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):
November 30, 2005

ASHLIN DEVELOPMENT CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Florida	000-29245	65-0452156
State of Incorporation	Commission File Number	IRS Employer I.D. Number

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

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

4400 North Federal Highway, Suite 210, Boca Raton, FL 33431
(Former Name or Former Address, if Changed Since Last Report)

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

|_| Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

|_| Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

|_| Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

|_| Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT;

Item 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS;

Item 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION OR AN OBLIGATION UNDER AN OFF-BALANCE SHEET ARRANGEMENT OF A REGISTRANT;

Item 3.02 UNREGISTERED SALES OF EQUITY SECURITIES;

Item 3.03 MATERIAL MODIFICATION TO RIGHTS OF SECURITY HOLDERS;

Item 5.01 CHANGES IN CONTROL OF REGISTRANT;

Item 5.02 DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS & APPOINTMENT OF PRINCIPAL OFFICERS;

Item 5.06 CHANGE IN SHELL COMPANY STATUS.

Summary:

As previously reported, Ashlin Development Corporation, a Florida corporation ("we" or the "Company"), and our newly-formed subsidiary had entered into a Merger Agreement (the "Merger Agreement"), dated as of November 14, 2005, with Gales Industries Incorporated, a privately-held Delaware corporation ("Gales Industries"), which did not have any business operations other than in connection with the transactions contemplated by the Merger Agreement. Pursuant to the Merger Agreement, Gales Industries merged (the "Merger") on November 30, 2005 (the "Closing Date") into our wholly-owned subsidiary, Gales Industries Merger Sub, Inc. ("Merger Sub"), which we recently incorporated in the State of Delaware for the purpose of completing the Merger. Merger Sub was the surviving company in the Merger. Contemporaneously with the closing of the Merger, Gales Industries acquired all of the outstanding capital stock of Air Industries Machining, Corp., a New York corporation ("AIM") (the "Acquisition"). (The initial acquiror of AIM's outstanding capital stock was a newly-formed wholly-owned subsidiary of Gales Industries, called Gales Industries Acquisition Corp., Inc., ("Acquisition Corp."), a Delaware corporation. Acquisition Corp. initially acquired all of the outstanding capital stock of AIM as of the Closing Date and contemporaneously merged into AIM, with AIM being the surviving corporation, and distributed the outstanding capital stock of AIM to Gales Industries. The result was that AIM became the wholly-owned subsidiary of Gales Industries as though Gales Industries itself acquired all of the outstanding capital stock of AIM as of the Closing Date.)

Immediately prior to the completion of the Merger, Gales Industries received $6,793,280 in gross proceeds from the first closing of a private placement to accredited investors of convertible preferred stock which, pursuant to the Merger, have been exchanged for the Series A Convertible Preferred Stock, $.001 par value per share ("Preferred Stock"), of the Company. The shares of Preferred Stock issued in connection with such private placement as of the Closing Date are, in the aggregate, immediately convertible into 30,878,855

shares of our common stock, $.001 par value per share ("Common Stock"), after giving effect to the reverse split of our Common Stock, described below. (Such share number of 30,878,855 does not take into account the shares of Common Stock which may be issued upon conversion of the additional shares of Preferred Stock issuable to the investors as dividends.)

Thus, as of the Closing Date, we acquired indirect ownership of all of the outstanding capital stock of AIM. In return, we issued shares of Common Stock resulting in a change in control of the Company. AIM manufactures aircraft structural parts and assemblies principally for prime defense contractors in the aerospace industry and, following the Merger, the business of AIM constituted our only operations. We experienced, as of the Closing Date, a change in control of our ownership, management and Board of Directors.

The aggregate purchase price paid to AIM's four shareholders for 100% of the capital stock of AIM was as follows: (i) $3,114,296 in cash, (ii) $1,627,262 principal amount of promissory notes, and (iii) 490,060 shares of common stock. A portion of the proceeds from the first closing of the Offering was used to pay such purchase price. In addition, we distributed approximately $690,000 to AIM's shareholders in satisfaction of certain loans from them to AIM and to enable them to pay income taxes accrued while operating AIM as a Subchapter S corporation.

Pursuant to the terms of the Merger Agreement, we were required, prior to the closing of the Merger, to effect a 1-for-1.249419586 reverse split of our Common Stock (the "Reverse Split"). The Reverse Split became effective as of November 21, 2005. The Reverse Split reduced the number of shares of Common Stock which we had outstanding on a fully diluted basis (4,707,813, which consisted of 4,652,813 shares and 55,000 stock options) to approximately 3,768,000. As a result of the Reverse Split, the conversion of the outstanding shares of Gales Industries pursuant to the Merger for new shares of our Common Stock was on a one-for-one basis. Any of our shareholders who, as a result of the Reverse Split, held a fractional share of Common Stock received a whole share of Common Stock in lieu of such fractional share. All share numbers set forth in this report, unless otherwise noted, give effect to the Reverse Split but do not take into account the whole shares issued in lieu of the fractional shares resulting from the Reverse Split. In connection with the Reverse Split, we amended our Articles of Incorporation to reduce our total authorized Common Stock from 150,000,000 shares to 120,055,746 shares. After giving effect to the Reverse Split, prior to the Merger, we had outstanding approximately 3,723,980 shares of Common Stock and had outstanding stock options exercisable into approximately 44,020 shares of our Common Stock. Such 3,723,980 shares and 44,020 stock options continued to be outstanding after, and were not cancelled or redeemed pursuant to, the Merger. The approximately 3,723,980 shares of our Common Stock outstanding immediately prior to the Merger constitute approximately 7% of our Common Stock outstanding on a fully-diluted basis immediately after the Merger, subject to further dilution if additional Units of Preferred Stock are sold in the Offering (defined below).

Immediately following the Merger, we owned 100% of the outstanding capital stock of Merger Sub, which owned all of the outstanding capital stock of AIM. On a fully-diluted basis, we issued in connection with the Merger an aggregate of approximately 52,600,710 shares of our Common Stock (or approximately 93.3% of the outstanding on a fully-diluted basis), after taking into account the shares underlying the preferred stock, placement agent warrants, stock options and convertible notes which were previously convertible or exercisable into shares of Gales Industries common stock but pursuant to the Merger have become preferred stock, warrants, options and convertible notes that are convertible or exercisable into shares of our Common Stock.

Contemporaneously with or immediately prior to the closing of the Merger and the Acquisition: (i) Gales Industries completed the private placement (the "Offering") to accredited investors of 679.328 shares (for gross proceeds of $6,793,280) of Gales Industries' Series A Convertible Preferred Stock, par value $.0001 per share ("Gales Preferred Stock"); (ii) we designated 1,000 shares of our preferred stock, $.001 par value per share, to constitute a new series of preferred stock entitled "Series A Convertible Preferred Shares" (the "Series A Preferred Stock"), with terms, rights and preferences which are the same as those of the Gales Preferred Stock; (iii) AIM completed the acquisition from affiliates of AIM, for $4,190,000, of a three-building (76,000 square feet), 5.4-acre corporate campus which was being leased prior to the Closing Date by AIM in Bay Shore, New York (the "Real Estate Acquisition"); and (iv) AIM entered into with PNC Bank a loan facility (the "New Loan Facility"), secured by all of its assets and the real property acquired in the Real Estate Acquisition, providing AIM with up to $14,000,000 in debt facilities as follows: $9,000,000 in a revolving credit facility, $3,500,000 in a term loan, and $1,500,000 in new equipment financing.

Upon completion of the New Loan Facility with PNC Bank, we paid to a third party a finder's fee consisting of $125,000 and 325,000 shares of Common Stock (which shares have a total value of $71,500 assuming a per share value of $0.22 per share). Such shares were contributed to such third party by Michael Gales and did not require the issuance of additional shares by the Company. In addition, upon closing of the New Loan Facility, AIM retained such third party as a consultant for a 36-month period for a monthly fee of approximately $3,500.

Prior to the Merger, Gales Industries had adopted a Stock Incentive Plan providing for the issuance of up to 10,000,000 shares of its common stock and had issued from such plan options exercisable into 4,850,000 shares of its common stock. Pursuant to the Merger, such options became options to purchase the same number of shares of our Common Stock. Our 1998 Stock Option Plan, under which approximately 956,000 shares of Common Stock remain available for future issuance, remained in effect upon completion of the Merger.

GunnAllen Financial, Inc., a Delaware corporation, acted as Placement Agent in the Offering ("Placement Agent") and received: (i) a sales commission equal to 6%, and a management fee equal to 4%, of the aggregate purchase price of the Units sold and (ii) a non-accountable expense allowance equal to 2% of the aggregate purchase price of the Units sold. In addition, the Placement Agent received warrants (the "Placement Agent Warrants"), exercisable during a five-year term, to purchase the number of shares of Common Stock equal to 10% of the number of shares of Common Stock into which the Preferred Stock sold in the Offering may be converted. The Placement Agent Warrants have a "cashless exercise" feature and are exercisable at the price per share equal to the per share conversion price-equivalent with respect to the Preferred Stock.

Additional closings of the Offering may be held until the completion of the sale of up to an aggregate maximum of 80 Units (for gross proceeds of $8,000,000; referred to as the "Maximum Offering"). In addition, the Maximum Offering may be increased by up to 10 Units ($1,000,000) to cover any over-subscriptions (the "Over-Allotment Option"). The investors in the Offering will automatically receive, in exchange for the Gales Preferred Stock which they subscribe for in the Offering, shares of our Series A Preferred Stock. The proceeds of the Offering, in general, were and will be used for paying the cash portion of the purchase price for the Acquisition, for paying expenses relating to the Offering, Acquisition, Merger and related transactions, for the repayment of up to $150,000 in promissory note obligations which Gales Industries incurred in bridge financings, and for working capital for us and AIM. A portion of the proceeds from the New Loan Facility was used to pay for the Real Estate Acquisition. In addition, proceeds from the New Loan Facility were used to pay off AIM's debt to its prior lender and certain of AIM's shareholders, totaling approximately $5,800,000, and will be used for working capital for AIM's business.

As of the Closing Date, we issued 10,645,817 shares of Common Stock in connection with the Merger to pre-existing Gales Industries shareholders and to those who became shareholders of Gales Industries as of the Closing Date, including former shareholders of AIM. We also issued 100,000 shares to a director of the Company in consideration for his agreement to remain on the Board. Upon completion of the first closing of the Offering, the Placement Agent in the Offering received warrants to purchase shares of Gales Industries' common stock which, pursuant to the Merger, have become warrants to purchase 3,087,885 shares of our Common Stock at the exercise price of $0.22 per share. Immediately prior to the Merger, Gales Industries had outstanding options to purchase shares of Gales Industries' common stock which, pursuant to the Merger, have become options to purchase 4,850,000 shares of our Common Stock at the exercise price of $0.22 per share. The investors in the first closing of the Offering hold shares of our Series A Preferred Stock which, in the aggregate (not including shares of Preferred Stock which may be issued as dividends), may be converted into 30,878,855 shares of our Common Stock at the conversion price of $0.22 per share. In the event the Maximum Offering is completed, the investors in the Offering will hold shares of our Series A Preferred Stock which, in the aggregate, may be converted into 36,364,000 shares of our Common Stock. Immediately prior to the Merger, Gales Industries had outstanding certain bridge notes convertible into shares of Gales Industries' common stock and certain bridge warrants to purchase shares of Gales Industries' common stock; these notes and warrants have, pursuant to the Merger, become notes convertible into 409,090 shares of our Common Stock at the conversion price of $0.22 per share and warrants to purchase 1,090,909 shares of our Common Stock at the exercise price of $0.22 per share. In connection with the Acquisition, former shareholders of AIM received, as of the Closing Date, promissory notes convertible into shares of Gales Industries' common stock which, pursuant to the Merger, have become notes convertible into an aggregate of 1,663,154 shares of our Common Stock at the conversion price of $0.40 per share.

In connection with the Merger, Theodore T. Alfen and Steven Pomerantz resigned as members of our Board of Directors, leaving James A. Brown as the sole director, and Mr. Brown resigned as our Chief Executive Officer. The sole director then appointed additional members to the Board, effective as of the date of the Merger, so that our Board of Directors now consists of the following members: Michael A. Gales (Chairman), Louis A. Giusto (Vice Chairman), Peter D. Rettaliata, Dario A. Peragallo, Stephen M. Nagler, Seymour G. Siegel, Rounsevelle W. Schaum, Ira A. Hunt, Jr. and James A. Brown. The sole director, simultaneously with the appointment of new directors to the Board, appointed new officers of the Company as follows: Michael A. Gales as Executive Chairman of the Board, Louis A. Giusto as Vice Chairman, Chief Financial Officer and Treasurer, Peter D. Rettaliata as Chief Executive Officer and President, Dario Peragallo as Executive Vice President of Manufacturing and Stephen M. Nagler as Secretary Mr. Siegel is expected to be the chairman of the audit committee of the Board and Mr. Schaum is expected to be the chairman of the Compensation Committee of the Board.

Immediately prior to the Merger, we had no operations and had net assets consisting only of cash and cash equivalents.

As of August 24, 2005, our shareholders approved an amendment to our Articles of Incorporation which increased the number of our authorized shares of Common Stock, $.001 par value per share, from 30,000,000 to 150,000,000 shares, and authorized 10,000,000 shares of "blank check" preferred stock, $.001 par value per share. In connection with the Reverse Split, our total authorized Common Stock was reduced to 120,055,746 and our total authorized preferred stock was reduced from 10,000,000 shares to 8,003,716 shares.

We believe that the issuances of our Common Stock in connection with the Merger were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

Explanatory Note.

Unless otherwise indicated or the context otherwise requires, all references below in this Report on Form 8-K to "we," "us" and the "Company" are to Ashlin Development Corporation, a Florida corporation, together with its wholly-owned subsidiary, Gales Industries Merger Sub, Inc., a Delaware corporation, and Air Industries Machining, Corp., a New York corporation, which is a wholly-owned subsidiary of Gales Industries Merger Sub, Inc. Specific discussions or comments relating only to Ashlin Development Corporation prior to the Merger will reference "Ashlin", those relating only to Gales Industries Merger Sub, Inc. will reference "Merger Sub", those relating only to Air Industries Machining, Corp. will reference "AIM", and those relating only to Gales Industries Incorporated prior to the Merger will reference "Gales Industries".

Cautionary Notice Regarding Forward Looking Statements

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. This Report on Form 8-K contains a number of forward-looking statements that reflect management's current views and expectations with respect to our business, strategies, products future results and events and financial performance. All statements made in this Report other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward looking statements. In particular, the words "believe," "expect," "intend," " anticipate," "estimate," "may," "will," variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below) and apply only as of the date of this Report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in "Risk Factors" as well as those discussed elsewhere in this Report, and the risks to be discussed in our next Annual Report on form 10-KSB and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors that may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

1. Description of Business.

About AIM

Following the Merger, the business of AIM constituted our only operations. Founded in 1969, AIM manufactures aircraft structural parts and assemblies principally for prime defense contractors in the aerospace industry including, Sikorsky, Lockheed Martin, Boeing and Northrop Grumman. Approximately 85% of AIM's revenues are derived from parts and assemblies directed toward military applications, although direct sales to the military (U.S. and NATO) constitute less than 10% of AIM's revenue. AIM is known as a provider of critical and complex structures for demanding customers: AIM's parts are installed onboard Sikorky's VH-3D, otherwise known as Marine One, the primary Presidential helicopter and on Air Force One, Boeing's 747-2000B customized for use by the President.

AIM has evolved from being an individual parts manufacturer to being a manufacturer of subassemblies (i.e. being an assembly constructor) and being an engineering integrator. AIM currently produces over 2,400 individual parts that are assembled by a skilled labor force into electromechanical devices, mixer assemblies, helicopter rotorhub components, rocket launching systems for the F-22 Raptor Advanced Stealth Fighter, arresting gears for E2C and other US Navy Fighters, vibration absorbing assemblies for a variety of Sikorsky helicopters, landing gear components for the F-35 Joint Strike Fighter, and many other subassembly packages. AIM's major customers recognize its achievements in manufacturing quality control, which include ISO 9001 and AS9100 Certifications as well as several highly technical, customer-based proprietary quality approvals.

AIM is the largest supplier of flight safety components for Sikorsky. Sales of parts and services to Sikorsky account for more than 40% of AIM's revenue, and are subject to General Ordering Agreements which were recently renegotiated and extended through 2010. These revised agreements included upward price adjustments that the Company estimates will increase net earnings by more than $600,000 in 2005, and continue to positively impact the Company's profitability in 2006.

Government Regulation

Environmental Regulation

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

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) imposes strict, joint and several liability on the present and former owners and operators of facilities that release hazardous substances into the environment. The Resource Conservation and Recovery Act of 1976 (RCRA) regulates the generation, transportation, treatment, storage and disposal of hazardous waste. In New York, the handling, storage and disposal of hazardous

substances are governed by the Environmental Conservation Law, which contains the New York counterparts of CERCLA and RCRA. In addition, the Occupational Safety and Health Act, which requires employers to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, obligates employers to provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances.

Federal Aviation Administration Regulation

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

Government Contract Compliance

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

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

Employees

AIM employs approximately 144 principally union employees and maintains what it believes are, and what historically has been, good relationships with its union.

Future Expansion and Acquisition Strategy

The Company intends to seek to expand its operations through internal growth and additional strategic acquisitions. The Company will seek to attract new customers through proactive industry marketing efforts including direct sales programs, participation at trade shows, technical society meetings and similar activities. Additionally, the Company will seek to capitalize on its engineering capabilities by partnering with other lower cost manufacturers which can benefit from the Company's expertise.

With respect to consolidation strategy, the Company will focus on acquiring profitable, privately held entities or divisions of larger entities with annual sales between $15 and $50 million in the aerospace and military fields. The Company will initially seek enterprises whose products are complementary to AIM's current product line and which can benefit from the Company's existing engineering talents and manufacturing capabilities. The

Company will look for candidates whose products are components of larger mission critical systems and which can be upgraded from simple parts to complex, higher-margin component system subassemblies through the use of AIM's engineering talents. The Company intends to focus on entities with reputations for high quality standards whose management can be absorbed into the Company. When possible, the Company will seek to combine existing operations to absorb excess capacity and eliminate duplicative facilities. It is contemplated that these future acquisitions will be facilitated by using either the Company's stock, cash or debt financing, or some combination thereof.

Ashlin Bankruptcy

On October 15, 2004, Ashlin (then known as Health & Nutrition Systems International, Inc.) filed in the southern district of Florida a plan of reorganization under Chapter 11 of the United States bankruptcy code. The Court confirmed Ashlin's plan of reorganization ("Plan of Reorganization") on January 10, 2005 and the Plan of Reorganization was declared effective on January 21, 2005. Ashlin formally emerged from bankruptcy protection on April 29, 2005 without any operating business. After emerging from bankruptcy protection and prior to the Merger, Ashlin was a "shell" company.

As part of the Plan of Reorganization:

1. TeeZee, Inc., a company formed by Ashlin's former Chief Executive Officer, Christopher Tisi, purchased substantially all of the assets of Ashlin, including the rights to the name "Health & Nutrition Systems International, Inc." in exchange for $350,000 in cash and assumption of approximately $1,841,000 in liabilities. Although competing bids were allowed for under the Plan of Reorganization, no other bids for Ashlin's assets were submitted.

2. Ashlin entered into an employment agreement with Mr. James A. Brown, which provided for:

- Salary of $9,200 per month until the 30th calendar day following Ashlin's discharge from bankruptcy, and thereafter at a rate of $7,000 per month; and

- The issuance by Ashlin to Mr. Brown of 300,000 shares of Common Stock.

3. TeeZee, Inc. assumed the secured claim of Garden State Nutritionals (GSN), a division of Vitaquest International, Inc.; GSN retained its pre-existing lien on substantially all of the transferred assets.

4. TeeZee, Inc. assumed the secured claim of SunTrust Bank on Ashlin's 2004 Honda Element on the effective date; SunTrust retained its pre-existing lien on the vehicle.

5. TeeZee, Inc. assumed most of the unsecured claims, including those of trade and employee creditors, together with any unsecured deficiency claims of GSN and SunTrust. The unassumed unsecured claims of Ashlin were paid, pro rata, from a fund which did not exceed $50,000.

6. A permanent injunction was issued barring Ashlin and the TeeZee, Inc. from violating Window Rock Enterprises, Inc.'s trademarks for "CortiSlim" and Ashlin agreed not to challenge Window Rock's trademark for this product.

7. All holders of Ashlin's common stock retained their shares.

After the effective date of the Plan of Reorganization, Ashlin continued to exist as a separate incorporated entity, with James A. Brown, Steven Pomerantz and Ted Alflen continuing to serve as directors of Ashlin, and Mr. Brown continuing to serve as CEO and Chairman of the Board of Directors. Mr. Brown was the sole officer of Ashlin from the effective date of the Plan of Reorganization to the date of the Merger. As a result of the Merger, Mr. Brown's employment agreement with Ashlin was terminated and he waived his rights under the employment agreement.

From its inception through the effective date of the Plan of Reorganization, Ashlin was known as Health & Nutrition Systems International, Inc. and developed, marketed and sold weight management, energy and sport nutrition products to national and regional, food, drug, health, pharmacy, mass-market accounts, and independent health and pharmacy accounts. Its product formulations were not proprietary.

Risk Factors

Risks of the Acquisition

AIM's business is the Company's only operating business. There can be no assurance that any benefits to AIM's business will be achieved from the Merger, Acquisition, Real Estate Acquisition, New Loan Facility or Offering (collectively, the "Closing Transactions") or that the results of operations of AIM prior to the Acquisition will be not be adversely impacted by the Closing Transactions. As of the Closing Date, Luis Peragallo and Jorge Peragallo resigned from their positions with AIM. Even though Peter Rettaliata and Dario Peragallo, two of AIM's officers, will serve as officers of the Company, there can be no assurance that the new management of the Company will have the necessary experience to operate the Company. The process of combining the organizations of Gales Industries, AIM and Ashlin could interrupt the activities of part or all of AIM's business, and could cause fundamental changes in AIM's business, which could have an adverse effect on the Company. The past results of operations of AIM are not necessarily indicative of the future results of operations of the Company.

Limited Recourse Against AIM Shareholders

Pursuant to the stock purchase agreement relating to the Acquisition, the obligation of the former shareholders of AIM (the "AIM Shareholders") to indemnify the Company for breaches of their representations and warranties is, with certain exceptions, limited to $2.5 million. Consequently, the Company will have no recourse against the AIM Shareholders for claims in excess of such amount.

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

We expect to experience growth in the number of employees and the scope of our operations as a result of internal growth and acquisitions. Such activities could result in increased responsibilities for management.

Our future success will be highly dependent upon our ability to manage successfully the expansion of operations. Our ability to manage and support our growth effectively will be substantially dependent on our ability to implement adequate improvements to financial, inventory, management controls, reporting, union relationships, order entry systems and other procedures, and hire sufficient numbers of financial, accounting, administrative, and management personnel. There can be no assurance that we will be able to identify, attract, and retain experienced accounting and financial personnel.

Our future success depends on our ability to address potential market opportunities and to manage expenses to match our ability to finance operations. The need to control our expenses will place a significant strain on our management and operational resources. If we are unable to control our expenses effectively, our business, results of operations, and financial condition may be adversely affected.

The unsuccessful integration of a business or business segment we acquire could have a material adverse effect on our results.

As part of our business strategy, we expect to acquire assets and businesses relating to or complementary to our operations. These acquisitions will involve risks commonly encountered in acquisitions. These risks include, among other things, exposure to unknown liabilities of the acquired companies, additional acquisition costs and unanticipated expenses. Our quarterly and annual operating results will fluctuate due to the costs and expenses of acquiring and integrating new businesses. We may also experience difficulties in assimilating the operations and personnel of acquired businesses. Our ongoing business may be disrupted and our management's time and attention diverted from existing operations. Our acquisition strategy will likely require additional debt or equity financing, resulting in additional leverage or dilution of ownership. We cannot assure you that any future acquisition will be consummated, or that if consummated, that we will be able to integrate such acquisition successfully.

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

There are risks associated with programs that are subject to appropriation by Congress, which could be potential targets for reductions in funding to pay for other programs. Future reductions in United States Government spending on defense or future changes in the kind of defense products required by United States Government agencies could limit demand for our products, which would have a materially adverse effect on our operating results and financial condition.

In addition, potential shifts in responsibilities and functions within the defense and intelligence communities could result in a reduction of orders for defense products by segments of the defense industry that have historically been our major customers. As a result, demand for our products could decline, resulting in a decrease in revenues and materially adversely affecting our operating results and financial condition.

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

In general, we have derived a material portion of our revenue from one or a limited number of customers. We expect that in future periods we may enter into contracts with customers which represent a significant concentration of our revenues. If such contracts were terminated, our revenues and net income could significantly decline. Our success will depend on our continued ability to develop and manage relationships with significant customers. Sikorsky accounts for more than 40% of our sales. Any adverse change in our relationship with such customer could have a material adverse effect on our business. Although we are attempting to expand our customer base, we expect that our customer concentration will not change significantly in the near future. The markets in

which we sell our products are dominated by a relatively small number of customers who have contracts with United States governmental agencies, thereby limiting the number of potential customers. We cannot be sure that we will be able to retain our largest customers, that we will be able to attract additional customers, or that our customers will continue to buy our products in the same amounts as in prior years. The loss of one or more of our largest customers, any reduction or interruption in sales to these customers, our inability to successfully develop relationships with additional customers, or future price concessions that we may have to make, could significantly harm our business.

Continued competition in our markets may lead to a reduction in our revenues and market share.

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

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

Our quarterly and annual operating results are likely to fluctuate significantly in the future due to a variety of factors, some of which are outside our control. Accordingly, we believe that period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indications of performance. Some of the factors that could cause quarterly or annual operating results to fluctuate include conditions inherent in government contracting and our business such as the timing of cost and expense recognition for contracts, the United States Government contracting and budget cycles, introduction of new government regulations and standards, contract closeouts, variations in manufacturing efficiencies, our ability to obtain components and subassemblies from contract manufacturers and suppliers, general economic conditions, and economic conditions specific to the defense market. Because we base our operating expenses on anticipated revenue trends and a high percentage of our expenses are fixed in the short term, any delay in generating or recognizing forecasted revenues could significantly harm our business. Fluctuations in quarterly results, competition, or announcements of extraordinary events such as acquisitions or litigation may cause earnings to fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock could significantly decline. In addition, there can be no assurance that an active trading market will be sustained for our common stock. These fluctuations, as well as general economic and market conditions, may adversely affect the future market price of our common stock, as well as our overall operating results.

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

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

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

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

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

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

While some of our products may experience greater demand as a result of increased U.S. Government defense spending, various responses could realign U.S. Government programs and affect the composition, funding or timing of our government programs and those of our customers. U.S. Government spending could shift to defense programs in which we do participate. As a result of the September 11th terrorist attacks and given the current Middle East and global situation, U.S. defense spending is generally expected to increase over the next several years. Increased defense spending does not necessarily correlate to increased business, because not all the programs in which we participate or have current capabilities may be earmarked for increased funding.

Terrorist acts of war (wherever located around the world) may cause damage or disruption to us, our employees, facilities, partners, suppliers, distributors and resellers, and customers, which could significantly impact our revenues, expenses and financial condition. The terrorist attacks that took place in the United States on September 11, 2001 were unprecedented events that have created many economic and political uncertainties. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility have created many economic and political uncertainties, which could adversely affect our business and results of operations in ways that cannot presently be predicted. In addition, as a company with headquarters and significant operations located in the United States, we may be impacted by actions against the United States.

The Company's indebtedness may affect its operations.

As described below under "Management's Discussion and Analysis or Plan of Operation - Financial Liquidity and Capital Resources", AIM has incurred significant indebtedness under the New Loan Facility. This indebtedness far exceeds the amount of pre-Merger debt of AIM. As a result, AIM is significantly leveraged and has indebtedness that is substantial in relation to its stockholders' equity. The ability of AIM to make principal and interest payments will depend on future performance, which is subject to many factors, some of which are outside of the Company's control. In addition, the New Loan Facility is secured by all of the assets of AIM including the real estate acquired in the Real Estate Acquisition. In the case of a continuing default by AIM under the

New Loan Facility, the lender will have the right to foreclose on AIM's assets, which would have a material adverse effect on the Company. Payment of principal and interest on such indebtedness may limit the Company's ability to pay cash dividends to shareholders and the documents governing the New Loan Facility will prohibit the payment of cash dividends. The Company's leverage may also adversely affect the ability of the Company to finance future operations and capital needs, may limit its ability to pursue other business opportunities and may make its results of operations more susceptible to adverse economic conditions.

Need for Additional Capital

The Company may require additional capital to accomplish its business objectives, even if the Maximum Offering is completed. There can be no assurance that any financing will be available to the Company on favorable terms, if at all. Further, there can be no assurance that the Company will be able to service its existing indebtedness or any debt it may hereafter incur in connection with the expansion of its operations. If the Company were to seek to raise additional equity, its then existing shareholders would suffer dilution to their interests.

Absence of Principal Shareholders Guarantees and Financial Accommodations

Historically, AIM has obtained money and achieved other financial accommodations through arrangements guaranteed by the AIM Shareholders. Since they sold their shares of AIM in connection with the Acquisition, these original AIM Shareholders will not be providing any financial assistance to us or AIM on a going-forward basis. The Company is no longer able to rely upon the credit of AIM's Shareholders when seeking to borrow money or obtain other financial accommodations.

There is only a limited public market for the Company's securities.

There is no trading market for the Company's Preferred Stock. The trading market for the Company's Common Stock is limited and there can be no assurance that an active trading market will ever develop, or, if developed, that it will be sustained.

Potential Adverse Effect on Market Price of Securities from Future Sales of Common Stock

Within six months after the Closing Date, the Company is planning to register for resale under the Securities Act approximately 46,339,955 shares of Common Stock (in case the Maximum Offering is completed) which will either be outstanding or be issuable upon conversion or exercise of preferred stock, convertible notes or warrants. The Company also intends to register on Form S-8 under the Securities Act an additional 10,000,000 shares of Common Stock, which are the shares available for issuance under the 2005 Stock Incentive Plan, combined with the 4,850,000 shares underlying the stock options granted by Gales Industries which have become options to purchase an equal number of shares of our Common Stock. Among the outstanding shares of Common Stock which do not carry registration rights, the shares of Common Stock held by the shareholders of Ashlin prior to the Merger will be eligible for resale pursuant to Rule 144 under the Securities Act.

Future sales of Common Stock pursuant to a registration statement or under Rule 144, or the perception that such sales could occur, could have an adverse effect on the market price of the Common Stock. All of the shares of Common Stock issuable upon conversion of the Preferred Stock have "piggyback" registration rights. In addition, the Company expects to register under the Securities Act all outstanding shares of Common Stock (whether issued in connection with the Offering and the Closing Transactions or previously issued

to shareholders of the Company), and shares of Common Stock issuable upon conversion or exercise of warrants and convertible securities, and, upon effectiveness of a registration statement under the Securities Act with respect to such shares, such shares will be immediately salable. Such sales will adversely affect the market price of the Common Stock.

Effect of Stock Options

The Company intends to adopt a new stock incentive plan (the "2005 Stock Incentive Plan") to be submitted to shareholders for approval, which would allow for the issuance of a total of 5,150,000 shares of Common Stock, either as stock grants or options, to employees, officers, directors, advisors and consultants of the Company. As of the Closing Date, options to purchase 4,850,000 shares of Gales' common stock became options to purchase shares of the Company's Common Stock. The Company has approximately an additional 956,000 shares available for issuance under its 1998 Stock Option Plan. A total of approximately 40,020 options are outstanding under the 1998 Stock Option Plan. The committee administering the 2005 Stock Incentive Plan will have sole authority and discretion to grant options under such Plan with respect to the 5,150,000 shares available for issuance under such Plan. Options granted will be exercisable during the period specified by the committee administering the 2005 Stock Incentive Plan except that such committee may authorize options that will become immediately exercisable in the event of a change in control of the Company and in the event of certain mergers and reorganizations of the Company. The existence of such options could limit the price that certain investors might be willing to pay in the future for shares of Common Stock and may have the effect of delaying or preventing a change in control of the Company. The issuance of additional shares upon the exercise of such options could also decrease the amount of earnings and assets available for distribution to the holders of the Common Stock and could result in the dilution of voting power of the Common Stock.

AIM has not been subject to Sarbanes-Oxley regulations and, therefore, may lack the financial controls and procedures of public companies.

AIM has not had the internal or financial control infrastructure necessary to meet the standards of a public company, including the requirements of the Sarbanes Oxley Act of 2002. AIM was not subject to the Sarbanes Oxley Act of 2002, and its internal and financial controls reflect its status as a non-public company. AIM has not had the internal infrastructure necessary to complete an attestation about its financial controls that would be required under Section 404 of the Sarbanes Oxley Act of 2002. There can be no guarantee that there are no significant deficiencies or material weaknesses in the quality of AIM's financial controls. Because of the Merger, the Company will be required to comply with Sarbanes Oxley, including standards for internal and financial controls, in connection with AIM's operations. The cost to the Company of such compliance could be substantial and could have a material adverse effect on the Company's results of operations

2. Management's Discussion and Analysis or Plan of Operation.

Introduction

Following the Merger, AIM constitutes all of our operations. The following discussion and analysis summarizes the significant factors affecting (1) AIM's results of operations for fiscal 2004 compared to fiscal 2003 and (2) our combined financial liquidity and capital resources. Also discussed below are AIM's results of operations for the nine-month period ended September 30, 2005 compared with AIM's results of operations for the nine-month period ended September 30, 2004. This discussion and analysis should be read in conjunction with the financial statements and notes, and pro forma financial statements, included with this report.

Each of Merger Sub, Gales Industries and Ashlin has had no sales revenue but incurred expenses for the periods discussed herein. Merger Sub was formed in October 2005 for the purpose of entering into the Merger and has no operating history. Gales Industries was formed in October 2004 and, since then, has had no operations except in connection with the Closing Transactions. Ashlin emerged from bankruptcy protection on April 29, 2005 without any business operations and after having divested the business in which it had been engaged prior to its bankruptcy filing. Therefore, the results of operations for Ashlin from the periods prior to its bankruptcy filing are not taken into account in the results of operations for the combined entity.

Results of Operations

Year ended December 31, 2004 compared to year ended December 31, 2003

Net Sales. Net sales were $24,818,333 in fiscal 2004, compared to net sales of $22,334,926 in fiscal 2003. The increase in net sales in fiscal 2004 compared to fiscal 2003 was due to increased shipments and increased purchase orders.

Gross Profit. Gross profit was $3,182,580 in fiscal 2004 (12.8% of net sales), compared to gross profit of $2,594,740 in fiscal 2003 (11.6% of net sales). The increase was primarily due to an increased efficiency in manufacturing and the implementation of cost reduction methods.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $1,712,202 in fiscal 2004, an increase of 7.6% from selling, general and administrative expenses of $1,591,354 in fiscal 2003. The increase was primarily due to adjustments in renumeration of officers' salaries, pay increases to office personnel, increase in professional fees attributable to legal costs in drafting a stockholders agreement among AIM's shareholders and computer consulting costs in connection with modifications to AIM's IT network.

Other Expenses. Other expenses were $518,180 in fiscal 2004, an increase of 46.0% from other expenses of $354,566 in fiscal 2003. The significant increase was due to an increase in bank debt, the refinancing of existing equipment loans, financing new equipment acquisitions and increased interest rates.

The nine months ended September 30, 2005 compared to the nine months ended September 30, 2004

Net Sales: Net sales were $21,851,532 in the nine months ended September 30, 2005 compared to net sales of $18,322,866 in the nine months ended September 30, 2004. The increase of $3,528,666 or 16.15% was primarily due to increased purchase orders and shipments and retroactive price adjustments on long term contracts. As of September 30, 2005, AIM's revenue backlog approximated $35 million.

Gross Profit: Gross profit was $2,801,366 in the nine months ended September 30, 2005 (12.8% of net sales), compared to gross profit of $2,206,074 in the nine months ended September 30, 2004 (12.0% of net sales). The increase in gross profit was due to the fact that, at June 30, 2004, a physical inventory was taken as opposed to calculating inventory on a Gross Profit Percentage. That physical inventory yielded a Gross Profit of 12%. At September 30, 2004, the same Gross Profit Percentage was utilized and, at December 31, 2004 a physical inventory yielded a Gross Profit Percentage of 12.89%. Absent a physical inventory since December 31, 2004, this Gross Profit Percentage of 12.89% was

utilized for interim reporting purposes in 2005. The increase in gross profit as a percentage of net sales in the nine months ended September 30, 2005 was favorably affected by (i) renegotiated price adjustments on long term contracts and (ii) increased efficiency in the manufacturing process. Our gross profit margins were negatively affected in the nine months ended September 30, 2005 due to (i) increase in factory repairs and (ii) increases in cost of labor.

Selling, General and Administrative Expenses: Selling, general and administrative expenses were $1,531,336 in the nine months ended September 30, 2005, an increase of 27% from selling, general and administrative expenses of $1,205,521 in the nine months ended September 30, 2004. The increase was primarily due to (i) an increase in professional fees and (ii) increase in fees related to the implementation of a new computer software system.

Other Expenses: Other expenses were $411,493 in the nine months ended September 30, 2005 compared to $316,791 in the nine months ended September 30, 2004, which increase was attributable to (i) financing of additional equipment acquisitions and (ii) an increase in interest rates.

Impact of Inflation

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

Financial Liquidity and Capital Resources

AIM has financed its operations and investments to date principally through revenues from operations.

In connection with the Acquisition of AIM, we incurred notes payable obligations in the aggregate principal amount of $1,627,262, of which $665,262 are in the form of convertible promissory notes which the Company may convert into shares of Common Stock at $.40 per share upon effectiveness of a Securities Act registration statement covering such shares. The remaining $962,000 principal amount note is repayable by the Company in 20 equal quarterly installments of $48,100 principal plus interest. The holder of a convertible bridge note in the principal amount of $22,500 has given notice that it will convert such note into our Common Stock.

As of the Closing Date, under the New Loan Facility, we incurred approximately $5,211,000 in debt under the revolving credit facility and $3,500,000 under a term loan. AIM also has approximately $902,000 outstanding under the equipment line of credit provided by the New Loan Facility. The revolving credit facility requires us to pay interest monthly on the outstanding principal amount. The term loan requires us to make 84 equal monthly payments of $31,667 plus interest with the balance to be added to the 84th payment. We believe that all of the applicable interest rates under the New Loan Facility are consistent with prevailing interest rates in the lending industry.

All of the proceeds of the term loan and approximately $700,000 of the borrowings under the revolving credit facility were used to complete the Real Estate Acquisition. In addition, proceeds from the New Loan Facility were used to pay off AIM's debt to its prior lender and will be used for working capital for AIM's business.

As of the Closing Date, Gales Industries completed the first closing of the Offering to accredited investors for gross proceeds of $6,793,280. Commissions, management fees and non-accountable expense allowance which Gales Industries paid to the placement agent amounted to an aggregate of $815,193.60. We expect to receive at least $800,000 in additional gross proceeds from a second closing of the Offering. The proceeds of the first closing of the

Offering, in general, were and will be used for paying the cash portion of the purchase price for the Acquisition of AIM, for the repayment of $150,000 in note obligations which Gales Industries incurred in bridge financings, for payment of certain real estate taxes and accrued rent on AIM's real property, for expenses of the Offering, Acquisition, Merger and related transactions, for satisfaction of certain loans from the shareholders of AIM to AIM, and for working capital for us and AIM.

The holders of Preferred Stock are entitled to receive payment-in-kind dividends (payable in shares of Preferred Stock), prior to and in preference to any declaration or payment of any dividend on the Common Stock, at the rate of 8% per annum. However, if a registration statement for the resale of the Common Stock underlying the Preferred Stock is not filed within 45 days of the earlier of the termination or the final closing of the Offering or declared effective within six months of such earlier date, the dividend on the Preferred Stock will be due in cash from the date of such default until the default is cured.

We expect that cash flows from operations will be sufficient to pay our obligations as they arise. In addition, we will have available any net proceeds from a second closing of the Offering. Further, we may be able to borrow additional funds under our revolving credit facility provided that we have sufficient inventory, receivables and equipment and machinery. However, we may require additional working capital to expand our business and make acquisitions. We anticipate that increased sales revenues will help to some extent, but we may need to secure additional financing. In the event we are not able to increase working capital, we may not be able to expand our business or make acquisitions.

Off Balance Sheet Arrangements

Not applicable.

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 1 to the audited financial statements of AIM. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions or conditions.

Quantitative and Qualitative Disclosure about Market Risk

Our primary exposure to market risk consists of changes in interest rates on borrowings under the New Loan Facility. An increase in interest rates would adversely affect our operating results and the cash flow available after debt service to fund operations. We manage exposure to interest rates fluctuations by optimizing the use of fixed and variable rate debt. Except with respect to the interest rates under the New Loan Facility, we do not have debts or hold instruments that are sensitive to changes in interest rates, foreign currency exchange rates or commodity prices.

3. Description of Property.

AIM's headquarters are situated on a 5.4-acre corporate campus in Bay Shore, New York. On such campus, AIM occupies 3 buildings consisting of 76,000 square feet. Prior to the Closing Date, AIM leased such real property at an annual rental fee of approximately $382,800 plus the cost of the annual real estate tax on such property. The entities that owned the property prior to the Closing Date are owned in whole or in part by affiliates of AIM. Simultaneously

with the closing of the Acquisition and the Merger, AIM became the owner of such property pursuant to the Real Estate Acquisition with loans from the New Loan Facility. As a consequence of such purchase, AIM is no longer required to pay rent for the use of such property. It is estimated that at current rates the interest payable each year on the funds used to acquire AIM's corporate campus will approximate the rent which was being paid under the leases prior to their termination.

Since the reorganization of Ashlin in January 2005, Ashlin's corporate office has been located at 4400 North Federal Highway, Suite 210, Boca Raton, Florida 33431. Ashlin's lease for this property expires on March 31, 2006 and provides for a monthly rent of approximately $950. As a result of the Merger, the Company's headquarters have been moved to AIM's corporate campus in Bay Shore, New York.

4. Security Ownership

The following table sets forth information known to us regarding beneficial ownership of our Common Stock as of the Closing Date by (i) each person known by the Company to own beneficially more than 5% of the outstanding Common Stock, (ii) each of our directors and executive officers, (iii) any other "Named Executive Officer" identified in the Executive Compensation section, below, and (iv) all of our officers and directors as a group. Except as otherwise indicated, we believe based on information provided by each of the individuals named in the table below that such individuals have sole investment and voting power with respect to such shares, subject to community property laws, where applicable. The address of each executive officer and director is c/o the Company, 1479 Clinton Avenue, Bay Shore, NY 11706. The address of James A. Brown is c/o the Company, 4400 North Federal Highway, Suite 210, Boca Raton, Florida 33431.

Name	Number of Shares	Percentage of Shares Outstanding
Michael A. Gales	4,326,219 (1)	29.4%
Louis A. Giusto	3,644,538 (2)	24.8%
Peter Rettaliata	1,100,000 (3)	7.1%
Dario Peragallo	1,100,000 (4)	7.1%
Seymour G. Siegel	100,000	*
Rounsevelle W. Schaum	100,000	*
Ira A. Hunt, Jr.	100,000	*
Stephen Nagler	145,455 (5)	1.0%
James A. Brown	676,268	4.7%
Luis Peragallo	253,214	1.7%
Jorge Peragallo	0	*
ACS Holdings, LLC	876,749	6.1%
All Directors and Officers as a group, 9 persons (1)(2)(3)(4)(5)		66.6%

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* Less than 1%

(1) Of the options to purchase 1,250,000 shares of Common Stock granted to Mr. Gales pursuant to his employment agreement, includes options vesting as of the Closing Date exercisable into 250,000 shares of Common Stock.

(2) Of the options to purchase 1,200,000 shares of Common Stock granted to Mr. Giusto pursuant to his employment agreement, includes options vesting as of the Closing Date exercisable into 240,000 shares of Common Stock.

(3) Of the options to purchase 1,200,000 shares of Common Stock granted to Mr. Rettaliata as of the Closing Date pursuant to his employment agreement, includes options vesting as of the Closing Date exercisable into 150,000 shares of Common Stock. Includes the 831,577 shares of Common Stock issuable upon conversion of the $332,631 principal amount convertible note issued to Mr. Rettaliata in connection with the Acquisition.

(4) Of the options to purchase 1,200,000 shares of Common Stock granted to Mr. Dario Peragallo as of the Closing Date pursuant to his employment agreement, includes options vesting as of the Closing Date exercisable into 150,000 shares of Common Stock Includes the 831,577 shares of Common Stock issuable upon conversion of the $332,631 principal amount convertible note issued to Dario Peragallo in connection with the Acquisition. Does not include 253,214 shares of Common Stock issued to Luis Peragallo pursuant to the terms of the Acquisition. Luis Peragallo is the father of Dario Peragallo.

(5) Includes 45,455 shares of Common Stock issuable upon exercise of warrants held by Mr. Nagler. Does not include 150,000 shares of Common Stock held by Eaton & Van Winkle LLP, a firm of which Mr. Nagler is a partner.

5. Directors, Executive Officers, Promoters and Control Persons.

The following table sets forth information with respect to the directors and executive officers of the Company as of the completion of the Merger.

Name of Individual	Age	Position with the Company
Michael A. Gales	60	Executive Chairman of the Board
Louis A. Giusto	63	Vice Chairman, Chief Financial Officer and Treasurer
Peter Rettaliata	55	Director, Chief Executive Officer and President of AIM
Dario Peragallo	41	Director and Executive Vice President, Manufacturing
Stephen M. Nagler	67	Director and Secretary
Seymour G. Siegel	62	Director
Rounsevelle W. Schaum	72	Director
Ira A. Hunt, Jr.	80	Director
James A. Brown	53	Director

The business experience of each director and executive officer of the Company is set forth below.

Mr. Gales has thirty-two years experience in Corporate Finance, Mergers & Acquisitions and corporate management of both publicly and privately held middle market companies. Since 1992, Mr. Gales has been Chairman and President of Gales & Company, a Wall Street M&A Advisory and Principal firm. From March 2003 to present, Mr. Gales has concentrated his efforts on the formation of Gales Industries, the Acquisition, and the development of Gales Industries' business strategy, including the future expansion of the business of AIM. From September 2001 to March 2003, Mr. Gales concentrated on the operation of Gales & Company. From 1997 to 2001, Mr. Gales served as the Managing Director of Corporate

Finance and Executive Vice President of Corporate Finance for Janssen-Meyers Associates, LP and Andrew, Alexander, Wise & Company, Inc., respectively. Prior to 1997, Mr. Gales served in senior management and executive roles principally focused in heavy industries, including tenure as Principal, Co-Founder and President of American United Corporation, an international maritime engineering and technical systems group, and as President and Chief Operating Officer of Aquaglobal, Inc., a manufacturer and marketer of desalination systems serving customers such as Exxon, Shell, Mobil, Gulf and the U.S. Navy. Mr. Gales was the founding Chairman and CEO of AquaSciences International, Inc., a publicly traded organization engaged in the design and manufacture of water purification systems, and the founding Chairman of lntersearch Group, Inc., a publicly traded international HR consulting firm. In addition Mr. Gales has served as a Director of ProtoSource Corporation, a publicly traded internet service provider. Mr. Gales attended Oklahoma University and has been a member of various professional associations including the Royal Institute of Marine Engineers (London), Society of Naval Architects & Marine Engineers, Society of Piping Engineers & Designers, The Investment Company Institute and the President's Association of the American Management Association.

Louis A. Giusto has over 30 years of financial control experience with foreign and domestic banks, non-bank financial service entities and consumer product companies. Since 2003 in addition to his activities on behalf of Gales Industries, Mr. Giusto has been acting as an independent consultant to a number of private businesses. From 2000 to 2003, Mr. Giusto was an Account Manager for a public accounting firm and the SVP Finance and Operations of Credit2B.com a web-based internet company bringing to market advanced credit decisioning platforms and sophisticated small business lending, insurance, securitization and factoring products. Before joining C2B, Mr. Giusto served for fourteen years in various positions with Fleet Bank and, prior to its acquisition by Fleet Bank, NatWest PLC, London. During his tenure at NatWest, Mr. Giusto served as Senior Financial Officer and Treasurer of NatWest Commercial Services, Inc. (a billion dollar wholly owned subsidiary of NatWest PLC, London) and a Credit Administrator (Risk Manager) with Fleet Bank. Mr. Giusto serves as a director of Long Island Consultation Center, a not-for-profit psychiatric care facility in Long Island, New York. Mr. Giusto graduated from New York University with a BS in Economics and Accounting and from Long Island University (with Distinction) with an MBA in Finance.

Mr. Rettaliata is the President of AIM and has served in such capacity since 1994. Prior to his involvement at AIM, Mr. Rettaliata was employed by Grumman Aerospace Corporation for twenty-two years. Professionally, Mr. Rettaliata is the Chairman of "ADAPT", an organization of regional aerospace companies, a past member of the Board of Governors of the Aerospace Industries Association, and a member of the Executive Committee of the AIA Supplier Council. Recently, Mr. Rettaliata testified to the President's Commission on aerospace in Washington, D.C. He is a graduate of Niagara University where he received a B.A. in History and the Harvard Business School where he completed the PMD Program. Upon completion of the Acquisition, Mr. Rettaliata began serving as corporate Chief Executive Officer and President of AIM, reporting to the Executive Chairman of the Company. It is expected that he will be nominated to the Executive and Management Committees of the Board.

Mr. Dario Peragallo is the Executive Vice President of AIM. Mr. Peragallo has been associated with AIM for over 25 years. He was elevated in 2000 to Director of Manufacturing. In addition, he has helped develop and maintain AIM's current business systems. Mr. Peragallo has been the company "Lean Advocate" since the inception of the program at AIM to decrease its inventory and increase productivity. He has led AIM on its "Lean" course of evolution and has participated in seventeen "Lean" events. Mr. Peragallo became Executive Vice

President with overall responsibility for engineering, manufacturing and customer-critical technical matters (including "Lean" and "Supply Chain" activities) in 2003. He has been an active member of Diversity Business since 2000, which is an organization specializing in the promotion of small and minority owned businesses. He is a graduate of SUNY Farmingdale where he received a B.A. in Manufacturing Engineering. Mr. Peragallo will oversee all engineering and production matters relating to AIM.

Mr. Nagler is currently a member of Eaton & Van Winkle LLP, a law firm in New York City which he joined as a Partner in October 2004. Prior to joining Eaton & Van Winkle, Mr. Nagler was affiliated with Phillips Nizer LLP as Counsel since 1995. Mr. Nagler chairs TriState Ventures LLC, an angel investor group in the New York area. Mr. Nagler is a graduate of the City College of New York and NYU School of Law. The firm of Eaton & Van Winkle LLP served as counsel to Gales Industries and will be serving as counsel to the Company.

Mr. Siegel has been a principal in the Siegel Rich Division of Rothstein, Kass & Company, P.C. since April 2000. Rothstein, Kass is a national firm of accountants and consultants with approximately 520 members and offices in 6 cities. He specializes in providing strategic advice to business owners including mergers acquisitions strategies; succession planning; capital introductions and long range planning. In 1974, Mr. Siegel founded, and from 1974 to 1990, was managing partner of Siegel Rich and Co, P.C., CPAs. Siegel Rich merged into M.R.Weiser & Co., LLC, a large regional firm where he had been a senior partner. M.R. Weiser became a division of Rothstein, Kass in April 2000. Mr. Siegel has been a director, trustee and officer of numerous businesses, philanthropic and civic organizations. He serves as a director and audit committee chairman of Hauppauge Digital Inc., as well as Emerging Vision Incorporated, and has served in a similar capacity at Oak Hall Capital Fund, Prime Motor Inns Limited Partnership, Noise Cancellation Technologies and Barpoint.com. It is expected that Mr. Siegel will serve as Chairman of the Company's Audit Committee.

Since 1993, Mr. Schaum has served as Chairman of Newport Capital Partners, a private investment banking and financial advisory firm specializing in providing assistance to emerging growth companies in private placements, corporate governance and negotiation of mergers and acquisitions. Mr. Schaum also serves as a director and Chairman of the Audit Committee of the Quigley Corporation (NASDAQ: "QGLY"); as Chairman of Mosaic Nutraceuticals, Inc. (OTC: "MCNJ.PK"); and as a director of Camelot Entertainment Group, Inc (OTC:BB "CMEG"); Intelligent Security Networks, Inc. (OTC: "ISNT.PK") and Turboworx, Inc., a private firm specializing in high speed computation technologies. Mr. Schaum was a founder, director and treasurer of Streaming Media Corporation, and has also served as Chairman and CEO of BusinessNet Holdings Corporation; as a crisis manager for Heller Financial Corporation; as Chairman of the California Small Business Development Corporation, a private venture capital syndicate; and was the founder and Managing Director of the Center of Management Sciences, a consulting firm serving the aerospace industry. He has been a consultant on project management procedures to the Departments of the Army, Navy and Air Force, and numerous defense contractors, including General Dynamics, MacDonald-Douglas, Raytheon, Hughes Aircraft and the Logistics Management Institute. Mr. Schaum is a graduate of Phillips Andover Academy and holds a Bachelor of Science degree in Mechanical Engineering from Stanford University and an MBA degree from the Harvard Business School. He was also a member of the faculty and Defense Research Staff of the Massachusetts Institute of Technology, where he participated in the development of the computer programs for the Ballistic Missile Early Warning System.

General Hunt graduated from the United States Military Academy in 1945 and subsequently served thirty-three years in various command and staff positions in the U.S. Army, retiring from active military service as a Major General in 1978. His last military assignment was as Director of the Office of Battlefield Systems Integration. Subsequently, General Hunt was president of Pacific Architects and Engineers in Los Angeles and Vice President of Frank E. Basil, Inc. in Washington, D.C. Since 1990, General Hunt has been a director of SafeNet Inc. (Nasdaq: SFNT), an information security technology company. He is a Freeman Scholar of the American Society of Civil Engineers and has a M.S. in Civil Engineering from the Massachusetts Institute of Technology, a M.B.A. from the University of Detroit; a Doctor of the University Degree from the University of Grenoble, France and a Doctor of Business Administration Degree from the George Washington University.

James A. Brown has been Ashlin's Chief Executive Officer and Secretary since September 2004 and Chairman of the Board since May 2003. Ashlin filed for bankruptcy protection while Mr. Brown was its Chairman and CEO. Mr. Brown served as the Chief Operating Officer of Private Investor Reserves Corp., a financial services firm, from May 2000 through 2004. Mr. Brown co-founded A.S. Partners.com, Inc., an internet application service provider, and served as its Chief Executive Officer from December 1998 to April 2000.

6. Executive Compensation.

The compensation information in the below table relates to Ashlin (after its bankruptcy filing) and to AIM. Ashlin emerged from bankruptcy protection on April 29, 2005 as a different entity from the entity that existed prior to the bankruptcy filing, without any business operations and after having divested the business in which it had been engaged prior to its bankruptcy filing. Therefore, unless otherwise noted, the compensation information relating to Ashlin from the periods prior to its bankruptcy filing are not reflected below but may be obtained from the filings made by Ashlin (formerly known as Health & Nutrition Systems International, Inc.) under the Securities Exchange Act of 1934, as amended, available at the website maintained by the Securities and Exchange Commission.

The following table shows for fiscal years ended December 31, 2004 and 2003, respectively, certain compensation awarded or paid to, or earned by, the following persons (collectively, the "Named Executive Officers").

- Michael Gales, the Company's Executive Chairman;
- Peter Rettaliata, the Company's Chief Executive Officer;
- Dario Peragallo, the Company's Executive Vice President;
- Luis Peragallo, a former officer of AIM who is not employed by the Company;
- Jorge Peragallo, a former officer of AIM who is not employed by the Company; and
- James A. Brown, the chief executive officer of Ashlin from September 26, 2004 to the Closing Date.

Luis Peragallo is the father of Jorge Peragallo and Dario Peragallo. Other than the Named Executive Officers, none of our executive officers earned more than $100,000 in salary and bonus for the 2004 or 2003 fiscal years. Unless otherwise indicated, we did not grant stock options or restricted stock to them during the periods indicated.

Summary Compensation Table

Name and Principal Position	Annual Compensation				Long Term Compensation
	Fiscal Year	Salary($)	Bonus($)	Other Annual Compensation($)	Securities Under Options Granted(#)
Michael Gales, Executive Chairman of the Company	2004	$ --	$ --	$ --	--
	2003	--	--	--	--
Peter Rettaliata, Chief Executive Officer of the Company	2004	217,724	--	--	--
	2003	219,182	--	--	--
Dario Peragallo, Executive Vice President of the Company	2004	197,211	--	--	--
	2003	151,666	--	--	--
Luis Peragallo, Former officer of AIM	2004	322,536	--	--	--
	2003	255,375	--	--	--
Jorge Peragallo, Former officer of AIM	2004	219,449	--	--	--
	2003	230,301	--	--	--
James A. Brown (1), Former Chief Executive Officer of Ashlin	2004	27,817	--	--	--
	2003	--	--	--	--

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(1) Prior to becoming Ashlin's chief executive officer, Mr. Brown received approximately $59,000 in consulting fees in 2004 in consideration for his services to Ashlin. As of August 13, 2003, Mr. Brown received 80,038 shares of Common Stock, valued at $10,000.

Incentive Plans

Prior to January 28, 2005, the effective date of Ashlin's Plan of Reorganization, Ashlin had outstanding stock options under its 1998 Stock Option Plan. As of January 28, 2005, all of Ashlin's outstanding options were terminated pursuant to the Plan of Reorganization except options to purchase 40,018 shares of Common Stock held by Steven Pomerantz and options to purchase 4,002 shares of Common Stock held by Ted Alflen, both of whom served on the Board of Directors of Ashlin following its emergence from bankruptcy proceedings until the completion of the Merger.

Option Grants in Last Fiscal Year

In 2004, we did not grant to any of the Named Executive Officers options to purchase shares of Common Stock.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

During 2004, none of the Named Executive Officers exercised any options to purchase shares of Common Stock and, as of December 31, 2004, none of the Named Executive Officers held any options to purchase shares of Common Stock.

Employment Agreements

The employment agreement of Michael A. Gales became effective as of the Closing Date and will terminate five years thereafter, but will be extendable for successive three one-year periods unless he or the Company decides not to extend the agreement. Pursuant to his employment agreement, Mr. Gales will receive a base salary at an annual rate of $250,000, which will increase a minimum of 5% per year if operating profits of the Company have increased by at least 5% over the preceding 12-month period. Mr. Gales will be entitled to an annual bonus to be determined by the Company's Board of Directors. If he is dismissed without cause, Mr. Gales would be entitled to receive salary and benefits for the period which is the greater of the remaining term of his employment agreement or one year. In addition, the Company granted to Mr. Gales, upon the execution of his employment agreement, options to purchase 1,250,000 shares of Common Stock, exercisable over a ten-year period commencing on the date of grant. The first one-fifth of such options vested as of the Closing Date and the balance will vest in equal one-fifth increments (250,000 shares) on the first through fourth anniversaries of September 15, 2005. The exercise price of the options which vested as of the Closing Date is twenty-two cents ($0.22) per share. The exercise price of the remaining options will be equal to the average trading price of the Common Stock for a thirty-day period preceding the respective vesting date, but will in no event be less than twenty-two cents per share. Mr. Gales' employment agreement also contains restrictive covenants prohibiting Mr. Gales (i) from directly or indirectly competing with the Company, (ii) from soliciting any customer of the Company or AIM for any competitive purposes and (iii) from employing or retaining any employee of the Company or AIM or soliciting any such employee to become affiliated with any entity other than the Company or AIM during the twelve-month period commencing upon the termination of his agreement (the "Employee Restrictive Covenants").

The employment agreement of Louis A. Giusto became effective as of the Closing Date, and will terminate five years thereafter, but will be extendable for successive three one-year periods unless he or the Company decides not to extend the agreement. Pursuant to his employment agreement, Mr. Giusto will receive a base salary at an annual rate of $230,000 and such bonus compensation as the Board of Directors may determine. The terms of Mr. Giusto's employment agreement relating to annual increases in base salary and severance upon termination are the same as those provided for in Mr. Gales' employment agreement, the terms of which are set forth above. In addition, the Company granted to Mr. Giusto, upon the execution of his employment agreement, options to purchase 1,200,000 shares of Common Stock, exercisable over a ten-year period commencing on the date of grant. The vesting schedule and exercise price relating to Mr. Giusto's options are the same as those relating to Mr. Gales' options set forth above. Mr. Giusto's employment agreement also contains the Employee Restrictive Covenants.

The employment agreement of Peter Rettaliata became effective as of the Closing Date, and will terminate five years thereafter, but will be extendable for successive three one-year periods unless he or the Company decides not to extend the agreement. Pursuant to his employment agreement, Mr. Rettaliata will receive a base salary at an annual rate of $230,000 and such bonus compensation as the Board of Directors may determine. The terms of Mr. Rettaliata's employment agreement relating to annual increases in base salary and severance upon termination are the same as those provided for in Mr. Gales' employment agreement, the terms of which are set forth above. In addition, the Company granted to Mr. Rettaliata, upon the execution of his employment agreement, options to purchase 1,200,000 shares of Common Stock, exercisable over a ten-year period commencing on the date of grant. The first one-eighth of such options vested as of the Closing Date and the balance will vest in equal one-eighth increments (150,000 shares) on the first through seventh anniversaries of September 15, 2005. The exercise price of the shares which vested as of the Closing Date is twenty-two cents ($0.22) per share. The exercise price of the remaining options will be equal to the average trading price of the Common Stock for a thirty-day period preceding the respective vesting date, but will in no event be less than twenty-two cents per share. Mr. Rettaliata's employment agreement also contains the Employee Restrictive Covenants.

The employment agreement of Dario Peragallo became effective as of the Closing Date, and will terminate five years thereafter, but will be extendable for successive three one-year periods unless he or the Company decides not to extend the agreement. Pursuant to his employment agreement, Mr. Peragallo will receive a base salary at an annual rate of $230,000 and such bonus compensation as the Board of Directors may determine. The terms of Mr. Peragallo's employment agreement relating to annual increases in base salary and severance upon termination are the same as those provided for in Mr. Gales' employment agreement, the terms of which are set forth above. In addition, the Company granted to Mr. Peragallo, upon the execution of his employment agreement, options to purchase 1,200,000 shares of Common Stock, exercisable over a ten-year period commencing on the date of grant. The vesting schedule and exercise price relating to Mr. Peragallo's options are the same as those relating to Mr. Rettaliata's options set forth above. Mr. Peragallo's employment agreement also contains the Employee Restrictive Covenants.

The Company has agreed with the Placement Agent that the employment agreements of the above-mentioned individuals will not be changed or amended without the prior consent of the Placement Agent during the two year period following the completion of the Offering and no further stock options will be granted to such individuals during such time period without the prior consent of the Placement Agent.

Pursuant to its Plan of Reorganization, Ashlin had entered into an employment agreement with James A. Brown, its chairman and chief executive officer. As a result of the Merger, such employment agreement was terminated and Mr. Brown waived all of his rights under such employment agreement.

Director Compensation

As a result of the Merger, the Company intends to adopt a new director compensation policy. The Company intends to provide compensation to each non-employee director of the Company as follows: $10,000 per year and $1,250 per Board meeting, and an additional 100,000 shares of Common Stock to each non-employee director for his agreement to serve on the Board. The Company intends to reimburse each director for expenses related to attending Board meetings. The Company intends to pay an additional $3,000 per year to each independent director serving as the chairman of the audit committee or the compensation committee of the Board.

7. Certain Relationships and Related Transactions.

Transactions Relating to Ashlin:

In connection with its Plan of Reorganization, in January 2005, Ashlin entered into an employment agreement with James A. Brown, Ashlin's Chief Executive Officer, and disposed of substantially all of its assets to an entity controlled by another former Chief Executive Officer of Ashlin. See "Description of Business - Ashlin Bankruptcy", above.

Prior to becoming Ashlin's Chief Executive Officer, James A. Brown received approximately $59,000 in consulting fees in 2004 in consideration for his services to Ashlin. As of August 13, 2003, Mr. Brown received 80,003 shares of Common Stock, valued at $10,000.

For more detailed information about Ashlin's related party transactions, reference is made to the section titled "Certain Relationships and Related Transactions" in Ashlin's Revised Definitive Proxy Statement on Schedule 14A, filed with the Commission on July 20, 2005.

Transactions Relating to Gales Industries:

In August 2005, Mr. Stephen Nagler, one of the Company's directors, loaned $10,000 to Gales Industries. Acquaintances of Mr. Nagler loaned an additional $35,000 to Gales Industries in the same financing (the "$45,000 Financing"). In connection with the $45,000 Financing, Gales Industries issued to such investors 12% convertible bridge notes (the "$45,000 Bridge Notes") in the aggregate principal amount of $45,000. The $45,000 Bridge Notes were convertible into an aggregate of 204,545 shares of Common Stock, at the conversion price of $0.22 per share, but were repaid with a portion of the proceeds of the Offering. In connection with the $45,000 Bridge Notes, the Company also issued to the investors warrants ("$45,000 Bridge Warrants") to purchase the number of shares of Common Stock equal to the number of shares into which such $45,000 Bridge Notes can be converted, exercisable at $0.22 per share. The $45,000 Bridge Warrants allow for cashless exercise and have weighted-average anti-dilution protection with respect to the exercise price.

Stephen Nagler is a partner of the law firm of Eaton & Van Winkle LLP, which is counsel to Gales Industries and has been counsel to the Company since the Closing Date. In October 2004, Gales Industries issued shares of its common stock to Eaton & Van Winkle LLP and to Mr. Nagler in amounts such that, upon cancellation of such shares in connection with the Merger, Eaton & Van Winkle was issued 150,000 shares of Common Stock and Mr. Nagler, in connection with his agreement to serve on the Company's Board, was issued 100,000 shares of Common Stock.

Transactions Relating to AIM:

Prior to the Merger, AIM leased manufacturing and office space from KPK Realty Corp. which, since October, 1974, has been owned 49% by Louis Peragallo, an officer, a director and the largest shareholder of AIM prior to the Merger. The annual rent for such lease was approximately $300,000 plus annual real estate taxes on the leased property. Between 1989 and 1990, AIM advanced $208,233 to KPK Realty Corp. In partial repayment of such advances from AIM, rent in the amount of $22,992 in 2003, $127,737 in 2004 and $11,496 in 2005 was offset by KPK Realty Corp. from the amounts due under such lease. In addition, from 1990 to 2005, AIM was a guarantor of the mortgage (with a balance of approximately $677,000 as of September 30, 2005) on such leased property. This guaranty was terminated in connection with the Real Estate Acquisition.

Prior to the Merger, AIM leased manufacturing space at an annual rental of approximately $82,800, plus annual real estate taxes on such property, from DPPR Realty Corp. which, since January, 2003 has been 100% owned by Peter Rettaliata and Dario Peragallo. Prior to the Merger, Messrs. Rettaliata and D. Peragallo owned an aggregate of 36.84% of AIM's outstanding capital stock. Messrs. Rettaliata and D. Peragallo were officers of AIM prior to the Merger and are officers and directors of the Company. From February 2003 to November 30, 2005, AIM was also a guarantor of the mortgage (with a balance of approximately $567,000 as of September 30, 2005) on such leased property. This guaranty was terminated in connection with the Real Estate Acquisition.

In December, 2002, Peter Rettaliata and Dario Peragallo purchased from AIM for $257,058 an option to purchase DPPR Realty Corp. Subsequently, Mr. Rettaliata and D. Peragallo purchased DPPR Realty Corp. and each now owns 50% of DPPR Realty Corp.

In June, 1995, an individual who held 49% of the outstanding capital stock of AIM sold such interest to Jorge Peragallo and Peter Rettaliata for cash and a $625,000 principal amount promissory note from each of Mr. J. Peragallo and Mr. Rettaliata ($1,250,000 in the aggregate). AIM guaranteed the repayment of these promissory notes, which aggregated $1,250,000 in principal amount. These promissory notes were repaid in full in June 2005.

Peter Retttaliata, who was an officer of AIM prior to the Closing Date, advanced $5,000 to AIM during 2003 and $42,678 to AIM during 2004. Dario Peragallo, who was an officer of AIM prior to the Closing Date, advanced $5,000 to AIM during 2003 and $39,334 to AIM during 2004. Luis Peragallo, who was an officer of AIM prior to the Closing Date, advanced $5,000 to AIM during 2003 and $18,179 to AIM during 2004. Jorge Peragallo, who was an officer of AIM prior to the Closing Date, advanced $5,000 to AIM during 2003 and $38,344 to AIM during 2004. As of September 30, 2005, AIM had received an aggregate of $363,323 in loans from its officers and was obligated to repay such amount to its officers. Such amount was repaid in connection with the Acquisition. In October, 2005, AIM agreed to pay an aggregate of $225,000 to its officers to enable them to pay income taxes accrued while operating AIM as a Subchapter S corporation. Such amount was paid in connection with the Acquisition.

Transactions Relating to the Acquisition and Other Related Transactions:

On the Closing Date, Gales Industries consummated the acquisition (the "Acquisition") from Messrs. Luis Peragallo, Jorge Peragallo, Peter Rettaliata and Dario Peragallo (the "AIM Shareholders"), of all of the outstanding capital stock of AIM. Gales Industries had entered into a Stock Purchase Agreement with AIM and the AIM Shareholders ("Acquisition Agreement") as of July 25, 2005. The aggregate purchase price paid to the AIM Shareholders consisted of (i) $3,114,296 in cash, (ii) $1,627,262 principal amount of promissory notes, payable over five years, of which $962,000 were in the form of a secured subordinated promissory note payable to Mr. Luis Peragallo and $665,262 were in the form of unsecured convertible promissory notes ($332,631 payable to Mr. Peter Rettaliata and $332,631 payable to Mr. Dario Peragallo), convertible into shares of Common Stock at a price of $0.40 per share, and (iii) 490,060 shares of newly issued Common Stock. The 490,060 shares of Common Stock issued to the AIM Shareholders were allocated as follows: 253,214 shares to Luis Peragallo, 118,423 shares to Peter Rettaliata and 118,423 shares to Dario Peragallo. The unsecured convertible promissory notes issued to Messrs. Rettaliata and D. Peragallo will automatically be converted into Common Stock if the shares into which such notes may be converted are registered under the Securities Act and such registration has become effective. In addition to paying the cash portion of the purchase price for the Acquisition, Gales Industries distributed approximately $690,000 to the AIM Shareholders in satisfaction of certain loans from them and to enable them to pay income taxes accrued while operating AIM as a Subchapter S corporation.

The Acquisition Agreement provided that, upon completion of the Acquisition, Gales Industries would pay up to $300,000 of legal and accounting expenses incurred by the AIM Shareholders in connection with the Acquisition Agreement. AIM paid $300,000 for such expenses in connection with the closing of the Acquisition.

As of the Closing Date, the Company entered into employment agreements with Messrs. Gales, Giusto, Rettaliata and D. Peragallo and issued stock options to them. See "Executive Compensation - Employment Agreements", above.

As of the Closing Date, Acquisition Corp. completed the purchased from entities which are owned, in part, by affiliates of AIM (KPK Realty Corp. and DPPR Realty Corp.), for the aggregate purchase price $4,190,000, of the properties, described above, which were being leased by AIM prior to the Closing Date from such entities. The purchase price paid to KPK Realty Corp. was $2,690,000 and the purchase price paid to DPPR Realty Corp. was $1,500,000. Acquisition Corp. contemporaneously merged into AIM, with AIM being the surviving entity, so that AIM became the owner of such properties.

8. Description of Securities.

As of August 24, 2005, our shareholders approved an amendment to our Articles of Incorporation which increased the number of our authorized shares of Common Stock, $.001 par value per share, from 30,000,000 to 150,000,000 shares, and authorized 10,000,000 shares of "blank check" preferred stock, $.001 par value per share. In connection with the Reverse Split, our total authorized Common Stock was reduced to 120,055,746 shares and our total authorized preferred stock was reduced to 8,003,716 shares.

Common Stock

The Company has a total of 120,055,746 shares of Common Stock, $.001 par value authorized, of which approximately 14,469,797 shares were outstanding as of the Closing Date.

The holders of Common Stock are entitled to receive dividends when and as declared by the Board out of funds legally available therefore. Upon dissolution of the Company, the holders of Common Stock are entitled to share, pro rata, in the Company's net assets after payment of or provision for all debts and liabilities of the Company, and after provision for any class of Preferred Stock or other senior security which may be issued by the Company. Each share of Common Stock is entitled to participate on a pro rata basis with each other share of such stock in dividends and other distributions declared on shares of Common Stock.

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

Preferred Stock

The Company has authorized a total of 8,003,716 shares of "blank check" preferred stock, $.001 par value, of which 1,000 shares have been designated Series A Convertible Preferred Stock ("Preferred Stock").

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

The Company has the power to issue additional preferred stock, or different classes or series of preferred stock ranking senior to or on parity with the Preferred Stock as to dividend rights or rights upon liquidation, winding up, or dissolution, only with the approval or consent of at least a majority of the then-outstanding shares of Preferred Stock.

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

The Series A Convertible Preferred Stock

The holders of Preferred Stock are entitled to receive payment-in-kind dividends (payable in shares of Preferred Stock), prior to and in preference to any declaration or payment of any dividend on the Common Stock, at the rate of 8% per annum. Dividends are cumulative and accrue if not paid. No dividends will accrue on shares of Preferred Stock which are issued as a dividend. If a registration statement for the resale by investors in the Offering of the Common Stock underlying the Preferred Stock is not filed within 45 days of the earlier of the termination or the final closing of the Offering or declared effective within six months of such earlier date, the dividend on the Preferred Stock will

be paid in cash from the date of such default until the default is cured. Such dividends will be paid until the Preferred Stock is converted into shares of Common Stock. Fractional shares of Preferred Stock may be issued as a dividend on the Preferred Stock. Each share of Preferred Stock will have a stated value of $10,000 and such stated value will be the basis for calculating dividends on the Preferred Stock. For example, one share of Preferred Stock will accrue a dividend of .08 share of Preferred Stock per year or .02 share of Preferred Stock per quarter and, if dividends are due in cash, will accrue a dividend of $800 per year.

Subject to adjustment, each share of Preferred Stock is convertible at the option of the holder at any time into 45,455 shares of Common Stock, at the conversion price of $0.22 per share. The Preferred Stock will be automatically converted into Common Stock, at the then applicable conversion rate, at such time as the shares of Common Stock underlying the Preferred Stock have been registered for resale under the Securities Act and the registration statement with respect to such shares has been declared effective. Any fractional share of Common Stock issuable upon conversion of any holder's Preferred Stock will be rounded up to a whole share of Common Stock.

Without the approval of the holders of at least a majority of the outstanding Preferred Stock voting together as a single class on an as-if-converted to Common Stock basis, the Company will not take any action to (i) alter, change or amend preferences, privileges or rights of the Preferred Stock, (ii) redeem shares of Preferred Stock or Common Stock, (iii) pay or declare any dividends (other than dividends on the Preferred Stock) or make any other distributions on the Company's capital stock, or (iv) authorize, create and/or issue capital stock with rights or privileges that are or superior to the Preferred Stock.

