger or

consolidation of or with Obligor or sale of all or substantially all of the property or assets of Obligor. For purposes of this definition, "control of Obligor" shall mean the power, direct or indirect (x) to vote 50% or more of the Equity Interests having ordinary voting power for the election of directors (or the individuals performing similar functions) of Obligor or (y) to direct or cause the direction of the management and policies of Obligor by contract or otherwise.

"Change of Ownership" shall mean (a) 50% or more of the Equity Interests of Obligor is no longer owned or controlled by (including for the purposes of the calculation of percentage ownership, any Equity Interests into which any Equity Interests of Obligor held by any of the Original Owners are convertible or for which any such Equity Interests of Obligor or of any other Person may be exchanged and any Equity Interests issuable to such Original Owners upon exercise of any warrants, options or similar rights which may at the time of calculation be held by such Original Owners) a Person who is an Original Owner or (b) any merger, consolidation or sale of substantially all of the property or assets of Obligor.

"Collateral" shall mean and include:

- (a) all Receivables;
- (b) all Equipment;
- (c) all General Intangibles;
- (d) all Inventory;
- (e) all Investment Property;
- (f) all Real Property;
- (g) all Subsidiary Stock;
- (h) the Leasehold Interests;
- (i) all of Obligor's right, title and interest in and to, whether now owned or hereafter acquired and wherever located, (i) its respective goods and other property including, but not limited to, all merchandise returned or rejected by Customers, relating to or securing any of the Receivables; (ii) all of Obligor's rights as a consignor, a consignee, an unpaid vendor, mechanic, artisan, or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (iii) all additional amounts due to Obligor from any Customer relating to the Receivables; (iv) other property, including warranty claims, relating to any goods securing the Obligations; (v) all of Obligor's contract rights, rights of payment which have been earned under a contract right, instruments (including promissory notes), documents, chattel paper (including electronic chattel paper), warehouse receipts, deposit accounts, letters of credit and money; (vi) all commercial tort claims (whether now existing or hereafter arising); (vii) if and when obtained by Obligor, all real and personal property of third

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parties in which Obligor has been granted a lien or security interest as security for the payment or enforcement of Receivables; (viii) all letter of credit rights (whether or not the respective letter of credit is evidenced by a writing); (ix) all supporting obligations; and (x) any other goods, personal property or real property now owned or hereafter acquired in which Obligor has expressly granted a security interest or may in the future grant a security interest to Agent hereunder, or in any amendment or supplement hereto or thereto, or under any other agreement between Agent and Obligor;

- (j) all of Obligor's ledger sheets, ledger cards, files, correspondence, records, books of account, business papers, computers, computer software (owned by Obligor or in which it has an interest), computer programs, tapes, disks and documents relating to (a), (b), (c), (d), (e), (f), (g), (h) or (i) of this Paragraph; and

all proceeds and products of (a), (b), (c), (d), (e), (f), (g), (h), (i) and (j) in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments and other instruments for the payment of money, chattel paper, security agreements, documents, eminent domain proceeds, condemnation proceeds and tort claim proceeds.

"Eligible Inventory" shall mean and include Inventory of the Borrower, specifically including work in process, valued at the lower of cost or market value, determined on a first-in-first-out basis, which is not, in Agent's opinion, obsolete, slow moving or unmerchantable and which Agent, in its sole discretion, shall not deem ineligible Inventory, based on such considerations as Agent may from time to time deem appropriate including whether the Inventory is subject to a perfected, first priority security interest in favor of Agent and no other Lien (other than a Permitted Encumbrance). In addition, Inventory shall not be Eligible Inventory if it (i) does not conform to all standards imposed by any Governmental Body which has regulatory authority over such goods or the use or sale thereof, (ii) is in transit, (iii) is located outside the continental United States or at a location that is not otherwise in compliance with this Agreement, (iv) constitutes Consigned Inventory, (v) is the subject of an Intellectual Property Claim; (vi) is subject to a License Agreement or other agreement that limits, conditions or restricts Borrower's or Agent's right to sell or otherwise dispose of such Inventory, unless Agent is a party to a Licensor/Agent Agreement with the Licensor under such License Agreement; or (vii) or is situated at a location not owned by Borrower unless the owner or occupier of such location has executed in favor of Agent a Lien Waiver Agreement. Eligible Inventory shall include all Inventory in-transit for which title has passed to Borrower, which is insured to the full value thereof and for which Agent shall have in its possession (a) all negotiable bills of lading properly endorsed and (b) all non-negotiable bills of lading issued in Agent's name.

"Equipment" shall mean and include all of Obligor's goods (other than Inventory) whether now owned or hereafter acquired and wherever located including all equipment, machinery, apparatus, motor vehicles, fittings, furniture, furnishings, fixtures, parts, accessories and all replacements and substitutions therefor or accessions thereto.

"General Intangibles" shall mean and include all of Obligor's general intangibles, whether now owned or hereafter acquired, including all payment intangibles, all choses in action, causes of action, corporate or other business records, inventions, designs, patents, patent applications, equipment formulations, manufacturing procedures, quality control procedures, trademarks, trademark applications, service marks, trade secrets, goodwill, copyrights, design rights, software, computer information, source codes, codes, records and updates, registrations, licenses, franchises, customer lists, tax refunds, tax refund claims, computer programs, all claims under guaranties, security interests or other security held by or granted to Obligor to secure payment of any of the Receivables by a Customer (other than to the extent covered by Receivables) all rights of indemnification and all other intangible property of every kind and nature (other than Receivables).

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"Intellectual Property Claim" shall mean the assertion by any Person of a claim (whether asserted in writing, by action, suit or proceeding or otherwise) that Obligor's ownership, use, marketing, sale or distribution of any Inventory, Equipment, Intellectual Property or other property or asset is violative of any ownership of or right to use any Intellectual Property of such Person.

"Inventory" shall mean and include all of Obligor's now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any consignment arrangement, contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in Obligor's business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

"Inventory Sublimit" shall mean \$8,250,000.

"Investment Property" shall mean and include all of Obligor's now owned or hereafter acquired securities (whether certificated or uncertificated), securities entitlements, securities accounts, commodities contracts and commodities accounts.

"Leasehold Interests" shall mean all of Obligor's right, title and interest in and to the premises set forth on Schedule 1.2(a) attached hereto.

"License Agreement" shall mean any agreement between Obligor and a Licensor pursuant to which Obligor is authorized to use any Intellectual Property in connection with the manufacturing, marketing, sale or other distribution of any Inventory of Obligor or otherwise in connection with Obligor's business operations.

"Licensor" shall mean any Person from whom Obligor obtains the right to use (whether on an exclusive or non-exclusive basis) any Intellectual Property in connection with Obligor's manufacture, marketing, sale or other distribution of any Inventory or otherwise in connection with Obligor's business operations.

"Licensor/Agent Agreement" shall mean an agreement between Agent and a Licensor, in form and content satisfactory to Agent, by which Agent is given the unqualified right, vis-a-vis such Licensor, to enforce Agent's Liens with respect to and to dispose of Obligor's Inventory with the benefit of any Intellectual Property applicable thereto, irrespective of Obligor's default under any License Agreement with such Licensor.

"Maximum Loan Amount" shall mean \$15,830,090 less repayments of the Term Loan, the Converted Equipment Loans and Equipment Loans.

"Maximum Revolving Advance Amount" shall mean \$14,000,000.

"Multiple Employer Plan" shall mean a Plan which has two or more contributing sponsors (including the Obligor or any member of the Controlled Group) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

"Obligations" shall mean and include any and all loans, advances, debts, liabilities, obligations, covenants and duties owing by the Obligor to Lenders or Agent or to any other direct or indirect subsidiary or affiliate of Agent or any Lender of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Obligor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, (including this Agreement and the Other Documents) whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan,

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equipment lease or guarantee, under any interest or currency swap, future, option or other similar agreement, or in any other manner, whether arising out of overdrafts or deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the Agent's or any Lenders non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, contractual or tortious, liquidated or unliquidated, regardless of how such indebtedness or liabilities arise or by what agreement or instrument they may be evidenced or whether evidenced by any agreement or instrument, including, but not limited to, any and all of Obligor's Indebtedness and/or liabilities under this Agreement, the Other Documents or under any other agreement between Agent or Lenders and Obligor and any amendments, extensions, renewals or increases and all costs and expenses of Agent and any Lender incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including but not limited to reasonable attorneys' fees and expenses and all obligations of Obligor to Agent or Lenders to perform acts or refrain from taking any action.

"Other Documents" shall mean the Note, the Guaranty, the Mortgage, the Assignment of Rents, Leases and Profits, the Environmental Indemnity Agreement, any Lender-Provided Interest Rate Hedge and any and all other agreements, instruments and documents, including guaranties, pledges, powers of attorney, consents, interest or currency swap agreements or other similar agreements and all other writings heretofore, now or hereafter executed by Borrower or any Guarantor and/or delivered to Agent or any Lender in respect of the transactions contemplated by this Agreement.

"Ordinary Course of Business" shall mean the ordinary course of Obligor's business as conducted on the Closing Date.

"Original Owners" shall mean (i) with regard to the Borrower, Air Group, and (ii) with regard to WM, the Borrower.

"Permitted Encumbrances" shall mean (a) Liens in favor of Agent for the benefit of Agent and Lenders; (b) Liens for taxes, assessments or other governmental charges not delinquent or being contested in good faith and by appropriate proceedings and with respect to which proper reserves have been taken by Obligor; provided, that, the Lien shall have no effect on the priority of the Liens in favor of Agent or the value of the assets in which Agent has such a Lien and a stay of enforcement of any such Lien shall be in effect; (c) Liens disclosed in the financial statements referred to in Section 5.5, the existence of which Agent has consented to in writing; (d) deposits or pledges to secure obligations under worker's compensation, social security or similar laws, or under unemployment insurance; (e) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the Ordinary Course of Business; (f) Liens arising by virtue of the rendition, entry or issuance against Obligor or any Subsidiary, or any property of Obligor or any Subsidiary, of any judgment, writ, order, or decree for so long as each such Lien (a) is in existence for less than 20 consecutive days after it first arises or is being Properly Contested and (b) is at all times junior in priority to any Liens in favor of Agent; (g) mechanics', workers', materialmen's or other like Liens arising in the Ordinary Course of Business with respect to obligations which are not due or which are being contested in good faith by Obligor; (h) Liens placed upon fixed assets hereafter acquired to secure a portion of the purchase price thereof, provided that (x) any such lien shall not encumber any other property of Obligor and (y) the aggregate amount of Indebtedness secured by such Liens incurred as a result of such purchases during any fiscal year shall not exceed the amount provided for in Section 7.6; (i) other Liens incidental to the conduct of Obligor's business or the ownership of its property and assets which were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from Agent's or Lenders' rights in and to the Collateral or the value of Obligor's property or assets or which do not materially impair the use thereof in the operation of Obligor's business; and (j) Liens disclosed on Schedule 1.2.

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"Plan" shall mean any employee benefit plan within the meaning of Section 3(3) of ERISA (including a Pension Benefit Plan), maintained for employees of Obligor or any member of the Controlled Group or any such Plan to which Obligor or any member of the Controlled Group is required to contribute on behalf of any of its employees.

"Real Property" shall mean all of Obligor's right, title and interest in and to the owned and leased premises identified on Schedule 4.19 hereto.

"Receivables" shall mean and include, as to Obligor, all of Obligor's accounts, contract rights, instruments (including those evidencing indebtedness owed to Obligor by its Affiliates), documents, chattel paper (including electronic chattel paper), general intangibles relating to accounts, drafts and acceptances, credit card receivables and all other forms of obligations owing to Obligor arising out of or in connection with the sale or lease of Inventory or the rendition of services, all supporting obligations, guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Agent hereunder.

"Subsidiary Stock" shall mean all of the issued and outstanding Equity Interests of any Subsidiary owned by the Obligor (not to exceed 65% of the Equity Interests of any Foreign Subsidiary).

"Termination Event" shall mean (i) a Reportable Event with respect to any Plan or Multiemployer Plan; (ii) the withdrawal of Obligor or any member of the Controlled Group from a Plan or Multiemployer Plan during a plan year in which such entity was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (iii) the providing of notice of intent to terminate a Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Plan or Multiemployer Plan; (v) any event or condition (a) which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan or Multiemployer Plan, or (b) that may result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA; or (vi) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of Obligor or any member of the Controlled Group from a Multiemployer Plan.

(c) The following definitions are hereby added to Section 1.2 of the Loan Agreement to read as follows:

"Air Group" shall mean Air Industries Group, Inc., a corporation organized under the laws of the State of Delaware, f/k/a Gales Industries Incorporated.

"Fourth Amendment Closing Date" shall mean August 24, 2007.

"Guarantor" shall mean Air Group, WM and any other Person who may hereafter guarantee payment or performance of the whole or any part of the Obligations and "Guarantors" means collectively all such Persons.

"Guaranty" shall mean any guaranty of the obligations of Borrower executed by a Guarantor in favor of Agent for its benefit and for the ratable benefit of Lenders.

"Obligor" shall mean, collectively, the Borrower, Air Group and WM.

"Steel City Subordinated Credit Facility" means that certain credit facility extended by Steel City Capital Funding ("Steel City") and any future lending institutions which may be added from time to time thereunder, in the maximum principal amount of \$4,500,000 as evidenced by a certain Term Loan and Security Agreement by and among the Borrower, WM and Steel City dated August __, 2007 which is subordinate to the credit facilities extended by the Lenders pursuant to this Agreement and the Loan Documents, together with any replacement Subordinated Debt secured by the Obligors on terms reasonably satisfactory to the Lenders and subordinated pursuant to a Subordination Agreement.

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"Subordinated Debt" shall mean the Indebtedness evidenced by the Subordinated Loan Documentation.

"Subordinated Loan Documentation" shall mean the Subordination Agreement, the Subordinated Note and other documents with regard thereto.

"Subordinated Note" means, collectively, the promissory notes issued from time to time to evidence the Borrower's and WM's indebtedness under the Steel City Subordinated Credit Facility.

"Subordination Agreement" means that certain Subordination and Intercreditor Agreement by and among the Obligor, the Agent for the Lenders and Steel City dated August 24, 2007.

"WM" shall mean Welding Metallurgy, Inc., a corporation organized under the laws of the State of New York.

(d) Section 5.17 of the Loan Agreement is deleted, and is replaced by a new Section 5.17 to read as follows:

5.17 Disclosure. No representation or warranty made by Obligor in this Agreement, the Subordinated Loan Documentation or in the Acquisition Agreement, or in any financial statement, report, certificate or any other document furnished in connection herewith or therewith contains any untrue statement of fact or omits to state any fact necessary to make the statements herein or therein not misleading. There is no fact known to Obligor or which reasonably should be known to Obligor which Obligor has not disclosed to Agent in writing with respect to the transactions contemplated by the Subordinated Loan Documentation, the Acquisition Agreement or this Agreement which could reasonably be expected to have a Material Adverse Effect.

(e) Section 5.18 of the Loan Agreement is deleted, and is replaced by a new Section 5.18 to read as follows:

5.18 Delivery of Subordinated Loan Documentation and Acquisition Agreement. Agent has received complete copies of the Subordinated Loan Documentation and the Acquisition Agreement (including all exhibits, schedules and disclosure letters referred to therein or delivered pursuant thereto, if any) and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof. None of such documents and agreements has been amended or supplemented, nor have any of the provisions thereof been waived, except pursuant to a written agreement or instrument which has heretofore been delivered to Agent.

(f) Section 6.5 of the Loan Agreement is deleted, and is replaced by a new Section 6.5 to read as follows:

6.5 Financial Covenants.

(a) Tangible Net Worth. Maintain at all times a Tangible Net Worth in an amount not less than (i) \$9,500,000 as of the Fourth Amendment Closing Date and from the Fourth Amendment Closing Date through and including December 30, 2007 and (ii) as of December 31, 2008, an amount equal to the Borrower's Tangible Net Worth for the fiscal year ended December 31, 2007 plus an amount equal to fifty (50%) percent of the Borrower's Net Income for fiscal year ending December 31, 2008, which amount shall increase annually on December 31st of each year thereafter by not less than an amount equal to fifty (50%) percent of the Borrower's Net Income for the immediately ended fiscal year, tested annually on a consolidated basis.

(b) Fixed Charge Coverage Ratio. Maintain at all times a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00, tested quarterly on a consolidated, rolling four quarter basis.

EXECUTION ORIGINALS

(g) Section 7.7 of the Loan Agreement is deleted, and is replaced by a new Section 7.7 to read as follows:

7.7 Dividends. Declare, pay or make any dividend or distribution on any shares of the common stock or preferred stock of Obligor (other than dividends or distributions payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock, or of any options to purchase or acquire any such shares of common or preferred stock of Obligor provided, however, that from and after January 1, 2009, dividends may be paid in cash to the shareholders of the Obligor as long as (a) after taking said dividend into effect, Undrawn Availability is equal to or greater than \$3,000,000 during the period commencing thirty (30) days prior to the date that such dividend is made and ending thirty (30) days after the date that such dividend is made, (b) no Default and/or Event of Default exists at the time of payment of any such dividend, and (c) no Default and/or Event of Default shall exist after giving effect to the payment of any such dividend.

(h) Section 7.8 of the Loan Agreement is deleted, and is replaced by a new Section 7.8 to read as follows:

7.8 Indebtedness. Create, incur, assume or suffer to exist any Indebtedness (exclusive of trade debt) except in respect of (i) Indebtedness to Lenders; (ii) Indebtedness incurred for Capital Expenditures permitted under Section 7.6 hereof; and (iii) Indebtedness due under the Subordinated Loan Documentation.

(i) Section 7.21 of the Loan Agreement is deleted, and is replaced by a new Section 7.21 to read as follows:

7.21 Other Agreements. Enter into any material amendment, waiver or modification of the Acquisition Agreement, the Subordinated Loan Documentation or any related agreements.

(j) Section 7.23 is hereby added to the Loan Agreement to read as follows:

7.23 Subordinated Note. At any time, directly or indirectly, pay, prepay, repurchase, redeem, retire or otherwise acquire, or make any payment on account of any principal of, interest on or premium payable in connection with the repayment or redemption of the Subordinated Note, except as expressly permitted in the Subordination Agreement.

(k) Section 9.5 of the Loan Agreement is deleted, and is replaced by a new Section 9.5 to read as follows:

9.5 Material Occurrences. Promptly notify Agent in writing upon the occurrence of (a) any Event of Default or Default; ; (b) any event of default under the Subordinated Loan Documentation; (c) any event which with the giving of notice or lapse of time, or both, would constitute an event of default under the Subordinated Loan Documentation; (d) any event, development or circumstance whereby any financial statements or other reports furnished to Agent fail in any material respect to present fairly, in accordance with GAAP consistently applied, the financial condition or operating results of Borrower as of the date of such statements; (e) any accumulated retirement plan funding deficiency which, if such deficiency continued for two plan years and was not corrected as provided in Section 4971 of the Code, could subject Obligor to a tax imposed by Section 4971 of the Code; (f) each and every default by Obligor which might result in the acceleration of the maturity of any Indebtedness, including the names and addresses of the holders of such Indebtedness with respect to which there is a default existing or with respect to which the maturity has been or could be accelerated, and the amount of such Indebtedness; and (g) any other development in the business or affairs of Obligor which could reasonably be expected to have a Material Adverse Effect; in each case describing the nature thereof and the action Obligor propose to take with respect thereto.

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(l) Section 9.10 of the Loan Agreement is deleted, and is replaced by a new Section 9.10 to read as follows:

9.10 Other Reports. Furnish Agent as soon as available, but in any event within ten (10) days after the issuance thereof, with (i) copies of such financial statements, reports and returns as Borrower shall send to its stockholders and (ii) copies of all notices, reports, financial statements and other materials sent pursuant to the Subordinated Loan Documentation.

(m) Section 10.19 is hereby added to the Loan Agreement to read as follows:

10.19 Subordinated Loan Default. An event of default has occurred under the Subordinated Loan Documentation, which default shall not have been cured or waived within any applicable grace period.

(n) Section 15.9 of the Loan Agreement is deleted, and is replaced by a new Section 15.9 to read as follows:

15.9 Expenses. All costs and expenses including reasonable attorneys' fees (including the allocated costs of in house counsel) and disbursements incurred by Agent on its behalf or on behalf of Lenders and Lenders (a) in all efforts made to enforce payment of any Obligation or effect collection of any Collateral, or (b) in connection with the entering into, modification, amendment, administration and enforcement of this Agreement, the Subordination Agreement or any consents or waivers hereunder or thereunder and all related agreements, documents and instruments, or (c) in instituting, maintaining, preserving, enforcing and foreclosing on Agent's security interest in or Lien on any of the Collateral, or maintaining, preserving or enforcing any of Agent's or any Lender's rights hereunder, under the Subordination Agreement and under all related agreements, documents and instruments, whether through judicial proceedings or otherwise, or (d) in defending or prosecuting any actions or proceedings arising out of or relating to Agent's or any Lender's transactions with any Borrower, any Guarantor or any Subordinated Lender or (e) in connection with any advice given to Agent or any Lender with respect to its rights and obligations under this Agreement, the Subordination Agreement and all related agreements, documents and instruments, may be charged to Borrowers' Account and shall be part of the Obligations.

(o) In Sections 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11, 4.12, 4.13, 4.14, 4.15, 4.16, 4.17, 4.18, 4.19, 4.20, 5.1, 5.2, 5.3, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, 5.13, 5.14, 5.15, 5.16, 5.17, 5.19, 5.20, 5.21, 5.22, 5.23, 5.24, 5.25, 5.26, 6.2, 6.3, 6.4, 6.6, 6.8, 6.9, 6.11, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7, 7.8, 7.9, 7.10, 7.12, 7.13, 7.14, 7.15, 7.16, 7.17, 7.18, 7.19, 7.20, 8.2, 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.8, 9.9, 9.10, 9.11, 9.12, 9.13, 9.14, 9.15, 9.16, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 10.9, 10.10, 10.11, 10.12, 10.13, 10.14, 10.15, 10.16, 10.17, 10.18, 11.1, 11.3, 12.1, 12.3, 13.1, 13.2, 14.2, 14.3, 14.6, 14.7, 14.8, 14.11, 14.12, 15.1, 15.2, 15.3, 15.4, 15.5, 15.6, 15.7, 15.10, 15.11, 15.15 and 15.16, the term "Borrower" is hereby replaced with the term "Obligor" throughout. Furthermore, in the opening phrase of Sections 5, 6, 7 and 9, the term "Borrower" is hereby replaced with the term "Obligor" throughout.

- 3) SCHEDULES. All revised schedules to the Loan Agreement attached hereto on Exhibit A replace the applicable existing schedules and are incorporated into the Loan Agreement and the other Loan Documents by reference.
- 4) CONSENT TO ACQUISITION. Notwithstanding anything to the contrary in the Loan Agreement and/or any Other Document, the Lenders hereby consent to the acquisition by the Borrower of all of the stock of WM from the WM Seller (the "WM Acquisition") provided, however, that the Borrower provides to the Agent for review copies of all acquisition documentation (including, but not limited to, the applicable Stock Purchase Agreement and all UCC and other searches against the WM Seller) and other materials evidencing the WM Acquisition, all in form and substance acceptable to the Agent (collectively, the "WM Acquisition Documents").
- 5) CONSENT TO SUBORDINATED INDEBTEDNESS. Notwithstanding anything to the contrary in the Loan Agreement and/or any Loan Document, the Lenders hereby consent to the Obligor's entering

EXECUTION ORIGINALS

into the Steel City Subordinated Credit Facility and the documents evidencing or securing the same and incurring the Subordinated Debt for the uses and purposes provided for therein provided, however, that (i) the Obligor provides to the Agent for review copies of all documentation evidencing the Steel City Subordinated Credit Facility, all in form and substance acceptable to the Agent (collectively, the "Steel City Subordinated Debt Documents"), (ii) the Agent for the Lenders and Steel City, as agent for certain other financial institutions, enter into a certain Subordination and Intercreditor Agreement in form and substance acceptable to the Agent, (iii) the maximum principal amount of the Obligor's obligations under the Steel City Subordinated Credit Facility does not exceed \$4,500,000 at any time and (iv) the Obligor shall not repay in part from time to time and/or in full the principal obligations under the Steel City Subordinated Credit Facility.

- 6) CONSENT TO PLEDGE. Notwithstanding anything to the contrary in the Loan Agreement and/or any Loan Document, the Lenders hereby consent to (i) the pledge by the Borrower of all of the stock of WM to Steel City (the "WM Pledge") provided, however, that the Borrower provides to the Agent for review copies of all documentation applicable to the WM Pledge (including, but not limited to, the applicable Pledge Agreement, stock powers and stock transfers, and any other materials evidencing the WM Pledge, all in form and substance acceptable to the Agent (collectively, the "WM Pledge Documents") and (ii) the pledge by Air Group of all of the stock of each Borrower to Steel City (collectively, the "Borrower Pledge") provided, however, that Air Group provides to the Agent for review copies of all documentation applicable to the Borrower Pledge (including, but not limited to, the applicable Pledge Agreement, stock powers and stock transfers, and any other materials evidencing the Borrower Pledge, all in form and substance acceptable to the Agent (collectively, the "Borrower Pledge Documents").
- 7) ACKNOWLEDGMENTS. Borrower acknowledges and represents that:
- (A) the Loan Agreement and Other Documents, as amended hereby, are in full force and effect without any defense, claim, counterclaim, right or claim of set-off;
- (B) to the best of its knowledge, no default by the Agent or Lenders in the performance of their duties under the Loan Agreement or the Other Documents has occurred;
- (C) all representations and warranties of the Borrower contained herein, in the Loan Agreement and in the Other Documents are true and correct in all material respects as of this date, except for any representation or warranty that specifically refers to an earlier date;
- (D) Borrower has taken all necessary action to authorize the execution and delivery of this Agreement; and
- (E) this Agreement is a modification of an existing obligation and is not a novation.
- 8) PRECONDITIONS. As a precondition to the effectiveness of any of the modifications, consents, or waivers contained herein, the Borrower agrees to:
- (A) provide the Agent with this Agreement, properly executed;
- (B) provide the Agent with revised schedules to the Loan Agreement;
- (C) provide the Agent with the Second Amended and Restated Revolving Credit Note, each Guaranty and Suretyship Agreement executed by Air Group and WM, the Power of Attorney of Air Group and WM and the Financial Condition Certificate, all properly executed;
- (D) provide the Agent with a certificate of insurance with regard to Air Group and WM in form and substance satisfactory to the Agent;
- (E) provide the Agent with a Certificate of Incorporation of Air Group, WM and WMS Merger Corp. ("Merger Corp."), certified by the Secretary of State of incorporation;
- (F) provide the Agent with Certificates of Good Standing of Air Group, WM and A/S Sub Corp. from their State of incorporation and all States in which each is qualified to do business;

EXECUTION ORIGINALS

(G) provide the Agent with a copy of all Warehouse Agreements, Leases and Subleases of Air Group and WM with respect to each location as well as Warehouseman's Agreements and/or Landlord's Agreements with regard thereto in form and substance acceptable to the Agent;

(H) provide the Agent a list of intellectual property of Air Group and WM including trademarks and trademark applications, patents and patent applications, copyrights and copyright applications, together with a search/abstract relating to the same;

(I) provide the Agent a certified copies of Certificates of Fictitious/Assumed Names of Air Group, WM and Merger Corp.;

(J) provide the Agent a certificate from Air Group's and WM's accountant, attorney or actuary delineating existing pension/profit sharing plans, as well as compliance with ERISA;

(K) provide the Agent a copy of union contracts regarding WM and Air Group;

(L) provide the Agent a summary of all existing litigation of WM and Air Group;

(M) review by the Agent of all books and records of WM and Air Group as well as all trade references for WM and Air Group;

(N) provide the Agent with a privity letter from Air Group's and WM's accountant;

(O) provide the Agent with all documentation with regard to stock issuance with regard to Merger Corp. in favor of Air and Sigma;

(P) provide the Agent with the WM Acquisition Documents (including, but not limited to, evidence of merger of Merger Corp. with and into WM), the Steel City Subordinated Debt Documents and the Subordination Agreement;

(Q) provide the Agent all material contracts (including, but not limited to, all employment agreements) and management/option/warrant/shareholder agreements of WM and Air Group;

(R) provide the Agent with UCC, Federal and State Litigation, Federal and Local Judgment, Bankruptcy, Franchise Tax, Federal and State Tax Lien Searches conducted at the State level in the State where Air Group, WM and Merger Corp. each is incorporated, run against the name of Air Group, WM and Merger Corp. and against the names of all entities which were acquired by or merged into Air Group, WM and Merger Corp.;

(S) provide the Agent with evidence that Air Group and WM has each established and is maintaining its operating accounts with the Agent;

(T) receipt and satisfactory review by Agent of most recent interim and annual financial statements and federal and state tax returns of WM and Air Group;

(U) receipt and satisfactory legal review by Agent of the Federal Acquisition Regulations requirements and customer military contracts to confirm that no offset shall occur with regard to accounts receivable availability based on advanced/progress billings;

(V) receipt and Satisfactory review by Agent of an Orderly Liquidation Valuation Appraisal of WM's and Air Group's machinery and equipment;

(W) receipt and satisfactory review by Agent of 1st West investigation;

(X) receipt by Agent of quarterly and annual projections of WM and Air Group for the immediately succeeding year;

(Y) receipt by Agent pay-off letter with regard to JPMorgan Chase along with all applicable UCC-3 termination statements;

(Z) provide the Agent with an opinion of counsel to Borrower and Guarantor in form and substance acceptable to the Agent;

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(AA) provide the Agent with secretary's certificates and resolutions from the Borrower, Guarantor and Merger Corp., in form and substance acceptable to the Agent;

(BB) pay to the Agent an amendment fee in the amount of \$10,000;

(CC) pay all legal fees incurred by the Agent in entering into this Agreement to Wilentz, Goldman & Spitzer;

(DD) pay all other fees and costs incurred by the Lenders in entering into this Agreement; and

(EE) receipt by Agent of foreign credit insurance policy of the WM properly assigned to the Agent.

- 9) MISCELLANEOUS. This Agreement shall be construed in accordance with and governed by the laws of the State of New York, without reference to that state's conflicts of law principles. This Agreement, the Loan Agreement and the Other Documents constitute the sole agreement of the parties with respect to the subject matter thereof and supersede all oral negotiations and prior writings with respect to the subject matter thereof. No amendment of this Agreement, and no waiver of any one or more of the provisions hereof shall be effective unless set forth in writing and signed by the parties hereto. The illegality, unenforceability or inconsistency of any provision of this Agreement shall not in any way affect or impair the legality, enforceability or consistency of the remaining provisions of this Agreement, the Loan Agreement or the Other Documents. This Agreement, the Loan Agreement and the Other Documents are intended to be consistent. However, in the event of any inconsistencies among this Agreement, the Loan Agreement and/or any of the Other Documents, the terms of this Agreement, then the Loan Agreement, shall control. This Agreement may be executed in any number of counterparts and by the different parties on separate counterparts. Each such counterpart shall be deemed an original, but all such counterparts shall together constitute one and the same agreement.
- 10) DEFINITIONS. The terms used herein and not otherwise defined or modified herein shall have the meanings ascribed to them in the Loan Agreement. The terms used herein and not otherwise defined or modified herein or defined in the Loan Agreement shall have the meanings ascribed to them by the Uniform Commercial Code as enacted in State of New York.

EXECUTION ORIGINALS

IN WITNESS WHEREOF, the undersigned have signed and sealed this Agreement the day and year first above written.

ATTEST: AIR INDUSTRIES MACHINING, CORP.

By: /s/ DARIO PERAGALLO

Name: DARIO PERAGALLO
Title: Secretary

By: /s/ LOUIS A. GIUSTO

Name: LOUIS A. GIUSTO
Title: Vice President

ATTEST: SIGMA METALS, INC.

By: /s/ DARIO PERAGALLO

Name: DARIO PERAGALLO
Title: Secretary

By: /s/ LOUIS A. GIUSTO

Name: LOUIS A. GIUSTO
Title: Vice President

ATTEST: WELDING METALLURGY, INC. (as successor by merger with WMS Merger Corp.)

By: /s/ DARIO PERAGALLO

Name: DARIO PERAGALLO
Title: Secretary

By: /s/ LOUIS A. GIUSTO

Name: LOUIS A. GIUSTO
Title: Vice President

ATTEST: AIR INDUSTRIES GROUP, INC.
(f/k/a Gales Industries Incorporated)

By: /s/ DARIO PERAGALLO

Name: DARIO PERAGALLO
Title: Secretary

By: /s/ LOUIS A. GIUSTO

Name: LOUIS A. GIUSTO
Title: Executive Vice President

PNC BANK, NATIONAL ASSOCIATION
Lender and as Agent

By: /s/ A. ROGER CRAIG, JR.

Name: A. ROGER CRAIG, JR.
Title: Vice President

TERM LOAN
AND
SECURITY AGREEMENT

STEEL CITY CAPITAL FUNDING LLC
(AS TERM B LENDER)

WITH

AIR INDUSTRIES MACHINING, CORP.,
SIGMA METALS, INC., and
WELDING METALLURGY, INC.
(COLLECTIVELY, THE BORROWER)

August 24, 2007

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Exhibits

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TERM LOAN
AND
SECURITY AGREEMENT

Term Loan and Security Agreement dated as of August 24, 2007 among AIR INDUSTRIES MACHINING, CORP., a corporation organized under the laws of the State of New York ("Air"); SIGMA METALS, INC., a corporation organized under the laws of the State of New York ("Sigma"); WELDING METALLURGY, INC. (as successor by merger with WMS Merger Corp.), a corporation organized under the laws of the State of New York ("WMI"; and together with Air and Sigma, individually and collectively, and jointly and severally, the "Borrower"), and STEEL CITY CAPITAL FUNDING LLC, a limited liability company organized under the laws of the State of Delaware ("Term B Lender").

IN CONSIDERATION of the mutual covenants and undertakings herein contained, Borrower and Term B Lender hereby agree as follows:

I. DEFINITIONS.

1.1. Accounting Terms. As used in this Agreement, the Other Documents or any certificate, report or other document made or delivered pursuant to this Agreement, accounting terms not defined in Section 1.2 or elsewhere in this Agreement and accounting terms partly defined in Section 1.2 to the extent not defined, shall have the respective meanings given to them under GAAP; provided, however, whenever such accounting terms are used for the purposes of determining compliance with financial covenants in this Agreement, such accounting terms shall be defined in accordance with GAAP as applied in preparation of the audited financial statements of Borrower for the fiscal year ended December 31, 2006.

1.2. General Terms. For purposes of this Agreement the following terms shall have the following meanings:

"2005 Phase 1" shall mean that certain Phase 1 Environmental Site Assessment dated October 12, 2005 prepared by CA Rich Consultants, Inc.

"Accountants" shall have the meaning set forth in Section 9.7 hereof.

"Acquisition Agreement" shall mean the Stock Purchase Agreement including all exhibits and schedules thereto dated as of March 9, 2007 by and among Air Group, as buyer (WMI, as assignee of all of Air Group's rights under such Stock Purchase Agreement, herein referred to as the "Buyer"), and John Gantt, and Lugenia Gantt, as sellers (collectively, the "Seller"), as amended, restated, modified and/or replaced from time to time.

"Affiliate" of any Person shall mean (a) any Person which, directly or indirectly, is in control of, is controlled by, or is under common control with such Person, or (b) any Person who is a director, managing member, general partner or officer (i) of such Person, (ii) of any Subsidiary of such Person or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (x) to vote 33% or more of the Equity Interests having ordinary voting power for the election of directors of such Person or other Persons performing similar functions for any such Person, or (y) to direct or cause the direction of the management and policies of such Person whether by ownership of Equity Interests, contract or otherwise.

"Agreement" shall mean this Term Loan and Security Agreement, as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Air Group" shall mean Air Industries Group, Inc. (f/k/a Gales Industries Incorporated), a Delaware corporation and its successors and assigns.

"Alternate Base Rate" shall mean, for any day, a rate per annum equal to the higher of (i) the Base Rate in effect on such day and (ii) the Federal Funds Open Rate in effect on such day plus 1/2 of 1%.

"Anti-Terrorism Laws" shall mean any Applicable Laws relating to terrorism or money laundering, including Executive Order No. 13224, the USA PATRIOT Act, the Applicable Laws comprising or implementing the Bank Secrecy Act, and the Applicable Laws administered by the United States Treasury Department's Office of Foreign Asset Control (as any of the foregoing Applicable Laws may from time to time be amended, renewed, extended, or replaced).

"Applicable Law" shall mean all laws, rules and regulations applicable to the Person, conduct, transaction, covenant, Other Document or contract in question, including all applicable common law and equitable principles; all provisions of all applicable state, federal and foreign constitutions, statutes, rules, regulations and orders of any Governmental Body, and all orders, judgments and decrees of all courts and arbitrators.

"Authority" shall have the meaning set forth in Section 4.19(d).

"Base Rate" shall mean the base commercial lending rate of PNC as publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by PNC as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by PNC to any particular class or category of customers of PNC.

"Blocked Accounts" shall have the meaning set forth in Section 4.15(h).

"Blocked Account Bank" shall have the meaning set forth in Section 4.15(h).

"Blocked Person" shall have the meaning set forth in Section 5.23(b) hereof.

"Borrower" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Person.

"Borrowing Agent" shall mean Air.

"Business Day" shall mean any day other than Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in East Brunswick, New Jersey and, if the applicable Business Day relates to any Eurodollar Rate Loans, such day must also be a day on which dealings are carried on in the London interbank market.

"Capital Expenditures" shall mean expenditures made or liabilities incurred for the acquisition of any fixed assets or improvements, replacements, substitutions or additions thereto which have a useful life of more than one year, including the total principal portion of Capitalized Lease Obligations, which, in accordance with GAAP, would be classified as capital expenditures.

"Capitalized Lease Obligation" shall mean any Indebtedness of Borrower represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. ss.9601 et seq.

"Change of Control" shall mean (a) the occurrence of any event (whether in one or more transactions) which results in a transfer of control of Borrower to a Person who is not an Original Owner or (b) any merger or consolidation of or with Borrower or sale of all or substantially all of the property or assets of Borrower. For purposes of this definition, "control of Borrower" shall mean the power, direct or indirect (x) to vote 50% or more of the Equity Interests having ordinary voting power for the election of directors (or the individuals performing similar functions) of Borrower or (y) to direct or cause the direction of the management and policies of Borrower by contract or otherwise.

"Change of Ownership" shall mean (a) 50% or more of the Equity Interests of Borrower is no longer owned or controlled by (including for the purposes of the calculation of percentage ownership, any Equity Interests into which any Equity Interests of Borrower held by any of the Original Owners are convertible or for which any such Equity Interests of Borrower or of any other Person may be exchanged and any Equity Interests issuable to such Original Owners upon exercise of any warrants, options or similar rights which may at the time of calculation be held by such Original Owners) a Person who is an Original Owner or (b) any merger, consolidation or sale of substantially all of the property or assets of Borrower.

"Charges" shall mean all taxes, charges, fees, imposts, levies or other assessments, including all net income, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation and property taxes, custom duties, fees, assessments, liens, claims and charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts, imposed by any taxing or other authority, domestic or foreign (including the Pension Benefit Guaranty Corporation or any environmental agency or superfund), upon the Collateral, Borrower or any of its Affiliates.

"Closing Date" shall mean August 24, 2007 or such other date as may be agreed to by the parties hereto.

"Code" shall mean the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

"Collateral" shall mean and include:

- (a) all Receivables;
- (b) all Equipment;
- (c) all General Intangibles;
- (d) all Inventory;
- (e) all Investment Property;
- (f) all Real Property;
- (g) all Subsidiary Stock;
- (h) the Leasehold Interests;

(i) all of Borrower's right, title and interest in and to, whether now owned or hereafter acquired and wherever located, (i) its respective goods and other property including, but not limited to, all merchandise returned or rejected by Customers, relating to or securing any of the Receivables; (ii) all of Borrower's rights as a consignor, a consignee, an unpaid vendor, mechanic, artisan, or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (iii) all additional amounts due to Borrower from any Customer relating to the Receivables; (iv) other property, including warranty claims, relating to any goods securing the Obligations; (v) all of Borrower's contract rights, rights of payment which have been earned under a contract right, instruments (including promissory notes), documents, chattel paper (including electronic chattel paper), warehouse receipts, deposit accounts, letters of credit and money; (vi) all commercial tort claims (whether now existing or hereafter arising); (vii) if and when obtained by Borrower, all real and personal property of third parties in which Borrower has been granted a lien or security interest as security for the payment or enforcement of Receivables; (viii) all letter of credit rights (whether or not the respective letter of credit is evidenced by a writing); (ix) all supporting obligations; and (x) any other goods, personal property or real property now owned or hereafter acquired in which Borrower has expressly granted a security interest or may in the future grant a security interest to Term B Lender hereunder, or in any amendment or supplement hereto or thereto, or under any other agreement between Term B Lender and Borrower;

(j) all of Borrower's ledger sheets, ledger cards, files, correspondence, records, books of account, business papers, computers, computer software (owned by Borrower or in which it has an interest), computer programs, tapes, disks and documents relating to (a), (b), (c), (d), (e), (f), (g), (h) or (i) of this Paragraph; and

(k) all proceeds and products of (a), (b), (c), (d), (e), (f), (g), (h), (i) and (j) in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments and other instruments for the payment of money, chattel paper, security agreements, documents, eminent domain proceeds, condemnation proceeds and tort claim proceeds.

"Commitment Percentage" of Term B Lender shall mean one hundred percent (100%) of the Term Loan as same may be adjusted upon any assignment by a Lender pursuant to Section 15.3(c) or (d) hereof.

"Commitment Transfer Supplement" shall mean a document in the form of Exhibit 15.3 hereto, properly completed and otherwise in form and substance satisfactory to Term B Lender by which the Purchasing Lender purchases and assumes a portion of the Term Loan under this Agreement.

"Compliance Certificate" shall mean a compliance certificate to be signed by the Chief Financial Officer or Controller of Borrower, which shall state that, based on an examination sufficient to permit such officer to make an informed statement, no Default or Event of Default exists, or if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by Borrower with respect to such default and, such certificate shall have appended thereto calculations which set forth Borrower's compliance with the requirements or restrictions imposed by Sections 6.5, 7.4, 7.5, 7.6, 7.7, 7.8 and 7.11.

"Consents" shall mean all filings and all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Bodies and other third parties, domestic or foreign, necessary to carry on Borrower's business or necessary (including to avoid a conflict or breach under any agreement, instrument, other document, license, permit or other authorization) for the execution, delivery or performance of this Agreement, the Other Documents, the Subordinated Loan Documentation, or the Acquisition Agreement, including any Consents required under all applicable federal, state or other Applicable Law.

"Consigned Inventory" shall mean Inventory of Borrower that is in the possession of another Person on a consignment, sale or return, or other basis that does not constitute a final sale and acceptance of such Inventory.

"Controlled Group" shall mean, at any time, the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control and all other entities which, together with Borrower, are treated as a single employer under Section 414 of the Code.

"Customer" shall mean and include the account debtor with respect to any Receivable and/or the prospective purchaser of goods, services or both with respect to any contract or contract right, and/or any party who enters into or proposes to enter into any contract or other arrangement with Borrower, pursuant to which Borrower is to deliver any personal property or perform any services.

"Default" shall mean an event, circumstance or condition which, with the giving of notice or passage of time or both, would constitute an Event of Default.

"Default Rate" shall have the meaning set forth in Section 3.1 hereof.

"Depository Accounts" shall have the meaning set forth in Section 4.15(h) hereof.

"Documents" shall have the meaning set forth in Section 8.1(c) hereof.

"Dollar" and the sign "\$" shall mean lawful money of the United States of America.

"Domestic Rate Loan" shall mean any portion of the Term Loan that bears interest based upon the Alternate Base Rate.

"Early Termination Date" shall have the meaning set forth in Section 13.1 hereof.

"Earnings Before Interest and Taxes" shall mean for any period the sum of (i) net income (or loss) of Borrower for such period (excluding extraordinary gains and losses), plus (ii) all interest expense of Borrower for such period, plus (iii) all charges against income of Borrower for such period for federal, state and local taxes actually paid; provided, however, that there shall be excluded from the computation of net income (or loss) of:

(a) Air:

(i) non-recurring charges for non-cash compensation in accordance with FASB 123 (R) in the aggregate amount of \$150,000 for the six months ended June 30, 2007; and

(ii) customer credits issued between January 1, 2007 through June 30, 2007, which amount shall not exceed \$650,000..

(b) WMI:

(i) compensation (salaries, bonus and other remunerative payments) prior to the Closing Date to John, Lugenia and Kenneth Gantt; and

(ii) transaction costs relating to the acquisition of WMI.

"EBITDA" shall mean for any period the sum of (i) Earnings Before Interest and Taxes for such period plus (ii) depreciation expenses for such period, plus (iii) amortization expenses for such period.

"Environmental Complaint" shall have the meaning set forth in Section 4.19(d) hereof.

"Environmental Laws" shall mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto.

"Equipment" shall mean and include all of Borrower's goods (other than Inventory) whether now owned or hereafter acquired and wherever located including all equipment, machinery, apparatus, motor vehicles, fittings, furniture, furnishings, fixtures, parts, accessories and all replacements and substitutions therefor or accessions thereto.

"Equity Interests" of any Person shall mean any and all shares, rights to purchase, options, warrants, general, limited or limited liability partnership interests, member interests, participation or other equivalents of or interest in (regardless of how designated) equity of such Person, whether voting or nonvoting, including common stock, preferred stock, convertible securities or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder.

"Eurodollar Rate" shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto the interest rate per annum determined by Term B Lender by dividing (i) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which US dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by Term B Lender which has been approved by the British Bankers' Association as an authorized information vendor for the purpose of displaying rates at which US dollar deposits are offered by leading banks in the London interbank deposit market (an "Alternative Source"), at approximately 11:00 a.m., London time two (2) Business Days prior to the first day of such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by Term B Lender at such time (which determination shall be conclusive absent manifest error)) for an amount comparable to such Eurodollar Rate Loan and having a borrowing date and a maturity comparable to such Interest Period by (ii) a number equal to 1.00 minus the Reserve Percentage.

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Rate Loan that is outstanding on the effective date of any change in the Reserve Percentage as of such effective date. Term B Lender shall give prompt notice to the Borrower of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

"Eurodollar Rate Deadline" shall have the meaning set forth in Section 2.2(b) hereof.

"Eurodollar Rate Loan" shall mean any portion of the Term Loan at any time that bears interest based on the Eurodollar Rate.

"Eurodollar Rate Option" shall have the meaning set forth in Section 2.2(a) hereof.

"Event of Default" shall have the meaning set forth in Article X hereof.

"Exchange Act" shall have the mean the Securities Exchange Act of 1934, as amended.

"Executive Order No. 13224" shall mean the Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

"Existing Environmental Due Diligence" shall mean, collectively, (i) the 2005 Phase 1 and (ii) that certain letter from the County of Suffolk, New York with regard to Project No. 226-97-86 dated January 8, 1998.

"Federal Funds Effective Rate" for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the "Federal Funds Effective Rate" as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the "Federal Funds Effective Rate" for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

"Federal Funds Open Rate" shall mean the rate per annum determined by Term B Lender in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the "open" rate for federal funds transactions as of the opening of business for federal funds transactions among members of the Federal Reserve System arranged by federal funds brokers on such day, as quoted by Garvin Guybutler Corporation, any successor entity thereto, or any other broker selected by Term B Lender, as set forth on the applicable Bloomberg display page; provided, however; that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the "open" rate on the immediately preceding Business Day, or if no such rate shall be quoted by a Federal funds broker at such time, such other rate as determined by Term B Lender in accordance with its usual procedures.

"Fixed Charge Coverage Ratio" shall mean and include, with respect to any fiscal period, the ratio of (a) EBITDA, minus the aggregate amount of unfunded capitalized expenditures made during such period, minus the aggregate amount of distributions made during such period, minus the aggregate amount of cash taxes paid during such period to (b) the aggregate amount of principal and/or interest payments made on Funded Debt during such period.

"Foreign Subsidiary" of any Person, shall mean any Subsidiary of such Person that is not organized or incorporated in the United States or any State or territory thereof.

"Funded Debt" shall mean, with respect to any Person, without duplication, all Indebtedness for borrowed money evidenced by notes, bonds, debentures, or similar evidences of Indebtedness that by its terms matures more than one year from, or is directly or indirectly renewable or extendible at such Person's option under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of more than one year from the date of creation thereof, and specifically including Capitalized Lease Obligations, current maturities of long-term debt, revolving credit and short-term debt extendible beyond one year at the option of the debtor, and also including, in the case of Borrower, the Obligations and, without duplication, Indebtedness consisting of guaranties of Funded Debt of other Persons.

"Funded Senior Debt" shall mean and include Borrower's Funded Debt, but shall specifically exclude all of Borrower's Indebtedness for borrowed money that has been subordinated to any Indebtedness owing by Borrower to Term B Lender.

"GAAP" shall mean generally accepted accounting principles in the United States of America in effect from time to time.

"General Intangibles" shall mean and include all of Borrower's general intangibles, whether now owned or hereafter acquired, including all payment intangibles, all choses in action, causes of action, corporate or other business records, inventions, designs, patents, patent applications, equipment formulations, manufacturing procedures, quality control procedures, trademarks, trademark applications, service marks, trade secrets, goodwill, copyrights, design rights, software, computer information, source codes, codes, records and updates, registrations, licenses, franchises, customer lists, tax refunds, tax refund claims, computer programs, all claims under guaranties, security interests or other security held by or granted to Borrower to secure payment of any of the Receivables by a Customer (other than to the extent covered by Receivables) all rights of indemnification and all other intangible property of every kind and nature (other than Receivables).

"Governmental Body" shall mean any nation or government, any state or other political subdivision thereof or any entity, authority, agency, division or department exercising the legislative, judicial, regulatory or administrative functions of or pertaining to a government.

"Hazardous Discharge" shall have the meaning set forth in Section 4.19(d) hereof.

"Hazardous Substance" shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, Hazardous Wastes, hazardous or Toxic Substances or related materials as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), RCRA, Articles 15 and 27 of the New York State Environmental Conservation Law or any other applicable Environmental Law and in the regulations adopted pursuant thereto.

"Hazardous Wastes" shall mean all waste materials subject to regulation under CERCLA, RCRA or applicable state law, and any other applicable Federal and state laws now in force or hereafter enacted relating to hazardous waste disposal.

"Indebtedness" of a Person at a particular date shall mean all obligations of such Person which in accordance with GAAP would be classified upon a balance sheet as liabilities (except capital stock and surplus earned or otherwise) and in any event, without limitation by reason of enumeration, shall include all indebtedness, debt and other similar monetary obligations of such Person whether direct or guaranteed, and all premiums, if any, due at the required prepayment dates of such indebtedness, and all indebtedness secured by a Lien on assets owned by such Person, whether or not such indebtedness actually shall have been created, assumed or incurred by such Person. Any indebtedness of such Person resulting from the acquisition by such Person of any assets subject to any Lien shall be deemed, for the purposes hereof, to be the equivalent of the creation, assumption and incurring of the indebtedness secured thereby, whether or not actually so created, assumed or incurred.

"Ineligible Security" shall mean any security which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. Section 24, Seventh), as amended.

"Intellectual Property" shall mean property constituting under any Applicable Law a patent, patent application, copyright, trademark, service mark, trade name, mask work, trade secret or license or other right to use any of the foregoing.

"Intellectual Property Claim" shall mean the assertion by any Person of a claim (whether asserted in writing, by action, suit or proceeding or otherwise) that Borrower's ownership, use, marketing, sale or distribution of any Inventory, Equipment, Intellectual Property or other property or asset is violative of any ownership of or right to use any Intellectual Property of such Person.

"Intercreditor Agreement" shall mean that certain Intercreditor Agreement dated as of the date hereof among Term B Lender and PNC Bank, National Association, as agent, and the other financial institutions signatory thereto.

"Interest Period" shall mean the period provided for any Eurodollar Rate Loan pursuant to Section 2.2(b).

"Inventory" shall mean and include all of Borrower's now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any consignment arrangement, contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in Borrower's business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

"Investment Property" shall mean and include all of Borrower's now owned or hereafter acquired securities (whether certificated or uncertificated), securities entitlements, securities accounts, commodities contracts and commodities accounts.

"Leasehold Interests" shall mean all of Borrower's right, title and interest in and to the premises set forth on Schedule 1.2(a) attached hereto.

"License Agreement" shall mean any agreement between Borrower and a Licensor pursuant to which Borrower is authorized to use any Intellectual Property in connection with the manufacturing, marketing, sale or other distribution of any Inventory of Borrower or otherwise in connection with Borrower's business operations.

"Licensor" shall mean any Person from whom Borrower obtains the right to use (whether on an exclusive or non-exclusive basis) any Intellectual Property in connection with Borrower's manufacture, marketing, sale or other distribution of any Inventory or otherwise in connection with Borrower's business operations.

"Licensor/ Term B Lender Agreement" shall mean an agreement between Term B Lender and a Licensor, in form and content satisfactory to Term B Lender, by which Term B Lender is given the unqualified right, vis-a-vis such Licensor, to enforce Term B Lender's Liens with respect to and to dispose of Borrower's Inventory with the benefit of any Intellectual Property applicable thereto, irrespective of Borrower's default under any License Agreement with such Licensor.

"Lien" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, security interest, lien (whether statutory or otherwise), Charge, claim or encumbrance, or preference, priority or other security agreement or preferential arrangement held or asserted in respect of any asset of any kind or nature whatsoever including any conditional sale or other title retention agreement, any lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction.

"Lien Waiver Agreement" shall mean an agreement which is executed in favor of Term B Lender by a Person who owns or occupies premises at which any Collateral may be located from time to time and by which such Person shall waive any Lien that such Person may ever have with respect to any of the Collateral and shall authorize Term B Lender from time to time to enter upon the premises to inspect or remove the Collateral from such premises or to use such premises to store or dispose of such Inventory.

"Material Adverse Effect" shall mean a material adverse effect on (a) the condition (financial or otherwise), results of operations, assets, business, properties or prospects of Borrower or any guarantor, (b) Borrower's ability to duly and punctually pay or perform the Obligations in accordance with the terms thereof, (c) the value of the Collateral, or Term B Lender's Liens on the Collateral or the priority of any such Lien or (d) the practical realization of the benefits of Term B Lender's rights and remedies under this Agreement and the Other Documents.

"Maximum Loan Amount" shall mean \$4,500,000.

"Modified Commitment Transfer Supplement" shall have the meaning set forth in Section 15.3(d).

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Sections 3(37) and 4001(a)(3) of ERISA.

"Multiple Employer Plan" shall mean a Plan which has two or more contributing sponsors (including the Borrower or any member of the Controlled Group) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

"Note" shall mean the Term Note.

"Obligations" shall mean and include any and all loans, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower to Term B Lender or to any other direct or indirect subsidiary or affiliate of Term B Lender of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, (including this Agreement and the Other Documents) whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, under any interest or currency swap, future, option or other similar agreement, or in any other manner, whether arising out of overdrafts or deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of Term B Lender's non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, contractual or tortious, liquidated or unliquidated, regardless of how such indebtedness or liabilities arise or by what agreement or instrument they may be evidenced or whether evidenced by any agreement or instrument, including, but not limited to, any and all of Borrower's Indebtedness and/or liabilities under this Agreement, the Other Documents or under any other agreement between Term B Lender and Borrower and any amendments, extensions, renewals or increases and all costs and expenses of Term B Lender incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including but not limited to reasonable attorneys' fees and expenses and all obligations of Borrower to Term B Lender to perform acts or refrain from taking any action.

"Ordinary Course of Business" shall mean the ordinary course of Borrower's business as conducted on the Closing Date.

"Original Owners" shall mean, (a) with respect to Air and Sigma, Air Group, and (b) with respect to WMI, Air and Sigma.

"Other Documents" shall mean the Note, the Pledge Agreements, the Subordination Agreement, the Intercreditor Agreement and any and all other agreements, instruments and documents, including guaranties, pledges, powers of attorney, consents, warrants and all other writings heretofore, now or hereafter executed by Borrower or any guarantor and/or delivered to Term B Lender in respect of the transactions contemplated by this Agreement.

"Parent" of any Person shall mean a corporation or other entity owning, directly or indirectly at least 50% of the shares of stock or other ownership interests having ordinary voting power to elect a majority of the directors of the Person, or other Persons performing similar functions for any such Person.

"Participant" shall mean each Person who shall be granted the right by Term B Lender to participate in any portion of the Term Loan and who shall have entered into a participation agreement in form and substance satisfactory to Term B Lender.

"Payment Office" shall mean initially Two Tower Center Boulevard, East Brunswick, New Jersey 08816; thereafter, such other office of Term B Lender, if any, which it may designate by notice to Borrower to be the Payment Office.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

"Pension Benefit Plan" shall mean at any time any employee pension benefit plan (including a Multiple Employer Plan, but not a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code and either (i) is maintained by any member of the Controlled Group for employees of any member of the Controlled Group; or (ii) has at any time within the preceding five years been maintained by any entity which was at such time a member of the Controlled Group for employees of any entity which was at such time a member of the Controlled Group.

"Permitted Encumbrances" shall mean (a) Liens in favor of Term B Lender; (b) Liens in favor of PNC, as agent; (c) Liens for taxes, assessments or other governmental charges not delinquent or being contested in good faith and by appropriate proceedings and with respect to which proper reserves have been taken by Borrower; provided, that, the Lien shall have no effect on the priority of the Liens in favor of Term B Lender or the value of the assets in which Term B Lender has such a Lien and a stay of enforcement of any such Lien shall be in effect; (d) Liens disclosed in the financial statements referred to in Section 5.5, the existence of which Term B Lender has consented to in writing; (e) deposits or pledges to secure obligations under worker's compensation, social security or similar laws, or under unemployment insurance; (f) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the Ordinary Course of Business; (g) Liens arising by virtue of the rendition, entry or issuance against Borrower or any Subsidiary, or any property of Borrower or any Subsidiary, of any judgment, writ, order, or decree for so long as each such Lien (i) is in existence for less than 20 consecutive days after it first arises or is being Properly Contested and (ii) is at all times junior in priority to any Liens in favor of Term B Lender; (h) mechanics', workers', materialmen's or other like Liens arising in the Ordinary Course of Business with respect to obligations which are not due or which are being contested in good faith by Borrower; (i) Liens placed upon fixed assets hereafter acquired to secure a portion of the purchase price thereof, provided that (x) any such lien shall not encumber any other property of Borrower and (y) the aggregate amount of Indebtedness secured by such Liens incurred as a result of such purchases during any fiscal year shall not exceed the amount provided for in Section 7.6; (j) other Liens incidental to the conduct of Borrower's business or the ownership of its property and assets which were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from Term B Lender's rights in and to the Collateral or the value of Borrower's property or assets or which do not materially impair the use thereof in the operation of Borrower's business; and (k) Liens disclosed on Schedule 1.2.

"Person" shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, limited liability partnership, institution, public benefit corporation, joint venture, entity or Governmental Body (whether federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof).

"Plan" shall mean any employee benefit plan within the meaning of Section 3(3) of ERISA (including a Pension Benefit Plan), maintained for employees of Borrower or any member of the Controlled Group or any such Plan to which Borrower or any member of the Controlled Group is required to contribute on behalf of any of its employees.

"Pledge Agreements" shall mean, collectively, (i) that certain Pledge Agreement dated as of the date hereof between Term B Lender and Air Group, with respect to the capital stock of Air and Sigma, and (ii) that certain Pledge Agreement dated as of the date hereof among Term B Lender, Air and Sigma, with respect to the capital stock of WMI.

"PNC" shall mean PNC Bank, National Association, and its successors and assigns.

"Properly Contested" shall mean, in the case of any Indebtedness of any Person (including any taxes) that is not paid as and when due or payable by reason of such Person's bona fide dispute concerning its liability to pay same or concerning the amount thereof, (i) such Indebtedness is being properly contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) such Person has established appropriate reserves as shall be required in conformity with GAAP; (iii) the non-payment of such Indebtedness will not have a Material Adverse Effect and will not result in the forfeiture of any assets of such Person; (iv) no Lien is imposed upon any of such Person's assets with respect to such Indebtedness unless such Lien is at all times junior and subordinate in priority to the Liens in favor of Term B Lender (except only with respect to property taxes that have priority as a matter of applicable state law) and enforcement of such Lien is stayed during the period prior to the final resolution or disposition of such dispute; (v) if such Indebtedness results from, or is determined by the entry, rendition or issuance against a Person or any of its assets of a judgment, writ, order or decree, enforcement of such judgment, writ, order or decree is stayed pending a timely appeal or other judicial review; and (vi) if such contest is abandoned, settled or determined adversely (in whole or in part) to such Person, such Person forthwith pays such Indebtedness and all penalties, interest and other amounts due in connection therewith.

"Purchasing CLO" shall have the meaning set forth in Section 15.3(d) hereof.

"RCRA" shall mean the Resource Conservation and Recovery Act, 42 U.S.C. ss.ss. 6901 et seq., as same may be amended from time to time.

"Real Property" shall mean all of Borrower's right, title and interest in and to the owned and leased premises identified on Schedule 4.19 hereto.

"Receivables" shall mean and include, as to Borrower, all of Borrower's accounts, contract rights, instruments (including those evidencing indebtedness owed to Borrower by its Affiliates), documents, chattel paper (including electronic chattel paper), general intangibles relating to accounts, drafts and acceptances, credit card receivables and all other forms of obligations owing to Borrower arising out of or in connection with the sale or lease of Inventory or the rendition of services, all supporting obligations, guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Term B Lender hereunder.

"Register" shall have the meaning set forth in Section 15.3(e) hereof.

"Release" shall have the meaning set forth in Section 5.7(c)(i) hereof.

"Reportable Event" shall mean a reportable event described in Section 4043(c) of ERISA or the regulations promulgated thereunder.

"Reserve Percentage" shall mean as of any day the maximum percentage in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "Eurocurrency Liabilities").

"Sale and Lease-Back Premises" shall mean, collectively, the real property located at (i) 1479 North Clinton Avenue, Bay Shore, New York, (ii) 1480 North Clinton Avenue, Bay Shore, New York and (iii) 1460 North Fifth Avenue, Bay Shore, New York.

"SEC" shall mean the Securities and Exchange Commission or any successor thereto.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Senior Lender" shall mean PNC, as agent, and its successors and assigns.

"Senior Loan Agreement" shall mean that certain Revolving Credit, Term Loan, Equipment Line of Credit and Security Agreement dated November 30, 2005 among Air, Sigma, Senior Lender and the financial institutions which are now or which hereafter become a party thereto.

"Senior Loan Documents" shall mean the Senior Loan Agreement and any and all other notes, agreements, instruments and documents, including guaranties, pledges, powers of attorney, consents, interest or currency swap agreements or other similar agreements executed in connection therewith.

"Subordinated Debt Payments" shall mean and include all cash actually expended to make payments of principal and interest on the Subordinated Note.

"Subordinated Lender" shall mean, collectively, John Gantt and Lugenia Gantt.

"Subordinated Loan" shall mean the loan evidenced by the Subordinated Note.

"Subordinated Loan Documentation" shall mean, collectively, the Subordinated Note, the Pledge Agreement as of the date hereof among Air, Sigma and Subordinated Lender and any and all other agreements, instruments and documents, and all other writings heretofore, now or hereafter executed by Borrower in favor of Subordinated Lender.

"Subordinated Note" shall mean the subordinated promissory note issued by Air Group in favor of Subordinated Lender dated March 9, 2007 in the principal sum of \$2,000,000.

"Subordination Agreement" shall mean that certain Reliance and Intercreditor Agreement dated as of the date hereof among Term B Lender, Borrower, Air Group and Subordinated Lender.

"Subsidiary" of any Person shall mean a corporation or other entity of whose Equity Interests having ordinary voting power (other than Equity Interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

"Subsidiary Stock" shall mean all of the issued and outstanding Equity Interests of any Subsidiary owned by the Borrower (not to exceed 65% of the Equity Interests of any Foreign Subsidiary).

"Tangible Net Worth" shall mean, at a particular date, (a) the aggregate amount of all assets of Borrower as may be properly classified as such in accordance with GAAP consistently applied excluding such other assets as are properly classified as intangible assets under GAAP, less (b) the aggregate amount of all liabilities of Borrower.

"Term" shall have the meaning set forth in Section 13.1 hereof.

"Term Loan" shall mean the advances made pursuant to Section 2.1 hereof.

"Term Loan Rate" shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus six percent (6.00%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus eight and one-half of one percent (8.50%) with respect to Eurodollar Rate Loans.

"Term Note" shall mean the promissory note described in Section 2.1 hereof.

"Termination Date" shall mean the earlier to occur of: (a) August 24, 2010 or such other date as Term B Lender may agree in writing to extend the Termination Date until, without there being any obligation on the part of Term B Lender to extend the Termination Date, or (b) the date upon which the Senior Loan Agreement is terminated.

"Termination Event" shall mean (i) a Reportable Event with respect to any Plan or Multiemployer Plan; (ii) the withdrawal of Borrower or any member of the Controlled Group from a Plan or Multiemployer Plan during a plan year in which such entity was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (iii) the providing of notice of intent to terminate a Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Plan or Multiemployer Plan; (v) any event or condition (a) which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan or Multiemployer Plan, or (b) that may result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA; or (vi) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of Borrower or any member of the Controlled Group from a Multiemployer Plan.

"Toxic Substance" shall mean and include any material present on the Real Property or the Leasehold Interests which has been shown to have significant adverse effect on human health or which is subject to regulation under the Toxic Substances Control Act (TSCA), 15 U.S.C. ss.ss. 2601 et seq., applicable state law, or any other applicable Federal or state laws now in force or hereafter enacted relating to toxic substances. "Toxic Substance" includes but is not limited to asbestos, polychlorinated biphenyls (PCBs) and lead-based paints.

"Trading with the Enemy Act" shall mean the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any enabling legislation or executive order relating thereto.

"Transaction" shall mean the transaction evidenced by this Agreement and the Other Documents.

"Transferee" shall have the meaning set forth in Section 15.3(d) hereof.

"Uniform Commercial Code" shall have the meaning set forth in Section 1.3 hereof.

"USA PATRIOT Act" shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

"Week" shall mean the time period commencing with the opening of business on a Wednesday and ending on the end of business the following Tuesday.

1.3. Uniform Commercial Code Terms. All terms used herein and defined in the Uniform Commercial Code as adopted in the State of New York from time to time (the "Uniform Commercial Code") shall have the meaning given therein unless otherwise defined herein. Without limiting the foregoing, the terms "accounts", "chattel paper", "instruments", "general intangibles", "payment intangibles", "supporting obligations", "securities", "investment property", "documents", "deposit accounts", "software", "letter of credit rights", "inventory", "equipment" and "fixtures", as and when used in the description of Collateral shall have the meanings given to such terms in Articles 8 or 9 of the Uniform Commercial Code. To the extent the definition of any category or type of collateral is expanded by any amendment, modification or revision to the Uniform Commercial Code, such expanded definition will apply automatically as of the date of such amendment, modification or revision.

1.4. Certain Matters of Construction. The terms "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. All references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and vice versa. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. Unless otherwise provided, all references to any instruments or agreements to which Term B Lender is a party, including references to any of the Other Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof. All references herein to the time of day shall mean the time in New York, New York. Unless otherwise provided, all financial calculations shall be performed with Inventory valued on a first-in, first-out basis. Whenever the words "including" or "include" shall be used, such words shall be understood to mean "including, without limitation" or "include, without limitation". A Default or Event of Default shall be deemed to exist at all times during the period commencing on the date that such Default or Event of Default occurs to the date on which such Default or Event of Default is waived in writing pursuant to this Agreement or, in the case of a Default, is cured within any period of cure expressly provided for in this Agreement; and an Event of Default shall "continue" or be "continuing" until such Event of Default has been waived in writing by Term B Lender. Any Lien referred to in this Agreement or any of the Other Documents as having been created in favor of Term B Lender, any agreement entered into by Term B Lender pursuant to this Agreement or any of the Other Documents, any payment made by or to or funds received by Term B Lender pursuant to or as contemplated by this Agreement or any of the Other Documents, or any act taken or omitted to be taken by Term B Lender, shall, unless otherwise expressly provided, be created, entered into, made or received, or taken or omitted, for the benefit or account of Term B Lender. Wherever the phrase "to the best of Borrower's knowledge" or words of similar import relating to the knowledge or the awareness of Borrower are used in this Agreement or Other Documents, such phrase shall mean and refer to (i) the actual knowledge of a senior officer of Borrower or (ii) the knowledge that a senior officer would have obtained if he had engaged in good faith and diligent performance of his duties, including the making of such reasonably specific inquiries as may be necessary of the employees or agents of Borrower and a good faith attempt to ascertain the existence or accuracy of the matter to which such phrase relates. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or otherwise within the limitations of, another covenant shall not avoid the occurrence of a default if such action is taken or condition exists. In addition, all representations and warranties hereunder shall be given independent effect so that if a particular representation or warranty proves to be incorrect or is breached, the fact that another representation or warranty concerning the same or similar subject matter is correct or is not breached will not affect the incorrectness of a breach of a representation or warranty hereunder.

II. TERM LOAN, PAYMENTS.

2.1. Term Loan. Subject to the terms and conditions of this Agreement, Term B Lender will make a Term Loan to Borrower in the sum equal to \$4,500,000. The Term Loan shall be advanced on the Closing Date and shall be payable on the Termination Date, subject to (i) acceleration upon the occurrence of an Event of Default under this Agreement, (ii) termination of this Agreement pursuant to the terms hereof, or (iii) mandatory prepayment. The Term Loan shall be evidenced by one or more secured promissory notes (collectively, the "Term Note") in substantially the form attached hereto as Exhibit 2.1.

2.2. Procedure for Eurodollar Rate Loan Election.

(a) In lieu of having interest charged at the rate based upon the Alternate Base Rate, the Borrower shall have the option (the "Eurodollar Rate Option") to have interest on all or a portion of the Term Loan be charged at a rate of interest based upon the Eurodollar Rate. On the last day of each applicable Interest Period, unless the Borrower properly has exercised the Eurodollar Rate Option with respect thereto, the interest rate applicable to such Eurodollar Rate Loan automatically shall convert to the rate of interest then applicable to Domestic Rate Loans hereunder. At any time that an Event of Default has occurred and is continuing, the Borrower no longer shall have the option to request that any portion of the Term Loan bear interest at the Eurodollar Rate and Term B Lender shall have the right to convert the interest rate on all outstanding Eurodollar Rate Loans to the rate then applicable to Domestic Rate Loans hereunder.

(b) In the event Borrower elects to have a portion of the Term Loan be charged at a rate of interest based upon the Eurodollar Rate, Borrower shall give Term B Lender written notice by no later than 10:00 a.m. on the day which is three (3) Business Days prior to the commencement of the proposed Interest Period ("Eurodollar Rate Deadline"), specifying (i) the portion of the Term Loan to be charged at a rate of interest based upon the Eurodollar Rate, which amount shall be in integral multiples of \$250,000, and (ii) the duration of the Interest Period therefor. Notice of the Borrower's election of the Eurodollar Rate Option for a permitted portion of the Term Loan and an Interest Period pursuant to this Section shall be made by delivery to Term B Lender of a Eurodollar Rate notice received by Term B Lender on or before the Eurodollar Rate Deadline. Interest Periods for Eurodollar Rate Loans shall be for one, two or three months; provided, if an Interest Period would end on a day that is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the Interest Period shall end on the next preceding Business Day. No Eurodollar Rate Loan shall be made available to Borrower during the continuance of a Default or an Event of Default. After giving effect to each requested Eurodollar Rate Loan, including those which are converted from a Domestic Rate Loan under Section 2.2(d), there shall not be outstanding more than four (4) Eurodollar Rate Loans, in the aggregate.

(c) Each Interest Period of a Eurodollar Rate Loan shall end on such date as Borrower may elect as set forth in subsection (b) above provided that the exact length of each Interest Period shall be determined in accordance with the practice of the interbank market for offshore Dollar deposits and no Interest Period shall end after the last day of the Term.

(d) Borrower shall elect the initial Interest Period applicable to a Eurodollar Rate Loan by its Eurodollar Rate notice given to Term B Lender pursuant to Section 2.2(b) or by its notice of conversion given to Term B Lender pursuant to Section 2.2(d), as the case may be. Borrower shall elect the duration of each succeeding Interest Period by giving irrevocable written notice to Term B Lender of such duration not later than 10:00 a.m. on the day which is three (3) Business Days prior to the last day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Term B Lender does not receive timely notice of the Interest Period elected by Borrower, Borrower shall be deemed to have elected to convert to a Domestic Rate Loan.

(e) At its option and upon written notice given prior to 10:00 a.m. (New York time) at least three (3) Business Days' prior to the date of such prepayment, Borrower may prepay the Eurodollar Rate Loans in whole at any time or in part from time to time with accrued interest on the principal being prepaid to the date of such repayment. Borrower shall specify the date of prepayment of that portion of the Term Loan which are Eurodollar Rate Loans and the amount of such prepayment. In the event that any prepayment of a Eurodollar Rate Loan is required or permitted on a date other than the last Business Day of the then current Interest Period with respect thereto, Borrower shall indemnify Term B Lender therefor in accordance with Section 2.2(f) hereof.

(f) Borrower shall indemnify Term B Lender and hold Term B Lender harmless from and against any and all losses or expenses that Term B Lender may sustain or incur as a consequence of any prepayment, conversion of or any default by Borrower in the payment of the principal of or interest on any Eurodollar Rate Loan or failure by Borrower to complete a borrowing of, a prepayment of or conversion of or to a Eurodollar Rate Loan after notice thereof has been given, including, but not limited to, any interest payable by Term B Lender to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Term B Lender to Borrower shall be conclusive absent manifest error.

(g) Notwithstanding any other provision hereof, if any Applicable Law, treaty, regulation or directive, or any change therein or in the interpretation or application thereof, shall make it unlawful for Term B Lender (for purposes of this subsection (g), the term "Term B Lender" shall include Term B Lender and the office or branch where Term B Lender or any corporation or bank controlling Term B Lender makes or maintains any Eurodollar Rate Loans) to make or maintain its Eurodollar Rate Loans, the obligation of Term B Lender to make Eurodollar Rate Loans hereunder shall forthwith be cancelled and Borrower shall, if any affected Eurodollar Rate Loans are then outstanding, promptly upon request from Term B Lender, either pay all such affected Eurodollar Rate Loans or convert such affected Eurodollar Rate Loans into loans of another type. If any such payment or conversion of any Eurodollar Rate Loan is made on a day that is not the last day of the Interest Period applicable to such Eurodollar Rate Loan, Borrower shall pay Term B Lender, upon Term B Lender's request, such amount or amounts as may be necessary to compensate Term B Lender for any loss or expense sustained or incurred by Term B Lender in respect of such Eurodollar Rate Loan as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by Term B Lender to lenders of funds obtained by Term B Lender in order to make or maintain such Eurodollar Rate Loan. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Term B Lender to Borrower shall be conclusive absent manifest error.

2.3. Disbursement of Term Loan Proceeds. The Term Loan shall be disbursed from whichever office or other place Term B Lender may designate.

2.4. Repayment of Term Loan.

(a) The Term Loan shall be due and payable as provided in Section 2.1 hereof and in the Term Note, subject to mandatory prepayments as herein set forth provided, however, notwithstanding anything to the contrary herein or in any Other Document, all outstanding principal and interest with regard to the Term Note shall be due and payable on the Termination Date.

(b) All payments of principal, interest and other amounts payable hereunder, or under any of the Other Documents shall be made to Term B Lender at the Payment Office not later than 1:00 P.M. (New York time) on the due date therefor in lawful money of the United States of America in federal funds or other funds immediately available to Term B Lender.

(c) Borrower shall pay principal, interest, and all other amounts payable hereunder, or under any related agreement, without any deduction whatsoever, including, but not limited to, any deduction for any setoff or counterclaim.

2.5. Statement of Account.(a) Term B Lender shall maintain, in accordance with its customary procedures, a loan account ("Borrower's Account") in the name of Borrower in which shall be recorded the date and amount of the Term Loan made by Term B Lender and the date and amount of each payment in respect thereof. Each month, Term B Lender shall send to Borrower a statement showing the accounting for the Term Loan, payments made or credited in respect thereof, and other transactions between Term B Lender and Borrower during such month. The monthly statements shall be deemed correct and binding upon Borrower in the absence of manifest error and shall constitute an account stated between Term B Lender and Borrower unless Term B Lender receives a written statement of Borrower's specific exceptions thereto within thirty (30) days after such statement is received by Borrower. The records of Term B Lender with respect to the loan account shall be conclusive evidence absent manifest error of the amounts of the Term Loan and other charges thereto and of payments applicable thereto.

2.6. Additional Payments. Any sums expended by Term B Lender due to Borrower's failure to perform or comply with its obligations under this Agreement or any Other Document including Borrower's obligations under Sections 4.2, 4.4, 4.12, 4.13, 4.14 and 6.1 hereof, may be added to the Obligations, or, at Term B Lender's option, shall be paid to Term B Lender immediately upon demand.

2.7. Mandatory Prepayments. Subject to the terms and provisions of the Intercreditor Agreement and to Section 4.3 hereof, when Borrower sells or otherwise disposes of any Collateral other than Inventory in the Ordinary Course of Business, Borrower shall repay the Term Loan in an amount equal to (i) the net proceeds of such sale (i.e., gross proceeds less the reasonable costs of such sales or other dispositions), plus (ii) all accrued and unpaid interest on the amount of such repayment and, in the case of repayment of a Eurodollar Rate Loan, all amounts due pursuant to Section 2.2(f) hereof, such repayments to be made promptly but in no event more than one (1) Business Day following receipt of such net proceeds, and until the date of payment, such proceeds shall be held in trust for Term B Lender. The foregoing shall not be deemed to be implied consent to any such sale otherwise prohibited by the terms and conditions hereof. Such repayments shall be applied to the Term Loan in the inverse order of the maturities thereof.

2.8. Use of Proceeds. Borrower shall apply the proceeds of the Term Loan to (i) capitalize WMS Merger Corp. prior to the consummation of the acquisition by WMS Merger Corp. of all of the outstanding capital stock of Welding Metallurgy, Inc., and (ii) pay fees and expenses relating to this transaction.

Without limiting the generality of Section 2.8 above, neither the Borrower nor any other Person which may in the future become party to this Agreement or the Other Documents as Borrower, intends to use nor shall they use any portion of the proceeds of the Term Loan, directly or indirectly, for any purpose in violation of the Trading with the Enemy Act.