The Preferred Stock has anti-dilution protection on a weighted-average basis in the event of future issuances of Common Stock (or securities convertible into Common Stock) at a price (or conversion price) below the price at which the Preferred Stock may be converted into Common Stock, which is $0.22 per share. No such anti-dilution adjustment will be made in the case of the issuance of (i) any shares or other securities in connection with any employee, management or director stock option or incentive plans; (ii) any shares or other securities in connection with any acquisition or merger transactions entered into by the Company or its subsidiaries; (iii) any shares or other securities to the Placement Agent; (iv) any shares of Common Stock issuable upon conversion of the Preferred Stock; and (v) any shares or other securities outstanding as of the Closing Date or to be outstanding upon conversion or exercise of such securities.

The holders of the Preferred Stock do not have any voting rights on matters with respect to which the holders of the Common Stock may vote until six months after the earlier of the termination or the final closing of the Offering, except that the holders of Preferred Stock may vote as a class with respect to the protective provisions relating to the Preferred Stock, set forth in the second preceding paragraph. After such six-month period, the holders of the Preferred Stock will have voting rights as though their shares of Preferred Stock were converted into Common Stock. In addition, the holders of Preferred Stock will vote on an as-if-converted basis if the Company defaults in its obligation to timely file a registration statement with respect to the Common Stock into which the Preferred Stock is convertible and such default is continuing.

The Company intends to promptly register for sale under the Securities Act all shares of Common Stock issuable upon conversion of the Preferred Stock and all shares of Preferred Stock which may be issued as dividends. In addition, the holders of Preferred Stock will have two "piggyback" registration rights with respect to the shares of Common Stock underlying the Preferred Stock, subject to standard underwriter cutbacks. The holder of the Preferred Stock may transfer to a transferee of Preferred Stock the registration rights with respect to the Preferred Stock. The registration rights of any holder of Preferred Stock will terminate at the earlier of (i) two years from the earlier of the termination or

the final closing of the Offering, or (ii) the date as of which all shares of Common Stock underlying such holder's Preferred Stock can be sold in any three-month period without volume restriction in compliance with Rule 144 under the Securities Act. If a registration statement is not filed within 45 days of the earlier of the termination or the final closing of the Offering or declared effective within six months of such earlier date, the dividend on the Preferred Stock is required to be paid in cash from the date of such default until the default is cured.

In the event of any liquidation or winding up of the Company, the holders of Preferred Stock will be entitled to receive, in preference to the holders of Common Stock, an amount equal to two times the stated value of the Preferred Stock, plus any dividends thereon ("Liquidation Payment"). Thereafter, the remaining assets of the Company will be distributed ratably to the holders of Common Stock. If the assets of the Company are insufficient to permit the full payment of the Liquidation Payment, then the assets will be distributed pro rata among the holders of the Preferred Stock.

9. Market Price of and Dividends on the Registrant's Common Equity and other Shareholder Matters.

The Common Stock of the Company is quoted on the OTC Bulletin Board under the trading symbol "ASHN" ("ASHD" prior to the Reverse Split). Prior to the effectiveness of our Plan of Reorganization, our symbol was "HNNS". The prices set forth below reflect the quarterly high and low bid information for shares of our Common Stock during the last two fiscal years. These quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions. There were no trades of our securities on the OTCBB prior to October 4, 2000.

2005 Quarter Ended	High	Low
September 30, 2005	$0.15	$0.07
June 30, 2005	0.10	0.06
March 31, 2005	0.18	0.05
2004 Quarter Ended	**High**	**Low**
December 31, 2004	$0.07	$0.01
September 30, 2004	0.25	0.06
June 30, 2004	0.75	0.18
March 31, 2004	0.68	0.13
2003 Quarter Ended	**High**	**Low**
December 31, 2003	$0.53	$0.11
September 30, 2003	0.60	0.07
June 30, 2003	0.10	0.04
March 31, 2003	0.05	0.04

As of November 29, 2005, there were approximately 78 holders of record of our Common Stock.

Our Common Stock is covered by an SEC rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors, which are generally institutions with assets in excess of $5,000,000, or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities, and also may affect the ability of purchasers of our stock to sell their shares in the secondary market. It may also cause fewer broker-dealers to be willing to make a market in our common stock, and it may affect the level of news coverage we receive.

Prior to June 29, 2000, we were not a reporting company and were not required to file quarterly, annual, and other reports with the SEC.

We have not declared or paid any cash dividends on our Common Stock since our inception, and our Board of Directors currently intends to retain all earnings for use in the business for the foreseeable future. Any future payment of dividends will depend upon our results of operations, financial condition, cash requirements, and other factors deemed relevant by our Board of Directors. Prior to the Merger, AIM was a Subchapter S corporation and made distributions to its shareholders to enable them to pay income taxes on their allocable portion of the Company's income.

Approximately 41,954,893 shares of Common Stock upon completion of the initial closing of the Offering, and approximately 48,487,123 shares of Common Stock in case the Maximum Offering is completed, are subject to issuance upon exercise or conversion of outstanding options or warrants to purchase, or securities convertible into, shares of Common Stock.

The following table provides information as of December 31, 2004 about our Common Stock that would have been issued upon the exercise of options under our 1998 Stock Option Plan for employees, officers, directors, and independent contractors. These obligations expired, unexercised, when the holders failed to exercise their options.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average future issuance under exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	485,395	$.54	515,007
Equity compensation plans not approved by security holders (2)			
Total (1)	485,395	$.54	515,007

(1) All of the foregoing options, other than options exercisable for a total of 44,020 shares of our Common Stock which are vested in favor of Messrs. Alflen and Pomerantz, terminated on January 28, 2005, the effective date of our Plan of Reorganization. Therefore, as of January 28, 2005, approximately 956,000 shares of Common Stock were remaining available for future issuance under our 1998 Stock Option Plan.

(2) Our 1998 Stock Option Plan has been approved by our shareholders. In connection with the Merger, we adopted our 2005 Stock Incentive Plan, which has not yet been approved by our shareholders, and issued stock options to our new executive officers. See "Executive Compensation- Employment Agreements".

Registration Rights

Within six months after the Closing Date, the Company is planning to register for resale under the Securities Act approximately 46,339,955 shares of Common Stock (in case the Maximum Offering is completed) which will either be outstanding or be issuable upon conversion or exercise of preferred stock, convertible notes or warrants. The Company also intends to register on Form S-8 under the Securities Act an additional 10,000,000 shares of Common Stock, which are the shares available for issuance under the 2005 Stock Incentive Plan, combined with the 4,850,000 shares underlying the stock options granted by Gales Industries which have become options to purchase an equal number of shares of our Common Stock. Among the outstanding shares of Common Stock which do not carry registration rights, the shares of Common Stock held by the shareholders of Ashlin prior to the Merger will be eligible for resale pursuant to Rule 144 under the Securities Act.

10. Legal Proceedings.

A legal action seeking $5,000,000 has been brought against AIM by an independent contractor for personal injury allegedly caused by a fall in AIM's premises. AIM has insurance coverage in the amount of $4,000,000. At a settlement mediation, the plaintiff made a demand of $2,000,000. The Company believes that any liability accruing to AIM in this case will not exceed the insurance coverage maintained by AIM for personal injury.

Ashlin was involved in litigation with J.C. Herbert Bryant, III, a former officer, director and shareholders of Ashlin, and KMS-Thin Tab 100, Inc., which was settled in September 2002. As part of the settlement, we entered into a distribution agreement with Mr. Bryant, beginning on September 26, 2002 and ending on September 25, 2007, permitting Mr. Bryant to purchase certain products from us and to exclusively distribute those products in Florida from Orlando south. In October 2003, we terminated the distribution agreement with KMS based on KMS's breach of material terms of the agreement. On December 1, 2003, we filed suit against KMS-Thin Tab 100, Inc. in the Palm Beach County Circuit Court (Case No. 2003CA012757XXCDAN) for breach of contract, trademark infringement and

for a declaration of rights that the distribution agreement is terminated and of no further force and effect. KMS answered the complaint and filed its own counterclaim for fraud in the inducement, trademark infringement, dilution and fraudulent misrepresentation; the fraud-based counterclaims were dismissed with prejudice by the Court on summary judgment. KMS subsequently amended its counterclaim to allege a breach of contract under the distribution agreement. In January 2005, the State Court in Florida ruled that neither party should prevail, and rejected a request for attorney's fees by KMS-Thin Tab 100 Inc., thus adjudicating the matter. KMS-Thin Tab 100 Inc. subsequently filed a notice of appeal.

Subsequently, on July 29, 2005, the 4th District Court of Appeals granted the Company's motion to dismiss the appeal by KMS-Thin Tab 100 Inc. The Company is not aware of any other outstanding litigation.

11. Changes in and Disagreements With Accountants.

Not Applicable.

12. Recent Sales of Unregistered Securities.

Shares Issued By Gales Industries and In Connection With the Acquisition:

As of October 28, 2004, immediately after its incorporation, Gales Industries issued 4,401,219 shares of its common stock to its founder and Executive Chairman and 3,404,538 shares of its common stock to its founder and Vice Chairman for nominal consideration. As of the same date, Gales Industries issued 100,000 shares of its common stock to each of the Company's non-employee directors in consideration for service on the Board through 2006. As of the same date, Gales Industries issued 150,000 shares of its common stock to a law firm and 100,000 shares of its common stock to another law firm in consideration for legal services. As of the same date, in consideration for services, Gales Industried issued in the name of a consultant 250,000 shares of its common stock, of which 75,000 shares were deemed to be delivered to the consultant as of the Closing Date. 175,000 of such 250,000 shares of common stock were issued in consideration of past consulting services to Gales Industries and the 75,000 additional shares of common stock were issued in partial consideration of M&A and related services to be provided to the Company during the one-year period following the completion of the Offering.

Gales Industries entered into an Investment Banking/Advisory Agreement ("Atlas Agreement"), dated as of January 11, 2005, with Atlas Capital Services, LLC ("Atlas"). The Atlas Agreement provided that Atlas would receive newly issued shares equal to 4% of a publicly-held company introduced by Atlas to Gales Industries, provided that Gales Industries enters into a reverse merger transaction with such company. Immediately prior to the closing of the Merger, Gales Industries issued to various designees of Atlas an aggregate of 1,477,230 shares of its common stock in satisfaction of such obligation to Atlas.

In connection with the Acquisition of AIM, Gales Industries issued $332,631 principal amount convertible note to each of Mr. Rettaliata and D. Peragallo. Each such convertible note is convertible into shares of Common Stock at the conversion price of $0.40 per share. Also, in connection with the Acquisition of AIM, Gales Industries issued shares of its common stock which, pursuant to the Merger, have become 253,214 shares of Common Stock in the name of Luis Peragallo, 118,423 shares of Common Stock in the name of Peter Rettaliata and 118,423 shares of Common Stock to Dario Peragallo. See "Certain Relationships and Related Transactions - Transactions Relating to the Acquisition and Other Related Transactions."

In February 2005, Gales Industries, in consideration for an investment of $22,500, issued to the investor a convertible promissory note in the principal amount of $22,500 convertible at the price of $0.11 per share into shares of Common Stock. The holder of this note has given us notice to convert such note into shares of Common Stock. For no additional consideration, Gales Industries issued a warrant to the investor to purchase 409,091 shares of Common Stock at the per share exercise price equal to 50% of the per share conversion price of the convertible note issued to such investor.

In August 2005, Gales Industries, in consideration for $45,000 in aggregate investment, issued to the investors convertible promissory notes in the aggregate principal amount of $45,000, convertible at the price of $0.22 per share of Common Stock. These notes have been repaid. For no additional consideration, Gales Industries issued to such investors warrants to purchase the number of shares of Common Stock equal to the number of shares into which the $45,000 Bridge Note can be converted (204,545), exercisable at $0.22 per share. See "Certain Relationships and Related Transactions - Transactions Relating to Gales Industries."

In September 2005, Gales Industries received $105,000 in financing from investors (the "$105,000 Financing") and, in connection therewith, issued to such investors warrants to purchase an aggregate of 477,273 of shares of Common Stock at a price of $0.22 per share. The Placement Agent served as agent in the $105,000 Financing and received compensation upon the same terms as provided in the Offering.

As of the Closing Date, Gales Industries issued to its officers stock options to purchase shares of common stock as follows: 1,250,000 options to Mr. Gales, and 1,200,000 options each to Mr. Giusto, Rettaliata and D. Peragallo. See "Executive Compensation - Employment Agreements."

Shares Issued by the Company in Connection with the Merger and the Offering:

As of the Closing Date, pursuant to the Merger, the shareholders of Gales Industries were issued an aggregate of 10,645,817 shares of our Common Stock by the Company. In addition, 100,000 shares of Common Stock were issued by the Company as of the Closing Date to Mr. James A. Brown in consideration for his agreement to serve on the Board. As part of the Merger, the other non-employee directors of the Company also received 100,000 shares of Common Stock in exchange for their 100,000 shares of Gales Industries common stock.

As of the Closing Date, in connection with the Offering and the Merger, 679.328 shares of Gales Industries Series A Convertible Preferred Stock were exchanged for the same number of shares of Preferred Stock of the Company. Each share of Preferred Stock is convertible into 45,455 shares of Common Stock.

Such 679.328 shares of Preferred Stock (not including shares of Preferred Stock issuable as dividends) are convertible into an aggregate of 30,878,855 shares of our Common Stock. In connection with the Offering, the Placement Agent was issued the Placement Agent Warrants. See "Summary" above.

The $22,500 convertible bridge note issued by Gales Industries in February 2005 has been converted by its holder and, in connection therewith, the Company will issue to the holder 204,545 shares of Common Stock plus the number of shares equal to 12% interest accrued on such note for approximately 10 months, divided by the $0.11 conversion price of such note.

Shares Issued by Ashlin:

On July 30, 2003, Ashlin issued to two Board members an aggregate of approximately 160,075 shares of Common Stock in return for services performed. The fair value of such shares of Common Stock was recorded as $24,000 in the aggregate.

As of September 16, 2005, Ashlin issued approximately 80,038 shares of Common Stock to a consultant in return for consulting services.

As of January 2005, as part of the Plan of Reorganization, Ashlin issued approximately 240,112 shares of Common Stock to James Brown (Ashlin's chairman and chief executive officer) upon Ashlin's emergence from bankruptcy protection. The fair value of such shares was recorded as $12,000 in the aggregate. In March 2005, the Company issued approximately 256,119 shares of Common Stock to Mr. Brown. The fair value of such 256,119 shares was determined to be $32,000 in the aggregate. On August 13, 2003, Ashlin issued approximately 80,038 shares of Common Stock to Mr. Brown in consideration of his services as a director of Ashlin.

In March 2005, Ashlin issued approximately 80,038 shares of Common Stock to Global Business Resources, Inc., a Fort Lauderdale based consulting firm, as partial compensation for services to Ashlin.

During each of the years ended December 31, 2004 and 2003, options to purchase approximately 40,019 shares of Common Stock were granted to the chief executive officer of Ashlin.

Other than such sales of shares and the securities issued in connection with the Merger and the Offering described above, during the past three years, Gales Industries and Ashlin did not sell any securities which were not registered under the Securities Act. We believe that the issuances in connection with such sales, the Merger and the Offering were exempt from registration under Section 4(2) of the Securities Act.

13. Indemnification of Directors and Officers.

Our certificate of incorporation and by-laws provide that we will indemnify to the fullest extent permitted by law any person made or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person or such person's testator or intestate is or was a director, officer or employee of our company or serves or served at our request as a director, officer or employee of another corporation or entity.

We may enter into agreements to indemnify our directors and officers, in addition to the indemnification provided for in our articles of incorporation and by-laws. These agreements, among other things, would indemnify our directors and officers for certain expenses (including advancing expenses for attorneys' fees), judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by us or in our right, arising out of such person's services as a director or officer of our Company, any

subsidiary of ours or any other company or enterprise to which the person provides services at our request. In addition, we have received a commitment for insurance providing indemnification for our directors and officers for certain liabilities and believe that the effective date of such insurance will be retroactive to the closing of the Merger. We believe that these indemnification provisions and agreements and related insurance are necessary to attract and retain qualified directors and officers.

Insofar as indemnification for liabilities arising under the Securities may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Item 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(a) and (b) The financial statements of AIM, for the periods and the dates indicated, are filed with this report. AIM's statement of operations for the fiscal years ended December 31, 2004 and 2003 and its balance sheet data as of December 31, 2004 and December 31, 2003 are set forth below . Also filed with this report are (i) AIM's balance sheet as of September 30, 2005 and statements of operations and cash flows for the nine month periods ended September 30, 2005 and 2004, and (ii) pro forma consolidated balance sheet of the Company, as of September 30, 2005 and the pro forma consolidated statements of operations for the nine months ended September 30, 2005 and the year end December 31, 2004, as if the business combination had occurred on January 1, 2004.

(c) Exhibits

The Company hereby agrees to provide to the Commission upon request any omitted schedules or exhibits to the documents listed in this Item 9.01.

Exhibit Nos.	
2.1	Debtor's Amended Plan of Reorganization (incorporated by reference to Exhibit 2.1 of Registrant's Form 8-K, filed January 14, 2005, Commission File Number 000-29245).
2.2	Merger Agreement, dated as of November 14, 2005, among Gales Industries Incorporated, two of its stockholders, Gales Industries Merger Sub, Inc., and Ashlin Development Corporation (incorporated herein by reference to Exhibit 10.1 of Registrant's Form 8-K report filed November 21, 2005).
3.1	Amended and Restated Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K report, filed November 28, 2005).
3.2	By-Laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's registration statement on Form 10-SB, filed on January 31, 2000; Commission File Number 000-29245).
3.3	Amendment to the Restated By-Laws of the Registrant dated September 25, 2000 (incorporated by reference to Exhibit 3.3 of the Registrant's annual report on Form 10-KSB, filed on April 16, 2000; Commission File Number 000-29245).
3.4	Amendment to the Restated By-Laws of the Registrant dated November 10, 2000 (incorporated by reference to Exhibit 3.4 of the Registrant's annual report on Form 10-KSB, filed on April 16, 2000; Commission File Number 000-29245).

Exhibit Nos.	
4.1	Convertible Promissory Note, dated November 30, 2005, in the amount of $332,631, from Gales Industries Incorporated (and assumed by the Registrant) to Peter Rettaliata.
4.2	Convertible Promissory Note, dated November 30, 2005, in the amount of $332,631, from Gales Industries Incorporated (and assumed by the Registrant) to Dario Peragallo.
4.3	Form of Warrant to be issued by the Registrant to GunnAllen Financial, Inc. after completion of the Offering.
4.4	[Intentionally left blank.]
4.5	Form of Warrant issued by Gales Industries Incorporated (and assumed by the Registrant) to investors in the $45,000 Bridge Financing in or about August 2005.
4.6	Form of Warrant issued by Gales Industries Incorporated (and assumed by the Registrant) to investors in the $105,000 Bridge Financing in or about September, 2005.
10.1	Asset Purchase Agreement between the Registrant and TeeZee, Inc. dated October 15, 2004 (incorporated by reference to Exhibit 2 to Exhibit 2.1 of the Registrant's Report of Form 8-K, filed on January 14, 2005; Commission File Number 000-29245).
10.2	Stock Purchase Agreement, dated as of July 25, 2005, by and among Gales Industries Incorporated, Air Industries Machining, Corp., Luis Peragallo, Jorge Peragallo, Peter Rettaliata and Dario Peragallo.
10.3	Secured Subordinated Promissory Note, dated November 30, 2005, in the amount of $962,000, from Gales Industries Incorporated (and assumed by the Registrant) to Luis Peragallo.
10.4	Security Agreement, dated as of November 30, 2005, by and between Gales Industries Incorporated (and assumed by the Registrant) and Luis Peragallo.
10.5	Contract of Sale, dated as of November 7, 2005, by and between DPPR Realty Corp. and Gales Industries Incorporated for the purchase of the property known as 1480 North Clinton Avenue, Bay Shore, NY.
10.6	Contract of Sale, dated as of November 7, 2005, by and between KPK Realty Corp. and Gales Industries Incorporated for the purchase of the property known as 1460 North Fifth Avenue and 1479 North Clinton Avenue, Bay Shore, NY.
10.7	Employment Agreement, dated as of September 26, 2005, by and between Gales Industries Incorporated (and assumed by the Registrant) and Michael A. Gales.
10.8	Employment Agreement, dated as of September 26, 2005, by and between Louis A. Giusto and Gales Industries Incorporated (and assumed by the Registrant).
10.9	Employment Agreement, dated as of September 26, 2005, by and among Gales Industries Incorporated (and assumed by the Registrant), Air Industries Machining, Corp. and Peter D. Rettaliata.
10.10	Employment Agreement, dated as of September 26, 2005, by and among Gales Industries Incorporated (and assumed by the Registrant), Air Industries Machining, Corp. and Dario Peragallo.
10.11	[Intentionally left blank.]
10.12	[Intentionally left blank.]
10.13	Registrant's 1998 Stock Option Plan (incorporated by reference to Exhibit 10.18 of the Registrant's annual report on Form 10-KSB, filed April 12, 2002; Commission File Number 000-29245)

Exhibit Nos.	
10.14	2005 Stock Incentive Plan of Gales Industries Incorporated.
10.15	Stock Option Agreement, dated as of September 26, 2005, by Gales Industries Incorporated (and assumed by the Registrant) with Michael A. Gales.
10.16	Stock Option Agreement, dated as of September 26, 2005, by Gales Industries Incorporated (and assumed by the Registrant) with Louis A. Giusto.
10.17	Stock Option Agreement, dated as of September 26, 2005, by Gales Industries Incorporated (and assumed by the Registrant) with Peter Rettaliata.
10.18	Stock Option Agreement, dated as of September 26, 2005, by Gales Industries Incorporated (and assumed by the Registrant) with Dario Peragallo.
10.19	Revolving Credit, Term Loan, Equipment Line and Security Agreement, dated as of November 30, 2005, by and between Air Industries Machining, Corp., PNC Bank, National Association, as Lender, and PNC Bank, National Association, as Agent.
10.20	Mortgage and Security Agreement, dated as of November 30, 2005, by and between Air Industries Machining, Corp. and PNC Bank.
10.21	Long Term Agreement, dated as of August 18, 2000, between Air Industries Machining, Corp. and Sikorsky Aircraft Corporation.
10.22	Long Term Agreement, dated as of September 7, 2000, between Air Industries Machining, Corp. and Sikorsky Aircraft Corporation.
21.1	List of Subsidiaries.

SIGNATURES

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

Dated: December 5, 2005

ASHLIN DEVELOPMENT CORPORATION

By: /s/ Michael A. Gales

Michael A. Gales, Executive Chairman

AIR INDUSTRIES MACHINING CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2004

AIR INDUSTRIES MACHINING CORPORATION

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December 31, 2004

Independent Auditors' Report

To the Board of Directors and Stockholders of
Air Industries Machining Corporation

We have audited the accompanying Comparative Balance Sheets of Air Industries Machining Corporation as of December 31, 2004 and December 31, 2003, and the related Statements of Income and Retained Earnings and Cash Flows for each of the years then ended. These financial statements are the responsibility of the Air Industries Machining Corporation management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Air Industries Machining Corporation as of December 31, 2004 and December 31, 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the accompanying comparative schedules of manufacturing overhead, selling, general and administrative expenses, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

BILDNER & GIANNASCO, LLP
Certified Public Accountants

Jericho, New York
February 21, 2005

AIR INDUSTRIES MACHINING CORPORATION

Comparative Balance Sheets

ASSETS	DECEMBER 31, 2004	DECEMBER 31, 2003
CURRENT ASSETS		
Cash and Cash Equivalents - See Contra	$ 10,308	$ --
Accounts Receivable	2,643,536	1,200,806
Inventory	11,108,456	9,873,378
Advanced Rental	--	26,917
Prepaid Expenses	132,268	183,475
Other Current Assets	4,979	29,913
Miscellaneous Receivable	31,278	31,278
Deposits	37,160	--
Advances to Affiliates	11,496	22,992
TOTAL CURRENT ASSETS	$13,979,481	$11,368,759
PROPERTY, PLANT AND EQUIPMENT		
Machinery and Equipment	$ 7,987,665	$ 7,639,875
Tools and Instruments	29,803	29,803
Leasehold Improvements	489,328	418,431
Automotive Equipment	290,083	284,205
Furniture and Fixtures	700,801	647,666
	$ 9,497,680	$ 9,019,980
Less: Accumulated Depreciation	8,002,260	7,578,836
PROPERTY, PLANT AND EQUIPMENT - NET	$ 1,495,420	$ 1,441,144
DEFERRED CHARGES AND OTHER ASSETS		
Security Deposits	$ 25,122	$ 25,122
Cash Value Officer's Life	263,636	211,927
Unamortized Finance Costs	63,843	97,336
Organization Expenses	500	500
Advances to Affiliates	--	116,241
TOTAL DEFERRED CHARGES AND OTHER ASSETS	$ 353,101	$ 451,126
TOTAL ASSETS	$15,828,002	$13,261,029

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY	DECEMBER 31, 2004	DECEMBER 31, 2003
CURRENT LIABILITIES		
Cash Overdraft	$ --	$ 227,094
Accounts Payable	3,851,264	2,814,860
Advance Payment - Customer	1,354,266	771,616
Notes Payable - Equipment	309,054	206,464
Leases Payable - Equipment	75,889	118,916
Notes Payable - Insurance	109,581	93,842
Accrued Operating Expenses	390,270	207,168
TOTAL CURRENT LIABILITIES	$ 6,090,324	$ 4,439,960
LONG-TERM LIABILITIES		
Notes Payable - Officer	$ 271,381	$ 132,846
Notes Payable - Banks	5,280,000	4,900,000
Notes Payable - Equipment	318,817	348,052
Leases Payable - Equipment	15,536	69,116
TOTAL LONG-TERM LIABILITIES	$ 5,885,734	$ 5,450,014
TOTAL LIABILITIES	$ 11,976,058	$ 9,889,974
STOCKHOLDERS' EQUITY		
Capital Stock - 200 Shares Authorized No Par Value, 95 Shares Issued	$ 32,223	$ 32,223
Additional Paid-In Capital	172,628	172,628
Retained Earnings (Deficit)	3,743,093	3,262,204
Treasury Stock	(96,000)	(96,000)
TOTAL STOCKHOLDERS' EQUITY	$ 3,851,944	$ 3,371,055
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,828,002	$ 13,261,029

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Statements of Income and Retained Earnings

	FOR THE YEAR ENDED DECEMBER 31, 2004	DECEMBER 31, 2003
NET INCOME FROM SALES	$ 24,818,333	$ 22,334,926
COST OF GOODS SOLD		
Inventory, Beginning	$ 9,873,378	$ 8,732,250
Purchases	3,882,760	3,158,067
Sub-Contracting	3,767,089	3,255,278
Finishing	2,531,021	2,351,400
Hardware	1,908,026	1,824,376
Direct Labor	2,280,036	2,150,533
Overhead	8,501,899	8,141,660
	$ 32,744,209	$ 29,613,564
Less: Inventory, Ending	11,108,456	9,873,378
COST OF GOODS SOLD	$ 21,635,753	$ 19,740,186
GROSS PROFIT	$ 3,182,580	$ 2,594,740
OTHER INCOME	2,573	100
TOTAL INCOME	$ 3,185,153	$ 2,594,840
EXPENSES		
Selling	$ 321,727	$ 309,479
General and Administrative	1,390,475	1,281,875
Interest and Amortization	517,511	354,466
Franchise Tax	669	100
TOTAL EXPENSES	$ 2,230,382	$ 1,945,920
NET INCOME FOR YEAR	$ 954,771	$ 648,920
RETAINED EARNINGS, BEGINNING OF YEAR	3,262,204	2,889,919
Deduct: Distribution to Shareholders	(473,882)	(276,635)
RETAINED EARNINGS, END OF YEAR	$ 3,743,093	$ 3,262,204

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Statements of Cash Flows

	FOR THE YEAR ENDED DECEMBER 31, 2004	DECEMBER 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for Year	$ 954,771	$ 648,920
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	474,917	520,239
Changes in Assets and Liabilities:		
(Increase) Decrease In -		
Accounts Receivable	(1,442,730)	59,922
Inventory	(1,235,078)	(1,141,128)
Advanced Rental	26,917	(26,917)
Prepaid Expenses	51,207	87,021
Other Current Assets	24,934	29,304
Lease Assignment Receivable	--	257,058
Miscellaneous Receivable	--	(5,487)
Deposits	(37,160)	--
Cash Value Officer's Life	(51,709)	(75,807)
Increase (Decrease) In -		
Accounts Payable	1,036,404	508,263
Advanced Payment - Customer	582,650	79,722
Accrued Operating Costs	183,102	(39,428)
NET CASH PROVIDED BY OPERATING ACTIVITIES (Forward)	$ 568,225	$ 901,682
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	$ (477,700)	$ (139,652)
NET CASH FLOWS FROM INVESTING ACTIVITIES (Forward)	$ (477,700)	$ (139,652)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Bank Debt	$ 380,000	$ (500,000)
(Increase) in Deposits	--	(5,400)
Increase (Decrease) in Notes Payable Equipment	73,355	(177,335)
(Decrease) in Lease Payable Equipment	(96,607)	(161,195)
Increase (Decrease) in Notes Payable - Insurance	15,739	(96,351)
Decrease in Advances to Affiliates	127,737	22,992
Increase in Notes Payable - Officer	138,535	7,439
Additional Finance Cost Incurred	(18,000)	(109,581)
Distribution to Shareholders	(473,882)	(276,635)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES (Forward)	$ 146,877	$(1,296,066)

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Statements of Cash Flows
Continued

	FOR THE YEAR ENDED DECEMBER 31, 2004	DECEMBER 31, 2003
NET CASH PROVIDED BY OPERATING ACTIVITIES (Forward)	$ 568,225	$ 901,682
CASH FLOWS FROM INVESTING ACTIVITIES (Forward)	$ (477,700)	$ (139,652)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES (Forward)	$ 146,877	$(1,296,066)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 237,402	$ (534,036)
CASH AND CASH EQUIVALENTS, (OVERDRAFT) BEGINNING OF YEAR	(227,094)	306,942
CASH AND CASH EQUIVALENTS (OVERDRAFT), END OF YEAR	$ 10,308	$ (227,094)
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	$ 468,081	$ 331,128
Income Taxes Paid	$ 669	$ 100

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Notes to Financial Statements
December 31, 2004

1- SIGNIFICANT ACCOUNTING POLICIES

Background of Company

The Company was incorporated in the State of New York and maintains its principal place of business in Bay Shore, New York. The Corporation is primarily engaged in machining parts for the aerospace industry. Its customer base is primarily publicly traded companies.

Cash Equivalents

Cash equivalents include all highly liquid debt instruments with an original maturity of three months or less. Cash equivalents consist primarily of money market accounts.

Accounts Receivable

Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. Additionally, the major customers of the Company are publicly traded companies of substantial size and sizeable net worth.

Inventories

Inventories used in determining Cost of Goods Sold are stated at the lower of cost or market.

Plant, Property and Equipment

Fixed assets are carried at cost. Major additions and betterments are charged to the property accounts while maintenance and repairs are charged against income in the year incurred. Assets retired, or otherwise disposed of, are eliminated from the property accounts and the related amounts of depreciation are eliminated from the accumulated depreciation accounts. Gains or losses from dispositions are included in income.

Depreciation

Depreciation is provided for in amounts sufficient to allocate the cost of depreciable assets to operations over their estimated useful lives using the straight-line and declining balance methods.

1- SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Finance Costs

Costs connected with obtaining and executing debt arrangements are capitalized and amortized on the straight-line basis over the term of the related debt.

Tax Status

The Company, with the consent of its stockholders, elected under the Internal Revenue Code and New York State law to be taxed as an "S" corporation. In lieu of corporate income taxes, the stockholders are taxed on their proportionate share of the company's net income. Accordingly, no provision or liability for federal income taxes has been made in the accompanying financial statements.

2- INVENTORIES

At December 31, 2004, inventories consisted of the following:

Raw Materials	$ 760,613
Work in Progress	6,993,962
Finished Goods	2,164,629
Assembly	190,363
Hardware	998,889
	$11,108,456

3- RELATED PARTY TRANSACTIONS

The following transactions occurred between the Company and certain related parties.

The Company presently leases manufacturing and office space from KPK Realty Corp. (see Note 8), in which 49% ownership rests with a major stockholder of the Company. The total monies advanced KPK Realty Corp. amounted to $208,233. The Company is being repaid in the form of a rent offset in the amount of $22,992 per year. See Note 8 for details concerning the ownership of KPK Realty Corp. and the guaranty by the Corporation of a debt between the present minority shareholders and the former majority shareholder of the Corporation.

Additionally, the Company leases manufacturing space from DPPR Realty Corp. (see Note 8), which is 100% owned by two of the shareholders of the Corporation who in the aggregate own 36.84% of the Company.

4- NOTES PAYABLE - BANKS

The Company has negotiated a credit facility dated August of 2003 with a major lending institution. The facility is secured by a first priority interest in all accounts receivable, inventory and equipment presently owned or hereafter acquired by the Company. The indebtedness bears interest at the rate of 1/2 percent above the prime rate of interest or a libor margin of 3%.

The terms of the facility require, among other things, the Company to maintain certain financial ratios and levels of working capital, which are set forth below: These financial ratios and levels of working capital have been amended as of 5/14/04.

Minimum Tangible Net Worth

Closing Date -	
12/31/03 - 12/30/04	$3,250,000
12/31/04 - 12/30/05	3,400,000
12/31/05 - Termination Date	3,800,000

Maximum Leverage

Closing Date -	
12/31/03 - 12/30/04	3.00:1
12/31/04 - 12/30/05	2.80:1
12/31/05 - Termination Date	2.50:1

Working Capital

Closing Date - Termination Date	$ 900,000

For the purpose of calculating the ratios, Prepaid Expenses are considered to be a non-current asset and advances to KPK Realty Corp. are considered to be an intangible asset. Notes Payable to Bank are deemed to be current liabilities.

Tangible Net Worth, as defined in the loan agreement, amounted to $4,047,486. The covenant for minimum Tangible Net Worth calls for $3,400,000.

Working Capital, as defined in the loan agreement, amounted to $2,574,974. The covenant for Working Capital calls for a minimum of $900,000.

4- NOTES PAYABLE - BANKS (Continued)

The maximum leverage ratio, as defined in the loan agreement is 2.80. As of the Balance Sheet date, the maximum leverage ratio amounted 2.89.

The loans are guaranteed jointly and severally by the principals of the Company, as well as the affiliated companies KPK Realty Corporation and DPPR Realty Corp.

Except as amended, all other terms and conditions of the agreement remained unchanged and continue in full force and effect.

As of the Balance Sheet date the Company is in violation of certain financial covenants that had been negotiated with the lending institution, specifically, the minimum leverage ratio requirement. The Company has requested a waiver of this covenant from the lending institution and in fact has been granted such a waiver.

5- NOTES PAYABLE-OFFICER

Notes Payable-Officer in the amount of $271,381 has been subordinated in favor of the lending institution.

6- NOTES PAYABLE-EQUIPMENT

The Company has financed the purchase of various equipment which is secured by the related equipment. As of the Balance Sheet date, the balance was $627,871, of which $309,053 is reflected as current.

Payments covering the remaining years are as follows:

2005	$ 309,053
2006	195,098
2007	99,734
2008	23,985

7- LEASE PAYABLE-EQUIPMENT

The Company has entered into various capital lease agreements consisting of various types of manufacturing equipment, including computer equipment. Payments covering the remaining years are as follows:

2005	$ 75,889
2006	15,536

8- COMMITMENTS AND CONTINGENCIES

The Company presently leases manufacturing and office facilities under a lease expiring June 30, 2005, at an annual rental of $300,000, plus annual real estate tax payable by the lessee.

This lease is between the Company and KPK Realty Corp., a corporation in which 49% is owned by the majority stockholder of the Company. Additionally, the Company is a guarantor of the mortgage on the leased premises. The present balance of that mortgage is approximately $736,000.

The Company also leases manufacturing facilities pursuant to a lease expiring in 2014 at an annual rental of $82,800, plus annual real estate tax payable by the lessee. This lease is between the Company and DPPR Realty Corporation, a corporation owned by the stockholders of the Corporation. Additionally, the Company is a guarantor of the mortgage on the leased premises. The present balance of that mortgage is approximately $587,786.

Additionally, the Company is a guarantor on an obligation to a former shareholder that had a 49% equity position in the Corporation. The former shareholder sold his stock and the amount still owing on the original obligation of $1,250,000 to the former shareholder by the current shareholders is presently $81,828.

A legal action has been brought against the Company for personal injury sustained by an independent contractor caused by a fall on the premises of the Company in the amount of $5,000,000. This action is scheduled for trial in June of 2005. The Company has insurance coverage in the amount of $4,000,000. At a settlement mediation, plaintiff made a demand of $2,000,000. In the opinion of counsel representing the Company the full value of the case would be well within the insurance coverage maintained by the Company.

SUPPLEMENTARY INFORMATON

AIR INDUSTRIES MACHINING CORPORATION

Comparative Schedules of Expenses

	FOR THE YEAR ENDED DECEMBER 31, 2004	DECEMBER 31, 2003
MANUFACTURING OVERHEAD		
Material, Tools and Supplies	$ 759,319	$ 760,416
Equipment Rental	33,729	133,448
Premium Pay	306,196	286,889
Sick Pay/Vacation Pay	131,153	132,988
Holiday Pay	50,744	57,307
Rent	456,917	440,861
Light and Power	278,254	261,586
Factory Maintenance	313,005	290,725
Depreciation and Amortization	349,114	427,261
Employee Benefits	169,708	173,330
Payroll Taxes	552,969	508,429
Insurance	239,018	265,299
Group Insurance	1,144,381	1,004,279
Indirect Payroll	3,717,392	3,398,842
TOTAL MANUFACTURING OVERHEAD	$8,501,899	$8,141,660
SELLING EXPENSES		
Field Engineer	$ 13,643	$ 16,494
Shipping Supplies	107,507	106,930
Meetings and Conferences	20,628	19,407
Automotive Expenses	52,983	49,255
Freight Out	108,187	103,440
Depreciation - Automotive Equipment	18,779	13,953
TOTAL SELLING EXPENSES	$ 321,727	$ 309,479

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Schedules of Expenses

	FOR THE YEAR ENDED DECEMBER 31, 2004	DECEMBER 31, 2003
GENERAL AND ADMINISTRATIVE EXPENSES		
Officers' Salaries	$ 499,675	$ 467,358
Office Salaries	256,846	228,634
Rent	74,382	71,768
Telephone	52,487	73,743
Light and Power	45,297	53,486
Payroll Taxes	40,917	37,011
Employee Benefits	7,800	8,996
Professional Fees	173,369	149,785
Office Expenses	34,412	34,429
Depreciation - Furniture and Fixtures	55,531	66,843
Sundry	9,524	9,259
Premiums - Officers' Life Insurance	26,621	13,650
Donations	3,200	360
Payroll Processing & Computer Costs	110,414	66,553
TOTAL GENERAL & ADMINISTRATIVE EXPENSES	$1,390,475	$1,281,875

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

AIR INDUSTRIES MACHINING CORPORATION

Table of Contents

September 30, 2005

Independent Accountants' Report

To the Board of Directors and Stockholders of
Air Industries Machining Corporation

We have reviewed the unaudited comparative Balance Sheets of Air Industries Machining Corporation at September 30, 2005 and September 30, 2004, the related unaudited Statements of Income and Retained Earnings and Cash Flows for the nine months ended September 30, 2005 and September 30, 2004. This financial information is the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles in the United States. The supplementary information included in the accompanying comparative schedules of manufacturing overhead, selling, general and administrative expenses, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Respectfully submitted,

BILDNER & GIANNASCO, LLP
Certified Public Accountants

Jericho, New York
November 21, 2005

AIR INDUSTRIES MACHINING CORPORATION

Comparative Balance Sheets

ASSETS	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
CURRENT ASSETS		
Cash and Cash Equivalents	$ 238,727	$ 196,651
Accounts Receivable	2,269,778	1,839,605
Inventory	12,034,369	9,940,195
Prepaid Expenses	76,709	75,204
Other Current Assets	4,864	48,120
Advances to Affiliates	--	22,993
TOTAL CURRENT ASSETS	$14,624,447	$12,122,768
PROPERTY, PLANT AND EQUIPMENT		
Machinery and Equipment	$ 8,541,083	$ 7,984,165
Tools and Instruments	29,803	29,803
Leasehold Improvements	505,171	489,328
Automotive Equipment	290,083	289,558
Furniture and Fixtures	872,112	699,662
	$10,238,252	$ 9,492,516
Less: Accumulated Depreciation	8,319,631	7,959,880
PROPERTY, PLANT AND EQUIPMENT - NET	$ 1,918,621	$ 1,532,636
DEFERRED CHARGES AND OTHER ASSETS		
Security Deposits	$ 41,122	$ 25,122
Cash Value Officer's Life	52,334	211,927
Unamortized Finance Costs	33,483	68,465
Organization Expenses	500	500
Advances to Affiliates	--	98,995
TOTAL DEFERRED CHARGES AND OTHER ASSETS	$ 127,439	$ 405,009
TOTAL ASSETS	$16,670,507	$14,060,413

The accompanying review report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
CURRENT LIABILITIES		
Accounts Payable	$ 4,137,723	$ 3,142,994
Advance Payment - Customer	667,772	554,420
Notes Payable - Equipment	67,116	303,792
Leases Payable - Equipment	346,184	76,697
Notes Payable - Insurance	31,567	32,368
Accrued Operating Expenses	554,056	288,837
TOTAL CURRENT LIABILITIES	$ 5,804,418	$ 4,399,108
LONG-TERM LIABILITIES		
Notes Payable - Officer	$ 363,323	$ 191,308
Notes Payable - Banks	5,180,000	5,180,000
Notes Payable - Equipment	9,845	398,267
Leases Payable - Equipment	902,233	35,172
TOTAL LONG-TERM LIABILITIES	$ 6,455,401	$ 5,804,747
TOTAL LIABILITIES	$ 12,259,819	$ 10,203,855
STOCKHOLDERS' EQUITY		
Capital Stock - 200 Shares Authorized No Par Value, 95 Shares Issued	$ 32,223	$ 32,223
Additional Paid-In Capital	172,628	172,628
Retained Earnings	4,301,837	3,747,707
Treasury Stock	(96,000)	(96,000)
TOTAL STOCKHOLDERS' EQUITY	$ 4,410,688	$ 3,856,558
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 16,670,507	$ 14,060,413

The accompanying review report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Statements of Income and Retained Earnings

	NINE MONTHS ENDED SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
NET INCOME FROM SALES	$ 21,851,532	$ 18,322,866
COST OF GOODS SOLD		
Inventory, Beginning	$ 11,108,456	$ 9,873,378
Purchases	3,382,443	2,671,821
Sub-Contracting	2,858,473	2,464,205
Finishing	2,158,583	1,809,386
Hardware	1,896,726	1,476,452
Direct Labor	2,072,801	1,650,157
Overhead	7,607,053	6,111,588
	$ 31,084,535	$ 26,056,987
Less: Inventory, Ending	12,034,369	9,940,195
COST OF GOODS SOLD	$ 19,050,166	$ 16,116,792
GROSS PROFIT	$ 2,801,366	$ 2,206,074
OTHER INCOME	152	752
TOTAL INCOME	$ 2,801,518	$ 2,206,826
EXPENSES		
Selling	$ 244,125	$ 224,542
General and Administrative	1,287,211	980,979
Interest and Amortization	411,493	316,791
Franchise Tax	516	669
TOTAL EXPENSES	$ 1,943,345	$ 1,522,981
NET INCOME FOR PERIOD	$ 858,173	$ 683,845
RETAINED EARNINGS, BEGINNING OF PERIOD	3,743,093	3,262,204
Deduct: Distribution to Shareholders	(299,429)	(198,342)
RETAINED EARNINGS, END OF PERIOD	$ 4,301,837	$ 3,747,707

The accompanying review report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Statements of Cash Flows

	NINE MONTHS ENDED SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for Period	$ 858,173	$ 683,845
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	347,732	427,915
Changes in Assets and Liabilities:		
(Increase) Decrease In -		
Accounts Receivable	373,757	(638,799)
Inventory	(925,913)	(66,817)
Advanced Rental	--	26,917
Prepaid Expenses	55,559	108,271
Other Current Assets	115	(18,207)
Miscellaneous Receivable	31,278	31,278
Deposits	21,160	--
Cash Value Officers Life	211,302	--
Increase (Decrease) In -		
Accounts Payable	286,459	328,134
Advanced Payment - Customer	(686,494)	(217,196)
Accrued Operating Costs	163,786	81,669
NET CASH PROVIDED BY OPERATING ACTIVITIES (Forward)	$ 736,914	$ 747,010
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	$(740,572)	$(472,536)
NET CASH FLOWS FROM INVESTING ACTIVITIES (Forward)	$(740,572)	$(472,536)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Bank Debt	$(100,000)	$ 280,000
Increase (Decrease) in Notes Payable Equipment	(550,910)	147,543
Increase (Decrease) in Lease Payable Equipment	1,156,992	(76,163)
Decrease in Notes Payable - Insurance	(78,014)	(61,474)
Decrease in Advances to Affiliates	11,496	17,245
Increase in Notes Payable - Officer	91,942	58,462
Additional Finance Costs Incurred	--	(18,000)
Distribution to Shareholders	(299,429)	(198,342)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES (Forward)	$ 232,077	$ 149,271

The accompanying review report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Statements of Cash Flows
Continued

	NINE MONTHS ENDED SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
NET CASH PROVIDED BY OPERATING ACTIVITIES (Forward)	$ 736,914	$ 747,010
CASH FLOWS FROM INVESTING ACTIVITIES (Forward)	$(740,572)	$(472,536)
NET CASH PROVIDED BY FINANCING ACTIVITIES (Forward)	$ 232,077	$ 149,271
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 228,419	$ 423,745
CASH AND CASH EQUIVALENTS, (OVERDRAFT) BEGINNING OF PERIOD	10,308	(227,094)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 238,727	$ 196,651
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	$ 369,772	$ 267,361
Income Taxes Paid	$ 516	$ 669

The accompanying review report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Notes to Financial Statements
September 30, 2005

1- SIGNIFICANT ACCOUNTING POLICIES

Background of Company

The Company was incorporated in the State of New York and maintains its principal place of business in Bay Shore, New York. The Corporation is primarily engaged in machining parts for the aerospace industry. Its customer base is primarily publicly traded companies.

Cash Equivalents

Cash equivalents include all highly liquid debt instruments with an original maturity of three months or less. Cash equivalents consist primarily of money market accounts.

Accounts Receivable

Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. Additionally, the major customers of the Company are publicly traded companies of substantial size and sizeable net worth.

Inventories

Inventories used in determining Cost of Goods Sold are stated at the lower of cost or market.

Plant, Property and Equipment

Fixed assets are carried at cost. Major additions and betterments are charged to the property accounts while maintenance and repairs are charged against income in the year incurred. Assets retired, or otherwise disposed of, are eliminated from the property accounts and the related amounts of depreciation are eliminated from the accumulated depreciation accounts. Gains or losses from dispositions are included in income.

Depreciation

Depreciation is provided for in amounts sufficient to allocate the cost of depreciable assets to operations over their estimated useful lives using the straight-line and declining balance methods.

1- SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Finance Costs

Costs connected with obtaining and executing debt arrangements are capitalized and amortized on the straight-line basis over the term of the related debt.

Tax Status

The Company, with the consent of its stockholders, elected under the Internal Revenue Code and New York State law to be taxed as an "S" corporation. In lieu of corporate income taxes, the stockholders are taxed on their proportionate share of the company's net income. Accordingly, no provision or liability for federal income taxes has been made in the accompanying financial statements.

2- INVENTORIES

For interim reporting purposes management estimates were provided in arriving at inventories. Management arrived at these estimates by utilizing the gross profit percentage method by analyzing the purchase of raw materials and other direct costs incurred for the period and by estimating the stage of completion of work in process.

3- RELATED PARTY TRANSACTIONS

The following transactions occurred between the Company and certain related parties.

The Company presently leases manufacturing and office space from KPK Realty Corp. (see Note 8), in which 49% ownership rests with a major stockholder of the Company. The total monies advanced KPK Realty Corp. amounted to $208,233. The Company was being repaid in the form of a rent offset in the amount of $22,992 per year. See Note 8 for details concerning the ownership of KPK Realty Corp. and the guaranty by the Corporation of a debt between the present minority shareholders and the former majority shareholder of the Corporation.

Additionally, the Company leases manufacturing space from DPPR Realty Corp. (see Note 8), which is 100% owned by two of the shareholders of the Corporation who in the aggregate own 36.84% of the Company.

4- NOTES PAYABLE - BANKS

The Company has negotiated a credit facility dated August of 2003 with a major lending institution. The facility is secured by a first priority interest in all accounts receivable, inventory and equipment presently owned or hereafter acquired by the Company. The indebtedness bears interest at the rate of 1/2 percent above the prime rate of interest or a libor margin of 3%.

The terms of the facility require, among other things, the Company to maintain certain financial ratios and levels of working capital, which are set forth below: These financial ratios and levels of working capital have been amended as of 5/14/04.

Minimum Tangible Net Worth

Closing Date -	
12/31/03 - 12/30/04	$3,250,000
12/31/04 - 12/30/05	3,400,000
12/31/05 - Termination Date	3,800,000

Maximum Leverage

Closing Date -	
12/31/03 - 12/30/04	3.00:1
12/31/04 - 12/30/05	2.80:1
12/31/05 - Termination Date	2.50:1

Working Capital

Closing Date - Termination Date	$ 900,000

For the purpose of calculating the ratios, Prepaid Expenses are considered to be a non-current asset and advances to KPK Realty Corp. are considered to be an intangible asset. Notes Payable to Bank are deemed to be current liabilities.

Tangible Net Worth, as defined in the loan agreement, amounted to $4,740,028. The covenant for minimum Tangible Net Worth calls for $3,400,000.

Working Capital, as defined in the loan agreement, amounted to $3,594,887. The covenant for Working Capital calls for a minimum of $900,000.

4- NOTES PAYABLE - BANKS (Continued)

The maximum leverage ratio, as defined in the loan agreement is 2.80. As of the Balance Sheet date, the maximum leverage ratio amounted 2.51.

The loans are guaranteed jointly and severally by the principals of the Company, as well as the affiliated company DPPR Realty Corp.

Except as amended, all other terms and conditions of the agreement remained unchanged and continue in full force and effect.

5- NOTES PAYABLE-OFFICER

Notes Payable-Officer in the amount of $363,323 has been subordinated in favor of the lending institution.

6- NOTES PAYABLE-EQUIPMENT

The Company has financed the purchase of various equipment, which is secured by the related equipment. As of the Balance Sheet date, the balance was $76,961, of which $67,116 is reflected as current.

Payments covering the remaining years are as follows:

2006	$ 67,116
2007	4,229
2008	4,205
2009	1,411

7- LEASE PAYABLE-EQUIPMENT

The Company has entered into various capital lease agreements consisting of various types of manufacturing equipment, including computer equipment. During the current period the Corporation entered into a capital lease consisting of newly acquired equipment and refinanced its existing equipment, notes and leases. Payments covering the next five years are as follows:

2006	$ 346,184
2007	367,099
2008	394,151
2009	140,983
2010	--

8- COMMITMENTS AND CONTINGENCIES

The Company presently leases manufacturing and office facilities under a lease expiring May 31, 2005, at an annual rental of $300,000, plus annual real estate tax payable by the lessee. An extension through November 30, 2005 has been executed by both the lessor and the lessee.

This lease is between the Company and KPK Realty Corp., a corporation in which 49% is owned by the majority stockholder of the Company. Additionally, the Company is a guarantor of the mortgage on the leased premises. The present balance of that mortgage is approximately $677,000.

The Company also leases manufacturing facilities pursuant to a lease expiring in 2014 at an annual rental of $82,800, plus annual real estate tax payable by the lessee. This lease is between the Company and DPPR Realty Corporation, a corporation owned by the stockholders of the Corporation. Additionally, the Company is a guarantor of the mortgage on the leased premises. The present balance of that mortgage is approximately $567,000.

Additionally, the Company is a guarantor on an obligation to a former shareholder that had a 49% equity position in the Corporation. The former shareholder sold his stock for the original obligation of $1,250,000. As of the date of this report this obligation has been satisfied.

A legal action has been brought against the Company for personal injury sustained by an independent contractor caused by a fall on the premises of the Company in the amount of $5,000,000. This action is scheduled for trial in June of 2005. The Company has insurance coverage in the amount of $4,000,000. At a settlement mediation, plaintiff made a demand of $2,000,000. In the opinion of counsel representing the Company the full value of the case would be well within the insurance coverage maintained by the Company.

SUPPLEMENTARY INFORMATON

AIR INDUSTRIES MACHINING CORPORATION

Comparative Schedules of Expenses

	NINE MONTHS ENDED SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
MANUFACTURING OVERHEAD		
Material, Tools and Supplies	$ 773,058	$ 490,577
Equipment Rental	--	33,729
Premium Pay	286,450	222,070
Sick Pay/Vacation Pay	94,319	80,528
Holiday Pay	40,304	28,102
Rent	376,234	350,139
Light and Power	182,550	197,196
Factory Maintenance	329,315	212,724
Depreciation and Amortization	261,639	320,446
Employee Benefits	139,771	124,175
Payroll Taxes	491,337	404,117
Insurance	212,477	171,629
Group Insurance	1,038,796	853,232
Indirect Payroll	3,380,803	2,622,924
TOTAL MANUFACTURING OVERHEAD	$7,607,053	$6,111,588
SELLING EXPENSES		
Field Engineer	$ 7,930	$ 7,942
Shipping Supplies	84,007	74,295
Meetings and Conferences	12,370	13,507
Automotive Expenses	56,308	43,754
Freight Out	69,426	74,579
Depreciation - Automotive Equipment	14,084	10,465
TOTAL SELLING EXPENSES	$ 244,125	$ 224,542

The accompanying review report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Comparative Schedules of Expenses

	NINE MONTHS ENDED SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
GENERAL AND ADMINISTRATIVE EXPENSES		
Officers' Salaries	$ 387,376	$ 367,933
Office Salaries	222,014	179,528
Rent	61,247	57,000
Telephone	32,087	34,175
Light and Power	29,652	32,102
Payroll Taxes	32,170	34,225
Employee Benefits	12,024	6,250
Professional Fees	315,449	56,410
Office Expenses	28,853	32,841
Depreciation - Furniture and Fixtures	41,648	50,132
Sundry	11,890	--
Premiums - Officers' Life Insurance	45,022	59,958
Donations	700	1,200
Payroll Processing & Computer Costs	67,079	69,225
TOTAL GENERAL & ADMINISTRATIVE EXPENSES	$1,287,211	$ 980,979

The accompanying review report and notes are an integral part of these statements.

UNAUDITED PRO FORMA FINANCIAL STATEMENTS

The following unaudited pro forma balance sheet combines the historical balance sheet of Air Industries Machining, Corp. ("AIM") as of September 30, 2005 and the historical balance sheets of each of Ashlin Development Corporation ("Ashlin") and Gales Industries Incorporated ("Gales Industries") as of September 30, 2005.

The following unaudited pro forma statements of income combine the historical statements of income of AIM, Ashlin and Gales Industries for the nine-months ended September 30, 2005 and year ended December 31, 2004, giving effect to the Merger and the Acquisition as if they had occurred on January 1, 2004.

We are providing this information to aid you in your analysis of the financial aspects of the Merger and the Acquisition. The unaudited pro forma financial statements described above should be read in conjunction with the historical financial statements of AIM and Ashlin and the related notes thereto. The unaudited pro forma information is not necessarily indicative of the financial position or results of operations that may have actually occurred had the Merger and the Acquisition taken place on the dates noted, or the future financial position or operating results of the combined company.

The unaudited pro forma financial statements were prepared treating the Merger as a reverse acquisition under the purchase method of accounting with AIM treated as the acquirer.

Ashlin Development Corporation
Unaudited Pro Forma Consolidated Comparative Balance Sheet
September 30, 2005

ASSETS	Air Industries Machining Corporation	Adjustments	Pro Forma Balance Sheet
Current Assets:			
Cash and Cash Equivalents	238,727	238,727 (a)	
Accounts Receivable	2,269,778	--	2,269,778
Inventory	12,034,369	--	12,034,369
Prepaid Expenses	76,709	--	76,709
Other Current Assets	4,864	--	4,864
Total current assets	14,624,447		14,385,720
Goodwill		(1,631,071) (b)	1,631,071
Property Plant & Equipment			
Equipment, Furniture. etc. (Net)	1,918,621	--	1,918,621
Plant		(4,123,031) (c)	4,123,031
Total property, plant, equipment	1,918,621		6,041,652
Deferred Charges and Other Assets			
Security Deposits	41,122	--	41,122
Cash Value Officer's Life	52,334	--	52,334
Organization Expenses	500	(79,900) (d)	80,400
Unamortized Finance Cost	33,483	(167,916) (e)	201,399
Advances to Affiliates	--		-
Total deferred charges and other assets	127,439		375,255
Total Assets	16,670,507		22,433,698
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Cash Overdraft			
Accounts Payable and Accrued Expenses	4,137,723	--	4,137,723
Advance Payment - Customer	667,772	--	667,772
Notes Payable - Equipment	67,116	--	67,116
Lease Payable - Equipment	346,184	--	346,184
Notes Payable Insurance	31,567	--	31,567
Accrued Operating Expenses	554,056	373,894 (f)	927,950
Total current liabilities	5,804,418		6,178,312
Long Term Liabilities			
Term Loan Real Estate		2,834,993 (g)	2,834,993
Notes Payable - Banks	5,180,000	(229,171) (h)	4,950,829
Notes Payable - Equipment	9,845	--	9,845
Lease Payable - Equipment	902,233	--	902,233
Bridge Notes		--	--
Note Seller		1,291,212 (i)	1,291,212
Notes Payable: Component of Sale		--	--
Notes Payable - Officer	363,323	(363,323) (j)	--
Total long term liabilities	6,455,401		9,989,112
Total liabilities	12,259,819		16,167,424
Stockholders Equity:			
Common Stock - 95 shares no par value	32,223	(32,223) (k)	
Common stock (7,480,757@ $.0001per share)		748 (l)	748
Common stock (Bridge)		22,500 (m)	22,500
Common stock (Subscription Receivable)	--	--	
Additional Paid In Capital	172,628	(172,628)	
Preferred stock		5,361,739 (n)	5,361,739
Retained earnings	4,301,837	(3,420,550) (o)	881,287
Treasury Stock	(96,000)	96,000 (p)	
Total stockholder's equity	4,410,688		6,266,274
Total Liabilities and Stockholder's Equity	16,670,507	--	22,433,698

Notes to Pro Forma Combined Balance Sheet

(a) Represents the application of the cash on hand to satisfy a portion of notes due to banks.

(b) Represents the goodwill resulting from the excess of the purchase price paid for the stock of after adjusting the value of the assets acquired and liabilities assumed to reflect the purchase price.

(c) Represents the purchase price of the company's corporate campus pursuant to the Real Estate Purchase Agreements with DDPR Realty Corp. and KPK Realty Corp.

(d) Represents expenses incurred in connection with the organization of Gales Industries Incorporated and its subsidiary.

(e) Represents adjustment to finance costs as a result of the costs incurred in connection with the loan from PNC Bank.

(f) Represents a provision for income taxes for the year ended December 31, 2004, and the nine months ended September 30, 2005, offset in part by

(g) Represents amounts borrowed to acquire the real estate referred to in Note (c).

(h) Represents the repayment of the loan due from AIM to Citibank, N.A. offset, in part, by amounts borrowed from PNC Bank.

(i) Represents notes issued to shareholders of AIM as part of the purchase price under the Stock Purchase Agreement.

(j) Represents the payment of notes due from AIM to certain of its officers.

(k) Represents the elimination of shares held by former shareholders of AIM.

(l) Represents the issuance of shares of Gales Industries, Incorporated.

(m) Represents the excess of amounts paid over par value of Gales Industries.

(n) Represents net amount received upon issuance of preferred shares.

(o) Represents elimination of retained earnings of AIM accrued prior to January 1, 2004.

(p) Represents elimination of amounts allocated to shares held in treasury by AIM.

Ashlin Development Corportation

Pro Forma Combined Statement of Income

	Year ended December 31,2004	Adjustments		ADJUSTED December 31, 2004
NET INCOME FROM SALES	24,818,333			24,818,333
COST OF GOODS SOLD				
Inventory, Beginning	9,873,378			9,873,378
Purchases	3,882,760			3,882,760
Sub-Contracting	3,767,089			3,767,089
Finishing	2,531,021			2,531,021
Hardware	1,908,026			1,908,026
Direct Labor	2,280,036			2,280,036
Overhead (See Expense Schedule "A" Below)	8,501,899	(500,930)	(a)(b)	8,000,969
	32,744,209	(500,930)		32,243,279
Less: Inventory, Ending	11,108,456			11,108,456
COST OF GOODS SOLD	21,635,753	(500,930)		21,134,823
GROSS PROFIT	3,182,580	$ 500,930		3,683,510
OTHER INCOME	2,573	$ --		2,573
TOTAL INCOME	3,185,153	500,930		3,686,083
EXPENSES				
Selling	321,727	--		321,727
Gen. & Admin. (See Sch. "B" below)	1,390,475	103,391	(a)(b)	1,493,866
Interest and Amortization	517,511	143,234	(c)	660,745
Franchise Tax	669	(669)	(d)	-
TOTAL EXPENSES	2,230,382	245,956		2,476,338
NET INCOME BEFORE INCOME TAXES	954,771	$ 254,974		1,209,745
INCOME TAXES (@ 40%)	381,908	$ 101,990		$ 483,898
NET INCOME AFTER INCOME TAXES	572,863	152,984		725,847

Ashlin Development Corportation

A	MANUFACTURING OVERHEAD	Year ended December 31,2004	Adjustments		ADJUSTED December 31, 2004
	Material, Tools and Supplies	759,319	--	--	759,319
	Equipment Rental	33,729	--	--	33,729
	Premium Pay	306,196	--	--	306,196
	Sick Pay/Vacation Pay	131,153	--	--	131,153
	Holiday Pay	50,744	--	--	50,744
	Rent	456,917	(456,917)	(b)	-
	Real Estate Taxes	--	127,709	(b)	127,709
	Light and Power	278,254	--	--	278,254
	Factory Maintenance	313,005	--	--	313,005
	Depreciation and Amortization	349,114	49,884	(b)	398,998
	Employee Benefits	169,708	--	--	169,708
	Payroll Taxes	552,969	(22,426)	(a)	530,543
	Insurance	239,018	--	--	239,018
	Group Insurance	1,144,381	--	--	1,144,381
	Consulting		50,000	(a)	50,000
	Indirect Payroll	3,717,392	(249,180)	(a)	3,468,212
	TOTAL MANUFACTURING OVERHEAD	8,501,899	(500,930)	--	8,000,969
	SELLING EXPENSES				
	Field Engineer	13,643	--		13,643
	Shipping Supplies	107,507	--		107,507
	Meetings and Conferences	20,628	--		20,628
	Automotive Expenses	52,983	--		52,983
	Freight Out	108,187	--		108,187
	Depreciation - Automotive Equipment	18,779	--		18,779
	TOTAL SELLING EXPENSES	321,727			321,727

Ashlin Development Corportation

B	GENERAL AND ADMIN. EXP.	Year ended December 31,2004	Adjustments		ADJUSTED December 31, 2004
	Officers' Salaries	499,675	156,708	(a)	656,383
	Office Salaries	256,846	--	--	256,846
	Rent	74,382	(74,382)	(b)	--
	Real Estate Taxes	--	20,790	(b)	20,790
	Telephone	52,487	--	--	52,487
	Light and Power	45,297	--	--	45,297
	Payroll Taxes	40,917	14,104	--	55,021
	Employee Benefits	7,800	--	--	7,800
	Professional Fees	173,369	--	--	173,369
	Office Expenses	34,412	--	--	34,412
	Depreciation	55,531	12,792	(b)	68,323
	Sundry	9,524	--	--	9,524
	Premiums - Officers' Life Insurance	26,621	(26,621)		--
	Donations	3,200	--	--	3,200
	Payroll Processing & Computer Costs	110,414	--	--	110,414
	TOTAL GENERAL & ADMIN. EXP.	1,390,475	103,391		1,493,866

Ashlin Development Corportation

Pro Forma Combined Statement of Income

	Nine Mo. Ended September 30, 2005	Adjustments		ADJUSTED September 30, 2005
NET INCOME FROM SALES	21,851,532	--		21,851,532
	--			-
COST OF GOODS SOLD	--			-
Inventory, Beginning	11,108,456	--		11,108,456
Purchases	3,382,443	--		3,382,443
Sub-Contracting	2,858,473	--		2,858,473
Finishing	2,158,583	--		2,158,583
Hardware	1,896,726	--		1,896,726
Direct Labor	2,072,801	--		2,072,801
Overhead (See Expense Schedule "A" Below)	7,607,053	(422,148)	(e)(f)	7,184,905
	31,084,535	(422,148)		30,662,387
Less: Inventory, Ending	12,034,369			12,034,369
COST OF GOODS SOLD	19,050,166	(422,148)		18,628,018
GROSS PROFIT	2,801,366	422,148		3,223,514
OTHER INCOME	152			152
TOTAL INCOME	2,801,518	422,148		3,223,666
EXPENSES				
Selling	244,125	--		244,125
Gen. & Admin. (See Sch. "B" below)	1,287,211	29,018	(e)(f)	1,316,229
Interest and Amortization	411,493	117,651	(g)	529,144
Franchise Tax	516	(516)	(h)	-
TOTAL EXPENSES	1,943,345	146,153		2,089,498
NET INCOME BEFORE INCOME TAXES	858,173	275,995		1,134,168
INCOME TAXES (@ 40%)	343,269	110,398		453,667
NET INCOME AFTER INCOME TAXES	514,904	165,597		680,501

Ashlin Development Corportation

A	MANUFACTURING OVERHEAD	Nine Mo. Ended September 30, 2005	Adjustments		ADJUSTED September 30, 2005
	Material, Tools and Supplies	773,058	--	--	773,058
	Equipment Rental	--	--	--	--
	Premium Pay	286,450	--	--	286,450
	Sick Pay/Vacation Pay	94,319	--	--	94,319
	Holiday Pay	40,304	--	--	40,304
	Rent	376,234	(376,234) (e)	--	--
	Real Estate Taxes	--	129,328 (e)	--	129,328
	Light and Power	182,550	--	--	182,550
	Factory Maintenance	329,315	--	--	329,315
	Depreciation and Amortization	261,639	37,413 (e)	--	299,052
	Employee Benefits	139,771	--	--	139,771
	Payroll Taxes	491,337	(20,655) (f)	--	470,682
	Insurance	212,477	--	--	212,477
	Group Insurance	1,038,796	--	--	1,038,796
	Consulting	--	37,500 (f)	--	37,500
	Indirect Payroll	3,380,803	(229,500) (f)	--	3,151,303
	TOTAL MANUFACTURING OVERHEAD	7,607,053	(422,148)		7,184,905
	SELLING EXPENSES				
	Field Engineer	7,930			7,930
	Shipping Supplies	84,007			84,007
	Meetings and Conferences	12,370			12,370
	Automotive Expenses	56,308			56,308
	Freight Out	69,426			69,426
	Depreciation - Automotive Equipment	14,084			14,084
	TOTAL SELLING EXPENSES	244,125	--		244,125

Ashlin Development Corportation

		Nine Mo. Ended September 30, 2005	Adjustments		ADJUSTED September 30, 2005
B	GENERAL AND ADMIN. EXP.				
	Officers' Salaries	387,376	96,000	(e)	483,376
	Office Salaries	222,014	--	--	222,014
	Rent	61,247	(61,247)	(f)	--
	Real Estate Taxes	--	21,053	(f)	21,053
	Telephone	32,087	--	--	32,087
	Light and Power	29,652	--	--	29,652
	Payroll Taxes	32,170	8,640	--	40,810
	Employee Benefits	12,024	--	--	12,024
	Professional Fees	315,449	--	--	315,449
	Office Expenses	28,853	--	--	28,853
	Depreciation	41,648	9,594	(f)	51,242
	Sundry	11,890	--	--	11,890
	Premiums - Officers' Life Insurance	45,022	(45,022)	--	--
	Donations	700	--	--	700
	Payroll Processing & Computer Costs	67,079	--	--	67,079
		--	--	--	--
	TOTAL GENERAL & ADMIN. EXP.	1,287,211	29,018		1,316,229

Notes to Pro Forma Combined Statement of Income

(a) Represents the combined net impact of the following:

(i) Elimination from overhead of an allocable portion of the salary and related payroll expenses in an aggregate amount of $ 315,369 as a result of the termination of Luis Peragallo, Jorge Peragallo and George Kfoury, partially offset by

(ii) The inclusion of an allocable portion of the salary and related payroll expenses in an aggregate amount of $116,189 as a result of the employment of Louis Giusto, an increase in the salary of Dario Peragallo and the engagement of George Kfoury as a consultant,

(iii) Elimination from General and Administrative expense of an allocable portion of salary and related payroll expenses in an aggregate amount of $315,369 as a result of the termination of Luis Peragallo, Jorge Peragallo and George Kfoury, offset by

(iv) The inclusion of an allocable portion of salary and related payroll expenses in an aggregate amount of $472,077 as a result of the employment of Louis Giusto and Michael Gales and an increase in the salary of Peter Rettaliata.

(b) Represents the combined net impact of the following:

(i) The elimination from each Manufacturing Overhead and General and Administrative Expense of an allocable portion of rent expense of $382,800 as a result of the acquisition of the corporate campus, partially offset by

(ii) The inclusion in each of Manufacturing Overhead and General and Administrative Expense of an allocable portion of depreciation and amortization expenses in the aggregate of $62,677 associated with the land and buildings included in the real estate referred to in note (b)(i).

(c) Represents the increase in interest expense associated with the increase in bank debt partially offset by the reduction in interest rates.

(d) Represents the elimination of franchise taxes payable by AIM.

(d) Represents the combined net impact of the following:

(i) Elimination from overhead of an allocable portion of the salary and related payroll expenses in an aggregate amount of $ 241,376 as a result of the termination of Luis Peragallo, Jorge Peragallo and George Kfoury, partially offset by

(ii) The inclusion of an allocable portion of the salary and related payroll expenses in an aggregate amount of $49,375 as a result of the employment of Louis Giusto, an increase in the salary of Dario Peragallo and the engagement of George Kfoury as a consultant,

(iii) Elimination from General and Administrative expense of an allocable portion of salary and related payroll expenses in an aggregate amount of $297,313 as a result of the termination of Luis Peragallo, Jorge Peragallo and George Kfoury, offset by

(iv) The inclusion of an allocable portion of salary and related payroll expenses in an aggregate amount of $337,375 as a result of the employment of Louis Giusto and Michael Gales and an increase in the salary of Peter Rettaliata.

(f) Represents the combined net impact of the following:

(i) The elimination from each Manufacturing Overhead and General and Administrative Expense of an allocable portion of rent expense of $287,100 as a result of the acquisition of the corporate campus, partially offset by

(iii) The inclusion in each of Manufacturing Overhead and General and Administrative Expense of an allocable portion of depreciation and amortization expenses in an aggregate amount of $47,007 associated with the land and buildings included in the real estate referred to in note (b)(i).

(g) Represents the increase in interest expense associated with the increase in bank debt partially offset by the reduction in interest rates.

(h) Represents the elimination of franchise taxes payable by AIM.

ASHLIN DEVELOPMENT CORPORATION

LIST OF EXHIBITS FILED WITH 8-K

Exhibit Nos.	
4.1	Convertible Promissory Note, dated November 30, 2005, in the amount of $332,631, from Gales Industries Incorporated (and assumed by the Registrant) to Peter Rettaliata.
4.2	Convertible Promissory Note, dated November 30, 2005, in the amount of $332,631, from Gales Industries Incorporated (and assumed by the Registrant) to Dario Peragallo.
4.3	Form of Warrant to be issued by the Registrant to GunnAllen Financial, Inc. after completion of the Offering.
4.5	Form of Warrant issued by Gales Industries Incorporated (and assumed by the Registrant) to investors in the $45,000 Bridge Financing in or about August 2005.
4.6	Form of Warrant issued by Gales Industries Incorporated (and assumed by the Registrant) to investors in the $105,000 Bridge Financing in or about September, 2005.
10.2	Stock Purchase Agreement, dated as of July 25, 2005, by and among Gales Industries Incorporated, Air Industries Machining, Corp., Luis Peragallo, Jorge Peragallo, Peter Rettaliata and Dario Peragallo.
10.3	Secured Subordinated Promissory Note, dated November 30, 2005, in the amount of $962,000, from Gales Industries Incorporated (and assumed by the Registrant) to Luis Peragallo.
10.4	Security Agreement, dated as of November 30, 2005, by and between Gales Industries Incorporated (and assumed by the Registrant) and Luis Peragallo.
10.5	Contract of Sale, dated as of November 7, 2005, by and between DPPR Realty Corp. and Gales Industries Incorporated for the purchase of the property known as 1480 North Clinton Avenue, Bay Shore, NY.
10.6	Contract of Sale, dated as of November 7, 2005, by and between KPK Realty Corp. and Gales Industries Incorporated for the purchase of the property known as 1460 North Fifth Avenue and 1479 North Clinton Avenue, Bay Shore, NY.
10.7	Employment Agreement, dated as of September 26, 2005, by and between Gales Industries Incorporated (and assumed by the Registrant) and Michael A. Gales.
10.8	Employment Agreement, dated as of September 26, 2005, by and between Louis A. Giusto and Gales Industries Incorporated (and assumed by the Registrant).
10.9	Employment Agreement, dated as of September 26, 2005, by and among Gales Industries Incorporated (and assumed by the Registrant), Air Industries Machining, Corp. and Peter D. Rettaliata.
10.10	Employment Agreement, dated as of September 26, 2005, by and among Gales Industries Incorporated (and assumed by the Registrant), Air Industries Machining, Corp. and Dario Peragallo.
10.14	2005 Stock Incentive Plan of Gales Industries Incorporated.
10.15	Stock Option Agreement, dated as of September 26, 2005, by Gales Industries Incorporated (and assumed by the Registrant) with Michael A. Gales.
10.16	Stock Option Agreement, dated as of September 26, 2005, by Gales Industries Incorporated (and assumed by the Registrant) with Louis A. Giusto.
10.17	Stock Option Agreement, dated as of September 26, 2005, by Gales Industries Incorporated (and assumed by the Registrant) with Peter Rettaliata.

Exhibit Nos.	
10.18	Stock Option Agreement, dated as of September 26, 2005, by Gales Industries Incorporated (and assumed by the Registrant) with Dario Peragallo.
10.19	Revolving Credit, Term Loan, Equipment Line and Security Agreement, dated as of November 30, 2005, by and between Air Industries Machining, Corp., PNC Bank, National Association, as Lender, and PNC Bank, National Association, as Agent.
10.20	Mortgage and Security Agreement, dated as of November 30, 2005, by and between Air Industries Machining, Corp. and PNC Bank.
10.21	Long Term Agreement, dated as of August 18, 2000, between Air Industries Machining, Corp. and Sikorsky Aircraft Corporation.
10.22	Long Term Agreement, dated as of September 7, 2000, between Air Industries Machining, Corp. and Sikorsky Aircraft Corporation.
21.1	List of Subsidiaries.