III. INTEREST AND FEES.

3.1. Interest. Interest on the Term Loan shall be payable in arrears on the first Business Day of each calendar month with respect to Domestic Rate Loans and, with respect to Eurodollar Rate Loans, at the end of each Interest Period, subject to (i) acceleration upon the occurrence of an Event of Default under this Agreement, (ii) termination of this Agreement pursuant to the terms hereof, or (iii) mandatory prepayment. Interest charges shall be computed on the actual principal amount of the Term Loan outstanding during the applicable period at a rate per annum equal to the applicable Term Loan Rate. Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Term Loan Rate for Domestic Rate Loans shall be similarly changed without notice or demand of any kind by an amount equal to the amount of such change in the Alternate Base Rate during the time such change or changes remain in effect. The Eurodollar Rate shall be adjusted with respect to Eurodollar Rate Loans without notice or demand of any kind on the effective date of any change in the Reserve Percentage as of such effective date. Upon and after the occurrence of an Event of Default, and during the continuation thereof, at the option of Term B Lender, the Obligations shall bear interest at the applicable Term Loan Rate plus four percent (4.0%) per annum (the "Default Rate").

3.2. Closing Fee. Upon the execution of this Agreement, Borrower shall pay to Term B Lender a closing fee of \$145,000 less that portion of the good faith deposit and commitment fee of \$95,000, in the aggregate, heretofore paid by Borrower to Term B Lender remaining after application of such fee to out of pocket expenses.

3.3. Computation of Interest and Fees. Interest and fees hereunder shall be computed on the basis of a year of 360 days and for the actual number of days elapsed. If any payment to be made hereunder becomes due and payable on a day other than a Business Day, the due date thereof shall be extended to the next succeeding Business Day and interest thereon shall be payable at the Term Loan Rate for Domestic Rate Loans during such extension.

3.4. Maximum Charges. In no event whatsoever shall interest and other charges charged hereunder exceed the highest rate permissible under law. In the event interest and other charges as computed hereunder would otherwise exceed the highest rate permitted under law, such excess amount shall be first applied to any unpaid principal balance owed by Borrower, and if the then remaining excess amount is greater than the previously unpaid principal balance, Term B Lender shall promptly refund such excess amount to Borrower and the provisions hereof shall be deemed amended to provide for such permissible rate.

3.5. Increased Costs. In the event that any Applicable Law, treaty or governmental regulation, or any change therein or in the interpretation or application thereof, or compliance by Term B Lender (for purposes of this Section 3.5, the term "Term B Lender" shall include Term B Lender and any corporation or bank controlling Term B Lender) and the office or branch where Term B Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(a) subject Term B Lender to any tax of any kind whatsoever with respect to this Agreement or any Other Document or change the basis of taxation of payments to Term B Lender of principal, fees, interest or any other amount payable hereunder or under any Other Documents (except for changes in the rate of tax on the overall net income of Term B Lender by the jurisdiction in which it maintains its principal office);

(b) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of Term B Lender, including pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(c) impose on Term B Lender or the London interbank Eurodollar market any other condition with respect to this Agreement or any Other Document;

and the result of any of the foregoing is to increase the cost to Term B Lender of making, renewing or maintaining its Term Loan hereunder by an amount that Term B Lender deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the Term Loan by an amount that Term B Lender deems to be material, then, in any case Borrower shall promptly pay Term B Lender, upon its demand, such additional amount as will compensate Term B Lender for such additional cost or such reduction, as the case may be, provided that the foregoing shall not apply to increased costs which are reflected in the Eurodollar Rate, as the case may be. Term B Lender shall certify the amount of such additional cost or reduced amount to Borrower, and such certification shall be conclusive absent manifest error.

3.6. Basis For Determining Interest Rate Inadequate or Unfair. In the event that Term B Lender shall have determined that:

(a) reasonable means do not exist for ascertaining the Eurodollar Rate applicable pursuant to Section 2.2 hereof for any Interest Period; or

(b) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank Eurodollar market, with respect to an outstanding Eurodollar Rate Loan, a proposed Eurodollar Rate Loan, or a proposed conversion of a Domestic Rate Loan into a Eurodollar Rate Loan,

then Term B Lender shall give Borrower prompt written, telephonic or telegraphic notice of such determination. If such notice is given, (i) any such requested Eurodollar Rate Loan shall be made as a Domestic Rate Loan, unless Borrower shall notify Term B Lender no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the date of such proposed borrowing, that its request for such borrowing shall be cancelled or made as an unaffected type of Eurodollar Rate Loan, (ii) any Domestic Rate Loan or Eurodollar Rate Loan which was to have been converted to an affected type of Eurodollar Rate Loan shall be continued as or converted into a Domestic Rate Loan, or, if Borrower shall notify Term B Lender, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of Eurodollar Rate Loan, and (iii) any outstanding affected Eurodollar Rate Loans shall be converted into a Domestic Rate Loan, or, if Borrower shall notify Term B Lender, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Rate Loan, shall be converted into an unaffected type of Eurodollar Rate Loan, on the last Business Day of the then current Interest Period for such affected Eurodollar Rate Loans. Until such notice has been withdrawn, Term B Lender shall have no obligation to make an affected type of Eurodollar Rate Loan or maintain outstanding affected Eurodollar Rate Loans and Borrower shall not have the right to convert a Domestic Rate Loan or an unaffected type of Eurodollar Rate Loan into an affected type of Eurodollar Rate Loan.

3.7. Capital Adequacy.

(a) In the event that Term B Lender shall have determined that any Applicable Law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Body, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Term B Lender (for purposes of this Section 3.7, the term "Term B Lender" shall include Term B Lender and any corporation or bank controlling Term B Lender) and the office or branch where Term B Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on Term B Lender's capital as a consequence of its obligations hereunder to a level below that which Term B Lender could have achieved but for such adoption, change or compliance (taking into consideration Term B Lender's policies with respect to capital adequacy) by an amount deemed by Term B Lender to be material, then, from time to time, Borrower shall pay upon demand to Term B Lender such additional amount or amounts as will compensate Term B Lender for such reduction. In determining such amount or amounts, Term B Lender may use any reasonable averaging or attribution methods. The protection of this Section 3.7 shall be available to Term B Lender regardless of any possible contention of invalidity or inapplicability with respect to the Applicable Law, regulation or condition.

(b) A certificate of Term B Lender setting forth such amount or amounts as shall be necessary to compensate Term B Lender with respect to Section 3.7(a) hereof when delivered to Borrower shall be conclusive absent manifest error.

3.8. Gross Up for Taxes. Subject to Section 3.5(a) herein, if Borrower shall be required by Applicable Law to withhold or deduct any taxes from or in respect of any sum payable under this Agreement or any of the Other Documents to Term B Lender, assignee of any Term B Lender, or Participant (each, individually, a "Payee" and collectively, the "Payees"), (a) the sum payable to such Payee or Payees, as the case may be, shall be increased as may be necessary so that, after making all required withholding or deductions, the applicable Payee or Payees receives an amount equal to the sum it would have received had no such withholding or deductions been made (the "Gross-Up Payment"), (b) Borrower shall make such withholding or deductions, and (c) Borrower shall pay the full amount withheld or deducted to the relevant taxation authority or other authority in accordance with Applicable Law. Notwithstanding the foregoing, Borrower shall not be obligated to make any portion of the Gross-Up Payment that is attributable to any withholding or deductions that would not have been paid or claimed had the applicable Payee or Payees properly claimed a complete exemption with respect thereto pursuant to Section 3.9 hereof.

3.9. Withholding Tax Exemption.

(a) Each Payee that is not incorporated under the Laws of the United States of America or a state thereof (and, upon the written request of Term B Lender, each other Payee) agrees that it will deliver to Borrower and Term B Lender two (2) duly completed appropriate valid Withholding Certificates (as defined under ss.1.1441-1(c)(16) of the Income Tax Regulations ("Regulations")) certifying its status (i.e., U.S. or foreign person) and, if appropriate, making a claim of reduced, or exemption from, U.S. withholding tax on the basis of an income tax treaty or an exemption provided by the Code. The term "Withholding Certificate" means a Form W-9; a Form W-8BEN; a Form W-8ECI; a Form W-8IMY and the related statements and certifications as required under ss.1.1441-1(e)(2) and/or (3) of the Regulations; a statement described in ss.1.871-14(c)(2)(v) of the Regulations; or any other certificates under the Code or Regulations that certify or establish the status of a payee or beneficial owner as a U.S. or foreign person.

(b) Each Payee required to deliver to Borrower and Term B Lender a valid Withholding Certificate pursuant to Section 3.9(a) hereof shall deliver such valid Withholding Certificate as follows: (A) each Payee which is a party hereto on the Closing Date shall deliver such valid Withholding Certificate at least five (5) Business Days prior to the first date on which any interest or fees are payable by Borrower hereunder for the account of such Payee; (B) each Payee shall deliver such valid Withholding Certificate at least five (5) Business Days before the effective date of such assignment or participation (unless Term B Lender in its sole discretion shall permit such Payee to deliver such Withholding Certificate less than five (5) Business Days before such date in which case it shall be due on the date specified by Term B Lender). Each Payee which so delivers a valid Withholding Certificate further undertakes to deliver to Borrower and Term B Lender two (2) additional copies of such Withholding Certificate (or a successor form) on or before the date that such Withholding Certificate expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent Withholding Certificate so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by Borrower or Term B Lender.

(c) Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of or exemption from U.S. withholding tax required under Section 3.9(b) hereof, Term B Lender shall be entitled to withhold United States federal income taxes at the full 30% withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under ss.1.1441-7(b) of the Regulations. Further, Term B Lender is indemnified under ss.1.1461-1(e) of the Regulations against any claims and demands of any Payee for the amount of any tax it deducts and withholds in accordance with regulations under ss.1441 of the Code.

IV. COLLATERAL: GENERAL TERMS

4.1. Security Interest in the Collateral. Subject to the terms and provisions of the Intercreditor Agreement, to secure the prompt payment and performance to Term B Lender of the Obligations, Borrower hereby assigns, pledges and grants to Term B Lender a continuing security interest in and to and Lien on all of its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located. Borrower shall mark its books and records as may be necessary or appropriate to evidence, protect and perfect Term B Lender's security interest and shall cause its financial statements to reflect such security interest. Borrower shall promptly provide Term B Lender with written notice of all commercial tort claims, such notice to contain the case title together with the applicable court and a brief description of the claim(s). Upon delivery of each such notice, Borrower shall be deemed to hereby grant to Term B Lender a security interest and lien in and to such commercial tort claims and all proceeds thereof.

4.2. Perfection of Security Interest. Borrower shall take all action that may be necessary or desirable, or that Term B Lender may request, so as at all times to maintain the validity, perfection, enforceability and priority of Term B Lender's security interest in and Lien on the Collateral or to enable Term B Lender to protect, exercise or enforce its rights hereunder and in the Collateral, including, but not limited to, (i) immediately discharging all Liens other than Permitted Encumbrances, (ii) obtaining Lien Waiver Agreements, (iii) delivering to Term B Lender, endorsed or accompanied by such instruments of assignment as Term B Lender may specify, and stamping or marking, in such manner as Term B Lender may specify, any and all chattel paper, instruments, letters of credits and advices thereof and documents evidencing or forming a part of the Collateral, (iv) entering into warehousing, lockbox and other custodial arrangements satisfactory to Term B Lender, and (v) executing and delivering financing statements, control agreements, instruments of pledge, mortgages, notices and assignments, in each case in form and substance satisfactory to Term B Lender, relating to the creation, validity, perfection, maintenance or continuation of Term B Lender's security interest and Lien under the Uniform Commercial Code or other Applicable Law. By its signature hereto, Borrower hereby authorizes Term B Lender to file against Borrower, one or more financing, continuation or amendment statements pursuant to the Uniform Commercial Code in form and substance satisfactory to Term B Lender (which statements may have a description of collateral which is broader than that set forth herein). All charges, expenses and fees Term B Lender may incur in doing any of the foregoing, and any local taxes relating thereto, shall be added to the Obligations, or, at Term B Lender's option, shall be paid to Term B Lender immediately upon demand.

4.3. Disposition of Collateral. Borrower will safeguard and protect all Collateral for Term B Lender's general account and make no disposition thereof whether by sale, lease or otherwise except (a) the sale of Inventory in the Ordinary Course of Business and (b) the disposition or transfer of obsolete and worn-out Equipment in the Ordinary Course of Business during any fiscal year having an aggregate fair market value of not more than \$100,000 and only to the extent that (i) the proceeds of any such disposition are used to acquire replacement Equipment which is subject to Term B Lender's second priority security interest or (ii) subject to the terms and provisions of the Intercreditor Agreement, the proceeds of which are remitted to Term B Lender to be applied pursuant to Section 2.7.

4.4. Preservation of Collateral. In addition to the rights and remedies set forth in Section 11.1 hereof, Term B Lender: (a) may at any time take such steps as Term B Lender deems necessary to protect Term B Lender's interest in and to preserve the Collateral, including the hiring of such security guards or the placing of other security protection measures as Term B Lender may deem appropriate; (b) may employ and maintain at any of Borrower's premises a custodian who shall have full authority to do all acts necessary to protect Term B Lender's interests in the Collateral; (c) may lease warehouse facilities to which Term B Lender may move all or part of the Collateral; (d) may use Borrower's owned or leased lifts, hoists, trucks and other facilities or equipment for handling or removing the Collateral; and (e) shall have, and is hereby granted, a right of ingress and egress to the places where the Collateral is located, and may proceed over and through any of Borrower's owned or leased property. Borrower shall cooperate fully with all of Term B Lender's efforts to preserve the Collateral and will take such actions to preserve the Collateral as Term B Lender may direct. All of Term B Lender's expenses of preserving the Collateral, including any expenses relating to the bonding of a custodian, shall be added to the Obligations, or, at Term B Lender's option, shall be paid to Term B Lender immediately upon demand.

4.5. Ownership of Collateral.

(a) With respect to the Collateral, at the time the Collateral becomes subject to Term B Lender's security interest: (i) Borrower shall be the sole owner of and fully authorized and able to sell, transfer, pledge and/or grant a security interest in each and every item of the its respective Collateral to Term B Lender; and, except for Permitted Encumbrances, the Collateral shall be free and clear of all Liens and encumbrances whatsoever; (ii) each document and agreement executed by Borrower or delivered to Term B Lender in connection with this Agreement shall be true and correct in all respects; (iii) all signatures and endorsements of Borrower that appear on such documents and agreements shall be genuine and Borrower shall have full capacity to execute same; and (iv) Borrower's Equipment and Inventory shall be located as set forth on Schedule 4.5 and shall not be removed from such location(s) without the prior written consent of Term B Lender except with respect to the sale of Inventory in the Ordinary Course of Business and Equipment to the extent permitted in Section 4.3 hereof.

(b) (i) There is no location at which Borrower has any Inventory (except for Inventory in transit) other than those locations listed on Schedule 4.5; (ii) Schedule 4.5 hereto contains a correct and complete list, as of the Closing Date, of the legal names and addresses of each warehouse at which Inventory of Borrower is stored; (iii) Schedule 4.5 hereto sets forth a correct and complete list as of the Closing Date of (A) each place of business of Borrower and (B) the chief executive office of Borrower; and (iv) Schedule 4.5 hereto sets forth a correct and complete list as of the Closing Date of the location, by state and street address, of all Real Property owned or leased by Borrower, together with the names and addresses of any landlords.

4.6. Defense of Term B Lender's Interests. Until (a) payment and performance in full of all of the Obligations and (b) termination of this Agreement, Term B Lender's interests in the Collateral shall continue in full force and effect. During such period Borrower shall not, without Term B Lender's prior written consent, pledge, sell (except Inventory in the Ordinary Course of Business and Equipment to the extent permitted in Section 4.3 hereof), assign, transfer, create or suffer to exist a Lien upon or encumber or allow or suffer to be encumbered in any way except for Permitted Encumbrances, any part of the Collateral. Borrower shall defend Term B Lender's interests in the Collateral against any and all Persons whatsoever. At any time following demand by Term B Lender for payment of all Obligations, Term B Lender shall have the right to take possession of the indicia of the Collateral and the Collateral in whatever physical form contained, including: labels, stationery, documents, instruments and advertising materials. If Term B Lender exercises this right to take possession of the Collateral, Borrower shall, upon demand, assemble it in the best manner possible and make it available to Term B Lender at a place reasonably convenient to Term B Lender. In addition, with respect to all Collateral, but subject to the Intercreditor Agreement, Term B Lender shall be entitled to all of the rights and remedies set forth herein and further provided by the Uniform Commercial Code or other Applicable Law. Subject to the Intercreditor Agreement, Borrower shall, and Term B Lender may, at its option, instruct all suppliers, carriers, forwarders, warehousemen or others receiving or holding cash, checks, Inventory, documents or instruments in which Term B Lender holds a security interest to deliver same to Term B Lender and/or subject to Term B Lender's order and if they shall come into Borrower's possession, they, and each of them, shall be held by Borrower in trust as Term B Lender's trustee, and Borrower will immediately deliver them to Term B Lender in their original form together with any necessary endorsement.

4.7. Books and Records. Borrower shall (a) keep proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to its business and affairs; (b) set up on its books accruals with respect to all taxes, assessments, charges, levies and claims; and (c) on a reasonably current basis set up on its books, from its earnings, allowances against doubtful Receivables, advances and investments and all other proper accruals (including by reason of enumeration, accruals for premiums, if any, due on required payments and accruals for depreciation, obsolescence, or amortization of properties), which should be set aside from such earnings in connection with its business. All determinations pursuant to this subsection shall be made in accordance with, or as required by, GAAP consistently applied in the opinion of such independent public accountant as shall then be regularly engaged by Borrower.

4.8. Financial Disclosure. Borrower hereby irrevocably authorizes and directs all accountants and auditors employed by Borrower at any time during the Term to exhibit and deliver to Term B Lender copies of any of Borrower's financial statements, trial balances or other accounting records of any sort in the accountant's or auditor's possession, and to disclose to Term B Lender any information such accountants may have concerning Borrower's financial status and business operations provided, however, so long as no Default and/or Event of Default has occurred, Term B Lender will attempt to obtain such information or materials directly from Borrower prior to obtaining such information or materials from such accountants and is hereby authorized to obtain such information or materials from such accountants if the Borrower does not provide such information and materials to the Term B Lender within ten (10) Business Days of any request for such information and materials. Borrower hereby authorizes all Governmental Bodies to furnish to Term B Lender copies of reports or examinations relating to Borrower, whether made by Borrower or otherwise provided, however, so long as no Default and/or Event of Default has occurred, Term B Lender will attempt to obtain such information or materials directly from Borrower prior to obtaining such information or materials from such Governmental Bodies and is hereby authorized to obtain such information or materials from such Governmental Bodies if the Borrower does not provide such information and materials to Term B Lender within ten (10) Business Days of any request for such information and materials.

4.9. Compliance with Laws. Borrower shall comply with all Applicable Laws with respect to the Collateral or any part thereof or to the operation of Borrower's business the non-compliance with which could reasonably be expected to have a Material Adverse Effect. Borrower may, however, contest or dispute any Applicable Laws in any reasonable manner, provided that any related Lien is inchoate or stayed and sufficient reserves are established to the reasonable satisfaction of Term B Lender to protect Term B Lender's Lien on or security interest in the Collateral. The assets of Borrower at all times shall be maintained in accordance with the requirements of all insurance carriers which provide insurance with respect to the assets of Borrower so that such insurance shall remain in full force and effect.

4.10. Inspection of Premises. At all reasonable times Term B Lender shall have full access to and the right to audit, check, inspect and make abstracts and copies from Borrower's books, records, audits, correspondence and all other papers relating to the Collateral and the operation of Borrower's business. Term B Lender and its agents may enter upon any of Borrower's premises at any time during business hours and at any other reasonable time, and from time to time, for the purpose of inspecting the Collateral and any and all records pertaining thereto and the operation of Borrower's business.

4.11. Insurance. The assets and properties of Borrower at all times shall be maintained in accordance with the requirements of all insurance carriers which provide insurance with respect to the assets and properties of Borrower so that such insurance shall remain in full force and effect. Borrower shall bear the full risk of any loss of any nature whatsoever with respect to the Collateral. At Borrower's own cost and expense in amounts and with carriers reasonably acceptable to Term B Lender, Borrower shall (a) keep all its insurable properties and properties in which Borrower has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to Borrower's including business interruption insurance; (b) maintain a bond in such amounts as is customary in the case of companies engaged in businesses similar to Borrower insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of Borrower either directly or through authority to draw upon such funds or to direct generally the disposition of such assets; (c) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (d) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which Borrower is engaged in business; (e) furnish Term B Lender with (i) copies of all liability and property insurance policies and evidence of the maintenance of such policies by the renewal thereof at least thirty (30) days before any expiration date, and (ii) appropriate loss payable endorsements in form and

substance satisfactory to Term B Lender, naming Term B Lender as an additional insured, mortgagee and lender loss payee as its interests may appear with respect to all insurance coverage referred to in clauses (a) and (c) above, and providing (A) that all proceeds thereunder in excess of \$100,000 shall be payable to Term B Lender, (B) no such insurance shall be affected by any act or neglect of the insured or owner of the property described in such policy, and (C) that such policy and loss payable clauses may not be cancelled, amended or terminated unless at least thirty (30) days' prior written notice is given to Term B Lender. In the event of any loss thereunder in excess of \$100,000, the carriers named therein hereby are directed by Term B Lender and Borrower to make payment for such loss to Term B Lender and not to Borrower and Term B Lender jointly. If any insurance losses are paid by check, draft or other instrument payable to Borrower and Term B Lender jointly, Term B Lender may endorse Borrower's name thereon and do such other things as Term B Lender may deem advisable to reduce the same to cash. Term B Lender is hereby authorized to adjust and compromise claims under insurance coverage referred to in clauses (a) and (b) above. So long as no Default and/or Event of Default has occurred, Term B Lender shall consult the Borrower with regard to such adjustments and compromises. All loss recoveries received by Term B Lender upon any such insurance may be applied to the Obligations, in such order as Term B Lender in its sole discretion shall determine. Any surplus shall be paid by Term B Lender to Borrower or applied as may be otherwise required by law. Any deficiency thereon shall be paid by Borrower to Term B Lender, on demand. The rights of Term B Lender under this Section 4.11 are subject to the terms and provisions of the Intercreditor Agreement.

4.12. Failure to Pay Insurance. If Borrower fails to obtain insurance as hereinabove provided, or to keep the same in force, Term B Lender, if Term B Lender so elects, may obtain such insurance and pay the premium therefor on behalf of Borrower, and such expenses so paid shall be part of the Obligations, or, at Term B Lender's option, shall be paid to Term B Lender immediately upon demand.

4.13. Payment of Taxes. Borrower will pay, when due, all taxes, assessments and other Charges lawfully levied or assessed upon Borrower or any of the Collateral including real and personal property taxes, assessments and charges and all franchise, income, employment, social security benefits, withholding, and sales taxes. If any tax by any Governmental Body is or may be imposed on or as a result of any transaction between Borrower and Term B Lender which Term B Lender may be required to withhold or pay or if any taxes, assessments, or other Charges remain unpaid after the date fixed for their payment, or if any claim shall be made which, in Term B Lender's opinion, may possibly create a valid Lien on the Collateral, Term B Lender may without notice to Borrower pay the taxes, assessments or other Charges and Borrower hereby indemnifies and holds Term B Lender harmless in respect thereof, subject to Sections 3.5(a) and 3.9 herein. Term B Lender will not pay any taxes, assessments or Charges to the extent that Borrower has contested or disputed those taxes, assessments or Charges in good faith, by expeditious protest, administrative or judicial appeal or similar proceeding provided that any related tax lien is stayed and sufficient reserves are established to the reasonable satisfaction of Term B Lender to protect Term B Lender's security interest in or Lien on the Collateral. The amount of any payment by Term B Lender under this Section 4.13 shall be added to the Obligations, or, at Term B Lender's option, shall be paid to Term B Lender immediately upon demand, and, until Borrower shall furnish Term B Lender with an indemnity therefor (or supply Term B Lender with evidence satisfactory to Term B Lender that due provision for the payment thereof has been made), Term B Lender may hold without interest any balance standing to Borrower's credit and Term B Lender shall retain its security interest in and Lien on any and all Collateral held by Term B Lender.

4.14. Payment of Leasehold Obligations. Borrower shall at all times pay, when and as due, its rental obligations under all leases under which it is a tenant, and shall otherwise comply, in all material respects, with all other terms of such leases and keep them in full force and effect and, at Term B Lender's request will provide evidence of having done so.

4.15. Receivables.

(a) Nature of Receivables. Each of the Receivables shall be a bona fide and valid account representing a bona fide indebtedness incurred by the Customer therein named, for a fixed sum as set forth in the invoice relating thereto (provided immaterial or unintentional invoice errors shall not be deemed to be a breach hereof) with respect to an absolute sale or lease and delivery of goods upon stated terms of Borrower, or work, labor or services theretofore rendered by Borrower as of the date each Receivable is created. Same shall be due and owing in accordance with Borrower's standard terms of sale without dispute, setoff or counterclaim except as may be stated on the accounts receivable schedules delivered by Borrower to Term B Lender.

(b) Solvency of Customers. Each Customer, to the best of Borrower's knowledge, as of the date each Receivable is created, is and will be solvent and able to pay all Receivables on which the Customer is obligated in full when due or with respect to such Customers of Borrower who are not solvent Borrower has set up on its books and in its financial records bad debt reserves adequate to cover such Receivables.

(c) Location of Borrower. Borrower's chief executive office is located at 1479 Clinton Avenue, Bay Shore, New York 11706. Until written notice is given to Term B Lender by Borrower of any other office at which Borrower keeps its records pertaining to Receivables, all such records shall be kept at such executive office.

(d) Collection of Receivables. Until Borrower's authority to do so is terminated by Term B Lender (which notice Term B Lender may give at any time following the occurrence of an Event of Default or a Default or when Term B Lender in its sole discretion deems it to be in its best interest to do so), Borrower will, at Borrower's sole cost and expense, but on Term B Lender's behalf and for Term B Lender's account, collect as Term B Lender's property and in trust for Term B Lender all amounts received on Receivables, and shall not commingle such collections with Borrower's funds or use the same except to pay Obligations. Borrower shall deposit in the Blocked Account or, upon request by Term B Lender, deliver to Term B Lender, in original form and on the date of receipt thereof, all checks, drafts, notes, money orders, acceptances, cash and other evidences of Indebtedness.

(e) Notification of Assignment of Receivables. At any time Term B Lender shall have the right to send notice of the assignment of, and Term B Lender's security interest in and Lien on, the Receivables to any and all Customers or any third party holding or otherwise concerned with any of the Collateral. Thereafter, Term B Lender shall have the sole right to collect the

Receivables, take possession of the Collateral, or both. Term B Lender's actual collection expenses, including, but not limited to, stationery and postage, telephone and telegraph, secretarial and clerical expenses and the salaries of any collection personnel used for collection, may be added to the Obligations, or, at Term B Lender's option, shall be paid to Term B Lender immediately upon demand.

(f) Power of Term B Lender to Act on Borrower's Behalf. Term B Lender shall have the right to receive, endorse, assign and/or deliver in the name of Term B Lender or Borrower any and all checks, drafts and other instruments for the payment of money relating to the Receivables, and Borrower hereby waives notice of presentment, protest and non-payment of any instrument so endorsed. Borrower hereby constitutes Term B Lender or Term B Lender's designee as Borrower's attorney with power (i) to endorse Borrower's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral; (ii) to sign Borrower's name on any invoice or bill of lading relating to any of the Receivables, drafts against Customers, assignments and verifications of Receivables; (iii) to send verifications of Receivables to any Customer; (iv) to sign Borrower's name on all financing statements or any other documents or instruments deemed necessary or appropriate by Term B Lender to preserve, protect, or perfect Term B Lender's interest in the Collateral and to file same; (v) to demand payment of the Receivables upon notice to the Borrower; (vi) to enforce payment of the Receivables by legal proceedings or otherwise upon notice to the Borrower; (vii) to exercise all of Borrower's rights and remedies with respect to the collection of the Receivables and any other Collateral upon notice to the Borrower; (viii) to settle, adjust, compromise, extend or renew the Receivables upon notice to the Borrower; (ix) to settle, adjust or compromise any legal proceedings brought to collect Receivables upon notice to the Borrower; (x) to prepare, file and sign Borrower's name on a proof of claim in bankruptcy or similar document against any Customer upon notice to the Borrower; (xi) to prepare, file and sign Borrower's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables; and (xii) to do all other acts and things necessary to carry out this Agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or of law, unless done maliciously or with gross (not mere) negligence (as determined by a court of competent jurisdiction in a final non-appealable judgment); this power being coupled with an interest is irrevocable while any of the Obligations remain unpaid. Upon the occurrence of a Default and/or an Event of Default, Term B Lender shall have the right at any time to change the address for delivery of mail addressed to Borrower to such address as Term B Lender may designate and to receive, open and dispose of all mail addressed to Borrower.

(g) No Liability. Term B Lender shall not, under any circumstances or in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Receivables or any instrument received in payment thereof, or for any damage resulting therefrom. Term B Lender may, with notice to Borrower and without consent from Borrower, sue upon or otherwise collect, extend the time of payment of, compromise or settle for cash, credit or upon any terms any of the Receivables or any other securities, instruments or insurance applicable thereto and/or release any obligor thereof. Term B Lender is authorized and empowered to accept the return of the goods represented by any of the Receivables, with notice to Borrower and without consent from Borrower, all without discharging or in any way affecting Borrower's liability hereunder.

(h) Establishment of a Lockbox Account, Dominion Account. All proceeds of Collateral shall be deposited by Borrower into either (i) a lockbox account, dominion account or such other "blocked account" ("Blocked Accounts") established at a bank or banks (each such bank, a "Blocked Account Bank") pursuant to an arrangement with such Blocked Account Bank as may be selected by Borrower and be acceptable to Term B Lender or (ii) depository accounts ("Depository Accounts") established at the Term B Lender for the deposit of such proceeds. Borrower, Term B Lender and each Blocked Account Bank shall enter into a deposit account control agreement in form and substance satisfactory to Term B Lender directing such Blocked Account Bank to transfer such funds so deposited to Term B Lender, either to any account maintained by Term B Lender at said Blocked Account Bank or by wire transfer to appropriate account(s) of Term B Lender. All funds deposited in such Blocked Accounts shall immediately become the property of Term B Lender and Borrower shall obtain the agreement by such Blocked Account Bank to waive any offset rights against the funds so deposited. Term B Lender does not assume any responsibility for such blocked account arrangement, including any claim of accord and satisfaction or release with respect to deposits accepted by any Blocked Account Bank thereunder. All deposit accounts and investment accounts of Borrower and its Subsidiaries are set forth on Schedule 4.15(h).

(i) Adjustments. Borrower will not, without Term B Lender's consent, compromise or adjust any Receivables (or extend the time for payment thereof) or accept any returns of merchandise or grant any additional discounts, allowances or credits thereon except for those compromises, adjustments, returns, discounts, credits and allowances as have been heretofore customary in the business of Borrower.

(j) Intercreditor Agreement. The rights of Term B Lender with respect to the Receivables under this Section 4.15 are subject to the Intercreditor Agreement.

4.16. Inventory. To the extent Inventory held for sale or lease has been produced by Borrower, it has been and will be produced by Borrower in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations and orders thereunder.

4.17. Maintenance of Equipment. The Equipment shall be maintained in good operating condition and repair (reasonable wear and tear excepted) and all necessary replacements of and repairs thereto shall be made so that the value and operating efficiency of the Equipment shall be maintained and preserved. Borrower shall not use or operate the Equipment in violation of any law, statute, ordinance, code, rule or regulation. Borrower shall have the right to sell Equipment to the extent set forth in Section 4.3 hereof.

4.18. Exculpation of Liability. Nothing herein contained shall be construed to constitute Term B Lender as Borrower's agent for any purpose whatsoever, nor shall Term B Lender be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof. Term B Lender does not, whether by anything herein or in any assignment or otherwise, assume any of Borrower's obligations under any contract or agreement assigned to Term B Lender, and Term B Lender shall not be responsible in any way for the performance by Borrower of any of the terms and conditions thereof.

4.19. Environmental Matters.

(a) Borrower shall ensure that the Real Property and all operations and businesses conducted thereon remains in compliance with all Environmental Laws and they shall not place or permit to be placed any Hazardous Substances on any Real Property except as permitted by Applicable Law or appropriate governmental authorities.

(b) Borrower shall establish and maintain a system to assure and monitor continued compliance with all applicable Environmental Laws which system shall include periodic reviews of such compliance.

(c) Borrower shall (i) employ in connection with the use of the Real Property appropriate technology necessary to maintain compliance with any applicable Environmental Laws and (ii) dispose of any and all Hazardous Waste generated at the Real Property only at facilities and with carriers that maintain valid permits under RCRA and any other applicable Environmental Laws. Borrower shall use its best efforts to obtain certificates of disposal, such as hazardous waste manifest receipts, from all treatment, transport, storage or disposal facilities or operators employed by Borrower in connection with the transport or disposal of any Hazardous Waste generated at the Real Property.

(d) In the event Borrower obtains, gives or receives notice of any Release or threat of Release of a reportable quantity of any Hazardous Substances at the Real Property (any such event being hereinafter referred to as a "Hazardous Discharge") or receives any notice of violation, request for information or notification that it is potentially responsible for investigation or cleanup of environmental conditions at the Real Property, demand letter or complaint, order, citation, or other written notice with regard to any Hazardous Discharge or violation of Environmental Laws affecting the Real Property or Borrower's interest therein (any of the foregoing is referred to herein as an "Environmental Complaint") from any Person, including any state agency responsible in whole or in part for environmental matters in the state in which the Real Property is located or the United States Environmental Protection Agency (any such person or entity hereinafter the "Authority"), then Borrower shall, within five (5) Business Days, give written notice of same to Term B Lender detailing facts and circumstances of which Borrower is aware giving rise to the Hazardous Discharge or Environmental Complaint. Such information is to be provided to allow Term B Lender to protect its security interest in and Lien on the Real Property and the Collateral and is not intended to create nor shall it create any obligation upon Term B Lender with respect thereto.

(e) Borrower shall promptly forward to Term B Lender copies of any request for information, notification of potential liability, demand letter relating to potential responsibility with respect to the investigation or cleanup of Hazardous Substances at any other site owned, operated or used by Borrower to dispose of Hazardous Substances and shall continue to forward copies of correspondence between Borrower and the Authority regarding such claims to Term B Lender until the claim is settled. Borrower shall promptly forward to Term B Lender copies of all documents and reports concerning a Hazardous Discharge at the Real Property that Borrower is required to file under any Environmental Laws. Such information is to be provided solely to allow Term B Lender to protect Term B Lender's security interest in and Lien on the Real Property and the Collateral. Term B Lender hereby acknowledges receipt of the Existing Environmental Due Diligence.

(f) Borrower shall respond promptly to any Hazardous Discharge or Environmental Complaint and take all necessary action in order to safeguard the health of any Person and to avoid subjecting the Collateral or Real Property to any Lien. If Borrower shall fail to respond promptly to any Hazardous Discharge or Environmental Complaint or Borrower shall fail to comply with any of the requirements of any Environmental Laws, Term B Lender may, but without the obligation to do so, for the sole purpose of protecting Term B Lender's interest in the Collateral: (A) give such notices or (B) enter onto the Real Property (or authorize third parties to enter onto the Real Property) and take such actions as Term B Lender (or such third parties as directed by Term B Lender) deem reasonably necessary or advisable, to clean up, remove, mitigate or otherwise deal with any such Hazardous Discharge or Environmental Complaint. All reasonable costs and expenses incurred by Term B Lender (or such third parties) in the exercise of any such rights, including any sums paid in connection with any judicial or administrative investigation or proceedings, fines and penalties, together with interest thereon from the date expended at the Default Rate for Domestic Rate Loans shall be paid upon demand by Borrower, and until paid shall be added to and become a part of the Obligations secured by the Liens created by the terms of this Agreement or any other agreement between Term B Lender and Borrower.

(g) Promptly upon the written request of Term B Lender from time to time, Borrower shall provide Term B Lender, at Borrower's expense, with an environmental site assessment or environmental audit report prepared by an environmental engineering firm acceptable in the reasonable opinion of Term B Lender, to assess with a reasonable degree of certainty the existence of a Hazardous Discharge and the potential costs in connection with abatement, cleanup and removal of any Hazardous Substances found on, under, at or within the Real Property. Any report or investigation of such Hazardous Discharge proposed and acceptable to an appropriate Authority that is charged to oversee the clean-up of such Hazardous Discharge shall be acceptable to Term B Lender. If such estimates, individually or in the aggregate, exceed \$100,000, Term B Lender shall have the right to require Borrower to post a bond, letter of credit or other security reasonably satisfactory to Term B Lender to secure payment of these costs and expenses.

(h) Borrower shall defend and indemnify Term B Lender and hold Term B Lender and its employees, agents, directors and officers harmless from and against all loss, liability, damage and expense, claims, costs, fines and penalties, including attorney's fees, suffered or incurred by Term B Lender under or on account of any Environmental Laws, including the assertion of any Lien thereunder, with respect to any Hazardous Discharge, the presence of any Hazardous Substances affecting the Real Property, whether or not the same originates or emerges from the Real Property or any contiguous real estate, including any loss of value of the Real Property as a result of the foregoing except to the extent such loss, liability, damage and expense is attributable to any Hazardous Discharge resulting from actions on the part of Term B Lender. Borrower's obligations under this Section 4.19 shall arise upon the discovery of the presence of any Hazardous Substances at the Real Property, whether or not any federal, state, or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Substances. Borrower's obligation and the indemnifications hereunder shall survive the termination of this Agreement.

(i) For purposes of Section 4.19 and 5.7, all references to Real Property shall be deemed to include all of Borrower's right, title and interest in and to its owned and leased premises.

4.20. Financing Statements. Except the financing statements filed by Term B Lender and the financing statements described on Schedule 1.2, no financing statement covering any of the Collateral or any proceeds thereof is on file in any public office.

V. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1. Authority. Borrower has full power, authority and legal right to enter into this Agreement and the Other Documents and to perform all its respective Obligations hereunder and thereunder. This Agreement, the Subordination Agreement and the Other Documents have been duly executed and delivered by Borrower, and this Agreement, the Subordination Agreement and the Other Documents constitute the legal, valid and binding obligation of Borrower enforceable in accordance with their terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally. The execution, delivery and performance of this Agreement and of the Other Documents (a) are within Borrower's corporate powers, have been duly authorized by all necessary corporate action, are not in contravention of law or the terms of Borrower's by-laws, certificate of incorporation or other applicable documents relating to Borrower's formation or to the conduct of Borrower's business or of any material agreement or undertaking to which Borrower is a party or by which Borrower is bound, including the Acquisition Agreement or the Subordination Agreement, (b) will not conflict with or violate any law or regulation, or any judgment, order or decree of any Governmental Body, (c) will not require the Consent of any Governmental Body or any other Person, except those Consents set forth on Schedule 5.1 hereto, all of which will have been duly obtained, made or compiled prior to the Closing Date and which are in full force and effect and (d) will not conflict with, nor result in any breach in any of the provisions of or constitute a default under or result in the creation of any Lien except Permitted Encumbrances upon any asset of Borrower under the provisions of any agreement, charter document, instrument, by-law or other instrument to which Borrower is a party or by which it or its property is a party or by which it may be bound, including under the provisions of the Subordinated Loan Documentation or the Acquisition Agreement.

5.2. Formation and Qualification.

(a) Borrower is duly incorporated and in good standing under the laws of the state listed on Schedule 5.2(a) and is qualified to do business and is in good standing in the states listed on Schedule 5.2(a) which constitute all states in which qualification and good standing are necessary for Borrower to conduct its business and own its property and where the failure to so qualify could reasonably be expected to have a Material Adverse Effect. Borrower has delivered to Term B Lender true and complete copies of its certificate of incorporation and by-laws and will promptly notify Term B Lender of any amendment or changes thereto.