EXHIBIT 4.1

NEITHER THIS NOTE NOR THE SECURITIES ISSUABLE UPON CONVERSION OF THIS NOTE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAW AND MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE ACT AND APPLICABLE STATE SECURITIES LAWS

THIS NOTE AND THE SECURITIES ISSUABLE UPON CONVERSION OF THIS NOTE ARE SUBJECT TO THE TERMS AND CONDITIONS OF THE REGISTRATION RIGHTS PROVISIONS ATTACHED HERETO AS EXHIBIT A.

CONVERTIBLE PROMISSORY NOTE

$332,631.00 November 30, 2005
New York, New York

For good and valuable consideration, the receipt of which is hereby acknowledged, Gales Industries, Incorporated, a Delaware corporation (the "Company"), promises to pay to the order of Peter Rettaliata or his registered assigns (the "Holder"), the principal sum of Three Hundred Thirty Two Thousand Six Hundred Thirty One Dollars ($332,631.00) on the earlier of (i) November 30, 2010 (the "Scheduled Due Date") and (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").

From the date hereof to (and including) the Scheduled Due Date, interest shall accrue on the unpaid principal sum of this Note at an adjustable rate equal to the "Prime Rate" (as hereinafter defined), as adjusted as provided for herein, plus 0.5% per annum. All accrued interest shall be paid together with principal on the Maturity Date. Interest shall accrue on any portion of the principal amount of this Note outstanding from time to time after the Scheduled Due Date until payment thereof in full, at a floating rate equal to the Prime Rate plus 7% per annum. For purposes hereof the "Prime Rate" means the rate publicly announced by Citibank as its "prime rate" (even though Citibank may not lend money at such rate) or, if Citibank ceases to quote such rate, the Federal Funds rate. Interest shall be calculated on the basis of a 365 or 366 day year, as the case may be, and the actual number of days elapsed and the rate of interest charged hereunder shall change effective on the first day of each calendar quarter (to wit, October 1, January 1, April 1 and July 1) to the Prime Rate in effect as of the end of such date or the most recent business day. In no event shall the Holder hereof, or any successor or permitted assign, be entitled to receive, collect or retain any amount of interest paid hereon in excess of that permitted by applicable law. All interest payable hereunder shall be paid, subject to the provisions of Section 1(e) hereof, in the number of shares of Common Stock (as defined below) equal to the quotient resulting from the division of all such interest by the Conversion Price (as defined below).

All payments made pursuant to this Note shall be applied first to reimbursable expenses, interest accrued, if any, and then principal.

This Note is issued pursuant to that certain Stock Purchase Agreement, dated as of July 25, 2005 (as amended, the "Stock Purchase Agreement") entered into among the Company, Peter Rettaliata, Air Industries Machining, Corp. ("AIM"), Jorge Peragallo, Luis Peragallo, and Dario Peragallo.

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. Conversion. (a) From and after January 1, 2006, all, but not less than all, of the outstanding principal amount of this Note together with interest accrued thereon through and including the effective date of such conversion, is convertible, at the option of Company, into shares of common stock of the Company ("Common Stock") at a price of forty cents ($.40) per share (the "Conversion Price"), subject to adjustment pursuant to the terms and provision hereof (as so adjusted, the "Conversion Price"), provided that on the day that the Conversion Notice (as hereinafter defined) is given by the Company to the Holder and on the Conversion Date (as hereinafter defined), the following conditions are satisfied: (i) (A) the shares of Common Stock issuable upon conversion have been registered by the Company for resale by the Holder pursuant to the Securities Act of 1933, as amended (the "Securities Act"), and the registration statement effecting such registration (the "Registration Statement") is then currently effective or (B) there is available an exemption that would permit such shares of Common Stock to be immediately resold by the Holder; and (ii) any lock-up agreement entered into by the Holder in favor of or at the request of the Company has expired or been waived. Any notice of conversion ("Conversion Notice") must be given by the Company to all Holders of record of this Note no less than thirty (30) days nor more than forty-five (45) days prior to the date set forth for conversion (the "Conversion Date"). The Conversion Notice shall remain effective only if the Registration Statement remains effective continually throughout the notice period or counsel for the Company does not revoke its opinion as to the availability of an exemption permitting immediate resale of the Common Stock. On the Conversion Date, the outstanding principal amount of this Note, and all interest accrued thereon through and including the Conversion Date, shall automatically and without further notice be deemed converted into shares of Common Stock at the Conversion Price then in effect and not later than three (3) business days after the presentation of this Note, the Company will deliver to the Holder a certificate or certificates representing the number of shares of Common Stock into which the then-outstanding principal amount of and interest accrued on this Note was converted on the Conversion Date, together with cash in lieu of fractional shares of Common Stock pursuant to Section 1(e) hereof, if applicable.

(b) From and after the earlier of (i) January 1, 2007, and (ii) the first date on which the Company intends to effect any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger, consolidation or other combination of the Company with or into any other Company, or any sale or transfer of all or substantially all the assets of the Company to any other person or any voluntary or involuntary dissolution, liquidation or winding up of the Company, all, but not less than all, of the outstanding principal amount of this Note together with interest accrued thereon through and including the effective date of such conversion, is convertible, at the option of the Holder, into shares of Common Stock at the Conversion Price. To effect such conversion, the Holder shall deliver this Note with a duly executed Conversion Notice in the form annexed hereto to the Company at the address set forth herein. For purposes of a conversion by the Holder, the date upon which a Conversion Notice is received by the Company is referred to as

the Conversion Date. On the Conversion Date, the outstanding principal amount of this Note, and all interest accrued thereon through and including the Conversion Date, shall automatically and without further notice be deemed converted into shares of Common Stock at the Conversion Price then in effect and not later than three (3) business days after the presentation of this Note, the Company will deliver to the Holder a certificate or certificates representing the number of shares of Common Stock into which the then-outstanding principal amount of and interest accrued on this Note was converted on the Conversion Date, together with cash in lieu of fractional shares of Common Stock pursuant to Section 1(e) hereof, if applicable.

(c) Upon request of the Company the Holder shall cooperate in the registration under the Securities Act of the Common Stock issuable hereunder by complying with its obligations under the Registration Rights Provisions annexed hereto as Exhibit A (the "Registration Rights Provisions").

(d) Subject to the provisions of this Section 1(d) and 1(e), the number of shares of Common Stock issuable upon conversion of this Note shall be the entire principal amount of this Note together with all accrued but unpaid interest thereon through and including the Conversion Date, divided by the Conversion Price then in effect.

(i) If the Common Stock issuable upon conversion of the principal amount of this Note shall be changed into the same or a different number of shares of any other class or classes of stock or other equity security, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for below or a merger or consolidation as provided for below) then, concurrently with the effectiveness of such reorganization, recapitalization or other similar transaction, the securities issuable upon conversion of this Note shall be adjusted such that this Note shall be convertible into, in lieu of the number of shares of Common Stock that the Holders would otherwise be entitled to receive, a number of shares of such other class or classes of stock or other equity security equivalent to the number of shares of such class or classes that would have been issued to the Holders had they converted this Note immediately prior to such change and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section. The Conversion Price upon such conversion shall be the Conversion Price that would otherwise be in effect pursuant to the terms hereof. Notwithstanding anything herein to the contrary, the Company will not effect any such reorganization reclassification or other similar transactions unless prior to the consummation thereof, the entity that may be required to deliver stock upon the conversion of this Note shall agree by an instrument in writing to deliver such stock, cash, or other equity security to the Holder.

(ii) If the Company at any time or from time to time makes or fixes a record date for the determination of holders of Common Stock entitled to receive any distributions payable in securities of the Company other than shares of Common Stock and as otherwise adjusted in this Section, then and in such event provision shall be made so that the Holder receives upon conversion

hereof, in addition to the number of shares of Common Stock receivable, the amount of securities of the Company that he would have received had this Note been converted into Common Stock on the date of such event and had he thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable as aforesaid during such period, subject to all other adjustments called for during such period under this Section.

(iii) In case the Company at any time or from time to time after the date hereof shall (a) declare or pay any dividend on the Common Stock payable in shares of Common Stock, (b) subdivide the outstanding shares of Common Stock into a greater number of shares of Common Stock or (c) combine the outstanding shares of Common Stock into a smaller number of shares of Common Stock, then, and in each such case, the Conversion Price shall be adjusted to that price determined by multiplying the Conversion Price in effect by a fraction (x) the numerator of which shall be the number of issued and outstanding shares of Common Stock immediately before such dividend, distribution, subdivision or combination and (y) the denominator of which shall be the total number of issued and outstanding shares of Common Stock immediately after such dividend, distribution, subdivision or combination. Upon such adjustment of the Conversion Price, the number of shares of Common Stock issuable upon conversion of this Note shall be increased (in the case of a reduction in the Conversion Price) or decreased (in the case of an increase in the Conversion Price) proportionately.

(iv) If the Company shall merge, consolidate or otherwise combine with or into another entity, this Note shall automatically become convertible into the same kind and number of shares of stock and other securities, cash or property (and upon the same terms and with the same rights) as would have been received by a holder of the number of shares of Common Stock into which this Note could have been converted immediately prior to such merger, consolidation or combination, without change to the Conversion Price. Notwithstanding anything herein to the contrary, the Company will not effect any such merger, consolidation or combination, unless prior to consummation thereof, the entity that may be required to deliver stock, cash, securities or other assets upon the conversion of this Note shall agree by an instrument in writing to deliver such stock, cash, securities or other assets to the Holder.

(e) Upon a conversion hereunder, the Company shall not be required to issue fractional shares of Common Stock or scrip representing fractional shares of Common Stock. In lieu thereof, the Company may, if otherwise permitted, make a cash payment in respect of any fractional share based on the Conversion Price at such time. No cash payment of less than $1.00 shall be required to be given unless specifically requested by the Holder. If the Company elects not, or is unable, to make such a cash payment, the Holder shall be entitled to receive, in lieu of the final fraction of a share, one whole share of Common Stock.

(f) The issuance of certificates for shares of Common Stock on conversion of this Note shall be made without charge to the holders thereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificate, provided that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

(g) The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of this Note and the Convertible Promissory Note issued to Dario Peragallo pursuant to the Stock Purchase Agreement (the "Peragallo Note"), such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of this Note and the Peragallo Note; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of this Note and the Peragallo Note, the Company will promptly take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(h) In each case of an adjustment or readjustment of the Conversion Price or the number of shares of Common Stock or other securities issuable upon conversion of this Note, the Company, at its own expense, shall cause its Chief Financial Officer to compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall send such certificate, by prepaid courier, to the Holder. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based. No adjustment in the Conversion Price shall be required to be made unless it would result in an increase or decrease of at least one cent, but any adjustments not made because of this sentence shall be carried forward and taken into account in any subsequent adjustment otherwise required hereunder.

(i) Upon (i) the establishment by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger, consolidation or other combination of the Company with or into any other Company, or any sale or transfer of all or substantially all the assets of the Company to any other person or any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall send to the Holder at least twenty days prior to the record date specified therein a notice specifying (A) the date on which any such record is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (B) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (C) the date, if any, that is to be fixed as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

(j) The Company shall not amend its Certificate of Incorporation or participate in any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action for the purpose of avoiding or seeking to avoid the observance or performance of any of

the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the Holders of this Note against dilution or other impairment as provided herein.

2. Events of Default. If any of the events specified in this Section 2 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 or applicable law, either by suit in equity or by action at law, or both, declare the entire principal amount (and interest accrued thereon) 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), 2(d) or 2(g) hereof, the entire principal amount (and accrued interest thereon) and all other amounts shall automatically become due and payable:

(a) Payment of principal of this Note or interest accrued thereon shall be delinquent for a period of 10 days 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 Employment Agreement between the Company and Peter Rettaliata, 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, within 45 days after the appointment 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 default of the Company under any Indebtedness (as defined below), whether such indebtedness now exists or is hereafter created, that gives the holder thereof the right to accelerate such Indebtedness, and such Indebtedness is in fact accelerated by the holder. For purposes hereof, the term "Indebtedness" shall mean (i) all obligations of the Company for borrowed money, (ii) all obligations of the Company evidenced by bonds, debentures, notes or

other similar instruments, including without limitation the Peragallo Note and the Note (as defined in the Stock Purchase Agreement), (iii) all obligations of the Company under a lease that are required to be classified and accounted for as capital lease obligations under generally accepted accounting principles in the United States, (iv) all obligations of the Company issued or assumed as the deferred purchase price of property or services, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 90 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and any deferred purchase price represented by earn outs), (v) all obligations for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than those issued or incurred in respect of trade payables arising in the ordinary course of business), (vi) all obligations, whether or not assumed, which are secured by liens on the property belonging to the Company or payable out of the proceeds flowing therefrom, or (vii) all obligations under any guarantee by the Company of any Indebtedness or other obligation of any other person or entity;

(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) Peter Rettaliata shall have terminated his employment for Good Reason (as defined in the Employment Agreement) or the Company or AIM shall have terminated the employment of Peter Rettaliata without Cause (as defined in the Employment Agreement).

3. Miscellaneous.

3.1. 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.

3.2. 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 City and County of New York, 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.

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

3.4. 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.

3.5. 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.

3.6 Costs of Collection. The Company shall reimburse Holder for all reasonable costs and expenses, including without limitation reasonable attorneys fees and costs, 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 and (ii) enforcing any provision of this Note and/or collecting any amounts due under this Note.

3.7. 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: Peter Rettaliata
46 Iroquois Drive
Brightwaters, NY 11718

To Company at: Gales Industries, Incorporated
333 East 66th Street, 9th Floor,
New York, New York 10021

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).

3.8 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.

3.9 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.

3.10 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.

3.11 Registration Rights. This Note is subject to and the Company agrees to the Registration Rights provisions contained in Exhibit A hereto. By accepting this Note or receiving any benefits hereunder, the Holder, and each successor Holder, hereby agrees to the provisions set forth in Exhibit A hereto.

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

GALES INDUSTRIES, INCORPORATED

By: /s/ Michael A. Gales

Name: Michael Gales
Title: Executive Chairman

NOTICE OF CONVERSION

The undersigned hereby irrevocably elects to convert the annexed Convertible Promissory Note (the "Note") into shares of Common Stock of Gales Industries, Incorporated and requests that certificates for such shares, or the shares issuable therefore pursuant to the terms of the Note, be issued in the name of*:

- ---

- ---

- ---

(please print name, address, and social security number or employer identification number)

Dated: _____, 20___

Name of Note holder or Assignee:

- ---

(please print)

Address:

- ---

- ---

- ---

Signature:

Signature Guaranteed: NOTE: THE ABOVE SIGNATURE MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE WITHIN NOTE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER, UNLESS THE WITHIN NOTE HAS BEEN ASSIGNED.

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* If other than the Holder specified on the Note delivered with this Notice of Conversion, the transfer is subject to compliance with applicable securities laws and the payment by the Holder of any applicable transfer or similar taxes.

Exhibit A to Note

REGISTRATION RIGHTS

The following provisions are part of the Convertible Promissory Note (the "Note") that was initially issued to Peter Rettaliata (the "Holder") on November 30, 2005, and any Note that is issued to any person who or which becomes a Holder as permitted by the Note. References to the "Note" include each such subsequently issued Note, collectively, the "Notes." As used below, the "Issuer" means Gales Industries, Incorporated its successors and assigns including without limitation the public company with which it enters into a "reverse merger" transaction; "Registered Holder" means the Holder and "Registered Holders" refers to the holders of the Notes. All capitalized terms below shall have the same meanings as in the Note, unless otherwise defined. Paragraph references below are to the paragraphs of this Exhibit A.

Registration Rights

(a) Registered Holders shall have certain registration rights as follows:

A. If Issuer shall determine to file with the Securities and Exchange Commission (the "SEC") a registration statement ("Registration Statement") under the Securities Act, registering any shares of Common Stock of Issuer, whether or not for its own account or with respect to shares owned by any person or entity, other than a Registration Statement relating to an employee benefit plan or a registration effected on Form S-4, Issuer shall (i) provide to each Registered Holder written notice thereof at least twenty days prior to the filing of such Registration Statement; and (ii) include in such Registration Statement, and in any underwriting involved therein, all of the shares into which the Notes are convertible (the "Registrable Securities"), subject to the remaining terms of this Section (a).

B. Within fifteen (15) days after the receipt of such notice from Issuer, each Registered Holder shall give written notice to Issuer if the Registered Holder desires to have included in the Registration Statement, and in any underwriting involved therein, all of the Registrable Securities, and if a Registered Holder fails to give such notice within such period, such Registered Holder shall not have the right to have such Registered Holder's Registrable Securities registered, pursuant to such Registration Statement; provided, however, if such Registration Statement is the initial Registration Statement filed by Issuer with the SEC registering shares of capital stock of Issuer (other than a Registration Statement relating to an employee benefit plan or a registration effected on Form S-4), then Issuer shall include in such Registration Statement all the Registrable Securities held by each Registered Holder regardless of whether or not any such Registered Holder has timely given such written notice. If a Registered Holder gives such notice on a timely basis, or if otherwise required pursuant to the foregoing provisions, then Issuer shall include such Registered Holder's Registrable Securities in the Registration Statement and in any underwriting relating thereto, at Issuer's sole cost and expense, subject to the remaining terms of this Section (a).

C. If the Registration Statement (other than the initial Registration Statement to be filed by the Company after the date hereof) relates to an underwritten offering, and the managing underwriter determines in writing that the total number of shares of Common Stock to be included in the offering, including the Registrable Securities, exceeds the amount which the managing underwriter deems to be appropriate for such offering based on market factors,

the number of shares of the Registrable Securities of all Registered Holders shall be reduced in the same proportion as the remainder of the shares in such offering, other than those to be sold for the account of the Company, and each Registered Holder's Registrable Securities included in such Registration Statement will be reduced proportionately. For this purpose, if other securities in the Registration Statement are derivative securities, their underlying shares shall be included in the computation. Each Registered Holder shall enter into such agreements as may be reasonably required by the managing underwriter, provided, however, that if requested by such managing underwriter to enter into any agreement not to sell or otherwise transfer or dispose of any Registrable Securities or other securities of Issuer then held by such Registered Holder, such Registered Holder shall enter into such an agreement only if (i) such agreement is for a specified period of time that is customary under the circumstances (not to exceed 360 days in any event) following the effective date of the registration statement for such offering, (ii) such agreement contains other terms customary in such agreements and (iii) all principal stockholders of Issuer enter into agreements, substantially identical in form and substance with such agreement of such Registered Holder, covering the same period of time. Each Registered Holder shall pay to the underwriters commissions relating to the sale of their respective Registrable Securities.

D. Other than the right to have all or any portion of its, his or her Registrable Securities included in the Issuer's initial Registration Statement after the date hereof, each Registered Holder shall have three additional opportunities to have all or any portion of its, his or her Registrable Securities registered under this Section (a) on a "piggy-back basis"; provided the Issuer shall not be obligated to register any Registrable Securities once they may be sold by the Holder thereof in accordance with Rule 144(k) promulgated under the Securities Act.

E. Each Registered Holder shall furnish in writing to Issuer such information as Issuer shall reasonably require in connection with a Registration Statement.

(b) In the event Issuer effects any registration under the Securities Act of any Registrable Securities pursuant to Section (a), the Issuer shall indemnify, to the extent permitted by law, and hold harmless each Registered Holder whose Registrable Securities are included in such Registration Statement (each, a "Seller"), any underwriter, any officer, director, employee or agent of such Seller or underwriter, such Seller's separate legal counsel and independent accountants, and each other person, if any, who controls such Seller or underwriter within the meaning of Section 15 of the Securities Act, against any losses, claims, damages or liabilities, judgment, fines, penalties, costs and expenses, joint or several, or actions in respect thereof including any of the foregoing incurred in settlement of any litigation, commenced or threatened, (collectively, the "Claims"), to which each such indemnified party becomes subject, under the Securities Act or otherwise, insofar as such Claims arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to

such registration or any other document filed under a state securities or blue sky law (collectively, the "Registration Documents") or insofar as such Claims arise out of or are based upon the omission or alleged omission to state in any Registration Document a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, or insofar as any Claim is based upon or arises out of any violation by Issuer of any rule or regulation promulgated under the Securities Act applicable to Issuer in connection with such registration and will reimburse any such indemnified party for any legal or other expenses reasonably incurred by such indemnified party in investigating or defending any such Claim; provided that the Issuer shall not be liable in any such case to the extent such Claim is based upon an untrue statement or alleged untrue statement of a material fact or omission or alleged omission of a material fact made in any Registration Document in reliance upon and in conformity with written information furnished to Issuer by an instrument duly executed by such Seller, which instrument provides specifically that such written information is provided for use in the preparation of such Registration Document.

(c) In connection with any registration statement in which any Seller is participating, each Seller, severally and not jointly, to the extent permitted by law, shall indemnify and hold harmless Issuer, each of its directors, each of its officers who have signed such registration statement, each other person, if any, who controls Issuer within the meaning of Section 15 of the Securities Act, each other Seller and each underwriter, any officer, director, employee or agent of any such other Seller or underwriter and each other person, if any, who controls such other Seller or underwriter within the meaning of Section 15 of the Securities Act against any Claims to which each such indemnified party may become subject under the Securities Act or otherwise, insofar as such Claims are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Document, or insofar as any Claim is based upon the omission or alleged omission to state in any Registration Document a material fact required to be stated therein or necessary to make the statements made therein in the light of the circumstances under which they were made, not misleading, and will reimburse any such indemnified party for any legal or other expenses reasonably incurred by such indemnified party in investigating or defending any such Claim; provided, however, that such indemnification or reimbursement shall be payable only if, and only to the extent that, any such Claim arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Registration Document in reliance upon and in conformity with written information furnished to Issuer by an instrument duly executed by such Seller, which instrument provides specifically that such written information is provided for use in the preparation of such Registration Documents.

(d) Any person entitled to indemnification under Sections (b) or (c) above shall notify promptly the indemnifying party in writing of the commencement of any Claim if a claim for indemnification in respect thereof is to be made against an indemnifying party under Section (b) or (c), but the omission of such notice shall not relieve the indemnifying party from any liability which it may have to any indemnified party under Section (b) or (c) above or otherwise, except to the extent that such failure shall materially adversely affect any indemnifying party or its rights hereunder. In case any action is brought against the indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it chooses, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party; and, after notice from the indemnifying party to the indemnified party that it so chooses, the indemnifying party shall not be liable for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof; provided, however, that (i) if the indemnifying party fails to take reasonable steps necessary to defend diligently the Claim within twenty (20) days after receiving notice from the indemnified party that the indemnified

party believes it has failed to do so; (ii) if the indemnified party who is a defendant in any action or proceeding which is also brought against the indemnifying party reasonably shall have concluded that there are legal defenses available to the indemnified party which are not available to the indemnifying party; or (iii) if representation of both parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct, the indemnified party shall have the right to assume or continue its own defense as set forth above (but with no more than one firm of counsel for all indemnified parties in each jurisdiction, except to the extent any indemnified party or parties reasonably shall have concluded that there are legal defenses available to such party or parties which are not available to the other indemnified parties or to the extent representation of all indemnified parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct) and the indemnifying party shall be liable for any reasonable expenses therefor; provided, that no indemnifying party shall be subject to any liability for any settlement of a Claim made without its consent (which may not be unreasonably withheld, delayed or conditioned). If the indemnifying party assumes the defense of any Claim hereunder, such indemnifying party shall not enter into any settlement without the consent of the indemnified party if such settlement attributes liability to the indemnified party (which consent may not be unreasonably withheld, delayed or conditioned).

(e) If for any reason a court of competent jurisdiction hold that the indemnity provided in Section (b) or (c) above is unavailable to, or is insufficient to hold harmless, an indemnified party, then the indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of any Claim in such proportion as is appropriate to reflect the relative fault of such indemnifying party and such indemnified party 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 indemnifying party or by such indemnified party and such parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligation of any underwriters to contribute pursuant to this subsection (e) shall be several in proportion to their respective underwriting commitments and not joint.

(f) The provisions of Sections (b) through (e) hereof shall be in addition to any other rights to indemnification or contribution which any indemnified party may have pursuant to applicable law or contract and shall remain operative and in full force and effect regardless of any investigation made or omitted by or on behalf of any indemnified party and shall survive the transfer of the Registrable Securities by any such party.

(g) If and whenever Issuer is required by the provisions of Section (a) to register any Registrable Securities under the Securities Act, Issuer shall, as expeditiously as possible under the circumstances:

A. Prepare and file with the SEC a registration statement with respect to such Registrable Securities on any form that may be used by Issuer and that shall permit the disposition of the Registrable Securities in accordance with the intended method or methods of disposition thereof and use its best efforts to cause such registration statement to become effective as

soon as possible and remain effective thereafter as provided herein, provided that prior to filing a registration statement or prospectus or any amendment or supplement thereto, including documents incorporated by reference after the initial filing of any registration statement, Issuer will (i) furnish to each Registered Holder whose Registrable Securities are covered by such registration statement, his, her or its counsel and the underwriters, if any, copies of all such documents proposed to be filed sufficiently in advance of filing to provide them with a reasonable opportunity to review such documents and comment thereon and (ii) use its best efforts to reflect in each such document, when so filed with the SEC, such comments as are reasonably proposed.

B. Prepare and file with the SEC 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 current and to comply with the provisions of the Securities Act, and any regulations promulgated thereunder, with respect to the sale or other disposition of all Registrable Securities covered by such registration statement required to effect the distribution of the securities, but in no event shall Issuer be required to keep such registration statement effective for a period of more than three (3) years following the effective date of such registration statement.

C. Furnish to the Sellers participating in the offering, and any underwriters, copies (in such quantities as are reasonably requested) of summary, preliminary, final, amended or supplemented prospectuses and any amendments or supplements thereto that update previous prospectuses or amendments or supplements thereto, in conformity with the requirements of the Securities Act and any regulations promulgated thereunder, and other documents as reasonably may be required in order to facilitate the disposition of the securities, but only while Issuer is required under the provisions hereof to keep such registration statement effective and current.

D. Use its best efforts to register or qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions of the United States as any Seller participating in the offering or any underwriter shall reasonably request, keep such registrations or qualifications in effect for so long as such registration statement is required under the provisions hereof to be kept current and effective, and do any and all other acts and things which may be reasonably necessary or advisable to enable each participating Seller or underwriter to consummate the disposition of the Registrable Securities in such jurisdictions.

E. Notify each Seller selling Registrable Securities and any underwriters and confirm such advice in writing, (i) when such registration statement or the prospectus included therein or any prospectus amendment or supplement or post-effective amendment has been filed, and, with respect to such registration statement or any post-effective amendment, when the same has become effective, (ii) of any comments by the SEC, by the National Association of Securities Dealers Inc., and by the blue sky or securities commissioner or regulator of any state with respect thereto or any request by any such entity for amendments or supplements to such registration statement or prospectus or for additional information, (iii) of the issuance by the SEC of any stop order suspending the effectiveness of such registration statement or the initiation or threatening of any proceedings for that purpose, (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification

of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, or (v) at any time when a prospectus relating to any such Registrable Securities covered by such registration statement is required to be delivered under the Securities Act, of Issuer's becoming aware that the prospectus included in such registration statement, as then in effect, such registration statement, any amendment (including a post-effective amendment) or supplement thereto, or any document incorporated by reference in any of the foregoing, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and promptly prepare and furnish to each such Seller selling Registrable Securities or any underwriter a number (as reasonably requested by such Seller or underwriter) of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made.

F. As soon as practicable after the effective date of such registration statement, and in any event within eighteen (18) months thereafter, make generally available to Sellers participating in the offering an earnings statement covering a period of at least twelve (12) consecutive months beginning after the effective date of such registration statement which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act, and Rule 158 thereunder. To the extent that Issuer files such information with the SEC in satisfaction of the foregoing, Issuer need not deliver the above referenced earnings statement to Seller.

G. Upon request, deliver promptly to counsel of each Seller participating in the offering copies of all correspondence between the SEC and Issuer, its counsel or auditors and all memoranda relating to discussions with the SEC or its staff with respect to the registration statement and permit each such Seller to do such investigation at such Seller's sole cost and expense, upon reasonable advance notice, with respect to information contained in or omitted from such registration statement as it deems reasonably necessary. Each Seller agrees that it will use its best efforts not to interfere unreasonably with Issuer's business when conducting any such investigation and each Seller shall keep any such information received pursuant to this Subsection G confidential.

H. For a reasonable period after the filing of such registration statement, and throughout the period during which Issuer is required to keep such registration statement effective and current, make reasonably available for inspection by each Seller, any underwriter, and any attorney, accountant or other agent retained by such Seller or underwriter, all relevant financial and other information, books and records and properties of Issuer, and cause the officers, directors, employees, counsel and independent certified public accountants of Issuer to supply all relevant information reasonably requested by such Seller, underwriter or any attorney, accountant or other agent retained by such Seller or underwriter in connection with such registration statement as is

customary for similar due diligence investigations; provided, however, that any information that is designated in writing by Issuer, in good faith, as confidential at the time of delivery of such information shall be kept confidential by such Seller or any such attorney, accountant or agent, unless such disclosure is made in connection with a court proceeding or required by law, or such information becomes available to the public generally or through a third party without an accompanying obligation of confidentiality.

I. Provide a transfer agent and registrar located in the United States for all such Registrable Securities covered by such registration statement not later than the effective date of such registration statement.

J. List the Registrable Securities covered by such registration statement on such securities exchanges or automated quotation systems on which the Common Stock may then be listed.

K. Pay all Registration Expenses (as hereinafter defined) incurred in connection with a registration of Registrable Securities, whether or not such registration statement shall become effective; provided that each Seller shall pay all underwriting discounts, commissions, non-accountable expense allowances and transfer taxes, if any, relating to the sale or disposition of such Seller's Registrable Securities pursuant to a registration statement. As used herein, "Registration Expenses" means all expenses incident to Issuer's performance of or compliance with its obligations set forth herein, including, without limitation, (i) all registration, qualification and filing fees, (ii) all fees, costs and expenses of complying with state securities or blue sky laws (including reasonable fees, expenses and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities but no other expenses of the underwriters or their counsel), (iii) all printing, messenger, telephone and delivery expenses, (iv) the fees, expenses and disbursements of counsel for Issuer and Issuer's independent public accountants (including the expenses of any special audit and "cold comfort" letters required by or incident to such performance), (v) all fees, expenses and disbursements of any other individuals or entities retained by Issuer in connection with the registration of the Registrable Securities, (vi) Securities Act liability insurance if Issuer so desires, (vii) all fees, costs and expenses incurred in connection with the listing of the Registrable Securities on each national securities exchange or automated quotation system on which Issuer has made application for the listing of its Common Stock; and (viii) all internal expenses of Issuer (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties and expenses of any annual audit).

L. Permit each Seller to rely on any representations and warranties made by Issuer to any underwriter or any opinion of counsel or "cold comfort" letter delivered to any such underwriter, and indemnify each such Seller to the same extent that Issuer indemnifies any such underwriter.

M. Otherwise use reasonably diligent efforts to comply with all applicable provisions of the Securities Act and the rules and regulations of the SEC promulgated thereunder in connection with the registration of Registrable Securities.

(b) With a view to making available the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable Securities to the public without registration, after such time as a public market exists for the Common Stock, Issuer shall use reasonably diligent efforts to:

A. Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, beginning 90 days after Issuer registers a class of securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or completes a registered offering under the Securities Act;

B. File with the SEC in a timely manner all reports and other documents required of Issuer under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements);

C. Furnish to any Registered Holder promptly upon request a written statement as to its compliance with the reporting requirements of Rule 144 (at any time after 90 days after Issuer completes a registered offering under the Securities Act), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of Issuer, and such other reports and documents of Issuer and other information in the possession of or reasonably obtainable by Issuer as a Registered Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing a Registered Holder to sell Registrable Securities without registration under the Securities Act.

The parties have executed this Exhibit A to Note as of the date first written above.

GALES INDUSTRIES INCORPORATED

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

/s/ Peter Rettaliata

Peter Rettaliata

EXHIBIT 4.2

NEITHER THIS NOTE NOR THE SECURITIES ISSUABLE UPON CONVERSION OF THIS NOTE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAW AND MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE ACT AND APPLICABLE STATE SECURITIES LAWS

THIS NOTE AND THE SECURITIES ISSUABLE UPON CONVERSION OF THIS NOTE ARE SUBJECT TO THE TERMS AND CONDITIONS OF THE REGISTRATION RIGHTS PROVISIONS ATTACHED HERETO AS EXHIBIT A.

CONVERTIBLE PROMISSORY NOTE

$332,631.00 November 30, 2005
New York, New York

For good and valuable consideration, the receipt of which is hereby acknowledged, Gales Industries, Incorporated, a Delaware corporation (the "Company"), promises to pay to the order of Dario Peragallo or his registered assigns (the "Holder"), the principal sum of Three Hundred Thirty Two Thousand Six Hundred Thirty One Dollars ($332,631.00) on the earlier of (i) November 30, 2010 (the "Scheduled Due Date") and (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").

From the date hereof to (and including) the Scheduled Due Date, interest shall accrue on the unpaid principal sum of this Note at an adjustable rate equal to the "Prime Rate" (as hereinafter defined), as adjusted as provided for herein, plus 0.5% per annum. All accrued interest shall be paid together with principal on the Maturity Date. Interest shall accrue on any portion of the principal amount of this Note outstanding from time to time after the Scheduled Due Date until payment thereof in full, at a floating rate equal to the Prime Rate plus 7% per annum. For purposes hereof the "Prime Rate" means the rate publicly announced by Citibank as its "prime rate" (even though Citibank may not lend money at such rate) or, if Citibank ceases to quote such rate, the Federal Funds rate. Interest shall be calculated on the basis of a 365 or 366 day year, as the case may be, and the actual number of days elapsed and the rate of interest charged hereunder shall change effective on the first day of each calendar quarter (to wit, October 1, January 1, April 1 and July 1) to the Prime Rate in effect as of the end of such date or the most recent business day. In no event shall the Holder hereof, or any successor or permitted assign, be entitled to receive, collect or retain any amount of interest paid hereon in excess of that permitted by applicable law. All interest payable hereunder shall be paid, subject to the provisions of Section 1(e) hereof, in the number of shares of Common Stock (as defined below) equal to the quotient resulting from the division of all such interest by the Conversion Price (as defined below).

All payments made pursuant to this Note shall be applied first to reimbursable expenses, interest accrued, if any, and then principal.

This Note is issued pursuant to that certain Stock Purchase Agreement, dated as of July 25, 2005 (as amended, the "Stock Purchase Agreement") entered into among the Company, Peter Rettaliata, Air Industries Machining, Corp. ("AIM"), Jorge Peragallo, Luis Peragallo, and Dario Peragallo.

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. Conversion. (a) From and after January 1, 2006, all, but not less than all, of the outstanding principal amount of this Note together with interest accrued thereon through and including the effective date of such conversion, is convertible, at the option of Company, into shares of common stock of the Company ("Common Stock") at a price of forty cents ($.40) per share (the "Conversion Price"), subject to adjustment pursuant to the terms and provision hereof (as so adjusted, the "Conversion Price"), provided that on the day that the Conversion Notice (as hereinafter defined) is given by the Company to the Holder and on the Conversion Date (as hereinafter defined), the following conditions are satisfied: (i) (A) the shares of Common Stock issuable upon conversion have been registered by the Company for resale by the Holder pursuant to the Securities Act of 1933, as amended (the "Securities Act"), and the registration statement effecting such registration (the "Registration Statement") is then currently effective or (B) there is available an exemption that would permit such shares of Common Stock to be immediately resold by the Holder; and (ii) any lock-up agreement entered into by the Holder in favor of or at the request of the Company has expired or been waived. Any notice of conversion ("Conversion Notice") must be given by the Company to all Holders of record of this Note no less than thirty (30) days nor more than forty-five (45) days prior to the date set forth for conversion (the "Conversion Date"). The Conversion Notice shall remain effective only if the Registration Statement remains effective continually throughout the notice period or counsel for the Company does not revoke its opinion as to the availability of an exemption permitting immediate resale of the Common Stock. On the Conversion Date, the outstanding principal amount of this Note, and all interest accrued thereon through and including the Conversion Date, shall automatically and without further notice be deemed converted into shares of Common Stock at the Conversion Price then in effect and not later than three (3) business days after the presentation of this Note, the Company will deliver to the Holder a certificate or certificates representing the number of shares of Common Stock into which the then-outstanding principal amount of and interest accrued on this Note was converted on the Conversion Date, together with cash in lieu of fractional shares of Common Stock pursuant to Section 1(e) hereof, if applicable.

(b) From and after the earlier of (i) January 1, 2007, and (ii) the first date on which the Company intends to effect any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger, consolidation or other combination of the Company with or into any other Company, or any sale or transfer of all or substantially all the assets of the Company to any other person or any voluntary or involuntary dissolution, liquidation or winding up of the Company, all, but not less than all, of the outstanding principal amount of this Note together with interest accrued thereon through and including the effective date of such conversion, is convertible, at the option of the Holder, into shares of Common Stock at the Conversion Price. To effect such conversion, the Holder shall deliver this Note with a duly executed Conversion Notice in the form annexed hereto to the Company

at the address set forth herein. For purposes of a conversion by the Holder, the date upon which a Conversion Notice is received by the Company is referred to as the Conversion Date. On the Conversion Date, the outstanding principal amount of this Note, and all interest accrued thereon through and including the Conversion Date, shall automatically and without further notice be deemed converted into shares of Common Stock at the Conversion Price then in effect and not later than three (3) business days after the presentation of this Note, the Company will deliver to the Holder a certificate or certificates representing the number of shares of Common Stock into which the then-outstanding principal amount of and interest accrued on this Note was converted on the Conversion Date, together with cash in lieu of fractional shares of Common Stock pursuant to Section 1(e) hereof, if applicable.

(c) Upon request of the Company the Holder shall cooperate in the registration under the Securities Act of the Common Stock issuable hereunder by complying with its obligations under the Registration Rights Provisions annexed hereto as Exhibit A (the "Registration Rights Provisions").

(d) Subject to the provisions of this Section 1(d) and 1(e), the number of shares of Common Stock issuable upon conversion of this Note shall be the entire principal amount of this Note together with all accrued but unpaid interest thereon through and including the Conversion Date, divided by the Conversion Price then in effect.

(i) If the Common Stock issuable upon conversion of the principal amount of this Note shall be changed into the same or a different number of shares of any other class or classes of stock or other equity security, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for below or a merger or consolidation as provided for below) then, concurrently with the effectiveness of such reorganization, recapitalization or other similar transaction, the securities issuable upon conversion of this Note shall be adjusted such that this Note shall be convertible into, in lieu of the number of shares of Common Stock that the Holders would otherwise be entitled to receive, a number of shares of such other class or classes of stock or other equity security equivalent to the number of shares of such class or classes that would have been issued to the Holders had they converted this Note immediately prior to such change and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section. The Conversion Price upon such conversion shall be the Conversion Price that would otherwise be in effect pursuant to the terms hereof. Notwithstanding anything herein to the contrary, the Company will not effect any such reorganization reclassification or other similar transactions unless prior to the consummation thereof, the entity that may be required to deliver stock upon the conversion of this Note shall agree by an instrument in writing to deliver such stock, cash, or other equity security to the Holder.

(ii) If the Company at any time or from time to time makes or fixes a record date for the determination of holders of Common Stock entitled to receive any distributions payable in securities of the Company other than shares of Common Stock and as otherwise adjusted in this Section, then and in such event provision shall be made so that the Holder receives upon conversion hereof, in addition to the number of shares of Common Stock receivable, the

amount of securities of the Company that he would have received had this Note been converted into Common Stock on the date of such event and had he thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable as aforesaid during such period, subject to all other adjustments called for during such period under this Section.

(iii) In case the Company at any time or from time to time after the date hereof shall (a) declare or pay any dividend on the Common Stock payable in shares of Common Stock, (b) subdivide the outstanding shares of Common Stock into a greater number of shares of Common Stock or (c) combine the outstanding shares of Common Stock into a smaller number of shares of Common Stock, then, and in each such case, the Conversion Price shall be adjusted to that price determined by multiplying the Conversion Price in effect by a fraction (x) the numerator of which shall be the number of issued and outstanding shares of Common Stock immediately before such dividend, distribution, subdivision or combination and (y) the denominator of which shall be the total number of issued and outstanding shares of Common Stock immediately after such dividend, distribution, subdivision or combination. Upon such adjustment of the Conversion Price, the number of shares of Common Stock issuable upon conversion of this Note shall be increased (in the case of a reduction in the Conversion Price) or decreased (in the case of an increase in the Conversion Price) proportionately.

(iv) If the Company shall merge, consolidate or otherwise combine with or into another entity, this Note shall automatically become convertible into the same kind and number of shares of stock and other securities, cash or property (and upon the same terms and with the same rights) as would have been received by a holder of the number of shares of Common Stock into which this Note could have been converted immediately prior to such merger, consolidation or combination, without change to the Conversion Price. Notwithstanding anything herein to the contrary, the Company will not effect any such merger, consolidation or combination, unless prior to consummation thereof, the entity that may be required to deliver stock, cash, securities or other assets upon the conversion of this Note shall agree by an instrument in writing to deliver such stock, cash, securities or other assets to the Holder.

(e) Upon a conversion hereunder, the Company shall not be required to issue fractional shares of Common Stock or scrip representing fractional shares of Common Stock. In lieu thereof, the Company may, if otherwise permitted, make a cash payment in respect of any fractional share based on the Conversion Price at such time. No cash payment of less than $1.00 shall be required to be given unless specifically requested by the Holder. If the Company elects not, or is unable, to make such a cash payment, the Holder shall be entitled to receive, in lieu of the final fraction of a share, one whole share of Common Stock.

(f) The issuance of certificates for shares of Common Stock on conversion of this Note shall be made without charge to the holders thereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificate, provided that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the

issuance and delivery of any such certificate upon conversion in a name other than that of the Holder and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

(g) The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of this Note and the Convertible Promissory Note issued to Peter Rettaliata pursuant to the Stock Purchase Agreement (the "Rettaliata Note"), such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of this Note and the Rettaliata Note; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of this Note and the Rettaliata Note, the Company will promptly take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(h) In each case of an adjustment or readjustment of the Conversion Price or the number of shares of Common Stock or other securities issuable upon conversion of this Note, the Company, at its own expense, shall cause its Chief Financial Officer to compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall send such certificate, by prepaid courier, to the Holder. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based. No adjustment in the Conversion Price shall be required to be made unless it would result in an increase or decrease of at least one cent, but any adjustments not made because of this sentence shall be carried forward and taken into account in any subsequent adjustment otherwise required hereunder.

(i) Upon (i) the establishment by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger, consolidation or other combination of the Company with or into any other Company, or any sale or transfer of all or substantially all the assets of the Company to any other person or any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall send to the Holder at least twenty days prior to the record date specified therein a notice specifying (A) the date on which any such record is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (B) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (C) the date, if any, that is to be fixed as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

(j) The Company shall not amend its Certificate of Incorporation or participate in any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action for the purpose of avoiding or seeking to avoid the observance or performance of any of

the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the Holders of this Note against dilution or other impairment as provided herein.

2. Events of Default. If any of the events specified in this Section 2 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 or applicable law, either by suit in equity or by action at law, or both, declare the entire principal amount (and interest accrued thereon) 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), 2(d) or 2(g) hereof, the entire principal amount (and accrued interest thereon) and all other amounts shall automatically become due and payable:

(a) Payment of principal of this Note or interest accrued thereon shall be delinquent for a period of 10 days 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 Employment Agreement between the Company and Dario Peragallo, 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, within 45 days after the appointment 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 default of the Company under any Indebtedness (as defined below), whether such indebtedness now exists or is hereafter created, that gives the holder thereof the right to accelerate such Indebtedness, and such Indebtedness is in fact accelerated by the holder. For purposes hereof, the term "Indebtedness" shall mean (i) all obligations of the Company for borrowed money, (ii) all obligations of the Company evidenced by bonds, debentures, notes or

other similar instruments, including without limitation the Rettaliata Note and the Note (as defined in the Stock Purchase Agreement), (iii) all obligations of the Company under a lease that are required to be classified and accounted for as capital lease obligations under generally accepted accounting principles in the United States, (iv) all obligations of the Company issued or assumed as the deferred purchase price of property or services, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 90 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and any deferred purchase price represented by earn outs), (v) all obligations for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than those issued or incurred in respect of trade payables arising in the ordinary course of business), (vi) all obligations, whether or not assumed, which are secured by liens on the property belonging to the Company or payable out of the proceeds flowing therefrom, or (vii) all obligations under any guarantee by the Company of any Indebtedness or other obligation of any other person or entity;

(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) Dario Peragallo shall have terminated his employment for Good Reason (as defined in the Employment Agreement) or the Company or AIM shall have terminated the employment of Dario Peragallo without Cause (as defined in the Employment Agreement).

3. Miscellaneous.

3.1. 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.

3.2. 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 City and County of New York, 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.

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

3.4. 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.

3.5. 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.

3.6 Costs of Collection. The Company shall reimburse Holder for all reasonable costs and expenses, including without limitation reasonable attorneys fees and costs, 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 and (ii) enforcing any provision of this Note and/or collecting any amounts due under this Note.

3.7. 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: Dario Peragallo
20 Coles Place
Northport, New York 11768

To Company at: Gales Industries, Incorporated
333 East 66th Street, 9th Floor,
New York, New York 10021

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).

3.8 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.

3.9 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.

3.10 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.

3.11 Registration Rights. This Note is subject to and the Company agrees to the Registration Rights provisions contained in Exhibit A hereto. By accepting this Note or receiving any benefits hereunder, the Holder, and each successor Holder, hereby agrees to the provisions set forth in Exhibit A hereto.

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

GALES INDUSTRIES, INCORPORATED

By: /s/ Michael A. Gales

Name: Michael Gales
Title: Executive Chairman

NOTICE OF CONVERSION

The undersigned hereby irrevocably elects to convert the annexed Convertible Promissory Note (the "Note") into shares of Common Stock of Gales Industries, Incorporated and requests that certificates for such shares, or the shares issuable therefore pursuant to the terms of the Note, be issued in the name of*:

- ---

- ---

- ---

(please print name, address, and social security number or employer identification number)

Dated: _____, 20___

Name of Note holder or Assignee:

- ---

(please print)

Address:

- ---

- ---

- ---

Signature:

Signature Guaranteed: NOTE: THE ABOVE SIGNATURE MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE WITHIN NOTE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER, UNLESS THE WITHIN NOTE HAS BEEN ASSIGNED.

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* If other than the Holder specified on the Note delivered with this Notice of Conversion, the transfer is subject to compliance with applicable securities laws and the payment by the Holder of any applicable transfer or similar taxes.

Exhibit A to Note

REGISTRATION RIGHTS

The following provisions are part of the Convertible Promissory Note (the "Note") that was initially issued to Dario Peragallo (the "Holder") on November 30, 2005, and any Note that is issued to any person who or which becomes a Holder as permitted by the Note. References to the "Note" include each such subsequently issued Note, collectively, the "Notes." As used below, the "Issuer" means Gales Industries, Incorporated its successors and assigns including without limitation the public company with which it enters into a "reverse merger" transaction; "Registered Holder" means the Holder and "Registered Holders" refers to the holders of the Notes. All capitalized terms below shall have the same meanings as in the Note, unless otherwise defined. Paragraph references below are to the paragraphs of this Exhibit A.

Registration Rights

(a) Registered Holders shall have certain registration rights as follows:

A. If Issuer shall determine to file with the Securities and Exchange Commission (the "SEC") a registration statement ("Registration Statement") under the Securities Act, registering any shares of Common Stock of Issuer, whether or not for its own account or with respect to shares owned by any person or entity, other than a Registration Statement relating to an employee benefit plan or a registration effected on Form S-4, Issuer shall (i) provide to each Registered Holder written notice thereof at least twenty days prior to the filing of such Registration Statement; and (ii) include in such Registration Statement, and in any underwriting involved therein, all of the shares into which the Notes are convertible (the "Registrable Securities"), subject to the remaining terms of this Section (a).

B. Within fifteen (15) days after the receipt of such notice from Issuer, each Registered Holder shall give written notice to Issuer if the Registered Holder desires to have included in the Registration Statement, and in any underwriting involved therein, all of the Registrable Securities, and if a Registered Holder fails to give such notice within such period, such Registered Holder shall not have the right to have such Registered Holder's Registrable Securities registered, pursuant to such Registration Statement; provided, however, if such Registration Statement is the initial Registration Statement filed by Issuer with the SEC registering shares of capital stock of Issuer (other than a Registration Statement relating to an employee benefit plan or a registration effected on Form S-4), then Issuer shall include in such Registration Statement all the Registrable Securities held by each Registered Holder regardless of whether or not any such Registered Holder has timely given such written notice. If a Registered Holder gives such notice on a timely basis, or if otherwise required pursuant to the foregoing provisions, then Issuer shall include such Registered Holder's Registrable Securities in the Registration Statement and in any underwriting relating thereto, at Issuer's sole cost and expense, subject to the remaining terms of this Section (a).

C. If the Registration Statement (other than the initial Registration Statement to be filed by the Company after the date hereof) relates to an underwritten offering, and the managing underwriter determines in writing that the total number of shares of Common Stock to be included in the offering,

including the Registrable Securities, exceeds the amount which the managing underwriter deems to be appropriate for such offering based on market factors, the number of shares of the Registrable Securities of all Registered Holders shall be reduced in the same proportion as the remainder of the shares in such offering, other than those to be sold for the account of the Company, and each Registered Holder's Registrable Securities included in such Registration Statement will be reduced proportionately. For this purpose, if other securities in the Registration Statement are derivative securities, their underlying shares shall be included in the computation. Each Registered Holder shall enter into such agreements as may be reasonably required by the managing underwriter, provided, however, that if requested by such managing underwriter to enter into any agreement not to sell or otherwise transfer or dispose of any Registrable Securities or other securities of Issuer then held by such Registered Holder, such Registered Holder shall enter into such an agreement only if (i) such agreement is for a specified period of time that is customary under the circumstances (not to exceed 360 days in any event) following the effective date of the registration statement for such offering, (ii) such agreement contains other terms customary in such agreements and (iii) all principal stockholders of Issuer enter into agreements, substantially identical in form and substance with such agreement of such Registered Holder, covering the same period of time. Each Registered Holder shall pay to the underwriters commissions relating to the sale of their respective Registrable Securities.

D. Other than the right to have all or any portion of its, his or her Registrable Securities included in the Issuer's initial Registration Statement after the date hereof, each Registered Holder shall have three additional opportunities to have all or any portion of its, his or her Registrable Securities registered under this Section (a) on a "piggy-back basis"; provided the Issuer shall not be obligated to register any Registrable Securities once they may be sold by the Holder thereof in accordance with Rule 144(k) promulgated under the Securities Act.

E. Each Registered Holder shall furnish in writing to Issuer such information as Issuer shall reasonably require in connection with a Registration Statement.

(b) In the event Issuer effects any registration under the Securities Act of any Registrable Securities pursuant to Section (a), the Issuer shall indemnify, to the extent permitted by law, and hold harmless each Registered Holder whose Registrable Securities are included in such Registration Statement (each, a "Seller"), any underwriter, any officer, director, employee or agent of such Seller or underwriter, such Seller's separate legal counsel and independent accountants, and each other person, if any, who controls such Seller or underwriter within the meaning of Section 15 of the Securities Act, against any losses, claims, damages or liabilities, judgment, fines, penalties, costs and expenses, joint or several, or actions in respect thereof including any of the foregoing incurred in settlement of any litigation, commenced or threatened, (collectively, the "Claims"), to which each such indemnified party becomes subject, under the Securities Act or otherwise, insofar as such Claims arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to such registration or any other document filed under a state securities or blue

sky law (collectively, the "Registration Documents") or insofar as such Claims arise out of or are based upon the omission or alleged omission to state in any Registration Document a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, or insofar as any Claim is based upon or arises out of any violation by Issuer of any rule or regulation promulgated under the Securities Act applicable to Issuer in connection with such registration and will reimburse any such indemnified party for any legal or other expenses reasonably incurred by such indemnified party in investigating or defending any such Claim; provided that the Issuer shall not be liable in any such case to the extent such Claim is based upon an untrue statement or alleged untrue statement of a material fact or omission or alleged omission of a material fact made in any Registration Document in reliance upon and in conformity with written information furnished to Issuer by an instrument duly executed by such Seller, which instrument provides specifically that such written information is provided for use in the preparation of such Registration Document.

(c) In connection with any registration statement in which any Seller is participating, each Seller, severally and not jointly, to the extent permitted by law, shall indemnify and hold harmless Issuer, each of its directors, each of its officers who have signed such registration statement, each other person, if any, who controls Issuer within the meaning of Section 15 of the Securities Act, each other Seller and each underwriter, any officer, director, employee or agent of any such other Seller or underwriter and each other person, if any, who controls such other Seller or underwriter within the meaning of Section 15 of the Securities Act against any Claims to which each such indemnified party may become subject under the Securities Act or otherwise, insofar as such Claims are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Document, or insofar as any Claim is based upon the omission or alleged omission to state in any Registration Document a material fact required to be stated therein or necessary to make the statements made therein in the light of the circumstances under which they were made, not misleading, and will reimburse any such indemnified party for any legal or other expenses reasonably incurred by such indemnified party in investigating or defending any such Claim; provided, however, that such indemnification or reimbursement shall be payable only if, and only to the extent that, any such Claim arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Registration Document in reliance upon and in conformity with written information furnished to Issuer by an instrument duly executed by such Seller, which instrument provides specifically that such written information is provided for use in the preparation of such Registration Documents.

(d) Any person entitled to indemnification under Sections (b) or (c) above shall notify promptly the indemnifying party in writing of the commencement of any Claim if a claim for indemnification in respect thereof is to be made against an indemnifying party under Section (b) or (c), but the omission of such notice shall not relieve the indemnifying party from any liability which it may have to any indemnified party under Section (b) or (c) above or otherwise, except to the extent that such failure shall materially adversely affect any indemnifying party or its rights hereunder. In case any action is brought against the indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it chooses, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party; and, after notice from the indemnifying party to the indemnified party that it so chooses, the indemnifying party shall not be liable for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof; provided, however, that (i) if the indemnifying party fails to take reasonable steps necessary to defend diligently the Claim within twenty (20) days after receiving notice from the indemnified party that the indemnified party believes it has failed to do so; (ii) if the indemnified party who is a

defendant in any action or proceeding which is also brought against the indemnifying party reasonably shall have concluded that there are legal defenses available to the indemnified party which are not available to the indemnifying party; or (iii) if representation of both parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct, the indemnified party shall have the right to assume or continue its own defense as set forth above (but with no more than one firm of counsel for all indemnified parties in each jurisdiction, except to the extent any indemnified party or parties reasonably shall have concluded that there are legal defenses available to such party or parties which are not available to the other indemnified parties or to the extent representation of all indemnified parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct) and the indemnifying party shall be liable for any reasonable expenses therefor; provided, that no indemnifying party shall be subject to any liability for any settlement of a Claim made without its consent (which may not be unreasonably withheld, delayed or conditioned). If the indemnifying party assumes the defense of any Claim hereunder, such indemnifying party shall not enter into any settlement without the consent of the indemnified party if such settlement attributes liability to the indemnified party (which consent may not be unreasonably withheld, delayed or conditioned).

(e) If for any reason a court of competent jurisdiction hold that the indemnity provided in Section (b) or (c) above is unavailable to, or is insufficient to hold harmless, an indemnified party, then the indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of any Claim in such proportion as is appropriate to reflect the relative fault of such indemnifying party and such indemnified party 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 indemnifying party or by such indemnified party and such parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligation of any underwriters to contribute pursuant to this subsection (e) shall be several in proportion to their respective underwriting commitments and not joint.

(f) The provisions of Sections (b) through (e) hereof shall be in addition to any other rights to indemnification or contribution which any indemnified party may have pursuant to applicable law or contract and shall remain operative and in full force and effect regardless of any investigation made or omitted by or on behalf of any indemnified party and shall survive the transfer of the Registrable Securities by any such party.

(g) If and whenever Issuer is required by the provisions of Section (a) to register any Registrable Securities under the Securities Act, Issuer shall, as expeditiously as possible under the circumstances:

A. Prepare and file with the SEC a registration statement with respect to such Registrable Securities on any form that may be used by Issuer and that shall permit the disposition of the Registrable Securities in accordance with the intended method or methods of disposition thereof and use

its best efforts to cause such registration statement to become effective as soon as possible and remain effective thereafter as provided herein, provided that prior to filing a registration statement or prospectus or any amendment or supplement thereto, including documents incorporated by reference after the initial filing of any registration statement, Issuer will (i) furnish to each Registered Holder whose Registrable Securities are covered by such registration statement, his, her or its counsel and the underwriters, if any, copies of all such documents proposed to be filed sufficiently in advance of filing to provide them with a reasonable opportunity to review such documents and comment thereon and (ii) use its best efforts to reflect in each such document, when so filed with the SEC, such comments as are reasonably proposed.

B. Prepare and file with the SEC 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 current and to comply with the provisions of the Securities Act, and any regulations promulgated thereunder, with respect to the sale or other disposition of all Registrable Securities covered by such registration statement required to effect the distribution of the securities, but in no event shall Issuer be required to keep such registration statement effective for a period of more than three (3) years following the effective date of such registration statement.

C. Furnish to the Sellers participating in the offering, and any underwriters, copies (in such quantities as are reasonably requested) of summary, preliminary, final, amended or supplemented prospectuses and any amendments or supplements thereto that update previous prospectuses or amendments or supplements thereto, in conformity with the requirements of the Securities Act and any regulations promulgated thereunder, and other documents as reasonably may be required in order to facilitate the disposition of the securities, but only while Issuer is required under the provisions hereof to keep such registration statement effective and current.

D. Use its best efforts to register or qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions of the United States as any Seller participating in the offering or any underwriter shall reasonably request, keep such registrations or qualifications in effect for so long as such registration statement is required under the provisions hereof to be kept current and effective, and do any and all other acts and things which may be reasonably necessary or advisable to enable each participating Seller or underwriter to consummate the disposition of the Registrable Securities in such jurisdictions.

E. Notify each Seller selling Registrable Securities and any underwriters and confirm such advice in writing, (i) when such registration statement or the prospectus included therein or any prospectus amendment or supplement or post-effective amendment has been filed, and, with respect to such registration statement or any post-effective amendment, when the same has become effective, (ii) of any comments by the SEC, by the National Association of Securities Dealers Inc., and by the blue sky or securities commissioner or regulator of any state with respect thereto or any request by any such entity for amendments or supplements to such registration statement or prospectus or for additional information, (iii) of the issuance by the SEC of any stop order suspending the effectiveness of such registration statement or the initiation or threatening of any proceedings for that purpose, (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation or

threatening of any proceeding for such purpose, or (v) at any time when a prospectus relating to any such Registrable Securities covered by such registration statement is required to be delivered under the Securities Act, of Issuer's becoming aware that the prospectus included in such registration statement, as then in effect, such registration statement, any amendment (including a post-effective amendment) or supplement thereto, or any document incorporated by reference in any of the foregoing, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and promptly prepare and furnish to each such Seller selling Registrable Securities or any underwriter a number (as reasonably requested by such Seller or underwriter) of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made.

F. As soon as practicable after the effective date of such registration statement, and in any event within eighteen (18) months thereafter, make generally available to Sellers participating in the offering an earnings statement covering a period of at least twelve (12) consecutive months beginning after the effective date of such registration statement which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act, and Rule 158 thereunder. To the extent that Issuer files such information with the SEC in satisfaction of the foregoing, Issuer need not deliver the above referenced earnings statement to Seller.

G. Upon request, deliver promptly to counsel of each Seller participating in the offering copies of all correspondence between the SEC and Issuer, its counsel or auditors and all memoranda relating to discussions with the SEC or its staff with respect to the registration statement and permit each such Seller to do such investigation at such Seller's sole cost and expense, upon reasonable advance notice, with respect to information contained in or omitted from such registration statement as it deems reasonably necessary. Each Seller agrees that it will use its best efforts not to interfere unreasonably with Issuer's business when conducting any such investigation and each Seller shall keep any such information received pursuant to this Subsection G confidential.

H. For a reasonable period after the filing of such registration statement, and throughout the period during which Issuer is required to keep such registration statement effective and current, make reasonably available for inspection by each Seller, any underwriter, and any attorney, accountant or other agent retained by such Seller or underwriter, all relevant financial and other information, books and records and properties of Issuer, and cause the officers, directors, employees, counsel and independent certified public accountants of Issuer to supply all relevant information reasonably requested by such Seller, underwriter or any attorney, accountant or other agent retained by

such Seller or underwriter in connection with such registration statement as is customary for similar due diligence investigations; provided, however, that any information that is designated in writing by Issuer, in good faith, as confidential at the time of delivery of such information shall be kept confidential by such Seller or any such attorney, accountant or agent, unless such disclosure is made in connection with a court proceeding or required by law, or such information becomes available to the public generally or through a third party without an accompanying obligation of confidentiality.

I. Provide a transfer agent and registrar located in the United States for all such Registrable Securities covered by such registration statement not later than the effective date of such registration statement.

J. List the Registrable Securities covered by such registration statement on such securities exchanges or automated quotation systems on which the Common Stock may then be listed.

K. Pay all Registration Expenses (as hereinafter defined) incurred in connection with a registration of Registrable Securities, whether or not such registration statement shall become effective; provided that each Seller shall pay all underwriting discounts, commissions, non-accountable expense allowances and transfer taxes, if any, relating to the sale or disposition of such Seller's Registrable Securities pursuant to a registration statement. As used herein, "Registration Expenses" means all expenses incident to Issuer's performance of or compliance with its obligations set forth herein, including, without limitation, (i) all registration, qualification and filing fees, (ii) all fees, costs and expenses of complying with state securities or blue sky laws (including reasonable fees, expenses and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities but no other expenses of the underwriters or their counsel), (iii) all printing, messenger, telephone and delivery expenses, (iv) the fees, expenses and disbursements of counsel for Issuer and Issuer's independent public accountants (including the expenses of any special audit and "cold comfort" letters required by or incident to such performance), (v) all fees, expenses and disbursements of any other individuals or entities retained by Issuer in connection with the registration of the Registrable Securities, (vi) Securities Act liability insurance if Issuer so desires, (vii) all fees, costs and expenses incurred in connection with the listing of the Registrable Securities on each national securities exchange or automated quotation system on which Issuer has made application for the listing of its Common Stock; and (viii) all internal expenses of Issuer (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties and expenses of any annual audit).

L. Permit each Seller to rely on any representations and warranties made by Issuer to any underwriter or any opinion of counsel or "cold comfort" letter delivered to any such underwriter, and indemnify each such Seller to the same extent that Issuer indemnifies any such underwriter.

M. Otherwise use reasonably diligent efforts to comply with all applicable provisions of the Securities Act and the rules and regulations of the SEC promulgated thereunder in connection with the registration of Registrable Securities.

(b) With a view to making available the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable Securities to the public without registration, after such time as a public market exists for the Common Stock, Issuer shall use reasonably diligent efforts to:

A. Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, beginning 90 days after Issuer registers a class of securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or completes a registered offering under the Securities Act;

B. File with the SEC in a timely manner all reports and other documents required of Issuer under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements);

C. Furnish to any Registered Holder promptly upon request a written statement as to its compliance with the reporting requirements of Rule 144 (at any time after 90 days after Issuer completes a registered offering under the Securities Act), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of Issuer, and such other reports and documents of Issuer and other information in the possession of or reasonably obtainable by Issuer as a Registered Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing a Registered Holder to sell Registrable Securities without registration under the Securities Act.

The parties have executed this Exhibit A to Note as of the date first written above.

GALES INDUSTRIES INCORPORATED

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

/s/ Dario Peragallo

Dario Peragallo

Neither these securities nor the securities into which these securities are exercisable have been registered with the Securities and Exchange Commission or the securities commission of any state in reliance upon an exemption from registration under the Securities Act of 1933, as amended (the "Securities Act"), and, accordingly, may not be offered for sale, sold or otherwise disposed of except pursuant to an effective registration statement filed under the Securities Act or pursuant to an exemption from registration under such act and in compliance with applicable state securities or blue sky laws.

No._____

ASHLIN DEVELOPMENT CORPORATION
COMMON STOCK WARRANT

This certifies that _____ ("Holder") is entitled to purchase, subject to the terms and conditions of this Warrant, from Ashlin Development Corporation, a Florida corporation (the "Company"), _____ (___,000) fully paid and non assessable shares of the Company's Common Stock, par value $0.001 per Share ("Common Stock"), in accordance with Section 2 during the period commencing on _____, 2005 and ending at 5:00 p.m. EST, on _____, 2010 (the "Expiration Date"), at which time this Warrant will expire and become void unless earlier terminated as provided herein. The shares of Common Stock of the Company for which this Warrant is exercisable, as adjusted from time to time pursuant to the terms hereof, are hereinafter referred to as the "Shares."

1. Exercise Price. The initial purchase price for the Shares shall be $0.22 per share. Such price shall be subject to adjustment pursuant to the terms hereof (such price, as adjusted from time to time, is hereinafter referred to as the "Exercise Price").

Exercise and Payment. Commencing on the date hereof, this Warrant may be exercised, in whole or in part, from time to time by the Holder, during the term hereof, by surrender of this Warrant and the Exercise Agreement annexed hereto duly completed and executed by the Holder to the Company at the principal executive offices of the Company, together with payment in the amount obtained by multiplying the Exercise Price then in effect by the number of Shares thereby purchased, as designated in the Exercise Agreement. Payment may be in cash, by wire transfer of immediately available funds to an account specified by the Company or by cashier's check payable to the order of the Company. In addition to the foregoing, notwithstanding any provisions herein to the contrary, in lieu of exercising this Warrant in the manner set forth in this Section 2, the Holder may elect to exercise this Warrant or a portion hereof and to pay for the shares of Common Stock issuable upon such exercise by way of cashless exercise by surrendering this Warrant at the principal executive office of the Company, together with the Notice of Exercise attached hereto duly executed, in which event the Company shall issue to the Holder that number of shares of Common Stock of the Company computed using the following formula:

$$X = Y (A - B) / A$$

Where X = the number of shares of Common Stock to be issued to the Holder.

Y = the number of shares of Common Stock purchasable under this Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being cancelled (at the date of such calculation).

A = the greater of: (i) the Closing Price of one share of Common Stock (on the date prior to such exercise) or (ii) the 10-day average of the closing price of the shares of Common Stock on the OTC Bulletin Board prior to such surrender.

B = the Exercise Price (as adjusted to the date of such calculation).

If the above calculation results in a negative number, then no shares of Common Stock of the Company shall be issued or issuable upon conversion of this Warrant.

2. Reservation of Shares. The Company hereby agrees that at all times there shall be reserved for issuance and delivery upon exercise of this Warrant such number of shares of Common Stock or other shares of capital stock of the Company as are from time to time issuable upon exercise of this Warrant. All such shares shall be duly authorized, and when issued upon such exercise, shall be validly issued, fully paid and non-assessable, free and clear of all liens, security interests, charges and other encumbrances or restrictions on sale and free and clear of all preemptive rights.

3. Delivery of Stock Certificates. Within a reasonable time after exercise, and in no event more than 5 business days thereafter, in whole or in part, of this Warrant, the Company shall issue in the name of and deliver to the Holder a certificate or certificates for the number of fully paid and nonassessable shares of Common Stock which the Holder shall have requested in the Exercise Agreement. If this Warrant is exercised in part, the Company shall deliver to the Holder a new Warrant for the unexercised portion of this Warrant at the time of delivery of such stock certificate or certificates.

4. No Fractional Shares. No fractional shares or scrip representing fractional shares will be issued upon exercise of this Warrant. If upon any exercise of this Warrant a fraction of a share results, the Company will pay the Holder the difference between the fair market value of the fractional share and the portion of the Exercise Price allocable to the fractional share.

5. Charges, Taxes and Expenses. The Company shall pay all transfer taxes

or other incidental charges, if any, in connection with the transfer of the Shares purchased pursuant to the exercise hereof from the Company to the Holder.

6. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to the Company, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor and dated as of such cancellation, in lieu of this Warrant.

7. Saturdays, Sundays, Holidays, Etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding weekday which is not a legal holiday.

8. Adjustment of Exercise Price and Number of Shares. The Exercise Price and the number of and kind of securities purchasable upon exercise of this Warrant shall be subject to adjustment from time to time as follows:

(a) Subdivisions, Combinations and Other Issuances. If the Company shall at any time after the date hereof but prior to the expiration of this Warrant subdivide its outstanding securities as to which purchase rights under this Warrant exist, by stock split or otherwise, or combine its outstanding securities as to which purchase rights under this Warrant exist, the number of Shares as to which this Warrant is exercisable as of the date of such subdivision, stock split or combination shall forthwith be proportionately increased in the case of a subdivision, or proportionately decreased in the case of a combination. Appropriate adjustments shall also be made to the Exercise Price, but the aggregate purchase price payable for the total number of Shares purchasable under this Warrant as of such date shall remain the same.

(b) Merger. If at any time after the date hereof there shall be a merger or consolidation of the Company with or into another corporation when the Company is not the surviving corporation, then lawful provision shall be made so that the Holder shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the aggregate

Exercise Price then in effect, the number of shares or other securities or property of the successor corporation resulting from such merger or consolidation, which would have been received by Holder for the shares of stock subject to this Warrant had this Warrant been exercised prior to such merger or consolidation.

(c) Reclassification, Etc. If at any time after the date hereof there shall be a change or reclassification of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, then the Holder shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the Exercise Price then in effect, the number of shares or other securities or property resulting from such change or reclassification, which would have been received by Holder for the shares of stock subject to this Warrant had this Warrant at such time been exercised.

9. Notice of Adjustments; Notices. Whenever the Exercise Price or number of Shares purchasable hereunder shall be adjusted pursuant to Section 9 hereof, the Company shall execute and deliver to the Holder a certificate setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of and kind of securities purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

10. Rights As Stockholder; Notice to Holders. Nothing contained in this Warrant shall be construed as conferring upon the Holder or his or its transferees the right to vote or to receive dividends or to consent or to receive notice as a shareholder in respect of any meeting of shareholders for the election of directors of the Company or of any other matter, or any rights whatsoever as shareholders of the Company. The Company shall give notice to the Holder by registered mail if at any time prior to the expiration or exercise in full of the Warrants, any of the following events shall occur:

(a) dissolution, liquidation or winding up of the Company shall be proposed;

(b) a capital reorganization or reclassification of the Common Stock (other than a subdivision or combination of the outstanding Common Stock and other than a change in the par value of the Common Stock) or any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the continuing corporation and that does not result in any reclassification or change of Common Stock outstanding) or in the case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety; or

(c) a taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other rights.

Such giving of notice shall be simultaneous with the giving of notice to holders of Common Stock. Such notice shall specify the record date or the date of closing the stock transfer books, as the case may be. Failure to provide such notice shall not affect the validity of any action taken in connection with such dividend, distribution or subscription rights, or proposed merger, consolidation, sale, conveyance, dissolution, liquidation or winding up.

11. Restricted Securities; Registration Rights. The Holder understands that this Warrant and the Shares purchasable hereunder constitute "restricted securities" under the federal securities laws inasmuch as they are, or will be, acquired from the Company in transactions not involving a public offering and accordingly may not, under such laws and applicable regulations, be resold or transferred without registration under the Securities Act of 1933, as amended

(the "Securities Act") or an applicable exemption from such registration. Unless the Shares are registered in accordance with the requirements of the Securities Act, the Holder further acknowledges that a securities legend substantially in the form appearing on the first page of this Warrant shall be placed on any Shares issued to the Holder upon exercise of this Warrant.

The Holder of this Warrant shall be entitled to the registration rights with respect to the Shares as set forth on Exhibit B annexed hereto which in incorporated herein by reference.

12. Certification of Investment Purpose. Unless a current registration statement under the Securities Act shall be in effect with respect to the securities to be issued upon exercise of this Warrant, the Holder covenants and agrees that, at the time of exercise hereof, it will deliver to the Company a written certification executed by the Holder that the securities acquired by him upon exercise hereof are for the account of such Holder and acquired for investment purposes only and that such securities are not acquired with a view to, or for sale in connection with, any distribution thereof. This Warrant is acquired by the Holder for investment purposes, and not with a view to, or for sale in connection with, any distribution thereof.

13. Miscellaneous.

(a) Construction. Unless the context indicates otherwise, the term "Holder" shall include any transferee or transferees of this Warrant, and the term "Warrant" shall include any and all warrants outstanding pursuant to this Agreement, including those evidenced by a certificate or certificates issued upon division, exchange or substitution.

(b) Notices. Unless otherwise provided, any notice required or permitted under this Warrant shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or three (3) days following deposit with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified (or one (1) day following timely deposit with a reputable overnight courier with next day delivery instructions), or upon confirmation of receipt by the sender of any notice by facsimile transmission, at the address indicated below or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

To Holder:

To the Company:

Attention:

(c) Governing Law. This Warrant shall be governed by and construed under the laws of the State of Florida.

(d) Entire Agreement. This Warrant, the exhibits and schedules hereto, and the documents referred to herein, constitute the entire agreement and understanding of the parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements and understandings, whether oral or written, between the parties hereto with respect to the subject matter hereof.

(e) Binding Effect. This Warrant and the various rights and obligations arising hereunder shall inure to the benefit of and be binding upon the Company and its successors and assigns, and Holder and its successors and assigns.

(f) Waiver; Consent. This Warrant may not be changed, amended, terminated, augmented, rescinded or discharged (other than by performance), in whole or in part, except by a writing executed by the parties hereto, and no waiver of any of the provisions or conditions of this Warrant or any of the rights of a party hereto shall be effective or binding unless such waiver shall be in writing and signed by the party claimed to have given or consented thereto.

(g) Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision shall be excluded from this Warrant and the balance of the Warrant shall be interpreted as if such provision were so excluded and the balance shall be enforceable in accordance with its terms.

(h) Counterparts. This Warrant may be signed in several counterparts, each of which shall constitute an original.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly exercised effective as of _____, 2005.

ASHLIN DEVELOPMENT CORPORATION

By:

Name:
Title:

EXHIBIT A TO WARRANT

NOTICE OF EXERCISE

To: Ashlin Development Corporation Dated: _____

Attn: Chief Financial Officer

The undersigned, registered holder of the Warrant to Purchase Common Stock delivered herewith, hereby irrevocably exercises such warrant for, and purchases thereunder, _____ shares of Common Stock of ASHLIN DEVLOMENT CORPORATION, a Florida corporation.

The undersigned hereby elects to exercise this Warrant by (check one):

_____ payment of cash and herewith makes payment of the warrant price of $_____ for such shares in full.

_____ cashless exercise and hereby requests delivery of the number of shares as determined in accordance with Section 2 of the Warrant.

Holder

Signature:

Print Name:

Address:

Telephone:

Facsimile:

Social Security
Number:

Exhibit B

Registration Rights

THE WARRANT AND THE SECURITIES ISSUABLE HEREUNDER HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAW. THE WARRANT AND THE SECURITIES MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION UNDER SAID ACT AND ANY APPLICABLE SECURITIES LAWS OR AN EXEMPTION THEREFROM UNDER SAID ACT OR LAWS. THE COMPANY MAY REQUEST, AS A CONDITION TO ANY TRANSFER, AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

THIS WARRANT AND THE SECURITIES REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS OF THE REGISTRATION RIGHTS PROVISIONS ATTACHED HERETO AS EXHIBIT A.