(b) The only Subsidiaries of Borrower are listed on Schedule 5.2(b).

5.3. Survival of Representations and Warranties. All representations and warranties of Borrower contained in this Agreement and the Other Documents shall be true at the time of Borrower's execution of this Agreement and the Other Documents, and shall survive the execution, delivery and acceptance thereof by the parties thereto and the closing of the transactions described therein or related thereto.

5.4. Tax Returns. Borrower's federal tax identification number is set forth on Schedule 5.4. Borrower has filed all federal, state and local tax returns and other reports it is required by law to file and has paid all taxes, assessments, fees and other governmental charges that are due and payable. Federal, state and local income tax returns of Borrower have been examined and reported upon by the appropriate taxing authority or closed by applicable statute and satisfied for all fiscal years prior to and including the fiscal year ended December 31, 2006. Federal, state and local income tax returns of Borrower have been filed for all fiscal years prior to and including the fiscal year ended December 31, 2006. The provision for taxes on the books of Borrower is adequate for all years not closed by applicable statutes, and for its current fiscal year, and Borrower has no knowledge of any deficiency or additional assessment in connection therewith not provided for on its books.

5.5. Financial Statements. The consolidated and consolidating balance sheets of Borrower, its Subsidiaries and such other Persons described therein (including the accounts of all Subsidiaries for the respective periods during which a subsidiary relationship existed) as of December 31, 2006, and the related statements of income, changes in stockholder's equity, and changes in cash flow for the period ended on such date, all accompanied by reports thereon containing opinions without qualification by independent certified public accountants, copies of which have been delivered to Term B Lender, have been prepared in accordance with GAAP, consistently applied (except for changes in application in which such accountants concur) and present fairly the financial position of Borrower and its Subsidiaries at such date and the results of their operations for such period. Since December 31, 2006, there has been no change in the condition, financial or otherwise, of Borrower or its Subsidiaries as shown on the consolidated balance sheet as of such date and no change in the aggregate value of machinery, equipment and Real Property owned by Borrower and its Subsidiaries, except changes in the Ordinary Course of Business, none of which individually or in the aggregate has been materially adverse.

5.6. Entity Name. Borrower has not been known by any other corporate name in the past five years and does not sell Inventory under any other name except as set forth on Schedule 5.6, nor has Borrower been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any Person during the preceding five (5) years.

5.7. O.S.H.A. and Environmental Compliance.

(a) Except as set forth in the Existing Environmental Due Diligence, Borrower has duly complied with, and its facilities, business, assets, property, leaseholds, Real Property and Equipment are in compliance in all material respects with, the provisions of the Federal Occupational Safety and Health Act, the Environmental Protection Act, RCRA and all other Environmental Laws; there have been no outstanding citations, notices or orders of non-compliance issued to Borrower or relating to its business, assets, property, leaseholds or Equipment under any such laws, rules or regulations.

(b) Borrower has been issued all required federal, state and local licenses, certificates or permits relating to all applicable Environmental Laws as set forth on Schedule 5.7(b) attached hereto.

(c) Borrower shall perform all testing and remediation recommended and set forth in the Existing Environmental Due Diligence including, but not limited to, as recommended in Section 10 of the 2005 Phase 1, in accordance with the requirements of the Existing Environmental Due Diligence and all applicable laws. Borrower shall provide to the Term B Lender copies of all documentation with regard thereto.

(d) Except as set forth in the Existing Environmental Due Diligence, (i) there are no visible signs of releases, spills, discharges, leaks or disposal (collectively referred to as "Releases") of Hazardous Substances at, upon, under or within any Real Property or any premises leased by Borrower; (ii) there are no underground storage tanks or polychlorinated biphenyls on the Real Property or any premises leased by Borrower; (iii) neither the Real Property nor any premises leased by Borrower has ever been used as a treatment, storage or disposal facility of Hazardous Waste; and (iv) no Hazardous Substances are present on the Real Property or any premises leased by Borrower, excepting such quantities as are handled in accordance with all applicable manufacturer's instructions and governmental regulations and in proper storage containers and as are necessary for the operation of the commercial business of Borrower or of its tenants.

5.8. Solvency; No Litigation, Violation, Indebtedness or Default.

(a) Borrower is solvent, able to pay its debts as they mature, has capital sufficient to carry on its business and all businesses in which it is about to engage, and (i) as of the Closing Date, the fair present saleable value of its assets, calculated on a going concern basis, is in excess of the amount of its liabilities and (ii) subsequent to the Closing Date, the fair saleable value of its assets (calculated on a going concern basis) will be in excess of the amount of its liabilities.

(b) Except as disclosed in Schedule 5.8(b), Borrower has no (i) pending or threatened litigation, arbitration, actions or proceedings which involve the possibility of having a Material Adverse Effect, and (ii) liabilities or indebtedness for borrowed money other than the Obligations.

(c) Borrower is not in violation of any applicable statute, law, rule, regulation or ordinance in any respect which could reasonably be expected to have a Material Adverse Effect, nor is Borrower in violation of any order of any court, Governmental Body or arbitration board or tribunal.

(d) Neither Borrower nor any member of the Controlled Group maintains or contributes to any Plan other than those listed on Schedule 5.8(d) hereto. (i) No Plan has incurred any "accumulated funding deficiency," as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Code, whether or not waived, and Borrower and each member of the Controlled Group has met all applicable minimum funding requirements under Section 302 of ERISA in respect of each Plan; (ii) each Plan which is intended to be a qualified plan under Section 401(a) of the Code as currently in effect has been determined by the Internal Revenue Service to be qualified under Section 401(a) of the Code and the trust related thereto is exempt from federal income tax under Section 501(a) of the Code; (iii) neither Borrower nor any member of the Controlled Group has incurred any liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due which are unpaid; (iv) no Plan has been terminated by the plan administrator thereof nor by the PBGC, and there is no occurrence which would cause the PBGC to institute proceedings under Title IV of ERISA to terminate any Plan; (v) at this time, the current value of the assets of each Plan exceeds the present value of the accrued benefits and other liabilities of such Plan and neither Borrower nor any member of the Controlled Group knows of any facts or circumstances which would materially change the value of such assets and accrued benefits and other liabilities; (vi) neither Borrower nor any member of the Controlled Group has breached any of the responsibilities, obligations or duties imposed on it by ERISA with respect to any Plan; (vii) neither Borrower nor any member of a Controlled Group has incurred any liability for any excise tax arising under Section 4972 or 4980B of the Code, and no fact exists which could give rise to any such liability; (viii) neither Borrower nor any member of the Controlled Group nor any fiduciary of, nor any trustee to, any Plan, has engaged in a "prohibited transaction" described in Section 406 of the ERISA or Section 4975 of the Code nor taken any action which would constitute or result in a Termination Event with respect to any such Plan which is subject to ERISA; (ix) Borrower and each member of the Controlled Group has made all contributions due and payable with respect to each Plan; (x) there exists no event described in Section 4043(b) of ERISA, for which the thirty (30) day notice period has not been waived; (xi) neither Borrower nor any member of the Controlled Group has any fiduciary responsibility for investments with respect to any plan existing for the benefit of persons other than employees or former employees of Borrower and any member of the Controlled Group; (xii) neither Borrower nor any member of the Controlled Group maintains or contributes to any Plan which provides health, accident or life insurance benefits to former employees, their spouses or dependents, other than in accordance with Section 4980B of the Code; (xiii) neither Borrower nor any member of the Controlled Group has withdrawn, completely or partially, from any Multiemployer Plan so as to incur liability under the Multiemployer Pension Plan Amendments Act of 1980 and there exists no fact which would reasonably be expected to result in any such liability; and (xiv) no Plan fiduciary (as defined in Section 3(21) of ERISA) has any liability for breach of fiduciary duty or for any failure in connection with the administration or investment of the assets of a Plan.

5.9. Patents, Trademarks, Copyrights and Licenses. All patents, patent applications, trademarks, trademark applications, service marks, service mark applications, copyrights, copyright applications, design rights, tradenames, assumed names, trade secrets and licenses owned or utilized by Borrower are set forth on Schedule 5.9, are valid and have been duly registered or filed with all appropriate Governmental Bodies and constitute all of the intellectual property

rights which are necessary for the operation of its business; there is no objection to or pending challenge to the validity of any such patent, trademark, copyright, design rights, tradename, trade secret or license and Borrower is not aware of any grounds for any challenge, except as set forth in Schedule 5.9 hereto. Each patent, patent application, patent license, trademark, trademark application, trademark license, service mark, service mark application, service mark license, design rights, copyright, copyright application and copyright license owned or held by Borrower and all trade secrets used by Borrower consist of original material or property developed by Borrower or was lawfully acquired by Borrower from the proper and lawful owner thereof. Each of such items has been maintained so as to preserve the value thereof from the date of creation or acquisition thereof. With respect to all software used by Borrower, Borrower is in possession of all source and object codes related to each piece of software or is the beneficiary of a source code escrow agreement, each such source code escrow agreement being listed on Schedule 5.9 hereto.

5.10. Licenses and Permits. Except as set forth in Schedule 5.10, Borrower (a) is in compliance with and (b) has procured and is now in possession of, all material licenses or permits required by any applicable federal, state, provincial or local law, rule or regulation for the operation of its business in each jurisdiction wherein it is now conducting or proposes to conduct business and where the failure to procure such licenses or permits could have a Material Adverse Effect.

5.11. Default of Indebtedness. Borrower is not in default in the payment of the principal of or interest on any Indebtedness or under any instrument or agreement under or subject to which any Indebtedness has been issued and no event has occurred under the provisions of any such instrument or agreement which with or without the lapse of time or the giving of notice, or both, constitutes or would constitute an event of default thereunder.

5.12. No Default. Borrower is not in default in the payment or performance of any of its contractual obligations and no Default has occurred.

5.13. No Burdensome Restrictions. Borrower is not party to any contract or agreement the performance of which could have a Material Adverse Effect. Borrower has heretofore delivered to Term B Lender true and complete copies of all material contracts to which it is a party or to which it or any of its properties is subject. Borrower has not agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien which is not a Permitted Encumbrance.

5.14. No Labor Disputes. Borrower is not involved in any labor dispute; there are no strikes or walkouts or union organization of Borrower's employees threatened or in existence and no labor contract is scheduled to expire during the Term other than as set forth on Schedule 5.14 hereto.

5.15. Margin Regulations. Borrower is not engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. No part of the proceeds of the Term Loan will be used for "purchasing" or "carrying" "margin stock" as defined in Regulation U of such Board of Governors.

5.16. Investment Company Act. Borrower is not an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, nor is it controlled by such a company.

5.17. Disclosure. No representation or warranty made by Borrower in this Agreement, the Subordinated Loan Documentation or in the Acquisition Agreement, or in any financial statement, report, certificate or any other document furnished in connection herewith or therewith contains any untrue statement of fact or omits to state any fact necessary to make the statements herein or therein not misleading. There is no fact known to Borrower or which reasonably should be known to Borrower which Borrower has not disclosed to Term B Lender in writing with respect to the transactions contemplated by the Acquisition Agreement, the Subordinated Loan Documentation or this Agreement which could reasonably be expected to have a Material Adverse Effect.

5.18. Delivery of Acquisition Agreement and Subordinated Loan Documentation. Term B Lender has received complete copies of the Acquisition Agreement and Subordinated Loan Documentation (including all exhibits, schedules and disclosure letters referred to therein or delivered pursuant thereto, if any) and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof. None of such documents and agreements has been amended or supplemented, nor have any of the provisions thereof been waived, except pursuant to a written agreement or instrument which has heretofore been delivered to Term B Lender.

5.19. Swaps. Borrower is not a party to, nor will it be a party to, any swap agreement whereby Borrower has agreed or will agree to swap interest rates or currencies unless same provides that damages upon termination following an event of default thereunder are payable on an unlimited "two-way basis" without regard to fault on the part of either party.

5.20. Conflicting Agreements. No provision of any mortgage, indenture, contract, agreement, judgment, decree or order binding on Borrower or affecting the Collateral conflicts with, or requires any Consent which has not already been obtained to, or would in any way prevent the execution, delivery or performance of, the terms of this Agreement or the Other Documents.

5.21. Application of Certain Laws and Regulations. Neither Borrower nor any Affiliate of Borrower is subject to any law, statute, rule or regulation which regulates the incurrence of any Indebtedness, including laws, statutes, rules or regulations relative to common or interstate carriers or to the sale of electricity, gas, steam, water, telephone, telegraph or other public utility services.

5.22. Business and Property of Borrower. Upon and after the Closing Date, Borrower does not propose to engage in any business other than the manufacturing of aircraft structural parts and assemblies and activities necessary to conduct the foregoing. On the Closing Date, Borrower will own all the property and possess all of the rights and Consents necessary for the conduct of the business of Borrower.

5.23. Anti-Terrorism Laws.

(a) General. Neither Borrower nor any Affiliate of Borrower is in violation of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(b) Executive Order No. 13224. Neither Borrower nor any Affiliate of Borrower or their respective agents acting or benefiting in any capacity in connection with the Term Loan or other transactions hereunder, is any of the following (each a "Blocked Person"):

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(iii) a Person or entity with which Term B Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224;

(v) a Person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list, or

(vi) a Person or entity who is affiliated or associated with a Person or entity listed above.

(c) Neither Borrower or to the knowledge of Borrower, any of its agents acting in any capacity in connection with the Term Loan or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

5.24. Trading with the Enemy. Borrower has not engaged, nor does it intend to engage, in any business or activity prohibited by the Trading with the Enemy Act.

5.25. Federal Securities Laws. Neither Borrower nor any of its Subsidiaries (i) is required to file periodic reports under the Exchange Act, (ii) has any securities registered under the Exchange Act or (iii) has filed a registration statement that has not yet become effective under the Securities Act.

VI. AFFIRMATIVE COVENANTS.

Borrower shall, until payment in full of the Obligations and termination of this Agreement:

6.1. Payment of Fees. Pay to Term B Lender on demand all usual and customary fees and expenses which Term B Lender incurs in connection with this Agreement and the Other Documents.

6.2. Conduct of Business and Maintenance of Existence and Assets. (a) Conduct continuously and operate actively its business according to good business practices and maintain all of its properties useful or necessary in its business in good working order and condition (reasonable wear and tear excepted and except as may be disposed of in accordance with the terms of this Agreement), including all licenses, patents, copyrights, design rights, tradenames, trade secrets and trademarks and take all actions necessary to enforce and protect the validity of any intellectual property right or other right included in the Collateral; (b) keep in full force and effect its existence and comply in all material respects with the laws and regulations governing the conduct of its business where the failure to do so could reasonably be expected to have a Material Adverse Effect; and (c) make all such reports and pay all such franchise and other taxes and license fees and do all such other acts and things as may be lawfully required to maintain its rights, licenses, leases, powers and franchises under the laws of the United States or any political subdivision thereof.

6.3. Violations. Promptly notify Term B Lender in writing of any violation of any law, statute, regulation or ordinance of any Governmental Body, or of any agency thereof, applicable to Borrower which could reasonably be expected to have a Material Adverse Effect.

6.4. Government Receivables. Take all steps necessary to protect Term B Lender's interest in the Collateral under the Federal Assignment of Claims Act, the Uniform Commercial Code and all other applicable state or local statutes or ordinances and deliver to Term B Lender appropriately endorsed, any instrument or chattel paper connected with any Receivable arising out of contracts between Borrower and the United States, any state or any department, agency or instrumentality of any of them.

6.5. Financial Covenants.

(a) Tangible Net Worth. Maintain at all times a Tangible Net Worth in an amount not less than (i) \$9,000,000 from the Closing Date through and including December 31, 2007 and (ii) as of December 31, 2008, an amount equal to the Borrower's Tangible Net Worth for the fiscal year ended December 31, 2007 plus an amount equal to fifty (50%) percent of the Borrower's Net Income for fiscal year ending December 31, 2008, which amount shall increase annually on December 31st of each year thereafter by not less than an amount equal to fifty (50%) percent of the Borrower's Net Income for the fiscal year ended, tested annually on a consolidated basis.

(b) Fixed Charge Coverage Ratio. Maintain at all times a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00, tested monthly on a consolidated, rolling twelve (12) month basis.

(c) Funded Debt Ratio. Maintain at all times a ratio of Funded Debt to EBITDA of not greater than 2.75 to 1.0, tested monthly on a consolidated, rolling twelve (12) month basis.

(d) EBITDA. Maintain EBITDA of not less than the amount set forth below for the one month period ending on the last day of the corresponding month set forth below:

Month -----	Amount -----
September 30, 2007	\$450,000
October 31, 2007	\$425,000
November 30, 2007	\$425,000
December 30, 2007	\$425,000
January 31, 2008 and as at the end of each calendar month thereafter for the one month period then ended	\$506,000

6.6. Execution of Supplemental Instruments. Execute and deliver to Term B Lender from time to time, upon demand, such supplemental agreements, statements, assignments and transfers, or instructions or documents relating to the Collateral, and such other instruments as Term B Lender may request, in order that the full intent of this Agreement may be carried into effect.

6.7. Payment of Indebtedness. Pay, discharge or otherwise satisfy at or before maturity (subject, where applicable, to specified grace periods and, in the case of the trade payables, to normal payment practices) all its obligations and liabilities of whatever nature, except when the failure to do so could not reasonably be expected to have a Material Adverse Effect or when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and Borrower shall have provided for such reserves as Term B Lender may reasonably deem proper and necessary, subject at all times to any applicable subordination arrangement.

6.8. Standards of Financial Statements. Cause all financial statements referred to in Sections 9.7, 9.8, 9.9, 9.10, 9.11, 9.12, 9.13 and 9.14 as to which GAAP is applicable to be complete and correct in all material respects (subject, in the case of interim financial statements, to normal year-end audit adjustments) and to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein (except as concurred in by such reporting accountants or officer, as the case may be, and disclosed therein).

6.9. Federal Securities Laws. Promptly notify Term B Lender in writing if Borrower or any of its Subsidiaries (i) is required to file periodic reports under the Exchange Act, (ii) registers any securities under the Exchange Act or (iii) files a registration statement under the Securities Act.

6.10. Exercise of Rights. Enforce all of its rights under the Acquisition Agreement and the Indemnification Agreement executed in connection therewith including, but not limited to, all indemnification rights and pursue all remedies available to it with diligence and in good faith in connection with the enforcement of any such rights.

6.11. Inventory Audits. Perform physical audits on its Inventory no less than two (2) times each fiscal year until Term B Lender has approved in writing a perpetual inventory accounting system acceptable to the Term B Lender in its sole discretion and such perpetual inventory accounting system has been implemented to the satisfaction of the Term B Lender.

VII. NEGATIVE COVENANTS.

Borrower shall not, until the indefeasible satisfaction in full in cash of the Obligations and the irrevocable termination of this Agreement:

7.1. Merger, Consolidation, Acquisition and Sale of Assets.

(a) Enter into any merger, consolidation or other reorganization with or into any other Person or acquire all or a substantial portion of the assets or Equity Interests of any Person or permit any other Person to consolidate with or merge with it.

(b) Sell, lease, transfer or otherwise dispose of any of its properties or assets, except (i) dispositions of Inventory and Equipment to the extent expressly permitted by Section 4.3, and (ii) any other sales or dispositions expressly permitted by this Agreement.

7.2. Creation of Liens. Create or suffer to exist any Lien or transfer upon or against any of its property or assets now owned or hereafter acquired, except Permitted Encumbrances.

7.3. Guarantees. Become liable upon the obligations or liabilities of any Person by assumption, endorsement or guaranty thereof or otherwise (other than to Senior Lender pursuant to the Senior Loan Documents) except the endorsement of checks in the Ordinary Course of Business.

7.4. Investments. Purchase or acquire obligations or Equity Interests of, or any other interest in, any Person, except (a) obligations issued or guaranteed by the United States of America or any agency thereof, (b) commercial paper with maturities of not more than 180 days and a published rating of not less than A-1 or P-1 (or the equivalent rating), (c) certificates of time deposit and bankers' acceptances having maturities of not more than 180 days and repurchase agreements backed by United States government securities of a commercial bank if (i) such bank has a combined capital and surplus of at least \$500,000,000, or (ii) its debt obligations, or those of a holding company of which it is a Subsidiary, are rated not less than A (or the equivalent rating) by a nationally recognized investment rating agency, and (d) U.S. money market funds that invest solely in obligations issued or guaranteed by the United States of America or an agency thereof.

7.5. Loans. Make advances, loans or extensions of credit to any Person, including any Parent, Subsidiary or Affiliate except with respect to (a) the extension of commercial trade credit in connection with the sale of Inventory in the Ordinary Course of Business and (b) loans to its employees in the Ordinary Course of Business not to exceed the aggregate amount of \$200,000 at any time outstanding.

7.6. Capital Expenditures. Contract for, purchase or make any expenditure or commitments for Capital Expenditures in any fiscal year in an aggregate amount in excess of \$1,100,000.

7.7. Dividends. Declare, pay or make any dividend or distribution on any shares of the common stock or preferred stock of Borrower (other than dividends or distributions payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock, or of any options to purchase or acquire any such shares of common or preferred stock of Borrower provided, however, that from and after January 1, 2009, dividends may be paid in cash to the shareholders of the Borrower as long as (a) after payment of said dividend, Undrawn Availability (as defined in the Senior Loan Agreement) is equal to or greater than \$3,000,000, (b) no Default and/or Event of Default exists at the time of payment of any such dividend, and (c) no Default and/or Event of Default shall exist after giving effect to the payment of any such dividend.

7.8. Indebtedness. Create, incur, assume or suffer to exist any Indebtedness (exclusive of trade debt) except in respect of (i) Indebtedness to Term B Lender; (ii) Indebtedness to Senior Lender pursuant to the Senior Loan Documents; (iii) Indebtedness due under the Subordinated Loan Documentation; (iv) Indebtedness to seller under the Acquisition Agreement; and (v) Indebtedness incurred for Capital Expenditures permitted under Section 7.6 hereof.

7.9. Nature of Business. Substantially change the nature of the business in which it is presently engaged, nor except as specifically permitted hereby purchase or invest, directly or indirectly, in any assets or property other than in the Ordinary Course of Business for assets or property which are useful in, necessary for and are to be used in its business as presently conducted.

7.10. Transactions with Affiliates. Directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise enter into any transaction or deal with, any Affiliate, except transactions disclosed to Term B Lender, which are in the Ordinary Course of Business, on an arm's-length basis on terms and conditions no less favorable than terms and conditions which would have been obtainable from a Person other than an Affiliate.

7.11. Leases. Enter as lessee into any lease arrangement for real or personal property (unless capitalized and permitted under Section 7.6 hereof) if after giving effect thereto, aggregate annual rental payments for all leased property would exceed \$250,000 in any one fiscal year in the aggregate for Borrower exclusive of any and all amounts paid by the Borrower as lease payments with regard to the Sale and Lease-Back Premises.

7.12. Subsidiaries.

(a) Form any Subsidiary.

(b) Enter into any partnership, joint venture or similar arrangement.

7.13. Fiscal Year and Accounting Changes. Change its fiscal year from December 31st or make any change (i) in accounting treatment and reporting practices except as required by GAAP or (ii) in tax reporting treatment except as required by law.

7.14. Pledge of Credit. Now or hereafter pledge Term B Lender's credit on any purchases or for any purpose whatsoever or use any portion of the Term Loan in or for any business other than Borrower's business as conducted on the date of this Agreement.

7.15. Amendment of Articles of Incorporation, By-Laws. Amend, modify or waive any term or material provision of its Articles of Incorporation or By-Laws unless required by law.

7.16. Compliance with ERISA. (i) (x) Maintain, or permit any member of the Controlled Group to maintain, or (y) become obligated to contribute, or permit any member of the Controlled Group to become obligated to contribute, to any Plan, other than those Plans disclosed on Schedule 5.8(d), (ii) engage, or permit any member of the Controlled Group to engage, in any non-exempt "prohibited transaction", as that term is defined in section 406 of ERISA and Section 4975 of the Code, (iii) incur, or permit any member of the Controlled Group to incur, any "accumulated funding deficiency", as that term is defined in Section 302 of ERISA or Section 412 of the Code, (iv) terminate, or permit any member of the Controlled Group to terminate, any Plan where such event could result in any liability of Borrower or any member of the Controlled Group or the imposition of a lien on the property of Borrower or any member of the Controlled Group pursuant to Section 4068 of ERISA, (v) assume, or permit any member of the Controlled Group to assume, any obligation to contribute to any Multiemployer Plan not disclosed on Schedule 5.8(d), (vi) incur, or permit any member of the Controlled Group to incur, any withdrawal liability to any Multiemployer Plan; (vii) fail promptly to notify Term B Lender of the occurrence of any Termination Event, (viii) fail to comply, or permit a member of the Controlled Group to fail to comply, with the requirements of ERISA or the Code or other Applicable Laws in respect of any Plan, (ix) fail to meet, or permit any member of the Controlled Group to fail to meet, all minimum funding requirements under ERISA or the Code or postpone or delay or allow any member of the Controlled Group to postpone or delay any funding requirement with respect of any Plan.

7.17. Prepayment of Indebtedness. Except as permitted pursuant to Section 7.23 hereof, at any time, directly or indirectly, prepay any Indebtedness (other than to Senior Lenders pursuant to the Senior Loan Documents), or repurchase, redeem, retire or otherwise acquire any Indebtedness of Borrower.

7.18. Anti-Terrorism Laws. Borrower shall not, until infeasible satisfaction in full in cash of the Obligations and the irrevocable termination of this Agreement, nor shall it permit any Affiliate or agent to:

(a) Conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person.

(b) Deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

(c) Engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the USA PATRIOT Act or any other Anti-Terrorism Law. Borrower shall deliver to Term B Lender any certification or other evidence requested from time to time by Term B Lender in its sole discretion, confirming Borrower's compliance with this Section.

7.19. Membership/Partnership Interests. Elect to treat or permit any of its Subsidiaries to (x) treat its limited liability company membership interests or partnership interests, as the case may be, as securities as contemplated by the definition of "security" in Section 8-102(15) and by Section 8-103 of Article 8 of Uniform Commercial Code or (y) certificate its limited liability company membership interests or partnership interests, as the case may be.

7.20. Trading with the Enemy Act. Engage in any business or activity in violation of the Trading with the Enemy Act.

7.21. Subordinated Note. At any time, directly or indirectly, pay, prepay, repurchase, redeem, retire or otherwise acquire, or make any payment on account of any principal of, interest on or premium payable in connection with the repayment or redemption of the Subordinated Note, except as expressly permitted in the Subordination Agreement.

7.22. Other Agreements. Enter into any material amendment, waiver or modification of the Acquisition Agreement, the Subordinated Loan Documentation or any related agreements.

7.23. Progress Payments. Allow the aggregate amount of progress payments on Indebtedness not evidenced by invoices owed by the Borrower to exceed \$1,500,000 at any time.

VIII. CONDITIONS PRECEDENT.

8.1. Conditions to Term Loan. The agreement of Term B Lender to make the Term Loan requested to be made on the Closing Date is subject to the satisfaction, or waiver by Term B Lender, immediately prior to or concurrently with the making of the Term Loan, of the following conditions precedent:

(a) Note. Term B Lender shall have received the Note duly executed and delivered by an authorized officer of Borrower;

(b) Filings, Registrations and Recordings. Each document (including any Uniform Commercial Code financing statement) required by this Agreement, any related agreement or under law or reasonably requested by Term B Lender to be filed, registered or recorded in order to create, in favor of Term B Lender, a perfected security interest in or lien upon the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and Term B Lender shall have received an acknowledgment copy, or other evidence satisfactory to it, of each such filing, registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto;

(c) Corporate Proceedings of Borrower. Term B Lender shall have received a copy of the resolutions in form and substance reasonably satisfactory to Term B Lender, of the Board of Directors of Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Subordinated Loan Documentation, the Acquisition Agreement and the Other Documents (collectively the "Documents") and (ii) the granting by Borrower of the security interests in and liens upon the Collateral in each case certified by the Secretary or an Assistant Secretary of Borrower as of the Closing Date; and, such certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate;

(d) Incumbency Certificates of Borrower. Term B Lender shall have received a certificate of the Secretary or an Assistant Secretary of Borrower, dated the Closing Date, as to the incumbency and signature of the officers of Borrower executing this Agreement, the Other Documents, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary;

(e) Certificates. Term B Lender shall have received a copy of the Articles or Certificate of Incorporation of Borrower, and all amendments thereto, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation together with copies of the By-Laws of Borrower and all agreements of Borrower's shareholders certified as accurate and complete by the Secretary of Borrower;

(f) Good Standing Certificates. Term B Lender shall have received good standing certificates for Borrower dated not more than 30 days prior to the Closing Date, issued by the Secretary of State or other appropriate official of Borrower's jurisdiction of incorporation and each jurisdiction where the conduct of Borrower's business activities or the ownership of its properties necessitates qualification;

(g) Ownership and Capital Structure. Term B Lender shall be satisfied with the ownership and capital structure of each of Air, Sigma and WMI, in its sole discretion;

(h) WMI Merger. Prior to or simultaneously with the Closing Date, Term B Lender shall have received, in form and substance satisfactory to Term B Lender, (i) a copy of the Certificate of Merger in the form presented to the New York Secretary of State for filing evidencing the merger of WMS Merger Corp. and Welding Metallurgy, Inc., with WMI being the surviving entity, and (ii) confirmation that such Certificate of Merger has been filed.

(i) Legal Opinion. Term B Lender shall have received the executed legal opinion of Eaton & Van Winkle LLP in form and substance satisfactory to Term B Lender which shall cover such matters incident to the transactions contemplated by this Agreement, the Subordination Agreement and the Other Documents and related agreements as Term B Lender may reasonably require and Borrower hereby authorizes and directs such counsel to deliver such opinions to Term B Lender;

(j) No Litigation. (i) No litigation, investigation or proceeding before or by any arbitrator or Governmental Body shall be continuing or threatened against Borrower or against the officers or directors of Borrower (A) in connection with this Agreement, the Other Documents, the Subordinated Loan Documents or any of the transactions contemplated thereby and which, in the reasonable opinion of Term B Lender, is deemed material or (B) which could, in the reasonable opinion of Term B Lender, have a Material Adverse Effect; and (ii) no injunction, writ, restraining order or other order of any nature materially adverse to Borrower or the conduct of its business or inconsistent with the due consummation of the Transactions shall have been issued by any Governmental Body. Term B Lender shall have received a summary of all existing litigation regarding the Borrower;

(k) Financial Condition Certificates. Term B Lender shall have received an executed Financial Condition Certificate in the form of Exhibit 8.1(k).

(l) Fees. Term B Lender shall have received all fees payable to Term B Lender on or prior to the Closing Date hereunder, including pursuant to Article III hereof;

(m) Financial Statements. Term B Lender shall have received a copy of the Borrower's most recent financial statements and federal and state income tax returns and income tax reports (if any), which shall be satisfactory in all respects to Term B Lender;

(n) Consolidating Interim Financial Statements. Term B Lender shall have received a copy of the consolidating interim financial statements of Air, Sigma and WMI for the three (3) month period ended March 31, 2006, which shall be satisfactory in all respects to Term B Lender;

(o) Acquisition and Subordinated Loan Documents. Term B Lender shall have received final executed copies of the Acquisition Agreement and the Subordinated Loan Documentation, and all related agreements, documents and instruments as in effect on the Closing Date, including, without limitation, an opinion of counsel with respect to the Acquisition Agreement providing that the same may be relied upon by Term B Lender, all of which shall be satisfactory in form and substance to Term B Lender and the transactions contemplated by such documentation shall be consummated prior to or simultaneously with the making of the Term Loan;

(p) Senior Loan Documents. Term B Lender shall have received final executed copies of the Senior Loan Agreement and all related agreements, documents and instruments as in effect on the Closing Date all of which shall be satisfactory in form and substance to Term B Lender;

(q) Intercreditor Agreement. Term B Lender shall have entered into the Intercreditor Agreement with Senior Lender which shall be satisfactory in form and substance to Term B Lender in its sole discretion;

(r) Subordination Agreement. Term B Lender shall have entered into a Subordination Agreement with Borrower, Air Group and Subordinated Lender which shall set forth the basis upon which the "Subordinated Lender" may receive, and Air Group may make, payments under the Subordinated Note, which basis shall be satisfactory in form and substance to Term B Lender in its sole discretion;

(s) Fictitious, Assumed or Alternate Names. Term B Lender shall have received certified copies of any fictitious, assumed or alternate names of the Borrower;

(t) Insurance. Term B Lender shall have received in form and substance satisfactory to Term B Lender, certified copies of Borrower's casualty insurance policies, together with loss payable endorsements on Term B Lender's standard form of loss payee endorsement, and certified copies of Borrower's liability insurance and property insurance policies, together with endorsements naming Term B Lender as additional insured, mortgagee and lender loss payee;

(u) Payment Instructions. Term B Lender shall have received written instructions from Borrower directing the application of proceeds of the Term Loan made pursuant to this Agreement;

(v) Consents. Term B Lender shall have received any and all Consents necessary to permit the effectuation of the transactions contemplated by this Agreement and the Other Documents; and, Term B Lender shall have received such Consents and waivers of such third parties as might assert claims with respect to the Collateral, as Term B Lender and its counsel shall deem necessary;

(w) No Adverse Material Change. (i) since December 31, 2006, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect (including with respect to Welding Metals, Inc.), and (ii) no representations made or information supplied to Term B Lender shall have been proven to be inaccurate or misleading in any material respect;

(x) Leasehold Agreements. Term B Lender shall have received landlord, mortgagee or warehouseman agreements satisfactory to Term B Lender with respect to all premises leased by Borrower at which Inventory and books and records are located;

(y) ERISA Compliance. Term B Lender shall have received in form and substance satisfactory to Term B Lender evidence that Borrower is in compliance with ERISA as required in Section 7.16 herein along with a certificate from Borrower's accountant, attorney or actuary delineating all existing pension and/or profit sharing plans, if any;

(z) Pledge Agreements and Other Documents. Term B Lender shall have received (i) the executed Pledge Agreements, and (ii) the executed Other Documents, all in form and substance satisfactory to Term B Lender;

(aa) Subordinated Note Documentation. Term B Lender shall have received final executed copies of the Subordinated Note and all other Subordinated Loan Documentation which shall contain such terms and provisions including subordination terms, satisfactory to Term B Lender;

(bb) Projections. Term B Lender shall have received monthly and annual projections of the Borrower for the immediately succeeding year demonstrating Borrower's ability to make payments under this Agreement, and Term B Lender shall have received satisfactory detail behind the Borrower's opening pro forma balance sheet, all in form and substance satisfactory to Term B Lender;

(cc) Business Plan. Term B Lender shall received Borrower's business plan, in form and substance satisfactory to Term B Lender, and be satisfied that Borrower's management will be able to executed Borrower's business plan;

(dd) Contract Review. Term B Lender shall have received copies of all material contracts of Borrower including, without limitation, leases, union contracts, labor contracts, vendor supply contracts, management agreements, option agreements, warrant agreements, royalty agreements, member agreements, purchase agreements, warranty agreements, employment agreements, license agreements and distributorship agreements and such contracts and agreements shall be satisfactory in all reasonable respects to Term B Lender;

(ee) Closing Certificate. Term B Lender shall have received a closing certificate signed by the Chief Financial Officer of Borrower dated as of the date hereof, stating that (i) all representations and warranties set forth in this Agreement and the Other Documents are true and correct on and as of such date, (ii) Borrower is on such date in compliance with all the terms and provisions set forth in this Agreement and the Other Documents and (iii) on such date no Default or Event of Default has occurred or is continuing;

(ff) Borrowing Base. Term B Lender shall have received a Borrowing Base Certificate (as defined in the Senior Loan Agreement) from Borrower evidencing that the Borrower will have a minimum aggregate Undrawn Availability (as defined in the Senior Loan Agreement) under the Senior Loan Agreement of at least \$2,200,000 at closing (after all fees and expenses and subtraction of trade payables 60 days or more past due and not otherwise on formal extended terms);

(gg) Compliance with Laws. Term B Lender shall be reasonably satisfied that Borrower is in compliance with all pertinent federal, state, local or territorial regulations, including those with respect to the Federal Occupational Safety and Health Act, the Environmental Protection Act, ERISA and the Trading with the Enemy Act;

(hh) Searches. Term B Lender shall have received UCC searches, Federal and State Litigation searches, Upper Court and Local Judgment searches, franchise tax searches, bankruptcy searches, Federal and State Tax Lien searches and any other Lien searches run against the names of the Borrower as well as any previous, alternate and fictitious names, and against the names of all entities which were acquired by or merged into the Borrower, or orders of applicable bankruptcy courts reflecting lien releases (as applicable), showing no existing security interests in or Liens on the Collateral other than Permitted Encumbrances and other Liens permitted by Term B Lender;

(ii) Intellectual Property. Term B Lender shall have received a list of intellectual property of the Borrower including trademarks and trademark applications, patents and patent applications, copyrights and copyright applications, together with a search/abstract relating to the same;

(jj) Trade References. Receipt and satisfactory review by Term B Lender of trade references with regard to the Borrower;

(kk) Review of Records. Term B Lender shall have reviewed to its satisfaction all of Borrower's books and records;

(ll) Privity Letter. Term B Lender shall have received a privity letter from Borrower's accountant authorizing the Term B Lender to rely on the financial statements and other documentation prepared by such accountant;

(mm) Warrants. Term B Lender shall have received, in form and substance satisfactory to Term B Lender, warrants exercisable into 100,000 shares of the capital stock of Air Group;

(nn) Evidence of Financial Compliance. Term B Lender shall have received written evidence, in form and substance satisfactory to Term B Lender, that (i) Borrower's EBITDA for the trailing twelve (12) month period ended on March 31, 2007 is not less than \$5,500,000, and (ii) Borrower's Funded Senior Debt to EBITDA Ratio for the trailing twelve (12) month period ended on March 31, 2007 is less than 2.75 to 1.00;

(oo) Federal Acquisition Regulations. Satisfactory legal review by Term B Lender of the Federal Acquisition Regulations requirements and customer military contracts to confirm that no offset shall occur with regard to accounts receivable availability based on advanced/progress billings;

(pp) Orderly Liquidation Valuation Appraisal. Satisfactory review by Term B Lender of an Orderly Liquidation Valuation Appraisal of the Borrower's machinery and equipment from Gordon Brothers;

(qq) Consulting Agreement. Term B Lender shall have received final executed copies of the Consulting Agreement between John Gantt and WMI and all related agreements, documents and instruments as in effect on the Closing Date, all of which shall be satisfactory in form and substance to Term B Lender;

(rr) Background Checks. Term B Lender shall have received a copy of the background searches conducted against key management personnel of Borrower, each of which shall be satisfactory in form and substance to Term B Lender;

(ss) Reference Checks. Term B Lender shall have received favorable references with respect to Borrower from each of Sikorsky and Northrop Grumman, each of which shall be satisfactory in form and substance to Term B Lender; and

(tt) Other. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the Transactions shall be satisfactory in form and substance to Term B Lender and its counsel.

IX. INFORMATION AS TO BORROWERS.

Borrower shall, until satisfaction in full of the Obligations and the termination of this Agreement:

9.1. Disclosure of Material Matters. Immediately upon learning thereof, report to Term B Lender all matters materially affecting the value, enforceability or collectibility of any portion of the Collateral, including Borrower's reclamation or repossession of, or the return to Borrower of, a material amount of goods or claims or disputes asserted by any Customer or other obligor.