Warrant No. _____ _____ Shares

FORM OF
WARRANT

To Purchase Common Stock of

GALES INDUSTSRIES INCORPORATED

GALES INDUSTRIES INCORPORATED, a Delaware corporation ("Gales"), intends to seek equity or debt financing of at least $5,500,000 and, contemporaneously with the closing of such financing, Gales contemplates entering into a "reverse merger" transaction (the "Reverse Merger") with a publicly-held company (the "Public Company"). Gales and/or the Public Company are referred to herein as the "Company". After completion of the Reverse Merger, references herein to "Gales" or the "Company" shall be deemed to refer collectively to Gales and the Public Company. "Financing" means equity or debt financing resulting in gross proceeds to the Company of at least $5,500,000.

This certifies that, commencing on the earlier of January 1, 2006 and the date as of which the Reverse Merger is completed, and from time to time after such earlier date until the Expiration Date, _____ or its registered assigns (the "Holder") is entitled to purchase from Gales, or the Public Company with which Gales enters into a Reverse Merger, the number of shares of Common Stock (as defined below) set forth above, in whole or in part, including fractional parts, at a purchase price (the "Purchase Price") equal to the lower of (1) $0.22 per share of Common Stock or (2), if the Company has completed the Financing, the effective price per share of the Public Company's Common Stock (or Common Stock equivalents) sold in the Financing. The effective price per share referred to in the preceding sentence means the gross proceeds of the Financing divided by the number of shares of Common Stock (or Common Stock equivalents, but not warrants or securities issued to the placement agent or other non-investors) issued to the investors in the Financing. Notwithstanding anything else herein to the contrary, if, as of the date this Warrant is exercised, the Reverse Merger has already been completed, only shares of the Public Company's Common Stock will be issuable upon exercise of this Warrant, and if, as of the date this Warrant is exercised, the Reverse Merger has not been completed, only shares of the Company's Common Stock will be issuable upon exercise of this Warrant, and, in such later case, the shares of the Company's Common Stock issued upon exercise of this Warrant shall not have any voting rights until the Financing is completed or terminated and the Company shall have the right to dilute the Holder's percentage ownership of the outstanding capital stock by issuing to other parties the shares of Common Stock contemplated by the Company's proposed pro forma fully-diluted capitalization table, a copy of which has been provided to the Holder, which takes into account as of the date of the closing of the Reverse Merger, among other issuances, the founder's shares, shares to officers, directors and employees, stock option shares, shares to the Public Company's pre-existing shareholders, and shares to the former shareholders of Air Industries Machining, Corp., a New York corporation, which the Company contemplates acquiring simultaneously with the closing of the Financing and the Reverse Merger. The number of Warrant Shares (as defined below) and the Purchase Price therefor are subject to adjustment as hereinafter set forth in Section 6. This is one of a series of warrants in substantially the same form that were originally issued on the Issue Date.

The number of shares into which this Warrant is convertible, set forth above, assumes that the per share price in the Financing is $0.22 and is derived by dividing the principal amount of the 12% Convertible Bridge Note ("Note"), purchased by the Holder from the Company, by $0.22. In the event the Financing is completed at an effective price per share of the Public Company's Common Stock (or Common Stock equivalents) of under $0.22, the number of shares into which this Warrant is convertible will automatically adjust to the quotient of the principal amount of the Note divided by such lower price per share at which the Financing is completed.

SECTION 1. Certain Definitions. For all purposes of this Warrant, the following terms shall have the meanings indicated:

"Additional Shares of Common Stock" means all shares of Common Stock issued after the date hereof, other than Warrant Shares, whether now authorized or not, other than Excluded Shares.

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

"Common Stock" means and includes the Company's authorized common stock, par value $0.001 per share, and includes any Common Stock of any class or classes resulting from any successive changes or reclassifications thereof;

provided, however, that, in the event that the Company has completed the Reverse Merger, "Common Stock" means the common stock of the Public Company.

"Company" means Gales Industries Incorporated; provided, however, that after completion of the Reverse Merger, references herein to the "Company" will also be deemed to include the Public Company.

"Convertible Securities" means evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable, with or without payment of additional consideration in cash or property, for Additional Shares of Common Stock, either immediately or upon the occurrence of a specified date or a specified event.

"Current Market Price" means the 10-day average closing bid prices of a share of Common Stock as reported on NASDAQ for the period of 10 consecutive Trading Days ending on the date of determination; provided, however, if the Common Stock is not listed or admitted to trading on NASDAQ, as reported on the principal national security exchange or quotation system on which the Common Stock is quoted or listed or admitted to trading; or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the closing bid price of such security on the over-the-counter market on the day in question as reported by Bloomberg LP, or a similar generally accepted reporting service, as the case may be, or if not listed or admitted for trading on any national securities exchange or quoted in the over-the-counter market, the Current Market Price shall be the Fair Value on such date.

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

"Excluded Shares" means:

(a) (i) shares of Common Stock issuable upon the exercise of options and warrants (including this Warrant) and that are outstanding on the Issue Date and (ii) such number of additional shares of Common Stock as may become issuable upon the exercise of such options, warrants and convertible preferred stock by reason of adjustments required pursuant to the anti-dilution provisions applicable to such securities as in effect on the Issue Date;

(b) (i) shares of Common Stock issuable upon the exercise of options and warrants granted or issued by the Company to its employees, officers, directors, consultants and advisors, up to a maximum number of such shares issuable at any point in time while this Warrant is exercisable that does not exceed 20% of the then issued and outstanding shares of Common Stock; provided, in each such case, that the exercise price for any such share shall not be less than 85% of the Fair Value of the Common Stock on the date of grant or issuance of the option or warrant (the "Minimum Price"), and (ii) such additional number of shares of Common Stock as may become issuable pursuant to the terms of any such options or warrants by reason of adjustments required pursuant to anti-dilution provisions applicable to such securities in order to reflect any subdivision or combination of Common Stock, by reclassification or otherwise, or any dividend on Common Stock payable in Common Stock and anti-dilution adjustments that do not adjust the exercise price below the Minimum Price;

(c) shares of Common Stock issuable upon exercise of warrants issued to equipment lessors, banks or other institutional credit financing sources of the Company in connection with the provision of financing or the rendering of other services to the Company up to a maximum number of shares of Common Stock issuable at any point in time while this Warrant is exercisable that does not exceed 20% of the then issued and outstanding shares of Common Stock; provided, in each such case, that the exercise or purchase price for any such share shall not be less than the Minimum Price, and (ii) such additional number of shares of

Common Stock as may become issuable pursuant to the terms of any such warrants by reason of adjustments required pursuant to anti-dilution provisions applicable to such securities in order to reflect any subdivision or combination of Common Stock, by reclassification or otherwise, or any dividend on Common Stock payable in Common Stock and anti-dilution adjustments that do not adjust the exercise price below the Minimum Price.

"Expiration Date" means 5:00 p.m. New York City time on the fifth anniversary of the Issue Date.

"Fair Value" means, on any date specified herein (i) in the case of cash, the dollar amount thereof, (ii) in the case of a security admitted for trading on any national securities exchange or quoted in the over-the-counter market, the Current Market Price, and (iii) in all other cases as determined in good faith jointly by the Company and the Holder; provided, however, that if such parties are unable to reach agreement within 30 days, the Fair Value shall be determined in good faith by an independent investment banking firm selected jointly by the Company and the Holder or, if that selection cannot be made within ten days, by an independent investment banking firm selected by the American Arbitration Association in accordance with its rules.

"Issue Date" means _____, 2005.

"Options" means any rights, options or warrants to subscribe for, purchase or otherwise acquire either Additional Shares of Common Stock or Convertible Securities.

"Other Securities" means any stock (other than Common Stock) and other securities of the Company or any other Person (corporate or otherwise) which the holder of this Warrant at any time shall be entitled to receive, or shall have received, upon the exercise of this Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 7 or otherwise.

"Outstanding" or "outstanding" means, when used with reference to Common Stock, at any date as of which the number of shares thereof is to be determined, all issued shares of Common Stock, except shares then owned or held by or for the account of the Company or any subsidiary of the Company, and shall include all shares issuable in respect of outstanding scrip or any certificates representing fractional interests in shares of Common Stock.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, incorporated organization, association, corporation, institution, public benefit corporation, entity or government (whether federal, state, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

"Purchase Price" means the purchase price set forth in the initial paragraph hereof, as adjusted from time to time pursuant to the provisions of Section 6 hereof.

"Securities Act" or the "1933 Act" means the Securities Act of 1933, as amended, or any similar Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Trading Day" means a day on which the Nasdaq Stock Market is open for the transaction of business.

"Warrant" means this warrant and any warrant issued in exchange, division, substitution, transfer or replacement hereof.

"Warrant Shares" means the shares of Common Stock purchased or purchasable by the Holder of this Warrant upon the exercise hereof pursuant to Section 2 hereof.

SECTION 2. Exercise of Warrant.

(a) This Warrant may be exercised at any time, in whole or in part, for all or any part of the number of shares of Common Stock purchasable hereunder, prior to the Expiration Date. To exercise this Warrant, in whole or in part, the Holder shall complete the notice of exercise attached hereto (the "Notice of Exercise"), and deliver this Warrant and, except as otherwise provided in this Section 2, cash in an amount equal to the aggregate Purchase Price of the shares of Common Stock being purchased, together with the Notice of Exercise, to the Company at its office referred to in Section 9. Upon receipt thereof, the Company shall, as promptly as practicable and in any event within ten (10) business days thereafter, execute or cause to be executed and deliver or cause to be delivered to the Holder a certificate or certificates representing the aggregate number of full shares of Common Stock specified in the Notice of Exercise, together with cash in lieu of any fraction of a share, as hereinafter provided. The stock certificate or certificates so delivered shall be, to the extent possible, in such denomination or denominations as the Holder shall request in the Notice of Exercise and shall be registered in the name of the Holder or such other name as shall be designated in the Notice of Exercise, subject to compliance with applicable securities laws. This Warrant shall be deemed to have been exercised and such certificate or certificates shall be deemed to have been issued, and the Holder or any other person or entity so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Notice of Exercise, together with the cash, if any, and this Warrant, are received by the Company as described above. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased shares of Common Stock called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant. All shares of Common Stock issuable upon the exercise of this Warrant pursuant to the terms hereof shall be validly issued, fully paid and nonassessable and without any preemptive rights. The Company shall pay all expenses, taxes and other charges payable in connection with the preparation, execution and delivery of stock certificates pursuant to this Section, unless such tax or charge is imposed by law upon the Holder, in which case such taxes or charges shall be paid by the Holder. The Company shall not be required, however, to pay any tax or other charge imposed in connection with any transfer involved in the issue of any certificate for shares of Common Stock issuable upon exercise of this Warrant in any name other than that of the Holder, and in such case the Company shall not be required to issue or deliver any stock certificate until such tax or other charge has been paid or it has been established to the satisfaction of the Company that no such tax or other charge is due.

(b) In lieu of payment of the Purchase Price in cash, the Holder may make such payment, by way of cashless exercise, as follows:

(c) by delivery of shares of Common Stock with an aggregate Current Market Price on the date of exercise equal to the Purchase Price, subject, however, to the provisions of Section 16(b) of the Exchange Act; or

(d) through the written election of the Holder to have withheld by the Company from the shares of Common Stock otherwise deliverable upon exercise, Common Stock having an aggregate Current Market Price on the date of exercise equal to the Purchase Price.

SECTION 3. Fractional Shares. The Company shall not be required to issue a fractional share of Common Stock upon exercise of this Warrant. As to any fraction of a share which the Holder of this Warrant would otherwise be entitled to purchase upon exercise, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the Fair Value per share of Common Stock on the date of exercise.

SECTION 4. Ownership of this Warrant.

(a) The Company shall deem and treat the Holder as the holder and owner of this Warrant (notwithstanding any notations of ownership or writing hereon made by anyone other than the Company) for all purposes and shall not be required to give effect to any notice to the contrary, until presentation of this Warrant for registration of transfer as provided in this Section 4.

(b) Subject to Section 5, this Warrant is exchangeable, upon the surrender hereof by the Holder to the Company at its office referred to in Section 9, for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares of Common Stock purchasable hereunder, each of such new Warrants to represent the right to purchase such number of shares of Common Stock as shall be designated by the Holder at the time of such surrender. Subject to compliance with applicable securities laws, this Warrant and all rights hereunder are transferable in whole or in part upon the books of the Company by the Holder hereof in person or by a duly authorized attorney, and a new Warrant shall be executed and delivered by the Company of the like tenor and date as this Warrant but registered in the name of the transferee, upon surrender of this Warrant duly endorsed, at said office or agency of the Company. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in case of loss, theft or destruction, of an agreement of unsecured indemnity and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor and date, in lieu of this Warrant. This Warrant shall be promptly cancelled by the Company upon the surrender hereof in connection with any exchange, transfer or replacement. The Company shall prepare, issue and deliver at its own expense (other than transfer taxes) the new Warrant or Warrants under this Section 4.

SECTION 5. Restrictions. This Warrant and the Warrant Shares may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or pursuant to an exemption therefrom.

SECTION 6. Anti-Dilution Provisions; Adjustments.

6.1 Adjustment of Number of Shares -- Issuance of Additional Shares of Common Stock. Upon each adjustment of the Purchase Price as a result of the calculations made in Section 6.2, this Warrant shall thereafter evidence the right to receive, at the adjusted Purchase Price, that number of shares of Common Stock (calculated to the nearest one-hundredth of a share) obtained by dividing (i) the product of the aggregate number of shares covered by this Warrant immediately prior to such adjustment and the Purchase Price in effect immediately prior to such adjustment of the Purchase Price by (ii) the Purchase Price in effect immediately after such adjustment of the Purchase Price.

6.2 Issuance of Additional Shares of Common Stock. In case the Company at any time or from time to time after the date hereof shall issue or sell Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 6.4 or Section 6.5 but excluding Additional Shares of Common Stock purchasable upon exercise of Rights referred to in Section 6.9), without consideration or for a consideration per share less than the Current Market Price, immediately prior to such issue or sale, then, and in each such case, subject to Section 6.7, the Purchase Price shall be reduced, concurrently with such issue or sale, to a price (calculated to the nearest .001 of a cent), determined by multiplying such Purchase Price by a fraction

(a) the numerator of which shall be the sum of (i) the number of shares of Common Stock outstanding immediately prior to such issue or sale and (ii) the number of shares of Common Stock which the gross consideration received by the Company for the total number of such Additional Shares of Common Stock so issued or sold would purchase at the Current Market Price, and

(b) the denominator of which shall be the number of shares of Common Stock outstanding immediately after such issue or sale, provided that, for the purposes of this Section 6.2, (x) immediately after any Additional Shares of Common Stock are deemed to have been issued pursuant to Section 6.4 or Section 6.5, such Additional Shares of Common Stock shall be deemed to be outstanding, and (y) treasury shares shall not be deemed to be outstanding.

6.3 Dividends and Distributions. In case the Company at any time or from time to time after the date hereof shall declare, order, pay or make a dividend or other distribution on the Common Stock of (i) cash, (ii) any evidences of its indebtedness, any shares of its stock or any other securities or property of any nature whatsoever (including, without limitation, any distribution of other or additional stock or Convertible Securities, Options or other securities or property, by way of dividend or spin-off, reclassification, recapitalization or similar corporate rearrangement) or (iii) any warrants or other rights to subscribe for or purchase any evidences of its indebtedness, any shares of its stock or any other securities or property of any nature whatsoever, then

(a) the number of shares of Common Stock for which this Warrant is exercisable shall be adjusted to equal the product obtained by multiplying the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such adjustment by a fraction (1) the numerator of which shall be the Current Market Price at the date of taking such record and (2) the denominator of which shall be such Current Market Price minus the amount allocable to one share of Common Stock of (x) any such cash so distributable and (y) the Fair Value of any and all such evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights so distributable, and

(b) the Purchase Price shall be adjusted to equal (1) the Purchase Price immediately prior to the adjustment multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (2) the number of shares for which this Warrant is exercisable immediately after such adjustment.

A reclassification of the Common Stock (other than a change in par value, or from par value to no par value or from no par value to par value) into shares of Common Stock and shares of any other class of stock shall be deemed a distribution by the Company to the holders of its Common Stock of such shares of such other class of stock within the meaning of this Section 6.3 and, if the outstanding shares of Common Stock shall be changed into a larger or smaller number of shares of Common Stock as a part of such reclassification, such change shall be deemed a subdivision or combination, as the case may be, of the outstanding shares of Common Stock within the meaning of Section 6.5.

6.4 Treatment of Options and Convertible Securities. In case the Company at any time or from time to time after the date hereof shall issue, sell, grant or assume, or shall fix a record date for the determination of holders of any class of securities of the Company entitled to receive, any Options or Convertible Securities (whether or not the rights thereunder are immediately exercisable), then, and in each such case, the maximum number of Additional Shares of Common Stock (as set forth in the instrument relating thereto, without regard to any provisions contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue, sale, grant or assumption or, in case such a record date shall have been fixed, as of the close of business on such record date (or, if the Common Stock trades on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading), provided that such Additional Shares of Common Stock shall not be deemed to have been issued unless (i) the consideration per share (determined pursuant to Section 6.6) of such shares would be less than their Fair Value on the date of and immediately prior to such issue, sale, grant or assumption or immediately prior to the close of business on such record date (or, if the Common Stock trades on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading), as the case may be, and (ii) such Additional Shares of Common Stock are not purchasable pursuant to Rights referred to in Section 6.9, and provided, further, that

(a) whether or not the Additional Shares of Common Stock underlying such Options or Convertible Securities are deemed to be issued, no further adjustment of the Purchase Price shall be made upon the subsequent issue or sale of Convertible Securities or shares of Common Stock upon the exercise of such Options or the conversion or exchange of such Convertible Securities;

(b) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Company, or for any decrease or increase in the number of Additional Shares of Common Stock issuable, upon the exercise, conversion or exchange thereof (by change of rate or otherwise), the Purchase Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date, or date prior to the commencement of ex-dividend trading, as the case may be, with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options, or the rights of conversion or exchange under such Convertible Securities, which are outstanding at such time;

(c) upon the expiration (or purchase by the Company and cancellation or retirement) of any such Options which shall not have been exercised or the expiration of any rights of conversion or exchange under any such Convertible Securities which (or purchase by the Company and cancellation or retirement of any such Convertible Securities the rights of conversion or exchange under which) shall not have been exercised, the Purchase Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date, or date prior to the commencement of ex-dividend trading, as the case may be, with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration (or such cancellation or retirement, as the case may be), be recomputed as if:

(i) in the case of Options for Common Stock or Convertible Securities, the only Additional Shares of Common Stock issued or sold were the Additional Shares of Common Stock, if any, actually issued or sold upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus the consideration actually received by the Company upon such exercise, or for the issue or sale of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Company upon such conversion or exchange, and

(ii) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued or sold upon the exercise of such Options were issued at the time of the issue or sale, grant or assumption of such Options, and the consideration received by the Company for the Additional Shares of Common Stock deemed to have then been issued was the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Company (pursuant to Section 6.6) upon the issue or sale of such Convertible Securities with respect to which such Options were actually exercised;

(d) no readjustment pursuant to subdivision (b) or (c) above shall have the effect of increasing the Purchase Price by an amount in excess of the amount of the adjustment thereof originally made in respect of the issue, sale, grant or assumption of such Options or Convertible Securities; and

(e) in the case of any such Options which expire by their terms not more than 30 days after the date of issue, sale, grant or assumption thereof, no adjustment of the Purchase Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the manner provided in subdivision (c) above.

6.5 Treatment of Stock Dividends, Stock Splits, etc. If at any time the Company shall:

(a) take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, Additional Shares of Common Stock,

(b) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(c) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, by a reverse stock split or otherwise,

then (i) the number of shares of Common Stock for which this Warrant is exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event, and (ii) the Purchase Price shall be adjusted to equal (A) the Purchase Price multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (B) the number of shares for which this Warrant is exercisable immediately after such adjustment.

6.6 Computation of Consideration. For the purposes of this Section 6,

(a) the consideration for the issue or sale of any Additional Shares of Common Stock shall, irrespective of the accounting treatment of such consideration,

(i) insofar as it consists of cash, be computed at the amount of cash received by the Company, without deducting any expenses paid or incurred by the Company or any commissions or compensations paid or concessions or discounts allowed to underwriters, dealers or others performing similar services in connection with such issue or sale,

(ii) insofar as it consists of property (including securities) other than cash, be computed at the Fair Value thereof at the time of such issue or sale, and

(iii) in the case where Additional Shares of Common Stock are issued or sold together with other stock or securities or other assets of the Company for a consideration which covers both, be the portion of such consideration so received, computed as provided in clauses (i) and (ii) above, allocable to such Additional Shares of Common Stock, such allocation to be determined in the same manner that the Fair Value of property not consisting of cash or securities is to be determined as provided in the definition of "Fair Value" herein;

(b) Additional Shares of Common Stock deemed to have been issued pursuant to Section 6.4, relating to Options and Convertible Securities, shall be deemed to have been issued for a consideration per share determined by dividing

(i) the total amount, if any, received and receivable by the Company as consideration for the issue, sale, grant or assumption of the Options or Convertible Securities in question, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration to protect against dilution) payable to the Company upon the exercise in full of such Options or the conversion or exchange of such Convertible Securities or, in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, in each case computing such consideration as provided in the foregoing subdivision (a),

by

(ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number to protect against dilution) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities; and

(c) Additional Shares of Common Stock deemed to have been issued pursuant to Section 6.5, relating to stock dividends, stock splits, etc., shall be deemed to have been issued for no consideration.

6.7 De Minimis Adjustments. If the amount of any adjustment of the Purchase Price per share required pursuant to this Section 6 would be less than $.01, such amount shall be carried forward and the adjustment with respect thereto made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate a change in the Purchase Price of at least $.01 per share. All calculations under this Warrant shall be made to the nearest .001 of a cent or to the nearest one-hundredth of a share, as the case may be.

6.8 Abandoned Dividend or Distribution. If the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or other distribution (which results in an adjustment to the Purchase Price under the terms of this Warrant) and shall, thereafter, and before such dividend or distribution is paid or delivered to shareholders

entitled thereto, legally abandon its plan to pay or deliver such dividend or distribution, then any adjustment made to the Purchase Price and number of shares of Common Stock purchasable upon Warrant exercise by reason of the taking of such record shall be reversed, and any subsequent adjustments, based thereon, shall be recomputed.

6.9 Shareholder Rights Plan. Notwithstanding the foregoing, in the event that the Company shall distribute "poison pill" rights pursuant to a "poison pill" shareholder rights plan (the "Rights"), the Company shall, in lieu of making any adjustment pursuant to Section 6.2 or Section 6.3 hereof, make proper provision so that each Holder who exercises a Warrant after the record date for such distribution and prior to the expiration or redemption of the Rights shall be entitled to receive upon such exercise, in addition to the shares of Common Stock issuable upon such exercise, a number of Rights to be determined as follows: (i) if such exercise occurs on or prior to the date for the distribution to the holders of Rights of separate certificates evidencing such Rights (the "Distribution Date"), the same number of Rights to which a holder of a number of shares of Common Stock equal to the number of shares of Common Stock issuable upon such exercise at the time of such exercise would be entitled in accordance with the terms and provisions of and applicable to the Rights; and (ii) if such exercise occurs after the Distribution Date, the same number of Rights to which a holder of the number of shares into which the Warrant so exercised was exercisable immediately prior to the Distribution Date would have been entitled on the Distribution Date in accordance with the terms and provisions of and applicable to the Rights, and in each case subject to the terms and conditions of the Rights.

SECTION 7. Consolidation, Merger, Etc.

7.1 Adjustments for Consolidation, Merger, Sale of Assets, Reorganization, etc. In case the Company after the date hereof shall (a) consolidate with or merge into any other Person and shall not be the continuing or surviving corporation of such consolidation or merger, or (b) permit any other Person to consolidate with or merge into the Company and the Company shall be the continuing or surviving Person but, in connection with such consolidation or merger, the Common Stock or Other Securities shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (c) transfer all or substantially all of its properties or assets to any other Person in one or more related transactions, or (d) effect a capital reorganization or reclassification of the Common Stock or Other Securities (other than a capital reorganization or reclassification resulting in the issue of Additional Shares of Common Stock for which adjustment in the Purchase Price is provided in Section 6.2 or Section 6.3), then, and in the case of each such transaction, proper provision shall be made so that, upon the basis and the terms and in the manner provided in this Warrant, the Holder of this Warrant, upon the exercise hereof at any time after the consummation of such transaction, shall be entitled to receive (at the aggregate Purchase Price in effect at the time of such consummation for all Common Stock or Other Securities issuable upon such exercise immediately prior to such consummation), in lieu of the Common Stock or Other Securities issuable upon such exercise prior to such consummation, the amount of securities, cash or other property to which such Holder would actually have been entitled as a shareholder upon such consummation if such Holder had exercised this Warrant immediately prior thereto, subject to adjustments (subsequent to such consummation) as nearly equivalent as possible to the adjustments provided for in Section 6.

7.2 Assumption of Obligations. Notwithstanding anything contained in this Warrant, the Company shall not effect any of the transactions described in clauses (a) through (d) of Section 7.1 unless, prior to the consummation thereof, each Person (other than the Company) which may be required to deliver any stock, securities, cash or property upon the exercise of this Warrant as provided herein shall assume, by written instrument delivered to, and reasonably satisfactory to, the Holder of this Warrant, (a) the obligations of the Company under this Warrant (and if the Company shall survive the consummation of such transaction, such assumption shall be in addition to, and shall not release the Company from, any continuing obligations of the Company under this Warrant, including Exhibit A hereto), (b) the obligation to deliver to the Holder such shares of stock, securities, cash or property as, in accordance with the foregoing provisions of this Section 7, the Holder may be entitled to receive.

SECTION 8. Covenants of the Company. The Company covenants and agrees that it shall reserve and set apart and have at all times, free from preemptive rights, the number of authorized but unissued shares of Common Stock deliverable upon the exercise in full of this Warrant, and it shall have at all times any other rights or privileges provided for therein sufficient to enable it at any time to fulfill all of its obligations hereunder. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to permit the exercise in full of this Warrant, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, taking appropriate board action, recommending such an increase to the holders of Common Stock, holding shareholders meetings, soliciting votes and proxies in favor of such increase to obtain the requisite shareholder approval and upon such approval, the Company shall reserve and keep available such additional shares solely for the purpose of permitting the exercise of this Warrant. The Company covenants and agrees that all shares of Common Stock which shall be so issuable will, upon issuance, be duly and validly authorized and issued, fully paid and nonassessable, free and clear of any liens, claims and restrictions (other than as provided herein).

SECTION 9. Notification by the Company.

9.1 Notice of Adjustments. Whenever the number of shares of Common Stock or the class or type of stock or other property for which this Warrant is exercisable, or whenever the price at which a share of such Common Stock may be purchased upon exercise of this Warrant, shall be adjusted pursuant to Section 6, the Company shall forthwith prepare a certificate to be executed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment and the method by which such adjustment was calculated (including a description of the basis on which the Board of Directors of the Company determined the Fair Value of any evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights referred to in Section 6.2), specifying the number of shares of Common Stock for which this Warrant is exercisable and describing the number and kind of any other shares of stock or other property for which this Warrant is exercisable, if any, and any change in the purchase price or prices thereof, after giving effect to such adjustment or change. The Company shall promptly cause a signed copy of such certificate to be delivered to the Holder in accordance with Section 10. The Company shall keep at its office or agency designated pursuant to Section 10 copies of all such certificates and cause the same to be available for inspection at said office during normal business hours by the Holder or any prospective purchaser of a Warrant designated by the Holder.

9.2 Notice of Certain Corporate Action. The Holder shall be entitled to the same rights to receive notice of corporate action as any holder of Common Stock.

SECTION 10. Notices. Any notice or other document required or permitted to be given or delivered to the Holder shall be hand delivered or delivered by nationally recognized overnight courier at, or sent by certified or registered mail postage prepaid and return receipt requested to the Holder at the last address shown on the books of the Company. Any notice or other document required or permitted to be given or delivered to the Company shall be delivered at, or sent by certified or registered mail to, the principal office of the Company, at 333 East 66th Street, 9th Floor, New York, NY 10021, Attn: Executive Chairman, or such other address as shall have been furnished to the Holder by the Company. All such communications shall be deemed to have been given or made when so delivered by hand, or one business day after being sent by overnight delivery or five business days after being so mailed.

SECTION 11. No Rights as Shareholders; Limitation of Liability. This Warrant shall not entitle the Holder to any of the rights of a shareholder of the Company except as expressly set forth herein. No provision hereof, in the absence of affirmative action by the Holder to exercise this Warrant or purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the Holder, shall give rise to any liability upon the Holder for the Purchase Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

SECTION 12. Law Governing. This Warrant shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the conflict of law provisions thereof.

SECTION 13. Miscellaneous. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party (or any predecessor in interest thereof) against which enforcement of the same is sought. The headings in this Warrant are for purposes of reference only and shall not affect the meaning or construction of any of the provisions hereof.

SECTION 14. Registration Rights. This Warrant is subject to the Registration Rights provisions contained in Exhibit A hereto. By accepting this Warrant or receiving any benefits hereunder, the Holder, and each successor Holder, hereby agrees to the provisions set forth in Exhibit A hereto.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed and attested by its duly authorized officer as of the _____ day of _____, 2005.

GALES INDUSTRIES INCORPORATED

By:

Name:
Title:

NOTICE OF EXERCISE

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Warrant for, and to purchase thereunder, _____ of the Company's Warrant Shares provided for therein and requests that certificates for such Warrant Shares be issued in the name of*:

_____
_____
_____
(please print name, address, and social security number or employer identification number)

and, if said number of Warrant Shares shall not be all the shares of Common Stock purchasable thereunder, that a new Warrant certificate for the balance remaining of the shares of Common Stock purchasable under the within Warrant be registered in the name of the undersigned Warrantholder or his assignee as below indicated and delivered to the address stated below.

In order to induce the Company to give instructions to its transfer agent to issue the shares of Common Stock being purchased upon exercise of the Warrant, the undersigned hereby represents and warrants that undersigned is an "accredited investor" as that term is defined in Regulation D under the Securities Act of 1933, as amended.

Dated: _____, 20___

Name of Warrant holder or Assignee:

_____
(please print)

Address:
_____
_____
_____

Signature: _____

Signature Guaranteed: NOTE: THE ABOVE SIGNATURE MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE WITHIN WARRANT IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER, UNLESS THE WITHIN WARRANT HAS BEEN ASSIGNED.

* If other than the Holder specified on the within Warrant delivered with this Notice of Exercise, the transfer is subject to compliance with applicable securities laws and the payment by the Holder of any applicable transfer or similar taxes.

IF WARRANT SHARES ARE TO BE ISSUED IN ANY NAME OTHER THAN THAT OF THE REGISTERED HOLDER OF THE WITHIN WARRANT, THE REGISTERED HOLDER'S SIGNATURE SHALL BE GUARANTEED BY A COMMERCIAL BANK OR TRUST COMPANY OR BY A MEMBER FIRM OF THE NEW YORK STOCK EXCHANGE.

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

_____

_____

_____
(name and address of assignee must be printed or typewritten)

the within Warrant, hereby irrevocably constituting and appointing attorney to transfer said Warrant on the books of the Company with full power of substitution in the premises.

Dated: _____

Name of Warrantholder or Assignee:

_____
(please print)

Address:

_____

_____

_____

Signature: _____
SIGNATURE OF REGISTERED HOLDER

- ----------
Signature Guaranteed: NOTE: THE SIGNATURE ON THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS IT APPEARS UPON THE FACE OF THE WITHIN WARRANT IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER. SUCH SIGNATURE SHALL BE GUARANTEED BY A COMMERCIAL BANK OR TRUST COMPANY OR BY A MEMBER FIRM OF THE NEW YORK STOCK EXCHANGE.

Exhibit A to Warrant

REGISTRATION RIGHTS

The following provisions are a part of the Warrant (the "Warrant") to purchase shares of Common Stock that was initially issued to _____ in _____ 2005, and any warrant, in substantially the same form as the Warrant, that is issued to any Person who or which becomes a Holder as permitted by the Warrant. References to the "Warrant" include each such subsequently issued Warrant. As used below, the "Issuer" means Gales Industries Incorporated or the public company with which it enters into a "reverse merger" transaction, "Registered Holder" means the Holder and "Registered Holders" refers to the holders of the Warrants and the Notes (as defined below). This Warrant is one of a series of Warrants (together, the "Warrants") issued in connection with the Company's sale of its 12.0% Convertible Bridge Notes (the "Notes"), limited in aggregate principal amount to $150,000. All capitalized terms below shall have the same meanings as in the Warrant, unless otherwise defined. Paragraph references below are to the paragraphs of this Exhibit A.

Registration Rights.

(a) Registered Holders shall have certain registration rights as follows:

A. If, after the date of the this Warrant, Issuer shall file with the Securities and Exchange Commission ("SEC") a registration statement ("Registration Statement") under the Securities Act, registering any shares of Common Stock owned by any person or entity, Issuer shall include in such Registration Statement all of the shares into which the Notes and the Warrants are convertible, subject to the remaining terms of this Section 8(a). After such initial Registration Statement, if the Issuer shall file a second Registration Statement with the SEC, the Issuer the shall give written notice to each Registered Holder thereof prior to such filing.

B. Within fifteen (15) days after such notice from Issuer, each Registered Holder shall give written notice to Issuer whether or not the Registered Holder desires to have included in the Registration Statement all of the shares into which the Notes and the Warrants are convertible (the "Registrable Securities"). If a Registered Holder fails to give such notice within such period, such Registered Holder shall not have the right to have such Registered Holder's Registrable Securities registered pursuant to such registration statement. If a Registered Holder gives such notice, then Issuer shall include such Registered Holder's Registrable Securities in the registration statement, at Issuer's sole cost and expense, subject to the remaining terms of this Section 8(a).

C. If the registration statement relates to an underwritten offering, and the underwriter shall determine in writing that the total number of shares of Common Stock to be included in the offering, including the Registrable Securities, shall exceed the amount which the underwriter deems to be appropriate for the offering, the number of shares of the Registrable Securities shall be reduced in the same proportion as the remainder of the shares in the offering and each Registered Holder's Registrable Securities included in such registration statement will be reduced proportionately. For

this purpose, if other securities in the registration statement are derivative securities, their underlying shares shall be included in the computation. The Registered Holders shall enter into such agreements as may be reasonably required by the underwriters and the Registered Holders shall pay to the underwriters commissions relating to the sale of their respective Registrable Securities.

D. Other than their right to have their Registrable Securities included in the Issuer's initial Registration Statement after the date hereof, the Registered Holders shall have one other opportunity to have the Registrable Securities registered under this Section 8(a).

E. The Registered Holder shall furnish in writing to Issuer such information as Issuer shall reasonably require in connection with a registration statement.

(b) In the event Issuer effects any registration under the 1933 Act of any Registrable Securities pursuant to Section 8(a), the Issuer shall indemnify, to the extent permitted by law, and hold harmless any Registered Holder whose Registrable Securities are included in such Registration Statement (each, a "Seller"), any underwriter, any officer, director, employee or agent of any Seller or underwriter, and each other person, if any, who controls any Seller or underwriter within the meaning of Section 15 of the 1933 Act, against any losses, claims, damages or liabilities, judgment, fines, penalties, costs and expenses, joint or several, or actions in respect thereof (collectively, the "Claims"), to which each such indemnified party becomes subject, under the 1933 Act or otherwise, insofar as such Claims arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the registration statement or prospectus or any amendment or supplement thereto or any document filed under a state securities or blue sky law (collectively, the "Registration Documents") or insofar as such Claims arise out of or are based upon the omission or alleged omission to state in any Registration Document a material fact required to be stated therein or necessary to make the statements made therein not misleading, and will reimburse any such indemnified party for any legal or other expenses reasonably incurred by such indemnified party in investigating or defending any such Claim; provided that the Issuer shall not be liable in any such case to the extent such Claim is based upon an untrue statement or alleged untrue statement of a material fact or omission or alleged omission of a material fact made in any Registration Document in reliance upon and in conformity with written information furnished to Issuer by or on behalf of any indemnified party specifically for use in the preparation of such Registration Document.

(c) In connection with any registration statement in which any Seller is participating, each Seller, severally and not jointly, shall indemnify, to the extent permitted by law, and hold harmless Issuer, each of its directors, each of its officers who have signed the registration statement, each other person, if any, who controls Issuer within the meaning of Section 15 of the 1933 Act, each other Seller and each underwriter, any officer, director, employee or agent of any such other Seller or underwriter and each other person, if any, who controls such other Seller or underwriter within the meaning of Section 15 of the 1933 Act against any Claims to which each such indemnified party may become subject under the 1933 Act or otherwise, insofar as such Claims (or actions in respect thereof) are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Document, or

insofar as any Claims are based upon the omission or alleged omission to state in any Registration Document a material fact required to be stated therein or necessary to make the statements made therein not misleading, and will reimburse any such indemnified party for any legal or other expenses reasonably incurred by such indemnified party in investigating or defending any such claim; provided, however, that such indemnification or reimbursement shall be payable only if, and to the extent that, any such Claim arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Registration Document in reliance upon and in conformity with written information furnished to Issuer by the Seller specifically for use in the preparation thereof.

(d) Any person entitled to indemnification under Sections 8(b) or 8(c) above shall notify promptly the indemnifying party in writing of the commencement of any Claim if a claim for indemnification in respect thereof is to be made against an indemnifying party under this Section 8(d), but the omission of such notice shall not relieve the indemnifying party from any liability which it may have to any indemnified party otherwise than under Section 8(b) or 8(c) above, except to the extent that such failure shall materially adversely affect any indemnifying party or its rights hereunder. In case any action is brought against the indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it chooses, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party; and, after notice from the indemnifying party to the indemnified party that it so chooses, the indemnifying party shall not be liable for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that (i) if the indemnifying party fails to take reasonable steps necessary to defend diligently the Claim within twenty (20) days after receiving notice from the indemnified party that the indemnified party believes it has failed to do so; (ii) if the indemnified party who is a defendant in any action or proceeding which is also brought against the indemnifying party reasonably shall have concluded that there are legal defenses available to the indemnified party which are not available to the indemnifying party; or (iii) if representation of both parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct, the indemnified party shall have the right to assume or continue its own defense as set forth above (but with no more than one firm of counsel for all indemnified parties in each jurisdiction, except to the extent any indemnified party or parties reasonably shall have concluded that there are legal defenses available to such party or parties which are not available to the other indemnified parties or to the extent representation of all indemnified parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct) and the indemnifying party shall be liable for any reasonable expenses therefor; provided, that no indemnifying party shall be subject to any liability for any settlement of a Claim made without its consent (which may not be unreasonably withheld, delayed or conditioned). If the indemnifying party assumes the defense of any Claim hereunder, such indemnifying party shall not enter into any settlement without the consent of the indemnified party if such settlement attributes liability to the indemnified party (which consent may not be unreasonably withheld, delayed or conditioned).

(e) If for any reason the indemnity provided in Section 8(b) or 8(c) above is unavailable, or is insufficient to hold harmless, an indemnified party, then the indemnifying party shall contribute to the amount

paid or payable by the indemnified party as a result of any Claim in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other from the transactions contemplated by this Security. If, however, the allocation provided in the immediately preceding sentence is not permitted by applicable law, or if the indemnified party failed to give the notice required by Section 8(d) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the indemnifying party and the indemnified party as well as any other relevant equitable considerations. The relative fault 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 the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable in respect of any Claim shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such Claim. Notwithstanding the foregoing, no underwriter or controlling person thereof, if any, shall be required to contribute, in respect of such underwriter's participation as an underwriter in the offering, any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligation of any underwriters to contribute pursuant to this subsection (e) shall be several in proportion to their respective underwriting commitments and not joint.

(f) The provisions of Sections 8(b) through 8(e) hereof shall be in addition to any other rights to indemnification or contribution which any indemnified party may have pursuant to law or contract and shall remain operative and in full force and effect regardless of any investigation made or omitted by or on behalf of any indemnified party and shall survive the transfer of the Registrable Securities by any such party.

(g) If and whenever Issuer is required by the provisions of this Section 8 to register any Registrable Securities under the 1933 Act, Issuer shall, as expeditiously as possible under the circumstances:

A. Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective as soon as possible and remain effective.

B. Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement current and to comply with the provisions of the 1933 Act, and any regulations promulgated thereunder, with respect to the sale or disposition of all Registrable

Securities covered by the registration statement required to effect the distribution of the securities, but in no event shall Issuer be required to do so for a period of more than three (3) years following the effective date of the registration statement.

C. Furnish to the Sellers participating in the offering, copies (in reasonable quantities) of summary, preliminary, final, amended or supplemented prospectuses, in conformity with the requirements of the 1933 Act and any regulations promulgated thereunder, and other documents as reasonably may be required in order to facilitate the disposition of the securities, but only while Issuer is required under the provisions hereof to keep the registration statement current.

D. Use its best efforts to register or qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions of the United States as the Sellers participating in the offering shall reasonably request, and do any and all other acts and things which may be reasonably necessary to enable each participating Seller to consummate the disposition of the Registrable Securities in such jurisdictions.

E. Notify each Seller selling Registrable Securities, at any time when a prospectus relating to any such Registrable Securities covered by such registration statement is required to be delivered under the 1933 Act, of Issuer's becoming aware that the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and promptly prepare and furnish to each such Seller selling Registrable Securities a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

F. As soon as practicable after the effective date of the registration statement, and in any event within eighteen (18) months thereafter, make generally available to Sellers participating in the offering an earnings statement (which need not be audited) covering a period of at least twelve (12) consecutive months beginning after the effective date of the registration statement which earnings statement shall satisfy the provisions of Section 11(a) of the 1933 Act, including, at Issuer's option, Rule 158 thereunder. To the extent that Issuer files such information with the SEC in satisfaction of the foregoing, Issuer need not deliver the above referenced earnings statement to Seller.

G. Upon request, deliver promptly to counsel of each Seller participating in the offering copies of all correspondence between the SEC and Issuer, its counsel or auditors and all memoranda relating to discussions with the SEC or its staff with respect to the registration statement and permit each such Seller to do such investigation at such Seller's sole cost and expense, upon reasonable advance notice, with respect to information contained in or omitted from the registration statement as it deems reasonably necessary. Each Seller agrees that it will use its best efforts not to interfere unreasonably with Issuer's business when conducting any such investigation and each Seller shall keep any such information received pursuant to this Subsection G confidential.

H. Provide a transfer agent and registrar located in the United States for all such Registrable Securities covered by such registration statement not later than the effective date of such registration statement.

I. List the Registrable Securities covered by such registration statement on such exchanges or the NASDAQ as the Common Stock may then be listed.

J. Pay all Registration Expenses (as hereinafter defined) incurred in connection with a registration of Registrable Securities, whether or not such registration statement shall become effective; provided that each Seller shall pay all underwriting discounts, commissions and transfer taxes, if any, relating to the sale or disposition of such Seller's Registrable Securities pursuant to a registration statement. As used herein, "Registration Expenses" means any and all reasonable and customary expenses incident to performance of or compliance with the registration rights set forth herein, including, without limitation, (i) all SEC, stock exchange and National Association of Securities Dealers, Inc. registration and filing fees, (ii) all fees and expenses of complying with state securities or blue sky laws (including reasonable fees and disbursements of counsel for the underwriters in connection with blue sky qualifications of the Registrable Securities but no other expenses of the underwriters or their counsel), (iii) all printing, messenger and delivery expenses, and (iv) the fees and expenses of counsel for Issuer and Issuer's independent public accountants.

(h) Following the effectiveness of the Registration Statement, the Issuer may, at any time, suspend the effectiveness of the Registration Statement for up to thirty (30) days on each of two occasions during any twelve (12) month period, as appropriate (the "Maximum Suspension Period"), by giving notice ("Suspension Notice") to the Register Holders to the effect that the Issuer has determined that it may be required to disclose a material corporate development in the prospectus which forms a part of the Registration Statement. In the event that the Issuer issues a Suspension Notice, the Issuer shall, prior to the expiration of the Maximum Suspension Period, file such amendments to the Registration Statement as may be necessary to allow for the Registrable Securities to be sold in compliance with applicable law, advise the holders of the Registrable Securities in writing that the use of the applicable prospectus may be resumed, deliver to such holders copies of any additional or supplemental or amended prospectus, if applicable, and deliver to such holders copies of any additional or supplemental filings which are incorporated or deemed to be incorporated by reference in such prospectus.

THE WARRANT AND THE SECURITIES ISSUABLE HEREUNDER HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAW. THE WARRANT AND THE SECURITIES MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION UNDER SAID ACT AND ANY APPLICABLE SECURITIES LAWS OR AN EXEMPTION THEREFROM UNDER SAID ACT OR LAWS. THE COMPANY MAY REQUEST, AS A CONDITION TO ANY TRANSFER, AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

THIS WARRANT AND THE SECURITIES REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS OF THE REGISTRATION RIGHTS PROVISIONS ATTACHED HERETO AS EXHIBIT A.

Warrant No.__ _____ Shares

FORM OF
WARRANT

To Purchase Common Stock of

GALES INDUSTRIES INCORPORATED

GALES INDUSTRIES INCORPORATED, a Delaware corporation ("Gales"), intends to seek equity or debt financing of at least $5,500,000 and, contemporaneously with the closing of such financing, Gales contemplates entering into a "reverse merger" transaction (the "Reverse Merger") with a publicly-held company (the "Public Company"). Gales and/or the Public Company are referred to herein as the "Company". After completion of the Reverse Merger, references herein to "Gales" or the "Company" shall be deemed to refer collectively to Gales and the Public Company. "Financing" means equity or debt financing resulting in gross proceeds to the Company of at least $5,500,000.

This certifies that, commencing on the earlier of (i) January 1, 2006 or (ii) the date as of which the Reverse Merger is completed, and from time to time after such earlier date until the Expiration Date, XXXXXXXXXXX or its registered assigns (the "Holder") is entitled to purchase from Gales, or the Public Company with which Gales enters into a Reverse Merger, the number of shares of Common Stock (as defined below) set forth above, in whole or in part, including fractional parts, at a purchase price (the "Purchase Price") equal to the lower of (1) $0.22 per share of Common Stock or (2), if the Company has completed the Financing, the effective price per share of the Public Company's Common Stock (or Common Stock equivalents) sold in the Financing. The effective price per share referred to in the preceding sentence means the gross proceeds of the Financing divided by the number of shares of Common Stock (or Common Stock equivalents, but not warrants or securities issued to the placement agent or other non-investors) issued to the investors in the Financing. Notwithstanding anything else herein to the contrary, if, as of the date this Warrant is exercised, the Reverse Merger has already been completed, only shares of the Public Company's Common Stock will be issuable upon exercise of this Warrant, and if, as of the date this Warrant is exercised, the Reverse Merger has not been completed, only shares of the Company's Common Stock will be issuable upon exercise of this Warrant, and, in such later case, the shares of the Company's Common Stock issued upon exercise of this Warrant shall not have any voting rights until the Financing is completed or terminated and the Company shall have the right to dilute the Holder's percentage ownership of the outstanding capital stock by issuing to other parties the shares of Common Stock contemplated by the Company's proposed pro forma fully-diluted capitalization table, a copy of which has been provided to the Holder, which takes into account as of the date of the closing of the Reverse Merger, among other issuances, the founder's shares, shares to officers, directors and employees, stock option shares, shares to the Public Company's pre-existing shareholders, and shares to the former shareholders of Air Industries Machining, Corp., a New York corporation, which the Company contemplates acquiring simultaneously with the closing of the Financing and the Reverse Merger. The number of Warrant Shares (as defined below) and the Purchase Price therefor are subject to adjustment as hereinafter set forth in Section 6. This is one of a series of warrants in substantially the same form that were originally issued on the Issue Date.

The number of shares into which this Warrant is convertible, set forth above, assumes that the per share price in the Financing is $0.22 and is derived by dividing the principal amount of the 12% Bridge Note ("Note"), purchased by the Holder from the Company, by $0.22. In the event the Financing is completed at an effective price per share of the Public Company's Common Stock (or Common Stock equivalents) of under $0.22, the number of shares into which this Warrant is convertible will automatically adjust to the quotient of the principal amount of the Note divided by such lower price per share at which the Financing is completed.

SECTION 1. Certain Definitions. For all purposes of this Warrant, the following terms shall have the meanings indicated:

"Additional Shares of Common Stock" means all shares of Common Stock issued after the date hereof, other than Warrant Shares, whether now authorized or not, other than Excluded Shares.

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

"Common Stock" means and includes the Company's authorized common stock, par value $0.001 per share, and includes any Common Stock of any class or classes resulting from any successive changes or reclassifications thereof;

provided, however, that, in the event that the Company has completed the Reverse Merger, "Common Stock" means the common stock of the Public Company.

"Company" means Gales Industries Incorporated; provided, however, that after completion of the Reverse Merger, references herein to the "Company" will also be deemed to include the Public Company.

"Convertible Securities" means evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable, with or without payment of additional consideration in cash or property, for Additional Shares of Common Stock, either immediately or upon the occurrence of a specified date or a specified event.

"Current Market Price" means the 10-day average closing bid prices of a share of Common Stock as reported on NASDAQ for the period of 10 consecutive Trading Days ending on the date of determination; provided, however, if the Common Stock is not listed or admitted to trading on NASDAQ, as reported on the principal national security exchange or quotation system on which the Common Stock is quoted or listed or admitted to trading; or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the closing bid price of such security on the over-the-counter market on the day in question as reported by Bloomberg LP, or a similar generally accepted reporting service, as the case may be, or if not listed or admitted for trading on any national securities exchange or quoted in the over-the-counter market, the Current Market Price shall be the Fair Value on such date.

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

"Excluded Shares" means:

(a) (i) shares of Common Stock issuable upon the exercise of options and warrants (including this Warrant) and that are outstanding on the Issue Date and (ii) such number of additional shares of Common Stock as may become issuable upon the exercise of such options, warrants and convertible preferred stock by reason of adjustments required pursuant to the anti-dilution provisions applicable to such securities as in effect on the Issue Date;

(b) (i) shares of Common Stock issuable upon the exercise of options and warrants granted or issued by the Company to its employees, officers, directors, consultants and advisors, up to a maximum number of such shares issuable at any point in time while this Warrant is exercisable that does not exceed 20% of the then issued and outstanding shares of Common Stock; provided, in each such case, that the exercise price for any such share shall not be less than 85% of the Fair Value of the Common Stock on the date of grant or issuance of the option or warrant (the "Minimum Price"), and (ii) such additional number of shares of Common Stock as may become issuable pursuant to the terms of any such options or warrants by reason of adjustments required pursuant to anti-dilution provisions applicable to such securities in order to reflect any subdivision or combination of Common Stock, by reclassification or otherwise, or any dividend on Common Stock payable in Common Stock and anti-dilution adjustments that do not adjust the exercise price below the Minimum Price;

(c) shares of Common Stock issuable upon exercise of warrants issued to equipment lessors, banks or other institutional credit financing sources of the Company in connection with the provision of financing or the rendering of other services to the Company up to a maximum number of shares of Common Stock issuable at any point in time while this Warrant is exercisable that does not exceed 20% of the then issued and outstanding shares of Common Stock; provided, in each such case, that the exercise or purchase price for any such share shall

not be less than the Minimum Price, and (ii) such additional number of shares of Common Stock as may become issuable pursuant to the terms of any such warrants by reason of adjustments required pursuant to anti-dilution provisions applicable to such securities in order to reflect any subdivision or combination of Common Stock, by reclassification or otherwise, or any dividend on Common Stock payable in Common Stock and anti-dilution adjustments that do not adjust the exercise price below the Minimum Price.

"Expiration Date" means 5:00 p.m. New York City time on the fifth anniversary of the Issue Date.

"Fair Value" means, on any date specified herein (i) in the case of cash, the dollar amount thereof, (ii) in the case of a security admitted for trading on any national securities exchange or quoted in the over-the-counter market, the Current Market Price, and (iii) in all other cases as determined in good faith jointly by the Company and the Holder; provided, however, that if such parties are unable to reach agreement within 30 days, the Fair Value shall be determined in good faith by an independent investment banking firm selected jointly by the Company and the Holder or, if that selection cannot be made within ten days, by an independent investment banking firm selected by the American Arbitration Association in accordance with its rules.

"Issue Date" means _____, 2005.

"Options" means any rights, options or warrants to subscribe for, purchase or otherwise acquire either Additional Shares of Common Stock or Convertible Securities.

"Other Securities" means any stock (other than Common Stock) and other securities of the Company or any other Person (corporate or otherwise) which the holder of this Warrant at any time shall be entitled to receive, or shall have received, upon the exercise of this Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 7 or otherwise.

"Outstanding" or "outstanding" means, when used with reference to Common Stock, at any date as of which the number of shares thereof is to be determined, all issued shares of Common Stock, except shares then owned or held by or for the account of the Company or any subsidiary of the Company, and shall include all shares issuable in respect of outstanding scrip or any certificates representing fractional interests in shares of Common Stock.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, incorporated organization, association, corporation, institution, public benefit corporation, entity or government (whether federal, state, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

"Purchase Price" means the purchase price set forth in the initial paragraph hereof, as adjusted from time to time pursuant to the provisions of Section 6 hereof.

"Securities Act" or the "1933 Act" means the Securities Act of 1933, as amended, or any similar Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Trading Day" means a day on which the Nasdaq Stock Market is open for the transaction of business.

"Warrant" means this warrant and any warrant issued in exchange, division, substitution, transfer or replacement hereof.

"Warrant Shares" means the shares of Common Stock purchased or purchasable by the Holder of this Warrant upon the exercise hereof pursuant to Section 2 hereof.

SECTION 2. Exercise of Warrant.

(a) This Warrant may be exercised at any time, in whole or in part, for all or any part of the number of shares of Common Stock purchasable hereunder, prior to the Expiration Date. To exercise this Warrant, in whole or in part, the Holder shall complete the notice of exercise attached hereto (the "Notice of Exercise"), and deliver this Warrant and, except as otherwise provided in this Section 2, cash in an amount equal to the aggregate Purchase Price of the shares of Common Stock being purchased, together with the Notice of Exercise, to the Company at its office referred to in Section 9. Upon receipt thereof, the Company shall, as promptly as practicable and in any event within ten (10) business days thereafter, execute or cause to be executed and deliver or cause to be delivered to the Holder a certificate or certificates representing the aggregate number of full shares of Common Stock specified in the Notice of Exercise, together with cash in lieu of any fraction of a share, as hereinafter provided. The stock certificate or certificates so delivered shall be, to the extent possible, in such denomination or denominations as the Holder shall request in the Notice of Exercise and shall be registered in the name of the Holder or such other name as shall be designated in the Notice of Exercise, subject to compliance with applicable securities laws. This Warrant shall be deemed to have been exercised and such certificate or certificates shall be deemed to have been issued, and the Holder or any other person or entity so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Notice of Exercise, together with the cash, if any, and this Warrant, are received by the Company as described above. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased shares of Common Stock called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant. All shares of Common Stock issuable upon the exercise of this Warrant pursuant to the terms hereof shall be validly issued, fully paid and nonassessable and without any preemptive rights. The Company shall pay all expenses, taxes and other charges payable in connection with the preparation, execution and delivery of stock certificates pursuant to this Section, unless such tax or charge is imposed by law upon the Holder, in which case such taxes or charges shall be paid by the Holder. The Company shall not be required, however, to pay any tax or other charge imposed in connection with any transfer involved in the issue of any certificate for shares of Common Stock issuable upon exercise of this Warrant in any name other than that of the Holder, and in such case the Company shall not be required to issue or deliver any stock certificate until such tax or other charge has been paid or it has been established to the satisfaction of the Company that no such tax or other charge is due.

(b) In lieu of payment of the Purchase Price in cash, the Holder may make such payment, by way of cashless exercise, as follows:

(i) by delivery of shares of Common Stock with an aggregate Current Market Price on the date of exercise equal to the Purchase Price, subject, however, to the provisions of Section 16(b) of the Exchange Act; or

(ii) through the written election of the Holder to have withheld by the Company from the shares of Common Stock otherwise deliverable upon exercise, Common Stock having an aggregate Current Market Price on the date of exercise equal to the Purchase Price.

SECTION 3. Fractional Shares. The Company shall not be required to issue a fractional share of Common Stock upon exercise of this Warrant. As to any fraction of a share which the Holder of this Warrant would otherwise be entitled to purchase upon exercise, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the Fair Value per share of Common Stock on the date of exercise.

SECTION 4. Ownership of this Warrant.

(a) The Company shall deem and treat the Holder as the holder and owner of this Warrant (notwithstanding any notations of ownership or writing hereon made by anyone other than the Company) for all purposes and shall not be required to give effect to any notice to the contrary, until presentation of this Warrant for registration of transfer as provided in this Section 4.

(b) Subject to Section 5, this Warrant is exchangeable, upon the surrender hereof by the Holder to the Company at its office referred to in Section 9, for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares of Common Stock purchasable hereunder, each of such new Warrants to represent the right to purchase such number of shares of Common Stock as shall be designated by the Holder at the time of such surrender. Subject to compliance with applicable securities laws, this Warrant and all rights hereunder are transferable in whole or in part upon the books of the Company by the Holder hereof in person or by a duly authorized attorney, and a new Warrant shall be executed and delivered by the Company of the like tenor and date as this Warrant but registered in the name of the transferee, upon surrender of this Warrant duly endorsed, at said office or agency of the Company. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in case of loss, theft or destruction, of an agreement of unsecured indemnity and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor and date, in lieu of this Warrant. This Warrant shall be promptly cancelled by the Company upon the surrender hereof in connection with any exchange, transfer or replacement. The Company shall prepare, issue and deliver at its own expense (other than transfer taxes) the new Warrant or Warrants under this Section 4.

SECTION 5. Restrictions. This Warrant and the Warrant Shares may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or pursuant to an exemption therefrom.

SECTION 6. Anti-Dilution Provisions; Adjustments.

6.1 Adjustment of Number of Shares -- Issuance of Additional Shares of Common Stock. Upon each adjustment of the Purchase Price as a result of the calculations made in Section 6.2, this Warrant shall thereafter evidence the right to receive, at the adjusted Purchase Price, that number of shares of Common Stock (calculated to the nearest one-hundredth of a share) obtained by dividing (i) the product of the aggregate number of shares covered by this Warrant immediately prior to such adjustment and the Purchase Price in effect immediately prior to such adjustment of the Purchase Price by (ii) the Purchase Price in effect immediately after such adjustment of the Purchase Price.

6.2 Issuance of Additional Shares of Common Stock. In case the Company at any time or from time to time after the date hereof shall issue or sell Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 6.4 or Section 6.5 but excluding Additional Shares of Common Stock purchasable upon exercise of Rights referred to in Section 6.9), without consideration or for a consideration per share less than the Current Market Price, immediately prior to such issue or sale, then, and in each such case, subject to Section 6.7, the Purchase Price shall be reduced, concurrently with such issue or sale, to a price (calculated to the nearest .001 of a cent), determined by multiplying such Purchase Price by a fraction

(a) the numerator of which shall be the sum of (i) the number of shares of Common Stock outstanding immediately prior to such issue or sale and (ii) the number of shares of Common Stock which the gross consideration received by the Company for the total number of such Additional Shares of Common Stock so issued or sold would purchase at the Current Market Price, and

(b) the denominator of which shall be the number of shares of Common Stock outstanding immediately after such issue or sale, provided that, for the purposes of this Section 6.2, (x) immediately after any Additional Shares of Common Stock are deemed to have been issued pursuant to Section 6.4 or Section 6.5, such Additional Shares of Common Stock shall be deemed to be outstanding, and (y) treasury shares shall not be deemed to be outstanding.

6.3 Dividends and Distributions. In case the Company at any time or from time to time after the date hereof shall declare, order, pay or make a dividend or other distribution on the Common Stock of (i) cash, (ii) any evidences of its indebtedness, any shares of its stock or any other securities or property of any nature whatsoever (including, without limitation, any distribution of other or additional stock or Convertible Securities, Options or other securities or property, by way of dividend or spin-off, reclassification, recapitalization or similar corporate rearrangement) or (iii) any warrants or other rights to subscribe for or purchase any evidences of its indebtedness, any shares of its stock or any other securities or property of any nature whatsoever, then

(a) the number of shares of Common Stock for which this Warrant is exercisable shall be adjusted to equal the product obtained by multiplying the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such adjustment by a fraction (1) the numerator of which shall be the Current Market Price at the date of taking such record and (2) the denominator of which shall be such Current Market Price minus the amount allocable to one share of Common Stock of (x) any such cash so distributable and (y) the Fair Value of any and all such evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights so distributable, and

(b) the Purchase Price shall be adjusted to equal (1) the Purchase Price immediately prior to the adjustment multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (2) the number of shares for which this Warrant is exercisable immediately after such adjustment.

A reclassification of the Common Stock (other than a change in par value, or from par value to no par value or from no par value to par value) into shares of Common Stock and shares of any other class of stock shall be deemed a distribution by the Company to the holders of its Common Stock of such shares of such other class of stock within the meaning of this Section 6.3 and, if the outstanding shares of Common Stock shall be changed into a larger or smaller number of shares of Common Stock as a part of such reclassification, such change shall be deemed a subdivision or combination, as the case may be, of the outstanding shares of Common Stock within the meaning of Section 6.5.

6.4 Treatment of Options and Convertible Securities. In case the Company at any time or from time to time after the date hereof shall issue, sell, grant or assume, or shall fix a record date for the determination of holders of any class of securities of the Company entitled to receive, any Options or Convertible Securities (whether or not the rights thereunder are immediately exercisable), then, and in each such case, the maximum number of Additional Shares of Common Stock (as set forth in the instrument relating thereto, without regard to any provisions contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue, sale, grant or assumption or, in case such a record date shall have been fixed, as of the close of business on such record date (or, if the Common Stock trades on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading), provided that such Additional Shares of Common Stock shall not be deemed to have been issued unless (i) the consideration per share (determined pursuant to Section 6.6) of such shares would be less than their Fair Value on the date of and immediately prior to such issue, sale, grant or assumption or immediately prior to the close of business on such record date (or, if the Common Stock trades on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading), as the case may be, and (ii) such Additional Shares of Common Stock are not purchasable pursuant to Rights referred to in Section 6.9, and provided, further, that

(a) whether or not the Additional Shares of Common Stock underlying such Options or Convertible Securities are deemed to be issued, no further adjustment of the Purchase Price shall be made upon the subsequent issue or sale of Convertible Securities or shares of Common Stock upon the exercise of such Options or the conversion or exchange of such Convertible Securities;

(b) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Company, or for any decrease or increase in the number of Additional Shares of Common Stock issuable, upon the exercise, conversion or exchange thereof (by change of rate or otherwise), the Purchase Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date, or date prior to the commencement of ex-dividend trading, as the case may be, with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options, or the rights of conversion or exchange under such Convertible Securities, which are outstanding at such time;

(c) upon the expiration (or purchase by the Company and cancellation or retirement) of any such Options which shall not have been exercised or the expiration of any rights of conversion or exchange under any such Convertible Securities which (or purchase by the Company and cancellation or retirement of any such Convertible Securities the rights of conversion or exchange under which) shall not have been exercised, the Purchase Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date, or date prior to the commencement of ex-dividend trading, as the case may be, with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration (or such cancellation or retirement, as the case may be), be recomputed as if:

(i) in the case of Options for Common Stock or Convertible Securities, the only Additional Shares of Common Stock issued or sold were the Additional Shares of Common Stock, if any, actually issued or sold upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus the consideration actually received by the Company upon such exercise, or for the issue or sale of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Company upon such conversion or exchange, and

(ii) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued or sold upon the exercise of such Options were issued at the time of the issue or sale, grant or assumption of such Options, and the consideration received by the Company for the Additional Shares of Common Stock deemed to have then been issued was the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Company (pursuant to Section 6.6) upon the issue or sale of such Convertible Securities with respect to which such Options were actually exercised;

(d) no readjustment pursuant to subdivision (b) or (c) above shall have the effect of increasing the Purchase Price by an amount in excess of the amount of the adjustment thereof originally made in respect of the issue, sale, grant or assumption of such Options or Convertible Securities; and

(e) in the case of any such Options which expire by their terms not more than 30 days after the date of issue, sale, grant or assumption thereof, no adjustment of the Purchase Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the manner provided in subdivision (c) above.

6.5 Treatment of Stock Dividends, Stock Splits, etc. If at any time the Company shall:

(a) take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, Additional Shares of Common Stock,

(b) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(c) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, by a reverse stock split or otherwise,

then (i) the number of shares of Common Stock for which this Warrant is exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event, and (ii) the Purchase Price shall be adjusted to equal (A) the Purchase Price multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (B) the number of shares for which this Warrant is exercisable immediately after such adjustment.

6.6 Computation of Consideration. For the purposes of this Section 6,

(a) the consideration for the issue or sale of any Additional Shares of Common Stock shall, irrespective of the accounting treatment of such consideration,

(i) insofar as it consists of cash, be computed at the amount of cash received by the Company, without deducting any expenses paid or incurred by the Company or any commissions or compensations paid or concessions or discounts allowed to underwriters, dealers or others performing similar services in connection with such issue or sale,

(ii) insofar as it consists of property (including securities) other than cash, be computed at the Fair Value thereof at the time of such issue or sale, and

(iii) in the case where Additional Shares of Common Stock are issued or sold together with other stock or securities or other assets of the Company for a consideration which covers both, be the portion of such consideration so received, computed as provided in clauses (i) and (ii) above, allocable to such Additional Shares of Common Stock, such allocation to be determined in the same manner that the Fair Value of property not consisting of cash or securities is to be determined as provided in the definition of "Fair Value" herein;

(b) Additional Shares of Common Stock deemed to have been issued pursuant to Section 6.4, relating to Options and Convertible Securities, shall be deemed to have been issued for a consideration per share determined by dividing

(i) the total amount, if any, received and receivable by the Company as consideration for the issue, sale, grant or assumption of the Options or Convertible Securities in question, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration to protect against dilution) payable to the Company upon the exercise in full of such Options or the conversion or exchange of such Convertible Securities or, in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, in each case computing such consideration as provided in the foregoing subdivision (a),

by

(ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number to protect against dilution) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities; and

(c) Additional Shares of Common Stock deemed to have been issued pursuant to Section 6.5, relating to stock dividends, stock splits, etc., shall be deemed to have been issued for no consideration.

6.7 De Minimis Adjustments. If the amount of any adjustment of the Purchase Price per share required pursuant to this Section 6 would be less than $.01, such amount shall be carried forward and the adjustment with respect thereto made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate a change in the Purchase Price of at least $.01 per share. All calculations under this Warrant shall be made to the nearest .001 of a cent or to the nearest one-hundredth of a share, as the case may be.

6.8 Abandoned Dividend or Distribution. If the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or other distribution (which results in an adjustment to the

Purchase Price under the terms of this Warrant) and shall, thereafter, and before such dividend or distribution is paid or delivered to shareholders entitled thereto, legally abandon its plan to pay or deliver such dividend or distribution, then any adjustment made to the Purchase Price and number of shares of Common Stock purchasable upon Warrant exercise by reason of the taking of such record shall be reversed, and any subsequent adjustments, based thereon, shall be recomputed.

6.9 Shareholder Rights Plan. Notwithstanding the foregoing, in the event that the Company shall distribute "poison pill" rights pursuant to a "poison pill" shareholder rights plan (the "Rights"), the Company shall, in lieu of making any adjustment pursuant to Section 6.2 or Section 6.3 hereof, make proper provision so that each Holder who exercises a Warrant after the record date for such distribution and prior to the expiration or redemption of the Rights shall be entitled to receive upon such exercise, in addition to the shares of Common Stock issuable upon such exercise, a number of Rights to be determined as follows: (i) if such exercise occurs on or prior to the date for the distribution to the holders of Rights of separate certificates evidencing such Rights (the "Distribution Date"), the same number of Rights to which a holder of a number of shares of Common Stock equal to the number of shares of Common Stock issuable upon such exercise at the time of such exercise would be entitled in accordance with the terms and provisions of and applicable to the Rights; and (ii) if such exercise occurs after the Distribution Date, the same number of Rights to which a holder of the number of shares into which the Warrant so exercised was exercisable immediately prior to the Distribution Date would have been entitled on the Distribution Date in accordance with the terms and provisions of and applicable to the Rights, and in each case subject to the terms and conditions of the Rights.

SECTION 7. Consolidation, Merger, Etc.

7.1 Adjustments for Consolidation, Merger, Sale of Assets, Reorganization, etc. In case the Company after the date hereof shall (a) consolidate with or merge into any other Person and shall not be the continuing or surviving corporation of such consolidation or merger, or (b) permit any other Person to consolidate with or merge into the Company and the Company shall be the continuing or surviving Person but, in connection with such consolidation or merger, the Common Stock or Other Securities shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (c) transfer all or substantially all of its properties or assets to any other Person in one or more related transactions, or (d) effect a capital reorganization or reclassification of the Common Stock or Other Securities (other than a capital reorganization or reclassification resulting in the issue of Additional Shares of Common Stock for which adjustment in the Purchase Price is provided in Section 6.2 or Section 6.3), then, and in the case of each such transaction, proper provision shall be made so that, upon the basis and the terms and in the manner provided in this Warrant, the Holder of this Warrant, upon the exercise hereof at any time after the consummation of such transaction, shall be entitled to receive (at the aggregate Purchase Price in effect at the time of such consummation for all Common Stock or Other Securities issuable upon such exercise immediately prior to such consummation), in lieu of the Common Stock or Other Securities issuable upon such exercise prior to such consummation, the amount of securities, cash or other property to which such Holder would actually have been entitled as a shareholder upon such consummation if such Holder had exercised this Warrant immediately prior thereto, subject to adjustments (subsequent to such consummation) as nearly equivalent as possible to the adjustments provided for in Section 6.

7.2 Assumption of Obligations. Notwithstanding anything contained in this Warrant, the Company shall not effect any of the transactions described in clauses (a) through (d) of Section 7.1 unless, prior to the consummation thereof, each Person (other than the Company) which may be required to deliver any stock, securities, cash or property upon the exercise of this Warrant as provided herein shall assume, by written instrument delivered to, and reasonably satisfactory to, the Holder of this Warrant, (a) the obligations of the Company under this Warrant (and if the Company shall survive the consummation of such transaction, such assumption shall be in addition to, and shall not release the Company from, any continuing obligations of the Company under this Warrant, including Exhibit A hereto), (b) the obligation to deliver to the Holder such shares of stock, securities, cash or property as, in accordance with the foregoing provisions of this Section 7, the Holder may be entitled to receive.

SECTION 8. Covenants of the Company. The Company covenants and agrees that it shall reserve and set apart and have at all times, free from preemptive rights, the number of authorized but unissued shares of Common Stock deliverable upon the exercise in full of this Warrant, and it shall have at all times any other rights or privileges provided for therein sufficient to enable it at any time to fulfill all of its obligations hereunder. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to permit the exercise in full of this Warrant, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, taking appropriate board action, recommending such an increase to the holders of Common Stock, holding shareholders meetings, soliciting votes and proxies in favor of such increase to obtain the requisite shareholder approval and upon such approval, the Company shall reserve and keep available such additional shares solely for the purpose of permitting the exercise of this Warrant. The Company covenants and agrees that all shares of Common Stock which shall be so issuable will, upon issuance, be duly and validly authorized and issued, fully paid and nonassessable, free and clear of any liens, claims and restrictions (other than as provided herein).

SECTION 9. Notification by the Company.

9.1 Notice of Adjustments. Whenever the number of shares of Common Stock or the class or type of stock or other property for which this Warrant is exercisable, or whenever the price at which a share of such Common Stock may be purchased upon exercise of this Warrant, shall be adjusted pursuant to Section 6, the Company shall forthwith prepare a certificate to be executed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment and the method by which such adjustment was calculated (including a description of the basis on which the Board of Directors of the Company determined the Fair Value of any evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights referred to in Section 6.2), specifying the number of shares of Common Stock for which this Warrant is exercisable and describing the number and kind of any other shares of stock or other property for which this Warrant is exercisable, if any, and any change in the purchase price or prices thereof, after giving effect to such adjustment or change. The Company shall promptly cause a signed copy of such certificate to be delivered to the Holder in accordance with Section 10. The Company shall keep at its office or agency designated pursuant to Section 10 copies of all such certificates and cause the same to be available for inspection at said office during normal business hours by the Holder or any prospective purchaser of a Warrant designated by the Holder.

9.2 Notice of Certain Corporate Action. The Holder shall be entitled to the same rights to receive notice of corporate action as any holder of Common Stock.

SECTION 10. Notices. Any notice or other document required or permitted to be given or delivered to the Holder shall be hand delivered or delivered by nationally recognized overnight courier at, or sent by certified or registered mail postage prepaid and return receipt requested to the Holder at the last address shown on the books of the Company. Any notice or other document required or permitted to be given or delivered to the Company shall be delivered at, or sent by certified or registered mail to, the principal office of the Company, at 333 East 66th Street, 9th Floor, New York, NY 10021, Attn: Executive Chairman, or such other address as shall have been furnished to the Holder by the Company. All such communications shall be deemed to have been given or made when so delivered by hand, or one business day after being sent by overnight delivery or five business days after being so mailed.

SECTION 11. No Rights as Shareholders; Limitation of Liability. This Warrant shall not entitle the Holder to any of the rights of a shareholder of the Company except as expressly set forth herein. No provision hereof, in the absence of affirmative action by the Holder to exercise this Warrant or purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the Holder, shall give rise to any liability upon the Holder for the Purchase Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

SECTION 12. Law Governing. This Warrant shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the conflict of law provisions thereof.

SECTION 13. Miscellaneous. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party (or any predecessor in interest thereof) against which enforcement of the same is sought. The headings in this Warrant are for purposes of reference only and shall not affect the meaning or construction of any of the provisions hereof.

SECTION 14. Registration Rights. This Warrant is subject to the Registration Rights provisions contained in Exhibit A hereto. By accepting this Warrant or receiving any benefits hereunder, the Holder, and each successor Holder, hereby agrees to the provisions set forth in Exhibit A hereto.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed and attested by its duly authorized officer as of the _____ day of _____, 2005.

GALES INDUSTRIES INCORPORATED

By: _____
Name:
Title:

NOTICE OF EXERCISE

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Warrant for, and to purchase thereunder, _____ of the Company's Warrant Shares provided for therein and requests that certificates for such Warrant Shares be issued in the name of*:

_____
_____
_____
(please print name, address, and social security number or employer identification number)

and, if said number of Warrant Shares shall not be all the shares of Common Stock purchasable thereunder, that a new Warrant certificate for the balance remaining of the shares of Common Stock purchasable under the within Warrant be registered in the name of the undersigned Warrantholder or his assignee as below indicated and delivered to the address stated below.

In order to induce the Company to give instructions to its transfer agent to issue the shares of Common Stock being purchased upon exercise of the Warrant, the undersigned hereby represents and warrants that undersigned is an "accredited investor" as that term is defined in Regulation D under the Securities Act of 1933, as amended.

Dated: _____, 20___

Name of Warrant holder or Assignee:

_____
(please print)

Address:

_____

_____

_____

Signature: _____

Signature Guaranteed: NOTE: THE ABOVE SIGNATURE MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE WITHIN WARRANT IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER, UNLESS THE WITHIN WARRANT HAS BEEN ASSIGNED.

- ----------
* If other than the Holder specified on the within Warrant delivered with this Notice of Exercise, the transfer is subject to compliance with applicable securities laws and the payment by the Holder of any applicable transfer or similar taxes.

IF WARRANT SHARES ARE TO BE ISSUED IN ANY NAME OTHER THAN THAT OF THE REGISTERED HOLDER OF THE WITHIN WARRANT, THE REGISTERED HOLDER'S SIGNATURE SHALL BE GUARANTEED BY A COMMERCIAL BANK OR TRUST COMPANY OR BY A MEMBER FIRM OF THE NEW YORK STOCK EXCHANGE.

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto_____
_____
_____
(name and address of assignee must be printed or typewritten)

the within Warrant, hereby irrevocably constituting and appointing attorney to transfer said Warrant on the books of the Company with full power of substitution in the premises.

Dated: _____

Name of Warrantholder or Assignee:

_____
(please print)

Address:

_____

_____

_____

Signature: _____
SIGNATURE OF REGISTERED HOLDER

Signature Guaranteed: NOTE: THE SIGNATURE ON THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS IT APPEARS UPON THE FACE OF THE WITHIN WARRANT IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER. SUCH SIGNATURE SHALL BE GUARANTEED BY A COMMERCIAL BANK OR TRUST COMPANY OR BY A MEMBER FIRM OF THE NEW YORK STOCK EXCHANGE.

Exhibit A to Warrant

REGISTRATION RIGHTS

The following provisions are a part of the Warrant (the "Warrant") to purchase shares of Common Stock that was initially issued to _____ in _____ 2005, and any warrant, in substantially the same form as the Warrant, that is issued to any Person who or which becomes a Holder as permitted by the Warrant. References to the "Warrant" include each such subsequently issued Warrant. As used below, the "Issuer" means Gales Industries Incorporated or the public company with which it enters into a "reverse merger" transaction, "Registered Holder" means the Holder and "Registered Holders" refers to the holders of the Warrants and the Notes (as defined below). This Warrant is one of a series of Warrants (together, the "Warrants") issued in connection with the Company's sale of its 12.0% Bridge Notes (the "Notes"), limited in aggregate principal amount to $105,000. All capitalized terms below shall have the same meanings as in the Warrant, unless otherwise defined. Paragraph references below are to the paragraphs of this Exhibit A.

Registration Rights.

(a) Registered Holders shall have certain registration rights as follows:

A. If, after the date of the this Warrant, Issuer shall file with the Securities and Exchange Commission ("SEC") a registration statement ("Registration Statement") under the Securities Act, registering any shares of Common Stock owned by any person or entity, Issuer shall include in such Registration Statement all of the shares into which the Warrants are exercisable, subject to the remaining terms of this Section 8(a). After such initial Registration Statement, if the Issuer shall file a second Registration Statement with the SEC, the Issuer the shall give written notice to each Registered Holder thereof prior to such filing.

B. Within fifteen (15) days after such notice from Issuer, each Registered Holder shall give written notice to Issuer whether or not the Registered Holder desires to have included in the Registration Statement all of the shares into which the Warrants are exercisable (the "Registrable Securities"). If a Registered Holder fails to give such notice within such period, such Registered Holder shall not have the right to have such Registered Holder's Registrable Securities registered pursuant to such registration statement. If a Registered Holder gives such notice, then Issuer shall include such Registered Holder's Registrable Securities in the registration statement, at Issuer's sole cost and expense, subject to the remaining terms of this Section 8(a).

C. If the registration statement relates to an underwritten offering, and the underwriter shall determine in writing that the total number of shares of Common Stock to be included in the offering, including the Registrable Securities, shall exceed the amount which the underwriter deems to be appropriate for the offering, the number of shares of the Registrable Securities shall be reduced in the same proportion as the remainder of the

shares in the offering and each Registered Holder's Registrable Securities included in such registration statement will be reduced proportionately. For this purpose, if other securities in the registration statement are derivative securities, their underlying shares shall be included in the computation. The Registered Holders shall enter into such agreements as may be reasonably required by the underwriters and the Registered Holders shall pay to the underwriters commissions relating to the sale of their respective Registrable Securities.

D. Other than their right to have their Registrable Securities included in the Issuer's initial Registration Statement after the date hereof, the Registered Holders shall have one other opportunity to have the Registrable Securities registered under this Section 8(a).

E. The Registered Holder shall furnish in writing to Issuer such information as Issuer shall reasonably require in connection with a registration statement.

(b) In the event Issuer effects any registration under the 1933 Act of any Registrable Securities pursuant to Section 8(a), the Issuer shall indemnify, to the extent permitted by law, and hold harmless any Registered Holder whose Registrable Securities are included in such Registration Statement (each, a "Seller"), any underwriter, any officer, director, employee or agent of any Seller or underwriter, and each other person, if any, who controls any Seller or underwriter within the meaning of Section 15 of the 1933 Act, against any losses, claims, damages or liabilities, judgment, fines, penalties, costs and expenses, joint or several, or actions in respect thereof (collectively, the "Claims"), to which each such indemnified party becomes subject, under the 1933 Act or otherwise, insofar as such Claims arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the registration statement or prospectus or any amendment or supplement thereto or any document filed under a state securities or blue sky law (collectively, the "Registration Documents") or insofar as such Claims arise out of or are based upon the omission or alleged omission to state in any Registration Document a material fact required to be stated therein or necessary to make the statements made therein not misleading, and will reimburse any such indemnified party for any legal or other expenses reasonably incurred by such indemnified party in investigating or defending any such Claim; provided that the Issuer shall not be liable in any such case to the extent such Claim is based upon an untrue statement or alleged untrue statement of a material fact or omission or alleged omission of a material fact made in any Registration Document in reliance upon and in conformity with written information furnished to Issuer by or on behalf of any indemnified party specifically for use in the preparation of such Registration Document.

(c) In connection with any registration statement in which any Seller is participating, each Seller, severally and not jointly, shall indemnify, to the extent permitted by law, and hold harmless Issuer, each of its directors, each of its officers who have signed the registration statement, each other person, if any, who controls Issuer within the meaning of Section 15 of the 1933 Act, each other Seller and each underwriter, any officer, director, employee or agent of any such other Seller or underwriter and each other person, if any, who controls such other Seller or underwriter within the meaning of Section 15 of the 1933 Act against any Claims to which each such indemnified

party may become subject under the 1933 Act or otherwise, insofar as such Claims (or actions in respect thereof) are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Document, or insofar as any Claims are based upon the omission or alleged omission to state in any Registration Document a material fact required to be stated therein or necessary to make the statements made therein not misleading, and will reimburse any such indemnified party for any legal or other expenses reasonably incurred by such indemnified party in investigating or defending any such claim; provided, however, that such indemnification or reimbursement shall be payable only if, and to the extent that, any such Claim arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Registration Document in reliance upon and in conformity with written information furnished to Issuer by the Seller specifically for use in the preparation thereof.

(d) Any person entitled to indemnification under Sections 8(b) or 8(c) above shall notify promptly the indemnifying party in writing of the commencement of any Claim if a claim for indemnification in respect thereof is to be made against an indemnifying party under this Section 8(d), but the omission of such notice shall not relieve the indemnifying party from any liability which it may have to any indemnified party otherwise than under Section 8(b) or 8(c) above, except to the extent that such failure shall materially adversely affect any indemnifying party or its rights hereunder. In case any action is brought against the indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it chooses, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party; and, after notice from the indemnifying party to the indemnified party that it so chooses, the indemnifying party shall not be liable for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that (i) if the indemnifying party fails to take reasonable steps necessary to defend diligently the Claim within twenty (20) days after receiving notice from the indemnified party that the indemnified party believes it has failed to do so; (ii) if the indemnified party who is a defendant in any action or proceeding which is also brought against the indemnifying party reasonably shall have concluded that there are legal defenses available to the indemnified party which are not available to the indemnifying party; or (iii) if representation of both parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct, the indemnified party shall have the right to assume or continue its own defense as set forth above (but with no more than one firm of counsel for all indemnified parties in each jurisdiction, except to the extent any indemnified party or parties reasonably shall have concluded that there are legal defenses available to such party or parties which are not available to the other indemnified parties or to the extent representation of all indemnified parties by the same counsel is otherwise inappropriate under applicable standards of professional conduct) and the indemnifying party shall be liable for any reasonable expenses therefor; provided, that no indemnifying party shall be subject to any liability for any settlement of a Claim made without its consent (which may not be unreasonably withheld, delayed or conditioned). If the indemnifying party assumes the defense of any Claim hereunder, such indemnifying party shall not enter into any settlement without the consent of the indemnified party if such settlement attributes liability to the indemnified party (which consent may not be unreasonably withheld, delayed or conditioned).

(e) If for any reason the indemnity provided in Section 8(b) or 8(c) above is unavailable, or is insufficient to hold harmless, an indemnified party, then the indemnifying party shall contribute to the amount

paid or payable by the indemnified party as a result of any Claim in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other from the transactions contemplated by this Security. If, however, the allocation provided in the immediately preceding sentence is not permitted by applicable law, or if the indemnified party failed to give the notice required by Section 8(d) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the indemnifying party and the indemnified party as well as any other relevant equitable considerations. The relative fault 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 the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable in respect of any Claim shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such Claim. Notwithstanding the foregoing, no underwriter or controlling person thereof, if any, shall be required to contribute, in respect of such underwriter's participation as an underwriter in the offering, any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligation of any underwriters to contribute pursuant to this subsection (e) shall be several in proportion to their respective underwriting commitments and not joint.

(f) The provisions of Sections 8(b) through 8(e) hereof shall be in addition to any other rights to indemnification or contribution which any indemnified party may have pursuant to law or contract and shall remain operative and in full force and effect regardless of any investigation made or omitted by or on behalf of any indemnified party and shall survive the transfer of the Registrable Securities by any such party.

(g) If and whenever Issuer is required by the provisions of this Section 8 to register any Registrable Securities under the 1933 Act, Issuer shall, as expeditiously as possible under the circumstances:

A. Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective as soon as possible and remain effective.

B. Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement current and to comply with the provisions of the 1933 Act, and any regulations promulgated thereunder, with respect to the sale or disposition of all Registrable

Securities covered by the registration statement required to effect the distribution of the securities, but in no event shall Issuer be required to do so for a period of more than three (3) years following the effective date of the registration statement.

C. Furnish to the Sellers participating in the offering, copies (in reasonable quantities) of summary, preliminary, final, amended or supplemented prospectuses, in conformity with the requirements of the 1933 Act and any regulations promulgated thereunder, and other documents as reasonably may be required in order to facilitate the disposition of the securities, but only while Issuer is required under the provisions hereof to keep the registration statement current.

D. Use its best efforts to register or qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions of the United States as the Sellers participating in the offering shall reasonably request, and do any and all other acts and things which may be reasonably necessary to enable each participating Seller to consummate the disposition of the Registrable Securities in such jurisdictions.

E. Notify each Seller selling Registrable Securities, at any time when a prospectus relating to any such Registrable Securities covered by such registration statement is required to be delivered under the 1933 Act, of Issuer's becoming aware that the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and promptly prepare and furnish to each such Seller selling Registrable Securities a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

F. As soon as practicable after the effective date of the registration statement, and in any event within eighteen (18) months thereafter, make generally available to Sellers participating in the offering an earnings statement (which need not be audited) covering a period of at least twelve (12) consecutive months beginning after the effective date of the registration statement which earnings statement shall satisfy the provisions of Section 11(a) of the 1933 Act, including, at Issuer's option, Rule 158 thereunder. To the extent that Issuer files such information with the SEC in satisfaction of the foregoing, Issuer need not deliver the above referenced earnings statement to Seller.

G. Upon request, deliver promptly to counsel of each Seller participating in the offering copies of all correspondence between the SEC and Issuer, its counsel or auditors and all memoranda relating to discussions with the SEC or its staff with respect to the registration statement and permit each such Seller to do such investigation at such Seller's sole cost and expense, upon reasonable advance notice, with respect to information contained in or omitted from the registration statement as it deems reasonably

necessary. Each Seller agrees that it will use its best efforts not to interfere unreasonably with Issuer's business when conducting any such investigation and each Seller shall keep any such information received pursuant to this Subsection G confidential.

H. Provide a transfer agent and registrar located in the United States for all such Registrable Securities covered by such registration statement not later than the effective date of such registration statement.

I. List the Registrable Securities covered by such registration statement on such exchanges or the NASDAQ as the Common Stock may then be listed.

J. Pay all Registration Expenses (as hereinafter defined) incurred in connection with a registration of Registrable Securities, whether or not such registration statement shall become effective; provided that each Seller shall pay all underwriting discounts, commissions and transfer taxes, if any, relating to the sale or disposition of such Seller's Registrable Securities pursuant to a registration statement. As used herein, "Registration Expenses" means any and all reasonable and customary expenses incident to performance of or compliance with the registration rights set forth herein, including, without limitation, (i) all SEC, stock exchange and National Association of Securities Dealers, Inc. registration and filing fees, (ii) all fees and expenses of complying with state securities or blue sky laws (including reasonable fees and disbursements of counsel for the underwriters in connection with blue sky qualifications of the Registrable Securities but no other expenses of the underwriters or their counsel), (iii) all printing, messenger and delivery expenses, and (iv) the fees and expenses of counsel for Issuer and Issuer's independent public accountants.

(h) Following the effectiveness of the Registration Statement, the Issuer may, at any time, suspend the effectiveness of the Registration Statement for up to thirty (30) days on each of two occasions during any twelve (12) month period, as appropriate (the "Maximum Suspension Period"), by giving notice ("Suspension Notice") to the Register Holders to the effect that the Issuer has determined that it may be required to disclose a material corporate development in the prospectus which forms a part of the Registration Statement. In the event that the Issuer issues a Suspension Notice, the Issuer shall, prior to the expiration of the Maximum Suspension Period, file such amendments to the Registration Statement as may be necessary to allow for the Registrable Securities to be sold in compliance with applicable law, advise the holders of the Registrable Securities in writing that the use of the applicable prospectus may be resumed, deliver to such holders copies of any additional or supplemental or amended prospectus, if applicable, and deliver to such holders copies of any additional or supplemental filings which are incorporated or deemed to be incorporated by reference in such prospectus.

STOCK PURCHASE AGREEMENT

Dated as of July 25, 2005

by and between

Gales Industries, Incorporated,
as the Buyer

and

Air Industries Machining, Corp.,
as the Company,

and

Luis Peragallo,
as Shareholder,

and

Jorge Peragallo,
as Shareholder,

and

Peter Rettaliata,
as Shareholder,

and

Dario Peragallo,
as Shareholder.

STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT is made and entered into as of July 25, 2005 (the "Agreement") by and among Gales Industries, Incorporated, a Delaware corporation (the "Buyer"), Air Industries Machining, Corp., a New York corporation (the "Company"), and Luis Peragallo, Jorge Peragallo, Peter Rettaliata and Dario Peragallo, the Shareholders of the Company (each, a "Shareholder", and collectively, the "Shareholders").

RECITALS

WHEREAS, the Shareholders are the record and beneficial owners of 95 shares of common stock, no par value, of the Company (the "Shares"), which is one hundred percent (100%) of the issued and outstanding capital stock of the Company; and

WHEREAS, the Buyer desires to purchase from the Shareholders, and the Shareholders desire to sell to the Buyer, the Shares on the terms and conditions set forth in this Agreement. The business currently being conducted by the Company is referred to herein as the "Business";

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, on the basis of and in reliance on their respective representations, warranties, covenants, obligations, indemnities and agreement set forth in this Agreement, and upon the terms and subject to the conditions contained herein, hereby agree as follows:

ARTICLE 1
DEFINITIONS

As used herein the following terms shall have the following meanings and shall include in the singular number the plural and in the plural number the singular unless the context otherwise requires (capitalized terms not defined in this Article 1 shall have the meanings ascribed to such terms elsewhere in this Agreement):

"Affiliate" means, as to a Person, any other Person that, directly or indirectly, through one or more intermediaries controls, is controlled by or is under common control with the first-mentioned Person.

"Affiliated Group" means any affiliated group within the meaning of Code ss. 1504(a) or any similar group defined under a similar provision of state, local or foreign law.

"Appraisal Report" means the Appraisal Report by Koster Group, Inc., dated February 7, 2005, effective as of January 13, 2005.

"Assets" means all of the assets of the Company including, without limitation, the following:

(a) the Business of the Company as a going concern, and the goodwill pertaining thereto;

(b) all items of inventory owned by the Company including, without limitation, all raw materials, work-in-progress and finished products of the Company;

(c) all vehicles, machinery, equipment, furniture, fixtures and supplies of the Company, including containers, packaging and shipping material, tools and spare parts and other similar tangible personal property owned by the Company;

(d) all of the Company's right, title and interest in and to the United States and foreign rights with respect to copyrights, licenses, patents, trademarks, trademark rights, trade names, service marks, service right marks, trade secrets, shop rights, know-how, technical information, techniques, discoveries, designs, proprietary rights and non-public information and registrations, reissues and extensions thereof and applications and licenses therefor, owned or used, or proposed to be used, in the Business (all of such rights being collectively referred to hereinafter as the "Rights")

(e) all books and records of the Company (including corporate and tax records) including all in-house mailing lists, other customer and supplier lists, trade correspondence, production and purchase records, promotional literature, data storage tapes and computer disks, computer software, order forms, accounts payable records (including invoices, correspondence and all related documents), accounts receivable ledgers, all documents relating to uncollected invoices, and all shipping records;

(f) all contracts, agreements and purchase and sale orders for goods; all corporate opportunities under discussion and related to the Business, including any documentation related thereto;

(g) all trade receivables of the Company and all advance payments, prepaid items, rights to offset and credits of all kinds of the Company;

(h) all tangible personal property owned by the Company which is not specifically included in, or specifically excluded by, the foregoing subsections (a) through (g);

(i) all rights under or pursuant to all warranties, representations and guarantees made by suppliers in connection with the Assets, all claims, causes of action, rights of recovery and rights of set-off of any kind against any person or entity relating to the Assets or the Business; and

(j) any and all other assets of the Company including those reflected as such in the Financial Statements, with such additions thereto and deletions therefrom as have occurred or shall occur in the ordinary course of business between December 31, 2004 and the Closing.

"Code" means the Internal Revenue Code of 1986, as amended.

"Confidentiality Agreement" means, collectively, the Confidentiality Agreement dated March 8, 2005 among Gales & Company, Gales Industries Acquisition Group, Inc. and the Company and the Non-Circumvention and Non-Disclosure Agreement dated November 19, 2003 among Gales & Company, Gales Industries Acquisition Group, Inc., the Company and affiliates of the Company.

"Contracts" shall mean all agreements, indentures, mortgages, policies, arrangements, and other instruments, including all amendments thereto (or where they are verbal, written summaries of the material terms thereof), fixed or contingent, required to be disclosed on Schedule 4.17 or on the Contracts List, as the case may be.

"Contract List" means the list of Contracts described in Section 4.17(d) or 4.17(f) to which the Company is a party or the Assets or Shares are subject, or by which the Assets or Shares are bound, as of the date set forth therein; provided, however, if an additional list or lists of such Contracts have been made available to the Buyer pursuant to Section 6.1 (a) after the date hereof, then "Contract List" means the list of such Contracts made available to Buyer at the latest date.

"Credit Documents" means the Credit Agreement, dated August 15, 2003 by and between the Company and Citibank, N.A., and related documents.

"Environmental Damages" means all claims, judgments, damages (other than special or consequential damages), losses, penalties, fines, liabilities, encumbrances, liens, costs and expenses of defense of a claim, and costs and expenses of reporting, investigating, removing and/or remediating Hazardous Materials, of whatever kind or nature, contingent or otherwise, matured or unmatured, foreseeable or unforeseeable, including reasonable attorneys' fees and disbursements and consultants' fees, any of which are incurred at any time arising out of, based on or resulting from: (i) the presence or release of Hazardous Materials in or into the environment, on or prior to the Closing Date, in violation of applicable Environmental Laws upon, beneath or from any real property or other location (whether or not owned by the Company) where the Company conducted operations or generated, stored, sent, transported or disposed of Hazardous Materials; or (ii) any violation of Environmental Laws by the Company on or prior to the Closing Date. Environmental Damages attributable to any individual shall include only that portion of any punitive damages assessed against the Company as direct result of actions taken by or omissions of that individual.

"Environmental Laws" shall mean any and all federal, state, local and foreign statutes, laws, codes, regulations, ordinances, rules, judgments, injunctions, orders, decrees, permits, franchises or licenses relating to pollution, hazardous substances, hazardous wastes, petroleum or otherwise relating to protection of the environment, natural resources or human health, including but not limited to: the Clean Air Act; Clean Water Act; Resource Conservation and Recovery Act ("RCRA"); Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"); Emergency Planning and Community Right-to-Know Act; Federal Insecticide, Fungicide and Rodenticide Act; Safe Drinking Water Act; Toxic Substances Control Act; Hazardous Materials Transportation Act; Occupational Safety and Health Act; and Endangered Species Act of 1973, each as amended.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"GAAP" means U.S. generally accepted accounting principles.

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

"IRS" means the Internal Revenue Service.

"Kfoury Agreement" means the Employment Agreement dated May 25, 1984 between the Company and George F. Kfoury, as amended by the Amendment and Modification dated June 1, 1995 by and among the Company, George F. Kfoury, Luis Peragallo and Nicholas Kemeny.

"Knowledge of the Buyer" means actual knowledge after reasonable inquiry.

"Knowledge of the Shareholders" means actual knowledge after reasonable inquiry, of Peter Rettaliata, Dario Peragallo and Luis Peragallo, and actual knowledge of Jorge Peragallo without any obligation on the part of Jorge Peragallo to make inquiry.

"Liability" means any liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including (without limitation) any liability for Taxes.

"Material Adverse Change" means a significant deterioration in the business, financial condition, or results of operations of the Company, or a significant impairment of the ability of the Company, taken as a whole, to carry on its business and perform its obligations substantially as theretofore conducted including, but not limited to, changes caused by law, regulation, judgment, order or decree of general applicability to such companies.

"Officer Notes" means the obligations of the Company to the individuals set forth on Schedule 4.10 annexed hereto.

"Ordinary Course of Business" means the ordinary course of business of the Company consistent with past practice.

"Permits" shall mean any and all licenses, permits, orders or approvals of any federal, state, local or foreign governmental or regulatory body necessary for the operation of the Business by the Company.

"Person" means an individual, corporation, partnership, limited liability company, association, trust, unincorporated organization or other legal entity.

"Public Company" means a Person the shares of which are quoted on a national securities exchange, on an electronic securities exchange or listed for trading on the OTC Bulletin Board.

"Regulatory Approvals" shall mean all regulatory approvals, exemptions, lapses of waiting periods, written opinions or other actions by the federal, state and local governmental authorities necessary for the consummation of the transactions contemplated by this Agreement.

"Real Property" means the real property described on Schedule 8.2 annexed hereto.

"Real Property Documents" means the Purchase and Sale Agreement(s) and related documents and instruments whereby the Buyer or its designee shall purchase the Real Property from the holders thereof.

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

"Security Interest" means any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (a) mechanic's, materialmen's and similar liens, (b) liens for Taxes not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements, (d) in the case of real property, rights of way, building use restrictions, variances and easements, provided the same do not in any material respect interfere with the Company's operation of the Business and (e) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"Shareholders Agreement" means the Shareholders Agreement dated June 6, 1995 among the Shareholders.

"Subsidiary" of an entity shall mean any entity of which more than 50% of the outstanding voting capital stock or the power to elect a majority of the Board of Directors or other governing body of such entity (irrespective of whether at the time capital stock of any other class or classes of such entity shall or might have voting power upon the future occurrence of any contingency) is at the applicable time directly or indirectly owned, controlled or held by such entity, or by such entity and one or more other subsidiaries of such entity, or by one or more other subsidiaries of such entity.

"Tax Dispute" means an adjustment proposed by a Taxing authority that, if pursued successfully, could give rise to a claim for indemnification under Section 10.5.

"Tax Return" includes any material report, statement, form, return or other document or information required to be supplied by a federal, state, local or foreign taxing authority in connection with Taxes.

"Tax" or "Taxes" means any federal, state, local and foreign income or gross receipts tax, alternative or add-on minimum tax, sales and use tax, customs duty and any other tax, charge, fee, levy or other assessment including property, transfer, occupation, service, license, payroll, franchise, excise, withholding, ad valorem, severance, stamp, premium, windfall profit, employment, rent or other tax, governmental fee or like assessment or charge of any kind, together with any interest, fine or penalty thereon, addition to tax, additional amount, deficiency, assessment or governmental charge imposed by any federal, state, local or foreign taxing authority.

"Transaction Documents" means this Agreement, the Ancillary Documents, the Note, the Rettaliata Note, the Dario Note, the Employment Agreements, the Consulting Agreement, and the Real Property Documents.

ARTICLE 2
SALE AND PURCHASE OF SHARES

Section 2.1. Purchase and Sale of Shares.

In exchange for the consideration specified herein, and upon and subject to the terms and conditions of this Agreement, Buyer agrees to purchase and acquire from Shareholders, and Shareholders agree to sell, assign, transfer, convey and deliver to Buyer, all right, title and interest in and to the Shares.

Section 2.2. Delivery of Possession and Instruments of Transfer.

At the Closing (as hereinafter defined), the Shareholders shall sell, transfer, assign and deliver to Buyer, against payment of the Purchase Price therefor as provided in Section 2.3, certificates representing the Shares, duly endorsed in blank or accompanied by duly executed stock powers with signatures guaranteed or notarized, and such other instruments of transfer requested by and reasonably satisfactory to Buyer and its counsel for consummation of the transactions contemplated under this Agreement and as are necessary to vest in Buyer, title in and to the Shares, free and clear of any lien, encumbrance, security agreement, equity, option, claim, charge or restriction, other than restrictions imposed by federal or applicable state securities laws.

Section 2.3. Purchase Price.

The total consideration payable by the Buyer to each of the Shareholders for the Shares (the "Purchase Price") shall be as follows:

(a) The Buyer shall deliver to Luis Peragallo ("LP") (i) $1,054,193 by wire transfer of same-day funds to such bank and account therein as LP directs, (ii) a five-year secured subordinated promissory note dated the Closing Date, substantially in the form of Exhibit A annexed hereto, in the aggregate principal amount of $711,091 (the "Note") and (iii) 253,214 shares of the Common Stock of the Buyer.

(b) The Buyer shall deliver to Jorge Peragallo ("JP") $1,127,213 by wire transfer of same-day funds to such bank and account therein as JP directs.

(c) The Buyer shall deliver to Peter Rettaliata ("PR") (i) $466,445 by wire transfer of same-day funds to such bank and account therein as PR directs, (ii) a five-year convertible promissory note in the form of Exhibit B-1 hereto, in the aggregate principal amount of $332,631 (the "Rettaliata Note") and (iii) 118,423 shares of the Common Stock of the Buyer.

(d) The Buyer shall deliver to Dario Peragallo ("DP") (i) $446,445 by wire transfer of same day funds to such bank and account therein as DP directs, (ii) a five-year convertible promissory note in the form of Exhibit B-2 hereto, in the aggregate principal amount of $332,631 (the "Dario Note") and (iii) 118,423 shares of the Common Stock of the Buyer.

ARTICLE 3
CLOSING

Section 3.1. Date, Time and Place of Closing.

The closing of the transactions contemplated by this Agreement and the Transaction Documents (the "Closing") will take place at the offices of Eaton & Van Winkle LLP, 3 Park Avenue, New York, New York at 10:00 a.m. local time, on September 15, 2005, or at such other date, time or place fixed by written consent of the Buyer and the Shareholders. All proceedings to take place at the Closing will take place simultaneously, and no delivery will be considered to have been made until all such proceedings have been completed. The time and date of the Closing is referred to as the "Closing Date".

Section 3.2. Required Documents.

All certificates, instruments, agreements, consents, approvals and other documents required by Article 8 as conditions to the Closing, and all appropriate receipts, will be delivered to the Buyer and the Shareholders at the Closing.

Section 3.3. Covenant of Further Assurance.

The Shareholders, at any time and from time to time after the Closing Date (except in the case of Jorge Peragallo whose obligation under this Section shall terminate six months after the Closing Date), upon request of the Buyer and without further cost or expense to the Shareholders, will execute, acknowledge and deliver all such further assignments, conveyances, endorsements, deeds, powers of attorney, consents and other documents and instruments of conveyance and assignment (referred to herein collectively as the "Ancillary Documents") and take such other action as the Buyer reasonably may request to transfer to and vest in the Buyer, and to put the Buyer in possession of, all of the Shares, free and clear of all restrictions, claims or encumbrances, other than restrictions on transfer under federal and applicable state securities laws, and otherwise to carry out the transactions contemplated by this Agreement, provided that same are at no cost to the Shareholders.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS

As an inducement to Buyer to enter into this Agreement and perform its obligations hereunder, each Shareholder, severally with respect to the representations and warranties that relate to such Shareholder or are made to the Knowledge of such Shareholder, and jointly and severally with the other Shareholders with respect to the representations and warranties that relate to the Company (except that with respect to Jorge Peragallo, those representations and warranties that relate to the Company are made to his Knowledge), hereby represents and warrants to the Buyer as of the date hereof and as of the Closing Date (or if an earlier date as specified in such representation and warranty, as of such earlier date):

Section 4.1. Organization, Good Standing, Power

The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New York. The Company has the corporate power and authority to own, lease and operate its assets, properties and business and to carry on the Business as now being conducted. The Company is authorized or licensed to do business as a foreign corporation and is in good standing in each jurisdiction in which the conduct of the Business requires such qualification, except where the failure to so qualify could not be reasonably expected to have a material adverse effect on the Business. The minute books, stock ledgers and stock transfer records of the Company in the possession of the Company have been furnished to the Buyer for review. Except as set forth on Schedule 4.1, such minute books contain the minutes of all meetings of the shareholders and board of directors of the Company and copies of all actions taken by consent of the shareholders and directors of the Company. Except as set forth in Schedule 4.1, all such meetings were duly called and held, and a quorum was present and acting throughout each such meeting, and all such consents were duly executed by all parties thereto. Except as set forth in Schedule 4.1, such stock ledgers and stock transfer records reflect all issuances and registrations of transfer of all shares of capital stock of the Company, and the certificates representing all canceled shares of capital stock (or affidavits of loss in lieu thereof) have been returned to the stock ledger.

Section 4.2. Shares.

Such Shareholder has good, valid and marketable title to the number of Shares set forth on Schedule 4.2 opposite the name of such Shareholder, free and clear of any covenant, condition, restriction, voting arrangement, lien, charge, encumbrance, security agreement, option or adverse claim, other than restrictions on transfer under the Shareholders Agreement, the Kfoury Agreement, and federal and applicable state securities laws and other than pursuant to the Credit Documents. Upon delivery of the certificates representing such Shareholder's Shares and payment of the applicable portion of the Purchase Price for those Shares pursuant to Section 2.3, such Shareholder will transfer good and marketable title to the Shares, free and clear of any adverse claim, to the Buyer.

Section 4.3. Adequate Representation.

Such Shareholder has discussed with such professional, legal, tax and financial advisors as he has independently chosen to engage the implications of and obligations resulting from the execution of this Agreement and the consummation of the transactions contemplated hereby and has received adequate legal, tax and financial representation with respect to the drafting and negotiation of this Agreement and the structure of the transactions contemplated hereby.

Section 4.4. Capital Stock.

(a) The Company has authorized capital stock consisting solely of 200 shares of common stock, no par value, of which 95 are issued and outstanding, and all of which are duly authorized, validly issued, fully paid, non-assessable, and were issued in compliance with all federal and applicable state securities laws. To the Knowledge of the Shareholders, no person to whom

any share was issued and no person claiming through any such person has any claim against the Company in respect of any such issuance, including any claim based upon an alleged misstatement of fact in connection with such issuance or an omission to state a material fact necessary to make the statements of fact stated in connection with such issuance not misleading.

(b) There are no outstanding offers, options, warrants, rights, calls, commitments, obligations (verbal or written), conversion rights, plans or other agreements (conditional or unconditional) of any character providing for or requiring the sale, purchase or issuance of any shares of capital stock or any other securities of the Company.

Section 4.5. Articles of Incorporation and By-Laws.

Correct and complete copies of the Articles of Incorporation (the "Articles of Incorporation") and By-laws (the "By-laws") of the Company, in each case as amended to date as described in Schedule 4.5, have been made available to the Buyer. The Articles of Incorporation and By-Laws are in full force and effect.

Section 4.6. Subsidiaries, Divisions and Affiliates.

The Company has no Subsidiaries. The Business has been conducted solely by the Company and not through any Affiliate, joint venture or other Person or under any other name.

Section 4.7. Equity Investments.

The Company does not own or have any rights to any equity interest, directly or indirectly, in any corporation, partnership, joint venture, firm or other entity.

Section 4.8. Authorization.

The Company has full corporate power and authority and has taken all action necessary to enter into this Agreement and to carry out the transactions contemplated hereby. Such Shareholder possesses the legal right and capacity to execute, deliver and perform this Agreement, without obtaining any approval, authorization, consent or waiver or giving any notice, except as set forth in Schedule 4.8. The Shareholders have taken all shareholder action required by applicable law, the Company's Articles of Incorporation, By-laws or otherwise, to be taken by them to authorize the execution and delivery by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby. This Agreement and all other Transaction Documents to which the Company is a party have been, or will be, duly executed and delivered by the Company and constitute (or when executed will constitute) the legal, valid and binding obligations of the Company enforceable against it in accordance with their respective terms, except to the extent such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, receivership, fraudulent conveyance or similar laws affecting or relating to the enforcement of creditors' rights generally, and by equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law). This Agreement and all other Transaction Documents to which such Shareholder is a party have been,

or will be, duly executed and delivered by such Shareholder and constitute the legal, valid and binding obligations of such Shareholder, enforceable against such Shareholder in accordance with their respective terms, except to the extent such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, receivership, fraudulent conveyance or similar laws affecting or relating to the enforcement of creditors' rights generally, and by equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law).

Section 4.9. Effect of Agreement.

Except as set forth in Schedule 4.9, the execution, delivery and performance of this Agreement by the Company and the Shareholders and the consummation by the Company and the Shareholders of the transactions contemplated hereby, will not, with or without the giving of notice and the lapse of time, or both, (a) violate any provision of law, statute, rule, regulation or executive order to which the Company, the Shareholders or the Business is subject; (b) violate any judgment, order, writ or decree of any court applicable to the Company, Shareholders or the Business; or (c) result in the breach of or conflict with any term, covenant, condition or provision of, or, constitute a default under, or result in the creation or imposition of any lien, security interest, charge or encumbrance upon any of the Assets or Shares pursuant to the Articles of Incorporation, the By-laws, any commitment, contract or other agreement or instrument, including any of the Contracts to which the Company is a party or by which any of the Assets or Shares are bound.

Section 4.10. Officer Notes.

The aggregate outstanding principal amount of the Officer Notes as of the date hereof is the amount set forth on Schedule 4.10.

Section 4.11. Governmental and Other Consents.

Except as set forth on Schedule 4.11, (i) no notice to, consent, authorization or approval of, or exemption by, any governmental or public body or authority is required in connection with the execution, delivery and performance by the Company or such Shareholder of this Agreement or any other Transaction Documents to which the Company or such Shareholder is a party, or the taking of any action herein contemplated; and (ii) no notice to, consent, authorization or approval of, any Person under any agreement, arrangement or commitment of any nature which the Company or such Shareholder is party to or which the applicable Shares or Assets are bound by or subject to, or from which the Company receives or is entitled to receive a benefit, is required in connection with the execution, delivery and performance by the Company or such Shareholder of this Agreement or any other Transaction Documents to which the company or such Shareholder is a party, or the taking of any action herein contemplated.

Section 4.12. Financial Statements.

Correct and complete copies of the audited Balance Sheets and Income Statements of the Company as of, and for the fiscal years ended, December 31, 2003 and December 31, 2004 (collectively, the "Audited Financials"), and an unaudited balance sheet and income statement of the Company as of, and for the quarter ended, March 31, 2005 (the "Stub Financials" and collectively with the Audited Financials, the "Financial Statements") have been made available to the Buyer. March 31, 2005 is referred to herein as the "Cutoff Date." The Financial Statements: (i) are consistent in all material respects with the books and records of the Company; (ii) have been prepared in accordance with GAAP consistently applied; (iii) reflect and provide adequate reserves and disclosures in respect of all liabilities of the Company, including all contingent liabilities, as of the respective dates of the Financial Statements, and (iv) present fairly in all material respects the financial position of the

Company at such dates and the results of operations and cash flows of the Company for the periods then ended, except that the Stub Financials do not reflect the impact of normal recurring year-end adjustments, which adjustments would not have a material impact on the financial results reflected in the Stub Financials. The Company does not have any material liabilities, and there is no existing condition, situation or set of circumstances known which could reasonably be expected to result in any material Liabilities to the Company, other than liabilities reflected on the Financial Statements or incurred in the Ordinary Course of Business since the Cutoff Date.

Section 4.13. Absence of Certain Changes or Events.

Since the Cutoff Date, the Company has used commercially reasonable efforts to preserve the business organization of the Company intact, to keep available to the Company the services of all current officers and employees of the Company and to preserve the goodwill of the suppliers, customers, employees and others having business relations with the Company as of such date. Except as set forth in Schedule 4.13, since December 31, 2004, no customer of the Company whose purchases represented more than 5% of the Company's sales during 2004 has disclosed to the Company any plan or intention to reduce or terminate its volume of purchases from the Company or change the nature or way of doing its business with the Company. Since the Cutoff Date, the Company has conducted its Business in the ordinary course, has maintained its rates and charges without reduction and has maintained its assets and properties in at least as good order and condition as existed on such date, ordinary wear and tear excepted.

Except as set forth on Schedule 4.13, since the Cutoff Date, the Company has not: (a) suffered any adverse change in, or the occurrence of any events which, individually or in the aggregate, has or have had, or might reasonably be expected to have, a material adverse effect on the financial condition or results of operations of the Business, taken as a whole; (b) incurred damage to or destruction of any Asset or Assets individually or in the aggregate having a replacement cost in excess of $50,000, whether or not covered by insurance; (c) incurred any obligation or liability (fixed or contingent) not in the ordinary course of business in excess of $50,000; (d) made or entered into contracts or commitments to make any capital expenditures in excess of $100,000; (e) encumbered any of the Assets with any Security Interest in addition to Security Interests in existence as of the Cutoff Date other than Security Interests imposed by operation of law; (f) sold, transferred or leased any Asset or Assets individually or in the aggregate having a replacement cost in excess of $50,000, or canceled or compromised any debt or material claims, except in each case, in the ordinary course of business; (g) sold, assigned, transferred or granted any rights under or with respect to any licenses, agreements, patents, inventions, trademarks, trade names, copyrights or formulae or with respect to know-how or any other intangible asset including, but not limited to, the Rights; (h) amended or terminated any contracts, agreements, leases or arrangements which otherwise would have been required to be set forth on Schedule 4.17 hereto; (i)

waived or released any other rights of material value to the Company; (j) declared or paid any dividend on its capital stock, or set apart any money for distribution to or for its Shareholders; (k) redeemed any portion of its capital stock; (1) entered into, or amended the terms of, any employment or consulting agreement not terminable by the Company on less than 30-days notice without material liability to the Company; (m) incurred any indebtedness for borrowed money or guaranteed any such indebtedness of another Person, in addition to the Company's indebtedness, including without limitation pursuant to the Credit Documents, as of the Cutoff Date or (n) entered into any transactions not in the ordinary course of business which would, individually or in the aggregate, materially adversely affect the Business.

Section 4.14. Title to Assets; Absence of Liens and Encumbrances.

The Company has good and marketable title to, and owns outright, the Assets, free and clear of all Security Interests, other than those disclosed in the Financial Statements and those set forth in Schedule 4.14 (the "Permitted Encumbrances"). The leases and other agreements or instruments under which the Company holds, leases or is entitled to the use of any real or personal property included in the Assets are in full force and effect. The Company enjoys peaceable and undisturbed possession under all such leases. All Assets are in material conformance with applicable zoning and other laws, ordinances, rules and regulations; and no notice of violation of any law, ordinance, rule or regulation thereunder has been received by the Company or the Shareholders.

Schedule 4.14 contains a complete list and legal description of each parcel of real property owned or leased by the Company and a general description of all structures and improvements thereon. The Company has made available or furnished to Buyer true and complete copies of (a) all leases, licenses or other occupancy agreements, including amendments and supplements thereto, to which the Company is a party respecting any real property and all other instruments granting such leasehold interests, rights, options or other interests and (b) with respect to real property owned by the Company, if any, all deeds, other instruments of title and policies of title insurance indicating and describing the Company's ownership of such real property, as well as copies of any surveys of such real property, in the Company's possession. Except as set forth in Schedule 4.14, all buildings, structures, appurtenances and material items of machinery, equipment and other material tangible assets used by the Company in the conduct of the Business are in reasonably good operating condition and repair, ordinary wear and tear excepted, are usable in the Ordinary Course of Business and are adequate and suitable for the uses to which they are being put.

Section 4.15. Equipment.

Set forth on Schedule 4.15 is (i) a correct and complete copy of the Appraisal Report, which includes a description of all items of equipment used in the Business having individually a fair market value of $50,000.00 or more as of January 13, 2005, (ii) a list of all items of equipment included in the Appraisal Report disposed of since January 13, 2005 and (iii) a description of all items of equipment used in the Business as of the Cutoff Date acquired since January 13, 2005, at a cost in excess of $50,000 (collectively, the "Equipment"). Except as set forth on Schedule 4.15, none of the Equipment has been disposed of since the Cutoff Date.

Section 4.16. Insurance.

There is now and there will be as of the Closing, in full force and effect with a reputable insurance company fire and extended insurance coverage with respect to all material tangible Assets in reasonable commercial amounts. There are no outstanding or unsatisfied written requirements imposed or made by any of the Company's current insurance companies with respect to current policies covering any of the Assets, or by any governmental authority requiring or recommending, with respect to any of the Assets, that any repairs or other work be done on or with respect to, or requiring or recommending any equipment or

facilities be installed on or in connection with, any of the Assets. Except as set forth on Schedule 4.16, the Company carries, worker's compensation insurance in reasonable amounts, and other insurance which is reasonably necessary to the conduct of the Business. On Schedule 4.16 is set forth a correct and complete list of (a) all currently effective insurance policies and bonds covering the Assets or the Business, and their respective annual premiums (as of the last renewal or purchase of new insurance) and (b) for the three-year period ending on the date hereof, (i) all accidents, casualties or damage occurring on or to the Assets or relating to the Business which resulted in claims individually in excess of $50,000, and (ii) claims for product liability, damages, contribution or indemnification and settlements (including pending settlement negotiations) resulting therefrom which individually are in excess of $50,000. Except as set forth on Schedule 4.16, as of the date hereof there are no disputes with underwriters of any such policies or bonds, and all premiums due and payable have been paid. There are no pending or, to the Knowledge of the Shareholders, threatened terminations or premium increases with respect to any of such policies or bonds other than premium increases in the Ordinary Course of Business, and to the Knowledge of the Shareholders, there is no condition or circumstance applicable to the Business, other than the sale of the Shares pursuant to this Agreement, which could reasonably be expected to result in such termination or increase other than premium increases in the Ordinary Course of Business. The Company is in compliance with all material conditions contained in such policies or bonds, except for noncompliance which, individually or in the aggregate, would not be reasonably expected to have a material adverse effect on the Business.

Section 4.17. Agreements, Arrangements

4.17.1 Except as set forth on Schedule 4.17, Schedule 4.10 and in the Contract List made available to the Buyer, as of the date of the Contract List, the Company is not a party to, nor are the Assets or Shares subject to or bound by any:

(a) lease agreement (whether as lessor or lessee) where the annual obligation of the Company exceeds $50,000;

(b) license agreement, assignment or contract (whether as licensor or licensee, assignor or assignee) relating to trademarks, trade names, patents, or copyrights (or applications therefor), unpatented designs or processes, formulae, know-how or technical assistance, or other proprietary rights, other than agreements relating to off-the-shelf software used in the conduct of the Business;

(c) employment or other contract or agreement with an employee or independent contractor which (i) may not be terminated without material liability to the Company upon notice to the employee or independent contractor of not more than 30 days, or (ii) provides payments (contingent or otherwise) of more than $50,000 per year (including all salary, bonuses and commissions)

(d) agreement, contract or order with any buying agent, supplier or other Person involved in the acquisition of supplies with an annual cost in excess of $50,000;

(e) non-competition, secrecy or confidentiality agreements, or any other agreement restricting the Company from doing business anywhere in the world;

(f) agreement or other arrangement for the sale of goods or services to any third party (including the government or any other governmental authority) in annual amounts in excess of $50,000;

(g) agreement with any labor union;

(h) agreement with any distributor, dealer, leasing company, sales agent or representative, other than contracts or orders for the purchase, sale or license of goods made in the usual and ordinary course of business at an aggregate price per contract of more than $50,000 and a term of more than six months under any such contract or order;

(i) agreement, contract or order with any manufacturer, leasing company, supplier or customer (including those agreements which allow discounts or allowances or extended payment terms), where the annual obligation of the Company is more than $50,000;

(j) agreement with any distributor or brokerage company, leasing company, management company or any other individual or entity who assists, places, brokers or otherwise is involved with the marketing or distribution of the products of the Business to its customers;

(k) joint venture or partnership agreement with any other Person;

(1) agreement guaranteeing, indemnifying or otherwise becoming liable for the obligations or liabilities of another Person;

(m) agreement with any banks or other persons, for the borrowing or lending of money or payment or repayment of draws on letters of credit or currency swap or exchange agreements (other than purchase money security interests which may, under the terms of invoices from its suppliers, be granted to suppliers with respect to goods so purchased);

(n) agreement with any bank, finance company or similar organization which acquires from the Company receivables or contracts for sales on credit;

(o) agreement granting any person a Security Interest on any of the Assets, including, without limitation, any factoring or agreement for the assignment of receivables or inventory, other than in the Ordinary Course of Business;;

(p) agreement for the incurrence of any capital expenditure in excess of $50,000;

(q) advertising, publication or printing agreement; and

(r) agreement giving any party the right to renegotiate or require a reduction in prices to be paid or the repayment of any amount previously paid, to the Company.

Correct and complete copies of all items required to be shown on Schedule 4.17 have been separately delivered or made available to Buyer prior to the date hereof. Correct and complete copies of any item on the Contract List will be made available to the Buyer following receipt of a request for such item from the Buyer.

4.17.2 Each of the Contracts is valid, in full force and effect and enforceable in accordance with its terms, except to the extent such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, receivership, fraudulent conveyance or similar laws affecting or relating to the enforcement of creditors' rights generally, and by equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law).

4.17.3 Except as set forth on Schedule 4.17, the Company has fulfilled, or has taken all action reasonably necessary to enable it to fulfill when due, all of its respective obligations under the Contracts, except where the failure to do so would not reasonably be expected to have individually a material adverse affect on the Business, taken as a whole. Furthermore, there has not occurred any default or any event which with the lapse of time or the election of any person other than the Company or the Shareholders, will become a default under any of the Contracts, except for such defaults, if any, which (a) could not reasonably be expected to result in any material loss to or liability of the Company or (b) have been indicated on Schedule 4.17.

Section 4.18. Patents, Trademarks, Copyrights.

Schedule 4.18 sets forth (i) the registered and beneficial owner and the expiration date, to the extent applicable, for each of the Rights owned or used by the Company and (ii) the product, service, or products or services of the Company which make use of, or are sold, licensed or made under, each such Right. All of the Rights are included in the Assets and constitute all Rights necessary for the conduct of the Business by the Company. Except as set forth on Schedule 4.18, neither the Shareholders nor the Company has sold, assigned, transferred, licensed, sub-licensed or conveyed the Rights, or any of them, or any interest in the Rights, or any of them, to any Person, and the Company has the entire right or right, title and interest (free and clear of all Security Interests) in and to the Rights owned or used by the Company to conduct the Business; neither has the validity of such items been, nor is the validity of such items, nor the use thereof by the Company, the subject of any pending or, to the Knowledge of the Shareholders, threatened opposition, interference, cancellation, nullification, conflict, concurrent use, litigation or other proceeding. To the Knowledge of the Shareholders the conduct of the Business as currently operated, and the use of the Assets does not conflict with, or infringe, legally enforceable rights of third parties. Except as set forth on Schedule 4.18, to the Knowledge of the Shareholders, there is no infringement of any proprietary right owned or licensed by the Company.

Section 4.19. Permits.

The Company has all Permits required to permit it to carry on the Business as currently conducted other than Permits, which the failure to obtain would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Business, taken as a whole. Set forth on Schedule 4.19 is a complete list of all such Permits issued to the Company (the "Company Permits").

Section 4.20. Compliance with Applicable Laws.

The conduct by the Company of the Business does not violate or infringe, and there is no meritorious basis for any claims of violation or infringement of, any law, statute, ordinance, regulation or executive order currently in effect and applicable to the Company, except in each case for violations or infringements which could not be reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Business, taken as a whole. The Company is not in default under any Company Permit, under any governmental or administrative order or demand directed to it, or with respect to any order, writ, injunction or decree of any court applicable to it which, in any case, would not reasonably be expected to have a material adverse effect on the financial condition or results of operations of the Business.

Section 4.21. Litigation.

Except as set forth on Schedule 4.21, there is no claim, action, suit, proceeding, arbitration, reparation, investigation or hearing or notice of hearing, pending or, to the Knowledge of the Shareholders, threatened, before any court or governmental, administrative or other competent authority or private arbitration tribunal, which could not reasonably be expected to have a material adverse effect on the Business, or to prevent the consummation of the transactions contemplated by this Agreement; nor to the Knowledge of the Shareholders are there any facts which could reasonably be expected to give rise to any such claim, action, suit, proceeding, arbitration, investigation or hearing, which could reasonably be expected to have a material adverse effect, individually or in the aggregate, upon the Business, or prevent the consummation of the transactions contemplated by this Agreement. The Company has not waived any statute of limitations or other affirmative defense with respect to any of these obligations. There is no continuing order, injunction or decree of any court, arbitrator or governmental, administrative or other competent authority to which the Company is a party, or to which the Assets or Business is subject. Neither the Company nor any current officer, director, or employee of the Company has been permanently or temporarily enjoined or barred by order, judgment or decree of any court or other tribunal or any agency or other body from engaging in or continuing any conduct or practice in connection with the Business.

Section 4.22. Customers, Suppliers, Distributors and Agents.

Schedule 4.22 sets forth (a) the ten largest (in dollar value) purchasers of goods and/or services from the Company and (b) the ten largest (in dollar value) providers of goods and/or services to the Company the fiscal year ended December 31, 2004.

Except as set forth on Schedule 4.22, the Company does not have any knowledge that any Person set forth on Schedule 4.22 will cease to continue such relationship, or will substantially reduce the extent of such relationship, at any time prior to or after the Closing Date. The Company does not have any knowledge of (i) any contemplated material and adverse modification or change in the business relationship of the Company with, or (ii) any existing condition or state of facts which will materially adversely affect, or has a reasonable likelihood of materially adversely affecting the business relationship of the Company with the Persons listed on Schedule 4.22 or which has prevented or will prevent the Business from being carried on under its new ownership after the Closing in substantially the same manner as it is currently carried on.

Section 4.23. Books and Records.

Except as set forth on Schedule 4.1, the books of account and other financial and corporate records of the Company are in all material respects complete, correct and up to date, with all necessary signatures.

Section 4.24. Employee Benefit Plans.

Schedule 4.24 sets forth a correct and complete list of each and every employee benefit plan, including each pension, profit sharing, stock bonus, bonus, deferred compensation, severance, stock option or purchase plan, or other retirement plan or arrangement, covering employees of the Company that is sponsored, maintained or contributed to by the Company (the "Employee Benefit Plans"). Except with respect to any Employee Benefit Plan which is a "multi-employer plan" within the meaning of Section 3(37) of ERISA ("Multi-Employer Plan"), the Shareholders have delivered or made available to Buyer complete and accurate copies of (i) all Employee Benefit Plans and all amendments thereto; (ii) the trust instrument or insurance contract, if any, forming a part of the Employee Benefit Plans, and all amendments thereto; (iii) the most recent and preceding year's Internal Revenue Service Form 5500, if any, and all schedules thereto; (iv) the most recent Internal Revenue Service determination or opinion letter, or if no letter has been issued, any pending application to the Internal Revenue Service for a determination letter regarding qualified status; and (v) the summary plan description, if any. Except for errors or omissions as would not be reasonably be expected to have a materially adverse impact on the Company, (i) the Company has complied in all material respects with all of the rules and regulations governing each of the Employee Benefit Plans, including, without limitation, rules and regulations promulgated pursuant to ERISA and the Code, by the Department of Treasury, Department of Labor, and the Pension Benefit Plans Guaranty Corporation and (ii) each of the Employee Benefit Plans (excluding any Multi-Employer Plan) has been operated in all material respects in accordance with its provisions and in all material respects is in compliance with such rules and regulations. Neither the Company nor any Employee Benefit Plans (excluding any Multi-Employer Plan) or any fiduciaries thereof have engaged in any prohibited transaction, as that term is defined in Section 406 of ERISA or Section 4975 of the Code, nor have any of them committed any material breach of fiduciary responsibility with respect to any of such Employee Benefit Plans.

Section 4.25. Powers of Attorney.

Except as set forth on Schedule 4.25, no person has any power of attorney to act on behalf of the Company or the Shareholders in connection with any of the Company's or the Shareholder's properties or business affairs other than such powers to so act as normally pertain to the officers of the Company.

Section 4.26. Labor Matters.

(a) Except as set forth in Schedule 4.26, the Company is not a party to any contract or collective bargaining agreement with any labor organization. Except as set forth in Schedule 4.26, no organizing effort or question concerning representation question is pending respecting the employees of the Company, and no such question has been raised within the preceding three years.

(b) All reasonably anticipated material obligations of the Company, whether arising by operation of law, contract, past custom or otherwise, for unemployment compensation benefits, pension benefits, salaries, wages, bonuses and other forms of compensation payable to the officers, directors and other employees and independent contractors of the Company have been paid or reserved for.

(c) To the Knowledge of such Shareholder, there is no basis for any material claim, grievance, arbitration, negotiation, suit, action or charge of or by the employees of the Company, and no such material charge or complaint is pending against the Company before the National Labor Relations Board, the Equal Employment Opportunity Commission or any other federal, state or local agency with jurisdiction over employment matters.

(d) The Company has withheld and paid to the appropriate governmental authorities or is withholding for payment not yet due to such authorities all amounts required to be withheld from the employees of the Company. The Company is not liable for any arrears of such amounts or penalties thereon for failure to comply with any of the foregoing. The Company is in compliance in all material respects with all applicable laws, rules and regulations relating to the employment of labor, including those relating to wages, hours, collective bargaining and the payment and withholding of taxes and other amounts as required by appropriate governmental authorities.

Section 4.27. Environmental Matters.

Except as set forth on Schedule 4.27, (i) the Company is in compliance with all applicable Environmental Laws; (ii) the Company has not transported, stored and disposed of any Hazardous Materials upon real property owned or leased by it in contravention of applicable Environmental Laws; (iii) there has not occurred, nor is there presently occurring, a Release of any Hazardous Materials by the Company on, into or beneath the surface of any parcel of real property in which the Company has (or will have after giving effect to the transactions contemplated hereby) an ownership interest or any leasehold interest except in compliance with applicable Environmental Laws; (iv) the Company has not transported or disposed of, or allowed or arranged for any third parties to transport or dispose of, any Hazardous Material to or at a site which, pursuant to CERCLA, has been placed on the National Priorities List; (v) the Company has not received written notice that the Company is a potentially responsible party for a federal or state environmental cleanup site or for corrective action under RCRA; and (vi) the Company has not undertaken (or been requested to undertake) any response or remedial actions at the request of any federal, state or local governmental entity; in each of the foregoing cases of causes (i) through (vi), except as to circumstances which could not reasonably be expected to have a material adverse effect on the Business of the Company, taken as a whole. This Section 4.27 shall be the sole and exclusive source of the Shareholders' representations and warranties with respect to environmental matters, and any and all representations and warranties in other sections of this Article 4 shall be deemed not to apply to such matters.

Section 4.28. Tax Matters.

(a) The Company has filed all Tax Returns that it was required to file. All such Tax Returns were correct and complete in all respects. All Taxes owed by the Company have been paid. Except as set forth in Schedule 4.28, the Company is not currently the beneficiary of any extension of time within which to file any Tax Return that has not already been timely filed (with due regard to such extension). No claim has ever been made by an authority in a jurisdiction where

the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no Security Interests on any of the Assets of the Company that arose in connection with any failure (or alleged failure) to pay any Tax (except for Taxes not yet due and owing).

(b) The Company has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(c) There is no pending or threatened claim by any authority for additional Taxes for any period for which Tax Returns have been filed. Schedule 4.28 lists all federal, state, local, and foreign income Tax Returns filed with respect to the Company (including Tax Returns filed by each Shareholder relating to Company activities) for taxable periods ended on or after December 31, 2002, indicates those Tax Returns that have been audited, and indicates those Tax Returns that currently are the subject of audit. The Shareholders have delivered to the Buyer correct and complete copies of all federal income Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by the Company since December 31, 2002.

(d) The Company has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(e) The Company has not filed a consent under Code ss.341(f) concerning collapsible corporations. The Company has not made any payments, is obligated to make any payments, or is a party to any agreement that under certain circumstances could obligate it to make any payments that will not be deductible under Code ss.280G. The Company has not been a United States real property holding corporation within the meaning of Code ss.897(c)(2) during the applicable period specified in Code ss.897(c)(1)(A)(ii). The Company has disclosed on its federal income Tax Returns all positions taken therein that could be reasonably expected to give rise to a substantial understatement of federal income Tax within the meaning of Code ss.6662. The Company is not a party to any Tax allocation or sharing agreement. The Company (i) has not been a member of an Affiliated Group filing a consolidated federal income Tax Return (other than a group the common parent of which was ACER) or (ii) does not have any Liability for the Taxes of any Person (other than of ACER) under Reg. ss. 1 1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, or by contract.

(f) The Company has maintained its status as a "small business corporation" within the meaning of Code ss. 1361(b) and any comparable provisions of state or local law at all times since the effective date of the election of such status, December 1, 1986. The validity of the election of "S Corporation" status has not been challenged by the Internal Revenue Service nor is there any Basis for such a challenge. Since December 1, 1986, except as set forth in Schedule 4.28, the Company has not been taxed other than as a "small business corporation".

(g) The Company has not agreed to, and is not required to include in its income, any adjustment pursuant to Code ss. 481(c) (or comparable provisions of any state or local law) by reason of a change in accounting method or otherwise.

(h) The unpaid Taxes of the Company (i) did not, as of the Cutoff Date, exceed the reserve for Tax Liability (including any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the Balance Sheet (including any notes thereto) contained in the Financial Statements and (ii) do not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of the Company in filing its Tax Returns.

Section 4.29. Recent Dividends and Other Distributions.

Except as set forth on Schedule 4.29, there has been no dividend or other distribution of assets or securities whether consisting of money, property or any other thing of value, declared, issued or paid to or for the benefit of the Shareholders by the Company since December 31, 2004.

Section 4.30. Inventory.

The inventory set forth in the Financial Statements has been valued in accordance with GAAP consistently applied. The inventory is adequate and appropriate for the conduct of the business of the Company as it is currently being conducted. Inventory levels are not in excess of the normal operating requirements of the Company in the ordinary course of business consistent with past practice. The value at which the inventory is carried on the Financial Statements reflects the normal inventory policy of the Company consistent with past practice. Except as set forth in Schedule 4.30, all of the Inventory is of a quantity and quality maintained in the ordinary course of business at regular prices or usable in the ordinary course of business.

Section 4.31. Purchase and Sale Obligations.

All purchases, sales and orders and all other commitments for purchases, sales and orders made by or on behalf of the Company since March 31, 2005 have been made in the usual and ordinary course of its business in accordance with normal practices. On the Closing Date, the Company shall deliver to Buyer a schedule of all such uncompleted purchase and sale orders and other commitments with respect to any of the Company's obligations as of a date not earlier than ten (10) days prior to the Closing.

Section 4.32. Shareholders Agreement

Each of the Shareholders covenants and agrees that any obligation any other Shareholder might have had under the Shareholders Agreement to obtain his consent to the sale of Shares by such other Shareholder pursuant to this Agreement has been satisfied. Further, each Shareholder hereby waives any right of first refusal or similar right he might have had to purchase Shares to be acquired by Buyer pursuant to this Agreement.

Section 4.33. Accounts Receivable and Accounts Payable.

A true and correct aged (30-60-90 days) list of all accounts receivable and accounts payable of the Company as of the end of the calendar month preceding the date hereof has been furnished to the Buyer. Except as set forth on Schedule 4.33, to the Knowledge of the Shareholders, all of the accounts receivable of the Company are actual and bona fide accounts receivable representing obligations for the total dollar amount thereof showing on the

books of the Company, and the accounts receivable are not and will not be subject to any recoupments, set-offs or counter-claims, other than set-offs from the purchase of inventory by the Company and returns, in each case in the ordinary course of business consistent with past practice. Except as otherwise reflected in the Financial Statements to the Knowledge of the Shareholders, such accounts receivable are collectible in the ordinary course of business.

Section 4.35. Brokers and Finders.

Neither the Shareholders nor the Company, nor any of its officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated by this Agreement and the Shareholders agree to indemnify and hold Buyer harmless from any liability, loss, cost, claim and/or demand that any other broker or finder may have in connection with this transaction as a result of actions taken by the Company or the Shareholders.

Section 4.36. Personnel.

Schedule 4.36 sets forth a true and complete list of:

(a) the Company's employees, as of a date not earlier than twenty (20) days prior to the date hereof which list sets forth with respect to each such employee the department, current base rate, and date of hire; and

(b) the name and title or job description of each director and officer, and each other key employee, of the Company as of a date not earlier than twenty (20) days prior to the date hereof.

Section 4.37. Insider Interests.

Except as set forth in Schedule 4.37, no Shareholder, officer or director of the Company is presently a party to any transaction with the Company including, without limitation, by being a party to any contract, agreement or arrangement (i) providing for the furnishing of services, (ii) providing for rental of real or personal property, or (iii) otherwise requiring payments to any such Shareholder, officer or director or to any trust, corporation or entity to which such person has any interest.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer hereby represents and warrants to the Shareholders as of the date hereof and as of the Closing Date:

Section 5.1. Organization and Good Standing; Power and Authority.

The Buyer is a corporation duly organized and validly existing under the laws of the State of Delaware. The Buyer has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby.

Section 5.2. Corporate Authorization.

The Buyer has full corporate power and authority and has taken all actions necessary to enter into this Agreement and to carry out the transactions contemplated hereby. The execution, delivery and performance of this Agreement and all other Transaction Documents to which the Buyer is a party and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action on the part of the Buyer and all necessary action on the part of the stockholders of the Buyer. This Agreement and the other Transaction Documents to which the Buyer is a party have been, or will be, duly executed and delivered by the Buyer and constitute (or when executed will constitute) the valid, legal and binding obligations of the Buyer, enforceable against the Buyer in accordance with their respective terms, except to the extent such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, receivership, fraudulent conveyance or similar laws affecting or relating to the enforcement of creditors' rights generally, and by equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law).

Section 5.3. Conflicts; Defaults.

The execution and delivery of this Agreement and the other agreements and instruments executed or to be executed in connection herewith by the Buyer do not, and the performance by the Buyer of its obligations hereunder and thereunder and the consummation by the Buyer of the transactions contemplated hereby or thereby, will not: (i) violate, conflict with, or constitute a breach or default under any of the terms of its certificate of incorporation or bylaws; (ii) require any authorization, approval, consent, registration, declaration or filing with, from or to any governmental authority; (iii) violate any law, statute, judgment, decree, injunction, order, writ, rule or regulation applicable to the Buyer; or (iv) conflict with or result in a breach of, create an event of default (or event that, with the giving of notice or lapse of time or both, would constitute an event of default) under, or give any third party the right to terminate, cancel or accelerate any obligation under, any contract, agreement, note, bond, guarantee, deed of trust, loan agreement, mortgage, license, lease, indenture, instrument, order, arbitration award, judgment or decree to which the Buyer is a party or by which such party is bound and which would affect the consummation of the transactions contemplated hereby. There is no pending or, to the Knowledge of the Buyer, threatened action, suit, claim, proceeding, inquiry or investigation before or by any governmental authorities, involving or that could reasonably be expected to restrain or prevent the consummation of the transactions contemplated by this Agreement.

Section 5.4. Brokers, Finders and Agents.

Neither the Buyer nor any of its officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated by this Agreement and the Buyer agrees to indemnify and hold the Shareholders harmless from any liability, loss, cost, claim and/or demand that any broker or finder may have in connection with this transaction as a result of actions taken by the Buyer or any of its officers, directors or employees.

Section 5.5 Litigation.

There is no claim, action, suit, proceeding, arbitration, reparation, investigation or hearing or notice of hearing, pending or, to the Knowledge of Buyer, threatened, before any court or governmental, administrative or other competent authority or private arbitration tribunal, which could have a material adverse effect on the Buyer, or to prevent the consummation of the transactions contemplated by this Agreement; nor to the Knowledge of the Buyer are there any facts which could reasonably be expected to give rise to any such claim, action, suit, proceeding, arbitration, investigation or hearing, which could have a material adverse affect, individually or in the aggregate, upon the Buyer, or prevent the consummation of the transactions contemplated by this Agreement. There is no continuing order, injunction or decree of any court, arbitrator or governmental, administrative or other competent authority to which the Buyer is a party. Neither the Buyer nor any current officer, director, or employee of the Buyer has been permanently or temporarily enjoined or barred by order, judgment or decree of any court or other tribunal or any agency or other body from engaging in or continuing any conduct or practice.

Section 5.6 No Consents Required.

No notice to, consent, authorization or approval of, or exemption by, any governmental or public body or authority is required in connection with the execution, delivery and performance by the Buyer of this Agreement or any other Transaction Documents to which the Buyer is a party, or the taking of any action herein contemplated. No notice to, consent, authorization or approval of, any Person under any agreement, arrangement or commitment of any nature which the Buyer is party to or which the assets of Buyer are bound by or subject to, or from which the Buyer receives or is entitled to receive a benefit, is required in connection with the execution, delivery and performance by the Buyer of this Agreement or any other Transaction Documents to which the Buyer is a party, or the taking of any action by Buyer herein contemplated.

Section 5.7 Investment Intent.

The Buyer is purchasing the Shares for its own account, not for the benefit or account of any other person, for investment purposes only, and not with a view to, or in connection with, the distribution or resale thereof. The Buyer has no agreement or other arrangement with any person to sell, transfer or pledge any part of the Shares and the Buyer has no plans to enter into any such agreement or arrangement. At the Closing, each shareholder of Buyer will be an "accredited investor" within the meaning of Rule 501(a) under the Securities Act of 1933, as amended.

Section 5.8. Adequate Representation.

Buyer has discussed with such professional, legal, tax and financial advisors as it has independently chosen to engage the implications of and obligations resulting from the execution of this Agreement and the consummation of the transactions contemplated hereby and has received adequate legal, tax and financial representation with respect to the drafting and negotiation of this Agreement and the structure of the transactions contemplated hereby.

ARTICLE 6
CERTAIN COVENANTS OF THE SHAREHOLDERS

The Shareholders hereby covenant and agree with the Buyer that they shall do, or cause to be done, the following, between the date of this Agreement and the Closing Date, it being acknowledged by Buyer that Jorge Peragallo does not participate in the management of the Company and is therefore agreeing to take only those actions that may be necessary in his capacity as a shareholder of the Company to consummate the transactions contemplated hereby and agreed by Buyer that Jorge Peragallo shall not be liable for any breach by the Company or the other Shareholders of the following covenants and agreements:

Section 6.1. Access and Information.

(a) The Shareholders will cause the Company to afford to the Buyer and the Buyer's accountants, counsel and other representatives reasonable access from time to time during normal business hours, after the provision of reasonable prior written notice thereof, throughout the period from the date hereof until the Closing Date to the properties, books, contracts, commitments, personnel, independent accountants and records of the Company. During such period, the Shareholders will cause the Company to furnish or make available to the Buyer and the Buyer's accountants, counsel and other representatives copies of such documents and all such other information concerning the Company as the Buyer reasonably may request. The Shareholders will cause the Company to cooperate with the Buyer in the Buyer's efforts to obtain reasonable access, from time to time until the Closing Date, after the provisions of reasonable prior written notice thereof, to key customers of the Company for the purpose of obtaining information about their business with the Company from such customers' perspective and their intentions regarding ongoing relationships with the Company after the Closing.

(b) The Buyer will hold, and continue to hold, and cause its representatives to hold , and continue to hold, in confidence all documents and information concerning the Company furnished to they Buyer in connection with the transactions contemplated hereby pursuant to the terms of the Confidentiality Agreement.

Section 6.2. No Solicitation or Negotiation.

(a) Prior to the closing or the termination of this Agreement, the Shareholders will not, and will not permit the Company, or any of its officers, directors, affiliates, employees, representatives or agents to, directly or indirectly:

(i) solicit, initiate, consider, encourage or accept any other proposals or offers from any Person other than the Buyer involving or relating to (A) any acquisition or purchase of any of the capital stock of the Company or a material portion of the assets of the Company or (B) any other extraordinary business transaction that would reasonably be expected to be inconsistent with, conflict with or otherwise have a material adverse effect on the consummation of the transactions contemplated hereby, or

(ii) participate in any discussions, conversations, negotiations and other communications with any Person other than the Buyer regarding, or furnish to any other Person any non-public information with respect to, or otherwise cooperate in any way, assist or participate in, facilitate or encourage any effort or attempt by any other Person to seek to do any of the foregoing.

(b) The Shareholders will, and will cause the Company, and its officers, directors, affiliates, employees, representatives or agents to, immediately cease and cause to be terminated all existing discussions, conversations, negotiations and other communications with any Person conducted with respect to any of the foregoing prior to the date hereof.

(c) The Shareholders promptly will notify the Buyer if any Shareholder, the Company or any officer, director, Affiliate, employee, representative or agent of the Company are approached with respect to, or are otherwise made aware of, any such discussions or any such inquiries or proposals and will, in any such notice to the Buyer, indicate in reasonable detail the identity of the Person making such proposal, offer, inquiry or contact and the terms and conditions of such proposal, offer, inquiry or other contact. The Shareholders will not, and will not permit the Company to, release any Person from, or waive any provision of, any confidentiality or standstill agreement to which the Company is a party, without the prior written consent of the Buyer.

Section 6.3. Conduct of the Business of the Company.

(a) From the date hereof through the Closing Date or the termination of this Agreement, as the case may be, except as otherwise permitted or contemplated by this Agreement or consented to in writing by the Buyer, which consent shall not be unreasonably withheld or delayed, the Shareholders will cause the Company to (i) preserve in all material respects the Business of the Company, (ii) use its commercially reasonable best efforts to keep available to the Company the services of all current officers and key employees identified on Schedule 4.36 and (iii) use its commercially reasonable best efforts to preserve in all material respects the goodwill of the suppliers, customers, employees and others currently having business relations with the Company.

(b) From the date hereof through the Closing Date or the termination of this Agreement, as the case may be, except as otherwise permitted or contemplated by this Agreement or consented to in writing by the Buyer, which consent shall not be unreasonably withheld or delayed, the Shareholders will cause the Company to continue the operation of the Business of the Company in the ordinary course, and to maintain the assets, properties and rights of the Company in at least as good order and condition as exists on the date hereof, subject to ordinary wear and tear. Without limiting the generality of the foregoing, except as otherwise permitted or contemplated by this Agreement or consented to in writing by the Buyer, which consent shall not be unreasonably withheld or delayed, the Shareholders will not permit the Company to:

(i) incur, discharge or satisfy any obligation or liability or any Security Interest, equities or claims, except in the ordinary course of business or in connection with the performance of this Agreement;

(ii) incur any debt or increase the amount of any existing debt, other than in the ordinary course of business;

(iii) increase or establish any reserve for taxes or other liabilities on its books or otherwise provide therefor, except for taxes or other liabilities arising in the ordinary course of business since December 31, 2004; write up or down the value of inventory or determine as collectible any notes or accounts receivable that were previously considered to be uncollectible; or voluntarily make any change in any of its methods of accounting or in any of its accounting principles or practices except as required by GAAP or applicable law;

(iv) purchase, lease, sell, assign or transfer any material asset, property or business or waive or permit to lapse any material right, except in the ordinary course of business; or make or authorize any capital expenditure in excess of $100,000 in the aggregate;

(v) make any loan to any Shareholder or any relative or Affiliate of any Shareholder, or declare, set aside or pay to any Shareholder any dividend or other distribution in respect of its capital stock, transfer any asset or pay any money to any Shareholder or any relative or Affiliate of any Shareholder other than the payment of wages, salaries, bonuses and other benefits in the ordinary course of business to Shareholders who are also employees of the Company; or enter into or agree to enter into any transaction with or for the benefit of any Shareholder or any relative or Affiliate of any Shareholder other than the transactions contemplated pursuant to this Agreement;

(vi) reclassify or change in any manner the outstanding shares of capital stock of the Company or issue or agree to issue, sell, transfer, pledge, encumber or deliver any stock, bond, debenture or other security of the Company or any warrant, obligation, subscription, option, convertible security or other commitments under which any additional shares of capital stock of the Company may be authorized, issued or transferred from treasury except as contemplated by this Agreement and the other Transaction Documents;

(vii) except as set forth in Schedule 6.03(b)(vii), grant any increase in the compensation payable to any officer, director, consultant, employee or agent, except for increases in the compensation payable in the ordinary course of business to employees in amounts and at times consistent with past practice; fail to pay or accrue for compensation payable to officers, directors, consultants, employees or agents in compliance with existing agreements or arrangements or consistent with prior periods; enter into or amend any contract for the employment of any officer, employee or other person that is not terminable upon 30 days notice or less without material liability to the Company; enter into any contract or collective bargaining agreement with any labor union; enter into or agree to enter into any bonus, pension, profit-sharing, retirement, stock purchase, stock option, deferred compensation, incentive compensation, hospitalization, insurance or similar plan, contract or understanding providing for employee benefits, other than in the ordinary course of business consistent with past practice;

(viii) enter into any contract, except in the ordinary course of business consistent with past practice, that is not terminable upon 30 days notice or less without material liability to the Company; enter into any contract, except in the ordinary course of business consistent with past practice, continuing for a period of more than three months from its date that is not terminable upon 30 days notice or less without material liability to the Company;

(ix) enter into any agreement or instrument, except in the ordinary course of business consistent with past practice, relating to the borrowing or lending of money or extension of credit or guarantee or indemnify any person or entity with respect to any obligation for borrowed money or otherwise or make or permit to be made any amendment, modification, cancellation or termination of any material contract, agreement, lease, license, finance agreement or written evidence of indebtedness, except as contemplated by this Agreement;

(x) extend credit to any customer in excess of amounts in accordance with past practice or depart from the normal and customary trade, discount and credit policies of the Company;

(xi) settle any administrative or judicial proceedings;

(xii) amend the certificate of incorporation or the bylaws of the Company in a manner that would adversely affect or delay the consummation of the transactions contemplated hereby; or

(xii) make any investment in the assets or securities of any Person in excess of $100,000 in the aggregate.