9.2. Schedules. Deliver to Term B Lender (a) on or before the fifteenth (15th) day of each month as and for the prior month (x) accounts receivable ageings and accounts payable ageings inclusive of reconciliations to the general ledger, (y) Inventory reports, and (z) a Borrowing Base Certificate (as defined in the Senior Loan Agreement) which shall be accompanied by a Compliance Certificate and (b) on Tuesday of each week as and for the immediately preceding week, sales, cash remittances, credits and collection reports. In addition, Borrower will deliver to Term B Lender at such intervals as Term B Lender may require: (i) confirmatory assignment schedules, (ii) copies of Customer's invoices, (iii) evidence of shipment or delivery, and (iv) such further schedules, documents and/or information regarding the Collateral as Term B Lender may require including trial balances and test verifications. Term B Lender shall have the right to confirm and verify all Receivables by any manner and through any medium it considers advisable and do whatever it may deem reasonably necessary to protect its interests hereunder. The items to be provided under this Section are to be in form satisfactory to Term B Lender and executed by Borrower and delivered to Term B Lender from time to time solely for Term B Lender's convenience in maintaining records of the Collateral, and Borrower's failure to deliver any of such items to Term B Lender shall not affect, terminate, modify or otherwise limit Term B Lender's Lien with respect to the Collateral.

9.3. Environmental Reports. Furnish Term B Lender, concurrently with the delivery of the financial statements referred to in Sections 9.7 and 9.8, with a certificate signed by the President of Borrower stating, to the best of his knowledge, that Borrower is in compliance in all material respects with all federal, state and local Environmental Laws. To the extent Borrower is not in compliance with the foregoing laws, the certificate shall set forth with specificity all areas of non-compliance and the proposed action Borrower will implement in order to achieve full compliance.

9.4. Litigation. Promptly notify Term B Lender in writing of any claim, litigation, suit or administrative proceeding affecting Borrower, whether or not the claim is covered by insurance, and of any litigation, suit or administrative proceeding, which in any such case affects the Collateral or which could reasonably be expected to have a Material Adverse Effect.

9.5. Material Occurrences. Promptly notify Term B Lender in writing upon the occurrence of (a) any Event of Default or Default; (b) any event of default under the Subordinated Loan Documentation; (c) any event which with the giving of notice or lapse of time, or both, would constitute an event of default under the Subordinated Loan Documentation; (d) any event, development or circumstance whereby any financial statements or other reports furnished to Term B Lender fail in any material respect to present fairly, in accordance with GAAP consistently applied, the financial condition or operating results of Borrower as of the date of such statements; (e) any accumulated retirement plan funding deficiency which, if such deficiency continued for two plan years and was not corrected as provided in Section 4971 of the Code, could subject Borrower to a

tax imposed by Section 4971 of the Code; (f) each and every default by Borrower which might result in the acceleration of the maturity of any Indebtedness, including the names and addresses of the holders of such Indebtedness with respect to which there is a default existing or with respect to which the maturity has been or could be accelerated, and the amount of such Indebtedness; and (g) any other development in the business or affairs of Borrower which could reasonably be expected to have a Material Adverse Effect; in each case describing the nature thereof and the action Borrower propose to take with respect thereto.

9.6. Government Receivables. Notify Term B Lender immediately if any of its Receivables arise out of contracts between Borrower and the United States, any state, or any department, agency or instrumentality of any of them.

9.7. Annual Financial Statements. Furnish Term B Lender within ninety (90) days after the end of each fiscal year of Borrower, audited financial statements of Borrower including, but not limited to, statements of income and stockholders' equity and cash flow from the beginning of the current fiscal year to the end of such fiscal year and the balance sheet as at the end of such fiscal year, all prepared in accordance with GAAP applied on a basis consistent with prior practices, and in reasonable detail and reported upon without qualification by an independent certified public accounting firm selected by Borrower and satisfactory to Term B Lender (the "Accountants"). The report of the Accountants shall be accompanied by a statement of the Accountants certifying that (i) they have caused this Agreement to be reviewed, (ii) in making the examination upon which such report was based either no information came to their attention which to their knowledge constituted an Event of Default or a Default under this Agreement or any related agreement or, if such information came to their attention, specifying any such Default or Event of Default, its nature, when it occurred and whether it is continuing, and such report shall contain or have appended thereto calculations which set forth Borrower's compliance with the requirements or restrictions imposed by Sections 6.5, 7.4, 7.5, 7.6, 7.7, 7.8 and 7.11 hereof. In addition, the reports shall be accompanied by a Compliance Certificate.

9.8. Quarterly Financial Statements. Furnish Term B Lender within 45 days after the end of each fiscal quarter, an unaudited balance sheet of Borrower and unaudited statements of income and stockholders' equity and cash flow of Borrower reflecting results of operations from the beginning of the fiscal year to the end of such quarter and for such quarter, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments that individually and in the aggregate are not material to Borrower's business. The reports shall be accompanied by a Compliance Certificate.

9.9. Monthly Financial Statements. Commencing with the month of August, 2007, furnish Term B Lender within thirty (30) days after the end of each month, an unaudited balance sheet of Borrower and unaudited statements of income and stockholders' equity and cash flow of Borrower reflecting results of operations from the beginning of the fiscal year to the end of such month and for such month, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments that individually and in the aggregate are not material to Borrower's business. The reports shall be accompanied by a Compliance Certificate.

9.10. Other Reports. Furnish Term B Lender as soon as available, but in any event within ten (10) days after the issuance thereof, (i) with copies of such financial statements, reports and returns as Borrower shall send to its stockholders and (ii) copies of all notices, reports, financial statements and other materials sent pursuant to the Subordinated Loan Documentation.

9.11. Additional Information. Furnish Term B Lender with such additional information as Term B Lender shall reasonably request in order to enable Term B Lender to determine whether the terms, covenants, provisions and conditions of this Agreement have been complied with by Borrower including, without the necessity of any request by Term B Lender, (a) copies of all environmental audits and reviews, (b) at least thirty (30) days prior thereto, notice of Borrower's opening of any new office or place of business or Borrower's closing of any existing office or place of business, and (c) promptly upon Borrower's learning thereof, notice of any labor dispute to which Borrower may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which Borrower is a party or by which Borrower is bound.

9.12. Projected Operating Budget. Furnish Term B Lender, no later than thirty (30) days prior to the beginning of Borrower's fiscal years commencing with fiscal year 2008, a month by month projected operating budget and cash flow of Borrower for such fiscal year (including an income statement for each month and a balance sheet as at the end of the last month in each fiscal quarter), such projections to be accompanied by a certificate signed by the President or Chief Financial Officer of Borrower to the effect that such projections have been prepared on the basis of sound financial planning practice consistent with past budgets and financial statements and that such officer has no reason to question the reasonableness of any material assumptions on which such projections were prepared.

9.13. Variances From Operating Budget. Furnish Term B Lender, concurrently with the delivery of the financial statements referred to in Section 9.7 and each quarterly report, a written report summarizing all material variances from budgets submitted by Borrower pursuant to Section 9.12 and a discussion and analysis by management with respect to such variances.

9.14. Notice of Suits, Adverse Events. Furnish Term B Lender with prompt written notice of (i) any lapse or other termination of any Consent issued to Borrower by any Governmental Body or any other Person that is material to the operation of Borrower's business, (ii) any refusal by any Governmental Body or any other Person to renew or extend any such Consent; and (iii) copies of any periodic or special reports filed by Borrower with any Governmental Body or Person, if such reports indicate any material change in the business, operations, affairs or condition of Borrower, or if copies thereof are requested by Term B Lender, and (iv) copies of any material notices and other communications from any Governmental Body or Person which specifically relate to Borrower.

9.15. ERISA Notices and Requests. Furnish Term B Lender with immediate written notice in the event that (i) Borrower or any member of the Controlled Group knows or has reason to know that a Termination Event has occurred, together with a written statement describing such Termination Event and the action, if any, which Borrower or any member of the Controlled Group has taken, is taking, or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor or PBGC with respect thereto, (ii) Borrower or any member of the Controlled Group knows or has reason to know that a prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) has occurred together with a written statement

describing such transaction and the action which Borrower or any member of the Controlled Group has taken, is taking or proposes to take with respect thereto, (iii) a funding waiver request has been filed with respect to any Plan together with all communications received by Borrower or any member of the Controlled Group with respect to such request, (iv) any increase in the benefits of any existing Plan or the establishment of any new Plan or the commencement of contributions to any Plan to which Borrower or any member of the Controlled Group was not previously contributing shall occur, (v) Borrower or any member of the Controlled Group shall receive from the PBGC a notice of intention to terminate a Plan or to have a trustee appointed to administer a Plan, together with copies of each such notice, (vi) Borrower or any member of the Controlled Group shall receive any favorable or unfavorable determination letter from the Internal Revenue Service regarding the qualification of a Plan under Section 401(a) of the Code, together with copies of each such letter; (vii) Borrower or any member of the Controlled Group shall receive a notice regarding the imposition of withdrawal liability, together with copies of each such notice; (viii) Borrower or any member of the Controlled Group shall fail to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment; (ix) Borrower or any member of the Controlled Group knows that (a) a Multiemployer Plan has been terminated, (b) the administrator or plan sponsor of a Multiemployer Plan intends to terminate a Multiemployer Plan, or (c) the PBGC has instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multiemployer Plan.

9.16. Additional Documents. Execute and deliver to Term B Lender, upon request, such documents and agreements as Term B Lender may, from time to time, reasonably request to carry out the purposes, terms or conditions of this Agreement.

X. EVENTS OF DEFAULT.

The occurrence of any one or more of the following events shall constitute an "Event of Default":

10.1. Nonpayment. Failure by Borrower to pay any principal or interest on the Obligations when due, whether at maturity or by reason of acceleration pursuant to the terms of this Agreement or by notice of intention to prepay, or by required prepayment or failure to pay any other liabilities or make any other payment, fee or charge provided for herein when due or in any Other Document;

10.2. Breach of Representation. Any representation or warranty made or deemed made by Borrower in this Agreement, any Other Document or any related agreement or in any certificate, document or financial or other statement furnished at any time in connection herewith or therewith shall prove to have been misleading in any material respect on the date when made or deemed to have been made;

10.3. Financial Information. Failure by Borrower to (i) furnish financial information when due or when requested which is unremedied for a period of fifteen (15) days, or (ii) permit the inspection of its books or records as set forth in Section 4.10 herein;

10.4. Judicial Actions. Issuance of a notice of Lien, levy, assessment, injunction or attachment against Borrower's Inventory or Receivables or against a material portion of Borrower's other property which is not stayed or lifted within thirty (30) days;

10.5. Noncompliance. Except as otherwise provided for in Sections 10.1, 10.3 and 10.5(ii), (i) failure or neglect of Borrower to perform, keep or observe any term, provision, condition, covenant herein contained, or contained in any Other Document or any other agreement or arrangement, now or hereafter entered into between Borrower and Term B Lender, or (ii) failure or neglect of Borrower to perform, keep or observe any term, provision, condition or covenant, contained in Sections 4.6, 4.7, 4.9, 6.1, 6.3, 6.4, 9.4 or 9.6 hereof which is not cured within ten (10) days from the occurrence of such failure or neglect;

10.6. Judgments. Any judgment or judgments are rendered against Borrower for an aggregate amount in excess of \$250,000 which (i) is/are not contested in good faith by the Borrower, (ii) the Borrower does not establish reserves with regard thereto in an amount reasonably satisfactory to Term B Lender, unless any such judgment is fully covered by insurance and evidence thereof acceptable to Term B Lender in its sole discretion is provided to Term B Lender, and (iii) the enforcement of such judgment or judgments is/are not continuously stayed, satisfied or discharged of record within forty (40) days of such rendering;

10.7. Bankruptcy. Borrower shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing;

10.8. Inability to Pay. Borrower shall admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business;

10.9. Affiliate Bankruptcy. Any Affiliate or any Subsidiary of Borrower shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

10.10. Material Adverse Effect. Any change in Borrower's results of operations or condition (financial or otherwise) which in Term B Lender's opinion has a Material Adverse Effect;

10.11. Lien Priority. Any Lien created hereunder or provided for hereby or under any related agreement for any reason ceases to be or is not a valid and perfected Lien having a second priority interest subordinate only to the Liens in favor Senior Lender;

10.12. Subordinated Loan Default. An event of default has occurred under the Subordinated Loan Documentation or the Subordination Agreement, which default shall not have been cured or waived within any applicable grace period;

10.13. Senior Loan Default. An event of default has occurred under the Senior Loan Documents or the Intercreditor Agreement, which default shall not have been cured or waived within any applicable grace period, or the aggregate balance of Advances (as defined in the Senior Loan Agreement) outstanding at any time is in excess of the maximum amount of Advances at any time permitted under the Senior Loan Agreement;

10.14. Cross Default. A default of the obligations of Borrower under any other agreement to which it is a party shall occur which adversely affects its condition, affairs or prospects (financial or otherwise) which default is not cured within any applicable grace period;

10.15. Change of Ownership. Any Change of Ownership or Change of Control shall occur;

10.16. Invalidity. Any material provision of this Agreement or any Other Document shall, for any reason, cease to be valid and binding on Borrower, or Borrower shall so claim in writing to Term B Lender;

10.17. Licenses. (i) Any Governmental Body shall (A) revoke, terminate, suspend or adversely modify any license, permit, patent trademark or tradename of Borrower, or (B) commence proceedings to suspend, revoke, terminate or adversely modify any such license, permit, trademark, tradename or patent and such proceedings shall not be dismissed or discharged within sixty (60) days, or (c) schedule or conduct a hearing on the renewal of any license, permit, trademark, tradename or patent necessary for the continuation of Borrower's business and the staff of such Governmental Body issues a report recommending the termination, revocation, suspension or material, adverse modification of such license, permit, trademark, tradename or patent; (ii) any agreement which is necessary or material to the operation of Borrower's business shall be revoked or terminated and not replaced by a substitute acceptable to Term B Lender within thirty (30) days after the date of such revocation or termination, and such revocation or termination and non-replacement would reasonably be expected to have a Material Adverse Effect;

10.18. Seizures. Any portion of the Collateral shall be seized or taken by a Governmental Body, or Borrower or the title and rights of Borrower or any Original Owner which is the owner of any material portion of the Collateral shall have become the subject matter of claim, litigation, suit or other proceeding which might, in the opinion of Term B Lender, upon final determination, result in impairment or loss of the security provided by this Agreement or the Other Documents;

10.19. Operations. The operations of Borrower's manufacturing facility are interrupted at any time for more than twelve (12) hours during any period of ten (10) consecutive days, unless Borrower shall (i) be entitled to receive for such period of interruption, proceeds of business interruption insurance sufficient to assure that its per diem cash needs during such period is at least equal to its average per diem cash needs for the consecutive three month period immediately preceding the initial date of interruption and (ii) receive such proceeds in the amount described in clause (i) preceding not later than thirty (30) days following the initial date of any such interruption; provided, however, that notwithstanding the provisions of clauses (i) and (ii) of this section, an Event of Default shall be deemed to have occurred if Borrower shall be receiving the proceeds of business interruption insurance for a period of thirty (30) consecutive days; or

10.20. Pension Plans. An event or condition specified in Sections 7.16 or 9.15 hereof shall occur or exist with respect to any Plan and, as a result of such event or condition, together with all other such events or conditions, Borrower or any member of the Controlled Group shall incur, or in the opinion of Term B Lender be reasonably likely to incur, a liability to a Plan or the PBGC (or both) which, in the reasonable judgment of Term B Lender, would have a Material Adverse Effect.

XI. TERM B LENDER'S RIGHTS AND REMEDIES AFTER DEFAULT.

11.1. Rights and Remedies. Upon the occurrence of (i) an Event of Default pursuant to Section 10.7 all Obligations shall be immediately due and payable; and, (ii) any of the other Events of Default and at any time thereafter (such default not having previously been cured), at the option of Term B Lender all Obligations shall be immediately due and payable, and (iii) a filing of a petition against Borrower in any involuntary case under any state or federal bankruptcy laws, all Obligations shall be immediately due and payable. Upon the occurrence of any Event of Default, but subject to the Intercreditor Agreement, Term B Lender shall have the right to exercise any and all rights and remedies provided for herein, under the Other Documents, under the Uniform Commercial Code and at law or equity generally, including the right to foreclose the security interests granted herein and to realize upon any Collateral by any available judicial procedure and/or to take possession of and sell any or all of the Collateral with or without judicial process. Term B Lender may enter any of Borrower's premises or other premises without legal process and without incurring liability to Borrower therefor, and Term B Lender may thereupon, or at any time thereafter, in its discretion without notice or demand, take the Collateral and remove the same to such place as Term B Lender may deem advisable and Term B Lender may require Borrower to make the Collateral available to Term B Lender at a convenient place. With or without having the Collateral at the time or place of sale, Term B Lender may sell the Collateral, or any part thereof, at public or private sale, at any time or place, in one or more sales, at such price or prices, and upon such terms, either for cash, credit or future delivery, as Term B Lender may elect. Except as to that part of the Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Term B Lender shall give Borrower reasonable notification of such sale or sales, it being agreed that in all events written notice mailed to Borrower at least ten (10) days prior to such sale or sales is reasonable notification. At any public sale Term B Lender may bid for and become the purchaser, and Term B Lender or any other purchaser at

any such sale thereafter shall hold the Collateral sold absolutely free from any claim or right of whatsoever kind, including any equity of redemption and all such claims, rights and equities are hereby expressly waived and released by Borrower. In connection with the exercise of the foregoing remedies, including the sale of Inventory, Term B Lender is granted a perpetual nonrevocable, royalty free, nonexclusive license and Term B Lender is granted permission to use all of Borrower's (a) trademarks, trade styles, trade names, patents, patent applications, copyrights, service marks, licenses, franchises and other proprietary rights which are used or useful in connection with Inventory for the purpose of marketing, advertising for sale and selling or otherwise disposing of such Inventory and (b) Equipment for the purpose of completing the manufacture of unfinished goods. The cash proceeds realized from the sale of any Collateral shall be applied to the Obligations in the order set forth in Section 11.5 hereof. Noncash proceeds will only be applied to the Obligations as they are converted into cash. If any deficiency shall arise, Borrower shall remain liable to Term B Lender therefor.

To the extent that Applicable Law imposes duties on Term B Lender to exercise remedies in a commercially reasonable manner, Borrower acknowledges and agrees that it is not commercially unreasonable for Term B Lender (i) to fail to incur expenses reasonably deemed significant by Term B Lender to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against Customers or other Persons obligated on Collateral or to remove Liens on or any adverse claims against Collateral, (iv) to exercise collection remedies against Customers and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) to contact other Persons, whether or not in the same business as the Borrower, for expressions of interest in acquiring all or any portion of such Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (xi) to purchase insurance or credit enhancements to insure Term B Lender against risks of loss, collection or disposition of Collateral or to provide to Term B Lender a guaranteed return from the collection or disposition of Collateral, or (xii) to the extent deemed appropriate by Term B Lender, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist Term B Lender in the collection or disposition of any of the Collateral. Borrower acknowledges that the purpose of this Section 11.1(b) is to provide non-exhaustive indications of what actions or omissions by Term B Lender would not be commercially unreasonable in Term B Lender's exercise of remedies against the Collateral and that other actions or omissions by Term B Lender shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 11.1(b). Without limitation upon the foregoing, nothing contained in this Section 11.1(b) shall be construed to grant any rights to Borrower or to impose any duties on Term B Lender that would not have been granted or imposed by this Agreement or by Applicable Law in the absence of this Section 11.1(b).

11.2. Term B Lender's Discretion. Term B Lender shall have the right in its sole discretion to determine which rights, Liens, security interests or remedies Term B Lender may at any time pursue, relinquish, subordinate, or modify or to take any other action with respect thereto and such determination will not in any way modify or affect any of Term B Lender's rights hereunder.

11.3. Setoff. In addition to any other rights which Term B Lender may have under Applicable Law, upon the occurrence of an Event of Default hereunder, Term B Lender shall have a right, immediately and without notice of any kind, to apply Borrower's property held by Term B Lender to reduce the Obligations.

11.4. Rights and Remedies not Exclusive. The enumeration of the foregoing rights and remedies is not intended to be exhaustive and the exercise of any rights or remedy shall not preclude the exercise of any other right or remedies provided for herein or otherwise provided by law, all of which shall be cumulative and not alternative.

11.5. Allocation of Payments After Event of Default. Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by Term B Lender on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Term B Lender's discretion, be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of Term B Lender in connection with enforcing its rights under this Agreement and the Other Documents and any protective advances made by Term B Lender with respect to the Collateral under or pursuant to the terms of this Document;

SECOND, to payment of any fees owed to Term B Lender;

THIRD, to the payment of all of the Obligations consisting of accrued fees and interest;

FOURTH, to the payment of the outstanding principal amount of the Obligations;

FIFTH, to all other Obligations and other obligations which shall have become due and payable under the Other Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FOURTH" above; and

SIXTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category.

XII. WAIVERS AND JUDICIAL PROCEEDINGS.

12.1. Waiver of Notice. Borrower hereby waives notice of non-payment of any of the Receivables, demand, presentment, protest and notice thereof with respect to any and all instruments, notice of acceptance hereof, notice of loans or advances made, credit extended, Collateral received or delivered, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein.

12.2. Delay. No delay or omission on Term B Lender's part in exercising any right, remedy or option shall operate as a waiver of such or any other right, remedy or option or of any Default or Event of Default.

12.3. Jury Waiver. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HEREBY CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENTS OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

XIII. EFFECTIVE DATE AND TERMINATION.

13.1. Term. This Agreement, which shall inure to the benefit of and shall be binding upon the respective successors and permitted assigns of Borrower and Term B Lender, shall become effective on the date hereof and shall continue in full force and effect until the Termination Date (the "Term") unless sooner terminated as herein provided. Borrower may terminate this Agreement at any time upon thirty (30) days' prior written notice upon payment in full of the Obligations. In the event the Obligations are prepaid in full or in part prior to the last day of the Term (the date of such prepayment hereinafter referred to as the "Early Termination Date"), Borrower shall pay to Term B Lender an early termination fee in an amount equal to (x) three percent (3.00%) of the prepaid portion of the principal amount of the Obligations if the Early Termination Date occurs on or after the Closing Date to and including the date immediately preceding the first anniversary of the Closing Date, (y) two percent (2.00%) of the prepaid portion of the principal amount of the Obligations if the Early Termination Date occurs on or after the first anniversary of the Closing Date to and including the date immediately preceding the second anniversary of the Closing Date, and (z) one percent (1.00%) of the prepaid portion of the principal amount of the Obligations if the Early Termination Date occurs on or after the second anniversary of the Closing Date to and including the date immediately preceding the third anniversary of the Closing Date.

13.2. Termination. The termination of the Agreement shall not affect Borrower's or Term B Lender's rights, or any of the Obligations having their inception prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights or interests created or Obligations have been fully and indefeasibly paid, disposed of, concluded or liquidated. The security interests, Liens and rights granted to Term B Lender hereunder and the financing statements filed hereunder shall continue in full force and effect, notwithstanding the termination of this Agreement, until all of the Obligations of Borrower have been indefeasibly paid and performed in full in cash after the irrevocable termination of this Agreement or Borrower has furnished Term B Lender with an indemnification satisfactory to Term B Lender with respect thereto. Accordingly, Borrower waives any rights which it may have under the Uniform Commercial Code to demand the filing of termination statements with respect to the Collateral, and Term B Lender shall not be required to send such termination statements to Borrower, or to file them with any filing office, unless and until this Agreement shall have been irrevocably terminated in accordance with its terms and all Obligations have been indefeasibly paid in full in immediately available funds. All representations, warranties, covenants, waivers and agreements contained herein shall survive termination hereof until all Obligations are indefeasibly paid and performed in full.

XIV. BORROWING AGENCY.

14.1. Borrowing Agency Provisions.

(a) Each Borrower hereby irrevocably designates Borrowing Agent to be its attorney and agent and in such capacity to borrow, sign and endorse notes, and execute and deliver all instruments, documents, writings and further assurances now or hereafter required hereunder, on behalf of such Borrower or Borrowers, and hereby authorizes Term B Lender to pay over or credit all loan proceeds hereunder in accordance with the request of Borrowing Agent.

(b) The handling of this credit facility as a co-borrowing facility with a borrowing agent in the manner set forth in this Agreement is solely as an accommodation to Borrowers and at their request. Term B Lender shall not incur liability to Borrowers as a result thereof. To induce Term B Lender to do so and in consideration thereof, each Borrower hereby indemnifies Term B Lender and holds Term B Lender harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against Term B Lender by any Person arising from or incurred by reason of the handling of the financing arrangements of Borrowers as provided herein, reliance by Term B Lender on any request or instruction from Borrowing Agent or any other action taken by Term B Lender with respect to this Section 14.1 except due to willful misconduct or gross (not mere) negligence by the indemnified party (as determined by a court of competent jurisdiction in a final and non-appealable judgment).

(c) All Obligations shall be joint and several, and each Borrower shall make payment upon the maturity of the Obligations by acceleration or otherwise, and such obligation and liability on the part of each Borrower shall in no way be affected by any extensions, renewals and forbearance granted to Term B Lender to any Borrower, failure of Term B Lender to give any Borrower notice of borrowing or any other notice, any failure of Term B Lender to pursue or preserve its rights against any Borrower, the release by Term B Lender of any Collateral now or thereafter acquired from any Borrower, and such agreement by each Borrower to pay upon any notice issued pursuant thereto is unconditional and unaffected by prior recourse by Term B Lender to the other Borrowers or any Collateral for such Borrower's Obligations or the lack thereof. Each Borrower waives all suretyship defenses.

14.2. Waiver of Subrogation. Each Borrower expressly waives any and all rights of subrogation, reimbursement, indemnity, exoneration, contribution of any other claim which such Borrower may now or hereafter have against the other Borrowers or other Person directly or contingently liable for the Obligations hereunder, or against or with respect to the other Borrowers' property (including, without limitation, any property which is Collateral for the Obligations), arising from the existence or performance of this Agreement, until termination of this Agreement and repayment in full of the Obligations.

XV. MISCELLANEOUS.

15.1. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York. Any judicial proceeding brought by or against Borrower with respect to any of the Obligations, this Agreement, the Other Documents or any related agreement may be brought in any court of competent jurisdiction in the State of New York, United States of America, and, by execution and delivery of this Agreement, Borrower accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to Borrower at its address set forth in Section 15.6 and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Term B Lender to bring proceedings against Borrower in the courts of any other jurisdiction. Borrower waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. Borrower waives the right to remove any judicial proceeding brought against Borrower in any state court to any federal court. Any judicial proceeding by Borrower against Term B Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Agreement or any related agreement, shall be brought only in a federal or state court located in the County of New York, State of New York.

15.2. Entire Understanding.

(a) This Agreement and the documents executed concurrently herewith contain the entire understanding between Borrower and Term B Lender and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties or guarantees not herein contained and hereinafter made shall have no force and effect unless in writing, signed by Borrower's and Term B Lender's respective officers. Neither this Agreement nor any portion or provisions hereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Borrower acknowledges that it has been advised by counsel in connection with the execution of this Agreement and Other Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Agreement.

(b) Term B Lender and Borrower may from time to time enter into written supplemental agreements to this Agreement or the Other Documents executed by Borrower, for the purpose of adding or deleting any provisions or otherwise changing, varying or waiving in any manner the rights of Term B Lender or Borrower thereunder or the conditions, provisions or terms thereof of waiving any Event of Default thereunder, but only to the extent specified in such written agreements. Any such supplemental agreement shall apply equally to, and shall be binding upon Borrower, Term B Lender and all future holders of the Obligations. In the case of any waiver, Borrower and Term B Lender shall be restored to their former positions and rights, and any Event of Default waived shall be deemed to be cured and not continuing, but no waiver of a specific Event of Default shall extend to any subsequent Event of Default (whether or not the subsequent Event of Default is the same as the Event of Default which was waived), or impair any right consequent thereon.

15.3. Successors and Assigns; Participations; New Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of Borrower Term B Lender, all future holders of the Obligations and their respective successors and assigns, except that Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of Term B Lender.

(b) Borrower acknowledges that in the regular course of commercial banking business Term B Lender may at any time and from time to time sell participating interests in the Term Loan to other financial institutions (each such transferee or purchaser of a participating interest, a "Participant") and shall provide notice to the Borrower thereof. Each Participant may exercise all rights of payment (including rights of set-off) with respect to the portion of the Term Loan held by it or other Obligations payable hereunder as fully as if such Participant were the direct holder thereof provided that Borrower shall not be required to pay to any Participant more than the amount which it would have been required to pay to Term B Lender had Term B Lender retained such interest in the Term Loan hereunder or other Obligations payable hereunder and in no event shall Borrower be required to pay any such amount arising from the same circumstances and with respect to the portion of the Term Loan or other Obligations payable hereunder to both Term B Lender and such Participant. Borrower hereby grants to any Participant a continuing security interest in any deposits, moneys or other property actually or constructively held by such Participant as security for the Participant's interest in the Term Loan.

(c) Term B Lender may sell, assign or transfer all or any part of its rights and obligations under or relating to the Term Loan under this Agreement and the Other Documents to one or more additional banks or financial institutions (each a "Purchasing Lender"), in minimum amounts of not less than \$1,000,000, pursuant to a Commitment Transfer Supplement, executed by a Purchasing Lender and Term B Lender and delivered to Term B Lender for recording. Upon such execution, delivery, acceptance and recording, from and after the transfer effective date determined pursuant to such Commitment Transfer Supplement, (i) Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Commitment Transfer Supplement, have the rights and obligations of Term B Lender thereunder with a Commitment Percentage as set forth therein, and (ii) Term B Lender thereunder shall, to the extent

provided in such Commitment Transfer Supplement, be released from its obligations under this Agreement, the Commitment Transfer Supplement creating a novation for that purpose. Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of Term B Lender under this Agreement and the Other Documents. Borrower hereby consents to the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of Term B Lender under this Agreement and the Other Documents. Borrower shall execute and deliver such further documents and do such further acts and things in order to effectuate the foregoing.

(d) Term B Lender may directly or indirectly sell, assign or transfer all or any portion of its rights and obligations under or relating to the Term Loan under this Agreement and the Other Documents to an entity, whether a corporation, partnership, trust, limited liability company or other entity that (i) is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and (ii) is administered, serviced or managed by Term B Lender or an Affiliate of Term B Lender (a "Purchasing CLO" and together with each Participant and Purchasing Lender, each a "Transferee" and collectively the "Transferees"), pursuant to a Commitment Transfer Supplement modified as appropriate to reflect the interest being assigned ("Modified Commitment Transfer Supplement"), executed by any intermediate purchaser, the Purchasing CLO, and Term B Lender as appropriate and delivered to Term B Lender for recording. Upon such execution and delivery, from and after the transfer effective date determined pursuant to such Modified Commitment Transfer Supplement, (i) Purchasing CLO thereunder shall be a party hereto and, to the extent provided in such Modified Commitment Transfer Supplement, have the rights and obligations of Term B Lender thereunder and (ii) Term B Lender thereunder shall, to the extent provided in such Modified Commitment Transfer Supplement, be released from its obligations under this Agreement, the Modified Commitment Transfer Supplement creating a novation for that purpose. Such Modified Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing CLO. Borrower hereby consents to the addition of such Purchasing CLO. Borrower shall execute and deliver such further documents and do such further acts and things in order to effectuate the foregoing.

(e) Term B Lender shall maintain at its address a copy of each Commitment Transfer Supplement and Modified Commitment Transfer Supplement delivered to it and a register (the "Register") for the recordation of the names and addresses of each Purchasing Lender and the outstanding principal, accrued and unpaid interest and other fees due hereunder. The entries in the Register shall be conclusive, in the absence of manifest error, and Borrower, Term B Lender and Purchasing Lenders may treat each Person whose name is recorded in the Register as the owner of the Term Loan recorded therein for the purposes of this Agreement. The Register shall be available for inspection by Borrower or any Purchasing Lender at any reasonable time and from time to time upon reasonable prior notice. Term B Lender shall receive a fee in the amount of \$3,500 payable by the applicable Purchasing Lender and/or Purchasing CLO upon the effective date of each transfer or assignment (other than to an intermediate purchaser) to such Purchasing Lender and/or Purchasing CLO.

(f) Borrower authorizes Term B Lender to disclose to any Transferee and any prospective Transferee any and all financial information in Term B Lender's possession concerning Borrower which has been delivered to Term B Lender by or on behalf of Borrower pursuant to this Agreement or in connection with Term B Lender's credit evaluation of Borrower.

15.4. Application of Payments. Term B Lender shall have the continuing and exclusive right to apply or reverse and re-apply any payment and any and all proceeds of Collateral to any portion of the Obligations. To the extent that Borrower makes a payment or Term B Lender receives any payment or proceeds of the Collateral for Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Term B Lender.

15.5. Indemnity. Borrower shall indemnify Term B Lender and each of its officers, directors, Affiliates, attorneys, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Term B Lender in any claim, litigation, proceeding or investigation instituted or conducted by any Governmental Body or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the Other Documents, whether or not Term B Lender is a party thereto, except to the extent that any of the foregoing arises out of the willful misconduct of the party being indemnified (as determined by a court of competent jurisdiction in a final and non-appealable judgment). Without limiting the generality of the foregoing, this indemnity shall extend to any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including fees and disbursements of counsel) asserted against or incurred by any of the indemnitees described above in this Section 15.5 by any Person under any Environmental Laws or similar laws by reason of Borrower's or any other Person's failure to comply with laws applicable to solid or hazardous waste materials, including Hazardous Substances and Hazardous Waste, or other Toxic Substances. Additionally, if any taxes (excluding taxes imposed upon or measured solely by the net income of Term B Lender, but including any intangibles taxes, stamp tax, recording tax or franchise tax) shall be payable by Term B Lender or Borrower on account of the execution or delivery of this Agreement, or the execution, delivery, issuance or recording of any of the Other Documents, or the creation or repayment of any of the Obligations hereunder, by reason of any Applicable Law now or hereafter in effect, Borrower will pay (or will promptly reimburse Term B Lender for payment of) all such taxes, including interest and penalties thereon, and will indemnify and hold the indemnitees described above in this Section 15.5 harmless from and against all liability in connection therewith.

15.6. Notice. Any notice or request hereunder may be given to Borrower or to Term B Lender at their respective addresses set forth below or at such other address as may hereafter be specified in a notice designated as a notice of change of address under this Section. Any notice, request, demand, direction or other communication (for purposes of this Section 15.6 only, a "Notice") to be given to or made upon any party hereto under any provision of this Loan Agreement shall be given or made by telephone or in writing (which includes by means of electronic transmission (i.e., "e-mail") or facsimile transmission or by setting forth such Notice on a site on the World Wide Web (a "Website Posting") if Notice of such Website Posting (including the information necessary to access such site) has previously been delivered to the applicable parties hereto by another means set forth in this Section 15.6) in accordance with this Section 15.6. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Section 15.6 hereof or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 15.6. Any Notice shall be effective:

(a) In the case of hand-delivery, when delivered;

(b) If given by mail, four days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested;

(c) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission, a Website Posting or an overnight courier delivery of a confirmatory Notice (received at or before noon on such next Business Day);

(d) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number, if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;

(e) In the case of electronic transmission, when actually received;

(f) In the case of a Website Posting, upon delivery of a Notice of such posting (including the information necessary to access such site) by another means set forth in this Section 15.6; and

(g) If given by any other means (including by overnight courier), when actually received.

(A) If to Term B Lender at: Steel City Capital Funding LLC
1600 Market Street, 31st Floor
Philadelphia, Pennsylvania 19103
Attention: Thomas J. Bugieda
Telephone: (215) 585-5369
Facsimile: (215) 585-4771

with a copy to: Hahn & Hessen LLP
488 Madison Avenue
New York, NY 10022
Attention: Steven J. Seif, Esq.
Telephone: (212) 478-7370
Facsimile: (212) 478-7400

(B) If to Borrower: c/o Air Industries Machining, Corp.
1479 Clinton Avenue
Bay Shore, New York 11706
Attention: Louis Giusto, Vice
Chairman & CFO
Telephone: (631) 968-5000
Facsimile: (631) 968-5377

with a copy to: Eaton & Van Winkle LLP
3 Park Avenue, 16th floor
New York, New York 10016-2078
Attention: Charles Fewell, Esq.
Telephone: (212) 561-3627
Facsimile: (212) 779-9928

15.7. Survival. The obligations of Borrower under Sections 2.2(f), 3.5, 3.6, 3.7, 4.19(h), and 15.5, shall survive termination of this Agreement and the Other Documents and payment in full of the Obligations.

15.8. Severability. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under Applicable Laws or regulations, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder hereof shall not be invalidated thereby and shall be given effect so far as possible.

15.9. Expenses. All costs and expenses including reasonable attorneys' fees (including the allocated costs of in house counsel) and disbursements incurred by Term B Lender (a) in all efforts made to enforce payment of any Obligation or effect collection of any Collateral, or (b) in connection with the entering into, modification, amendment, administration and enforcement of this Agreement, the Subordination Agreement or any consents or waivers hereunder or thereunder and all related agreements, documents and instruments, or (c) in instituting, maintaining, preserving, enforcing and foreclosing on Term B Lender's security interest in or Lien on any of the Collateral, or maintaining, preserving or enforcing any of Term B Lender's rights hereunder, under the Subordination Agreement and under all related agreements, documents and instruments, whether through judicial proceedings or otherwise, or (d) in defending or prosecuting any actions or proceedings arising out of or relating to Term B Lender's transactions with Borrower or any guarantor or any Subordinated Lender or (e) in connection with any advice given to Term B Lender with respect to its rights and obligations under this Agreement, the Subordination Agreement and all related agreements, documents and instruments, shall be part of the Obligations, or, at Term B Lender's option, shall be paid to Term B Lender immediately upon demand.

15.10. Injunctive Relief. Borrower recognizes that, in the event Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, or threatens to fail to perform, observe or discharge such obligations or liabilities, any remedy at law may prove to be inadequate relief to Term B Lender; therefore, Term B Lender, if Term B Lender so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving that actual damages are not an adequate remedy.

15.11. Damages. Neither Term B Lender nor any agent or attorney for Term B Lender, shall be liable to Borrower (or any Affiliate of any such Person) for indirect, punitive, exemplary or consequential damages arising from any breach of contract, tort or other wrong relating to the establishment, administration or collection of the Obligations or as a result of any transaction contemplated under this Agreement or any Other Document.

15.12. Captions. The captions at various places in this Agreement are intended for convenience only and do not constitute and shall not be interpreted as part of this Agreement.

15.13. Counterparts; Facsimile Signatures. This Agreement may be executed in any number of and by different parties hereto on separate counterparts, all of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

15.14. Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments, schedules or exhibits thereto.

15.15. Confidentiality; Sharing Information.

(a) Term B Lender and each Transferee shall hold all non-public information obtained by Term B Lender and such Transferee pursuant to the requirements of this Agreement in accordance with Term B Lender's and such Transferee's customary procedures for handling confidential information of this nature; provided, however, Term B Lender and each Transferee may disclose such confidential information (a) to its examiners, Affiliates, outside auditors, counsel and other professional advisors, (b) Term B Lender or any prospective Transferee, and (c) as required or requested by any Governmental Body or representative thereof or pursuant to legal process; provided, further that (i) unless specifically prohibited by Applicable Law or court order, Term B Lender and each Transferee shall use its reasonable best efforts prior to disclosure thereof, to notify Borrower of the applicable request for disclosure of such non-public information (A) by a Governmental Body or representative thereof (other than any such request in connection with an examination of the financial condition of Term B Lender or a Transferee by such Governmental Body) or (B) pursuant to legal process and (ii) in no event shall Term B Lender or any Transferee be obligated to return any materials furnished by Borrower other than those documents and instruments in possession of Term B Lender in order to perfect its Lien on the Collateral once the Obligations have been paid in full and this Agreement has been terminated.