Notwithstanding the foregoing, on or prior to the Closing Date the Company shall be permitted to declare and distribute to its Shareholders dividends in an amount equal to the sum of (i) $346,747 (the estimated liability of the Shareholders of the Company for income of the Company allocable to them under Subchapter S for calendar year 2004) plus (ii) forty percent (40%) of the income of the Company allocable to the Shareholders under Subchapter S for the period from January 1, 2005, to the Closing Date (the "2005 Tax Distribution"), less any distributions made to the Shareholders from and after June 1, 2005.

Section 6.4. Compliance with Laws.

The Shareholders will use commercially reasonable efforts to cause the Company to comply in all material respects with all applicable laws, statutes, judgments, decrees, injunctions, orders, writs, rules and regulations of any governmental authority.

Section 6.5. Performance of Obligations.

The Shareholders will cause the Company to perform, in a timely manner and in all material respects, its obligations under each Contract and otherwise to use its commercially reasonable best efforts to keep each such Contract in full force and effect.

Section 6.6. Insurance.

The Shareholders will cause the Company to maintain its existing insurance policies in full force and effect.

Section 6.7. Permits.

The Shareholders will use its commercially reasonable best efforts to cause all Company Permits to remain in full force and effect. The Shareholders will cooperate in good faith with the Buyer and take such actions as may be reasonably required by the Buyer to enable the Company to conduct its Business under the Company Permits after the Closing in substantially the same manner as prior to the Closing.

Section 6.8. Other Changes.

Except as otherwise expressly provided in this Agreement, the Shareholders will not take any action, and will use their commercially reasonable best efforts to prevent the occurrence of any event within the control of the Company or the Shareholders, that would cause any representation or warranty contained herein to be untrue or incomplete in any material respect on or before the Closing Date. The Shareholders will give prompt written notice to the Buyer of any (i) change that would render any representation or warranty made by the Shareholders hereunder to be untrue or incomplete in any material respect as of the date of such change or (ii) Material Adverse Change. Such notice shall be deemed to amend the applicable schedule hereto to have qualified the applicable representation and warranty and to cure any breach that may have existed.

Section 6.9. Approvals, Consents and Further Assurances.

The Shareholders shall use their commercially reasonable best efforts to obtain in writing as promptly as possible all approvals, consents and waivers required in order to effectuate the transactions contemplated hereby, and shall deliver to Buyer copies, reasonably satisfactory in form and substance to Buyer, of such approvals and consents. The Shareholders shall also use their commercially reasonable best efforts to ensure that the other conditions set forth in Article 8 hereof are satisfied by the Closing Date.

ARTICLE 7
COVENANTS OF THE BUYER

Section 7.1. Further Assurances.

Buyer shall execute such documents and other papers and take such further actions as may be reasonably required or desirable to carry out the provisions hereof and the transactions contemplated hereby. Buyer shall use its commercially reasonable best efforts to fulfill or obtain the fulfillment of the conditions to the Closing.

Section 7.2. Option Plan.

No later than sixty (60) days from the Closing Date Buyer shall adopt an Incentive and Stock Option Plan in substantially the form annexed hereto as Exhibit C.

Section 7.3. Use of Name.

Subsequent to the Closing, Buyer shall adopt the name "Air Industries Machining" or otherwise cause its subsidiary operating the Business to use that name.

Section 7.4. Financing from Private Offering.

The Buyer will use its commercially reasonable best efforts to cause the Buyer to secure a minimum of $5,500,000 of financing from a private offering to be available for the consummation of the transactions contemplated hereby. From the date hereof to the Closing, Buyer will regularly apprise all the Shareholders of the status of its efforts to secure such financing and to consummate the merger referred to in the immediately succeeding section.

Section 7.5. Merger with a Public Company.

The Buyer will use its commercially reasonable efforts to cause the Company to enter into an agreement with a Public Company with which the Buyer will merge contemporaneously with the Closing of the transactions contemplated hereby.

Section 7.6. Closing Balance Sheet.

Prior to the Closing the parties shall review the financial records of the Company to determine the amount of the 2005 Tax Distribution. Buyer acknowledges that any financial information provided by the Company or Shareholders in connection with such determination will reflect the Company's best estimate of its accounts as of the date thereof.

As soon as practicable after the Closing Date (but not later than 90 days after the Closing Date), Buyer will prepare, and cause a recognized firm of independent accountants (the "Auditors") to audit and report upon, the balance sheet of the Company at the close of business on the Closing Date. Such balance sheet shall be referred to herein as the "Closing Balance Sheet". The Closing Balance Sheet will be prepared in accordance with generally accepted accounting

principles consistent with the accounting policies, practices and assumptions utilized by the Company in the preparation of its Stub Financials. Shareholders will provide the Company and the Auditors with such assistance as may be reasonably necessary in connection with the preparation and audit of the Closing Balance Sheet and, in general, will cooperate with the Company and the Auditors in facilitating such audit and the Buyer shall consult with the Shareholders during the preparation of the Closing Balance Sheet and shall allow the Shareholders to observe the physical inventory taken in connection therewith.

Immediately after the audit of the Closing Balance Sheet has been completed, the Buyer will cause the Auditors to determine the proper amount of the 2005 Tax Distribution. The Auditor's determination of the 2005 Tax Distribution at the Closing Date shall be delivered to the Shareholders no later than 90 days after the Closing Date (the "2005 Tax Distribution Statement"). During the 25-day period following the Shareholders' receipt of the 2005 Tax Distribution Statement, the Shareholders' accountants will be permitted to review the audit working papers of the Auditors relating to the Closing Balance Sheet and will have access to the Company's personnel as may be reasonably necessary in connection therewith and, in general, the Buyer will cooperate with the Shareholders and their accountants in facilitating such review. The 2005 Tax Distribution Statement shall become final and binding upon the parties on the twenty-fifth day following the Shareholders' receipt thereof unless a Shareholder gives written notice of disagreement as to the 2005 Tax Distribution Statement ("Notice of Disagreement") to the Buyer prior to such date. Any Notice of Disagreement shall specify in reasonable detail the nature of any disagreement. If a Notice of Disagreement is received in a timely manner, the 2005 Tax Distribution Statement, as it may be amended pursuant to clauses (x) and (y) below, shall become final and binding upon the parties on the earlier of (x) the date the parties resolve all differences they have with respect to any matter specified in the Notice of Disagreement and (y) the date all disputed matters are finally resolved by the Arbitrators or Third Arbitrator (as such terms are defined below). The 2005 Tax Distribution Statement that becomes final and binding on the parties in accordance with the terms of this Section is referred to herein as the "Final Statement".

During the 15-day period following the delivery of any Notice of Disagreement, the parties shall attempt in good faith to resolve any differences which they may have. If, at the end of such 15-day period, the parties have not reached agreement on such matters, either the Shareholders or the Buyer shall submit the matters which remain in dispute to the arbitrators (the "Arbitrators"), for review and resolution. The Arbitrators shall be two persons or entities, one of which shall be selected by the Buyer and one of which shall be selected by the Shareholders. If within 20 days of receipt by the Arbitrators of the matters which remain in dispute, the Arbitrators have failed to resolve such matters, the Arbitrators shall mutually agree upon a third person or entity with offices in metropolitan New York (the "Third Arbitrator") to review and resolve the disputed matters. The decision of the Third Arbitrator with respect to all disputed matters shall be final and binding on the parties.

The fees of each Arbitrator shall be borne by the party selecting such person or entity. The fees of the Third Arbitrator, if any, shall be borne fifty percent by the Buyer and fifty percent by the Shareholders. The fees of the Auditors incurred in connection with the audit of the Closing Balance Sheet and the preparation of the 2005 Tax Distribution Statement and in any arbitration shall be borne by the Company, and the fees of the Shareholders' accountants incurred in connection with their review of the Closing Balance Sheet and the 2005 Tax Distribution Statement and in any arbitration shall be borne by the Shareholders.

If the amount of the 2005 Tax Distribution reflected on the Final Statement is greater than the amount of the 2005 Tax Distribution as tentatively determined in accordance with Section 6.3, the excess shall be paid to the Shareholders by the Company pro-rata in proportion to their Shares held immediately before the Closing Date within thirty days of the determination of the Final Statement. If the amount of the 2005 Tax Distribution reflected on the Final Statement is less than the 2005 Tax Distribution as tentatively determined in accordance with Section 6.3, the Shareholders, other than Jorge Peragallo who shall be liable only for any excessive amount of the 2005 Tax Distribution received by him, shall be jointly and severally liable to the Company for the shortfall which shall be paid by the Shareholders to the Company within ten days of the determination of the Final Statement.

ARTICLE 8
CONDITIONS OF CLOSING

Section 8.1. Conditions of the Buyer.

The obligations of the Buyer to consummate the transactions contemplated by this Agreement are subject to the fulfillment, on or prior to the Closing Date, of the following conditions (any of which may be waived in writing, in whole or in part, by the Buyer; and, further, Buyer agrees that Jorge Peragallo shall have no liability for the failure of the other Shareholders or the Company to fulfill those conditions that require actions by the other Shareholders or the Company):

(a) The representations and warranties of the Shareholders set forth in this Agreement shall be true, correct and complete in all material respects as of the date hereof and as of the Closing Date as though such representations and warranties were made anew at and as of such date (or if an earlier date is specified in such representation and warranty, as of such earlier date), and the Shareholders shall have duly performed in all material respects all agreements and covenants herein required to be performed by them on or before the Closing Date.

(b) The Company shall not have suffered or incurred any Material Adverse Change since the date hereof.

(c) The Shareholders shall have furnished the Buyer with certificates, executed by each of the Shareholders and dated the Closing Date, confirming the matters expressed in Section 8.1(a) and (b), it being understood that the certificate of Jorge Peragallo will be limited to those matters particular to him, be to the best of his knowledge with respect to those matters related to the Company and shall not cover any matters related to the other Shareholders.

(d) The Shareholders shall have furnished to the Buyer (i) certificates of the Secretary of State of the State of New York, dated as of a date not more than five business days prior to the Closing Date, attesting to the organization, qualifications to do business and good standing of the Company and (ii) a certificate of the Secretary of the Company, certifying to the Articles of Incorporation and By-laws of the Company.

(e) All approvals and consents of third parties required to consummate the transactions contemplated hereby shall have been obtained on terms and conditions reasonably satisfactory to the Buyer and its counsel.

(f) There shall be in effect Employment Agreements between the Company and each of Peter Rettaliata and Dario Peragallo substantially in the forms annexed hereto as Exhibits B-1 and B-2 annexed hereto (the "Employment Agreements").

(g) The Buyer shall have entered into a ten (10) year consulting agreement with George Kfoury, effective as of the Closing Date, substantially in the form of Exhibit D annexed hereto (the "Consulting Agreement").

(h) The Company shall have furnished to the Buyer, in form and substance reasonably satisfactory to the Buyer, (i) executed consents to the sale of the Shares to the Buyer from the applicable governmental authority, customer or other person under any Contract or Permit that purported to limit, directly or indirectly, any sale or transfer of the Shares and (ii) executed waivers from the applicable governmental authority, customer or other person of any right to terminate or to restrict the rights or powers of the Company or any Subsidiary under any Permit upon any such sale or transfer.

(i) The Shareholders shall have furnished to the Buyer a copy of the Company's Financial Statements for the year ended 2004 showing revenues in excess of $24 million and EBITDA in excess of $2 million.

(j) The Buyer shall have received an opinion, dated the Closing Date, of counsel to the Shareholders and the Company in substantially the form of Exhibit E annexed hereto.

(k) Such members of the Board of Directors and such officers of the Company as may be designated by the Buyer at least five days prior to the Closing Date shall have tendered their resignations, effective at the Closing, as such directors and officers.

(l) Each Shareholder and each officer and director of the Company shall have executed and delivered releases, in form and substance reasonably satisfactory to the Buyer, releasing the Company from any liability or obligation owed by the Company to such person as of the Closing Date, other than obligations arising under this Agreement.

(m) The Company and the Shareholders shall have delivered to the Buyer such other certificates, documents, and instruments as the Buyer may reasonably request in connection with the consummation of the Agreement.

(n) The Buyer shall have secured a minimum of $5,500,000 of financing from a private offering to be available for the consummation of the transactions contemplated by this Agreement.

(o) The Buyer shall have entered into an agreement with a Public Company in which to merge contemporaneously with the Closing of the transactions contemplated by this Agreement.

(p) The purchase contemplated by the Real Property Documents shall have been consummated.

If one or more Shareholders fails to fulfill any condition which gives Buyer the right not to close with respect to the Shares held by such Shareholder, Buyer shall nevertheless have the right to purchase the Shares held by the other Shareholders.

Section 8.2. Conditions of the Shareholders.

The obligation of the Shareholders to consummate the transactions contemplated by this Agreement are subject to the fulfillment, on or prior to the Closing Date, of the following conditions (any of which may be waived in writing, in whole or in part, by the Shareholders):

(a) The representations and warranties of the Buyer set forth in this Agreement shall be true, correct and complete in all material respects as of the Closing Date as though such representations and warranties were made anew at and as of such date (or if an earlier dates is specified in such representation and warranty, as of such earlier date), and the Buyer shall have duly performed in all material respects all agreements and covenants herein which are required to be performed by the Buyer on or before the Closing Date.

(b) The Buyer shall have furnished the Shareholders with a certificate, executed on behalf of the Buyer by one of its executive officers and dated the Closing Date, confirming the matters expressed in Section 8.2(a).

(c) All consents of third parties required to consummate the transactions contemplated hereby shall have been obtained on terms and conditions reasonably satisfactory to the Shareholders.

(d) The Shareholders shall have received an opinion, dated the date of the Closing, of counsel to the Buyer in substantially the form of Exhibit F annexed hereto.

(e) In addition to the capital necessary to consummate the transactions contemplated hereby, Buyer shall have received additional capital contributions of no less than $1,200,000 or shall have otherwise caused $1,200,000 to be made available exclusively for use as working capital for the Business on terms generally available in the market for companies similar to the Company.

(f) Buyer shall have obtained a capital expenditure credit facility of no less than $1,500,000, which credit facility shall be available exclusively for the use of the Business on terms generally available in the market for companies similar to the Company.

(g) The Buyer shall have obtained from Citibank, N.A. and those other creditors of the Company (collectively, the "Guaranteed Creditors") whose obligations have been guaranteed by one or more Shareholders, releases, in form and substance satisfactory to the concerned Shareholder, of any guaranty or similar instrument he may have issued to the Guaranteed Creditors in respect of the Company's obligations.

(h) Simultaneously with the consummation of the transaction contemplated hereby, the Buyer shall have consummated a merger with a Public Company.

(i) Buyer or a Person designated by Buyer shall have purchased the Real Property described on Schedule 8.2 for an aggregate price of no less than $4,200,000 in cash pursuant to the Real Property Documents.

(j) Buyer shall have secured a minimum of $5,500,000 of financing from a private offering to be available for the consummation of the transactions contemplated hereby.

(k) The Officer Notes shall have been paid in full, subject to a maximum liability of $247,829, after giving effect to the satisfaction of a portion of such Notes from the proceeds derived by terminating certain insurance policies held by the Company as listed in Schedule 4.16.

If one or more Shareholders fails to fulfill any condition which gives Buyer the right not to close with respect to the Shares held by such Shareholder, Buyer shall nevertheless have the right to purchase the Shares held by the other Shareholders.

ARTICLE 9
AGREEMENTS REGARDING TAXES

Section 9.1. Tax Returns.

The Buyer will prepare or cause to be prepared any Tax returns of the Company that are due or may be filed by the Company from and after the Closing Date, other than any income Tax returns required to be filed for periods ending on or prior to the Closing Date, which will be prepared by the Shareholders (at their expense) and delivered in a timely manner to the Buyer. If the Shareholders fail to deliver to the Buyer any Tax return contemplated by the first sentence of this Section, the Buyer will prepare such returns or cause them to be prepared at the expense of the Shareholders. In the case of Tax returns prepared by the Buyer, the Buyer will provide the Shareholders with drafts of any such Tax returns that include any period ending on or prior to the Closing Date no later than 30 days before their due date (with regard to extensions actually granted) and will permit the Shareholders to review, comment on and approve such draft Tax returns. The Shareholders will not unreasonably withhold or delay their approval to any such draft Tax returns. In the case of Tax returns of the Company prepared by the Shareholders, the Shareholders will prepare such returns consistent with past practice and in accordance with applicable law, will provide to the Buyer drafts of any such Tax returns that include any period ending on the Closing Date at least 30 days before the due date thereof, with regard to extensions actually granted, and will permit the Buyer to review, comment on and approve such draft Tax returns. The Buyer will not unreasonably withhold or delay its approval to any such draft Tax returns and, after such approval, will execute and file such Tax returns. The Buyer will cooperate with the Shareholders with respect to any information or documentation reasonably required by the Shareholders in preparing such Tax returns. Any out-of-pocket expense incurred by the Buyer or the Company in preparing or filing any Tax return, for a period ending on or prior to the Closing Date, will be paid by the Shareholders.

Section 9.2. Cooperation on Tax Matters.

The Buyer and the Shareholders shall cooperate fully, as and to the extent reasonably requested, in connection with the filing of Tax Returns pursuant to this Article and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon another party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Buyer and the Shareholders shall, and shall cause the Company to, retain all books and records with respect to Tax matters pertinent to the Company relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority.

ARTICLE 10
SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

Section 10.1. Survival.

The representations and warranties, set forth in this Agreement, in any Exhibit or Schedule hereto and in any certificate or instrument delivered in connection herewith shall survive for a period of fourteen (14) months after the Closing Date (the "Warranty Period") and shall thereupon terminate and expire and shall be of no force or effect thereafter, except (i) with respect to any claim, written notice of which shall have been delivered to Buyer or the Shareholders, as the case may be, in accordance with Section 10.6 and prior to the end of the Warranty Period, such claim shall survive the termination of such Warranty Period for as long as such claim is unsettled, and (ii) with respect to any litigation which shall have been commenced to resolve such claim on or prior to such date. Notwithstanding the foregoing, solely with respect to the representations and warranties regarding taxes (Section 4.28), ERISA matters (Section 4.24), and environmental matters (section 4.27), the applicable Warranty Period shall be the applicable statute of limitations.

Section 10.2. Indemnification by the Shareholders.

The Shareholders hereby covenant and agree with Buyer that the Shareholders shall indemnify Buyer and its shareholders, respective directors, officers, employees and Affiliates of Buyer, and each of their successors and assigns (individually, a "Buyer Indemnified Party"), and hold them harmless from, against and in respect of any and all costs, losses, claims, liabilities (including for Taxes), fines, penalties, damages (other than special, consequential or punitive damages) and expenses (including interest, if any, imposed in connection therewith, court costs and reasonable fees and disbursements of counsel) (collectively, "Damages") incurred by any of them resulting from: (i) any claim, liability, obligation or expense arising out of or related to the operation of the Company's Business on or prior to the Closing Date that has not been disclosed in this Agreement, including, without limitation, the Schedules hereto, or in the Financial Statements and (ii) any breach of any representation or warranty in this Agreement or the non-fulfillment in any material respect of any agreement, covenant or obligation by the Company or such Shareholder made in this Agreement (including without

limitation any Exhibit or Schedule hereto and any certificate or instrument delivered in connection herewith); provided that the indemnification obligations of each Shareholder pursuant to this Article 10 shall be (A) several, but not joint, solely with respect to the indemnification obligations pursuant to this Article 10 resulting from any breach of any representation or warranty made by such Shareholder solely with respect to himself or his ownership of Shares, and (B) joint and several with respect to all other indemnification obligations of the Shareholders pursuant to this Article 10, provided, however, that Jorge Peragallo shall be responsible for no more than 22.63% of the Damages incurred by Buyer Indemnified Parties resulting from a claim, liability, obligation or expense described in clause (i) above or any breach of any representation or warranty in this Agreement or the non-fulfillment in any material respect of any agreement, covenant or obligation by the Company or any Shareholder related to any matter other than those made by him solely with respect to himself or the ownership of his Shares.

Notwithstanding anything in the prior paragraph to the contrary, indemnification with respect to environmental matters shall be made exclusively in accordance with Sections 10.4, 10.5, 10.6 and 10.7.

Section 10.3. Indemnification by Buyer.

Buyer hereby covenants and agrees with the Shareholders that Buyer shall indemnify each Shareholder (individually a "Shareholder Indemnified Party") and hold him harmless from, against and in respect of any and all Damages incurred by such Shareholder resulting from any misrepresentation, breach of any representation or warranty in this Agreement or the non-fulfillment in any material respect of any agreement, covenant or obligation by Buyer made in this Agreement (including without limitation any Exhibit or Schedule hereto and any certificate or instrument delivered in connection herewith).

Section 10.4. Environmental Indemnification; Remediation.

(a) The Shareholders shall be liable for and jointly and severally will indemnify the Buyer Indemnified Parties and hold them harmless from, against and in respect of all Environmental Damages, asserted against, resulting from, imposed upon or incurred or suffered by the Buyer Indemnified Parties as a result of or arising from any breach of any representation or warranty contained in Section 4.27, provided, however, that Jorge Peragallo shall be responsible for no more than 22.63% of the Environmental Damages incurred by Buyer Indemnified Parties as a result of or arising from any breach of any representation or warranty contained in Section 4.27.

(b) The parties hereto acknowledge and agree that all matters of non-compliance by the Company prior to the Closing Date with applicable Environmental Laws, the existence of which matter of non-compliance is a breach of any representation or warranty contained in Section 4.27 hereof, may be remediated under the direction and supervision of the Company, and that the Shareholders shall be liable for the costs and expenses incurred in performing such remediation of each such matter, up to a maximum amount, in the case of each such matter, equal to the reasonable costs and expenses of performing such remediation in compliance with the least stringent standards consistent with the Environmental Laws applicable to the Company as of the Closing Date and in as cost-effective a manner as is practicable.

Section 10.5. Limitation on Indemnification Obligations; Sole and Exclusive Remedy.

(a) Notwithstanding anything contained herein to the contrary, (i) the Shareholders shall not have any liability under this Article 10 until the aggregate amount to which the Buyer Indemnified Parties would otherwise be entitled pursuant to this Article 10 exceeds $560,000 (the "Hurdle Rate"), and then only for such indemnifiable Damages in excess of the Hurdle Rate, (ii) the aggregate amount of indemnifiable Damages in excess of the Hurdle Rate for which the Shareholders shall be liable with respect to this Article 10 (other than with respect to representations and warranties set forth in Sections 4.2 (Shares), 4.4 (Capital Stock) and 4.8 (Authorization) hereof) shall not exceed $2,500,000 (the "Cap Amount"), (iii) the sole and exclusive remedy and recourse of the Buyer Indemnified Parties against the Shareholders with respect to or directly relating to the matters set forth in Sections 10.2 and 10.4 hereof shall be (A) pursuant to this Article 10 and (B) subject to the Cap Amount, except with respect to the representations and warranties set forth in Sections 4.2 (Shares), 4.4 (Capital Stock) and 4.8 (Authorization) hereof, which shall not exceed the Purchase Price , provided, however, that Jorge Peragallo shall be responsible for no more than 22.63% of the aggregate amount of indemnifiable Damages in excess of the Hurdle Rate for which the Shareholders shall be liable as provided in this Article 10 (other than with respect to representations and warranties of Jorge Peragallo set forth in Sections 4.2 (Shares), 4.4 (Capital Stock) and 4.8 (Authorization) hereof) and (iv) the sole and exclusive remedy and recourse of the Buyer Indemnified Parties against Jorge Peragallo with respect to or directly relating to the matters set forth in Sections 10.2 and 10.4 hereof shall be (A) pursuant to this Article 10 and (B) subject to the Cap Amount, except with respect to the representations and warranties set forth in Section 4.2 (Shares) hereof, which shall not exceed the portion of the Purchase Price paid to Jorge Peragallo.

(b) The sole and exclusive remedy and recourse of the Shareholder Indemnified Parties against the Buyer with respect to or directly relating to the matters set forth in Sections 10.3 hereof shall be pursuant to this Article 10.

Section 10.6. Right to Defend.

If the facts giving rise to any such indemnification shall involve any actual claim or demand by any third party against a Buyer Indemnified Party or Shareholder Indemnified Party (referred to herein as an "Indemnified Party"), then the Indemnified Party will give prompt written notice of any such claim to the indemnifying party, which notice shall set forth in reasonable detail the nature, basis and amount of such claim (the "Notice of Third Party Claim"). It is a condition precedent to the applicable indemnifying party's obligation to indemnify the applicable Indemnified Party for such claim that such Indemnified Party timely provide to such indemnifying party the applicable Notice of Third Party Claim, provided that the failure to provide such Notice of Third Party Claim shall only relieve such indemnifying party of its or his obligation to indemnify for such claim only to the extent that such indemnifying party has been prejudiced by such Indemnified Party's failure to give the Notice of Third Party Claim as required. The indemnifying party receiving such Notice of Third Party Claim may (without prejudice to the right of any Indemnified Party to participate at its own expense through counsel of its own choosing) undertake the defense of such claims or actions at its expense with counsel chosen and paid by its giving written notice (the "Election to Defend") to the Indemnified Party within thirty (30) days after the date the Notice of Third Party Claim is deemed received; provided, however, that the indemnifying party receiving the Notice of Third Party Claim may not settle such claims or actions without the consent of the Indemnified Party, which consent will not be unreasonably withheld or delayed, except if the sole relief provided is monetary damages to be borne solely by the indemnifying party; and, provided further, if the defendants in any action include both the indemnifying party and the Indemnified

Party, and the Indemnified Party shall have reasonably concluded that counsel selected by the indemnifying party has a conflict of interest because of the availability of different or additional defenses to the parties, the Indemnified Party shall cooperate in the defense of such claim and shall make available to the indemnifying party pertinent information under its control relating thereto, but the Indemnified Party shall have the right to its own counsel and to control its defense and shall be entitled to be reimbursed for all reasonable costs and expenses incurred in such separate defense. In no event will the provisions of this Article reduce or lessen the obligations of the parties under this Article, if prior to the expiration of the foregoing thirty (30) day notice period, the Indemnified Party furnishing the Notice of Third Party Claim responds to a third party claim if such action is reasonably required to minimize damages or avoid a forfeiture or penalty or because of any requirements imposed by law. If the indemnifying party receiving the Notice of Third Party Claim does not duly give the Election to Defend as provided above, then it will be deemed to have irrevocably waived its right to defend or settle such claims, but it will have the right, at its expense, to attend, but not otherwise to participate in, proceedings with such third parties; and if the indemnifying party does duly give the Election to Defend, then the Indemnified Party giving the Notice of Third Party Claim will have the right at its expense, to attend, but not otherwise to participate in, such proceedings. The parties to this Agreement will not be entitled to dispute the amount of any Damages (including reasonable attorney's fees and expenses) related to such third party claim resolved as provided above.

Section 10.7. Subrogation.

If the Indemnified Party receives payment or other indemnification from the indemnifying party hereunder, the indemnifying party shall be subrogated to the extent of such payment or indemnification to all rights in respect of the subject matter of such claim to which the Indemnified Party may be entitled, to institute appropriate action against third parties for the recovery thereof, including under any insurance policies, and the Indemnified Party agrees to assist and cooperate in good faith with the indemnifying party and to take any action reasonably required by such indemnifying party, at the expense of such indemnifying party, in enforcing such rights.

If the Shareholders shall have paid Buyer Indemnified Party for an indemnified claim arising out of Section 4.21 hereof or otherwise, and the Buyer Indemnified Party or the Company subsequently receives payment under insurance policies (existing prior to the Closing) covering such claim, the Buyer Indemnified Party shall repay to such Shareholders the amount of such prior payment made by Shareholders; provided, however, such repayment shall not exceed the actual amount received by the Buyer Indemnified Party under such policy, less all reasonable fees (including attorneys' fees) incurred by the Buyer Indemnified Party in pursuing and collecting under such policy.

ARTICLE 11
TERMINATION

Section 11.1. Termination Events.

Subject to the provisions of Section 11.2, this Agreement may be terminated by written notice given at or prior to the Closing Date in the manner hereinafter provided:

(a) by either Buyer or the Shareholders if a material default or breach shall be made by the other party hereto with respect to the due and timely performance of any of its covenants and agreements contained herein, or with respect to the due compliance with any of its representations, warranties or covenants, and, after notice of such default has been received by the defaulting party, such default cannot be cured prior to the Closing Date, or the date that is fifteen (15) days after the receipt of such notice, whichever is later, and has not been waived;

(b) (i) by Buyer if all of the conditions set forth in Section 8.1 shall not have been satisfied on or before the Closing Date, other than through failure of Buyer to fully comply with its obligations hereunder, and shall not have been waived by Buyer on or before such date; or

(ii) by the Shareholders, if all of the conditions set forth in Section 8.2 shall not have been satisfied on or before the Closing Date, other than through failure of the Shareholders to fully comply with its obligations hereunder, and shall not have been waived by all of the Shareholders on or before such date.

(c) by mutual consent of Buyer and all of the Shareholders; or

(d) by either Buyer or the Shareholders if the Closing shall not have occurred, other than through failure of any such party to fulfill its obligations hereunder, on or before October 15, 2005. Time shall be of the essence as to this provision only.

Termination of this Agreement by any Shareholder shall be effective only as to the obligations of such Shareholder and the Buyer with respect to the Shares held by such Shareholder, and the Buyer and remaining Shareholders shall be free to consummate the transactions contemplated hereby with respect to the Shares of such other Shareholders. Likewise, Buyer shall have the right to terminate this Agreement as set forth above with respect to each of the Shareholders on an individual basis and termination of this Agreement by Buyer shall be effective only as to the obligations of the Buyer and those Shareholders designated by Buyer with respect to the Shares held by such Shareholders, and the Buyer and remaining Shareholders shall be free to consummate the transactions contemplated hereby with respect to the Shares of such other Shareholders. Notwithstanding the foregoing, if Buyer purchases the Shares of any Shareholder pursuant to this Agreement, it will purchase the Shares of all Shareholders who tender their Shares including those Shareholders who have violated a representation, covenant or condition hereof other than those representations affecting the ability of any Shareholder to transfer clear valid title to his Shares.

Section 11.2. Effect of Termination.

(a) In the event that this Agreement shall be terminated pursuant to Section 11.1, all further obligations of Buyer and those Shareholders as to which the termination is effective under this Agreement, except pursuant to Sections 6.1.(b), 12.11 and 12.15, shall terminate without further liability of either party.

(b) (i) If this Agreement is terminated by one or more Shareholders pursuant to Section 11.1(a) or because one or more of the conditions set forth in Section 8.2 is not satisfied as a result of the Buyer's failure to comply with its obligations hereunder, then each of such Shareholders (and the Company, if terminated by all the Shareholders) shall have the right to be reimbursed by the Buyer for all reasonable out-of-pocket costs (including reasonable legal and accounting costs) actually incurred by him or it in connection with the transactions contemplated hereby and neither such Shareholder and, in the case this Agreement is terminated as provided in this clause by all Shareholders, the Company shall have any further recourse against the Buyer.

(ii) If this Agreement is terminated by the Buyer pursuant to Section 1l.1(a) or because one or more of the conditions set forth in Section 8.1 is not satisfied as a result of any Shareholder's failure to comply with its obligations hereunder, then Buyer shall only have the right to be reimbursed by the Company for all reasonable out-of-pocket costs (including reasonable legal and accounting costs) actually incurred by the Buyer subsequent to September 30, 2004, in connection with the transactions contemplated hereby, and the Buyer shall have no further recourse against the Company or any Shareholder.

ARTICLE 12
MISCELLANEOUS

Section 12.1. Expenses.

Except as and to the extent otherwise provided in this Agreement, if the transactions contemplated by this Agreement are not consummated, the Shareholders and Buyer shall each pay their own respective expenses and the fees and expenses of their respective counsel and other experts. If the transactions contemplated hereby are consummated, the Company shall pay pro-rata all reasonable legal and accounting expenses incurred by all of the Shareholders in connection with the negotiation and consummation of this Agreement and any all related agreements, up to a maximum of $250,000.

Section 12.2. Waivers.

No action taken pursuant to this Agreement, including any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representation, warranty, covenant or agreement contained herein or in any other documents. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach. Any party hereto may, at or before the Closing, waive any conditions to its obligations hereunder which are not fulfilled.

Section 12.3. Binding Effect; Benefits.

This Agreement shall inure to the benefit of the parties hereto and shall be binding upon the parties hereto and their respective successors and assigns. Except as otherwise set forth herein, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto, the Buyer Indemnified Parties, the Shareholder Indemnified Parties or their respective successors and assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement.

Section 12.4. Assignment; Delegation.

No party to this Agreement may assign its rights or delegate its obligations hereunder without the prior written consent of all of the other parties; provided, however, that at Closing Buyer may assign this Agreement to an entity in which Buyer holds a greater than ninety percent (90%) equity interest, without the prior written consent of the Company and the Shareholders, provided, however, Buyer shall remain liable for the performance of its obligations under this Agreement. Any assignment or delegation in violation of this Section 12.4 shall be null and void.

Section 12.5. Notices.

All notices, requests, demands and other communications which are required to be or may be given under this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person or after dispatch by recognized overnight courier to the party to whom the same is so given or made:

If to the Buyer, to:
Gales Industries Incorporated
333 East 66th Street, 9th Floor,
New York, New York 10021
Attn: Michael Gales
Fax: 212-249-2614

With a copy to:
Eaton & Van Winkle LLP
3 Park Avenue,
New York, NY 10016
Attn: Vincent J. McGill, Esq.
Fax: 212-779-9928

or at such other address as the Buyer may have advised the other parties hereto in writing; and

If to the Company, to:
Air Industries Machining, Corp.
1479 Clinton Avenue
Bay Shore, NY 11706
Attn: Peter Rettaliata
Fax: 631-968-5377

With copies to:
Arnold & Porter LLP
399 Park Avenue
New York, NY 10022
Attn: Robert P. Wessely, Esq.
Fax: 212-715-1399
and
Forchelli, Curto, Schwartz, Mineo, Carlino & Cohn, LLP
330 Old Country Road
Mineola, New York 11501
Attn: Peter Alpert, Esq.
Fax: 516-248 1729

or at such other address as the Company may have advised the Buyer in writing; and

If to the Shareholders, to each Shareholder at the address set forth beneath his signature on the execution page hereof with, in the case of all Shareholders, a copy to Arnold & Porter LLP at the address set forth above and a copy to Forchelli, Curto, Schwartz, Mineo, Carlino & Cohn, LLP at the address set forth above, or at such other address as each such Shareholder may have advised the Buyer in writing.

All such notices, requests and other communication shall be deemed to have been received on the date of delivery thereof (if delivered by hand) and on the next day after the sending thereof (if by overnight courier).

Section 12.6. Entire Agreement.

This Agreement (including the Schedules and Exhibits hereto) and the other Transaction Documents constitute the entire agreement and supersede all prior agreements and understandings, oral and written, among the parties hereto with respect to the subject matter hereof and supersede all prior agreements, representations, warranties, statements, promises and understandings, whether written or oral, with respect to the subject matter hereof. No party hereto shall be bound by or charged with any written or oral arguments, representations, warranties, statements, promises or understandings not specifically set forth in this Agreement or in any Schedule or Exhibits hereto or any other Transaction Documents, or in certificates and instruments to be delivered pursuant hereto on or before the Closing.

Section 12.7. Headings; Certain Terms.

The section and other headings contained in this Agreement are for reference purposes only and shall not be deemed to be a part of this Agreement or to affect the meaning or interpretation of this Agreement.

Section 12.8. Counterparts.

This Agreement may be executed in any number of counterparts, each of which when executed, shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

Section 12.9. Governing Law.

This Agreement, and the rights and obligations of the parties hereto under this Agreement, shall be governed by, construed and enforced in accordance with the laws of the State of New York, without giving effect to the choice of law principles thereof. Any action arising out of the breach or threatened breach of this Agreement shall be commenced in a state court of New York and each of the parties hereby submits to the jurisdiction of such courts for the purpose of enforcing this Agreement.

Section 12.10. Severability.

If any term or provision of this Agreement shall to any extent be finally determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Agreement shall not be affected thereby, and each term and provision of the agreement shall be valid and enforced to the fullest extent permitted by law.

Section 12.11. Amendments.

This Agreement may not be modified or changed except by an instrument or instruments in writing signed by the party or parties against whom enforcement of any such modification or amendment is sought.

Section 12.12. Transaction Taxes.

The Shareholders shall pay any and all taxes arising out of the transfer of the Shares to the Buyer and imposed upon the sale of the Business and transfer of ownership thereof to Buyer.

Section 12.13. Section References.

All references contained in this Agreement to any section number are references to sections of this Agreement unless otherwise specifically stated.

Section 12.14. Exhibits and Schedules.

The Exhibits and Schedules attached hereto or referred to herein are incorporated herein and made a part hereof. As used herein, the expression "this Agreement" includes such Exhibits and Schedules.

Section 12.15. Press Releases and Public Announcements.

Neither the Buyer nor the Shareholders will issue any press release or make any public announcement disclosing the execution and delivery of this Agreement. At such time as Buyer enters into an agreement relating to the acquisition of Buyer by a Public Company, Buyer and such Public Company shall be permitted to make such announcements as counsel to such Public Company shall deem necessary; provided, however, that each such announcement shall be approved by the Shareholders prior to the making of such announcement by the Buyer or such Public Company, which approval shall not be unreasonably withheld or delayed or conditioned.

Section 12.16. Survival.

On termination of this Agreement and the payment of all amounts, if any, that may be due in accordance with Section 11.2, all of the rights and obligations of the parties hereunder shall expire except for the obligations of Buyer to maintain the confidentiality of the Company's information as set forth in Section 6.1(b).

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute and deliver this Agreement as of the first date written above.

GALES INDUSTRIES, INCORPORATED

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

/s/ Luis Peragallo

Luis Peragallo
53 Willow Ridge Drive
Smithtown, NY 11787

/s/ Jorge Peragallo

Jorge Peragallo
830 Medford Avenue
Medford, NY 11763

/s/ Peter Rettaliata

Peter Rettaliata
46 Iroquois Drive
Brightwaters, NY 11718

/s/ Dario Peragallo

Dario Peragallo
20 Coles Place
Northport, NY 11768

AIR INDUSTRIES MACHINING, CORP.

By: /s/ Luis Peragallo

Name: Luis Peragallo
Title: Chairman and Chief Executive Officer

SUBORDINATED SECURED PROMISSORY NOTE

$962,000.00 November 30, 2005
New York, New York

For good and valuable consideration, the receipt of which is hereby acknowledged, Gales Industries Incorporated, a Delaware corporation (the "Company"), promises to pay to the order of Luis Peragallo or his registered assigns (the "Holder"), the principal sum of Nine Hundred Sixty-Two Thousand Dollars ($962,000.00), 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 twenty equal consecutive quarterly installments of principal in the amount of Forty-eight Thousand One Hundred Dollars ($48,100), as such amount may be increased pursuant to Section 1(d) of this Note, plus accrued interest thereon from the date of original issuance of this Note or the immediately preceding date of payment of interest, as the case may be, through and including the date of payment of such interest, payable on the last business day of each calendar quarter commencing December 31, 2005, and continuing through and including September 30, 2010, 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").

The Company further agrees to pay interest on the unpaid principal sum of this Note at an adjustable rate equal to the "Prime Rate" (as hereinafter defined), as adjusted as provided for herein, plus 0.5% per annum. Interest shall be payable on any portion of the principal amount of this Note outstanding from time to time from and after the scheduled date for payment thereof until payment thereof in full, at a floating rate equal to the Prime Rate plus 7% per annum. For purposes hereof the "Prime Rate" shall mean the rate publicly announced by Citibank as its "prime rate" (even though Citibank may not lend money at such rate) or, if Citibank ceases to quote such rate, the Federal Funds rate. Interest shall be calculated on the basis of a 365/366 day year and the actual number of days elapsed and the rate of interest charged hereunder shall change effective on the first day of each calendar quarter (to wit, October 1, January 1, April 1 and July 1) to the Prime Rate in effect as of the end of such date or the immediately preceding business day. 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, interest accrued, if any, and then principal.

This Note is issued pursuant to that certain Stock Purchase Agreement, dated as of July 25, 2005 (the "Stock Purchase Agreement"), entered into between the Company, Luis Peragallo, Air Industries Machining, Corp., Jorge Peragallo, Peter Rettaliata, and Dario Peragallo.

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:

EXHIBIT 10.3

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 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 or with respect to which the Company is a guarantor, to banks, insurance companies, lease financing institutions 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, 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.

(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 (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 September 30, 2010, 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) The holders of more than fifty percent in principal amount of the Senior Indebtedness are hereby authorized to demand specific performance of this Note, whether or not the Company shall have complied with the provisions hereof applicable to it, at any time when the Holder shall have failed to comply with any provision hereof applicable to such Holder. The Holder hereby irrevocably waives any defense based on the adequacy of a remedy at law which might be asserted as a bar to the remedy of specific performance hereof in any action brought therefor by any holder of Senior Indebtedness.

(g) 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; (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.

(h) In the event that the Issuer 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.

(i) 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 Issuer 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.

(j) 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, 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 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. 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 the 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, within 45 days after the appointment 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 is false or incorrect in any material respect when made.

4. Security Agreement. This Note is secured by a security interest in substantially all of the personal property of the Company pursuant to the Security Agreement dated as of November 30, 2005 (as amended from time to time, the "Security Agreement') by and between the Company and the Holder.

5. 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 City and County of New York, 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: Luis Peragallo
53 Willow Ridge Drive
Smithtown, New York 11787

To Company at: Gales Industries Incorporated
333 East 66th Street, 9th Floor,
New York, New York 10021

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.

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

GALES INDUSTRIES INCORPORATED

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

EXHIBIT 10.4

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Security Agreement") is made this 30th day of November 2005 by and between Gales Industries Incorporated, a Delaware corporation, with an address at 333 East 66th Street, 9th Floor, New York, New York 10021 (the "Debtor") and Luis Peragallo, an individual with an address at 53 Willow Ridge Drive, Smithtown, New York 11787 (the "Secured Party").

W I T N E S S E T H:

This Security Agreement is entered into in conjunction with that certain Subordinated Secured Promissory Note dated the date hereof made by the Debtor in favor of the Secured Party (the "Note"). Except as otherwise expressly defined herein, all capitalized terms shall have the meanings ascribed to them in the Note.

In order to secure payments of all amounts which may become due and owing to the Secured Party under the Note, the Debtor has agreed to grant to the Secured Party a continuing security interest in and to all of the property of the Debtor.

NOW, THEREFORE, in consideration of the premises hereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants, representations and warranties contained herein, the parties hereto agree as follows:

SECTION 1 - SECURITY INTEREST

1.1 Description. As security for the prompt and complete payment and performance (whether at the stated maturity, by acceleration or otherwise) of all of the Debtor's obligations under the Note and any and all other obligations or debts of the Debtor to the Secured Party whether now existing or hereafter arising, the Debtor hereby assigns and grants to the Secured Party a continuing security interest in, upon and to all of the tangible and intangible personal property and fixtures of the Debtor, including without limitation the property described below, whether now owned or existing or hereafter acquired or arising, together with any and all additions thereto and replacements therefor and proceeds and products thereof (hereinafter referred to collectively as the "Collateral"):

(a) all shares of outstanding capital stock of Air Industries Machining, Corp. ("AIM") owned by Debtor or its permitted assignees under the Note (the "Shares");

(b) all of the Debtor's directly or indirectly held tangible personal property, including without limitation all present and future goods, inventory (including without limitation all printed materials, merchandise, raw materials, work in process, finished goods and supplies), equipment, merchandise, furniture, fixtures, office supplies, motor vehicles, machinery, paper, tools, computers, and associated equipment now owned or hereafter acquired, including, without limitation, the tangible personal property used in the operation of the businesses of the Debtor or of AIM; and

(c) all of the Debtor's other personal property, including, without limitation, all present and future accounts, accounts receivable, investment property, deposit accounts, rights to proceeds of letters of credit, letter-of-credit rights, contract rights, general intangibles (including without limitation, all goodwill, all trademarks, all other intellectual property to the extent assignable as collateral, including without limitation all copyrights, patents and domain names, all customer lists, vendor lists, and other printed materials, including all catalogs, indexes, lists, data and other documents and papers relating thereto, blue prints, designs and research and development), any information stored on any medium, including electronic medium, related to any of the personal property of the Debtor, all instruments, documents and chattel paper, all commercial tort claims, all supporting obligations and all debts, obligations and liabilities in whatever form owing to the Debtor from any person, firm or corporation or any other legal entity, whether now existing or hereafter arising, now or hereafter received by or belonging or owing to the Debtor, and all guaranties and security therefor.

Any of the foregoing terms which are defined in the Uniform Commercial Code of the State of New York, as in effect from time to time (the "NYUCC") shall have the meaning provided in the NYUCC as supplemented and expanded by the foregoing.

1.2 Senior Debt.

(a) Permitted Liens. The Debtor shall not create, assume or suffer to exist any encumbrance upon any of its assets, whether now owned or hereafter acquired, except as set forth herein, and for Liens (as defined below) (i) to secure Senior Indebtedness (as defined in the Note), (ii) for taxes or assessments or other governmental charges not yet due and payable; (iii) pledges or deposits of money securing statutory obligations under workmen's compensation, unemployment insurance, social security or public liability laws or similar legislation (excluding Liens under ERISA), (iv) deposits of money securing contracts (other than contracts for the payment of money) or leases to which Debtor is a party; (v) inchoate and unperfected workers', mechanics' or similar Liens arising in the ordinary course of business; (vi) carriers; warehousemen's, suppliers or other similar possessory Liens arising in the ordinary course of business; (vii) deposits securing or in lieu of security, appeal or customs bonds in proceedings to which Debtor is a party; and (viii) capital leases and purchase money security interests ("Permitted Liens"). For purposes of this Agreement, "Lien" shall mean any interest of any kind or nature

in property securing an obligation owed to, or a claim of any kind or nature in property by, a Person other than the owner of the property, whether such interest is based on the common law, statute, regulation or contract, and including, but not limited to, a judgment, security interest or lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt, a lease, consignment or bailment for security purposes, a trust, or an assignment.

(b) Subordination. The payment of the Note is subordinate and junior in right of payment to the prior payment of the Debtor's Senior Indebtedness pursuant to the subordination provisions contained in the Note. The Secured Party shall, from time to time after the date hereof, at Debtor's expense, execute and deliver any instrument and take such additional actions reasonably requested by the Debtor to confirm or evidence the subordination referenced hereby.

(c) Relative Rights. The subordination provisions of the Note are for the purpose of defining the relative rights of the holders of Senior Indebtedness and the Secured Party against the Debtor and its property. Nothing herein or in the Note or the agreements and other documents evidencing the Senior Indebtedness or creating or granting any Lien securing the Senior Indebtedness shall impair, as between the Secured Party and the Debtor, the obligation of the Debtor to pay to the Secured Party the amounts due under the Note in accordance with the terms and the provisions thereof and hereof; nor shall anything herein prevent the Secured Party from exercising all remedies otherwise permitted by applicable law, either by suit in equity or by action at law, or both, upon default under the Note.

1.3 Lien Documents. As the Secured Party reasonably deems necessary, the Debtor shall execute and deliver to the Secured Party, or have executed and delivered:

(a) Financing Statements. Financing statements, including without limitation any continuation statements and fixture filings, pursuant to the Uniform Commercial codes of the applicable jurisdictions in effect at the applicable times, which the Secured Party shall (and is hereby authorized to) file or record, as the case may be, in the jurisdiction where the Debtor is incorporated and in any other jurisdiction that the Secured Party deems appropriate; and

(b) Other Agreements. Any other agreements, documents, instruments and writings as the Secured Party may reasonably request from time to time to evidence, perfect or protect the Secured Party's Lien and security interest in the Collateral.

1.4 Other Actions. In addition to the foregoing, the Debtor shall do anything further that may be lawfully and reasonably required by the Secured Party to perfect the security interest and Liens in the Collateral granted hereunder to the Secured Party, and to preserve the priority of such security interest and Liens and effectuate the intentions and objects of this Agreement, including, without limitation, the execution and delivery of continuation statements, amendments to financing statements, and any other documents required hereunder. At the Secured Party's request, the Debtor shall also immediately deliver to the Secured Party all items constituting Collateral for which the Secured Party must receive possession to obtain a perfected security interest, including, without limitation, all notes, certificates and documents of title, Chattel Paper, Instruments, and the Shares, any other similar instruments constituting Collateral. Notwithstanding the foregoing, Debtor shall not be obligated to deliver to Secured Party any item constituting collateral that is in the possession of the holders of the Senior Indebtedness; provided that Debtor shall exercise commercially reasonable efforts to cause the holder of any Senior Indebtedness in possession of any item of collateral to hold such item as agent of Secured Party.

SECTION 2 - REPRESENTATIONS AND WARRANTIES

2.1 The Debtor represents and warrants that:

(a) This Agreement is effective to create in favor of the Secured Party legal, valid and enforceable Liens and security interests in all of the Debtor's right, title and interest in the Collateral, and when financing statements have been filed, Secured Party will have a valid and perfected Lien and security interest in and to the Collateral as to which perfection can be obtained by the filing of a financing statement, superior in right to any and all other Liens, existing or future, other than the Permitted Liens.

(b) The address shown at the beginning of this Agreement is the current principal place of business of the Debtor, and all of the Debtor's current additional places of business, if any, and the locations of all of the Collateral currently are listed in Schedule I attached hereto. The Debtor will not change its principal or any other place of business, or the location of any Collateral from the locations set forth in Schedule I, or make any change in the Debtor's name or conduct the Debtor's business operations under any fictitious business name or trade name, without, in any such case, at least thirty (30) days' prior written notice to the Lender.

(c) The Debtor is the sole owner of and has good and marketable title to each item of Collateral, free and clear of all Liens other than the Permitted Liens and the Liens and security interests in the Collateral granted hereunder to the Secured Party.

(d) No security agreement, financing statement, equivalent security or lien instrument on continuation statement covering all or part of the Collateral is on file or of record in any public office, except (i) as may have been filed by the Debtor in favor of the Secured Party pursuant to this Agreement, (ii) as permitted to exist with respect to the Permitted Liens, or (iii) such documents or instruments which remain on file or of record but which relate to Liens or security interests which the Debtor hereby represents and warrants have been fully discharged and terminated.

SECTION 3 - COVENANTS

3.1 The Debtor covenants that until all of its obligations under the Note are completely and indefeasibly satisfied in full, that:

(a) The Debtor shall give thirty (30) days prior written notice to the Secured Party of any change in the location of any Collateral from that set forth in Schedule I or of any change of its current principal place of business.

(b) Except for Collateral that is obsolete or no longer used in the Debtor's business, the Debtor will keep the Collateral in good order and repair (normal wear excepted) and adequately insured at all times. The Debtor will pay promptly when due all taxes and assessments on the Collateral or for its use or operation, except for taxes and assessments contested in good faith and for which adequate reserves are created. The Secured Party may at its option discharge any taxes, liens, security interests or other encumbrances to which any Collateral is at any time subject, and may, upon the failure of the Debtor to do so in accordance with the terms hereof, purchase insurance on any Collateral and pay for the repair, maintenance or preservation thereof, and the Debtor agrees to reimburse the Secured Party on demand for any payments or expenses incurred by the Secured Party pursuant to the foregoing authorization and any unreimbursed amounts shall constitute obligations for all purposes hereof.

(c) The Debtor will not enter into any transaction with, including, without limitation, the purchase, sale or exchange of property or the rendering of any service to any of its affiliates, except in the ordinary course of, and pursuant to the reasonable requirements of, the Debtor's business and upon fair and reasonable terms no less favorable to the Debtor than could be obtained in a comparable arm's-length transaction with an unaffiliated person or entity.

(d) The Debtor shall advise the Secured Party promptly upon the Debtor becoming aware that it owns any commercial tort claims. With respect to any commercial tort claim, the Debtor will execute and deliver such documents as the Secured Party deems necessary to create, perfect and protect his security interest and Lien in such commercial tort claim.

SECTION 4 - REMEDIES

4.1 Rights and Remedies on Default. Subject to any and all rights of the holders of the Debtor's Senior Indebtedness pursuant to the Note, the Secured Party may, following the occurrence of an Event of Default (as defined in the Note), exercise rights and remedies of a secured party granted to it under the Uniform Commercial Code of any applicable jurisdiction and may exercise all rights and remedies under any other applicable law, including, without limitation, the following rights and remedies:

(a) the right to take possession of, send notices, sell and collect directly all or any part of the Collateral, with or without judicial process (including, without limitation, the right to notify the United States postal authority to redirect all mail addressed to the Debtor to an address designated by the Secured Party);

(b) by its own means or with judicial assistance, enter the Debtor's or AIM's premises and take possession of all or any part of the Collateral, or render it unusable, or dispose of or realize upon all or in part of the Collateral in any order desired by the Secured Party on such premises without any liability for rent, storage, utilities or other sums, and the Debtor shall not resist or interfere with such action; and

(c) require the Debtor, at the Debtor's expense, to assemble all or any part of the Collateral and make it available to the Secured Party at any place designated by the Secured Party.

The Debtor hereby agrees that a notice received by it at least ten (10) days before the time of any intended public sale or of the time after which any private sale or other disposition of the Collateral is to be made, shall be deemed to be reasonable notice of such sale or other disposition. If permitted by applicable law, any perishable inventory or Collateral which threatens to speedily decline in value or which is sold on a recognized market may be sold immediately by the Secured Party without prior notice to the Debtor. The Secured Party shall have the right upon any such public sale or sales and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold free of any equity or right of redemption which the Debtor hereby waives. The Debtor covenants and agrees not to interfere with or impose any obstacle to the Secured Party's exercise of its rights and remedies with respect to the Collateral after the occurrence of an Event of Default.

4.2 Intellectual Property License. The Debtor hereby assigns, transfers and conveys to the Secured Party, effective upon the occurrence and during the continuance of any Event of Default, the non-exclusive right and license to use all intellectual property owned or used by the Debtor together with any goodwill associated therewith, all to the extent necessary to enable the Secured Party to realize on the Collateral and any successor or permitted assign to enjoy the benefits of the Collateral. This right and license shall insure to the benefit of all successors, assigns and transferees of the Secured Party, whether by voluntary conveyance, operation of law, assignment, transfer, foreclosure, deed in lieu of foreclosure or otherwise. Such right and license is granted free of charge and does not require the consent of any other person.

4.3 Nature of Remedies. Subject to any and all rights of the holders of the Debtor's Senior Indebtedness, the Secured Party shall have the right to proceed against all or any portion of the Collateral in any order. All rights and remedies granted the Secured Party hereunder and under any agreement referred to herein, or otherwise available at law or in equity, shall be deemed concurrent and cumulative, and not alternative remedies, and the Secured Party may proceed with any number of remedies at the same time until all existing and future obligations under the Note are completely and indefeasibly satisfied in full. The exercise of any one right or remedy shall not be deemed a waiver or release of any other right or remedy, and the Secured Party, upon the occurrence of an Event of Default, may proceed against the Debtor, and/or the Collateral, at any time, under any agreement, with any available remedy and in any order.

SECTION 5 - MISCELLANEOUS

5.1 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: Luis Peragallo
53 Willow Ridge Drive
Smithtown, New York 11787

With copies to: Arnold & Porter LLP
399 Park Avenue
New York, NY 10022
Attn: Robert P. Wessely, Esq.
Fax: 212-715-1399

To Company at: Gales Industries Incorporated
333 East 66th Street, 9th Floor,
New York, New York 10021

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).

5.2 Amendments and Waivers. This Agreement may be amended, modified or supplemented by the parties hereto, provided that any such amendment, modification or supplement shall be in writing and signed by both parties. No waiver with respect to this Agreement shall be enforceable against either party unless in writing and signed by such party. Except as otherwise expressly provided herein, no failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by either party, and no course of dealing between the parties, shall constitute a waiver of, or shall preclude any other or further exercise of the same or any other right, power or remedy.

5.3 Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefits of the parties hereto and their respective successors, heirs and permitted assigns, including without limitation holders from time to time of the Note.

5.4 Severability. If any provision of this Agreement is construed to be invalid, illegal or unenforceable, then the remaining provisions hereof shall not be affected thereby and shall be enforceable without regard thereto.

5.5 Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall constitute an original hereof, and it shall not be necessary in making proof of this Agreement to produce or account for more than one original counterpart hereof.

5.6 Section Headings. The section and subsection headings in this Agreement are for convenience of reference only, do not constitute a part of this Agreement, and shall not affect its interpretation.

5.7 Governing Law; Submission to Jurisdiction; Service of Process; Jury Trial. This Agreement 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 Agreement shall be instituted in any federal or state court only in the City and County of New York, 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 Agreement in any jurisdiction other than that specified in this Section. The Debtor and the Secured Party each waive, to the fullest extent permitted under 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. The Debtor and the Secured Party further agree that a summons and complaint commencing an action or proceeding in any of the aforementioned courts shall be properly served and shall confer personal jurisdiction if served personally or by overnight courier to each party at its address provided in Section 5.1 hereof.

5.8 Limitations on the Secured Party's Duty in Respect of the Collateral. Beyond the safe custody thereof, the Secured Party shall not have any duty as to the Collateral in his possession or control or in the possession or control of any of his agents or nominees or any income thereof or as to the preservation of rights against prior parties or any other rights pertaining thereto. Neither the Secured Party nor any of his agents shall be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouse, carrier, forwarding agency, consignee, broker or other agent or bailee selected by the Debtor or any of its agents or selected by the Secured Party or any of his agents in good faith.

5.9 Costs and Expenses. The Debtor shall reimburse the Secured Party 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 the Secured Party under this Agreement or the Note; (ii) creating, perfecting and maintaining perfection of the Liens and security interests in the Collateral in favor of the Secured Party; and (iii) enforcing any provision of this Agreement or the Note and/or collecting any amounts due under the Note.

5.10 Waiver of Presentment. Demand. Etc.. To the fullest extent permitted by applicable law, the Debtor 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 the Note, diligence in collection, and the benefit of any exemption or insolvency laws.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed and delivered as of the date first above written.

DEBTOR:

GALES INDUSTRIES INCORPORATED

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

SECURED PARTY:

/s/ Luis Peragallo

Luis Peragallo

THIS CONTRACT OF SALE (the "Agreement") made as of November 7, 2005 by and between DPPR Realty Corp., a New York corporation, having an office at c/o Peter Rettaliata, Air Industries Machining, Corp., 1479 North Clinton Avenue, Bay Shore New York 11706 (the "Seller") and Gales Industries, Incorporated, a Delaware corporation, having an office at 333 East 66th Street, New York, New York 10021 (the "Purchaser").

W I T N E S S E T H:

WHEREAS, Seller is the owner of that certain plot, piece or parcel of land described in Exhibit A annexed hereto (the "Land") and all improvements thereon erected, known as 1480 North Clinton Avenue, Bay Shore, New York (collectively the "Improvements") (the Land and the Improvements are hereinafter collectively called the "Premises"); and

WHEREAS, Seller desires to sell and convey and Purchaser desires to purchase the Premises;

NOW, THEREFORE, in consideration of the mutual covenants herein set forth, Purchaser and Seller hereby agree as follows:

1. Sale of Premises.

1.1. On the terms and conditions contained in this Agreement, Seller agrees to sell and Purchaser agrees to purchase the Premises.

1.2. The sale also includes all right, title and interest, if any, of Seller in and to all easements, rights of way, privileges, licenses, appurtenances and other rights and benefits, if any, running with the Premises.

1.3. All of Seller's right, title and interest, if any in fixtures, equipment, furniture, furnishings, fitting or articles of personal property located on and used or employed in connection with the Premises (collectively, the "Fixtures") are included in this sale.

2. Purchase Price.

2.1. The purchase price of the Premises is One Million Five Hundred Thousand Dollars ($1,500,000) (the "Purchase Price") payable upon delivery of the Deed (as hereinafter defined) on the Closing Date (as hereinafter defined) by, at Seller's option, Purchaser's unendorsed certified check, drawn on a bank which is a member of the New York City Clearinghouse Association ("Acceptable Check") payable to the order of Seller (or as otherwise directed by Seller) without intervening endorsement, or by wire transfer of immediately available federal funds to an account in a bank in accordance with wire transfer instructions furnished by Seller prior to the Closing Date, or by (at Seller's option) a combination of both.

3. State of Title.

3.1. The Premises are to be sold and conveyed subject to those exceptions to title set forth on Exhibit B ("Permitted Exceptions") and the leases on Exhibit C which shall be assigned to Purchaser. The leases on Exhibit C are referred to herein as the Leases (the "Leases"). Any exceptions to title set forth in Exhibit B and the Leases may be omitted from the Deed but shall nevertheless survive the delivery of the Deed.

3.2. On the Closing, Seller shall deliver to Purchaser fee simple title and Purchaser shall accept such title as a reputable title company licensed to do business in the State of New York (the "Title Company") is willing to approve and insure, subject only to the Permitted Exceptions set forth in Exhibit B annexed hereto and to the standard printed exceptions in an ALTA form of policy and to the Leases.

3.3. The amount of unpaid taxes, assessments, water charges and sewer rents, prorated through the Closing Date, which Seller is obligated to pay and discharge, with the interest and penalties thereon to a date not less than two (2) business days after the Closing Date, may at the option of Seller be allowed to Purchaser out of the Purchase Price. If on the Closing Date there are any other liens or encumbrances which Seller is obligated to pay or discharge in order to convey to Purchaser such title as is herein provided to be conveyed, Seller may use any portion of the Purchase Price to satisfy the same, provided:

(a) Seller shall deliver to Purchaser at the closing of title, instruments in recordable form and sufficient to satisfy such liens and encumbrances of record together with the monies sufficient, as determined by the Title Company, for the cost of recording or filing said instruments; or

(b) Seller, having made arrangements with the Title Company, shall deposit with said company sufficient monies acceptable to the Title Company to ensure the obtaining and the recording of such satisfactions. Purchaser, if request is made within a reasonable time prior to the Closing Date, agrees to provide at Closing separate wire transfer and/or Acceptable Checks as requested, aggregating the amount of the Purchase Price set forth in Article 2.1 hereof, to facilitate the satisfaction of any such liens or encumbrances. The existence of any such liens or encumbrances shall not be deemed objections to title if Seller shall comply with the foregoing requirements and the Title Company shall agree to insure the Purchaser against collection of such liens and/or encumbrances, without additional cost to Purchaser.

3.4. Purchaser agrees to make an application to Title Company promptly after the execution of this Agreement for a full title search and examination upon the Premises, and Purchaser further agrees that Purchaser will cause to be delivered to Seller's counsel a copy of the title report and examination of such Title Company. At least ten (10) days prior to the scheduled Closing Date, Purchaser shall have the title re-examined by the Title Company and shall deliver to Seller's counsel a copy of the Title Company's updated title report with a notice of liens, encumbrances or other defects of title subject to which Purchase is unwilling to accept title.

3.5. (a) Seller agrees to satisfy all mortgages on the Premises. Any judgement, lien, encumbrance or objection to which Seller's title to the Premises is subject on the Closing Date or any other valid ground which Purchaser may then have for refusing to close this transaction other than (i) mortgages (which Seller is obligated to satisfy), (ii) those Permitted Exceptions subject to which Purchaser is obligated to accept title hereunder and (iii) the Leases, are referred to herein as "Objectionable Liens." If on the Closing Date Seller's title to the Premises is subject to any Objectionable Liens and Purchaser shall be unwilling to waive the same and close Seller shall have the right, at Seller's sole election to either: (a) take such action as Seller shall deem advisable to remove, remedy or comply with such Objectionable Liens and Seller is obligated to spend up to two hundred fifty thousand ($250,000) dollars (the "Maximum Expense") to remove, remedy or comply with such Objectionable Liens except Seller shall not be obligated to commence any action or proceeding to cure any such defect or to expend more than the Maximum Expense to remove any Objectionable Liens, or (b) to cancel this Agreement, provided that if Seller notifies Purchaser of its election to cancel this Agreement, Purchaser shall have the right to waive such Objectionable Liens and to close this transaction, in which event Purchaser shall be given a credit equal to the reasonably estimated cost of removing, remedying or complying with such Objectionable Liens, not to exceed $250,000, less such amount as Seller may have spent in attempting to remove, remedy or comply with such Objectionable Liens. In the event of Seller's election to take action to remove, remedy or comply with such Objectionable Liens, Seller shall be entitled to one or more adjournments of the Closing Date for one or more periods to a date not later than the closing date of the transactions contemplated by the Stock Purchase Agreement, dated as of July 25, 2005, by and among Gales Industries, Incorporated, Air Industries Machining, Corp., Luis Peragallo, Jorge Peragallo, Peter Rettaliata and Dario Peragallo (the "Stock Purchase Agreement") as amended or may be amended. If for any reason whatsoever Seller shall not have succeeded in removing, remedying or complying with such Objectionable Liens at the expiration of such adjournments, or at such time prior thereto as Seller determines that it will not be able to satisfy same, Seller shall give Purchaser notice thereof and Purchaser shall have five (5) business days from the delivery of such notice in accordance with the terms hereof to elect by notice to Seller to purchase the Premises subject to such Objectionable Liens with a credit as provided above. If Purchaser shall still be unwilling to waive the same and to close this transaction without abatement of the Purchase Price or allowance of any kind other than as provided above, this Agreement shall be deemed to be canceled. In the event of the cancellation of this Agreement under any of the circumstances referred to and as provided in this Article 3.5, this Agreement shall cease, terminate and come to an end, and (except as otherwise expressly provided in this Agreement), neither party hereto shall have any rights, obligations or liabilities against or to the other, except that Purchaser shall be entitled to reimbursement for the net amount charged Purchaser by the Title Company for a title examination without issuance of a policy and the net cost to Purchaser of a survey for the Premises (said reimbursable items are herein referred to as "Purchaser's Title and Survey Costs"). In no event shall Seller be required to, and nothing herein contained shall obligate Seller to, expend any money in excess of two hundred fifty thousand ($250,000) dollars in the aggregate or to bring any action or proceeding or otherwise incur any costs or expenses to cure any purported defect or objection or to fulfill any condition or to render or deliver title to the Premises to Purchaser as herein provided, except as set forth in this Section.

(b) Other than as set forth in Schedule 4.27 to the Stock Purchase Agreement, all notes or notices of violation of law or governmental advances, orders or requirements which were noted or issued prior to the date of this Agreement by any governmental department, agency or bureau having jurisdiction as to conditions affecting the Premises and all liens which have attached to the Premises prior to the date hereof shall be the obligations of Seller to remove. Notwithstanding the foregoing, if the reasonable cost of the removal of the Objectionable Liens and violations, in the aggregate, exceeds two hundred fifty thousand ($250,000) dollars less such amount as Seller may expend or credit to Purchaser in respect of Objectionable Liens as provided in Section 3.5(a) (such amount being referred to as the "Remainder"), then Seller shall have the right to cancel this Agreement, provided that if Seller notifies Purchaser of its election to cancel this Agreement, Purchaser shall have the right to waive such violations and liens, and to close this transaction, in which event Purchaser shall be given a credit equal to the Remainder.

In no event shall the aggregate amount which Seller is obligated to expend or credit to Purchaser in respect of Objectionable Liens pursuant to Section 3.5(a) and violations pursuant to this Section 3.5(b) exceed two hundred fifty thousand ($250,000) dollars.

3.6. Corporate franchise or business taxes owing to municipal, county or state governments by any corporation in the chain of title of the Premises, or any transfer, inheritance, estate, dissolution, license or similar taxes, charges or liens not excepted in this Agreement, shall not constitute an objection to title, and Purchaser shall take title subject to the same provided that the Title Company will agree to affirmatively insure at no additional cost to Purchaser that said taxes or other items will not be collected out of the Premises.

4. Adjustments.

4.1. Except as otherwise expressly provided herein, all apportionments shall be made in accordance with the "Customs in Respect to Title Closings" adopted by the Real Estate Board of New York, Inc. The following are to be apportioned as of midnight of the day immediately prior to the Closing Date:

(a) real estate taxes, on the basis of the fiscal tax year for which assessed;

(b) water and sewer rents and/or charges on the basis of the fiscal year for which assessed;

(c) water meter and sewer rent meter charges in accordance with the amounts fixed with respect thereto in a meter reading made as of a date not more than thirty (30) days prior to the Closing Date, except that if such reading cannot with reasonable efforts be obtained by such date, then the unfixed water meter and sewer charges, if any, for any intervening period shall be apportioned on the basis of the last reading therefor;

(d) rents and additional rents under the Leases and interest, if any, payable in respect of the deposits under the Leases which are delivered to Purchaser;

(e) utilities;

(f) charges payable under transferable Service Contracts, if any; and

(g) fuel, if any, to the extent not payable by tenants under the Leases.

4.2. If the Closing shall occur before a tax rate is fixed, the apportionment of taxes shall be upon the basis of the tax rate for the next preceding year applied to the latest assessed valuation and the parties shall adjust post-closing upon receipt of the tax bill.

4.3. If, on the Closing Date, the Premises or any part thereof shall be or shall have been affected by an assessment or assessments which are or may become payable in annual installments, of which the first installment is then a charge or lien, or has been paid, then for the purpose of this Agreement all the unpaid installments of any such assessment, including those which are to become due and payable after the Closing Date, shall be payable by Seller. If the first installment shall be due following the Closing then Purchaser shall assume the entire obligation without abatement.

4.4. In the event the apportionments as provided in this Article, when computed result in a payment due Seller, then such payment shall be made at the Closing by Acceptable Check. If such apportionment results in a credit to Purchaser, the cash portion of the Purchase Price due at Closing shall be reduced by the amount of such credit.

4.5. As to any rent arrears for periods preceding the Closing, and any amounts paid by the Tenants under the Leases in respect of water and sewer rents and charges, water meter and sewer rent meter charges, utilities and real estate and vault taxes, accruing prior to the Closing, provided the applicable Tenant is otherwise current in respect of all amounts due under its Lease, Purchaser shall receive the same as a trust fund for remission to Seller in payment of the Tenants' arrears, provided Purchaser shall have no obligation to seek to collect the same on behalf of Seller. The provisions of this Article shall survive the Closing.

5. The Deed - Deliveries at Closing

5.1. The deed to be delivered by Seller shall be the usual statutory bargain and sale deed with covenants against grantor's acts (herein called the "Deed") in proper statutory short form for recording and shall be duly executed and acknowledged so as to convey to Purchaser the fee simple title of the Premises free of all encumbrances except as stated in this Agreement, which Deed shall contain the covenant required by subdivision 5, Section 13 of the New York State Lien Law.

5.2. At the Closing, Seller shall deliver to Purchaser the following documentation:

(a) a certification of non-foreign status, in form required by the Internal Revenue Code Section 1445 and regulations issued thereunder, signed under penalty of perjury. Seller understands that such certifications will be retained by Purchaser and will be made available to the Internal Revenue Service on request;

(b) Seller shall deliver the original copy of the Leases if available or if the original copy of any Lease is not available, then Seller shall deliver a true copy of such Lease and certify that it is a true copy of such Lease. Together with each of the Leases Seller shall deliver an assignment thereof, which assignment shall contain (i) an indemnification of Purchaser by Seller for all acts of Seller as landlord prior to the Closing and (ii) an indemnification of Seller by Purchaser for all acts of Purchaser as landlord from and after the Closing;

(c) possession of the Premises, together with the keys, subject to the Leases, as required by this Agreement;

(d) a New York State transfer tax and credit line mortgage form TP 584 duly executed.

(e) discharge of all mortgages, if any, on the Premises.

(f) a duly executed Bill of Sale in form reasonably satisfactory to Purchaser;

(g) originals or, if unavailable, copies, of plans and specifications, technical manuals and similar materials for the Premises to the extent same are in Seller's possession;

(h) originals or, if unavailable, copies, of all books and records relating to the Premises and maintained by Seller during Seller's ownership thereof; and

(i) such additional documentation as may be reasonably required to consummate the transaction contemplated by this contract.

5.3. At the Closing, Seller shall also deliver to Purchaser the following:

(a) If required pursuant to New York State Business Corporation Law, Section 909, Seller shall deliver to Purchaser: (i) a resolution of its board of directors authorizing the delivery of the Deed and (ii) a certificate executed by an officer of such corporation certifying as to the adoption of such resolution and setting forth facts demonstrating that the delivery of the Deed is in conformity with the requirements of said Section 909. The Deed shall also contain a recital sufficient to establish compliance with such law.

(b) Such affidavits and/or other evidence of non-applicability, if appropriate, as the Title Company shall reasonably require in order to omit from its title insurance policy all exceptions for judgments, bankruptcies or other returns against Seller and person or entities whose names are the same as or are similar to Seller's name.

5.4. At the Closing, Purchaser shall:

(a) deliver to Seller the Purchase Price, as adjusted for apportionments;

(b) deliver to Seller an assumption of the Leases assigned by Seller to Purchaser together with an agreement indemnifying and agreeing to defend Seller against any claims made by Tenants with respect to the Leases and the Tenant's security deposits to the extent paid, credited or assigned to Purchaser;

(c) cause the Deed to be recorded, duly complete all required real property transfer tax returns and cause all such returns and checks in payment of such taxes to be delivered to the appropriate officers promptly after Closing; and

(d) deliver any other documents required by this Agreement to be delivered by Purchaser.

6. Time and Place of Closing.

6.1. The Closing of the purchase and sale of the Premises (the "Closing"), at which the Deed shall be delivered upon the receipt of the Purchase Price, and all other payments and any documents required to be delivered hereunder shall be exchanged, shall take place simultaneously with the closing of the transactions contemplated by the Stock Purchase Agreement at the office of Purchaser's counsel, Eaton & Van Winkle LLP, 3 Park Avenue, New York, New York (the "Closing Date").

7. Conditions to Closing.

7.1. The Seller's obligations to sell, assign and convey, and the Purchaser's obligation to purchase and assume, the Premises as herein provided shall be conditioned upon the fulfillment on or prior to the Closing Date of the following conditions (any of which may be waived in writing, in whole or in part, by the Purchaser or Seller, as the case may be):

(i) The representations and warranties of the Seller set forth in this Agreement shall be true, correct and complete in all material respects as of the Closing Date as though such representations and warranties were made anew as of such date (or if an earlier date is specified in such representation and warranty, as of such earlier date), and the Seller shall have duly performed in all material respects all agreements and covenants herein required to be performed by it on or before the Closing Date;

(ii) The representations and warranties of the Purchaser set forth in this Agreement shall be true, correct and complete in all material respects as of the Closing Date as though such representations and warranties were made anew as of such date (or if an earlier date is specified in such representation and warranty, as of such earlier date), and the Purchaser shall have duly performed in all material respects all agreements and covenants herein required to be performed by it on or before the Closing Date; and

(iii) The parties shall have consummated the transactions contemplated by the Stock Purchase Agreement.

8. Brokerage.

8.1. Each party represents and warrants that there is no broker with whom it has had any dealings or conversations in connection with the Premises or this Agreement. Each party agrees to indemnify and hold the other harmless from all damages, liabilities, expenses and claims, including reasonable attorneys' fees and disbursements, arising from any breach of the foregoing representation by the indemnifying party. The provision of this Article shall survive the closing and delivery of the Deed or any cancellation or termination of this Agreement.