(b) Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to Borrower or one or more of its Affiliates (in connection with this Agreement or otherwise) by Term B Lender or by one or more Subsidiaries or Affiliates of Term B Lender and Borrower hereby authorizes Term B Lender to share any information delivered to Term B Lender by Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of Term B Lender to enter into this Agreement, to any such Subsidiary or Affiliate of Term B Lender, it being understood that any such Subsidiary or Affiliate of Term B Lender receiving such information shall be bound by the provisions of this Section 15.15 as if it were a party hereto. Such authorization shall survive the repayment of the other Obligations and the termination of this Agreement.

15.16. Publicity. Borrower hereby authorizes Term B Lender to make appropriate announcements of the financial arrangement entered into among Borrower and Term B Lender, including announcements which are commonly known as tombstones, in such publications and to such selected parties as Term B Lender shall in its sole and absolute discretion deem appropriate.

15.17. Certifications From Banks and Participants; US PATRIOT Act. Any assignee or participant of Term B Lender that is not incorporated under the Laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA PATRIOT Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to Term B Lender the certification, or, if applicable, recertification, certifying that such assignee or participant of Term B Lender is not a "shell" and certifying to other matters as required by Section 313 of the USA PATRIOT Act and the applicable regulations: (1) within 10 days after the Closing Date, and (2) as such other times as are required under the USA PATRIOT Act.

Each of the parties has signed this Agreement as of the day and year first above written.

AIR INDUSTRIES MACHINING, CORP.

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Title: President

SIGMA METALS, INC.

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Title: President

WELDING METALLURGY, INC., as successor
by merger with WMS Merger Corp.

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Title: President

STEEL CITY CAPITAL FUNDING LLC
(AS TERM B LENDER)

By: /s/ Kevin Madigan

Name: Kevin Madigan
Title: Managing Director

PLEDGE AGREEMENT

This Pledge Agreement (this "Agreement") dated as of August 24, 2007 between STEEL CITY CAPITAL FUNDING LLC, having an office at 1600 Market Street, 31st Floor, Philadelphia, PA 19103 ("Pledgee"), AIR INDUSTRIES MACHINING CORP. ("Air"), a New York corporation, having an office at 1479 Clinton Avenue, Bay Shore, New York 11706, and SIGMA METALS, INC. ("Sigma"), a New York corporation, having an office at 45 Jefryn Boulevard, Deer Park, New York 11729, (Sigma and Air each individually, a "Pledgor" and collectively, the "Pledgors").

BACKGROUND TO THE AGREEMENT

Pledgors, WELDING METALLURGY, INC. (as successor by merger with WMS Merger Corp.), a New York corporation ("WMI"; and together with Pledgors, collectively, the "Borrowers") and Pledgee have entered or are entering into a Term Loan and Security Agreement dated as of the date hereof (as amended, modified, restated or supplemented from time to time, the "Loan Agreement") pursuant to which Pledgee has agreed, subject to the terms and conditions contained therein, to provide certain financial accommodations to Borrowers.

In order to induce Pledgee to provide or continue to provide the financial accommodations described in the Loan Agreement, Pledgors have agreed to pledge and grant a security interest to Pledgee in the Collateral (as hereinafter defined).

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

All capitalized terms used herein which are not defined shall have the meanings given to them in the Loan Agreement.

2. Pledge and Grant of Security Interest.

To secure the full and punctual payment and performance of the (a) Obligations and (b) all other indebtedness, obligations and liabilities of Borrowers to Pledgee whether now existing or hereafter arising, direct or indirect, liquidated or unliquidated, absolute or contingent, due or not due and whether under, pursuant to or evidenced by a note, agreement, guaranty, instrument or otherwise ((a) and (b) collectively, the "Indebtedness"), Pledgors hereby pledge, assign, hypothecate, transfer and grant a security interest to Pledgee in all of the following (the "Collateral"):

(a) the shares of stock set forth on Schedule A annexed hereto and expressly made a part hereof (the "Pledged Stock"), the certificates

representing the Pledged Stock and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Stock;

(b) all additional shares of stock of any issuer of the Pledged Stock (the "Issuer") from time to time acquired by the Pledgors in any manner, including, without limitation, stock dividends or a distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off (which shares shall be deemed to be part of the Collateral), and the certificates representing such additional shares, and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares; and

(c) all options and rights, whether as an addition to, in substitution of or in exchange for any shares of the Pledged Stock.

3. Delivery of Collateral.

All certificates representing or evidencing the Pledged Stock shall be delivered to and held by or on behalf of Pledgee pursuant hereto and shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Pledgee. Pledgors hereby authorize the Issuer upon demand by Pledgee to deliver any certificates, instruments or other distributions issued in connection with the Collateral directly to Pledgee, in each case to be held by Pledgee, subject to the terms hereof. Pledgee shall have the right, at any time in its discretion and without notice to the Pledgors, to transfer to or to register in the name of Pledgee or any of its nominees any or all of the Pledged Stock. In addition, Pledgee shall have the right at any time to exchange certificates or instruments representing or evidencing Pledged Stock for certificates or instruments of smaller or larger denominations.

4. Representations and Warranties of Pledgors.

Each Pledgor represents and warrants to Pledgee (which representations and warranties shall be deemed to continue to be made until all of the Indebtedness has been paid in full and the Loan Agreement has been irrevocably terminated) that:

(a) Each Pledgor has the requisite power and authority to enter into this Agreement, to pledge the Collateral for the purposes described herein and to carry out the transactions contemplated by this Agreement.

(b) The execution, delivery and performance by each Pledgor of this Agreement and the pledge of the Collateral hereunder have been duly and properly authorized and do not and will not result in any violation of any agreement, indenture, instrument, license, judgment, decree, order, law, statute, ordinance or other governmental rule or regulation applicable to any Pledgor.

(c) This Agreement constitutes the legal, valid and binding obligation of each Pledgor enforceable against such Pledgor in accordance with its terms.

(d) Each Pledgor is the direct and beneficial owner of each share of the Pledged Stock.

(e) All of the shares of the Pledged Stock have been duly authorized, validly issued and are fully paid and nonassessable.

(f) Upon delivery of the Pledged Stock to Pledgee or an agent for Pledgee, this Agreement creates and grants a valid first lien on and perfected security interest in the Collateral and the proceeds thereof, subject to no prior security interest, mortgage, pledge, claim, lien, charge, hypothecation, assignment, offset or encumbrance whatsoever (collectively, "Liens") or to any agreement purporting to grant to any third party a Lien upon the property or assets of each Pledgor which would include the Collateral.

(g) There are no restrictions on transfer of the Pledged Stock contained in the Certificate of Incorporation or by-laws of the Issuer or otherwise which have not otherwise been enforceably and legally waived by the necessary parties.

(h) None of the Pledged Stock has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject.

(i) There are no pending or, to the best of each Pledgor's knowledge, threatened actions or proceedings before any court, judicial body, administrative agency or arbitrator which may materially adversely affect the Collateral.

(j) No consent, approval, authorization or other order of any person, firm, corporation or other entity ("Person") and no consent, authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required by any Pledgor either (i) for the pledge of the Collateral pursuant to this Agreement or for the execution, delivery or performance of this Agreement or (ii) for the exercise by the Pledgee of the voting or other rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with such disposition by laws affecting the offering and sale of securities generally.

(k) No notification of the pledge evidenced hereby to any Person is required.

(l) The Pledged Stock constitutes one hundred percent (100%) of the issued and outstanding shares of capital stock of the Issuers thereof set forth on Schedule A annexed hereto.

(m) As of the date hereof, there are no existing options, warrants, calls or commitments of any such character whatsoever relating to any Pledged Stock and no indebtedness or other security convertible into any Pledged Stock.

The representations and warranties set forth in this Section 4 (other than those contained in subsection (m)) shall survive the execution and delivery of this Agreement.

5. Covenants.

Until such time as all of the Indebtedness has been paid in full and the Loan Agreement has been irrevocably terminated, each Pledgor shall:

(a) Not sell, assign, transfer, convey, or otherwise dispose of its rights in or to the Collateral or any interest therein; nor create, incur or permit to exist any Lien whatsoever with respect to any of the Collateral or the proceeds thereof other than that created hereby.

(b) At each Pledgor's expense, defend Pledgee's right, title and security interest in and to the Collateral against the claims of any Person and keep the Collateral free from all Liens, except for the Liens granted to Pledgee under this Agreement.

(c) At any time, and from time to time, upon the written request of Pledgee, execute and deliver such further documents and do such further acts and things as Pledgee may reasonably request in order to effect the purposes of this Agreement including, but without limitation, delivering to Pledgee upon the occurrence of an Event of Default irrevocable proxies in respect of the Collateral in form satisfactory to Pledgee. Until receipt thereof, this Agreement shall constitute each Pledgor's proxy to Pledgee or its nominee to vote all shares of Collateral then registered in such Pledgor's name.

(d) Within two (2) Business Days of receipt thereof by each Pledgor, deliver to Pledgee all notices and statements relating to the Collateral received by such Pledgor.

(e) Not consent to or approve the issuance of (i) any additional shares of any class of capital stock of the Issuer; (ii) any securities convertible either voluntarily by the holder thereof or automatically upon the occurrence or nonoccurrence of any event or condition into, or any securities exchangeable for, any such shares; or (iii) any warrants, options, contracts or other commitments entitling any person to purchase or otherwise acquire any such shares.

(f) Not create, incur, assume or suffer to exist any Lien or other encumbrance of any kind (including the charge on property purchased under conditional sales or other title retention agreements) upon any property or assets, whether now owned or hereafter acquired, except for liens incidental to the conduct of any Pledgor's business or the ownership of its assets or properties not incurred in connection with the borrowing of money or the acquisition of any asset, and which in the aggregate do not materially detract from such Pledgor's operations, property or financial condition.

(g) Not convey, sell, lease, transfer or otherwise dispose of in one or a series of related transactions, all or any substantial part of its properties, businesses or assets.

6. Voting Rights and Dividends.

In addition to Pledgee's rights and remedies set forth in Section 8 hereof, in case an Event of Default shall have occurred and has been declared by Pledgee and is continuing, Pledgee shall (i) vote the Collateral, (ii) be entitled to give consents, waivers and ratifications in respect of the Collateral (each Pledgor hereby irrevocably constituting and appointing Pledgee, with full power of substitution, the proxy and attorney-in-fact of such Pledgor for such purposes) and (iii) be entitled to collect and receive for its own use cash dividends paid on the Collateral. No Pledgor shall be permitted to exercise or refrain from exercising any voting rights or other powers if, in the reasonable judgment of Pledgee, such action would have a material adverse effect on the value of the Collateral or any part thereof; and, provided, further, that each Pledgor shall give at least five (5) days' written notice of the manner in which such Pledgor intends to exercise, or the reasons for refraining from exercising, any voting rights or other powers other than with respect to any election of directors and voting with respect to any incidental matters. All dividends and all other distributions in respect of any of the Collateral, whenever paid or made, shall be delivered to Pledgee to hold as Collateral and shall, if received by any Pledgor, be received in trust for the benefit of Pledgee, be segregated from the other property or funds of such Pledgor, and be forthwith delivered to Pledgee as Collateral in the same form as so received (with any necessary endorsement). Subject to the limitations set forth herein, Pledgors shall have the right to exercise voting rights with respect to any securities included in the Collateral.

7. Events of Default.

The term "Event of Default" wherever used herein shall mean the occurrence of any one of the following events:

(a) An Event of Default shall occur under the Loan Agreement or any Pledgor shall default in the payment of any Obligation;

(b) Any Pledgor shall default in the performance of any of its undertakings or obligations under any agreement between such Pledgor and Pledgee, including, without limitation, this Agreement;

(c) Any representation, warranty, statement or covenant made or furnished to Pledgee by or on behalf of any Pledgor proves to have been false in any material respect when made or furnished or is breached, violated or not complied with; or

(d) The Collateral is subjected to levy of execution, attachment, distraint or other judicial process; or the Collateral is the subject of a claim (other than by Pledgee) of a Lien or other right or interest in or to the Collateral.

(e) Any Pledgor shall (i) apply for, consent to, or suffer to exist the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or other fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing.

8. Remedies.

Upon the occurrence of an Event of Default, Pledgee may:

(a) Demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose or realize upon the Collateral (or any part thereof), as Pledgee may determine in its sole discretion;

(b) Transfer any or all of the Collateral into its name, or into the name of its nominee or nominees;

(c) Exercise all rights with respect to the Collateral including, without limitation, all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any shares of the Collateral as if it were the absolute owner thereof, including, but without limitation, the right to exchange, at its discretion, any or all of the Collateral upon the merger, consolidation, reorganization, recapitalization or other readjustment of the Issuer thereof, or upon the exercise by the Issuer of any right, privilege or option pertaining to any of the Collateral, and, in connection therewith, to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as it may determine, all without liability except to account for property actually received by it;

(d) Subject to the requirements of applicable law, sell, assign and deliver the whole or, from time to time, any part of the Collateral at the time held by Pledgee, at any private or public sale or auction, with or without demand, advertisement or notice of the time or place of sale or adjournment thereof or otherwise (all of which are hereby waived, except such notice as is required by applicable law and cannot be waived), for cash or credit or for other property for immediate or future delivery, and for such price or prices and on such terms as Pledgee in its sole discretion may determine, or as may be required by applicable law.

Each Pledgor hereby waives and releases any and all right or equity of redemption, whether before or after sale hereunder. At any such sale, unless prohibited by applicable law, Pledgee may bid for and purchase the whole or any part of the Collateral so sold free from any such right or equity of redemption. All moneys received by Pledgee hereunder whether upon sale of the Collateral or any part thereof or otherwise shall be held by Pledgee and applied by it as provided in Section 11 hereof. No failure or delay on the part of Pledgee in exercising any rights hereunder shall operate as a waiver of any such rights nor shall any single or partial exercise of any such rights preclude any other or future exercise thereof or the exercise of any other rights hereunder. Pledgee shall have no duty as to the collection or protection of the Collateral or any income thereon nor any duty as to preservation of any rights pertaining thereto, except to apply the funds in accordance with the requirements of Section 11 hereof. Pledgee may exercise its rights with respect to property held hereunder without resort to other security for or sources of reimbursement for the

Indebtedness. In addition to the foregoing, Pledgee shall have all of the rights, remedies and privileges of a secured party under applicable law and the Uniform Commercial Code of New York regardless of the jurisdiction in which enforcement hereof is sought.

9. Registration.

If Pledgee shall exercise its right to sell all or any part of the Collateral, and if, in the opinion of counsel for Pledgee, it is necessary to have the Collateral being sold registered under the provisions of the Securities Act of 1933, as amended (the "Securities Act"), each Pledgor will use its best efforts to cause the Issuer to execute and deliver, and to cause the directors and officers of the Issuer to execute and deliver, all at such Pledgor's expense, all such instruments and documents and to do or cause to be done all such other acts and things as may be necessary to register the Collateral being sold under the provisions of the Securities Act. Each Pledgor shall cause any such registration statement to become effective and to remain effective for a period of one year from the date of the first public offering of the Collateral being sold and to make all amendments thereto and to related documents which, in the opinion of Pledgee or its counsel, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto. Each Pledgor shall also cause the Issuer to comply with the provisions of the "Blue Sky" law of any jurisdiction which Pledgee shall designate in connection with any sale hereunder; and to cause the Issuer to make available to its security holders, as soon as practicable, an earnings statement (which need not be audited) covering a period of at least twelve months but not more than eighteen months, beginning with the first month after the effective date of any such registration statement, which earnings statement will satisfy the provisions of Section 11(a) of the Securities Act. Each Pledgor acknowledges that a breach of any of the covenants contained in this Section may cause irreparable injury to Pledgee, that Pledgee will have no adequate remedy at law with respect to such breach and, as a consequence, such covenants of each Pledgor shall be specifically enforceable against such Pledgor.

10. Private Sale.

Notwithstanding anything contained in Section 9, each Pledgor recognizes that Pledgee may be unable to effect (or to do so only after delay which would adversely affect the value that might be realized from the Collateral) a public sale of all or part of the Collateral by reason of certain prohibitions contained in the Securities Act, and may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Each Pledgor agrees that any such private sale may be at prices and on terms less favorable to the seller than if sold at public sales and that such private sales shall be deemed to have been made in a commercially reasonable manner. Each Pledgor agrees that Pledgee has no obligation to delay sale of any Collateral for the period of time necessary to permit the Issuer to register the Collateral for public sale under the Securities Act.

11. Proceeds of Sale.

The proceeds of any collection, recovery, receipt, appropriation, realization, disposition or sale of the Collateral shall be applied by Pledgee as follows:

(a) First, to the payment of all costs, expenses and charges of Pledgee and to the reimbursement of Pledgee for the prior payment of such costs, expenses and charges incurred in connection with the care and safekeeping of any of the Collateral (including, without limitation, the expenses of any sale or other proceeding, the expenses of any taking, attorneys' fees and expenses, court costs, any other fees or expenses incurred or expenditures or advances made by Pledgee in the protection, enforcement or exercise of its rights, powers or remedies hereunder) with interest on any such reimbursement at the rate prescribed in the Loan Agreement as the Default Rate from the date of payment.

(b) Second, to the payment of the Indebtedness, in whole or in part, in such order as Pledgee may elect, whether such Indebtedness is then due or not due.

(c) Third, to such Persons as required by applicable law including, without limitation, Section 9-615(a)(3) of the Uniform Commercial Code.

(d) Fourth, to the extent of any surplus thereafter remaining, to Pledgors or as a court of competent jurisdiction may direct.

In the event that the proceeds of any collection, recovery, receipt, appropriation, realization or sale are insufficient to satisfy the Indebtedness, each Pledgor shall be liable for the deficiency together with interest thereon at the rate prescribed in the Loan Agreement as the Default Rate plus the costs and fees of any attorneys employed by Pledgee to collect such deficiency.

Pledgee, in its sole and absolute discretion, with or without notice to Pledgors, may deposit any proceeds of any collection, recovery, receipt, appropriation, realization, disposition or sale of the Collateral in a non-interest bearing cash collateral deposit account to be maintained as security for the Indebtedness.

12. Waiver of Marshaling.

Each Pledgor hereby waives any right to compel any marshaling of any of the Collateral.

13. Pledgee Appointed Attorney-In-Fact and Performance by Pledgee.

Upon the occurrence of an Event of Default, each Pledgor hereby irrevocably constitutes and appoints Pledgee as such Pledgor's true and lawful attorney-in-fact, with full power of substitution, to execute, acknowledge and deliver any instruments and to do in each Pledgor's name, place and stead, all such acts, things and deeds for and on behalf of and in the name of such Pledgor, which such Pledgor could or might do or which Pledgee may deem necessary, desirable or convenient to accomplish the purposes of this Agreement, including, without limitation, to execute such instruments of assignment or transfer or orders and to register, convey or otherwise transfer title to the Collateral into Pledgee's name. Each Pledgor hereby ratifies and confirms all

that said attorney-in-fact may so do and hereby declares this power of attorney to be coupled with an interest and irrevocable. If any Pledgor fails to perform any agreement herein contained, Pledgee may itself perform or cause performance thereof, and any costs and expenses of Pledgee incurred in connection therewith shall be paid by Pledgors as provided in Section 24 hereof.

14. Termination.

This Agreement shall terminate and Pledgors shall be entitled to the return, at Pledgors' expense, of such of the Collateral as has not theretofore been sold, disposed of or otherwise applied pursuant to this Agreement upon payment in full of the Indebtedness and irrevocable termination of the Loan Agreement.

15. Concerning Pledgee.

The recitals of fact herein shall be taken as statements of each Pledgor for which Pledgee assumes no responsibility. Pledgee makes no representation to anyone as to the value of the Collateral or any part thereof or as to the validity or adequacy of the security afforded or intended to be afforded thereby or as to the validity of this Agreement. Pledgee shall be protected in relying upon any notice, consent, request or other paper or document believed by it to be genuine and correct and to have been signed by a proper person. The permissive rights of Pledgee hereunder shall not be construed as duties of Pledgee. Pledgee shall be under no obligation to take any action toward the enforcement of this Agreement or rights or remedies in respect of any of the Collateral. Pledgee shall not be personally liable for any action taken or omitted by it in good faith and reasonably believed by it to be within the power or discretion conferred upon it by this Agreement.

16. Notices.

Any notice or other communication required or permitted pursuant to this Agreement shall be deemed given (a) when personally delivered to any officer of the party to whom it is addressed, (b) on the earlier of actual receipt thereof or three (3) days following posting thereof by certified or registered mail, postage prepaid, (c) upon actual receipt thereof when sent by a recognized overnight delivery service or (d) upon actual receipt thereof when sent by telecopier to the number set forth below with electronic confirmation of receipt, in each case addressed to each party at its address or telecopier number set forth below or at such other address or telecopier number as has been furnished in writing by a party to the other by like notice:

If to Pledgee: Steel City Capital Funding LLC
 1600 Market St., 31st Floor
 Philadelphia, PA 19103
 Attention: Thomas J. Bugieda, VP
 Telephone: (215) 585-5369
 Facsimile: (215) 585-4771

with a copy to: Hahn & Hessen LLP
488 Madison Avenue
New York, NY 10022
Attention: Steven J. Seif, Esq.
Telephone: (212) 478-7370
Facsimile: (212) 478-7400

If to Pledgors: c/o Air Industries Machining, Corp.
1479 Clinton Ave.
Bay Shore, NY 11706
Attention: Louis Giusto, Vice Chairman & CFO
Telephone: (631) 968-5000
Facsimile: (631) 968-5377

with a copy to: Eaton & Van Winkle LLP
3 Park Ave., 16th Floor
New York, NY 10016
Attention: Vincent McGill, Esq.
Telephone: (212) 561-3604
Facsimile: (212) 779-9928

17. Governing Law.

This Agreement and all rights and obligations hereunder shall be governed by and construed and enforced in all respects in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York.

18. Waivers.

(a) EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OTHER AGREEMENT EXECUTED OR DELIVERED BY THEM IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HERETO HEREBY AGREES AND CONSENTS THAT ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

19. Litigation.

EACH PLEDGOR EXPRESSLY CONSENTS TO THE JURISDICTION AND VENUE OF EACH COURT OF COMPETENT JURISDICTION LOCATED IN THE STATE OF NEW YORK FOR ALL PURPOSES IN CONNECTION WITH THIS AGREEMENT. ANY JUDICIAL PROCEEDING BY ANY PLEDGOR AGAINST PLEDGEE INVOLVING, DIRECTLY OR INDIRECTLY ANY MATTER OR CLAIM IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT SHALL BE BROUGHT ONLY IN A STATE COURT LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK. EACH PLEDGOR FURTHER CONSENTS THAT ANY SUMMONS, SUBPOENA OR OTHER PROCESS OR PAPERS (INCLUDING, WITHOUT LIMITATION, ANY NOTICE OR MOTION OR OTHER APPLICATION TO EITHER OF THE AFOREMENTIONED COURTS OR A JUDGE THEREOF) OR ANY NOTICE IN CONNECTION WITH ANY PROCEEDINGS HEREUNDER, MAY BE SERVED INSIDE OR OUTSIDE OF THE STATE OF NEW YORK OR THE SOUTHERN DISTRICT OF NEW YORK BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY PERSONAL SERVICE PROVIDED A REASONABLE TIME FOR APPEARANCE IS PERMITTED, OR IN SUCH OTHER MANNER AS MAY BE PERMISSIBLE UNDER THE RULES OF SAID COURTS. EACH PLEDGOR WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREON AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE OR BASED UPON FORUM NON CONVENIENS.

20. No Waiver; Cumulative Remedies.

Any and all of Pledgee's rights with respect to the Liens granted under this Agreement shall continue unimpaired, and each Pledgor shall be and remain obligated in accordance with the terms hereof, notwithstanding (a) the bankruptcy, insolvency or reorganization of any Pledgor, (b) the release or substitution of any item of the Collateral at any time, or of any rights or interests therein, or (c) any delay, extension of time, renewal, compromise or other indulgence granted by Pledgee in reference to any of the Indebtedness. Each Pledgor hereby waives all notice of any such delay, extension, release, substitution, renewal, compromise or other indulgence, and hereby consents to be bound hereby as fully and effectively as if such Pledgor had expressly agreed thereto in advance. No failure on the part of Pledgee to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any such right, power or remedy by Pledgee preclude any other or further exercise thereof or the exercise of any right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

21. Severability.

In case any security interest or other right of Pledgee shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other security interest or other right, privilege or power granted under this Agreement. In the event that any provision of this Agreement or the application thereof to any Pledgor or any circumstance in any jurisdiction governing this Agreement shall, to any extent, be invalid or unenforceable under any applicable statute, regulation, or rule of law, such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform to such statute, regulation or

rule of law, and the remainder of this Agreement and the application of any such invalid or unenforceable provision to parties, jurisdictions, or circumstances other than to whom or to which it is held invalid or unenforceable shall not be affected thereby, nor shall same affect the validity or enforceability of any other provision of this Agreement.

22. Counterparts; Facsimiles.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Any signature delivered by a party by facsimile transmission shall be deemed an original signature hereto.

23. Miscellaneous.

(a) This Agreement constitutes the entire and final agreement among the parties with respect to the subject matter hereof and neither this Agreement nor any term hereof may be changed, discharged or terminated orally, but only by an instrument in writing, signed by Pledgee and Pledgors. No waiver of any term or condition of this Agreement, whether by delay, omission or otherwise, shall be effective unless in writing and signed by the party sought to be charged, and then such waiver shall be effective only in the specific instance and for the purpose for which given.

(b) This Agreement shall be binding upon each Pledgor, and such Pledgor's successors and assigns, and shall inure to the benefit of Pledgee and its successors and assigns. The term "Pledgee", as used herein, shall include any successor or assign of Pledgee at the time entitled to the pledged interest in the Collateral.

(c) The headings and captions in this Agreement are for purposes of reference only and shall not constitute part of this Agreement for any other purpose.

24. Expenses.

The Collateral shall also secure, and Pledgors shall pay to Pledgee on demand, from time to time, all costs and expenses, (including but not limited to, attorneys' fees and costs, taxes, and all transfer, recording, filing and other charges) of, or incidental to, the custody, care, transfer, administration of the Collateral or any other collateral, or in any way relating to the enforcement, protection or preservation of the rights or remedies of Pledgee under this Agreement or with respect to any of the Indebtedness.

25. Recapture

Anything in this Agreement to the contrary notwithstanding, if Pledgee receives any payment or payments on account of the Indebtedness, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under the United States Bankruptcy Code, as amended, or any other federal or state bankruptcy, reorganization, moratorium or

insolvency law relating to or affecting the enforcement of creditors' rights generally, common law or equitable doctrine, then to the extent of any sum not finally retained by Pledgee, each Pledgor's obligations to Pledgee shall be reinstated and this Agreement shall remain in full force and effect (or be reinstated) until payment shall have been made to Pledgee, which payment shall be due on demand.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first written above.

AIR INDUSTRIES MACHINING, CORP.

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Its: President

SIGMA METALS, INC.

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Its: President

STEEL CITY CAPITAL FUNDING LLC

By: /s/ Kevin Madigan

Name: Kevin Madigan
Its: Managing Director

SCHEDULE A
PLEDGED STOCK

Issuer	Class of Stock	Stock Certificate Number	Par Value	Number of Shares
Welding Metallurgy, Inc. (issued to Air Industries Machining, Corp.)	Common	5	None	65
Welding Metallurgy, Inc. (issued to Sigma Metals, Inc.)	Common	6	None	35

PLEDGE AGREEMENT

This Pledge Agreement (this "Agreement") dated as of August 24, 2007 by and among John Gantt and Lugenia Gantt (collectively, the "Pledges"), AIR INDUSTRIES MACHINING CORP. ("Air"), a New York corporation, having an office at 1479 Clinton Avenue, Bay Shore, New York 11706, and SIGMA METALS, INC. ("Sigma"), a New York corporation, having an office at 45 Jefryn Boulevard, Deer Park, New York 11729, (Sigma and Air each individually, a "Pledgor" and collectively, the "Pledgors").

BACKGROUND TO THE AGREEMENT

Pledgors, WELDING METALLURGY, INC. (as successor by merger with WMS Merger Corp.), a New York corporation ("the Issuer") and Steel City Capital Funding LLC (the "Lender") have entered or are entering into a Term Loan and Security Agreement dated as of the date hereof (as amended, modified, restated or supplemented from time to time, the "Loan Agreement") pursuant to which the Lender has agreed, subject to the terms and conditions contained therein, to provide certain financial accommodations to Borrowers.

Pledges, the former shareholders of the Issuer, sold all the outstanding shares of the Issuer (the "WMI Shares") to WMS Merger Corp., of which the Pledgors were the sole shareholders, pursuant to a Stock Purchase Agreement dated as of March 9, 2007, as amended (the "Purchase Agreement") with Air Industries Group, Inc., (formerly Gales Industries Incorporated, referred to herein as "AIG"), and AIG assigned its rights under the Purchase Agreement to WMS Merger Corp.

Part of the consideration for the purchase of the WMI Shares consisted of the 7% secured promissory note of AIG in the principal amount of \$2,000,000 (the "AIG Note"). Under the Purchase Agreement payment of the AIG Note is to be secured by a pledge of the WMI Shares, which pledge is second, junior and subordinate to Senior Indebtedness, as defined in the AIG Note. Amounts advanced by Lender under the Loan Agreement constitute Senior Indebtedness.

Lender and Pledges have entered into a Reliance and Intercreditor Agreement dated as of August 24, 2007 (the "Reliance and Intercreditor Agreement"), establishing their relative rights and the priorities in and to the WMI Shares and the proceeds thereof.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Pledge and Grant of Security Interest.

To secure the full and punctual payment of the principal amount of, and accrued interest on, the AIG Note (collectively, the "Indebtedness"), Pledgors hereby pledge, assign, hypothecate, transfer and grant a security interest to Pledgee in all of the following (the "Collateral"):

(a) the shares of stock set forth on Schedule A annexed hereto and expressly made a part hereof (the "Pledged Stock"), the certificates representing the Pledged Stock, and instruments and other property or proceeds from time to time received, receivable or otherwise distributed in exchange for any or all of the Pledged Stock, but excluding cash dividends or other distributions in respect of the Pledged Stock

(b) all additional shares of stock of any issuer of the Pledged Stock (the "Issuer") from time to time acquired by the Pledgors in any manner, including, without limitation, stock dividends or a distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off (which shares shall be deemed to be part of the Collateral), and the certificates representing such additional shares, and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares; and

(c) all options and rights, whether as an addition to, in substitution of or in exchange for any shares of the Pledged Stock.

2. Delivery of Collateral.

All certificates representing or evidencing the Pledged Stock shall be delivered to and held by or on behalf of Pledgee pursuant hereto and shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Pledgee. Pledgors hereby authorize the Issuer upon demand by Pledgee to deliver any certificates, instruments or other distributions issued in connection with the Collateral directly to Pledgee, in each case to be held by Pledgee, subject to the terms hereof and the terms of the Reliance and Intercreditor Agreement. Pledgee shall have the right, at any time in its discretion and without notice to the Pledgors, to transfer to or to register in the name of Pledgee or any of its nominees any or all of the Pledged Stock. In addition, Pledgee shall have the right at any time to exchange certificates or instruments representing or evidencing Pledged Stock for certificates or instruments of smaller or larger denominations. Further, the

Pledgee is hereby authorized to file UCC-1 Financing Statements in connection with the Pledgors pledge of the Collateral to Pledgee.

3. Representations and Warranties of Pledgors.

Each Pledgor represents and warrants to Pledgee (which representations and warranties shall be deemed to continue to be made until all of the Indebtedness has been paid in full) that:

(a) Each Pledgor has the requisite power and authority to enter into this Agreement, to pledge the Collateral for the purposes described herein and to carry out the transactions contemplated by this Agreement.

(b) The execution, delivery and performance by each Pledgor of this Agreement and the pledge of the Collateral hereunder have been duly and properly authorized and do not and will not result in any violation of any agreement, indenture, instrument, license, judgment, decree, order, law, statute, ordinance or other governmental rule or regulation applicable to any Pledgor.

(c) This Agreement constitutes the legal, valid and binding obligation of each Pledgor enforceable against such Pledgor in accordance with its terms.

(d) Each Pledgor is the direct and beneficial owner of each share of the Pledged Stock.

(e) All of the shares of the Pledged Stock have been duly authorized, validly issued and are fully paid and nonassessable.

(f) Upon delivery of the Pledged Stock to Pledgee or an agent for Pledgee, this Agreement creates and grants a valid first lien on and perfected security interest in the Collateral and the proceeds thereof, subject to no prior security interest, mortgage, pledge, claim, lien, charge, hypothecation, assignment, offset or encumbrance whatsoever (collectively, "Liens") or to any agreement purporting to grant to any third party a Lien upon the property or assets of each Pledgor which would include the Collateral.

(g) There are no restrictions on transfer of the Pledged Stock contained in the Certificate of Incorporation or by-laws of the Issuer or otherwise which have not otherwise been enforceably and legally waived by the necessary parties.

(h) None of the Pledged Stock has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject.

(i) There are no pending or, to the best of each Pledgor's knowledge, threatened actions or proceedings before any court, judicial body, administrative agency or arbitrator which may materially adversely affect the Collateral.

(j) No consent, approval, authorization or other order of any person, firm, corporation or other entity ("Person") and no consent, authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required by any Pledgor either (i) for the pledge of the Collateral pursuant to this Agreement or for the execution, delivery or performance of this Agreement or (ii) for the exercise by the Pledgee of the voting or other rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with such disposition by laws affecting the offering and sale of securities generally.

(k) No notification of the pledge evidenced hereby to any Person is required.

(l) The Pledged Stock constitutes one hundred percent (100%) of the issued and outstanding shares of capital stock of the Issuers thereof set forth on Schedule A annexed hereto.

(m) As of the date hereof, there are no existing options, warrants, calls or commitments of any such character whatsoever relating to any Pledged Stock and no indebtedness or other security convertible into any Pledged Stock.

The representations and warranties set forth in this Section 3 (other than those contained in subsection (m)) shall survive the execution and delivery of this Agreement.

4. Covenants.

Until such time as all of the Indebtedness has been paid in full, each Pledgor shall:

(a) Not sell, assign, transfer, convey, or otherwise dispose of its rights in or to the Collateral or any interest therein; nor create, incur or permit to exist any Lien whatsoever with respect to any of the Collateral or the proceeds thereof other than that created hereby.

(b) At each Pledgor's expense, defend Pledgee's right, title and security interest in and to the Collateral against the claims of any Person and keep the Collateral free from all Liens, except for the Liens granted to Pledgee under this Agreement.

(c) At any time, and from time to time, upon the written request of Pledgee, execute and deliver such further documents and do such further acts and things as Pledgee may reasonably request in order to effect the purposes of this Agreement including, but without limitation, delivering to Pledgee upon the occurrence of an Event of Default irrevocable proxies in respect of the Collateral in form satisfactory to Pledgee. Until receipt thereof, this Agreement shall constitute each Pledgor's proxy to Pledgee or its nominee to vote all shares of Collateral then registered in such Pledgor's name.

(d) Within two (2) Business Days of receipt thereof by each Pledgor, deliver to Pledgee all notices and statements relating to the Collateral received by such Pledgor.

(e) Not consent to or approve the issuance of (i) any additional shares of any class of capital stock of the Issuer; (ii) any securities convertible either voluntarily by the holder thereof or automatically upon the occurrence or nonoccurrence of any event or condition into, or any securities exchangeable for, any such shares; or (iii) any warrants, options, contracts or other commitments entitling any person to purchase or otherwise acquire any such shares.

(f) Not create, incur, assume or suffer to exist any Lien or other encumbrance of any kind (including the charge on property purchased under conditional sales or other title retention agreements) upon any property or assets, whether now owned or hereafter acquired, except for liens incidental to the conduct of any Pledgor's business or the ownership of its assets or properties not incurred in connection with the borrowing of money or the acquisition of any asset, and which in the aggregate do not materially detract from such Pledgor's operations, property or financial condition.

(g) Not convey, sell, lease, transfer or otherwise dispose of in one or a series of related transactions, all or any substantial part of its properties, businesses or assets.

5. Voting Rights and Dividends.

In addition to Pledgee's rights and remedies set forth in Section 8 hereof, in case an Event of Default shall have occurred and has been declared by Pledgee and is continuing, Pledgee shall (i) vote the Collateral, (ii) be entitled to give consents, waivers and ratifications in respect of the Collateral (each Pledgor hereby irrevocably constituting and appointing Pledgee, with full power of substitution, the proxy and attorney-in-fact of such Pledgor for such purposes) and (iii) be entitled to collect and receive for its own use cash dividends paid on the Collateral. No Pledgor shall be permitted to exercise or refrain from exercising any voting rights or other powers if, in the reasonable judgment of Pledgee, such action would have a material adverse effect on the value of the Collateral or any part thereof; and, provided, further, that each Pledgor shall give at least five (5) days' written notice of the manner in which such Pledgor intends to exercise, or the reasons for refraining from exercising, any voting rights or other powers other than with respect to any election of directors and voting with respect to any incidental matters. All dividends and all other distributions in respect of any of the Collateral, whenever paid or made, shall be delivered to Pledgee to hold as Collateral and shall, if received by any Pledgor, be received in trust for the benefit of Pledgee, be segregated from the other property or funds of such Pledgor, and be forthwith delivered to Pledgee as Collateral in the same form as so received (with any necessary endorsement). Subject to the limitations set forth herein, Pledgors shall have the right to exercise voting rights with respect to any securities included in the Collateral.

6. Events of Default.

The term "Event of Default" wherever used herein shall mean the occurrence of any one of the following events:

- (a) An Event of Default shall occur under the Loan Agreement or any Pledgor shall default in the payment of any Obligation (as that term is defined in the Loan Agreement);
- (b) Any Pledgor shall default in the performance of any of its undertakings or obligations under any agreement between such Pledgor and Pledgee, including, without limitation, this Agreement;
- (c) Any representation, warranty, statement or covenant made or furnished to Pledgee by or on behalf of any Pledgor proves to have been false in any material respect when made or furnished or is breached, violated or not complied with; or
- (d) The Collateral is subjected to levy of execution, attachment, distraint or other judicial process; or the Collateral is the subject of a claim (other than by Pledgee) of a Lien or other right or interest in or to the Collateral.

(e) Any Pledgor shall (i) apply for, consent to, or suffer to exist the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or other fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing

(f) An Event of Default shall occur under the AIG Note or any Pledgor shall default in the payment of any obligation to the Pledgees. .

7. Remedies.

Upon the occurrence of an Event of Default, Pledgee may, subject to the terms of the Reliance and Intercreditor Agreement:

(a) Demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose or realize upon the Collateral (or any part thereof), as Pledgee may determine in its sole discretion;

(b) Transfer any or all of the Collateral into its name, or into the name of its nominee or nominees;

(c) Exercise all rights with respect to the Collateral including, without limitation, all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any shares of the Collateral as if it were the absolute owner thereof, including, but without limitation, the right to exchange, at its discretion, any or all of the Collateral upon the merger, consolidation, reorganization, recapitalization or other readjustment of the Issuer thereof, or upon the exercise by the Issuer of any right, privilege or option pertaining to any of the Collateral, and, in connection therewith, to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as it may determine, all without liability except to account for property actually received by it;

(d) Subject to the requirements of applicable law, sell, assign and deliver the whole or, from time to time, any part of the Collateral at the time held by Pledgee, at any private or public sale or auction, with or without demand, advertisement or notice of the time or place of sale or adjournment thereof or otherwise (all of which are hereby waived, except such notice as is required by applicable law and cannot be waived), for cash or credit or for other property for immediate or future delivery, and for such price or prices and on such terms as Pledgee in its sole discretion may determine, or as may be required by applicable law.