9. Notice.

9.1. Any notice, request, demand or other communication permitted or required to be given under this Agreement shall be in writing, shall be sent by one of the following means to the addressee at the address set forth below (or at such other address as shall be designated hereunder by notice to the other parties and persons receiving copies, effective upon actual receipt) and shall be deemed conclusively to have been given: (i) on the first business day following the business day timely deposited for overnight delivery with Federal Express (or other equivalent national overnight courier) or United States Express Mail, with the cost of delivery prepaid or for the account of the sender; or (ii) when otherwise actually received by the addressee on a business day (or on the next business day if received after 5:00 P.M. New York City time or on any non-business day). If a certificate, signed notice, or other signed item is expressly required by another provision of this Agreement, a manually signed original must be delivered by the party giving it; any other notice, request, demand or other communication also may be sent by telecopy, with the cost of transmission prepaid or for the account of the sender and shall (except as otherwise specified in this Agreement) be deemed conclusively to have been given on the first business day following the day duly sent with receipt confirmed. Copies shall be sent to the persons, if any, set forth below. The addresses of the parties and those persons receiving copies are as follows:

(a) If to the Seller, at the following address:

DPPR Realty Corp.
c/o Mr. Peter Rettaliata
Air Industries Machining, Corp.,
1479 North Clinton Avenue,
Bay Shore, NewYork 11706
Attention: Mr. Peter Rettaliata, President
Tel.: (212)752-4884

With a copy to:
Arnold & Porter, LLP
399 Park Avenue
New York, New York 10022
Attention: Robert P. Wessely, Esq.
Tel: (212) 715-1125
Fax: (212) 715-1399

(b) If to Purchaser, at the following address:

Michael Gales
Gales Industries, Incorporated
333 East 66th Street
New York, New York 10021
Tel: (212) 249-2614

With a copy to:

Eaton & Van Winkle LLP
3 Park Avenue
New York, New York 10016
Attention: Vincent J. McGill, Esq.
Tel.: (212) 561-3604
Fax: (212) 779-9928

The attorneys for Seller and Purchaser shall have the right to deliver notices under this Agreement and to adjourn or reschedule the Closing Date in writing only.

10. Damages.

10.1. In the event of a default by Purchaser in performing any material obligation on Purchaser's part to be performed hereunder, including without limitation, to pay the Purchase Price as provided in this Agreement or in any other provision hereof which would entitle Seller to cancel this Agreement, this Agreement shall be deemed null and void and neither party hereto shall have any obligations to or rights against the other hereunder, except that Seller shall be entitled to reasonable legal fees and expenses incurred in connection with the negotiation and execution of this Agreement and the enforcement of its rights hereunder, and any agreements or provisions hereof which are specifically provided herein to survive shall survive any cancellation or termination of this Agreement. In the event Seller materially defaults under this Contract, Purchaser may seek specific performance as its sole remedy.

11. Access.

11.1. Purchaser shall have reasonable access to the Premises upon two (2) days' prior written or oral notice to Seller for the purpose of conducting surveys, architectural, engineering, geotechnical and environmental inspections and tests (including intrusive inspection and sampling which do not materially interfere with the operation of the business conducted at the Premises) and any other inspections, studies, or tests reasonably required by Purchaser. Purchaser shall keep the Premises free and clear of any liens and will indemnify, defend and hold Seller harmless from all claims and liabilities asserted against Seller as a result of any such entry by Purchaser, its agents, employees or representatives. If any inspection or test disturbs the Premises, Purchaser will restore the Premises to substantially the same condition as

existed prior to any such inspection or test. Purchaser and its agents, employees and representatives shall have a continuing right of reasonable access to the Premises during the pendency of this Agreement for the purpose of examining and making copies of all books and records and other materials relating to the Premises in Seller's, or its property manger's, possession and Purchaser shall have the right to conduct a "walk-through" of the Premises prior to the Closing upon appropriate notice to tenant as permitted under the lease. In the course of its investigations, Purchaser may make inquiries to third parties, including, without limitation, the tenant or tenants, the property manager, if any, and municipal, local and other government officials and representatives, and Seller consents to such inquiries. The obligations of the Purchaser under this paragraph shall survive the termination of the Agreement.

12. Representations. Warranties and Covenants.

12.1. Except as set forth in Section 12.2 hereof (a) Seller has not made and does not make any representations or warranties as to the physical condition, rents, leases, income, expenses, financing and/or tax status, operations, zoning or legality of occupancy of the Premises, status of title or any other matter or thing affecting or relating to the Premises, except as herein specifically set forth, and Purchaser hereby expressly acknowledges and represents that no such representations or warranties have been made and (b) Purchaser further agrees to take the Premises "as is" in its present physical condition and subject to reasonable use, wear, tear and normal depreciation between the date hereof and the Closing Date. Seller shall not be liable or bound in any way for any verbal or written statements, representations, or information pertaining to the Premises furnished by any real estate broker or agent thereof or any agent or employee of Seller, or any other person. It is understood and agreed that all prior and contemporaneous representations, statements, understandings and agreements, oral or written, between the parties are merged in this Agreement, which alone fully and completely expresses their Agreement, and that the same is entered into after full investigation, neither party relying on any statement or representation or warranty not embodied in this Agreement made by the other.

12.2. Seller represents and warrants to Purchaser that, currently or at the Closing Date:

(a) Seller has been duly organized, is validly existing, and is in good standing as a New York corporation. Seller has the full right and authority and has obtained any and all consents required to enter into this Agreement and to consummate or cause to be consummated the transactions contemplated hereby. This Agreement has been, and all of the documents to be delivered by Seller at the Closing will be, duly authorized and properly executed and constitutes, or will constitute, as appropriate, the valid and binding obligation of Seller, enforceable in accordance with their terms;

(b) To the best of Seller's knowledge, there is no agreement to which Seller is a party which would prohibit the execution of this Agreement and the performance of Seller's obligations. There is no action or proceeding pending or, to Seller's knowledge, threatened against Seller or relating to the Premises, including, without limitation, any condemnation proceedings, which challenges or impairs Seller's ability to execute or perform its obligations under this Agreement or which may adversely affect Purchaser upon its purchase of the Premises;

(c) All of Seller's contractors, subcontractors, suppliers, architects, engineers, brokers and others who have performed services or labor or have supplied materials in connection with Seller's development, ownership, or management of the Premises have been paid in full and all liens arising therefrom (or claims which with the passage of time or the giving of notice, or both, could mature into liens) have been satisfied and released;

(d) The Leases delivered to Purchaser are true, correct and complete copies of the Leases and all amendments and guarantees. There are no other Leases or other parties in occupancy at the Premises except for the tenant under the Leases and anyone taking by, through or under tenant. Seller has not received written notice and has no knowledge of any subletting or assignment by tenant. To Seller's knowledge, except as herein disclosed, no tenants have asserted nor are there any defenses or offsets to rent accruing after the Closing Date and no default or breach exists on the part of any tenant, except for (i) the payment or rent arrears in the aggregate amount of $20,700 for the months of September 2005 through November 2005 and (ii) the payment of real estate taxes in the aggregate amount of $58,687.95 plus interest and penalties, if any;

(e) Simultaneously with the closing of the transaction contemplated by the Stock Purchase Agreement, the parties agree to arrange that the rent arrears and real estate taxes referenced in Section 12.2(d) above will be paid in full;

(f) Seller has received no written notice: (i) that the Premises or the use thereof violates any governmental law or regulation or any covenants or restrictions encumbering the Premises other than those set forth in Schedule B hereto; (ii) of any material physical defect in the Improvements; or (iii) from any insurance company or underwriter of any defect that would materially adversely affect the insurability of the Premises or cause an increase in insurance premiums;

(g) Except as set forth on Schedule 4.27 of the Stock Purchase Agreement, (i) the Seller is in compliance with all applicable Environmental Laws (capitalized terms used but not defined in this Section (g) have the meanings ascribed thereto in the Stock Purchase Agreement); (ii) the Seller has not transported from, stored or disposed of any Hazardous Materials from or upon the Premises in contravention of applicable Environmental Laws; (iii) there has not occurred, nor is there presently occurring, a Release of any Hazardous Materials on, into or

beneath the surface of the Premises except in compliance with applicable Environmental Laws; (iv) the Seller has not transported or disposed of, or allowed or arranged for any third parties to transport or dispose of, any Hazardous Material to or at a site which, pursuant to CERCLA, has been placed on the National Priorities List; (v) the Seller has not received written notice that it is a potentially responsible party for a federal or state environmental cleanup site or for corrective action under RCRA; and (vi) the Seller has not undertaken (or been requested to undertake) any response or remedial actions at the request of any federal, state or local governmental entity;

(h) Seller has no knowledge of any liens or encumbrances on the Premises other than the Leases and the matters set forth in Schedule B hereto;

(i) The certificate of occupancy included in the title report is the only certificate of occupancy for the Premises of which Seller has knowledge. Seller has not taken any actions to amend, modify or cancel such certificate of occupancy, nor has Seller taken any actions which would require Seller to obtain a certificate of occupancy for the Premises;

(j) Other than as set forth in Schedule 4.21 to the Stock Purchase Agreement, Seller is not a party, as of the date hereof, to any litigation or other action related to the Premises;

(k) There are no commissions owing to brokers in connection with any of the Leases;

(l) There are no security deposits payable under the Leases; and

(m) Seller is not a party to any service contract.

12.3. Seller shall not amend, modify or restructure any of the Leases.

12.4. The representations and warranties of Seller contained herein shall be deemed to be made at and as of the date hereof and as of the Closing Date. If any of the material warranties and representations of Seller contained herein shall on the Closing Date be untrue (other than those rendered inaccurate by transactions, events or facts contemplated hereby), and if Purchaser shall be unwilling to waive same and to close this transaction without abatement of the Purchase Price or allowance of any kind, then Purchaser's sole remedy shall be to terminate this Agreement within thirty (30) days after discovering that same was so untrue. In the event of such termination, this Agreement shall cease, terminate and come to an end, and neither party hereto shall have any rights, obligations or liabilities against or to the other, except that Purchaser shall be entitled to the return of the Down Payment and except as set forth in Article 11, and any other provision of this Agreement which explicitly survives the termination or cancellation hereof.

12.5. In all cases in this Agreement where Seller represents that it does not have "knowledge" of any thing, occurrence or events, the "knowledge" as to which such representation is made shall be actual knowledge and not constructive knowledge.

12.6. Purchaser's Representations and Warranties. As a material inducement to Seller to execute this Agreement and consummate this transaction, Purchaser represents and warrants to Seller that:

(a) Purchaser has been duly organized and is validly existing as a corporation in good standing in the State of Delaware, and on the Closing Date will be qualified to do business in the state in which the Premises are located. Purchaser has the full right and authority and has obtained any and all consents required to enter into this Agreement and to consummate or cause to be consummated the transactions contemplated hereby. This Agreement has been, and all of the documents to be delivered by Purchaser at the Closing will be, authorized and properly executed and constitutes, or will constitute, as appropriate, the valid and binding obligation of Purchaser, enforceable in accordance with their terms; and

(b) Purchaser hereby represents and warrants to Seller that this Agreement has been duly authorized and executed on behalf of Purchaser, and constitutes the valid and binding agreement of Purchaser, enforceable in accordance with its terms; and that neither the execution and delivery of this Agreement nor the consummation of the sale provided for herein will constitute a violation or breach by Purchaser of any provision of any agreement or other instrument to which Purchaser is a party or to which Purchaser may be subject although not a party, or will result in or constitute a violation or breach of any judgment, order, writ, injunction or decree issued against Purchaser of which Purchaser has knowledge.

13. Expenses.

13.1. (a) At the Closing, Seller shall deliver a certified or official bank check to the order of the recording officer of the county in which the Deed is to be recorded for the amount of the documentary stamps to be affixed thereto in accordance with Article 31 of the Tax Law of the State of New York. At Seller's option, Purchaser shall pay all of the same and shall receive a credit for such amount on account of the cash portion of the Purchaser Price due at Closing.

(b) At the Closing, Seller shall deliver a certified or official bank check to the order of the appropriate officers in payment of the applicable real property transfer taxes together with the NY State TP 584 required by the applicable regulations duly signed and sworn to by Seller. Purchaser agrees to duly execute said return, have duly sworn, and to cause said return and check to be delivered to the appropriate official. At Seller's option, Purchaser shall pay all of the same and receive a credit for such amount on account of the cash portion of the Purchase Price due at Closing.

(c) Seller and Purchaser each hereby agree to defend and indemnify the other from all costs and liabilities (including reasonable attorneys' fees and disbursements) for failure to make the foregoing payments required pursuant to this Article at or following Closing. Such obligation and indemnity shall survive the Closing and the delivery of the Deed.

14. Fire or Other Casualty; Condemnation.

14.1. Seller agrees to maintain the property insurance policy or policies in respect of the Premises, including fire and extended coverage and to give Purchaser reasonably prompt notice of any fire or other casualty occurring at the Premises of which Seller obtains knowledge, between the date hereof and the date of the Closing, or of any actual or threatened in writing condemnation of all or any party of the Premises of which Seller obtains knowledge.

14.2. If prior to the Closing there shall occur damage to the Premises caused by fire or other casualty which would (i) cost two hundred fifty thousand ($250,000) dollars or more to repair, as reasonably determined by an engineer selected by Seller and reasonably satisfactory to Purchaser or (ii) materially interfere with the operation of the Premises, then Purchaser may elect to terminate this Agreement by written notice given to Seller within ten (10) days after Seller has given Purchaser the notice referred to in Section 12.1 hereof, or at the Closing, whichever is earlier. If prior to the Closing there shall be a taking by condemnation of any portion of the Premises then Purchaser may elect to terminate this Agreement by written notice given to Seller within ten (10) days after Seller has given Purchaser the notice referred to in Section 12.1 hereof, or at the Closing, whichever is earlier. If this Agreement is terminated pursuant to either of the preceding sentences, Seller shall promptly pay to Purchaser Purchaser's title and survey costs, if any, and this Agreement shall thereupon be deemed terminated and of no further force or effect, and neither party hereto shall thereupon have any further obligation to the other, except that the provisions of Article 7 hereof shall survive such termination. If Purchaser does not elect to terminate this Agreement, then the Closing shall take place as herein provided, without abatement of the Purchase Price: provided, however, Purchaser shall be entitled to receive any insurance proceeds otherwise due Seller as a result of the damage to the Premises (whether received before or after Closing) or the proceeds of any condemnation award to the extent payable before or after the Closing, less any amounts (i) actually and reasonably expended or incurred by the Seller in adjusting any insurance claim or negotiating and/or obtaining any condemnation award (including, without limitation, reasonable attorneys' fees and expenses) and/or (ii) theretofore actually and reasonably incurred or expended by or for the account of the Seller for the cost of any restoration or emergency repairs made by or on behalf of Seller, and Seller shall pay to Purchaser, or allow as a credit against the Purchase Price, an amount equal to the net proceeds of such insurance proceeds or condemnation award.

14.3. Termination. If this Agreement is terminated pursuant to this Article, the parties hereto shall be released from all further obligations and liabilities hereunder, except with respect to the covenants and indemnities set forth in Article 11 hereof and as otherwise expressly provided herein.

15. Items to be Delivered at Closing.

15.1. Seller shall deliver to Purchaser on the Closing Date instruments, documents and agreements required by this Agreement and customarily required by the Title Company to be delivered by Seller.

15.2. Purchaser shall deliver to Seller on the Closing Date all payments, checks, instruments, documents and agreements required by this Agreement to be delivered by Purchaser or reasonably required by Seller or customarily required by the Title Company to effect or confirm the transactions contemplated herein.

16. Pending Certiorari Proceedings.

16.1. Seller has not instituted any proceedings to reduce taxes or for the reduction of the assessed valuation of the Premises.

17. Survival.

17.1. The acceptance of the Deed by Purchaser at the Closing shall be deemed full performance and discharge of each and every agreement and obligation on the part of Seller hereunder to be performed. Any and all representations and warranties of Seller and Purchaser contained in this Agreement shall not survive the Closing Date and the delivery of the Deed, and shall be merged in the delivery of the Deed, except the representations 12.2(a), (b) and (c) shall survive for a period of six (6) months and the representations in Sections 12.2(d) and (g) shall survive for one year, following the Closing.

18. Assignment.

18.1. This Agreement shall apply to and bind the heirs, executors, administrators, successors and assigns of the respective parties. Purchaser may not assign this Agreement or any payments made hereunder without the prior written consent of Seller. This Agreement shall not be recorded by Purchaser and any recordation or attempted recordation by Purchaser hereof shall be void and shall constitute a material default of Purchaser hereunder and Seller shall be entitled to cancel this Agreement in the event thereof. A transfer of any interest in Purchaser shall constitute an assignment of this Agreement. Purchaser may assign this contract to an "Affiliate" (defined below) provided such assignee assumes all of Purchaser's obligations hereunder in writing, in recordable form, and further provided that an original fully-executed assignment and assumption agreement is furnished to Seller prior to Closing. Notwithstanding the foregoing, Purchaser may, at the Closing, assign this Agreement to an entity which simultaneously consummates the transaction contemplated hereby; provided, however, that such assignment shall not relieve Purchaser of any of its obligations under this Agreement.

19. Execution by Seller.

19.1. It is expressly understood and agreed that this Agreement shall not constitute an offer or create any rights in favor of Purchaser and shall in no way oblige or be binding upon Seller, and this Agreement shall have no force or effect, unless and until the same is duly executed by Seller and a fully-executed counterpart of this Agreement is delivered by Seller to Purchaser.

20. General Provisions.

20.1. Gender and Name. Whenever the context so requires, the singular number shall include the plural and the plural the singular, and the use of any gender shall include all genders.

20.2. Entire Agreement. This Agreement contains the complete and entire agreement between the parties respecting the transaction contemplated herein and supersedes all prior negotiations, agreements, representations and understandings, if any, between the parties respecting such matters.

20.3. Modifications. This Agreement may not be modified, discharged or changed in any respect whatsoever, except by a further agreement in writing duly executed by Purchaser and Seller. However, any consent, waiver, approval or authorization shall be effective if signed by the party granting or making such consent, waiver, approval or authorization

20.4. Governing Law. This Agreement shall be construed and enforced in accordance with the internal laws of the State of New York.

20.5. No Publicity. Neither party shall make any public announcement in any form whatsoever of the transaction contemplated by this Agreement without prior written approval from the other.

20.6. Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope, meaning or intent of this Agreement.

20.7. Severability. The invalidation or unenforceability in any particular circumstance of any of the provisions of this Agreement shall in no way affect any of the other provisions hereof, which shall remain in full force and effect.

20.8. No Joint Venture. This Agreement shall not be construed as in any way establishing a partnership, joint venture, express or implied agency or employer-employee relationship between Purchaser and Seller.

20.9. No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto, the respective successors and permitted assigns, and no other person or entity shall be entitled to rely upon or receive any benefit from this Agreement or any term hereof.

20.10. No Personal Liability. No officer or director of Seller, no disclosed or undisclosed principal of Seller, and no person or entity in any way affiliated with Seller shall have any personal liability with respect to this Agreement, any instrument delivered by Seller at Closing, or the transaction contemplated hereby, nor shall the property of any such person or entity be subject to attachment, levy, execution or other judicial process.

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IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereof as of the date first above written.

SELLER:

DPPR REALTY CORP.

By: /s/ Peter Rettaliata

Name: Peter Rettaliata
Title: President

PURCHASER:

GALES INDUSTRIES, INCORPORATED

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

THIS CONTRACT OF SALE (the "Agreement") made as of November 7, 2005 by and between KPK Realty Corp., a New York corporation, having an office at 245 East 63rd Street, Apt. 34D, New York, New York 10021 in c/o Mr. Nicholas Kemeny (the "Seller") and Gales Industries, Incorporated, a Delaware corporation, having an office at 333 East 66th Street, New York, New York 10021 (the "Purchaser").

W I T N E S S E T H:

WHEREAS, Seller is the owner of that certain plot, piece or parcel of land described in Exhibit A annexed hereto (the "Land") and all improvements thereon erected, known as 1460 North Fifth Avenue and 1479 North Clinton Avenue, Bay Shore, New York (collectively the "Improvements") (the Land and the Improvements are hereinafter collectively called the "Premises"); and

WHEREAS, Seller desires to sell and convey and Purchaser desires to purchase the Premises;

NOW, THEREFORE, in consideration of the mutual covenants herein set forth, Purchaser and Seller hereby agree as follows:

1. Sale of Premises.

1.1. On the terms and conditions contained in this Agreement, Seller agrees to sell and Purchaser agrees to purchase the Premises.

1.2. The sale also includes all right, title and interest, if any, of Seller in and to all easements, rights of way, privileges, licenses, appurtenances and other rights and benefits, if any, running with the Premises.

1.3. All of Seller's right, title and interest, if any in fixtures, equipment, furniture, furnishings, fitting or articles of personal property located on and used or employed in connection with the Premises (collectively, the "Fixtures") are included in this sale.

2. Purchase Price.

2.1. The purchase price of the Premises is Two Million Six Hundred Ninety Thousand Dollars ($2,690,000) (the "Purchase Price") payable upon delivery of the Deed (as hereinafter defined) on the Closing Date (as hereinafter defined) by, at Seller's option, Purchaser's unendorsed certified check, drawn on a bank which is a member of the New York City Clearinghouse Association ("Acceptable Check") payable to the order of Seller (or as otherwise directed by Seller) without intervening endorsement, or by wire transfer of immediately available federal funds to an account in a bank in accordance with wire transfer instructions furnished by Seller prior to the Closing Date, or by (at Seller's option) a combination of both.

3. State of Title.

3.1. The Premises are to be sold and conveyed subject to those exceptions to title set forth on Exhibit B ("Permitted Exceptions") and the leases on Exhibit C which shall be assigned to Purchaser. The leases on Exhibit C are referred to herein as the Leases (the "Leases"). Any exceptions to title set forth in Exhibit B and the Leases may be omitted from the Deed but shall nevertheless survive the delivery of the Deed.

3.2. On the Closing, Seller shall deliver to Purchaser fee simple title and Purchaser shall accept such title as a reputable title company licensed to do business in the State of New York (the "Title Company") is willing to approve and insure, subject only to the Permitted Exceptions set forth in Exhibit B annexed hereto and to the standard printed exceptions in an ALTA form of policy and to the Leases.

3.3. The amount of unpaid taxes, assessments, water charges and sewer rents, prorated through the Closing Date, which Seller is obligated to pay and discharge, with the interest and penalties thereon to a date not less than two (2) business days after the Closing Date, may at the option of Seller be allowed to Purchaser out of the Purchase Price. If on the Closing Date there are any other liens or encumbrances which Seller is obligated to pay or discharge in order to convey to Purchaser such title as is herein provided to be conveyed, Seller may use any portion of the Purchase Price to satisfy the same, provided:

(a) Seller shall deliver to Purchaser at the closing of title, instruments in recordable form and sufficient to satisfy such liens and encumbrances of record together with the monies sufficient, as determined by the Title Company, for the cost of recording or filing said instruments; or

(b) Seller, having made arrangements with the Title Company, shall deposit with said company sufficient monies acceptable to the Title Company to ensure the obtaining and the recording of such satisfactions. Purchaser, if request is made within a reasonable time prior to the Closing Date, agrees to provide at Closing separate wire transfer and/or Acceptable Checks as requested, aggregating the amount of the Purchase Price set forth in Article 2.1 hereof, to facilitate the satisfaction of any such liens or encumbrances. The existence of any such liens or encumbrances shall not be deemed objections to title if Seller shall comply with the foregoing requirements and the Title Company shall agree to insure the Purchaser against collection of such liens and/or encumbrances, without additional cost to Purchaser.

3.4. Purchaser agrees to make an application to Title Company

promptly after the execution of this Agreement for a full title search and examination upon the Premises, and Purchaser further agrees that Purchaser will cause to be delivered to Seller's counsel a copy of the title report and examination of such Title Company. At least ten (10) days prior to the scheduled Closing Date, Purchaser shall have the title re-examined by the Title Company and shall deliver to Seller's counsel a copy of the Title Company's updated title report with a notice of liens, encumbrances or other defects of title subject to which Purchase is unwilling to accept title.

3.5. (a) Seller agrees to satisfy all mortgages on the Premises. Any judgement, lien, encumbrance or objection to which Seller's title to the Premises is subject on the Closing Date or any other valid ground which Purchaser may then have for refusing to close this transaction other than (i) mortgages (which Seller is obligated to satisfy), (ii) those Permitted Exceptions subject to which Purchaser is obligated to accept title hereunder and (iii) the Leases, are referred to herein as "Objectionable Liens." If on the Closing Date Seller's title to the Premises is subject to any Objectionable Liens and Purchaser shall be unwilling to waive the same and close Seller shall have the right, at Seller's sole election to either: (a) take such action as Seller shall deem advisable to remove, remedy or comply with such Objectionable Liens and Seller is obligated to spend up to two hundred fifty thousand ($250,000) dollars (the "Maximum Expense") to remove, remedy or comply with such Objectionable Liens except Seller shall not be obligated to commence any action or proceeding to cure any such defect or to expend more than the Maximum Expense to remove any Objectionable Liens, or (b) to cancel this Agreement, provided that if Seller notifies Purchaser of its election to cancel this Agreement, Purchaser shall have the right to waive such Objectionable Liens and to close this transaction, in which event Purchaser shall be given a credit equal to the reasonably estimated cost of removing, remedying or complying with such Objectionable Liens, not to exceed $250,000, less such amount as Seller may have spent in attempting to remove, remedy or comply with such Objectionable Liens. In the event of Seller's election to take action to remove, remedy or comply with such Objectionable Liens, Seller shall be entitled to one or more adjournments of the Closing Date for one or more periods to a date not later than the closing date of the transactions contemplated by the Stock Purchase Agreement, dated as of July 25, 2005, by and among Gales Industries, Incorporated, Air Industries Machining, Corp., Luis Peragallo, Jorge Peragallo, Peter Rettaliata and Dario Peragallo (the "Stock Purchase Agreement") as amended or may be amended. If for any reason whatsoever Seller shall not have succeeded in removing, remedying or complying with such Objectionable Liens at the expiration of such adjournments, or at such time prior thereto as Seller determines that it will not be able to satisfy same, Seller shall give Purchaser notice thereof and Purchaser shall have five (5) business days from the delivery of such notice in accordance with the terms hereof to elect by notice to Seller to purchase the Premises subject to such Objectionable Liens with a credit as provided above. If Purchaser shall still be unwilling to waive the same and to close this transaction without abatement of the Purchase Price or allowance of any kind other than as provided above, this Agreement shall be deemed to be canceled. In the event of the cancellation of this Agreement under any of the circumstances referred to and as provided in this Article 3.5, this Agreement shall cease, terminate and come to an end, and (except as otherwise expressly provided in this Agreement), neither party hereto shall have any rights, obligations or liabilities against or to the other, except that Purchaser shall be entitled to reimbursement for the net amount charged Purchaser by the Title Company for a title examination without issuance of a policy and the net cost to Purchaser of a survey for the Premises (said reimbursable items are herein referred to as "Purchaser's Title and Survey Costs"). In no event shall Seller be required to, and nothing herein contained shall obligate Seller to, expend any money in excess of two hundred fifty thousand ($250,000) dollars in the aggregate or to bring any action or proceeding or otherwise incur any costs or expenses to cure any purported defect or objection or to fulfill any condition or to render or deliver title to the Premises to Purchaser as herein provided, except as set forth in this Section.

(b) Other than as set forth in Schedule 4.27 to the Stock Purchase Agreement, all notes or notices of violation of law or governmental advances, orders or requirements which were noted or issued prior to the date of this Agreement by any governmental department, agency or bureau having jurisdiction as to conditions affecting the Premises and all liens which have attached to the Premises prior to the date hereof shall be the obligations of Seller to remove. Notwithstanding the foregoing, if the reasonable cost of the removal of the Objectionable Liens and violations, in the aggregate, exceeds two hundred fifty thousand ($250,000) dollars less such amount as Seller may expend or credit to Purchaser in respect of Objectionable Liens as provided in Section 3.5(a) (such amount being referred to as the "Remainder"), then Seller shall have the right to cancel this Agreement, provided that if Seller notifies Purchaser of its election to cancel this Agreement, Purchaser shall have the right to waive such violations and liens, and to close this transaction, in which event Purchaser shall be given a credit equal to the Remainder.

In no event shall the aggregate amount which Seller is obligated to expend or credit to Purchaser in respect of Objectionable Liens pursuant to Section 3.5(a) and violations pursuant to this Section 3.5(b) exceed two hundred fifty thousand ($250,000) dollars.

3.6. Corporate franchise or business taxes owing to municipal, county or state governments by any corporation in the chain of title of the Premises, or any transfer, inheritance, estate, dissolution, license or similar taxes, charges or liens not excepted in this Agreement, shall not constitute an objection to title, and Purchaser shall take title subject to the same provided that the Title Company will agree to affirmatively insure at no additional cost to Purchaser that said taxes or other items will not be collected out of the Premises.

4. Adjustments.

4.1. Except as otherwise expressly provided herein, all apportionments shall be made in accordance with the "Customs in Respect to Title Closings" adopted by the Real Estate Board of New York, Inc. The following are to be apportioned as of midnight of the day immediately prior to the Closing Date:

(a) real estate taxes, on the basis of the fiscal tax year for which assessed;

(b) water and sewer rents and/or charges on the basis of the fiscal year for which assessed;

(c) water meter and sewer rent meter charges in accordance with the amounts fixed with respect thereto in a meter reading made as of a date not more than thirty (30) days prior to the Closing Date, except that if such reading cannot with reasonable efforts be obtained by such date, then the unfixed water meter and sewer charges, if any, for any intervening period shall be apportioned on the basis of the last reading therefor;

(d) rents and additional rents under the Leases and interest, if any, payable in respect of the deposits under the Leases which are delivered to Purchaser;

(e) utilities;

(f) charges payable under transferable Service Contracts, if any; and

(g) fuel, if any, to the extent not payable by tenants under the Leases.

4.2. If the Closing shall occur before a tax rate is fixed, the apportionment of taxes shall be upon the basis of the tax rate for the next preceding year applied to the latest assessed valuation and the parties shall adjust post-closing upon receipt of the tax bill.

4.3. If, on the Closing Date, the Premises or any part thereof shall be or shall have been affected by an assessment or assessments which are or may become payable in annual installments, of which the first installment is then a charge or lien, or has been paid, then for the purpose of this Agreement all the unpaid installments of any such assessment, including those which are to become due and payable after the Closing Date, shall be payable by Seller. If the first installment shall be due following the Closing then Purchaser shall assume the entire obligation without abatement.

4.4. In the event the apportionments as provided in this Article, when computed result in a payment due Seller, then such payment shall be made at the Closing by Acceptable Check. If such apportionment results in a credit to Purchaser, the cash portion of the Purchase Price due at Closing shall be reduced by the amount of such credit.

4.5. As to any rent arrears for periods preceding the Closing, and any amounts paid by the Tenants under the Leases in respect of water and sewer rents and charges, water meter and sewer rent meter charges, utilities and real estate and vault taxes, accruing prior to the Closing, provided the applicable Tenant is otherwise current in respect of all amounts due under its Lease, Purchaser shall receive the same as a trust fund for remission to Seller in payment of the Tenants' arrears, provided Purchaser shall have no obligation to seek to collect the same on behalf of Seller. The provisions of this Article shall survive the Closing.

5. The Deed - Deliveries at Closing

5.1. The deed to be delivered by Seller shall be the usual statutory bargain and sale deed with covenants against grantor's acts (herein called the "Deed") in proper statutory short form for recording and shall be duly executed and acknowledged so as to convey to Purchaser the fee simple title of the Premises free of all encumbrances except as stated in this Agreement, which Deed shall contain the covenant required by subdivision 5, Section 13 of the New York State Lien Law.

5.2. At the Closing, Seller shall deliver to Purchaser the following documentation:

(a) a certification of non-foreign status, in form required by the Internal Revenue Code Section 1445 and regulations issued thereunder, signed under penalty of perjury. Seller understands that such certifications will be retained by Purchaser and will be made available to the Internal Revenue Service on request;

(b) Seller shall deliver the original copy of the Leases if available or if the original copy of any Lease is not available, then Seller shall deliver a true copy of such Lease and certify that it is a true copy of such Lease. Together with each of the Leases Seller shall deliver an assignment thereof, which assignment shall contain (i) an indemnification of Purchaser by Seller for all acts of Seller as landlord prior to the Closing and (ii) an indemnification of Seller by Purchaser for all acts of Purchaser as landlord from and after the Closing;

(c) possession of the Premises, together with the keys, subject to the Leases, as required by this Agreement;

(d) a New York State transfer tax and credit line mortgage form TP 584 duly executed.

(e) discharge of all mortgages, if any, on the Premises.

(f) a duly executed Bill of Sale in form reasonably satisfactory to Purchaser;

(g) originals or, if unavailable, copies, of plans and specifications, technical manuals and similar materials for the Premises to the extent same are in Seller's possession;

(h) originals or, if unavailable, copies, of all books and records relating to the Premises and maintained by Seller during Seller's ownership thereof; and

(i) such additional documentation as may be reasonably required to consummate the transaction contemplated by this contract.

5.3. At the Closing, Seller shall also deliver to Purchaser the following:

(a) If required pursuant to New York State Business Corporation Law, Section 909, Seller shall deliver to Purchaser: (i) a resolution of its board of directors authorizing the delivery of the Deed and (ii) a certificate executed by an officer of such corporation certifying as to the adoption of such resolution and setting forth facts demonstrating that the delivery of the Deed is in conformity with the requirements of said Section 909. The Deed shall also contain a recital sufficient to establish compliance with such law.

(b) Such affidavits and/or other evidence of non-applicability, if appropriate, as the Title Company shall reasonably require in order to omit from its title insurance policy all exceptions for judgments, bankruptcies or other returns against Seller and person or entities whose names are the same as or are similar to Seller's name.

5.4. At the Closing, Purchaser shall:

(a) deliver to Seller the Purchase Price, as adjusted for apportionments;

(b) deliver to Seller an assumption of the Leases assigned by Seller to Purchaser together with an agreement indemnifying and agreeing to defend Seller against any claims made by Tenants with respect to the Leases and the Tenant's security deposits to the extent paid, credited or assigned to Purchaser;

(c) cause the Deed to be recorded, duly complete all required real property transfer tax returns and cause all such returns and checks in payment of such taxes to be delivered to the appropriate officers promptly after Closing; and

(d) deliver any other documents required by this Agreement to be delivered by Purchaser.

6. Time and Place of Closing.

6.1. The Closing of the purchase and sale of the Premises (the "Closing"), at which the Deed shall be delivered upon the receipt of the Purchase Price, and all other payments and any documents required to be delivered hereunder shall be exchanged, shall take place simultaneously with the closing of the transactions contemplated by the Stock Purchase Agreement at the office of Purchaser's counsel, Eaton & Van Winkle LLP, 3 Park Avenue, New York, New York (the "Closing Date").

7. Conditions to Closing.

7.1. The Seller's obligations to sell, assign and convey, and the Purchaser's obligation to purchase and assume, the Premises as herein provided shall be conditioned upon the fulfillment on or prior to the Closing Date of the following conditions (any of which may be waived in writing, in whole or in part, by the Purchaser or Seller, as the case may be):

(i) The representations and warranties of the Seller set forth in this Agreement shall be true, correct and complete in all material respects as of the Closing Date as though such representations and warranties were made anew as of such date (or if an earlier date is specified in such representation and warranty, as of such earlier date), and the Seller shall have duly performed in all material respects all agreements and covenants herein required to be performed by it on or before the Closing Date;

(ii) The representations and warranties of the Purchaser set forth in this Agreement shall be true, correct and complete in all material respects as of the Closing Date as though such representations and warranties were made anew as of such date (or if an earlier date is specified in such representation and warranty, as of such earlier date), and the Purchaser shall have duly performed in all material respects all agreements and covenants herein required to be performed by it on or before the Closing Date; and

(iii) The parties shall have consummated the transactions contemplated by the Stock Purchase Agreement.

8. Brokerage.

8.1. Each party represents and warrants that there is no broker with whom it has had any dealings or conversations in connection with the Premises or this Agreement. Each party agrees to indemnify and hold the other harmless from all damages, liabilities, expenses and claims, including reasonable attorneys' fees and disbursements, arising from any breach of the foregoing representation by the indemnifying party. The provision of this Article shall survive the closing and delivery of the Deed or any cancellation or termination of this Agreement.

9. Notice.

9.1. Any notice, request, demand or other communication permitted or required to be given under this Agreement shall be in writing, shall be sent by one of the following means to the addressee at the address set forth below (or at such other address as shall be designated hereunder by notice to the other parties and persons receiving copies, effective upon actual receipt) and shall be deemed conclusively to have been given: (i) on the first business day following the business day timely deposited for overnight delivery with Federal Express (or other equivalent national overnight courier) or United States Express Mail, with the cost of delivery prepaid or for the account of the sender; or (ii) when otherwise actually received by the addressee on a business day (or on the next business day if received after 5:00 P.M. New York City time or on any non-business day). If a certificate, signed notice, or other signed item is expressly required by another provision of this Agreement, a manually signed original must be delivered by the party giving it; any other notice, request, demand or other communication also may be sent by telecopy, with the cost of transmission prepaid or for the account of the sender and shall (except as otherwise specified in this Agreement) be deemed conclusively to have been given on the first business day following the day duly sent with receipt confirmed. Copies shall be sent to the persons, if any, set forth below. The addresses of the parties and those persons receiving copies are as follows:

(a) If to the Seller, at the following address:

KPK Realty Corp.
c/o Mr. Nicholas Kemeny
245 East 63rd Street, Apt. 34D,
New York, NewYork 10021
Attention: Mr. Nicholas Kemeny, President
Tel.: (212)752-4884

With a copy to:

Arnold & Porter, LLP
399 Park Avenue
New York, New York 10022
Attention: Robert P. Wessely, Esq.
Tel: (212) 715-1125
Fax: (212) 715-1399

(b) If to Purchaser, at the following address:

Michael Gales
Gales Industries, Incorporated
333 East 66th Street
New York, New York 10021
Tel: (212) 249-2614

With a copy to:

Eaton & Van Winkle LLP
3 Park Avenue
New York, New York 10016
Attention: Vincent J. McGill, Esq.
Tel.: (212) 561-3604
Fax: (212) 779-9928

The attorneys for Seller and Purchaser shall have the right to deliver notices under this Agreement and to adjourn or reschedule the Closing Date in writing only.

10. Damages.

10.1. In the event of a default by Purchaser in performing any material obligation on Purchaser's part to be performed hereunder, including without limitation, to pay the Purchase Price as provided in this Agreement or in any other provision hereof which would entitle Seller to cancel this Agreement, this Agreement shall be deemed null and void and neither party hereto shall have any obligations to or rights against the other hereunder, except that Seller shall be entitled to reasonable legal fees and expenses incurred in connection with the negotiation and execution of this Agreement and the enforcement of its rights hereunder, and any agreements or provisions hereof which are specifically provided herein to survive shall survive any cancellation or termination of this Agreement. In the event Seller materially defaults under this Contract, Purchaser may seek specific performance as its sole remedy.

11. Access.

11.1. Purchaser shall have reasonable access to the Premises upon two (2) days' prior written or oral notice to Seller for the purpose of conducting surveys, architectural, engineering, geotechnical and environmental inspections and tests (including intrusive inspection and sampling which do not materially interfere with the operation of the business conducted at the Premises) and any other inspections, studies, or tests reasonably required by

Purchaser. Purchaser shall keep the Premises free and clear of any liens and will indemnify, defend and hold Seller harmless from all claims and liabilities asserted against Seller as a result of any such entry by Purchaser, its agents, employees or representatives. If any inspection or test disturbs the Premises, Purchaser will restore the Premises to substantially the same condition as existed prior to any such inspection or test. Purchaser and its agents, employees and representatives shall have a continuing right of reasonable access to the Premises during the pendency of this Agreement for the purpose of examining and making copies of all books and records and other materials relating to the Premises in Seller's, or its property manger's, possession and Purchaser shall have the right to conduct a "walk-through" of the Premises prior to the Closing upon appropriate notice to tenant as permitted under the lease. In the course of its investigations, Purchaser may make inquiries to third parties, including, without limitation, the tenant or tenants, the property manager, if any, and municipal, local and other government officials and representatives, and Seller consents to such inquiries. The obligations of the Purchaser under this paragraph shall survive the termination of the Agreement.

12. Representations. Warranties and Covenants.

12.1. Except as set forth in Section 12.2 hereof (a) Seller has not made and does not make any representations or warranties as to the physical condition, rents, leases, income, expenses, financing and/or tax status, operations, zoning or legality of occupancy of the Premises, status of title or any other matter or thing affecting or relating to the Premises, except as herein specifically set forth, and Purchaser hereby expressly acknowledges and represents that no such representations or warranties have been made and (b) Purchaser further agrees to take the Premises "as is" in its present physical condition and subject to reasonable use, wear, tear and normal depreciation between the date hereof and the Closing Date. Seller shall not be liable or bound in any way for any verbal or written statements, representations, or information pertaining to the Premises furnished by any real estate broker or agent thereof or any agent or employee of Seller, or any other person. It is understood and agreed that all prior and contemporaneous representations, statements, understandings and agreements, oral or written, between the parties are merged in this Agreement, which alone fully and completely expresses their Agreement, and that the same is entered into after full investigation, neither party relying on any statement or representation or warranty not embodied in this Agreement made by the other.

12.2. Seller represents and warrants to Purchaser that, currently or at the Closing Date:

(a) Seller has been duly organized, is validly existing, and is in good standing as a New York corporation. Seller has the full right and authority and has obtained any and all consents required to enter into this Agreement and to consummate or cause to be consummated the transactions contemplated hereby. This Agreement has been, and all of the documents to be delivered by Seller at the Closing will be, duly authorized and properly executed and constitutes, or will constitute, as appropriate, the valid and binding obligation of Seller, enforceable in accordance with their terms;

(b) To the best of Seller's knowledge, there is no agreement to which Seller is a party which would prohibit the execution of this Agreement and the performance of Seller's obligations. There is no action or proceeding pending or, to Seller's knowledge, threatened against Seller or relating to the Premises, including, without limitation, any condemnation proceedings, which challenges or impairs Seller's ability to execute or perform its obligations under this Agreement or which may adversely affect Purchaser upon its purchase of the Premises;

(c) All of Seller's contractors, subcontractors, suppliers, architects, engineers, brokers and others who have performed services or labor or have supplied materials in connection with Seller's development, ownership, or management of the Premises have been paid in full and all liens arising therefrom (or claims which with the passage of time or the giving of notice, or both, could mature into liens) have been satisfied and released;

(d) The Leases delivered to Purchaser are true, correct and complete copies of the Leases and all amendments and guarantees. There are no other Leases or other parties in occupancy at the Premises except for the tenant under the Leases and anyone taking by, through or under tenant. Seller has not received written notice and has no knowledge of any subletting or assignment by tenant. To Seller's knowledge, except as herein disclosed, no tenants have asserted nor are there any defenses or offsets to rent accruing after the Closing Date and no default or breach exists on the part of any tenant, except for (i) the payment of rent arrears in the aggregate amount of $215,419.75 for the months of February 2005 through November 2005 and (ii) the payment of real estate taxes in the aggregate amount of $96,070.50 plus interest and penalties, if any;

(e) Simultaneously with the closing of the transaction contemplated by the Stock Purchase Agreement, the parties agree to arrange that the rent arrears and real estate taxes referenced in Section 12.2(d) above will be paid in full, provided, however, that the Purchaser shall only be responsible for payment of the rent arrears in excess of $50,000;

(f) Seller has received no written notice: (i) that the Premises or the use thereof violates any governmental law or regulation or any covenants or restrictions encumbering the Premises other than those set forth in Schedule B hereto; (ii) of any material physical defect in the Improvements; or (iii) from any insurance company or underwriter of any defect that would materially adversely affect the insurability of the Premises or cause an increase in insurance premiums;

(g) Except as set forth on Schedule 4.27 of the Stock Purchase Agreement, (i) the Seller is in compliance with all applicable Environmental Laws (capitalized terms used but not defined in this Section (g) have the meanings ascribed thereto in the Stock Purchase Agreement); (ii) the Seller has not transported from, stored or disposed of any Hazardous Materials from or upon the Premises in contravention of applicable Environmental Laws; (iii) there has not occurred, nor is there presently occurring, a Release of any Hazardous Materials on, into or

beneath the surface of the Premises except in compliance with applicable Environmental Laws; (iv) the Seller has not transported or disposed of, or allowed or arranged for any third parties to transport or dispose of, any Hazardous Material to or at a site which, pursuant to CERCLA, has been placed on the National Priorities List; (v) the Seller has not received written notice that it is a potentially responsible party for a federal or state environmental cleanup site or for corrective action under RCRA; and (vi) the Seller has not undertaken (or been requested to undertake) any response or remedial actions at the request of any federal, state or local governmental entity;

(h) Seller has no knowledge of any liens or encumbrances on the Premises other than the Leases and the matters set forth in Schedule B hereto;

(i) The certificate of occupancy included in the title report is the only certificate of occupancy for the Premises of which Seller has knowledge. Seller has not taken any actions to amend, modify or cancel such certificate of occupancy, nor has Seller taken any actions which would require Seller to obtain a certificate of occupancy for the Premises;

(j) Other than as set forth in Schedule 4.21 to the Stock Purchase Agreement, Seller is not a party, as of the date hereof, to any litigation or other action related to the Premises;

(k) There are no commissions owing to brokers in connection with any of the Leases;

(l) There are no security deposits payable under the Leases; and

(m) Seller is not a party to any service contract.

12.3. Seller shall not amend, modify or restructure any of the Leases.

12.4. The representations and warranties of Seller contained herein shall be deemed to be made at and as of the date hereof and as of the Closing Date. If any of the material warranties and representations of Seller contained herein shall on the Closing Date be untrue (other than those rendered inaccurate by transactions, events or facts contemplated hereby), and if Purchaser shall be unwilling to waive same and to close this transaction without abatement of the Purchase Price or allowance of any kind, then Purchaser's sole remedy shall be to terminate this Agreement within thirty (30) days after discovering that same was so untrue. In the event of such termination, this Agreement shall cease, terminate and come to an end, and neither party hereto shall have any rights, obligations or liabilities against or to the other, except that Purchaser shall be entitled to the return of the Down Payment and except as set forth in Article 11, and any other provision of this Agreement which explicitly survives the termination or cancellation hereof.

12.5. In all cases in this Agreement where Seller represents that it does not have "knowledge" of any thing, occurrence or events, the "knowledge" as to which such representation is made shall be actual knowledge and not constructive knowledge.

12.6. Purchaser's Representations and Warranties. As a material inducement to Seller to execute this Agreement and consummate this transaction, Purchaser represents and warrants to Seller that:

(a) Purchaser has been duly organized and is validly existing as a corporation in good standing in the State of Delaware, and on the Closing Date will be qualified to do business in the state in which the Premises are located. Purchaser has the full right and authority and has obtained any and all consents required to enter into this Agreement and to consummate or cause to be consummated the transactions contemplated hereby. This Agreement has been, and all of the documents to be delivered by Purchaser at the Closing will be, authorized and properly executed and constitutes, or will constitute, as appropriate, the valid and binding obligation of Purchaser, enforceable in accordance with their terms; and

(b) Purchaser hereby represents and warrants to Seller that this Agreement has been duly authorized and executed on behalf of Purchaser, and constitutes the valid and binding agreement of Purchaser, enforceable in accordance with its terms; and that neither the execution and delivery of this Agreement nor the consummation of the sale provided for herein will constitute a violation or breach by Purchaser of any provision of any agreement or other instrument to which Purchaser is a party or to which Purchaser may be subject although not a party, or will result in or constitute a violation or breach of any judgment, order, writ, injunction or decree issued against Purchaser of which Purchaser has knowledge.

13. Expenses.

13.1. (a) At the Closing, Seller shall deliver a certified or official bank check to the order of the recording officer of the county in which the Deed is to be recorded for the amount of the documentary stamps to be affixed thereto in accordance with Article 31 of the Tax Law of the State of New York. At Seller's option, Purchaser shall pay all of the same and shall receive a credit for such amount on account of the cash portion of the Purchaser Price due at Closing.

(b) At the Closing, Seller shall deliver a certified or official bank check to the order of the appropriate officers in payment of the applicable real property transfer taxes together with the NY State TP 584 required by the applicable regulations duly signed and sworn to by Seller. Purchaser agrees to duly execute said return, have duly sworn, and to cause said return and check to be delivered to the appropriate official. At Seller's option, Purchaser shall pay all of the same and receive a credit for such amount on account of the cash portion of the Purchase Price due at Closing.

(c) Seller and Purchaser each hereby agree to defend and indemnify the other from all costs and liabilities (including reasonable attorneys' fees and disbursements) for failure to make the foregoing payments required pursuant to this Article at or following Closing. Such obligation and indemnity shall survive the Closing and the delivery of the Deed.

14. Fire or Other Casualty; Condemnation.

14.1. Seller agrees to maintain the property insurance policy or policies in respect of the Premises, including fire and extended coverage and to give Purchaser reasonably prompt notice of any fire or other casualty occurring at the Premises of which Seller obtains knowledge, between the date hereof and the date of the Closing, or of any actual or threatened in writing condemnation of all or any party of the Premises of which Seller obtains knowledge.

14.2. If prior to the Closing there shall occur damage to the Premises caused by fire or other casualty which would (i) cost two hundred fifty thousand ($250,000) dollars or more to repair, as reasonably determined by an engineer selected by Seller and reasonably satisfactory to Purchaser or (ii) materially interfere with the operation of the Premises, then Purchaser may elect to terminate this Agreement by written notice given to Seller within ten (10) days after Seller has given Purchaser the notice referred to in Section 12.1 hereof, or at the Closing, whichever is earlier. If prior to the Closing there shall be a taking by condemnation of any portion of the Premises then Purchaser may elect to terminate this Agreement by written notice given to Seller within ten (10) days after Seller has given Purchaser the notice referred to in Section 12.1 hereof, or at the Closing, whichever is earlier. If this Agreement is terminated pursuant to either of the preceding sentences, Seller shall promptly pay to Purchaser Purchaser's title and survey costs, if any, and this Agreement shall thereupon be deemed terminated and of no further force or effect, and neither party hereto shall thereupon have any further obligation to the other, except that the provisions of Article 7 hereof shall survive such termination. If Purchaser does not elect to terminate this Agreement, then the Closing shall take place as herein provided, without abatement of the Purchase Price: provided, however, Purchaser shall be entitled to receive any insurance proceeds otherwise due Seller as a result of the damage to the Premises (whether received before or after Closing) or the proceeds of any condemnation award to the extent payable before or after the Closing, less any amounts (i) actually and reasonably expended or incurred by the Seller in adjusting any insurance claim or negotiating and/or obtaining any condemnation award (including, without limitation, reasonable attorneys' fees and expenses) and/or (ii) theretofore actually and reasonably incurred or expended by or for the account of the Seller for the cost of any restoration or emergency repairs made by or on behalf of Seller, and Seller shall pay to Purchaser, or allow as a credit against the Purchase Price, an amount equal to the net proceeds of such insurance proceeds or condemnation award.

14.3. Termination. If this Agreement is terminated pursuant to this Article, the parties hereto shall be released from all further obligations and liabilities hereunder, except with respect to the covenants and indemnities set forth in Article 11 hereof and as otherwise expressly provided herein.

15. Items to be Delivered at Closing.

15.1. Seller shall deliver to Purchaser on the Closing Date instruments, documents and agreements required by this Agreement and customarily required by the Title Company to be delivered by Seller.

15.2. Purchaser shall deliver to Seller on the Closing Date all payments, checks, instruments, documents and agreements required by this Agreement to be delivered by Purchaser or reasonably required by Seller or customarily required by the Title Company to effect or confirm the transactions contemplated herein.

16. Pending Certiorari Proceedings.

16.1. Seller has not instituted any proceedings to reduce taxes or for the reduction of the assessed valuation of the Premises.

17. Survival.

17.1. The acceptance of the Deed by Purchaser at the Closing shall be deemed full performance and discharge of each and every agreement and obligation on the part of Seller hereunder to be performed. Any and all representations and warranties of Seller and Purchaser contained in this Agreement shall not survive the Closing Date and the delivery of the Deed, and shall be merged in the delivery of the Deed, except the representations 12.2(a), (b) and (c) shall survive for a period of six (6) months and the representations in Sections 12.2(d) and (g) shall survive for one year, following the Closing.

18. Assignment.

18.1. This Agreement shall apply to and bind the heirs, executors, administrators, successors and assigns of the respective parties. Purchaser may not assign this Agreement or any payments made hereunder without the prior written consent of Seller. This Agreement shall not be recorded by Purchaser and any recordation or attempted recordation by Purchaser hereof shall be void and shall constitute a material default of Purchaser hereunder and Seller shall be entitled to cancel this Agreement in the event thereof. A transfer of any interest in Purchaser shall constitute an assignment of this Agreement. Purchaser may assign this contract to an "Affiliate" (defined below) provided such assignee assumes all of Purchaser's obligations hereunder in writing, in recordable form, and further provided that an original fully-executed assignment and assumption agreement is furnished to Seller prior to Closing. Notwithstanding the foregoing, Purchaser may, at the Closing, assign this Agreement to an entity which simultaneously consummates the transaction contemplated hereby; provided, however, that such assignment shall not relieve Purchaser of any of its obligations under this Agreement.

19. Execution by Seller.

19.1. It is expressly understood and agreed that this Agreement shall not constitute an offer or create any rights in favor of Purchaser and shall in no way oblige or be binding upon Seller, and this Agreement shall have no force or effect, unless and until the same is duly executed by Seller and a fully-executed counterpart of this Agreement is delivered by Seller to Purchaser.

20. General Provisions.

20.1. Gender and Name. Whenever the context so requires, the singular number shall include the plural and the plural the singular, and the use of any gender shall include all genders.

20.2. Entire Agreement. This Agreement contains the complete and entire agreement between the parties respecting the transaction contemplated herein and supersedes all prior negotiations, agreements, representations and understandings, if any, between the parties respecting such matters.

20.3. Modifications. This Agreement may not be modified, discharged or changed in any respect whatsoever, except by a further agreement in writing duly executed by Purchaser and Seller. However, any consent, waiver, approval or authorization shall be effective if signed by the party granting or making such consent, waiver, approval or authorization

20.4. Governing Law. This Agreement shall be construed and enforced in accordance with the internal laws of the State of New York.

20.5. No Publicity. Neither party shall make any public announcement in any form whatsoever of the transaction contemplated by this Agreement without prior written approval from the other.

20.6. Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope, meaning or intent of this Agreement.

20.7. Severability. The invalidation or unenforceability in any particular circumstance of any of the provisions of this Agreement shall in no way affect any of the other provisions hereof, which shall remain in full force and effect.

20.8. No Joint Venture. This Agreement shall not be construed as in any way establishing a partnership, joint venture, express or implied agency or employer-employee relationship between Purchaser and Seller.

20.9. No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto, the respective successors and permitted assigns, and no other person or entity shall be entitled to rely upon or receive any benefit from this Agreement or any term hereof.

20.10. No Personal Liability. No officer or director of Seller, no disclosed or undisclosed principal of Seller, and no person or entity in any way affiliated with Seller shall have any personal liability with respect to this Agreement, any instrument delivered by Seller at Closing, or the transaction contemplated hereby, nor shall the property of any such person or entity be subject to attachment, levy, execution or other judicial process.

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IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereof as of the date first above written.

SELLER:

KPK REALTY CORP.

By: /s/ Nicholas Kemeny

Name: Nicholas Kemeny
Title:

PURCHASER:

GALES INDUSTRIES, INCORPORATED

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of the 26th day of September, 2005, by and among Gales Industries Incorporated, a Delaware corporation (the "Company") and Michael A. Gales, a resident of the State of New York ("Executive"). The Company is sometimes referred to herein as the "Employer".

WHEREAS, the Employer wishes to employ Executive on the terms and conditions set forth in this Agreement, and Executive wishes to be retained and employed by the Employer on such terms and conditions.

NOW, THEREFORE, in consideration of the premises and the respective undertakings of the Employer and Executive set forth below, the Employer and Executive hereby agree as follows:

1. Employment. The Employer hereby employs Executive, and Executive hereby accepts such employment and agrees to perform services for the Employer, for the period and on the other terms and subject to the conditions set forth in this Agreement.

2. Term. Unless terminated at an earlier date in accordance with the provisions of Section 6 of this Agreement, the initial term of Executive's employment hereunder shall be a period of five (5) years commencing on the effective date (the "Effective Date") of the Company's acquisition of the shares of Air Industries Machining, Corp. (the "Initial Term"). This Agreement shall be automatically extended for successive three (3) one year periods (each, a "Renewal Term", and together with the Initial Term, the "Term") unless (i) Executive objects to such extension by no less than ninety (90) days' prior written notice to the Company at any time prior to the expiration of the Initial Term or a Renewal Term, as the case may be, or (ii) this Agreement is terminated at an earlier date in accordance with the provisions of Section 6.

3. Position and Duties.

3.01 Service with the Employer. The Employer hereby employs Executive in an executive capacity during the Term initially with the title of Executive Chairman of the Company, and Executive hereby accepts such employment and undertakes and agrees to serve in such capacities during the Term. In addition, the Company agrees to cause Executive to be elected as a member and Chairman of the Management and Executive Committees of the Company and as a member of the Board of Directors of the Company. In such capacities, Executive shall have such powers, perform such duties and fulfill such responsibilities typically associated with such positions in other publicly held companies, and Executive will have overall responsibility for all policies pertaining to the management of the Company.

3.02 Performance of Duties. Executive agrees to serve Employer to the best of his ability and to devote his full time, attention and efforts to the business and affairs of the Employer during the Term. Notwithstanding the foregoing, Executive shall not be precluded from accepting service as a director of other businesses or community organizations or from the management of his investments, provided, however, that any such business shall not be competitive with the Company and such service shall not detract from Executive's performance or time commitment hereunder. Executive shall report directly to the Board of Directors of the Company.

3.03 Key-man Life Insurance. Should the Company determine to obtain key-man life insurance payable to the Company in the event of the death of Executive, Executive agrees to cooperate with such effort.

4. Compensation.

4.01 Base Salary. As base compensation for all services to be rendered by Executive under this Agreement, the Company shall pay to Executive an annual base salary, which annual base salary shall be $250,000 per year for the initial twelve-month period of the Term (as adjusted pursuant to this Section 4.01, the "Base Salary"), which Base Salary shall be paid on a weekly basis in accordance with the Company's normal payroll procedures and policies, subject to applicable deductions as required by law. The amount of the Executive's Base Salary (a) shall be reviewed annually by the Board of Directors of the Company, (b) shall be increased annually from the amount of the Base Salary paid to Executive during the prior twelve-month period (each, a "Prior Period") of the Term on the basis, inter alia, of the profitability and performance of the Company, on a consolidated basis, during such Prior Period (as compared to the profitability and performance of the Company, on a consolidated basis, during the twelve-month period prior to such Prior Period), which increase shall in no event be less than ten percent (10%) of the amount of the Base Salary paid to Executive during such Prior Period, provided that Operating Profits during such Prior Period are at least five percent (5%) greater than the Operating Profits during the twelve-month period prior to such Prior Period and (c) shall under no circumstance be reduced from the amount of the Base Salary paid to Executive during the applicable Prior Period. "Operating Profits" means the consolidated net income during the applicable period, as reported on the Company's consolidated financial statements, plus current interest expense, noncash expenses related to any employee stock ownership plan established by the Company, provisions for taxes based on income, any extraordinary losses for such period, minus any extraordinary gains for such period, but without adjustment for any noncash income or noncash charges which are classified as such under generally accepted accounting principles in the United States (other than noncash expenses related to any employee stock ownership plan established by the Company).

4.02 Annual Bonus. In addition to Base Salary, the Company shall pay to Executive an annual bonus. The amount of the annual bonus to be paid to Executive with respect to any twelve-month period during the Term shall be determined at the discretion of the Board of Directors of the Company, provided, however, that the amount of such annual bonus shall be reasonably predicated on Executive's performance and the achievement by the Company of its operating targets as set forth in the applicable budget adopted by the Board of Directors of the Company in consultation with Executive; provided, further, that in no event shall the amount of the such annual bonus be less than fifty percent (50%) of Base Salary paid to Executive during the twelve-month period in which the annual bonus is paid. In addition, Executive shall participate in all other bonus programs that Employer may adopt from time to time in which senior employees are entitled to participate.

4.03 Participation in Benefit Plans. (a) The Company will either pay, or reimburse Executive, for the amount of the premiums due for a long-term disability and homecare policy providing benefits of no less than one-half of Executive's salary until age 70 with respect to Executive and a life insurance policy on the life of Executive. Such life insurance policy will pay Executive's designated beneficiary or beneficiaries no less than three times the amount of the Base Salary that was being paid to Executive at the time of his death. In addition, Executive shall also be entitled to participate in all employee benefit plans or programs offered to senior employees of Employer (to the extent that Executive meets the requirements for each such plan or program), including without limitation participation in any health, disability, dental, eye care, 401(k), deferred compensation and other similar plans (together with the life insurance and disability policies, "Benefits"), as such plans and programs may be or have been adopted from time to time.

(b) Employer intends to implement a plan relating to future acquisitions of other businesses, pursuant to which a portion of a corporate overhead charge implemented in connection with each acquisition will be allocated in good faith by the Company's Board of Directors to compensation for executive-level employees of the Company. Upon adoption of such plan, it shall provide that Executive will be entitled to no less than 30% of the portion of the corporate overhead charged allocated to executive-level compensation with respect to each such acquisition consummated at any time during the period from the date of adoption of such plan until the date on which the Employer's obligations to pay Benefits has terminated pursuant to Section 6.02.

4.04 Automobile and Other Expenses. The Company will pay to Executive no less than $1,000 per month (adjusted annually for inflation, as determined by the Company's Board of Directors) during the Term as reimbursement for business-related operating expenses for an automobile to be used by Executive, including without limitation automobile lease payments, insurance, service and repairs in the ordinary course. In addition, the Company shall pay or reimburse Executive for all reasonable out-of-pocket expenses incurred by him in the performance of his duties under this Agreement, subject to the presentment and approval of appropriate itemized expense statements, receipts, vouchers or other supporting documentation in accordance with the Company's normal policies.

4.05 Vacation. Executive shall be entitled to no less paid vacation than other senior employees of the Company receive pursuant to the Company's standard vacation policies, provided, however, that Executive shall be entitled to no less than six (6) weeks of paid vacation during each twelve (12) month period during the Term.

4.06 Stock Options and Other Incentive Compensation. To further the attainment of the Company's long-term profit and growth objectives, the Company hereby grants Executive, contemporaneously with the execution of this Agreement, options to purchase such number of shares of common stock of the Company as will convert into 1,250,000 shares of common stock (the "Common Stock") of the public entity with which the Company merges upon acquisition of Air Industries Machining, Corp. The exercise price of 250,000 of such options shall be twenty-two cents and the exercise price of the remaining options shall be determined in accordance with the provisions of the Option Agreement being delivered simultaneously herewith. In addition, Executive shall be entitled to participate in all other stock option, revenue sharing, profit sharing, long-term accumulation and/or stock based plans or programs that the Company may adopt from time to time. For purposes of any Common Stock options or other similar programs to be granted hereunder, such Common Stock and rights shall be defined to include the Common Stock of any successor corporation or other entity into which the Company is merged, or which acquires substantially all the assets of the Company.

5. Additional Covenants.

5.01 Acknowledgments and Stipulations. Executive acknowledges that he is agreeing to the covenants set forth in this Section 5 (a) in consideration of the substantial economic benefits derived by Executive under the terms of this Agreement, (b) in recognition that the services rendered by Executive to Employer will be unique, as are Executive's abilities, skills and experience, (c) in recognition that, as a result of his employment, Executive will acquire and participate in the creation of knowledge and information of a confidential

and/or proprietary nature relating to the business of the Company and its affiliates, which is valuable to the Company because the Company will expend substantial time, effort and money to develop such knowledge and information, (d) to induce Employer to employ Executive and disclose certain of such information to Executive, and (e) to induce Employer to enter into this Agreement.

5.02 Nonsolicitation of Customers and Executives. At all times during the term of Executive's employment with the Employer and for a period of twelve (12) months following the termination of such employment pursuant to Section 6.01(a) or Section 6.01(f) hereto, (a) Executive 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, or interfere with

the business relationship of the Employer with any customer of the Employer, and (b) Executive shall not directly or indirectly cause any other person to employ, solicit, disturb, entice away, or in any other manner persuade any employee of the Employer or its affiliates to discontinue or alter his or her relationship with the Employer.

5.03 Noncompetition. At all times during the term of Executive's employment with the Employer and for a period of twelve (12) months following the termination of such employment for any reason other than a termination of this Agreement by the Company without cause, Executive 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 Employer. Executive acknowledges and agrees that the business of the Employer is of a worldwide nature and that any geographic limitation on the foregoing covenant would be ineffective to adequately protect the interests of the Employer. Executive further acknowledges and agrees that the foregoing covenant is an integral part of his agreement to be employed hereunder, is fair and reasonable in light of all of the facts and circumstances of the relationship between Executive and the Employer. 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. Nothing contained in this Section 5.03 shall be construed as limiting the scope of this Section 5.

5.04 Limitation on Covenant not to Compete. Ownership by Executive, as a passive investment, of less than two percent (2.00%) of the outstanding shares of capital stock of any corporation, with a cost basis to Executive of less than $250,000, listed on a national securities exchange or publicly traded in the over-the-counter market shall not constitute a breach of this Section 5.

5.05 Confidential Information. Executive agrees that during and after the period of his employment, he will not, without the authorization of the Company, divulge, disclose or otherwise communicate to any person, other than as necessary or desirable for the business of the Employer pursuant to his responsibilities to the Employer during the Term, any information of a confidential nature pertaining in any way to the Employer's business, products, practices, techniques, customers, suppliers, functions or operations (the "Confidential Information"), except to the extent that such Confidential Information (a) was disclosed to Executive by a third party who did not obtain the same directly or indirectly from the Company or one of its affiliates, (b) was known by Executive prior to disclosure by the Employer, (c) at or after the time of disclosure, is or becomes generally available to the public (other than as a result of its disclosure by Executive), (d) is required to be disclosed by Executive pursuant to applicable law or an order of a governing authority applicable to Executive.

6. Termination.

6.01 Grounds for Termination. This Agreement shall terminate prior to the expiration of the Initial Term or any Renewal Term upon the occurrence of any of the following events at any time during such Initial Term or Renewal Term:

(a) The effective date of Executive's voluntary resignation, for which Executive agrees to give at least 30 days' prior written notice to the Company;

(b) Executive's death;

(c) Executive's Disability (as hereinafter defined);

(d) Executive elects to terminate his employment 30 or more days after Executive gives the Company written notice of his intent to terminate his employment ("Notice of Good Reason") for any of the following reasons (each, a "Good Reason"), provided that the Company has not eliminated the circumstances constituting Good Reason prior to the effective date of such resignation: (1) a material adverse alteration in the nature or status of Executive's title, duties or responsibilities; (2) a material adverse reduction in Executive's Base Salary and Benefits (excluding contingent salary and bonuses); (3) a requirement that Executive be based at a work location more than 50 miles from the current site of Employer (unless such new work location is closer to Executive's residence than the current site is); (4) the failure by the Company to pay to Executive any portion of Executive's compensation then due and payable; or (5) any failure by Employer to comply with the material provisions of this Agreement. The Notice of Good Reason shall indicate the specific provision above that Executive is relying upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Good Reason under the provision so indicated;

(e) Executive's termination by Employer without Cause (as hereinafter defined);

(f) Executive's termination by Employer for Cause. For the purposes of this Agreement, "Cause" means, as determined by the Board (or its designee), with respect to conduct during the Executive's employment or service relationship with the Company or its affiliates, whether or not committed during the Term, (i) commission of a felony by Executive; (ii) acts of dishonesty by Executive resulting or intending to result in personal gain or enrichment at the expense of the Company or its subsidiaries; (iii) conduct by Executive in connection with his duties hereunder that is fraudulent, unlawful or grossly negligent, including, but not limited to, acts of discrimination (provided reasonable grounds of such harassment or discrimination are established); (iv) engaging in personal conduct by Executive (including but not limited to employee harassment or discrimination (provided reasonable grounds of such harassment or discrimination are established), the use or possession at work of any illegal controlled substance) which seriously discredits or damages the Company or its subsidiaries; and (v) breach of the Executive's covenants set forth in Section 5 before termination of employment; provided, that, the Executive shall have fifteen (15) days after notice from the Company to cure the deficiency leading to the Cause determination (except with respect to (i) above), if curable. A termination for "Cause" shall be effective immediately or on such later date set forth by the Company in the notice of termination.

6.02 Severance. If Executive's employment is terminated:

(a) as a result of Section 6.01(f), then the Company shall pay to Executive his full Base Salary, bonuses for the calendar year (or employment period) prior to the year (or employment period) in which such termination occurs and Benefits prorated through the effective date of such termination, and Executive shall be reimbursed for any expenses incurred by him pursuant to Section 4.04 through the termination date; or

(b) as a result of Section 6.01(b), 6.01(c), 6.01(d) or 6.01(e), then the Company shall pay to Executive or Executive's estate (1) his full Base Salary, bonuses for the calendar year (or employment period) prior to the year (or employment period) in which such termination occurs, pro-rated bonuses for the current year (or period) and Benefits prorated through the effective date of such termination and (2) additional Base Salary, payable in monthly installments, plus additional Benefits, for the period from the effective date of such termination until the later of (i) one year after the effective date of such termination and (ii) the date on which the then-current Initial Term or Renewal Term, as the case may be, would have expired (provided, however, if participation by Executive in any Benefit plan or program after the termination of his employment is not permitted under such plan or program, then the Company will provide him with the equivalent benefits); Executive shall be reimbursed for any expenses incurred by him pursuant to Section 4.04 through the effective date of such termination; Executive shall be paid $700 per month (or a prorated portion thereof) for the automobile to be used by Executive from the effective date of such termination until the later of (i) one year after the effective date of such termination and (ii) the date on which the then-current Initial Term or Renewal Term, as the case may be, would have expired; and all stock options granted to Executive shall immediately vest and be exercisable as of, and for a period of twelve months after, the effective date of such termination.

6.03 "Disability" Defined. As used in this Agreement, the term "Disability" means any mental or physical condition that results in the Executive becoming unable to perform the essential functions of his position, with reasonable accommodation, for a period of at least ninety (90) days. The Executive shall be deemed to have a Disability at the end of such ninety (90) day period.

6.04 Surrender of Records and Property. Upon termination of Executive's employment by Executive or by the Company, for any reason or for no reason, Executive shall deliver promptly to the Company all records, manuals, books, blank forms, documents, letters, memoranda, notes, notebooks, reports, data, tables, and calculations, and copies thereof, in whatever medium, which are the property of Employer or which relate in any way to the business, products, practices, techniques, customers, suppliers, functions or operations of Employer, and all other property and Confidential Information of Employer, including, but not limited to, all documents which in whole or in part contain any Confidential Information of Employer, which in any of these cases are in his possession or under his control.

6.05 Resignation. If the Executive's employment is terminated for any reason under the terms of this Agreement, he shall be deemed to resign (i) if a member, from the Board of Directors of the Company and any subsidiary of the Company or any other board to which he has been appointed or nominated by or on behalf of the Company and (ii) from any position with the Company or any subsidiary of the Company, including, but not limited to, as an officer of the Company or any of its subsidiaries.

6.05 Successor. The Company, or any Person which controls the Company, shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company by written agreement expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if no such succession had occurred. Failure of the Company or a controlling entity to obtain such written agreement prior to the effective date of any such succession followed by the failure of the successor

to honor this Agreement shall be a breach of this Agreement and shall entitle Executive to the rights and benefits hereunder as though he had terminated his employment with Employer for Good Reason, whether or not he terminates his employment with Employer.

7. Injunctive Relief; Arbitration.

7.01 Injunctive Relief. Executive agrees that (i) any breach or threatened breach of Sections 5 or 6.04 shall be a material breach of this Agreement, (ii) such breach will cause substantial harm to Employer and/or its customers, the amount of which will be difficult to determine and compute, (iii) the remedies of Employer at law for such breach would be inadequate to fully compensate Employer for the harm caused thereby and (iv) in addition to, but not to the exclusion of any other available remedy, Employer shall have the right to enforce the provisions of Sections 5 and 6.04 by applying for and obtaining temporary and permanent restraining orders, injunctions, decrees of specific performance and other equitable relief from any court of competent jurisdiction without the necessity of filing a bond therefor or proving irreparable harm.

7.02 Arbitration. Except as set forth in Section 7.01, any claim or dispute of any nature between the parties to this Agreement arising directly or indirectly from the relationship created by this Agreement shall be resolved exclusively by arbitration in New York, New York, in accordance with the applicable rules of the American Arbitration Association. The fees of the arbitrator(s) and other costs (not including attorneys' fees and expenses) incurred by the parties in connection with such arbitration shall be paid by the party which is unsuccessful in such arbitration. The decision of the arbitrator(s) shall be final and binding upon all parties. Judgment of the award

rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. If any dispute is submitted to arbitration, each party shall, not later than 30 days before the date set for hearing, provide to the other parties and to the arbitrator(s) a copy of all exhibits upon which the party intends to rely at the hearing and a list of all Persons each party intends to call at the hearing.

8. Indemnification.

8.01 Indemnification. Employer desires to have Executive serve as an executive officer of the Company and as a member of the Management Committee of the Company and as a member of the Board of Directors of the Company, free from any undue concern for unpredictable, inappropriate or unreasonable legal risks and personal liabilities by his acting in good faith in the performance of his duties to the Company and will, therefore, (a) indemnify Executive to the fullest extent permitted under New York law, (b) advance all expenses incurred by Executive in defending any action or proceeding to which Executive is a party by reason of the fact that he was or is a director or officer of the Company to the fullest extent permitted under New York law, and (c) purchase and maintain for the benefit of Executive directors and officers liability insurance policies and errors and omissions insurance policies in reasonable amounts from established and reputable insurers.

8.02 Indemnification Hereunder Not Exclusive. The indemnification provided by this Agreement shall not be deemed to be exclusive of any other rights to which Executive may be entitled under any Articles of Incorporation, Bylaws, agreement or resolution of shareholders or directors, the Business Corporation Law of the State of New York, or otherwise.

8.03 Survival. All agreements and obligations of Employer contained in this Section 8 shall continue during the Term and shall continue thereafter so long as Executive shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitral, administrative or investigative, by reason of the fact that Executive was serving as a director or officer of the Corporation.

9. Miscellaneous.

9.01 Governing Law. This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflict of laws issues.

9.02 Entire Agreement. This Agreement contains the entire agreement of the parties relating to the employment of Executive by Employer and supersedes all prior agreements and understandings with respect to such matters, and the parties hereto have made no agreements, representations or warranties relating to such employment which are not set forth herein; provided, however, that the benefits conferred under this Agreement are in addition to, and not in lieu of, any and all benefits conferred to Executive under plans and arrangements of Employer.

9.03 Withholding Taxes. The Company may withhold from any compensation and benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

9.04 Amendments. No amendment or modification of the terms of this Agreement shall be valid unless made in writing and signed by all parties hereto.

9.05 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law but if any provision of this Agreement is held to be invalid, illegal or unenforceable under any applicable law or rule, the validity, legality and enforceability of the other provisions of this Agreement will not be affected or impaired thereby.