Each Pledgor hereby waives and releases any and all right or equity of redemption, whether before or after sale hereunder. At any such sale, unless prohibited by applicable law, Pledgee may bid for and purchase the whole or any part of the Collateral so sold free from any such right or equity of redemption. All moneys received by Pledgee hereunder whether upon sale of the Collateral or any part thereof or otherwise shall be held by Pledgee and applied by it as provided in Section 10 hereof, subject to the terms of the Reliance and Intercreditor Agreement. No failure or delay on the part of Pledgee in exercising any rights hereunder shall operate as a waiver of any such rights nor shall any single or partial exercise of any such rights preclude any other or future exercise thereof or the exercise of any other rights hereunder. Pledgee shall have no duty as to the collection or protection of the Collateral or any income thereon nor any duty as to preservation of any rights pertaining thereto, except to apply the funds in accordance with the requirements of Section 10 hereof, subject to the terms of the Reliance and Intercreditor Agreement. Pledgee may exercise its rights with respect to property held hereunder without resort to other security for or sources of reimbursement for the Indebtedness. In addition to the foregoing, Pledgee shall have all of the rights, remedies and privileges of a secured party under applicable law and the Uniform Commercial Code of New York regardless of the jurisdiction in which enforcement hereof is sought, subject to the terms of the Reliance and Intercreditor Agreement.

8. Registration.

If Pledgee shall exercise its right to sell all or any part of the Collateral, and if, in the opinion of counsel for Pledgee, it is necessary to have the Collateral being sold registered under the provisions of the Securities Act of 1933, as amended (the "Securities Act"), each Pledgor will cause the Issuer to execute and deliver, and to cause the directors and officers of the Issuer to execute and deliver, all at such Pledgor's expense, all such instruments and documents and to do or cause to be done all such other acts and things as may be necessary to register the Collateral being sold under the provisions of the Securities Act. Each Pledgor shall cause any such registration statement to become effective and to remain effective for a period of one year from the date of the first public offering of the Collateral being sold and to make all amendments thereto and to related documents which, in the opinion of Pledgee or its counsel, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto. Each Pledgor shall also cause the Issuer to comply with the provisions of the "Blue Sky" law of any jurisdiction which Pledgee shall designate in connection with any sale hereunder; and to cause the Issuer to make available to its security holders, as soon as practicable, an earnings statement (which need not be audited) covering a period of at least twelve months but not more than eighteen months, beginning with the first month after the effective date of any such registration statement, which earnings statement will satisfy the provisions of Section 11(a) of the Securities Act. Each Pledgor acknowledges that a breach of any of the covenants contained in this Section may cause irreparable injury to Pledgee, that Pledgee will have no adequate remedy at law with respect to such breach and, as a consequence, such covenants of each Pledgor shall be specifically enforceable against such Pledgor.

9. Private Sale.

Notwithstanding anything contained in Section 8, each Pledgor recognizes that Pledgee may be unable to effect (or to do so only after delay which would adversely affect the value that might be realized from the Collateral) a public sale of all or part of the Collateral by reason of certain prohibitions contained in the Securities Act, and may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Each Pledgor agrees that any such private sale may be at prices and on terms less favorable to the seller than if sold at public sales and that such private sales shall be deemed to have been made in a commercially reasonable manner. Each Pledgor agrees that Pledgee has no obligation to delay sale of any Collateral for the period of time necessary to permit the Issuer to register the Collateral for public sale under the Securities Act.

10. Proceeds of Sale.

Subject to the terms of the Reliance and Intercreditor Agreement, the proceeds of any collection, recovery, receipt, appropriation, realization, disposition or sale of the Collateral shall be applied by Pledgee as follows:

(a) First, to the payment of all costs, expenses and charges of Pledgee and to the reimbursement of Pledgee for the prior payment of such costs, expenses and charges incurred in connection with the care and safekeeping of any of the Collateral (including, without limitation, the expenses of any sale or other proceeding, the expenses of any taking, attorneys' fees and expenses, court costs, any other fees or expenses incurred or expenditures or advances made by Pledgee in the protection, enforcement or exercise of its rights, powers or remedies hereunder).

(b) Second, to the payment of the Indebtedness, in whole or in part, in such order as Pledgee may elect, whether such Indebtedness is then due or not due.

(c) Third, to such Persons as required by applicable law including, without limitation, Section 9-615(a)(3) of the Uniform Commercial Code.

(d) Fourth, to the extent of any surplus thereafter remaining, to Pledgors or as a court of competent jurisdiction may direct.

In the event that the proceeds of any collection, recovery, receipt, appropriation, realization or sale are insufficient to satisfy the Indebtedness, each Pledgor shall be liable for the deficiency together with interest thereon at the rate prescribed in AIG Note, plus the costs and fees of any attorneys employed by Pledgee to collect such deficiency.

Pledgee, in its sole and absolute discretion, with or without notice to Pledgors, may deposit any proceeds of any collection, recovery, receipt, appropriation, realization, disposition or sale of the Collateral in a non-interest bearing cash collateral deposit account to be maintained as security for the Indebtedness.

11. Waiver of Marshaling.

Each Pledgor hereby waives any right to compel any marshaling of any of the Collateral.

12. Pledgee Appointed Attorney-In-Fact and Performance by Pledgee.

Upon the occurrence of an Event of Default, each Pledgor hereby irrevocably constitutes and appoints Pledgee as such Pledgor's true and lawful attorney-in-fact, with full power of substitution, to execute, acknowledge and deliver any instruments and to do in each Pledgor's name, place and stead, all such acts, things and deeds for and on behalf of and in the name of such Pledgor, which such Pledgor could or might do or which Pledgee may deem necessary, desirable or convenient to accomplish the purposes of this Agreement, including, without limitation, to execute such instruments of assignment or transfer or orders and to register, convey or otherwise transfer title to the Collateral into Pledgee's name. Each Pledgor hereby ratifies and confirms all that said attorney-in-fact may so do and hereby declares this power of attorney to be coupled with an interest and irrevocable. If any Pledgor fails to perform any agreement herein contained, Pledgee may itself perform or cause performance thereof, and any costs and expenses of Pledgee incurred in connection therewith shall be paid by Pledgors as provided in Section 23 hereof.

13. Termination.

This Agreement shall terminate and Pledgors shall be entitled to the return, at Pledgors' expense, of such of the Collateral as has not theretofore been sold, disposed of or otherwise applied pursuant to this Agreement upon payment in full of the Indebtedness.

14. Concerning Pledgee.

The recitals of fact herein shall be taken as statements of each Pledgor for which Pledgee assumes no responsibility. Pledgee makes no representation to anyone as to the value of the Collateral or any part thereof or as to the validity or adequacy of the security afforded or intended to be afforded thereby or as to the validity of this Agreement. Pledgee shall be protected in relying upon any notice, consent, request or other paper or document believed by it to be genuine and correct and to have been signed by a proper person. The permissive rights of Pledgee hereunder shall not be construed as duties of Pledgee. Pledgee shall be under no obligation to take any action toward the enforcement of this Agreement or rights or remedies in respect of any of the Collateral. Pledgee shall not be personally liable for any action taken or omitted by it in good faith and reasonably believed by it to be within the power or discretion conferred upon it by this Agreement.

15. Notices.

Any notice or other communication required or permitted pursuant to this Agreement shall be deemed given (a) when personally delivered to any officer of the party to whom it is addressed, (b) on the earlier of actual receipt thereof or three (3) days following posting thereof by certified or registered mail, postage prepaid, (c) upon actual receipt thereof when sent by a recognized overnight delivery service or (d) upon actual receipt thereof when sent by

telecopier to the number set forth below with electronic confirmation of receipt, in each case addressed to each party at its address or telecopier number set forth below or at such other address or telecopier number as has been furnished in writing by a party to the other by like notice:

If to Pledges: 183 Montecito Crescent
Melville, New York 11747
Telephone: (631) 367-0150
Facsimile: (631) 367-0150

with a copy to: Adam P. Silvers, Esq.
Ruskin Moscou Faltischek, P.C.
1425 RexCorp Plaza
Uniondale, New York 11556
Telephone: (516) 663-6519
Facsimile: (516) 663-6719

If to Pledgors: c/o Air Industries Machining, Corp.
1479 Clinton Ave.
Bay Shore, NY 11706
Attention: Louis Giusto, Vice Chairman & CFO
Telephone: (631) 968-5000
Facsimile: (631) 968-5377

with a copy to: Eaton & Van Winkle LLP
3 Park Ave., 16th Floor
New York, NY 10016
Attention: Vincent McGill, Esq.
Telephone: (212) 561-3604
Facsimile: (212) 779-9928

16. Governing Law.

This Agreement and all rights and obligations hereunder shall be governed by and construed and enforced in all respects in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York.

17. Waivers.

(a) EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OTHER AGREEMENT EXECUTED OR DELIVERED BY THEM IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HERETO HEREBY AGREES AND CONSENTS THAT ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

18. Litigation.

EACH PLEDGOR EXPRESSLY CONSENTS TO THE JURISDICTION AND VENUE OF EACH COURT OF COMPETENT JURISDICTION LOCATED IN THE STATE OF NEW YORK FOR ALL PURPOSES IN CONNECTION WITH THIS AGREEMENT. ANY JUDICIAL PROCEEDING BY ANY PLEDGOR AGAINST PLEDGEE INVOLVING, DIRECTLY OR INDIRECTLY ANY MATTER OR CLAIM IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT SHALL BE BROUGHT ONLY IN A STATE COURT LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK. EACH PLEDGOR FURTHER CONSENTS THAT ANY SUMMONS, SUBPOENA OR OTHER PROCESS OR PAPERS (INCLUDING, WITHOUT LIMITATION, ANY NOTICE OR MOTION OR OTHER APPLICATION TO EITHER OF THE AFOREMENTIONED COURTS OR A JUDGE THEREOF) OR ANY NOTICE IN CONNECTION WITH ANY PROCEEDINGS HEREUNDER, MAY BE SERVED INSIDE OR OUTSIDE OF THE STATE OF NEW YORK OR THE SOUTHERN DISTRICT OF NEW YORK BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY PERSONAL SERVICE PROVIDED A REASONABLE TIME FOR APPEARANCE IS PERMITTED, OR IN SUCH OTHER MANNER AS MAY BE PERMISSIBLE UNDER THE RULES OF SAID COURTS. EACH PLEDGOR WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREON AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE OR BASED UPON FORUM NON CONVENIENS.

19. No Waiver; Cumulative Remedies.

Any and all of Pledgee's rights with respect to the Liens granted under this Agreement shall continue unimpaired, and each Pledgor shall be and remain obligated in accordance with the terms hereof, notwithstanding (a) the bankruptcy, insolvency or reorganization of any Pledgor, (b) the release or substitution of any item of the Collateral at any time, or of any rights or interests therein, or (c) any delay, extension of time, renewal, compromise or other indulgence granted by Pledgee in reference to any of the Indebtedness. Each Pledgor hereby waives all notice of any such delay, extension, release, substitution, renewal, compromise or other indulgence, and hereby consents to be bound hereby as fully and effectively as if such Pledgor had expressly agreed thereto in advance. No failure on the part of Pledgee to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any such right, power or remedy by Pledgee preclude any other or further exercise thereof or the exercise of any right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

20. Severability.

In case any security interest or other right of Pledgee shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other security interest or other right, privilege or power granted under this Agreement. In the event that any provision of this Agreement or the application thereof to any Pledgor or any circumstance in any jurisdiction governing this Agreement shall, to any extent, be invalid or unenforceable under any applicable statute, regulation, or rule of law, such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform to such statute, regulation or rule of law, and the remainder of this Agreement and the application of any such invalid or unenforceable provision to parties, jurisdictions, or circumstances other than to whom or to which it is held invalid or unenforceable shall not be affected thereby, nor shall same affect the validity or enforceability of any other provision of this Agreement.

21. Counterparts; Facsimiles.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Any signature delivered by a party by facsimile transmission shall be deemed an original signature hereto.

22. Miscellaneous.

(a) This Agreement constitutes the entire and final agreement among the parties with respect to the subject matter hereof and neither this Agreement nor any term hereof may be changed, discharged or terminated orally, but only by an instrument in writing, signed by Pledgee and Pledgors. No waiver of any term or condition of this Agreement, whether by delay, omission or otherwise, shall be effective unless in writing and signed by the party sought to be charged, and then such waiver shall be effective only in the specific instance and for the purpose for which given.

(b) This Agreement shall be binding upon each Pledgor, and such Pledgor's successors and assigns, and shall inure to the benefit of Pledgee and its successors and assigns. The term "Pledgee", as used herein, shall include any successor or assign of Pledgee at the time entitled to the pledged interest in the Collateral.

(c) The headings and captions in this Agreement are for purposes of reference only and shall not constitute part of this Agreement for any other purpose.

23. Expenses.

The Collateral shall also secure, and Pledgors shall pay to Pledgee on demand, from time to time, all costs and expenses, (including but not limited to, attorneys' fees and costs, taxes, and all transfer, recording, filing and other charges) of, or incidental to, the custody, care, transfer, administration of the Collateral or any other collateral, or in any way relating to the enforcement, protection or preservation of the rights or remedies of Pledgee under this Agreement or with respect to any of the Indebtedness.

24. Recapture

Anything in this Agreement to the contrary notwithstanding, if Pledgee receives any payment or payments on account of the Indebtedness, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under the United States Bankruptcy Code, as amended, or any other federal or state bankruptcy, reorganization, moratorium or insolvency law relating to or affecting the enforcement of creditors' rights generally, common law or equitable doctrine, then to the extent of any sum not finally retained by Pledgee, each Pledgor's obligations to Pledgee shall be reinstated and this Agreement shall remain in full force and effect (or be reinstated) until payment shall have been made to Pledgee, which payment shall be due on demand.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first written above.

AIR INDUSTRIES MACHINING, CORP.

By: /s/Peter D. Rettaliata

Name: Peter D. Rettaliata
Title: President

SIGMA METALS, INC.

By /s/Peter D. Rettaliata_

Name: Peter D. Rettaliata
Title: President

/s/ John Gantt

John Gantt

/s/ Lugenia Gantt

Lugenia Gantt

SCHEDULE A

PLEDGED STOCK

Issuer	Class of Stock	Stock Certificate Number	Par Value	Number of Shares
Welding Metallurgy, Inc. (issued to Air Industries Machining, Corp.)	Common	5	None	65
Welding Metallurgy, Inc. (issued to Sigma Metals, Inc.)	Common	6	None	35

PLEDGE AGREEMENT

This Pledge Agreement (this "Agreement") dated as of the date hereof between STEEL CITY CAPITAL FUNDING LLC, having an office at 1600 Market Street, 31st Floor, Philadelphia, PA 19103, ("Pledgee") and AIR INDUSTRIES GROUP, INC. (f/k/a Gales Industries Inc.), a Delaware corporation, having an office at 1479 Clinton Avenue, Bay Shore, New York 11706, ("Pledgor").

BACKGROUND TO THE AGREEMENT

Pledgor has executed and delivered to Pledgee a Guaranty and Suretyship Agreement dated as of the date hereof (as amended, modified, restated or supplemented from time to time, the "Guaranty and Suretyship Agreement") pursuant to which Pledgor guaranteed to Pledgee the payment and performance of all of the obligations and indebtedness of AIR INDUSTRIES MACHINING, CORP., a New York corporation ("Air"), SIGMA METALS, INC., a New York corporation ("Sigma"), and WELDING METALLURGY, INC, a New York corporation ("WMI"; and together with Air and Sigma, collectively, the "Borrowers") to Pledgee under a Term Loan and Security Agreement dated as of the date hereof among Pledgee and Borrowers (as amended, modified, restated or supplemented from time to time, the "Loan Agreement").

In order to induce Pledgee to provide or continue to provide the financial accommodations to Borrowers described in the Loan Agreement, and to secure Pledgor's obligations to Pledgee under the Guaranty and Suretyship Agreement, Pledgor has agreed to pledge and grant a security interest to Pledgee in the Collateral (as hereinafter defined).

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

All capitalized terms used herein which are not defined shall have the meanings given to them in the Loan Agreement.

2. Pledge and Grant of Security Interest.

To secure the full and punctual payment and performance of the (a) Obligations and the obligations and liabilities of Pledgor to Pledgee under the Guaranty and Suretyship Agreement and (b) all other indebtedness, obligations and liabilities of Borrowers and Pledgor to Pledgee whether now existing or hereafter arising, direct or indirect, liquidated or unliquidated, absolute or contingent, due or not due and whether under, pursuant to or evidenced by a note, agreement, guaranty, instrument or otherwise ((a) and (b) collectively, the "Indebtedness"), Pledgor hereby pledges, assigns, hypothecates, transfers and grants a security interest to Pledgee in all of the following (the "Collateral"):

(a) the shares of stock set forth on Schedule A annexed hereto and expressly made a part hereof (the "Pledged Stock"), the certificates representing the Pledged Stock and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Stock;

(b) all additional shares of stock of any issuer of the Pledged Stock (the "Issuer") from time to time acquired by the Pledgor in any manner, including, without limitation, stock dividends or a distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off (which shares shall be deemed to be part of the Collateral), and the certificates representing such additional shares, and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares; and

(c) all options and rights, whether as an addition to, in substitution of or in exchange for any shares of the Pledged Stock.

The security interest granted by Pledgor to Pledgee in the Pledged Stock hereunder shall be subordinate only as follows: (a) in respect of the Pledged Stock of Air, only to the security interest granted by Pledgor in favor of Luis Peragallo ("Peragallo"), pursuant to (i) that certain Subordinated Secured Promissory Note dated November 30, 2005 by Pledgor in favor of Peragallo in the original principal amount of \$962,000.00, and (ii) that certain Security Agreement dated November 30, 2005 between Pledgor and Peragallo (collectively, the "Peragallo Security Documents"); and (b) in respect of the Pledged Stock of Sigma, only to the security interest granted by Pledgor (i) in favor of Carole Tate ("Tate") pursuant to that certain Promissory Note dated April 12, 2007 by Pledgor in favor of Tate in the original principal amount of \$528,553.00, (ii) in favor of George Elkins ("Elkins") pursuant to that certain Promissory Note dated April 12, 2007 by Pledgor in favor of Elkins in the original principal amount of \$528,553.00, (iii) in favor of George Coonan ("Coonan"; together with Tate and Elkins, collectively, the "Sigma Secured Parties") pursuant to that certain Promissory Note dated April 12, 2007 by Pledgor in favor of Coonan in the original principal amount of \$27,107.00, and (iv) pursuant to that certain

3. Delivery of Collateral.

Within two (2) Business Days of payment in full of all obligations owing to Peragallo or Sigma Secured Parties, Pledgor shall deliver or cause to be delivered to Pledgee all certificates representing or evidencing the Pledged Stock of Air or Sigma, respectively, and such certificates shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Pledgee. Pledgor hereby authorizes the Issuer upon demand by Pledgee to deliver any certificates, instruments or other distributions issued in connection with the Collateral directly to Pledgee, in each case to be held by Pledgee, subject to the terms hereof. Following delivery of the certificates representing or evidencing the Pledged Stock, Pledgee shall

have the right, at any time in its discretion and without notice to the Pledgor, to transfer to or to register in the name of Pledgee or any of its nominees any or all of the Pledged Stock. In addition, following the delivery of such certificates, Pledgee shall have the right at any time to exchange certificates or instruments representing or evidencing Pledged Stock for certificates or instruments of smaller or larger denominations.

4. Representations and Warranties of Pledgor.

Pledgor represents and warrants to Pledgee (which representations and warranties shall be deemed to continue to be made until all of the Indebtedness has been paid in full and the Guaranty and Suretyship Agreement has been irrevocably terminated) that:

(a) Pledgor has the requisite power and authority to enter into this Agreement, to pledge the Collateral for the purposes described herein and to carry out the transactions contemplated by this Agreement.

(b) The execution, delivery and performance by Pledgor of this Agreement and the pledge of the Collateral hereunder have been duly and properly authorized and do not and will not result in any violation of any agreement, indenture, instrument, license, judgment, decree, order, law, statute, ordinance or other governmental rule or regulation applicable to Pledgor.

(c) This Agreement constitutes the legal, valid and binding obligation of Pledgor enforceable against Pledgor in accordance with its terms.

(d) Pledgor is the direct and beneficial owner of each share of the Pledged Stock.

(e) All of the shares of the Pledged Stock have been duly authorized, validly issued and are fully paid and nonassessable.

(f) Upon delivery of the Pledged Stock to Pledgee or an agent for Pledgee, this Agreement creates and grants a valid first lien on and perfected security interest in the Collateral and the proceeds thereof, subject to no prior security interest, mortgage, pledge, claim, lien, charge, hypothecation, assignment, offset or encumbrance whatsoever (collectively, "Liens") or to any agreement purporting to grant to any third party a Lien upon the property or assets of Pledgor which would include the Collateral.

(g) There are no restrictions on transfer of the Pledged Stock contained in the Certificate of Incorporation or by-laws of the Issuer or otherwise which have not otherwise been enforceably and legally waived by the necessary parties.

(h) None of the Pledged Stock has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject.

(i) There are no pending or, to the best of Pledgor's knowledge, threatened actions or proceedings before any court, judicial body, administrative agency or arbitrator which may materially adversely affect the Collateral.

(j) No consent, approval, authorization or other order of any person, firm, corporation or other entity ("Person") and no consent, authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required by the Pledgor either (i) for the pledge of the Collateral pursuant to this Agreement or for the execution, delivery or performance of this Agreement or (ii) for the exercise by the Pledgee of the voting or other rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with such disposition by laws affecting the offering and sale of securities generally.

(k) No notification of the pledge evidenced hereby to any Person is required.

(l) The Pledged Stock constitutes one hundred percent (100%) of the issued and outstanding shares of capital stock of the Issuers thereof set forth on Schedule A annexed hereto.

(m) As of the date hereof, there are no existing options, warrants, calls or commitments of any such character whatsoever relating to any Pledged Stock and no indebtedness or other security convertible into any Pledged Stock.

The representations and warranties set forth in this Section 4 (other than those contained in subsection (m)) shall survive the execution and delivery of this Agreement.

5. Covenants.

Until such time as all of the Indebtedness has been paid in full and the Guaranty and Suretyship Agreement has been irrevocably terminated, Pledgor shall:

(a) Not sell, assign, transfer, convey, or otherwise dispose of its rights in or to the Collateral or any interest therein; nor create, incur or permit to exist any Lien whatsoever with respect to any of the Collateral or the proceeds thereof other than that created hereby.

(b) At Pledgor's expense, defend Pledgee's right, title and security interest in and to the Collateral against the claims of any Person and keep the Collateral free from all Liens, except for (i) the Liens granted to Peragallo under the Peragallo Security Documents, (ii) the Liens granted to Sigma Secured Parties under the Sigma Security Documents, and (iii) the Liens granted to Pledgee under this Agreement.

(c) At any time, and from time to time, upon the written request of Pledgee, execute and deliver such further documents and do such further acts and things as Pledgee may reasonably request in order to effect the purposes of this Agreement including, but without limitation, delivering to Pledgee upon the occurrence of an Event of Default irrevocable proxies in respect of the Collateral in form satisfactory to Pledgee. Until receipt thereof, this Agreement shall constitute Pledgor's proxy to Pledgee or its nominee to vote all shares of Collateral then registered in Pledgor's name.

(d) Within two (2) Business Days of receipt thereof by Pledgor, deliver to Pledgee all notices and statements relating to the Collateral received by Pledgor.

(e) Not consent to or approve the issuance of (i) any additional shares of any class of capital stock of the Issuer; (ii) any securities convertible either voluntarily by the holder thereof or automatically upon the occurrence or nonoccurrence of any event or condition into, or any securities exchangeable for, any such shares; or (iii) any warrants, options, contracts or other commitments entitling any person to purchase or otherwise acquire any such shares.

(f) Not create, incur, assume or suffer to exist any Lien or other encumbrance of any kind (including the charge on property purchased under conditional sales or other title retention agreements) upon any property or assets, whether now owned or hereafter acquired, except for liens incidental to the conduct of Pledgor's business or the ownership of its assets or properties not incurred in connection with the borrowing of money or the acquisition of any asset, and which in the aggregate do not materially detract from Pledgor's operations, property or financial condition.

(g) Not convey, sell, lease, transfer or otherwise dispose of in one or a series of related transactions, all or any substantial part of its property, business or assets.

6. Voting Rights and Dividends.

In addition to Pledgee's rights and remedies set forth in Section 8 hereof, in case an Event of Default shall have occurred and has been declared by Pledgee, Pledgee shall (i) vote the Collateral, (ii) be entitled to give consents, waivers and ratifications in respect of the Collateral (Pledgor hereby irrevocably constituting and appointing Pledgee, with full power of substitution, the proxy and attorney-in-fact of Pledgor for such purposes) and (iii) be entitled to collect and receive for its own use cash dividends paid on the Collateral. Pledgor shall not be permitted to exercise or refrain from exercising any voting rights or other powers if, in the reasonable judgment of Pledgee, such action would have a material adverse effect on the value of the Collateral or any part thereof; and, provided, further, that Pledgor shall give at least five (5) days' written notice of the manner in which Pledgor intends to exercise, or the reasons for refraining from exercising, any voting rights or other powers other than with respect to any election of directors and voting with respect to any incidental matters. All dividends and all other distributions in respect of any of the Collateral, whenever paid or made, shall be delivered to Pledgee to hold as Collateral and shall, if received by the Pledgor, be received in trust for the benefit of Pledgee, be segregated from the other property or funds of the Pledgor, and be forthwith delivered to Pledgee as Collateral in the same form as so received (with any necessary endorsement).

7. Events of Default.

The term "Event of Default" wherever used herein shall mean the occurrence of any one of the following events:

(a) An Event of Default shall occur under the Loan Agreement or Pledgor or the Issuer shall default in the payment of any Obligation or any default shall have occurred under the Guaranty and Suretyship Agreement;

(b) Pledgor shall default in the performance of any of its undertakings or obligations under any agreement between Pledgor and Pledgee, including, without limitation, this Agreement;

(c) Any representation, warranty, statement or covenant made or furnished to Pledgee by or on behalf of Pledgor proves to have been false in any material respect when made or furnished or is breached, violated or not complied with; or

(d) The Collateral is subjected to levy of execution, attachment, distraint or other judicial process; or the Collateral is the subject of a claim (other than by Pledgee) of a Lien or other right or interest in or to the Collateral.

(e) Pledgor or any Borrower shall (i) apply for, consent to, or suffer to exist the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or other fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing.

8. Remedies.

Upon the occurrence of an Event of Default, Pledgee may:

(a) Demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose or realize upon the Collateral (or any part thereof), as Pledgee may determine in its sole discretion;

(b) Transfer any or all of the Collateral into its name, or into the name of its nominee or nominees;

(c) Exercise all rights with respect to the Collateral including, without limitation, all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any shares of the Collateral as if it were the absolute owner thereof, including, but without limitation, the right to exchange, at its discretion, any or all of the Collateral upon the merger, consolidation, reorganization, recapitalization or other readjustment of the Issuer thereof, or upon the exercise by the Issuer of any right, privilege

or option pertaining to any of the Collateral, and, in connection therewith, to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as it may determine, all without liability except to account for property actually received by it;

(d) Subject to the requirements of applicable law, sell, assign and deliver the whole or, from time to time, any part of the Collateral at the time held by Pledgee, at any private or public sale or auction, with or without demand, advertisement or notice of the time or place of sale or adjournment thereof or otherwise (all of which are hereby waived, except such notice as is required by applicable law and cannot be waived), for cash or credit or for other property for immediate or future delivery, and for such price or prices and on such terms as Pledgee in its sole discretion may determine, or as may be required by applicable law.

Pledgor hereby waives and releases any and all right or equity of redemption, whether before or after sale hereunder. At any such sale, unless prohibited by applicable law, Pledgee may bid for and purchase the whole or any part of the Collateral so sold free from any such right or equity of redemption. All moneys received by Pledgee hereunder whether upon sale of the Collateral or any part thereof or otherwise shall be held by Pledgee and applied by it as provided in Section 11 hereof. No failure or delay on the part of Pledgee in exercising any rights hereunder shall operate as a waiver of any such rights nor shall any single or partial exercise of any such rights preclude any other or future exercise thereof or the exercise of any other rights hereunder. Pledgee shall have no duty as to the collection or protection of the Collateral or any income thereon nor any duty as to preservation of any rights pertaining thereto, except to apply the funds in accordance with the requirements of Section 11 hereof. Pledgee may exercise its rights with respect to property held hereunder without resort to other security for or sources of reimbursement for the Indebtedness. In addition to the foregoing, Pledgee shall have all of the rights, remedies and privileges of a secured party under applicable law and the Uniform Commercial Code of New York regardless of the jurisdiction in which enforcement hereof is sought.

9. Registration.

If Pledgee shall exercise its right to sell all or any part of the Collateral, and if, in the opinion of counsel for Pledgee, it is necessary to have the Collateral being sold registered under the provisions of the Securities Act of 1933, as amended (the "Securities Act"), Pledgor will use its best efforts to cause the Issuer to execute and deliver, and to cause the directors and officers of the Issuer to execute and deliver, all at Pledgor's expense, all such instruments and documents and to do or cause to be done all such other acts and things as may be necessary to register the Collateral being sold under the provisions of the Securities Act. Pledgor shall cause any such registration statement to become effective and to remain effective for a period of one year from the date of the first public offering of the Collateral being sold and to make all amendments thereto and to related documents which, in the opinion of Pledgee or its counsel, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto. Pledgor shall also cause the Issuer to comply with the provisions of the "Blue Sky" law of any jurisdiction which Pledgee shall designate in connection with any sale hereunder; and to cause the Issuer to make available to its security holders, as

soon as practicable, an earnings statement (which need not be audited) covering a period of at least twelve months but not more than eighteen months, beginning with the first month after the effective date of any such registration statement, which earnings statement will satisfy the provisions of Section 11(a) of the Securities Act. Pledgor acknowledges that a breach of any of the covenants contained in this Section may cause irreparable injury to Pledgee, that Pledgee will have no adequate remedy at law with respect to such breach and, as a consequence, such covenants of Pledgor shall be specifically enforceable against Pledgor.

10. Private Sale.

Notwithstanding anything contained in Section 9, Pledgor recognizes that Pledgee may be unable to effect (or to do so only after delay which would adversely affect the value that might be realized from the Collateral) a public sale of all or part of the Collateral by reason of certain prohibitions contained in the Securities Act, and may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Pledgor agrees that any such private sale may be at prices and on terms less favorable to the seller than if sold at public sales and that such private sales shall be deemed to have been made in a commercially reasonable manner. Pledgor agrees that Pledgee has no obligation to delay sale of any Collateral for the period of time necessary to permit the Issuer to register the Collateral for public sale under the Securities Act.

11. Proceeds of Sale.

The proceeds of any collection, recovery, receipt, appropriation, realization, disposition or sale of the Collateral shall be applied by Pledgee as follows:

(a) First, to the payment of all costs, expenses and charges of Pledgee and to the reimbursement of Pledgee for the prior payment of such costs, expenses and charges incurred in connection with the care and safekeeping of any of the Collateral (including, without limitation, the expenses of any sale or other proceeding, the expenses of any taking, attorneys' fees and expenses, court costs, any other fees or expenses incurred or expenditures or advances made by Pledgee in the protection, enforcement or exercise of its rights, powers or remedies hereunder) with interest on any such reimbursement at the rate prescribed in the Loan Agreement as the Default Rate from the date of payment.

(b) Second, to the payment of the Indebtedness, in whole or in part, in such order as Pledgee may elect, whether such Indebtedness is then due or not due.

(c) Third, to such Persons as required by applicable law including, without limitation, Section 9-615(a)(3) of the Uniform Commercial Code.

(d) Fourth, to the extent of any surplus thereafter remaining, to Pledgor or as a court of competent jurisdiction may direct.

In the event that the proceeds of any collection, recovery, receipt, appropriation, realization or sale are insufficient to satisfy the Indebtedness, Pledgor shall be liable for the deficiency together with interest thereon at the rate prescribed in the Loan Agreement as the Default Rate plus the costs and fees of any attorneys employed by Pledgee to collect such deficiency.

Pledgee, in its sole and absolute discretion, with or without notice to Pledgor, may deposit any proceeds of any collection, recovery, receipt, appropriation, realization, disposition or sale of the Collateral in a non-interest bearing cash collateral deposit account to be maintained as security for the Indebtedness.

12. Waiver of Marshaling.

Pledgor hereby waives any right to compel any marshaling of any of the Collateral.

13. Pledgee Appointed Attorney-In-Fact and Performance by Pledgee.

Upon the occurrence of an Event of Default, Pledgor hereby irrevocably constitutes and appoints Pledgee as Pledgor's true and lawful attorney-in-fact, with full power of substitution, to execute, acknowledge and deliver any instruments and to do in Pledgor's name, place and stead, all such acts, things and deeds for and on behalf of and in the name of Pledgor, which Pledgor could or might do or which Pledgee may deem necessary, desirable or convenient to accomplish the purposes of this Agreement, including, without limitation, to execute such instruments of assignment or transfer or orders and to register, convey or otherwise transfer title to the Collateral into Pledgee's name. Pledgor hereby ratifies and confirms all that said attorney-in-fact may so do and hereby declares this power of attorney to be coupled with an interest and irrevocable. If Pledgor fails to perform any agreement herein contained, Pledgee may itself perform or cause performance thereof, and any costs and expenses of Pledgee incurred in connection therewith shall be paid by Pledgor as provided in Section 24 hereof.

14. Termination.

This Agreement shall terminate and Pledgor shall be entitled to the return, at Pledgor's expense, of such of the Collateral as has not theretofore been sold, disposed of or otherwise applied pursuant to this Agreement upon payment in full of the Indebtedness and irrevocable termination of the Guaranty and Suretyship Agreement.

15. Concerning Pledgee.

The recitals of fact herein shall be taken as statements of Pledgor for which Pledgee assumes no responsibility. Pledgee makes no representation to anyone as to the value of the Collateral or any part thereof or as to the validity or adequacy of the security afforded or intended to be afforded thereby or as to the validity of this Agreement. Pledgee shall be protected in relying upon any notice, consent, request or other paper or document believed by it to be genuine and correct and to have been signed by a proper person. The permissive rights of Pledgee hereunder shall not be construed as duties of Pledgee. Pledgee shall be under no obligation to take any action toward the

enforcement of this Agreement or rights or remedies in respect of any of the Collateral. Pledgee shall not be personally liable for any action taken or omitted by it in good faith and reasonably believed by it to be within the power or discretion conferred upon it by this Agreement.

16. Notices.

Any notice or other communication required or permitted pursuant to this Agreement shall be deemed given (a) when personally delivered to any officer of the party to whom it is addressed, (b) on the earlier of actual receipt thereof or three (3) days following posting thereof by certified or registered mail, postage prepaid, (c) upon actual receipt thereof when sent by a recognized overnight delivery service or (d) upon actual receipt thereof when sent by telecopier to the number set forth below with electronic confirmation of receipt, in each case addressed to each party at its address or telecopier number set forth below or at such other address or telecopier number as has been furnished in writing by a party to the other by like notice:

If to Pledgee: Steel City Capital Funding LLC
1600 Market St., 31st Floor
Philadelphia, PA 19103
Attention: Thomas J. Bugieda, VP
Telephone: (215) 585-5369
Facsimile: (215) 585-4771

with a copy to: Hahn & Hessen LLP
488 Madison Avenue
New York, NY 10022
Attention: Steven J. Seif, Esq.
Telephone: (212) 478-7370
Facsimile: (212) 478-7400

If to Pledgor: Air Industries Group, Inc.
1479 Clinton Avenue
Bay Shore, New York 11706
Attention: Louis Giusto
Telephone: (631) 968-5000
Facsimile: (631) 968-5377

with a copy to: Eaton & Van Winkle LLP
3 Park Avenue, 16th floor
New York, New York 10016-2078
Attention: Charles Fewell, Esq.
Telephone: (212) 561-3627
Facsimile: (212) 779-9928

17. Governing Law.

This Agreement and all rights and obligations hereunder shall be governed by and construed and enforced in all respects in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York.

18. Waivers.

(a) EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OTHER AGREEMENT EXECUTED OR DELIVERED BY THEM IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HERETO HEREBY AGREES AND CONSENTS THAT ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

19. Litigation.

PLEDGOR EXPRESSLY CONSENTS TO THE JURISDICTION AND VENUE OF EACH COURT OF COMPETENT JURISDICTION LOCATED IN THE STATE OF NEW YORK FOR ALL PURPOSES IN CONNECTION WITH THIS AGREEMENT. ANY JUDICIAL PROCEEDING BY PLEDGOR AGAINST PLEDGEE INVOLVING, DIRECTLY OR INDIRECTLY ANY MATTER OR CLAIM IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT SHALL BE BROUGHT ONLY IN A STATE COURT LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK. PLEDGOR FURTHER CONSENTS THAT ANY SUMMONS, SUBPOENA OR OTHER PROCESS OR PAPERS (INCLUDING, WITHOUT LIMITATION, ANY NOTICE OR MOTION OR OTHER APPLICATION TO EITHER OF THE AFOREMENTIONED COURTS OR A JUDGE THEREOF) OR ANY NOTICE IN CONNECTION WITH ANY PROCEEDINGS HEREUNDER, MAY BE SERVED INSIDE OR OUTSIDE OF THE STATE OF NEW YORK OR THE SOUTHERN DISTRICT OF NEW YORK BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY PERSONAL SERVICE PROVIDED A REASONABLE TIME FOR APPEARANCE IS PERMITTED, OR IN SUCH OTHER MANNER AS MAY BE PERMISSIBLE UNDER THE RULES OF SAID COURTS. PLEDGOR WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREON AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE OR BASED UPON FORUM NON CONVENIENS.

20. No Waiver; Cumulative Remedies.

Any and all of Pledgee's rights with respect to the Liens granted under this Agreement shall continue unimpaired, and Pledgor shall be and remain obligated in accordance with the terms hereof, notwithstanding (a) the bankruptcy, insolvency or reorganization of Pledgor, (b) the release or substitution of any item of the Collateral at any time, or of any rights or interests therein, or (c) any delay, extension of time, renewal, compromise or other indulgence granted by Pledgee in reference to any of the Indebtedness. Pledgor hereby waives all notice of any such delay, extension, release, substitution, renewal, compromise or other indulgence, and hereby consents to be bound hereby as fully and effectively as if Pledgor had expressly agreed thereto in advance. No failure on the part of Pledgee to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any such right, power or remedy by Pledgee preclude any other or further exercise thereof or the exercise of any right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

21. Severability.

In case any security interest or other right of Pledgee shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other security interest or other right, privilege or power granted under this Agreement. In the event that any provision of this Agreement or the application thereof to Pledgor or any circumstance in any jurisdiction governing this Agreement shall, to any extent, be invalid or unenforceable under any applicable statute, regulation, or rule of law, such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform to such statute, regulation or rule of law, and the remainder of this Agreement and the application of any such invalid or unenforceable provision to parties, jurisdictions, or circumstances other than to whom or to which it is held invalid or unenforceable shall not be affected thereby, nor shall same affect the validity or enforceability of any other provision of this Agreement.

22. Counterparts; Facsimiles.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Any signature delivered by a party by facsimile transmission shall be deemed an original signature hereto.

23. Miscellaneous.

(a) This Agreement constitutes the entire and final agreement among the parties with respect to the subject matter hereof and neither this Agreement nor any term hereof may be changed, discharged or terminated orally, but only by an instrument in writing, signed by Pledgee and Pledgor. No waiver of any term or condition of this Agreement, whether by delay, omission or otherwise, shall be effective unless in writing and signed by the party sought to be charged, and then such waiver shall be effective only in the specific instance and for the purpose for which given.

(b) This Agreement shall be binding upon Pledgor, and Pledgor's successors and assigns, and shall inure to the benefit of Pledgee and its successors and assigns. The term "Pledgee", as used herein, shall include any successor or assign of Pledgee at the time entitled to the pledged interest in the Collateral.

(c) The headings and captions in this Agreement are for purposes of reference only and shall not constitute part of this Agreement for any other purpose.

24. Expenses.

The Collateral shall also secure, and Pledgor shall pay to Pledgee on demand, from time to time, all costs and expenses, (including but not limited to, attorneys' fees and costs, taxes, and all transfer, recording, filing and other charges) of, or incidental to, the custody, care, transfer, administration of the Collateral or any other collateral, or in any way relating to the enforcement, protection or preservation of the rights or remedies of Pledgee under this Agreement or with respect to any of the Indebtedness.

25. Recapture

Anything in this Agreement to the contrary notwithstanding, if Pledgee receives any payment or payments on account of the Indebtedness, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under the United States Bankruptcy Code, as amended, or any other federal or state bankruptcy, reorganization, moratorium or insolvency law relating to or affecting the enforcement of creditors' rights generally, common law or equitable doctrine, then to the extent of any sum not finally retained by Pledgee, Pledgor's obligations to Pledgee shall be reinstated and this Agreement shall remain in full force and effect (or be reinstated) until payment shall have been made to Pledgee, which payment shall be due on demand.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first written above.

AIR INDUSTRIES GROUP, INC.
(f/k/a Gales Industries Inc.)

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Its: President

STEEL CITY CAPITAL FUNDING LLC

By: /s/ Kevin Madigan

Name: Kevin Madigan
Its: Managing Director

SCHEDULE A

PLEDGED STOCK

Issuer	Class of Stock	Stock Certificate Number	Par Value	Number of Shares
Air Industries Machining, Corp.	Common	8	n/a	100
Sigma Metals, Inc.	Common	9	n/a	100

NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE LIENS AND SECURITY INTEREST GRANTED TO STEEL CITY CAPITAL FUNDING LLC PURSUANT TO THIS AGREEMENT AND THE EXERCISE OF ANY RIGHT OR REMEDY BY STEEL CITY CAPITAL FUNDING LLC HEREUNDER ARE SUBJECT TO THE PROVISIONS OF THAT CERTAIN INTERCREDITOR AGREEMENT, DATED AS OF AUGUST 24, 2007 (THE "INTERCREDITOR AGREEMENT"), AMONG PNC BANK, NATIONAL ASSOCIATION AND STEEL CITY CAPITAL FUNDING LLC; AND EACH HOLDER OF THE OBLIGATIONS HEREUNDER, BY ITS ACCEPTANCE HEREOF, IRREVOCABLY AGREES TO BE BOUND BY THE PROVISIONS OF THE INTERCREDITOR AGREEMENT. IN THE EVENT OF ANY CONFLICT BETWEEN THE TERMS OF THE INTERCREDITOR AGREEMENT AND THIS AGREEMENT, THE TERMS OF THE INTERCREDITOR AGREEMENT SHALL GOVERN AND CONTROL.

GUARANTOR SECURITY AGREEMENT

This Security Agreement (this "Agreement") is dated as of August 24, 2007 between STEEL CITY CAPITAL FUNDING LLC, having an office at 1600 Market Street, 31st Floor, Philadelphia, PA 19103 ("Secured Party") and AIR INDUSTRIES GROUP, INC. (f/k/a Gales Industries Incorporated), a Delaware corporation, having its principal place of business at 1479 Clinton Avenue, Bay Shore, NY 11706 ("Company").

BACKGROUND

AIR INDUSTRIES MACHINING, CORP., a corporation organized under the laws of the State of New York ("Air"), SIGMA METALS, INC., a corporation organized under the laws of the State of New York ("Sigma"), WELDING METALLURGY, INC., as successor by merger with WMS Merger Corp., a corporation organized under the laws of the State of New York ("WMI"; and together with Air and Sigma, each a "Borrower" and collectively, the "Borrowers"), and Secured Party are parties to that certain Term Loan and Security Agreement dated as of even date herewith (as amended, supplemented, restated or modified from time to time, the "Loan Agreement"). Pursuant to the terms of the Loan Agreement, Secured Party has agreed to make certain extensions of credit available to the Borrowers. Secured Party is willing to make such extensions of credit available to the Borrowers only upon the condition, among others, that the Company execute and deliver its Guaranty of the obligations of Borrowers to Secured Party and that the Company secure its Guaranty by executing and delivering this Agreement to Secured Party.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings and the terms and conditions contained herein, the parties hereto agree as follows:

1. A. General Definitions. When used in this Agreement, the following terms shall have the following meanings:

"Collateral" shall mean and include:

- (a) all Receivables;
- (b) all Equipment;
- (c) all General Intangibles;
- (d) all Inventory;
- (e) all Investment Property;
- (f) all Real Property;
- (g) all Subsidiary Stock;
- (h) the Leasehold Interests;

(i) all of Company's right, title and interest in and to, whether now owned or hereafter acquired and wherever located, (i) its respective goods and other property including, but not limited to, all merchandise returned or rejected by Customers, relating to or securing any of the Receivables; (ii) all of Company's rights as a consignor, a consignee, an unpaid vendor, mechanic, artisan, or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (iii) all additional amounts due to Company from any Customer relating to the Receivables; (iv) other property, including warranty claims, relating to any goods securing the Obligations; (v) all of Company's contract rights, rights of payment which have been earned under a contract right, instruments (including promissory notes), documents, chattel paper (including electronic chattel paper), warehouse receipts, deposit accounts, letters of credit and money; (vi) all commercial tort claims (whether now existing or hereafter arising); (vii) if and when obtained by Company, all real and personal property of third parties in which Company has been granted a lien or security interest as security for the payment or enforcement of Receivables; (viii) all letter of credit rights (whether or not the respective letter of credit is evidenced by a writing); (ix) all supporting obligations; and (x) any other goods, personal property or real property now owned or hereafter acquired in which Company has expressly granted a security interest or may in the future grant a security interest to Secured Party hereunder, or in any amendment or supplement hereto or thereto, or under any other agreement between Secured Party and Company;

(j) all of Company's ledger sheets, ledger cards, files, correspondence, records, books of account, business papers, computers, computer software (owned by Company or in which it has an interest), computer programs, tapes, disks and

documents relating to (a), (b), (c), (d), (e), (f), (g), (h) or (i) of this Paragraph; and

(k) all proceeds and products of (a), (b), (c), (d), (e), (f), (g), (h), (i) and (j) in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments and other instruments for the payment of money, chattel paper, security agreements, documents, eminent domain proceeds, condemnation proceeds and tort claim proceeds.

"Company" shall have the meaning set forth in the introductory paragraph hereof and shall extend to all permitted successors and assigns.

"Customer" means and includes the account debtor with respect to any Receivable and/or the prospective purchaser of goods, services or both with respect to any contract or contract right, and/or any party who enters into or proposes to enter into any contract or other arrangement with Company, pursuant to which Company is to deliver any personal property or perform any services.

"Default" means any act or event which, with the giving of notice or passage of time or both, would constitute an Event of Default.

"Environmental Complaint" means any notice of violation, request for information or notification that Company is potentially responsible for investigation or cleanup of environmental conditions on its property, demand letter or complaint, order, citation, or other written notice with regard to any Hazardous Discharge or violation of any environmental laws affecting its property or Company's interest therein.

"Equipment" shall mean and include all of Company's goods (other than Inventory) whether now owned or hereafter acquired and wherever located including all equipment, machinery, apparatus, motor vehicles, fittings, furniture, furnishings, fixtures, parts, accessories and all replacements and substitutions therefor or accessions thereto.

"Event of Default" means the occurrence of any of the events set forth in Section 12.

"GAAP" means generally accepted accounting principles, practices and procedures in effect from time to time.

"General Intangibles" shall mean and include all of Company's general intangibles, whether now owned or hereafter acquired including, without limitation, all payment intangibles, all choses in action, causes of action, corporate or other business records, inventions, designs, patents, patent applications, equipment formulations, manufacturing procedures, quality control procedures, trademarks, trademark applications, service marks, trade secrets, goodwill, copyrights, design rights, software, computer information, source codes, codes, records and dates, registrations, licenses, franchises, customer lists, tax refunds, tax refund claims, computer programs, all claims under guaranties, security interests or other security held by or granted to Company to secure payment of any of the Receivables by a Customer (other than to the extent covered by Receivables) all rights of indemnification and all other intangible property of every kind and nature (other than Receivables).

"Guaranty" means the Guaranty and Suretyship Agreement dated as of the date hereof which is executed by the Company in favor of Secured Party, as amended, modified, supplemented or restated from time to time.

"Hazardous Discharge" means any release or threat of release of a reportable quantity of any hazardous substances on Company's property.

"Intercreditor Agreement" means that certain Intercreditor Agreement, dated as of July __, 2007 among PNC Bank, National Association and Secured Party, as amended, modified, supplemented or restated from time to time.

"Inventory" shall mean and include all of Company's now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any consignment arrangement, contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in Company's business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

"Investment Property" means shall have the meaning set forth in the UCC, and shall mean and include all of Company's now owned or hereafter acquired securities, whether certificated or uncertificated, securities entitlements, securities accounts, commodity and futures contracts and commodity and futures accounts.

"Leasehold Interests" shall mean all of Company's right, title and interest in and to the premises set forth on Schedule 1(A) attached hereto.

"Loans" means all extensions of credit under the Loan Agreement.

"Loan Agreement" shall have the meaning set forth in the Background paragraph hereof.

"Obligations" means and includes all Loans and obligations of the Company to Secured Party under the Guaranty, all advances, debts, liabilities, obligations, covenants and duties owing by Company to Secured Party (or any corporation that directly or indirectly controls or is controlled by or is under common control with Secured Party) of every kind and description (whether or not evidenced by the Guaranty, any note or other instrument and whether or not for the payment of money or the performance or non-performance of any act), direct or indirect, absolute or contingent, due or to become due, contractual or tortious, liquidated or unliquidated, whether existing by operation of law or otherwise now existing or hereafter arising including, without limitation, any debt, liability or obligation owing from Company to others which Secured Party may have obtained by assignment or otherwise and further including, without limitation, all payments Company is required to make by law or otherwise arising under or as a result of this Agreement, together with all reasonable expenses and reasonable attorneys' fees chargeable to Company's account or incurred by Secured Party in connection with Company's account whether provided for herein or in any other agreement, instrument or document executed by or on behalf of the Company or delivered to Secured Party relating to this Agreement or the transactions contemplated hereby.

"Permitted Liens" means (i) liens of carriers, warehousemen, mechanics and materialmen incurred in the ordinary course of business securing sums not overdue; (ii) liens incurred in the ordinary course of business in connection with worker's compensation, unemployment insurance or other forms of governmental insurance or benefits, relating to employees, securing sums (a) not overdue or (b) being diligently contested in good faith provided that adequate reserves with respect thereto are maintained on the books of Company in conformity with GAAP, (iii) liens in favor of Secured Party, (iv) liens for taxes (a) not yet due or (b) being diligently contested in good faith, provided that adequate reserves with respect thereto are maintained on the books of Company in conformity with GAAP, provided, that, the lien shall have no effect on the priority of the liens in favor of Secured Party or the value of the assets in which Secured Party has such a lien and a stay of enforcement of any such lien shall be in effect and (v) liens specified on Schedule 1(B) hereto.

"Person" shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, institution, public benefit corporation, joint venture, entity or government (whether Federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof).

"Real Property" shall mean all of Company's right, title and interest in and to the owned and leased premises identified on Schedule 1(C) hereto.

"Receivables" shall mean and include, as to Company, all of Company's accounts, contract rights, instruments (including those evidencing indebtedness owed to Company by its Affiliates), documents, chattel paper (including electronic chattel paper), general intangibles relating to accounts, drafts and acceptances, credit card receivables and all other forms of obligations owing to Company arising out of or in connection with the sale or lease of Inventory or the rendition of services, all supporting obligations, guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Secured Party hereunder.

"Secured Party" shall have the meaning set forth in the introductory paragraph hereof and shall include its successors and assigns.

"Subsidiary" of any Person means a corporation or other entity of whose shares of stock or other ownership interests having ordinary voting power (other than stock or other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

"Subsidiary Stock" shall mean all of the issued and outstanding equity interests of any Subsidiary owned by the Company (not to exceed 65% of the equity interests of any foreign Subsidiary).

"UCC" means the Uniform Commercial Code as adopted in the State of New York as amended or revised from time to time, and any successor statute.

B. Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined shall have the meanings customarily given them in accordance with GAAP.

C. Other Terms. All other terms used in this Agreement and defined in the UCC shall have the meaning given therein unless otherwise defined herein. To the extent the definition of any category or type of collateral is expanded by any amendment, modification or revision to the UCC, such expanded definition will apply automatically as of the date of such amendment, modification or revision.

2. Security Interest.

(a) Subject to the terms and provisions of the Intercreditor Agreement, to secure the prompt payment and performance to Secured Party of the Obligations, Company hereby assigns, pledges and grants to Secured Party a continuing security interest in and to all of its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located. Company shall mark its books and records as may be necessary or appropriate to evidence, protect and perfect Secured Party's security interest and shall cause its financial statements to reflect such security interest. Company shall promptly provide Secured Party with written notice of all commercial tort claims, such notice to contain the case title together with the applicable court and a brief description of the claim(s). Upon delivery of each such notice, Company shall be deemed to hereby grant to Secured Party a security interest and lien in and to such commercial tort claims and all proceeds thereof.

(b) Company shall take all action that may be necessary or desirable, or that Secured Party may request, so as at all times to maintain the validity, perfection, enforceability and priority of Secured Party's security interest in the Collateral or to enable Secured Party to protect, exercise or enforce its rights hereunder and in the Collateral, including, but not limited to, (i) immediately discharging all liens other than Permitted Encumbrances, (ii) obtaining landlords' or mortgagees' lien waivers, (iii) delivering to Secured Party, endorsed or accompanied by such instruments of assignment as Secured Party may specify, and stamping or marking, in such manner as Secured Party may specify, any and all chattel paper, instruments, letters of credits and advices thereof and documents evidencing or forming a part of the Collateral, (iv) entering into warehousing, lockbox and other custodial arrangements satisfactory to Secured Party, and (v) executing and delivering financing statements, control agreements, instruments of pledge, mortgages, notices and assignments, in each case in form and substance satisfactory to Secured Party, relating to the creation, validity, perfection, maintenance or continuation of Secured Party's security interest under the Uniform Commercial Code or other applicable law. Secured Party is hereby authorized to file financing statements signed by Secured Party instead of Company in accordance with the UCC. By its signature hereto, Company hereby authorizes Secured Party to file against Company, one or more financing continuation or amendment statements pursuant to the UCC in form and substance satisfactory to Secured Party (which statements may have a description of collateral which is broader than that set forth herein). All charges, expenses and fees Secured Party may incur in doing any of the foregoing, and any local taxes relating thereto, shall be paid to Secured Party immediately upon demand.

3. Representations Concerning the Collateral. Company represents and warrants:

(a) the Collateral (i) is owned solely by Company free and clear of all claims, liens, security interests and encumbrances (including without limitation any claims of infringement) except (A) those in Secured Party's favor and (B) Permitted Liens and (ii) is not subject to any agreement prohibiting the granting of a security interest or requiring notice of or consent to the granting of a security interest;

(b) (i) all Receivables (x) represent complete bona fide transactions with Customers in the ordinary course of the Company's business which require no further act under any circumstances on Company's part to make such Receivables payable by the Customers, (y) to the best of Company's knowledge, are not subject to any present, future or contingent offsets, disputes or counterclaims, and (z) do not represent bill and hold sales, consignment sales, guaranteed sales, sale or return or other similar understandings or obligations of Company, (ii) to the best of the Company's knowledge, there are no facts, events or occurrences which in any way impair the validity of any Receivable or enforcement thereof or tend to reduce the amount payable under any Receivables and (iii) the Company has no knowledge that any Customer is unable generally to pay its debts as they become due.

(c) all Inventory is of good and merchantable quality, free from any defects. No Inventory is subject to any licensing, patent, royalty, trademark, tradename or copyright agreements with any third parties. The completion of manufacture, sale or other disposition of Inventory by Secured Party following an Event of Default shall not require the consent of any Person and shall not constitute a breach or default under any contract or agreement to which the Company is a party or to which such property is subject.

4. Covenants Concerning the Collateral. Company covenants that from and after the date of this Agreement and until the Obligations are paid in full in cash it shall:

(a) not dispose of any of the Collateral whether by sale, lease or otherwise except for (i) the sale of Inventory in the ordinary course of business and (ii) the disposition or transfer of obsolete and worn-out Equipment in the ordinary course of business during any fiscal year having an aggregate fair market value of not more than \$100,000 and only to the extent that (x) the proceeds of any such disposition are used to acquire replacement Equipment which is subject to Secured Party's first priority security interest or (y) the proceeds of which are remitted to Secured Party in reduction of the Obligations;

(b) not encumber, mortgage, pledge, assign or grant any security interest in any Collateral or any of Company's other assets to anyone other than Secured Party, except for Permitted Liens;

(c) place notations upon Company's books of account and any financial statement prepared by Company to disclose Secured Party's security interest in the Collateral;

(d) defend the Collateral against the claims and demands of all parties.

(e) keep and maintain the Equipment in good operating condition, except for ordinary wear and tear, and shall make all necessary repairs and replacements thereof so that the value and operating efficiency shall at all times be maintained and preserved. Company shall not permit any such items to become a fixture to real estate or accessions to other personal property;

(f) not extend the payment terms of any Receivable without prompt notice thereof to Secured Party; and

(g) perform all other steps requested by Secured Party to create and maintain in Secured Party's favor a valid perfected first priority security interest in all Collateral.

5. Collection and Maintenance of Collateral and Records. Company shall keep and maintain, at its own cost and expense, satisfactory and complete records of the Collateral including, without limitation, a record of any and all payments received and any and all credits granted with respect to the Collateral and all other dealings with the Collateral. Secured Party may at any time verify Company's Receivables utilizing an audit control company or any other agent of Secured Party. Secured Party or Secured Party's designee may notify Customers at any time, at Secured Party's sole discretion, of Secured Party's security interest in Receivables (contracts, instruments, or chattel paper as the case may be), collect them directly from the Customers or parties to contracts, instruments and chattel paper and charge the collection costs and expenses to Company's account, but, unless and until Secured Party does so or gives Company other instructions, Company shall collect all Receivables for Secured Party, receive all payments thereon for Secured Party's benefit in trust as Secured Party's trustee and immediately deliver them to Secured Party in their original form with all necessary endorsements or, as directed by Secured Party, deposit such payments as directed by Secured Party. Company shall provide Secured Party, as requested by Secured Party, such schedules, documents and/or information regarding the Collateral as Secured Party may require.

6. Inspections. At all times during normal business hours, Secured Party shall have the right to (a) visit and inspect Company's properties and the Collateral, (b) inspect, audit and make extracts from Company's relevant books and records, including, but not limited to, management letters prepared by independent accountants and (c) discuss with Company's principal officers and independent accountants, Company's business, assets, liabilities, financial condition, results of operations and business prospects, and Company shall furnish all such assistance and information as Secured Party may require in connection therewith. Company will deliver to Secured Party any instrument necessary for Secured Party to obtain records from any service bureau maintaining records for Company.

7. Additional Representations, Warranties and Covenants. Company represents, warrants, and covenants that:

(a) Company is a corporation duly organized and validly existing under the laws of the State of Delaware and duly qualified and in good standing in every other state or jurisdiction in which the nature of Company's business or the ownership of its assets requires such qualification.

(b) the execution, delivery and performance of this Agreement (i) has been duly authorized, (ii) is not in contravention of Company's certificate of incorporation, by-laws or of any indenture, agreement or undertaking to which Company is a party or by which Company is bound and (iii) is within Company's corporate powers.

(c) this Agreement is Company's legal, valid and binding obligation, enforceable in accordance with its terms.

(d) it keeps and will continue to keep all of its books and records concerning the Collateral at Company's chief executive offices located at the address set forth in the introductory paragraph of this Agreement and will not move such books and records without giving Secured Party at least thirty (30) days prior written notice and taking all actions deemed by the Secured Party necessary to continuously protect and perfect Secured Party's liens upon the Collateral; and the Collateral is not stored or located at any locations other than as set forth on Schedule 7(d).

(e) (i) the operation of Company's business is and will continue to be in compliance in all material respects with all applicable federal, state and local laws, including but not limited to all applicable environmental laws and regulations;

(ii) Company will establish and maintain a system to assure and monitor continued compliance with all applicable environmental laws, which system shall include periodic reviews of such compliance;

(iii) Company shall respond promptly to any Hazardous Discharge or Environmental Complaint and take all necessary action in order to safeguard the health of any Person and to avoid subjecting the Collateral to any lien, charge, claim or encumbrance;

(iv) Company shall defend and indemnify the Secured Party and hold the Secured Party harmless from and against all loss, liability, damage and expense, claims, costs, fines and penalties, including attorney's fees, suffered or incurred by the Secured Party under or on account of any environmental laws;

(f) there is no pending or threatened litigation, actions or proceeding which involve the possibility of materially and adversely affecting the Company's business, assets, operations, condition or prospects, financial or otherwise, or the Collateral or the ability of Company to perform this Agreement;

(g) it will pay or discharge when due all taxes, assessments and governmental charges or levies imposed upon it unless same are not delinquent or same constitute Permitted Liens;

(h) it will promptly inform Secured Party in writing of: (i) the commencement of all proceedings and investigations by or before and/or the receipt of any notices from, any governmental or nongovernmental body and all actions and proceedings in any court or before any arbitrator against or in any way concerning any of Company's properties, assets or business, which might singly or in the aggregate, have a materially adverse effect on Company; (ii) any amendment of Company's certificate of incorporation or by-laws; (iii) any change in Company's business, assets, liabilities, condition (financial or otherwise), results of operations or business prospects which has had or might have a materially adverse effect on Company; (iv) any Event of Default or Default; (v) any default or any event which with the passage of time or giving of notice or both would constitute a default under any agreement for the payment of money to which Company is a party or by which Company or any of Company's properties may be bound which would have a material adverse effect on Company's business, operations, property or condition (financial or otherwise) or the Collateral; (vi) any change in the location of Company's executive offices; (vii) any change in the location of Company's Inventory or Equipment from the locations listed on Schedule 7(d) attached hereto, (viii) any additional licenses, patents, copyrights, trademarks, tradenames or corporate names; (ix) any material delay in Company's performance of any of its obligations to any Customer and of any assertion of any material claims, offsets or counterclaims by any Customer and of any allowances, credits and/or other monies granted by it to any Customer; (x) any material adverse information obtained by Company relating to the financial condition of any Customer; and (xi) any material return of goods;

(i) it will bear the full risk of loss from any loss of any nature whatsoever with respect to the Collateral. At its own cost and expense in amounts and with carriers acceptable to Secured Party, it shall (i) keep all its insurable properties and properties in which it has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to Company's including, without limitation, public and product liability insurance, worker's compensation, insurance against larceny, embezzlement or other criminal misappropriation of insured's officers and employees and business interruption insurance; and (ii) furnish Secured Party with (x) copies of all policies and evidence of the maintenance of such policies at least thirty (30) days before any expiration date, and (y) appropriate loss payable endorsements in form and substance satisfactory to Secured Party, naming Secured Party as loss payee and providing that as to Secured Party the insurance coverage shall not be impaired or invalidated by any act or neglect of Company and the insurer will provide Secured Party with at least thirty (30) days notice prior to cancellation. Company shall instruct the insurance carriers that in the event of any loss thereunder, the carriers shall make payment for such loss to Secured Party and not to Company and Secured Party jointly. If any insurance losses are paid by check, draft or other instrument payable to Company and Secured Party jointly, Secured Party may endorse Company's name thereon and do such other things as Secured Party may deem advisable to reduce the same to cash. Secured Party is hereby authorized to adjust and compromise claims. All loss recoveries received by Secured Party upon any such insurance may be applied to the Obligations, in such order as Secured Party in its sole discretion shall determine. Any surplus shall be paid by Secured Party to Company or applied as may be otherwise required by law. Any deficiency thereon shall be paid by Company to Secured Party, on demand;

(j) any time and from time to time, upon the written request of Secured Party and at the sole expense of Company, Company shall promptly and duly execute and deliver any and all such further instruments and documents and take such further actions as Secured Party may reasonably deem desirable to obtain the full benefits of this Agreement and of the rights and powers herein granted;

(k) it will not (i) create, incur, assume or suffer to exist any indebtedness (exclusive of trade debt) whether secured or unsecured other than Company's indebtedness to Secured Party and as set forth on Schedule 7(k) attached hereto and made a part hereof; (ii) declare, pay or make any dividend or distribution on any shares of the common stock or preferred stock of Company or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock of Company; (iii) directly or indirectly, prepay any indebtedness (other than to Secured Party), or repurchase, redeem, retire or otherwise acquire any indebtedness of Company; (iv) make advances, loans or extensions of credit to any Person; (v) become either directly or contingently liable upon the obligations of any Person by assumption, endorsement or guaranty thereof or otherwise; (vi) enter into any merger, consolidation or other reorganization with or into any other Person or acquire all or a portion of the assets or stock of any Person or permit any other Person to consolidate with or merge with it; (vii) form any Subsidiary or enter into any partnership, joint venture or similar arrangement; (viii) materially change the nature of the business in which it is presently engaged; (ix) enter into any transaction with any Affiliate, except in ordinary course on arms-length terms; or (xi) bill Receivables under any name except the present name of the Company.

8. Power of Attorney. Company hereby irrevocably appoints Secured Party or any other Person whom Secured Party may designate as Company's attorney-in-fact, with full power and authority in place and stead of Company and in the name of Company or in its own name to: (i) endorse Company's name on any checks, notes, acceptances, money orders, drafts or other forms of payment or security that may come into Secured Party's possession; (ii) sign Company's name on any invoice or bill of lading relating to any Receivables, drafts against customers, schedules and assignments of Receivables, notices of assignment, financing statements and other public records, verifications of account and notices to or from Customers; (iii) verify the validity, amount or any other matter relating to any Receivable by mail, telephone, telegraph or otherwise with Customers; (iv) execute customs declarations and such other documents as may be required to clear Inventory through United States Customs; (v) do all things necessary to carry out this Agreement and all related documents; (vi) continue any insurance existing pursuant to the terms of this Agreement and pay all or any part of the premium therefor and the cost thereof; and (vii) on or after the occurrence of an Event of Default, notify the post office authorities to change the address for delivery of Company's mail to an address designated by Secured Party, and to receive, open and dispose of all mail addressed to Company. Company hereby ratifies and approves all acts of the attorney. The powers conferred on the Secured Party hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. Neither Secured Party nor the attorney will be liable for any acts or omissions or for any error of judgment or mistake of fact or law. This power, being coupled with an interest, is irrevocable so long as any Receivable which is assigned to Secured Party or in which Secured Party has a security interest remains unpaid and until the Obligations are paid in full in cash.

9. Expenses. Company shall pay all of Secured Party's out-of-pocket costs and expenses, including without limitation fees and disbursements of counsel and appraisers, in connection with the preparation, execution and delivery of this Agreement and in connection with the prosecution or defense of any action, contest, dispute, suit or proceeding concerning any matter in any way arising out of, related to or connected with this Agreement. Company shall also pay all of Secured Party's out-of-pocket costs and expenses, including, without limitation, fees and disbursements of counsel, in connection with (a) the preparation, execution and delivery of any waiver, any amendment thereto or consent proposed or executed in connection with the transactions contemplated by this Agreement, (b) Secured Party's obtaining performance of the Company's obligations under this Agreement, including, but not limited to, the enforcement or defense of Secured Party's security interests, assignments of rights and liens hereunder as valid perfected security interests, (c) any attempt to inspect, verify, protect, collect, sell, liquidate or otherwise dispose of any Collateral and (d) any consultations in connection with any of the foregoing. All such costs and expenses together with all filing, recording and search fees, taxes and interest payable by Company to Secured Party shall be payable on demand and shall be secured by the Collateral.

10. Assignment By Secured Party. Secured Party may assign any or all of the Obligations together with any or all of the security therefor and any transferee shall succeed to all of Secured Party's rights with respect thereto. Upon such transfer, Secured Party shall be released from all responsibility for the Collateral to the extent same is assigned to any transferee.

11. Waivers. The Company waives demand, notice, protest, notice of acceptance of this Agreement, notice of loans made, credit extended, Collateral received or delivered or other action taken in reliance hereon and all other demands and notices of any description. With respect to both the Obligations and the Collateral, the Company assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of or failure to perfect any security interest in any Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payment thereon and the settlement, compromising or adjusting of any thereof, all in such manner and at such time or times as the Secured Party may deem advisable.

12. Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default":

(a) the occurrence of a Default or Event of Default under the Loan Agreement.

(b) failure by the Company to make payment of any of its Obligations when required hereunder.

(c) failure to perform under and/or committing any breach of this Agreement or the Guaranty or any other agreement between Company and Secured Party.

(d) a default by Company in the payment, when due, of any principal of or interest on any indebtedness for money borrowed.

(e) occurrence of a default under any agreement to which Company is a party with third parties which has a material adverse affect upon Company's business, operations, property or condition (financial or otherwise) including all leases for any premises where Inventory or Equipment is located.

(f) any representation, warranty or statement made by Company hereunder, in the Guaranty, or in any certificate, statement or document delivered pursuant to the terms hereof, or in connection with the transactions contemplated by this Agreement should at any time be false or misleading in any material respect.

(g) an attachment or levy is made upon a material portion of Company's assets, or any judgment or judgments are rendered against Company for an aggregate amount in excess of \$250,000 which (i) is/are not contested in good faith by the Company, (ii) the Company does not establish reserves with regard thereto in an amount reasonably satisfactory to Secured Party, unless any such judgment is fully covered by insurance and evidence thereof acceptable to Secured Party in it sole discretion is provided to Secured Party, and (iii) the enforcement of such judgment or judgments is/are not continuously stayed, satisfied or discharged of record within forty (40) days of such rendering.

(h) any lien created hereunder for any reason ceases to be or is not a valid and perfected lien having a first priority interest.

(i) if Company shall (i) apply for, consent to or suffer to exist the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under the federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing.

(j) Company shall admit in writing its inability, or be generally unable to pay its debts as they become due or cease operations of its present business.

(k) Secured Party shall in good faith deem itself insecure or unsafe or shall fear diminution in value, removal or waste of the Collateral.

(l) if the Company attempts to terminate, challenges the validity of, or challenges its liability under, the Guaranty.

13. Remedies. Upon the occurrence and during the continuation of any Event of Default, Secured Party shall have the right to demand repayment in full of all Obligations, whether or not otherwise due (in such case Secured Party may deposit any and all such amounts realized in a cash collateral deposit account to be maintained as security for the Obligations). Until all Obligations have been fully satisfied in cash, Secured Party shall retain its security interest in all Collateral. Secured Party shall have, in addition to all other rights provided herein, the rights and remedies of a secured party under the UCC and under other applicable law, and all other legal and equitable rights to which Secured Party may be entitled, including without limitation, the right to take immediate possession of the Collateral and to require Company to assemble the Collateral, at Company's expense, and to make it available to Secured Party at a place designated by Secured Party which is reasonably convenient to both parties and to enter any of the premises of Company or wherever the Collateral shall be located, with or without force or process of law, and to keep and store the same on said premises until sold (and if said premises be the property of Company, Company agrees not to charge Secured Party for storage thereof). Further, Secured Party may, at any time or times after a Default, sell and deliver all Collateral held by or for Secured Party in one or more parcels at public or private sale for cash, upon credit or otherwise, at such prices and upon such terms as Secured Party, in Secured Party's sole discretion, deems advisable or Secured Party may otherwise recover upon the Collateral in any commercially reasonable manner as Secured Party, in its sole discretion, deems advisable. Except as to that part of the Collateral which is perishable or threatens to decline speedily in nature or is of a type customarily sold on a recognized market, the requirement of reasonable notice shall be met if such notice is mailed postage prepaid to Company at Company's address as shown in Secured Party's records, at least five (5) days before the time of the event of which notice is being given. Secured Party may be the purchaser at any sale, if it is public. Until Secured Party is able to effect a sale, lease, or other disposition of Collateral, Secured Party shall have the right to use or operate Collateral, or any part thereof, to the extent that it deems appropriate for the purpose of preserving Collateral or its value or for any other purpose deemed appropriate by Secured Party. Secured Party shall have no obligation to Company to maintain or preserve the rights of Company as against third parties with respect to Collateral while Collateral is in the possession of Secured Party. Secured Party may, if it so elects, seek the appointment of a receiver or keeper to take possession of Collateral and to enforce any of Secured Party's remedies

with respect to such appointment without prior notice or hearing. In connection with the exercise of the foregoing remedies, Secured Party is granted permission to use all of Company's (a) trademarks, tradenames, tradestyles, patents, patent applications, licenses, franchises and other proprietary rights which are used in connection with Inventory for the purpose of disposing of such Inventory and (b) Equipment for the purpose of completing the manufacture of unfinished goods. The proceeds realized from the sale of any Collateral shall be applied as follows: first, to the costs, expenses and attorneys' fees and expenses incurred by Secured Party for collection and for acquisition, completion, protection, removal, storage, sale and deliver of the Collateral; second, to the payment of the Obligations in such order as Secured Party elects. If any deficiency shall arise, Company shall remain liable to Secured Party therefor.

14. Waiver; Cumulative Remedies. Failure by Secured Party to exercise any right, remedy or option under this Agreement or any supplement hereto or any other agreement between Company and Secured Party or delay by Secured Party in exercising the same, will not operate as a waiver; no waiver by Secured Party will be effective unless it is in writing and then only to the extent specifically stated. Secured Party's rights and remedies under this Agreement will be cumulative and not exclusive of any other right or remedy which Secured Party may have.

15. Notices. Any notice or request hereunder may be given to Company or Secured Party at the respective addresses set forth below or as may hereafter be specified in a written notice designated as a change of address under this Section 15. Any notice or request hereunder shall be given by (a) hand delivery, (b) overnight courier, (c) registered or certified mail, return receipt requested, (d) telex or telegram, subsequently confirmed by registered or certified mail, or (e) telecopy to the number set out below (or such other number as may hereafter be specified in a notice designated as a notice of change of address) with electronic confirmation of its receipt. Any notice or other communication required or permitted pursuant to this Agreement shall be deemed given (a) when personally delivered to any officer of the party to whom it is addressed, (b) on the earlier of actual receipt thereof or three (3) days following posting thereof by certified or registered mail, postage prepaid, or (c) upon actual receipt thereof when sent by a recognized overnight delivery service or (d) upon actual receipt thereof when sent by telecopier to the number set forth below with electronic confirmation of its receipt, in each case addressed to each party at its address set forth below or at such other address as has been furnished in writing by a party to the other by like notice:

If to Secured Party:	Steel City Capital Funding LLC 1600 Market Street, 31st Floor Philadelphia, Pennsylvania 19103 Attention: Thomas J. Bugieda Telephone: 215-585-5369 Telecopy: 215-585-4771
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with a copy to: Hahn & Hessen LLP
488 Madison Avenue
New York, New York 10022
Attention: Steven J. Seif, Esq.
Telephone: 212-478-7370
Telecopy: 212-478-7400

If to Company: Air Industries Group, Inc.
1479 North Clinton Avenue
Bay Shore, New York 11706
Attention: Peter Rettaliata
Telephone: 631-968-5000
Telecopy: 631-968-5377

with a copy to: Eaton & Van Winkle LLP
3 Park Avenue, 16th floor
New York, New York 10016-2078
Attention: Vincent McGill, Esq.
Telephone: 212-561-3604
Telecopy: 212-779-9928

16. Governing Law and Waiver of Jury Trial. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. SECURED PARTY SHALL HAVE THE RIGHTS AND REMEDIES OF A SECURED PARTY UNDER APPLICABLE LAW INCLUDING, BUT NOT LIMITED TO, THE UCC. COMPANY AGREES THAT ALL ACTIONS AND PROCEEDINGS RELATING DIRECTLY OR INDIRECTLY TO THIS AGREEMENT OR ANY OTHER OBLIGATIONS SHALL BE LITIGATED IN THE FEDERAL DISTRICT COURT OF THE SOUTHERN DISTRICT OF THE STATE OF NEW YORK OR, AT SECURED PARTY'S OPTION, IN ANY OTHER COURTS LOCATED IN THE STATE OF NEW YORK OR ELSEWHERE AS SECURED PARTY MAY SELECT AND THAT SUCH COURTS ARE CONVENIENT FORUMS AND COMPANY SUBMITS TO THE PERSONAL JURISDICTION OF SUCH COURTS. COMPANY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS THAT SERVICE OF PROCESS UPON COMPANY MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO COMPANY AT COMPANY'S ADDRESS APPEARING ON SECURED PARTY'S RECORDS, AND SERVICE SO MADE SHALL BE DEEMED COMPLETED TWO (2) DAYS AFTER THE SAME SHALL HAVE BEEN SO MAILED. EACH PARTY HERETO WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BETWEEN COMPANY AND SECURED PARTY, AND COMPANY WAIVES THE RIGHT TO ASSERT IN ANY ACTION OR PROCEEDING INSTITUTED BY SECURED PARTY WITH REGARD TO THIS AGREEMENT OR ANY OF THE OBLIGATIONS ANY OFFSETS OR COUNTERCLAIMS WHICH IT MAY HAVE.

17. Limitation of Liability. Company acknowledges and understands that in order to assure repayment of the Obligations, Secured Party may be required to exercise any and all of Secured Party's rights and remedies hereunder and agrees that neither Secured Party nor any of Secured Party's agents shall be liable for acts taken or omissions made in connection herewith or therewith except for actual bad faith.

18. Entire Understanding. This Agreement contains the entire understanding between Company and Secured Party and any promises, representations, warranties or guarantees not herein contained shall have no force and effect unless in writing, signed by the Company and Secured Party. Neither this Agreement, nor any portion or provisions thereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged.

19. Severability. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions thereof.

20. Captions. All captions are and shall be without substantive meaning or content of any kind whatsoever.

21. Marshaling. Secured Party shall not be required to marshal any present or future collateral security (including but not limited to this Agreement and the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of its rights hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may, the Company hereby agrees that it will not invoke any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of the Secured Party's rights under this Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, the Company hereby irrevocably waives the benefits of all such laws.

22. Counterparts; Telecopied Signatures. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

23. Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments, schedules or exhibits thereto.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year first above written.

AIR INDUSTRIES GROUP, INC.

By: /s/ Peter D. Rettaliata

Name: Peter D. Rettaliata
Title: President

STEEL CITY CAPITAL FUNDING LLC

By: /s/ Kevin Madigan

Name: Kevin Madigan
Title: Managing Director