9.06 No Waiver. No waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the party against whom such waiver is sought to be enforced and any such waiver shall be effective only in the specific instance and for the specific purpose for which given.

9.07 Assignment. This Agreement is a personal service contract and, subject to Section 6.05, shall not be assignable by any party without the written consent of the other parties.

9.08 Counterparts; Facsimile Signatures. This Agreement may be executed in separate counterparts, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart. A facsimile signature by any party on a counterpart of this Agreement shall be binding and effective for all purposes. Such party shall subsequently deliver to each other party an original, executed copy of this Agreement; provided, however, that a failure of such party to delivery an original, executed copy shall not invalidate its signature.

9.09 Notices. All notices and other communications relating to this Agreement will be in writing and will be deemed to have been given when personally delivered, or one Business Day following delivery to a reliable overnight courier or following transmission by electronic facsimile. All notices to the Company shall be addressed to the following address and facsimile number:

1479 Clinton Avenue
Bay Shore, NY 11706
Attn: The Vice Chairman
Facsimile No.: 631-968-5377

With a copy to:

Eaton & Van Winkle
3 Park Avenue
New York, New York 10016
Attn: Vincent J. McGill

or at such other address as the Company may have advised the Executive in writing;

All notices to Executive shall be addressed to the Executive at the following address:

333 East 66th Street, Ninth Floor,
New York, NY 10021

or at such other address as the Executive may have advised the Company in writing.

9.10 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

[The remainder of this page has been intentionally left blank]

IN WITNESS WHEREOF, Executive and the Company have executed this Employment Agreement as of the date set forth in the first paragraph.

Gales Industries Incorporated

By: /s/ Louis A. Guisto

Name: Louis A. Giusto
Title: Vice Chairman and Chief Financial Officer

/s/ Michael A. Gales

Michael A. Gales

EXHIBIT A

FORM OF OPTION AGREEMENT

EXHIBIT A to EMPLOYMENT AGREEMENT

GALES INDUSTRIES INCORPORATED

STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this ___ day of _____, 2005, by Gales Industries Incorporated, a Delaware corporation (hereinafter called the "Company"), with Michael A. Gales (hereinafter call the "Holder"):

The Company has adopted a 2005 Incentive Plan (the "Plan"). Said Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement. Terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

The Board, which in the absence of a Committee is charged with the administration of the Plan pursuant to Section 4 of the Plan, has determined that it would be to the advantage and interest of the Company to grant the option provided for herein to the Holder as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, pursuant to the Plan, the Company hereby grants to the Holder as of the date hereof an option (the "Option") to purchase all or any part of 1,250,000 shares of Common Stock of the Company, par value $.0001 per share, upon the following terms and conditions:

1. The Option shall continue in force through _____, 2015 (the "Expiration Date"), unless sooner terminated as provided herein and in the Plan. Subject to the provisions of the Plan, the right to exercise the Options shall vest as indicated below and the exercise price per share of the Options vesting as of any date shall be the greater of twenty-two ($.22) cents per share and the amount indicated below:

Date	# of Shares Which Vest	Exercise Price
The date hereof	250,000	Twenty-Two cents
September 15, 2006	250,000	Average FMV for thirty trading days ended December 15, 2005
September 15, 2007	250,000	Average FMV for thirty trading days ended September 15, 2006
September 15, 2008	250,000	Average FMV for thirty trading days ended September 15, 2007
September 15, 2009	250,000	Average FMV for thirty trading days ended September 15, 2008

For purposes hereof, FMV refers to the Fair Market Value of the shares as of the date indicated.

(a) Except as provided hereinbelow, the Option may not be exercised unless the Holder is then an employee (including officers and directors who are employees), non-employee director, consultant, advisor, agent or independent representative of the Company or any subsidiary of the Company or any combination thereof and unless the Holder has remained in the continuous employ or service thereof from the date of grant.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) the aggregate Fair Market Value of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value of the Common Stock or other securities for which this option or any other Incentive Stock Options granted to Holder prior to the date hereof (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollars ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Qualified Stock Option.

2. In the event that the employment or service of the Holder shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Holder was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date, provided, however, that if such termination shall have been for cause or voluntarily by the Holder and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement) or voluntarily by the Holder and Holder accepts employment with a competitor of the Company, the Option and all rights of the Holder hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Holder any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time.

3. If the Holder shall (a) die while he is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his part and without the Consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of normal retirement or voluntarily by the Holder and Holder accepts employment with a competitor of the Company), or (b) become permanently and totally disabled within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Holder or by the person or persons to whom the Holder's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Holder, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

4. (a) The Holder may exercise the Option with respect to all or any part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 8 hereof, of such exercise. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the

Option is being exercised; provided that, if permitted by the Board, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value should be determined pursuant to the Plan.

(b) The Holder shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

5. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding shares of the Company by reason of a stock dividend, split-up, split-down, reverse split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off, reorganization, liquidation or the like, then the aggregate number of shares and price per unit subject to the Option shall be appropriately adjusted by the Board, whose determination shall be conclusive. 1.
6. This Option shall be nontransferable and shall no be assignable, alienable, saleable or otherwise transferable by the Holder other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the life of the Holder, this Option shall be exercisable only by him. Notwithstanding the foregoing, to the extent the Option is deemed a Non-Qualified Stock Option, the Holder shall be permitted to transfer such Option to family members or family trusts established by the Holder. Except as otherwise provided for herein, in the event that the Holder terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Holder may nominate a third party, including but not limited to a "blind" trust, to act on behalf or and for the benefit of the Holder with respect to the Option. In addition, the Holder may designate a beneficiary or beneficiaries to exercise the rights of the Holder and receive any distributions upon the death of the Holder.

7. Neither the Holder nor in the event of his death, any person entitled to exercise his rights, shall have any of the rights of a member with respect to the shares subject to the Option until shares have been registered in the name of the Holder or his estate, as the case may be.

8. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its Chairman, Michael Gales, and any notice to the Holder shall be addressed to him at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States.

9. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Board, or if one had been appointed, the Committee (as constituted at the time of such determination) of the rights of the Holder shall be conclusive, final and binding upon the Holder and upon any other person who shall assert any right pursuant to this Option.

GALES INDUSTRIES INCORPORATED

By:

Name: Louis A. Giusto
Title: Vice Chairman and Chief Financial Officer

ACCEPTED AND AGREED:

- ---
Michael A. Gales

FORM OF NOTICE OF EXERCISE

TO: GALES INDUSTIRES INCORPORATED

The undersigned hereby exercises his option to purchase _____ shares of Common Stock of Gales Industries Incorporated (the "Company") as provided in the Stock Option Agreement dated as of _____, ___ at $_____ per share, a total of $_____ and makes payment therefor as follows:

(1) To the extent of $_____ of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock which, valued at $_____ per share, the fair market value thereof, equals such portion of the purchase price.

(2) To the extent of the balance of the purchase price, the undersigned has enclosed a check payable to the order of the Company for $_____.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his own account for investment, and not with a view to the distribution of any thereof, and agrees that he will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Signature: _____

Address: _____

_____

_____

Dated: _____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of the 26th day of September, 2005, by and among Gales Industries Incorporated, a Delaware corporation (the "Company") and Louis A. Giusto, a resident of the State of New York ("Executive"). The Company is sometimes referred to herein as the "Employer".

WHEREAS, the Employer wishes to employ Executive on the terms and conditions set forth in this Agreement, and Executive wishes to be retained and employed by the Employer on such terms and conditions.

NOW, THEREFORE, in consideration of the premises and the respective undertakings of the Employer and Executive set forth below, the Employer and Executive hereby agree as follows:

1. Employment. The Employer hereby employs Executive, and Executive hereby accepts such employment and agrees to perform services for the Employer, for the period and on the other terms and subject to the conditions set forth in this Agreement.

2. Term. Unless terminated at an earlier date in accordance with the provisions of Section 6 of this Agreement, the initial term of Executive's employment hereunder shall be a period of five (5) years commencing on the effective date (the "Effective Date") of the Company's acquisition of the shares of Air Industries Machining, Corp. (the "Initial Term"). This Agreement shall be automatically extended for successive three (3) one year periods (each, a "Renewal Term", and together with the Initial Term, the "Term") unless (i) any party objects to such extension by no less than ninety (90) days' prior written notice to the other parties at any time prior to the expiration of the Initial Term or a Renewal Term, as the case may be, or (ii) this Agreement is terminated at an earlier date in accordance with the provisions of Section 6.

3. Position and Duties.

3.01 Service with the Employer. The Employer hereby employs Executive in an executive capacity during the Term initially with the title of Vice Chairman of the Board of Directors, Vice Chairman of the Management Committee and Chief Financial Officer and Treasurer of the Company, and Executive hereby accepts such employment and undertakes and agrees to serve in such capacities during the Term. In addition, the Company agrees to cause Executive to be elected as a member of the Board of Directors and Management Committee of the Company. In such capacities, Executive shall have such powers, perform such duties and fulfill such responsibilities typically associated with such positions in other publicly held companies.

3.02 Performance of Duties. Executive agrees to serve Employer to the best of his ability and to devote his full time, attention and efforts to the business and affairs of the Employer during the Term. Notwithstanding the foregoing, Executive shall not be precluded from accepting service as a director of other businesses or community organizations or from the management of his investments, provided, however, that any such business shall not be competitive with the Company and such service shall not detract from Executive's performance or time commitment hereunder. Executive shall report directly to the Executive Chairman and the Board of Directors of the Company.

3.03 Key-man Life Insurance. Should the Company determine to obtain key-man life insurance payable to the Company in the event of the death of Executive, Executive agrees to cooperate with such effort.

4. Compensation.

4.01 Base Salary. As base compensation for all services to be rendered by Executive under this Agreement, the Company shall pay to Executive an annual base salary, which annual base salary shall be $230,000 per year for the initial twelve-month period of the Term (as adjusted pursuant to this Section 4.01, the "Base Salary"), which Base Salary shall be paid on a weekly basis in accordance with the Company's normal payroll procedures and policies, subject to applicable deductions as required by law. The amount of the Executive's Base Salary (a) shall be reviewed annually by the Board of Directors of the Company, (b) shall be increased annually from the amount of the Base Salary paid to Executive during the prior twelve-month period (each, a "Prior Period") of the Term on the basis, inter alia, of the profitability and performance of the Company, on a consolidated basis, during such Prior Period, which increase shall in no event be less than ten percent (10%) of the amount of the Base Salary paid to Executive during such Prior Period, provided that Operating Profits during such Prior Period are at least five percent (5%) greater than the Operating Profits during the twelve-month period prior to such Prior Period and (c) shall under no circumstance be reduced from the amount of the Base Salary paid to Executive during the applicable Prior Period. "Operating Profits" means the consolidated net income during the applicable period, as reported on the Company's consolidated financial statements, plus current interest expense, noncash expenses related to any employee stock ownership plan established by the Company, provisions for taxes based on income, any extraordinary losses for such period, minus any extraordinary gains for such period, but without adjustment for any noncash income or noncash charges which are classified as such under generally accepted accounting principles in the United States (other than noncash expenses related to any employee stock ownership plan established by the Company).

4.02 Annual Bonus. In addition to Base Salary, the Company shall pay to Executive an annual bonus. The amount of the annual bonus to be paid to Executive with respect to any twelve-month period during the Term shall be determined at the discretion of the Board of Directors of the Company, provided, however, that the amount of such annual bonus shall be reasonably predicated on Executive's performance and the achievement by the Company of its operating targets as set forth in the applicable budget adopted by the Board of Directors of the Company in consultation with Executive; provided, further, in no event shall the amount of the such annual bonus be less than fifty percent (50%) of Base Salary paid to Executive during the twelve-month period in which the annual bonus is paid. In addition, Executive shall participate in all other bonus programs that Employer may adopt from time to time in which senior employees are entitled to participate.

4.03 Participation in Benefit Plans. The Company will either pay, or reimburse Executive, for the amount of the premiums due for a long-term disability policy providing benefits of no less than one-half of Executive's salary until age 70 with respect to Executive and a life insurance policy on the life of Executive. Such life insurance policy will pay Executive's designated beneficiary or beneficiaries no less than three times the amount of the Base Salary that was being paid to Executive at the time of his death. In addition, Executive shall also be entitled to participate in all employee benefit plans or programs offered to senior employees of Employer (to the extent that Executive meets the requirements for each such plan or program), including without limitation participation in any health, disability, dental, eye care, 401(k), deferred compensation and other similar plans (together with the life insurance and disability policies, "Benefits"), as such plans and programs may be or have been adopted from time to time.

(b) Employer intends to implement a plan relating to future acquisitions of other businesses, pursuant to which a portion of a corporate overhead charge implemented in connection with each acquisition will be allocated in good faith by the Company's Board of Directors to compensation for executive-level employees of the Company. Upon adoption of such plan, it shall provide that Executive will be entitled to no less than 25% of the portion of the corporate overhead charged allocated to executive-level compensation with respect to each such acquisition consummated at any time during the period from the date of adoption of such plan until the date on which the Employer's obligations to pay Benefits has terminated pursuant to Section 6.02.

4.04 Automobile and Other Expenses. The Company will pay to Executive no less than $700 per month (adjusted annually for inflation, as determined by the Company's Board of Directors) during the Term as reimbursement for business-related operating expenses for an automobile to be used by Executive, including without limitation automobile lease payments, insurance, service and repairs in the ordinary course. In addition, the Company shall pay or reimburse Executive for all reasonable out-of-pocket expenses incurred by him in the performance of his duties under this Agreement, subject to the presentment and approval of appropriate itemized expense statements, receipts, vouchers or other supporting documentation in accordance with the Company's normal policies.

4.05 Vacation. Executive shall be entitled to no less paid vacation than other senior employees of the Company receive pursuant to the Company's standard vacation policies, provided, however, that Executive shall be entitled to no less than five (5) weeks of paid vacation during each twelve (12) month period during the Term.

4.06 Stock Options and Other Incentive Compensation. To further the attainment of the Company's long-term profit and growth objectives, the Company hereby grants Executive, contemporaneously with the execution of this Agreement, options to purchase such number of shares of common stock of the Company as will convert into 1,200,000 shares of common stock (the "Common Stock") of the public entity with which the Company merges upon acquisition of Air Industries Machining, Corp. The exercise price of 240,000 of such options shall be twenty-two cents and the exercise price of the remaining options shall be determined in accordance with the provisions of the Option Agreement being delivered simultaneously herewith. In addition, Executive shall be entitled to participate in all other stock option, revenue sharing, profit sharing, long-term accumulation and/or stock based plans or programs that the Company may adopt from time to time. For purposes of any Common Stock options or other similar programs to be granted hereunder, such Common Stock and rights shall be defined to include the Common Stock of any successor corporation or other entity into which the Company is merged, or which acquires substantially all the assets of the Company.

5. Additional Covenants.

5.01 Acknowledgments and Stipulations. Executive acknowledges that he is agreeing to the covenants set forth in this Section 5 (a) in consideration of the substantial economic benefits derived by Executive under the terms of this Agreement, (b) in recognition that the services rendered by Executive to Employer will be unique, as are Executive's abilities, skills and experience, (c) in recognition that, as a result of his employment, Executive will acquire and participate in the creation of knowledge and information of a confidential and/or proprietary nature relating to the business of the Company and its affiliates, which is valuable to the Company because the Company will expend substantial time, effort and money to develop such knowledge and information, (d) to induce Employer to employ Executive and disclose certain of such information to Executive, and (e) to induce Employer to enter into this Agreement.

5.02 Nonsolicitation of Customers and Executives. At all times during the term of Executive's employment with the Employer and for a period of twelve (12) months following the termination of such employment pursuant to Section 6.01(a) or Section 6.01(f) hereto, (a) Executive 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, or interfere with the business relationship of the Employer with any customer of the Employer, and (b) Executive shall not directly or indirectly cause any other person to employ, solicit, disturb, entice away, or in any other manner persuade any employee of the Employer or its affiliates to discontinue or alter his or her relationship with the Employer.

5.03 Noncompetition. At all times during the term of Executive's employment with the Employer and for a period of twelve (12) months following the termination of such employment for any reason other than a termination of this Agreement by the Company without cause, Executive 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 Employer. Executive acknowledges and agrees that the business of the Employer is of a worldwide nature and that any geographic limitation on the foregoing covenant would be ineffective to adequately protect the interests of the Employer. Executive further acknowledges and agrees that the foregoing covenant is an integral part of his agreement to be employed hereunder, is fair and reasonable in light of all of the facts and circumstances of the relationship between Executive and the Employer. 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. Nothing contained in this Section 5.03 shall be construed as limiting the scope of this Section 5.

5.04 Limitation on Covenant not to Compete. Ownership by Executive, as a passive investment, of less than two percent (2.00%) of the outstanding shares of capital stock of any corporation, with a cost basis to Executive of less than $250,000, listed on a national securities exchange or publicly traded in the over-the-counter market shall not constitute a breach of this Section 5.

5.05 Confidential Information. Executive agrees that during and after the period of his employment, he will not, without the authorization of the Company, divulge, disclose or otherwise communicate to any person, other than as necessary or desirable for the business of the Employer pursuant to his responsibilities to the Employer during the Term, any information of a confidential nature pertaining in any way to the Employer's business, products, practices, techniques, customers, suppliers, functions or operations (the "Confidential Information"), except to the extent that such Confidential Information (a) was disclosed to Executive by a third party who did not obtain the same directly or indirectly from the Company or one of its affiliates, (b) was known by Executive prior to disclosure by the Employer, (c) at or after the time of disclosure, is or becomes generally available to the public (other than as a result of its disclosure by Executive), (d) is required to be disclosed by Executive pursuant to applicable law or an order of a governing authority applicable to Executive.

6. Termination.

6.01 Grounds for Termination. This Agreement shall terminate prior to the expiration of the Initial Term or any Renewal Term upon the occurrence of any of the following events at any time during such Initial Term or Renewal Term:

(a) The effective date of Executive's voluntary resignation, for which Executive agrees to give at least 30 days' prior written notice to the Company;

(b) Executive's death;

(c) Executive's Disability (as hereinafter defined);

(d) Executive elects to terminate his employment 30 or more days after Executive gives the Company written notice of his intent to terminate his employment ("Notice of Good Reason") for any of the following reasons (each, a "Good Reason"), provided that the Company has not eliminated the circumstances constituting Good Reason prior to the effective date of such resignation: (1) a material adverse alteration in the nature or status of Executive's title, duties or responsibilities; (2) a material adverse reduction in Executive's Base Salary and Benefits (excluding contingent salary and bonuses); (3) a requirement that Executive be based at a work location more than 50 miles from the current site of Employer (unless such new work location is closer to Executive's residence than the current site is); (4) the failure by the Company to pay to Executive any portion of Executive's compensation then due and payable; or (5) any failure by Employer to comply with the material provisions of this Agreement. The Notice of Good Reason shall indicate the specific provision above that Executive is relying upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Good Reason under the provision so indicated;

(e) Executive's termination by Employer without Cause (as hereinafter defined);

(f) Executive's termination by Employer for Cause. For the purposes of this Agreement, "Cause" means, as determined by the Board (or its designee), with respect to conduct during the Executive's employment or service relationship with the Company or its affiliates, whether or not committed during the Term, (i) commission of a felony by Executive; (ii) acts of dishonesty by Executive resulting or intending to result in personal gain or enrichment at the expense of the Company or its subsidiaries; (iii) conduct by Executive in connection with his duties hereunder that is fraudulent, unlawful or grossly negligent, including, but not limited to, acts of discrimination (provided reasonable grounds of such harassment or discrimination are established); (iv) engaging in personal conduct by Executive (including but not limited to employee harassment or discrimination (provided reasonable grounds of such harassment or discrimination are established), the use or possession at work of any illegal controlled substance) which seriously discredits or damages the Company or its subsidiaries; and (v) breach of the Executive's covenants set forth in Section 5 before termination of employment; provided, that, the Executive shall have fifteen (15) days after notice from the Company to cure the deficiency leading to the Cause determination (except with respect to (i) above), if curable. A termination for "Cause" shall be effective immediately or on such later date set forth by the Company in the notice of termination.

6.02 Severance. If Executive's employment is terminated:

(a) as a result of Sections 6.01(b) and (f), then the Company shall pay to Executive his full Base Salary, bonuses for the calendar year (or employment period) prior to the year (or employment period) in which such termination occurs and Benefits prorated through the effective date of such termination, and Executive shall be reimbursed for any expenses incurred by him pursuant to Section 4.04 through the termination date; or

(b) as a result of Section 6.01(c), 6.01(d) or 6.01(e), then the Company shall pay to Executive or Executive's estate (1) his full Base Salary, bonuses for the calendar year (or employment period) prior to the year (or employment period) in which such termination occurs, pro-rated bonuses for the current year (or period) and Benefits prorated through the effective date of such termination and (2) additional Base Salary, payable in monthly installments, plus additional Benefits, for the period from the effective date of such termination until the later of (i) one year after the effective date of such termination and (ii) the date on which the then-current Initial Term or Renewal Term, as the case may be, would have expired (provided, however, if participation by Executive in any Benefit plan or program after the termination of his employment is not permitted under such plan or program, then the Company will provide him with the equivalent benefits); Executive shall be reimbursed for any expenses incurred by him pursuant to Section 4.04 through the effective date of such termination; Executive shall be paid $700 per month (or a prorated portion thereof) for the automobile to be used by Executive from the effective date of such termination until the later of (i) one year after the effective date of such termination and (ii) the date on which the then-current Initial Term or Renewal Term, as the case may be, would have expired; and all stock options granted to Executive shall immediately vest and be exercisable as of, and for a period of twelve months after, the effective date of such termination.

6.03 "Disability" Defined. As used in this Agreement, the term "Disability" means any mental or physical condition that results in the Executive becoming unable to perform the essential functions of his position, with reasonable accommodation, for a period of at least ninety (90) days. The Executive shall be deemed to have a Disability at the end of such ninety (90) day period.

6.04 Surrender of Records and Property. Upon termination of Executive's employment by Executive or by the Company, for any reason or for no reason, Executive shall deliver promptly to the Company all records, manuals, books, blank forms, documents, letters, memoranda, notes, notebooks, reports, data, tables, and calculations, and copies thereof, in whatever medium, which are the property of Employer or which relate in any way to the business, products, practices, techniques, customers, suppliers, functions or operations of Employer, and all other property and Confidential Information of Employer, including, but not limited to, all documents which in whole or in part contain any Confidential Information of Employer, which in any of these cases are in his possession or under his control.

6.05 Resignation. If the Executive's employment is terminated for any reason under the terms of this Agreement, he shall be deemed to resign (i) if a member, from the Board of Directors of the Company and any subsidiary of the Company or any other board to which he has been appointed or nominated by or on behalf of the Company and (ii) from any position with the Company or any subsidiary of the Company, including, but not limited to, as an officer of the Company or any of its subsidiaries.

6.05 Successor. The Company, or any Person which controls the Company, shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company by written agreement expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if no such succession had occurred. Failure of the Company or a controlling entity to obtain such written agreement prior to the effective date of any such succession followed by the failure of the successor to honor this Agreement shall be a breach of this Agreement and shall entitle Executive to the rights and benefits hereunder as though he had terminated his employment with Employer for Good Reason, whether or not he terminates his employment with Employer.

7. Injunctive Relief; Arbitration.

7.01 Injunctive Relief. Executive agrees that (i) any breach or threatened breach of Sections 5 or 6.04 shall be a material breach of this Agreement, (ii) such breach will cause substantial harm to Employer and/or its customers, the amount of which will be difficult to determine and compute, (iii) the remedies of Employer at law for such breach would be inadequate to fully compensate Employer for the harm caused thereby and (iv) in addition to, but not to the exclusion of any other available remedy, Employer shall have the right to enforce the provisions of Sections 5 and 6.04 by applying for and obtaining temporary and permanent restraining orders, injunctions, decrees of specific performance and other equitable relief from any court of competent jurisdiction without the necessity of filing a bond therefor or proving irreparable harm.

7.02 Arbitration. Except as set forth in Section 7.01, any claim or dispute of any nature between the parties to this Agreement arising directly or indirectly from the relationship created by this Agreement shall be resolved exclusively by arbitration in New York, New York, in accordance with the applicable rules of the American Arbitration Association. The fees of the arbitrator(s) and other costs (not including attorneys' fees and expenses) incurred by the parties in connection with such arbitration shall be paid by the party which is unsuccessful in such arbitration. The decision of the arbitrator(s) shall be final and binding upon all parties. Judgment of the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. If any dispute is submitted to arbitration, each party shall, not later than 30 days before the date set for hearing, provide to the other parties and to the arbitrator(s) a copy of all exhibits upon which the party intends to rely at the hearing and a list of all Persons each party intends to call at the hearing.

8. Indemnification.

8.01 Indemnification. Employer desires to have Executive serve as an executive officer of the Company and as a member of the Management Committee of the Company and as a member of the Board of Directors of the Company, free from any undue concern for unpredictable, inappropriate or unreasonable legal risks and personal liabilities by his acting in good faith in the performance of his duties to the Company and will, therefore, (a) indemnify Executive to the fullest extent permitted under New York law, (b) advance all expenses incurred by Executive in defending any action or proceeding to which Executive is a party by reason of the fact that he was or is a director or officer of the Company to the fullest extent permitted under New York law, and (c) purchase and maintain for the benefit of Executive directors and officers liability insurance policies and errors and omissions insurance policies in reasonable amounts from established and reputable insurers.

8.02 Indemnification Hereunder Not Exclusive. The indemnification provided by this Agreement shall not be deemed to be exclusive of any other rights to which Executive may be entitled under any Articles of Incorporation, Bylaws, agreement or resolution of shareholders or directors, the Business Corporation Law of the State of New York, or otherwise.

8.03 Survival. All agreements and obligations of Employer contained in this Section 8 shall continue during the Term and shall continue thereafter so long as Executive shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitral, administrative or investigative, by reason of the fact that Executive was serving as a director or officer of the Company.

9. Miscellaneous.

9.01 Governing Law. This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflict of laws issues.

9.02 Entire Agreement. This Agreement contains the entire agreement of the parties relating to the employment of Executive by Employer and supersedes all prior agreements and understandings with respect to such matters, and the parties hereto have made no agreements, representations or warranties relating to such employment which are not set forth herein; provided, however, that the benefits conferred under this Agreement are in addition to, and not in lieu of, any and all benefits conferred to Executive under plans and arrangements of Employer.

9.03 Withholding Taxes. The Company may withhold from any compensation and benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

9.04 Amendments. No amendment or modification of the terms of this Agreement shall be valid unless made in writing and signed by all parties hereto.

9.05 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law but if any provision of this Agreement is held to be invalid, illegal or unenforceable under any applicable law or rule, the validity, legality and enforceability of the other provisions of this Agreement will not be affected or impaired thereby.

9.06 No Waiver. No waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the party against whom such waiver is sought to be enforced and any such waiver shall be effective only in the specific instance and for the specific purpose for which given.

9.07 Assignment. This Agreement is a personal service contract and, subject to Section 6.05, shall not be assignable by any party without the written consent of the other parties.

9.08 Counterparts; Facsimile Signatures. This Agreement may be executed in separate counterparts, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart. A facsimile signature by any party on a counterpart of this Agreement shall be binding and effective for all purposes. Such party shall subsequently deliver to each other party an original, executed copy of this Agreement; provided, however, that a failure of such party to delivery an original, executed copy shall not invalidate its signature.

9.09 Notices. All notices and other communications relating to this Agreement will be in writing and will be deemed to have been given when personally delivered, or one Business Day following delivery to a reliable overnight courier or following transmission by electronic facsimile. All notices to the Company shall be addressed to the following address and facsimile number:

1479 Clinton Avenue
Bay Shore, NY 11706
Attn: The President
Facsimile No.: 631-968-5377

With a copy to:

Eaton & Van Winkle
3 Park Avenue
New York, New York 10016
Attn: Vincent J. McGill

or at such other address as the Company may have advised the Executive in writing;

All notices to Executive shall be addressed to the Executive at the following address:

333 East 66th Street, Ninth Floor
New York, NY 10021

or at such other address as the Executive may have advised the Company in writing.

9.10 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

[The remainder of this page has been intentionally left blank]

IN WITNESS WHEREOF, Executive and the Company have executed this Employment Agreement as of the date set forth in the first paragraph.

Gales Industries Incorporated

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

/s/ Louis A. Guisto

Louis A. Guisto

EXHIBIT A

FORM OF OPTION AGREEMENT

EXHIBIT A to EMPLOYMENT AGREEMENT

GALES INDUSTRIES INCORPORATED

STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this ___ day of _____, 2005, by Gales Industries Incorporated, a Delaware corporation (hereinafter called the "Company"), with Louis A. Giusto (hereinafter call the "Holder"):

The Company has adopted a 2005 Incentive Plan (the "Plan"). Said Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement. Terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

The Board, which in the absence of a Committee is charged with the administration of the Plan pursuant to Section 4 of the Plan, has determined that it would be to the advantage and interest of the Company to grant the option provided for herein to the Holder as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, pursuant to the Plan, the Company hereby grants to the Holder as of the date hereof an option (the "Option") to purchase all or any part of 1,200,000 shares of Common Stock of the Company, par value $.0001 per share, upon the following terms and conditions:

1. The Option shall continue in force through _____, 2015 (the "Expiration Date"), unless sooner terminated as provided herein and in the Plan. Subject to the provisions of the Plan, the right to exercise the Options shall vest as indicated below and the exercise price per share of the Options vesting as of any date shall be the greater of twenty-two ($.22) cents per share and the amount indicated below:

Date	# of Shares Which Vest	Exercise Price
The date hereof	240,000	Twenty-Two cents
September 15, 2006	240,000	Average FMV for thirty trading days ended December 15, 2005
September 15, 2007	240,000	Average FMV for thirty trading days ended September 15, 2006
September 15, 2008	240,000	Average FMV for thirty trading days ended September 15, 2007
September 15, 2009	240,000	Average FMV for thirty trading days ended September 15, 2008

For purposes hereof, FMV refers to the Fair Market Value of the shares as of the date indicated.

(a) Except as provided hereinbelow, the Option may not be exercised unless the Holder is then an employee (including officers and directors who are employees), non-employee director, consultant, advisor, agent or independent representative of the Company or any subsidiary of the Company or any combination thereof and unless the Holder has remained in the continuous employ or service thereof from the date of grant.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) the aggregate Fair Market Value of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value of the Common Stock or other securities for which this option or any other Incentive Stock Options granted to Holder prior to the date hereof (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollars ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Qualified Stock Option.

2. In the event that the employment or service of the Holder shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Holder was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date, provided, however, that if such termination shall have been for cause or voluntarily by the Holder and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement) or voluntarily by the Holder and Holder accepts employment with a competitor of the Company, the Option and all rights of the Holder hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Holder any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time.

3. If the Holder shall (a) die while he is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his part and without the Consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of normal retirement or voluntarily by the Holder and Holder accepts employment with a competitor of the Company), or (b) become permanently and totally disabled within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Holder or by the person or persons to whom the Holder's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Holder, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

4. (a) The Holder may exercise the Option with respect to all or any part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 8 hereof, of such exercise. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the Option is being exercised; provided that, if permitted by the Board, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value should be determined pursuant to the Plan.

(b) The Holder shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

5. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding shares of the Company by reason of a stock dividend, split-up, split-down, reverse split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off, reorganization, liquidation or the like, then the aggregate number of shares and price per unit subject to the Option shall be appropriately adjusted by the Board, whose determination shall be conclusive. 1.
6. This Option shall be nontransferable and shall no be assignable, alienable, saleable or otherwise transferable by the Holder other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the life of the Holder, this Option shall be exercisable only by him. Notwithstanding the foregoing, to the extent the Option is deemed a Non-Qualified Stock Option, the Holder shall be permitted to transfer such Option to family members or family trusts established by the Holder. Except as otherwise provided for herein, in the event that the Holder terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Holder may nominate a third party, including but not limited to a "blind" trust, to act on behalf or and for the benefit of the Holder with respect to the Option. In addition, the Holder may designate a beneficiary or beneficiaries to exercise the rights of the Holder and receive any distributions upon the death of the Holder.

7. Neither the Holder nor in the event of his death, any person entitled to exercise his rights, shall have any of the rights of a member with respect to the shares subject to the Option until shares have been registered in the name of the Holder or his estate, as the case may be.

8. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its Chairman, Michael Gales, and any notice to the Holder shall be addressed to him at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States.

9. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Board, or if one had been appointed, the Committee (as constituted at the time of such determination) of the rights of the Holder shall be conclusive, final and binding upon the Holder and upon any other person who shall assert any right pursuant to this Option.

GALES INDUSTRIES INCORPORATED

By:

Name: Michael Gales
Title: Executive Chairman

ACCEPTED AND AGREED:

- ---
Louis A. Giusto

FORM OF NOTICE OF EXERCISE

TO: GALES INDUSTIRES INCORPORATED

The undersigned hereby exercises his option to purchase _____ shares of Common Stock of Gales Industries Incorporated (the "Company") as provided in the Stock Option Agreement dated as of _____, ___ at $_____ per share, a total of $_____ and makes payment therefor as follows:

(1) To the extent of $_____ of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock which, valued at $_____ per share, the fair market value thereof, equals such portion of the purchase price.

(2) To the extent of the balance of the purchase price, the undersigned has enclosed a check payable to the order of the Company for $_____.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his own account for investment, and not with a view to the distribution of any thereof, and agrees that he will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Signature: _____

Address: _____

_____

_____

Dated: _____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of the 26th day of September, 2005, by and among Gales Industries Incorporated, a Delaware corporation (the "Company"), Air Industries Machining, Corp., a New York corporation (the "Subsidiary"), and Peter D. Rettaliata, a resident of the State of New York ("Executive"). The Company and the Subsidiary are sometimes referred to herein jointly as the "Employer".

WHEREAS, the Employer wishes to employ Executive on the terms and conditions set forth in this Agreement, and Executive wishes to be retained and employed by the Employer on such terms and conditions.

NOW, THEREFORE, in consideration of the premises and the respective undertakings of the Employer and Executive set forth below, the Employer and Executive hereby agree as follows:

1. Employment. The Employer hereby employs Executive, and Executive hereby accepts such employment and agrees to perform services for the Employer, for the period and on the other terms and subject to the conditions set forth in this Agreement.

2. Term. Unless terminated at an earlier date in accordance with the provisions of Section 6 of this Agreement, the initial term of Executive's employment hereunder shall be a period of five (5) years commencing on the effective date (the "Effective Date") of the Company's acquisition of the shares of the Subsidiary (the "Initial Term"). This Agreement shall be automatically extended for successive three (3) one year periods (each, a "Renewal Term", and together with the Initial Term, the "Term") unless (i) any party objects to such extension by no less than ninety (90) days' prior written notice to the other parties at any time prior to the expiration of the Initial Term or a Renewal Term, as the case may be, or (ii) this Agreement is terminated at an earlier date in accordance with the provisions of Section 6.

3. Position and Duties.

3.01 Service with the Employer. The Employer hereby employs Executive in an executive capacity during the Term with the title of Chief Executive Officer and President of the Company and President of the Subsidiary, and Executive hereby accepts such employment and undertakes and agrees to serve in such capacities during the Term. In such position, Executive shall be a member of the Office of the Executive Chairman of the Company. In addition, the Company agrees to use its best efforts to cause Executive to be elected as a member of the Management and Executive Committees of the Company and as a member of the Boards of Directors of both the Company and the Subsidiary. In such capacities, Executive shall have such powers, perform such duties and fulfill such responsibilities typically associated with such positions in other publicly held companies, and Executive will have overall responsibility for the execution of the Company's business plan and all approved policies pertaining to the management of the Company and the Subsidiary.

3.02 Performance of Duties. Executive agrees to serve Employer to the best of his ability and to devote his full time, attention and efforts to the business and affairs of the Employer during the Term. Notwithstanding the foregoing, Executive shall not be precluded from accepting service as a director of other businesses or community organizations or from the management of his investments, provided, however, that any such business shall not be competitive with the Company and such service shall not detract from Executive's performance or time commitment hereunder. Executive shall report directly to the Executive Chairman and the Board of Directors of the Company and to the Board of Directors of the Subsidiary, as the case may be.

3.03 Key-man Life Insurance. Should the Company determine to obtain key-man life insurance payable to the Company in the event of the death of Executive, Executive agrees to cooperate with such effort.

4. Compensation.

4.01 Base Salary. As base compensation for all services to be rendered by Executive under this Agreement, the Company shall pay to Executive an annual base salary, which annual base salary shall be $230,000 per year for the initial twelve-month period of the Term (as adjusted pursuant to this Section 4.01, the "Base Salary"), which Base Salary shall be paid on a weekly basis in accordance with the Company's normal payroll procedures and policies, subject to applicable deductions as required by law. The amount of the Executive's Base Salary (a) shall be reviewed annually by the Board of Directors of the Company, (b) shall be increased annually from the amount of the Base Salary paid to Executive during the prior twelve-month period (each, a "Prior Period") of the Term on the basis, inter alia, of the profitability and performance of the Company, on a consolidated basis, during such Prior Period (as compared to the profitability and performance of the Company, on a consolidated basis, during the twelve-month period prior to such Prior Period), which increase shall in no event be less than five percent (5%) of the amount of the Base Salary paid to Executive during such Prior Period, provided that Operating Profits during such Prior Period are at least five percent (5%) greater than the Operating Profits during the twelve-month period prior to such Prior Period and (c) shall under no circumstance be reduced from the amount of the Base Salary paid to Executive during the applicable Prior Period. "Operating Profits" means the consolidated net income during the applicable period, as reported on the Company's consolidated financial statements, plus current

interest expense, noncash expenses related to any employee stock ownership plan established by the Company, provisions for taxes based on income, any extraordinary losses for such period, minus any extraordinary gains for such period, but without adjustment for any noncash income or noncash charges which are classified as such under generally accepted accounting principles in the United States (other than noncash expenses related to any employee stock ownership plan established by the Company).

4.02 Annual Bonus. In addition to Base Salary, the Company shall pay to Executive an annual bonus. The amount of the annual bonus to be paid to Executive with respect to any twelve-month period during the Term shall be determined at the discretion of the Board of Directors of the Company, provided, however, that the amount of such annual bonus shall be reasonably predicated on Executive's performance and the achievement by the Company of its operating targets as set forth in the applicable budget adopted by the Board of Directors of the Company in consultation with Executive. In addition, Executive shall participate in all other bonus programs that Employer may adopt from time to time in which senior employees are entitled to participate.

4.03 Participation in Benefit Plans. (a) The Company will either pay, or reimburse Executive, for the amount of the premiums due for a long-term disability policy providing benefits of no less than one-half of Executive's salary until age 65 with respect to Executive and a life insurance policy on the life of Executive. Such life insurance policy will pay Executive's designated beneficiary or beneficiaries no less than two times the amount of the Base Salary that was being paid to Executive at the time of his death. In addition, Executive shall also be entitled to participate in all employee benefit plans or

programs offered to senior employees of Employer (to the extent that Executive meets the requirements for each such plan or program), including without limitation participation in any health, disability, dental, eye care, 401(k), deferred compensation and other similar plans (together with the life insurance and disability policies, "Benefits"), as such plans and programs may be or have been adopted from time to time.

(b) Employer intends to implement a plan relating to future acquisitions of other businesses, pursuant to which a portion of a corporate overhead charge implemented in connection with each acquisition will be allocated in good faith by the Company's Board of Directors to compensation for executive-level employees of the Company. Upon adoption of such plan, it shall provide that Executive will be entitled to no less than 15% of the portion of the corporate overhead charged allocated to executive-level compensation with respect to each such acquisition consummated at any time during the period from the date of adoption of such plan until the date on which the Employer's obligations to pay Benefits has terminated pursuant to Section 6.02.

4.04 Automobile and Other Expenses. The Company will pay to Executive no less than $700 per month (adjusted annually for inflation, as determined by the Company's Board of Directors) during the Term as reimbursement for business-related operating expenses for an automobile to be used by Executive, including without limitation automobile lease payments, insurance, service and repairs in the ordinary course. In addition, the Company shall pay or reimburse Executive for all reasonable out-of-pocket expenses incurred by him in the performance of his duties under this Agreement, subject to the presentment and approval of appropriate itemized expense statements, receipts, vouchers or other supporting documentation in accordance with the Company's normal policies.

4.05 Vacation. Executive shall be entitled to no less paid vacation than other senior employees of the Company receive pursuant to the Company's standard vacation policies, provided, however, that Executive shall be entitled to no less than three (3) weeks of paid vacation during each twelve (12) month period during the Term.

4.06 Stock Options and Other Incentive Compensation. To further the attainment of the Company's long-term profit and growth objectives, the Company hereby grants Executive, contemporaneously with the execution of this Agreement, options to purchase such number of shares of common stock of the Company as will convert into 1,200,000 shares of common stock (the "Common Stock") of the public entity with which the Company merges upon acquisition of the Subsidiary. The exercise price of 150,000 of such options shall be twenty-two cents and the exercise price of the remaining options shall be determined in accordance with the provisions of the Option Agreement being delivered simultaneously herewith. In addition, Executive shall be entitled to participate in all other stock option, revenue sharing, profit sharing, long-term accumulation and/or stock based plans or programs that the Company or the Subsidiary may adopt from time to time. For purposes of any Common Stock options or other similar programs to be granted hereunder, such Common Stock and rights shall be defined to include the Common Stock of any successor corporation or other entity into which the Company is merged, or which acquires substantially all the assets of the Company.

5. Additional Covenants.

5.01 Acknowledgments and Stipulations. Executive acknowledges that he is agreeing to the covenants set forth in this Section 5 (a) in consideration of the substantial economic benefits derived by Executive under the terms of this Agreement, (b) in recognition that the services rendered by Executive to

Employer will be unique, as are Executive's abilities, skills and experience, (c) in recognition that, as a result of his employment, Executive will acquire and participate in the creation of knowledge and information of a confidential and/or proprietary nature relating to the business of the Company and its affiliates, which is valuable to the Company because the Company will expend substantial time, effort and money to develop such knowledge and information, (d) to induce Employer to employ Executive and disclose certain of such information to Executive, and (e) to induce Employer to enter into this Agreement.

5.02 Nonsolicitation of Customers and Executives. At all times during the term of Executive's employment with the Employer and for a period of twelve (12) months following the termination of such employment pursuant to Section 6.01(a) or Section 6.01(f) hereto, (a) Executive 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, or interfere with the business relationship of the Employer with any customer of the Employer, and (b) Executive shall not directly or indirectly cause any other person to employ, solicit, disturb, entice away, or in any other manner persuade any employee of the Employer or its affiliates to discontinue or alter his or her relationship with the Employer.

5.03 Noncompetition. At all times during the term of Executive's employment with the Employer and for a period of twelve (12) months following the termination of such employment for any reason other than a termination of this Agreement by the Company without cause, Executive 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 Employer. Executive acknowledges and agrees that the business of the Employer is of a worldwide

nature and that any geographic limitation on the foregoing covenant would be ineffective to adequately protect the interests of the Employer. Executive further acknowledges and agrees that the foregoing covenant is an integral part of his agreement to be employed hereunder, is fair and reasonable in light of all of the facts and circumstances of the relationship between Executive and the Employer. 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. Nothing contained in this Section 5.03 shall be construed as limiting the scope of this Section 5.

5.04 Limitation on Covenant not to Compete. Ownership by Executive, as a passive investment, of less than two percent (2.00%) of the outstanding shares of capital stock of any corporation, with a cost basis to Executive of less than $250,000, listed on a national securities exchange or publicly traded in the over-the-counter market shall not constitute a breach of this Section 5.

5.05 Confidential Information. Executive agrees that during and after the period of his employment, he will not, without the authorization of the Company, divulge, disclose or otherwise communicate to any person, other than as necessary or desirable for the business of the Employer pursuant to his responsibilities to the Employer during the Term, any information of a confidential nature pertaining in any way to the Employer's business, products, practices, techniques, customers, suppliers, functions or operations (the "Confidential Information"), except to the extent that such Confidential Information (a) was disclosed to Executive by a third party who did not obtain the same directly or indirectly from the Company or one of its affiliates, (b)

was known by Executive prior to disclosure by the Employer, (c) at or after the time of disclosure, is or becomes generally available to the public (other than as a result of its disclosure by Executive), (d) is required to be disclosed by Executive pursuant to applicable law or an order of a governing authority applicable to Executive.

6. Termination.

6.01 Grounds for Termination. This Agreement shall terminate prior to the expiration of the Initial Term or any Renewal Term upon the occurrence of any of the following events at any time during such Initial Term or Renewal Term:

(a) The effective date of Executive's voluntary resignation, for which Executive agrees to give at least 30 days' prior written notice to the Company;

(b) Executive's death;

(c) Executive's Disability (as hereinafter defined);

(d) Executive elects to terminate his employment 30 or more days after Executive gives the Company written notice of his intent to terminate his employment ("Notice of Good Reason") for any of the following reasons (each, a "Good Reason"), provided that the Company has not eliminated the circumstances constituting Good Reason prior to the effective date of such resignation: (1) a material adverse alteration in the nature or status of Executive's title, duties or responsibilities; (2) a material adverse reduction in Executive's Base Salary and Benefits (excluding contingent salary and bonuses); (3) a requirement that Executive be based at a work location more than 50 miles from the current site of Employer (unless such new work location is closer to Executive's residence than the current site is); (4) the failure by the Company to pay to Executive any portion of Executive's compensation then due and payable; or (5) any failure

by Employer to comply with the material provisions of this Agreement. The Notice of Good Reason shall indicate the specific provision above that Executive is relying upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Good Reason under the provision so indicated;

(e) Executive's termination by Employer without Cause (as hereinafter defined);

(f) Executive's termination by Employer for Cause. For the purposes of this Agreement, "Cause" means, as determined by the Board (or its designee), with respect to conduct during the Executive's employment or service relationship with the Company or its affiliates, whether or not committed during the Term, (i) commission of a felony by Executive; (ii) acts of dishonesty by Executive resulting or intending to result in personal gain or enrichment at the expense of the Company or its subsidiaries; (iii) conduct by Executive in connection with his duties hereunder that is fraudulent, unlawful or grossly negligent, including, but not limited to, acts of discrimination; (iv) engaging in personal conduct by Executive (including but not limited to employee harassment or discrimination, the use or possession at work of any illegal controlled substance) which seriously discredits or damages the Company or its subsidiaries; and (v) breach of the Executive's covenants set forth in Section 5 before termination of employment; provided, that, the Executive shall have fifteen (15) days after notice from the Company to cure the deficiency leading to the Cause determination (except with respect to (i) above), if curable. A termination for "Cause" shall be effective immediately or on such later date set forth by the Company in the notice of termination.

6.02 Severance. If Executive's employment is terminated:

(a) as a result of Section 6.01(b) and (f), then the Company shall pay to Executive his full Base Salary, bonuses for the calendar year (or employment period) prior to the year (or employment period) in which such termination occurs and Benefits prorated through the effective date of such

termination, and Executive shall be reimbursed for any expenses incurred by him pursuant to Section 4.04 through the termination date; or

(b) as a result of Section 6.01(c), 6.01(d) or 6.01(e), then the Company shall pay to Executive or Executive's estate (1) his full Base Salary, bonuses for the calendar year (or employment period) prior to the year (or employment period) in which such termination occurs, pro-rated bonuses for the current year (or period) and Benefits prorated through the effective date of such termination and (2) additional Base Salary, payable in monthly installments, plus additional Benefits, for the period from the effective date of such termination until the later of (i) one year after the effective date of such termination and (ii) the date on which the then-current Initial Term or Renewal Term, as the case may be, would have expired (provided, however, if participation by Executive in any Benefit plan or program after the termination of his employment is not permitted under such plan or program, then the Company will provide him with the equivalent benefits); Executive shall be reimbursed for any expenses incurred by him pursuant to Section 4.04 through the effective date of such termination; Executive shall be paid $700 per month (or a prorated portion thereof) for the automobile to be used by Executive from the effective date of such termination until the later of (i) one year after the effective date of such termination and (ii) the date on which the then-current Initial Term or Renewal Term, as the case may be, would have expired; and all stock options granted to Executive shall immediately vest and be exercisable as of, and for a period of twelve months after, the effective date of such termination.

6.03 "Disability" Defined. As used in this Agreement, the term "Disability" means any mental or physical condition that results in the Executive becoming unable to perform the essential functions of his position, with reasonable accommodation, for a period of at least ninety (90) days. The Executive shall be deemed to have a Disability at the end of such ninety (90) day period.

6.04 Surrender of Records and Property. Upon termination of Executive's employment by Executive or by the Company, for any reason or for no reason, Executive shall deliver promptly to the Company all records, manuals, books, blank forms, documents, letters, memoranda, notes, notebooks, reports, data, tables, and calculations, and copies thereof, in whatever medium, which are the property of Employer or which relate in any way to the business, products, practices, techniques, customers, suppliers, functions or operations of Employer, and all other property and Confidential Information of Employer, including, but not limited to, all documents which in whole or in part contain any Confidential Information of Employer, which in any of these cases are in his possession or under his control.

6.05 Resignation. If the Executive's employment is terminated for any reason under the terms of this Agreement, he shall be deemed to resign (i) if a member, from the Board of Directors of the Company and any subsidiary of the Company or any other board to which he has been appointed or nominated by or on behalf of the Company and (ii) from any position with the Company or any subsidiary of the Company, including, but not limited to, as an officer of the Company or any of its subsidiaries.

6.05 Successor. The Company, or any Person which controls the Company, shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company by written agreement expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company and the Subsidiary would be required to perform if no such succession had occurred. Failure of the Company or a controlling entity to obtain such written agreement prior to the effective date of any such succession followed by the

failure of the successor to honor this Agreement shall be a breach of this Agreement and shall entitle Executive to the rights and benefits hereunder as though he had terminated his employment with Employer for Good Reason, whether or not he terminates his employment with Employer.

7. Injunctive Relief; Arbitration.

7.01 Injunctive Relief. Executive agrees that (i) any breach or threatened breach of Sections 5 or 6.04 shall be a material breach of this Agreement, (ii) such breach will cause substantial harm to Employer and/or its customers, the amount of which will be difficult to determine and compute, (iii) the remedies of Employer at law for such breach would be inadequate to fully compensate Employer for the harm caused thereby and (iv) in addition to, but not to the exclusion of any other available remedy, Employer shall have the right to enforce the provisions of Sections 5 and 6.04 by applying for and obtaining temporary and permanent restraining orders, injunctions, decrees of specific performance and other equitable relief from any court of competent jurisdiction without the necessity of filing a bond therefor or proving irreparable harm.

7.02 Arbitration. Except as set forth in Section 7.01, any claim or dispute of any nature between the parties to this Agreement arising directly or indirectly from the relationship created by this Agreement shall be resolved exclusively by arbitration in New York, New York, in accordance with the applicable rules of the American Arbitration Association. The fees of the arbitrator(s) and other costs (not including attorneys' fees and expenses) incurred by the parties in connection with such arbitration shall be paid by the party which is unsuccessful in such arbitration. The decision of the arbitrator(s) shall be final and binding upon all parties. Judgment of the award

rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. If any dispute is submitted to arbitration, each party shall, not later than 30 days before the date set for hearing, provide to the other parties and to the arbitrator(s) a copy of all exhibits upon which the party intends to rely at the hearing and a list of all Persons each party intends to call at the hearing.

8. Indemnification.

8.01 Indemnification. Employer desires to have Executive serve as an executive officer of the Company and the Subsidiary and as a member of the Management Committee of the Company and as a member of the Boards of Directors of the Company and the Subsidiary, free from any undue concern for unpredictable, inappropriate or unreasonable legal risks and personal liabilities by his acting in good faith in the performance of his duties to the Company and the Subsidiary and will, therefore, (a) indemnify Executive to the fullest extent permitted under New York law, (b) advance all expenses incurred by Executive in defending any action or proceeding to which Executive is a party by reason of the fact that he was or is a director or officer of the Company or the Subsidiary to the fullest extent permitted under New York law, and (c) purchase and maintain for the benefit of Executive directors and officers liability insurance policies and errors and omissions insurance policies in reasonable amounts from established and reputable insurers.

8.02 Indemnification Hereunder Not Exclusive. The indemnification provided by this Agreement shall not be deemed to be exclusive of any other rights to which Executive may be entitled under any Articles of Incorporation, Bylaws, agreement or resolution of shareholders or directors, the Business Corporation Law of the State of New York, or otherwise.

8.03 Survival. All agreements and obligations of Employer contained in this Section 8 shall continue during the Term and shall continue thereafter

so long as Executive shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitral, administrative or investigative, by reason of the fact that Executive was serving as a director or officer of the Company or the Subsidiary.

9. Miscellaneous.

9.01 Governing Law. This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflict of laws issues.

9.02 Entire Agreement. This Agreement contains the entire agreement of the parties relating to the employment of Executive by Employer and supersedes all prior agreements and understandings with respect to such matters, and the parties hereto have made no agreements, representations or warranties relating to such employment which are not set forth herein; provided, however, that the benefits conferred under this Agreement are in addition to, and not in lieu of, any and all benefits conferred to Executive under plans and arrangements of Employer.

9.03 Withholding Taxes. The Company may withhold from any compensation and benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

9.04 Amendments. No amendment or modification of the terms of this Agreement shall be valid unless made in writing and signed by all parties hereto.

9.05 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law but if any provision of this Agreement is held to be

invalid, illegal or unenforceable under any applicable law or rule, the validity, legality and enforceability of the other provisions of this Agreement will not be affected or impaired thereby.

9.06 No Waiver. No waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the party against whom such waiver is sought to be enforced and any such waiver shall be effective only in the specific instance and for the specific purpose for which given.

9.07 Assignment. This Agreement is a personal service contract and, subject to Section 6.05, shall not be assignable by any party without the written consent of the other parties.

9.08 Counterparts; Facsimile Signatures. This Agreement may be executed in separate counterparts, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart. A facsimile signature by any party on a counterpart of this Agreement shall be binding and effective for all purposes. Such party shall subsequently deliver to each other party an original, executed copy of this Agreement; provided, however, that a failure of such party to delivery an original, executed copy shall not invalidate its signature.

9.09 Notices. All notices and other communications relating to this Agreement will be in writing and will be deemed to have been given when personally delivered, or one Business Day following delivery to a reliable overnight courier or following transmission by electronic facsimile. All notices to the Company or the Subsidiary shall be addressed to the following address and facsimile number:

1479 Clinton Avenue
Bay Shore, NY 11706
Attn: The President
Facsimile No.: 631-968-5377

With a copy to:

Eaton & Van Winkle
3 Park Avenue
New York, New York 10016
Attn: Vincent J. McGill

or at such other address as the Company may have advised the Executive in writing;

All notices to Executive shall be addressed to the Executive at the following address:

46 Iroquois Drive
Brightwaters, NY 11718

With a copy to:

Arnold & Porter LLP
399 Park Avenue
New York, NY 10022
Attn: Robert P. Wessely, Esq.
Fax: 212-715-1399

or at such other address as the Executive may have advised the Company in writing.

9.10 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

[The remainder of this page has been intentionally left blank]

IN WITNESS WHEREOF, Executive, the Company and the Subsidiary have executed this Employment Agreement as of the date set forth in the first paragraph.

Gales Industries Incorporated

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

Air Industries Machining, Corp.

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

/s/ Peter Rettaliata

Peter Rettaliata

EXHIBIT A

FORM OF OPTION AGREEMENT

EXHIBIT A to EMPLOYMENT AGREEMENT

GALES INDUSTRIES INCORPORATED

STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this ___ day of _____, 2005, by Gales Industries Incorporated, a Delaware corporation (hereinafter called the "Company"), with Peter Rettaliata (hereinafter call the "Holder"):

The Company has adopted a 2005 Incentive Plan (the "Plan"). Said Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement. Terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

The Board, which in the absence of a Committee is charged with the administration of the Plan pursuant to Section 4 of the Plan, has determined that it would be to the advantage and interest of the Company to grant the option provided for herein to the Holder as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, pursuant to the Plan, the Company hereby grants to the Holder as of the date hereof an option (the "Option") to purchase all or any part of 1,200,000 shares of Common Stock of the Company, par value $.0001 per share, upon the following terms and conditions:

1. The Option shall continue in force through _____, 2015 (the "Expiration Date"), unless sooner terminated as provided herein and in the Plan. Subject to the provisions of the Plan, the right to exercise the Options shall vest as indicated below and the exercise price per share of the Options vesting as of any date shall be the greater of twenty-two ($.22) cents per share and the amount indicated below:

Date	# of Shares Which Vest	Exercise Price
The date hereof	150,000	Twenty-Two cents
September 15, 2006	150,000	Average FMV for thirty trading days ended December 15, 2005
September 15, 2007	150,000	Average FMV for thirty trading days ended September 15, 2006
September 15, 2008	150,000	Average FMV for thirty trading days ended September 15, 2007
September 15, 2009	150,000	Average FMV for thirty trading days ended September 15, 2008
September 15, 2010	150,000	Average FMV for thirty trading days ended September 15, 2009
September 15, 2011	150,000	Average FMV for thirty trading days ended September 15, 2010
September 15, 2012	150,000	Average FMV for thirty trading days ended September 15, 2011

For purposes hereof, FMV refers to the Fair Market Value of the shares as of the date indicated.

(a) Except as provided hereinbelow, the Option may not be exercised unless the Holder is then an employee (including officers and directors who are employees), non-employee director, consultant, advisor, agent or independent representative of the Company or any subsidiary of the Company or any combination thereof and unless the Holder has remained in the continuous employ or service thereof from the date of grant.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) the aggregate Fair Market Value of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value of the Common Stock or other securities for which this option or any other Incentive Stock Options granted to Holder prior to the date hereof (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollars ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Qualified Stock Option.

2. In the event that the employment or service of the Holder shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Holder was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date, provided, however, that if such termination shall have been for cause or voluntarily by the Holder and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement) or voluntarily by the Holder and Holder accepts employment with a competitor of the Company, the Option and all rights of the Holder hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Holder any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time.

3. If the Holder shall (a) die while he is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his part and without the Consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of normal retirement or voluntarily by the Holder and Holder accepts employment with a competitor of the Company), or (b) become permanently and totally disabled within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Holder or by the person or persons to whom the Holder's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Holder, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

4. (a) The Holder may exercise the Option with respect to all or any part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 8 hereof, of such exercise. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the Option is being exercised; provided that, if permitted by the Board, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value should be determined pursuant to the Plan.

(b) The Holder shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

5. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding shares of the Company by reason of a stock dividend, split-up, split-down, reverse split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off, reorganization, liquidation or the like, then the aggregate number of shares and price per unit subject to the Option shall be appropriately adjusted by the Board, whose determination shall be conclusive.

6. This Option shall be nontransferable and shall no be assignable, alienable, saleable or otherwise transferable by the Holder other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the life of the Holder, this Option shall be exercisable only by him. Notwithstanding the foregoing, to the extent the Option is deemed a Non-Qualified Stock Option, the Holder shall be permitted to transfer such Option to family members or family trusts established by the Holder. Except as otherwise provided for herein, in the event that the Holder terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Holder may nominate a third party, including but not limited to a "blind" trust, to act on behalf or and for the benefit of the Holder with respect to the Option. In addition, the Holder may designate a beneficiary or beneficiaries to exercise the rights of the Holder and receive any distributions upon the death of the Holder.

7. Neither the Holder nor in the event of his death, any person entitled to exercise his rights, shall have any of the rights of a member with respect to the shares subject to the Option until shares have been registered in the name of the Holder or his estate, as the case may be.

8. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its Chairman, Michael Gales, and any notice to the

Holder shall be addressed to him at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States.

9. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Board, or if one had been appointed, the Committee (as constituted at the time of such determination) of the rights of the Holder shall be conclusive, final and binding upon the Holder and upon any other person who shall assert any right pursuant to this Option.

GALES INDUSTRIES INCORPORATED

By:

Name: Michael Gales
Title: Executive Chairman

ACCEPTED AND AGREED:

- ---
Peter Rettaliata

FORM OF NOTICE OF EXERCISE

TO: GALES INDUSTIRES INCORPORATED

The undersigned hereby exercises his option to purchase _____ shares of Common Stock of Gales Industries Incorporated (the "Company") as provided in the Stock Option Agreement dated as of _____, ___ at $_____ per share, a total of $_____ and makes payment therefor as follows:

(1) To the extent of $_____ of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock which, valued at $_____ per share, the fair market value thereof, equals such portion of the purchase price.

(2) To the extent of the balance of the purchase price, the undersigned has enclosed a check payable to the order of the Company for $_____.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his own account for investment, and not with a view to the distribution of any thereof, and agrees that he will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Signature:_____
Address:_____
_____
_____

Dated: _____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of the 26th day of September, 2005, by and among Gales Industries Incorporated, a Delaware corporation (the "Company"), Air Industries Machining, Corp., a New York corporation (the "Subsidiary"), and Dario Peragallo, a resident of the State of New York ("Executive"). The Company and the Subsidiary are sometimes referred to herein jointly as the "Employer".

WHEREAS, the Employer wishes to employ Executive on the terms and conditions set forth in this Agreement, and Executive wishes to be retained and employed by the Employer on such terms and conditions.

NOW, THEREFORE, in consideration of the premises and the respective undertakings of the Employer and Executive set forth below, the Employer and Executive hereby agree as follows:

1. Employment. The Employer hereby employs Executive, and Executive hereby accepts such employment and agrees to perform services for the Employer, for the period and on the other terms and subject to the conditions set forth in this Agreement.

2. Term. Unless terminated at an earlier date in accordance with the provisions of Section 6 of this Agreement, the initial term of Executive's employment hereunder shall be a period of five (5) years commencing on the effective date (the "Effective Date") of the Company's acquisition of the shares of the Subsidiary (the "Initial Term"). This Agreement shall be automatically extended for successive three (3) one year periods (each, a "Renewal Term", and together with the Initial Term, the "Term") unless (i) any party objects to such extension by no less than ninety (90) days' prior written notice to the other parties at any time prior to the expiration of the Initial Term or a Renewal Term, as the case may be, or (ii) this Agreement is terminated at an earlier date in accordance with the provisions of Section 6.

3. Position and Duties.

3.01 Service with the Employer. The Employer hereby employs Executive in an executive capacity during the Term with the title of Executive Vice President of Manufacturing and Production of the Subsidiary, and Executive hereby accepts such employment and undertakes and agrees to serve in such capacities during the Term. In addition, the Company agrees to use its best efforts to cause Executive to be elected as a member of the Boards of Directors of both the Company and the Subsidiary. In such capacities, Executive shall have such powers, perform such duties and fulfill such responsibilities typically associated with such positions in other publicly held companies.

3.02 Performance of Duties. Executive agrees to serve Employer to the best of his ability and to devote his full time, attention and efforts to the business and affairs of the Employer during the Term. Notwithstanding the foregoing, Executive shall not be precluded from accepting service as a director of other businesses or community organizations or from the management of his investments, provided, however, that any such business shall not be competitive with the Company and such service shall not detract from Executive's performance or time commitment hereunder. Executive shall report directly to the Executive Chairman and the Board of Directors of the Company and to the Board of Directors of the Subsidiary, as the case may be.

3.03 Key-man Life Insurance. Should the Company determine to obtain key-man life insurance payable to the Company in the event of the death of Executive, Executive agrees to cooperate with such effort.

4. Compensation.

4.01 Base Salary. As base compensation for all services to be rendered by Executive under this Agreement, the Company shall pay to Executive an annual base salary, which annual base salary shall be $230,000 per year for the initial twelve-month period of the Term (as adjusted pursuant to this Section 4.01, the "Base Salary"), which Base Salary shall be paid on a weekly basis in accordance with the Company's normal payroll procedures and policies, subject to applicable deductions as required by law. The amount of the Executive's Base Salary (a) shall be reviewed annually by the Board of Directors of the Company, (b) shall be increased annually from the amount of the Base Salary paid to Executive during the prior twelve-month period (each, a "Prior Period") of the Term on the basis, inter alia, of the profitability and performance of the Company, on a consolidated basis, during such Prior Period (as compared to the profitability and performance of the Company, on a consolidated basis, during the twelve-month period prior to such Prior Period), which increase shall in no event be less than five percent (5%) of the amount of the Base Salary paid to Executive during such Prior Period, provided that Operating Profits during such Prior Period are at least five percent (5%) greater than the Operating Profits during the twelve-month period prior to such Prior Period and (c) shall under no circumstance be reduced from the amount of the Base Salary paid to Executive during the applicable Prior Period. "Operating Profits" means the consolidated net income during the applicable period, as reported on the Company's consolidated financial statements, plus current interest expense, noncash expenses related to any employee stock ownership plan established by the Company, provisions for taxes based on income, any extraordinary losses for such period, minus any extraordinary gains for such period, but without adjustment for any noncash income or noncash charges which are classified as such under generally accepted accounting principles in the United States (other than noncash expenses related to any employee stock ownership plan established by the Company).

4.02 Annual Bonus. In addition to Base Salary, the Company shall pay to Executive an annual bonus. The amount of the annual bonus to be paid to Executive with respect to any twelve-month period during the Term shall be determined at the discretion of the Board of Directors of the Company, provided, however, that the amount of such annual bonus shall be reasonably predicated on Executive's performance and the achievement by the Company of its operating targets as set forth in the applicable budget adopted by the Board of Directors of the Company in consultation with Executive. In addition, Executive shall participate in all other bonus programs that Employer may adopt from time to time in which senior employees are entitled to participate.

4.03 Participation in Benefit Plans. (a) The Company will either pay, or reimburse Executive, for the amount of the premiums due for a long-term disability policy providing benefits of no less than one-half of Executive's salary until age 65 with respect to Executive and a life insurance policy on the life of Executive. Such life insurance policy will pay Executive's designated beneficiary or beneficiaries no less than two times the amount of the Base Salary that was being paid to Executive at the time of his death. In addition, Executive shall also be entitled to participate in all employee benefit plans or programs offered to senior employees of Employer (to the extent that Executive meets the requirements for each such plan or program), including without limitation participation in any health, disability, dental, eye care, 401(k), deferred compensation and other similar plans (together with the life insurance and disability policies, "Benefits"), as such plans and programs may be or have been adopted from time to time.

(b) Employer intends to implement a plan relating to future acquisitions of other businesses, pursuant to which a portion of a corporate overhead charge implemented in connection with each acquisition will be allocated in good faith by the Company's Board of Directors to compensation for executive-level employees of the Company. Upon adoption of such plan, it shall provide that Executive will be entitled to no less than 15% of the portion of the corporate overhead charged allocated to executive-level compensation with respect to each such acquisition consummated at any time during the period from the date of adoption of such plan until the date on which the Employer's obligations to pay Benefits has terminated pursuant to Section 6.02.

4.04 Automobile and Other Expenses. The Company will pay to Executive no less than $700 per month (adjusted annually for inflation, as determined by the Company's Board of Directors) during the Term as reimbursement for business-related operating expenses for an automobile to be used by Executive, including without limitation automobile lease payments, insurance, service and repairs in the ordinary course. In addition, the Company shall pay or reimburse Executive for all reasonable out-of-pocket expenses incurred by him in the performance of his duties under this Agreement, subject to the presentment and approval of appropriate itemized expense statements, receipts, vouchers or other supporting documentation in accordance with the Company's normal policies.

4.05 Vacation. Executive shall be entitled to no less paid vacation than other senior employees of the Company receive pursuant to the Company's standard vacation policies, provided, however, that Executive shall be entitled to no less than three (3) weeks of paid vacation during each twelve (12) month period during the Term.

4.06 Stock Options and Other Incentive Compensation. To further the attainment of the Company's long-term profit and growth objectives, the Company hereby grants Executive, contemporaneously with the execution of this Agreement, options to purchase such number of shares of common stock of the Company as will convert into 1,200,000 shares of common stock (the "Common Stock") of the public entity with which the Company merges upon acquisition of the Subsidiary. The exercise price of 150,000 of such options shall be twenty-two cents and the exercise price of the remaining options shall be determined in accordance with the provisions of the Option Agreement being delivered simultaneously herewith. In addition, Executive shall be entitled to participate in all other stock option, revenue sharing, profit sharing, long-term accumulation and/or stock based plans or programs that the Company or the Subsidiary may adopt from time to time. For purposes of any Common Stock options or other similar programs to be granted hereunder, such Common Stock and rights shall be defined to include the Common Stock of any successor corporation or other entity into which the Company is merged, or which acquires substantially all the assets of the Company.

5. Additional Covenants.

5.01 Acknowledgments and Stipulations. Executive acknowledges that he is agreeing to the covenants set forth in this Section 5 (a) in consideration of the substantial economic benefits derived by Executive under the terms of this Agreement, (b) in recognition that the services rendered by Executive to Employer will be unique, as are Executive's abilities, skills and experience, (c) in recognition that, as a result of his employment, Executive will acquire and participate in the creation of knowledge and information of a confidential and/or proprietary nature relating to the business of the Company and its affiliates, which is valuable to the Company because the Company will expend substantial time, effort and money to develop such knowledge and information, (d) to induce Employer to employ Executive and disclose certain of such information to Executive, and (e) to induce Employer to enter into this Agreement.

5.02 Nonsolicitation of Customers and Executives. At all times during the term of Executive's employment with the Employer and for a period of twelve (12) months following the termination of such employment pursuant to Section 6.01(a) or Section 6.01(f) hereto, (a) Executive 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, or interfere with the business relationship of the Employer with any customer of the Employer, and (b) Executive shall not directly or indirectly cause any other person to employ, solicit, disturb, entice away, or in any other manner persuade any employee of the Employer or its affiliates to discontinue or alter his or her relationship with the Employer.

5.03 Noncompetition. At all times during the term of Executive's employment with the Employer and for a period of twelve (12) months following the termination of such employment for any reason other than a termination of this Agreement by the Company without cause, Executive 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 Employer. Executive acknowledges and agrees that the business of the Employer is of a worldwide nature and that any geographic limitation on the foregoing covenant would be ineffective to adequately protect the interests of the Employer. Executive further acknowledges and agrees that the foregoing covenant is an integral part of his agreement to be employed hereunder, is fair and reasonable in light of all of the facts and circumstances of the relationship between Executive and the Employer. 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. Nothing contained in this Section 5.03 shall be construed as limiting the scope of this Section 5.

5.04 Limitation on Covenant not to Compete. Ownership by Executive, as a passive investment, of less than two percent (2.00%) of the outstanding shares of capital stock of any corporation, with a cost basis to Executive of less than $250,000, listed on a national securities exchange or publicly traded in the over-the-counter market shall not constitute a breach of this Section 5.

5.05 Confidential Information. Executive agrees that during and after the period of his employment, he will not, without the authorization of the Company, divulge, disclose or otherwise communicate to any person, other than as necessary or desirable for the business of the Employer pursuant to his responsibilities to the Employer during the Term, any information of a confidential nature pertaining in any way to the Employer's business, products, practices, techniques, customers, suppliers, functions or operations (the "Confidential Information"), except to the extent that such Confidential Information (a) was disclosed to Executive by a third party who did not obtain the same directly or indirectly from the Company or one of its affiliates, (b) was known by Executive prior to disclosure by the Employer, (c) at or after the time of disclosure, is or becomes generally available to the public (other than as a result of its disclosure by Executive), (d) is required to be disclosed by Executive pursuant to applicable law or an order of a governing authority applicable to Executive.

6. Termination.

6.01 Grounds for Termination. This Agreement shall terminate prior to the expiration of the Initial Term or any Renewal Term upon the occurrence of any of the following events at any time during such Initial Term or Renewal Term:

(a) The effective date of Executive's voluntary resignation, for which Executive agrees to give at least 30 days' prior written notice to the Company;

(b) Executive's death;

(c) Executive's Disability (as hereinafter defined);

(d) Executive elects to terminate his employment 30 or more days after Executive gives the Company written notice of his intent to terminate his employment ("Notice of Good Reason") for any of the following reasons (each, a "Good Reason"), provided that the Company has not eliminated the circumstances constituting Good Reason prior to the effective date of such resignation: (1) a material adverse alteration in the nature or status of Executive's title, duties or responsibilities; (2) a material adverse reduction in Executive's Base Salary and Benefits (excluding contingent salary and bonuses); (3) a requirement that Executive be based at a work location more than 50 miles from the current site of Employer (unless such new work location is closer to Executive's residence than the current site is); (4) the failure by the Company to pay to Executive any portion of Executive's compensation then due and payable; or (5) any failure by Employer to comply with the material provisions of this Agreement. The Notice of Good Reason shall indicate the specific provision above that Executive is relying upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Good Reason under the provision so indicated;

(e) Executive's termination by Employer without Cause (as hereinafter defined);

(f) Executive's termination by Employer for Cause. For the purposes of this Agreement, "Cause" means, as determined by the Board (or its designee), with respect to conduct during the Executive's employment or service relationship with the Company or its affiliates, whether or not committed during the Term, (i) commission of a felony by Executive; (ii) acts of dishonesty by Executive resulting or intending to result in personal gain or enrichment at the expense of the Company or its subsidiaries; (iii) conduct by Executive in connection with his duties hereunder that is fraudulent, unlawful or grossly negligent, including, but not limited to, acts of discrimination; (iv) engaging in personal conduct by Executive (including but not limited to employee harassment or discrimination, the use or possession at work of any illegal controlled substance) which seriously discredits or damages the Company or its subsidiaries; and (v) breach of the Executive's covenants set forth in Section 5 before termination of employment; provided, that, the Executive shall have fifteen (15) days after notice from the Company to cure the deficiency leading to the Cause determination (except with respect to (i) above), if curable. A termination for "Cause" shall be effective immediately or on such later date set forth by the Company in the notice of termination.

6.02 Severance. If Executive's employment is terminated:

(a) as a result of Sections 6.01(b) and (f), then the Company shall pay to Executive his full Base Salary, bonuses for the calendar year (or employment period) prior to the year (or employment period) in which such termination occurs and Benefits prorated through the effective date of such termination, and Executive shall be reimbursed for any expenses incurred by him pursuant to Section 4.04 through the termination date; or

(b) as a result of Section 6.01(c), 6.01(d) or 6.01(e), then the Company shall pay to Executive or Executive's estate (1) his full Base Salary, bonuses for the calendar year (or employment period) prior to the year (or employment period) in which such termination occurs, pro-rated bonuses for the

current year (or period) and Benefits prorated through the effective date of such termination and (2) additional Base Salary, payable in monthly installments, plus additional Benefits, for the period from the effective date of such termination until the later of (i) one year after the effective date of such termination and (ii) the date on which the then-current Initial Term or Renewal Term, as the case may be, would have expired (provided, however, if participation by Executive in any Benefit plan or program after the termination of his employment is not permitted under such plan or program, then the Company will provide him with the equivalent benefits); Executive shall be reimbursed for any expenses incurred by him pursuant to Section 4.04 through the effective date of such termination; Executive shall be paid $700 per month (or a prorated portion thereof) for the automobile to be used by Executive from the effective date of such termination until the later of (i) one year after the effective date of such termination and (ii) the date on which the then-current Initial Term or Renewal Term, as the case may be, would have expired; and all stock options granted to Executive shall immediately vest and be exercisable as of, and for a period of twelve months after, the effective date of such termination.

6.03 "Disability" Defined. As used in this Agreement, the term "Disability" means any mental or physical condition that results in the Executive becoming unable to perform the essential functions of his position, with reasonable accommodation, for a period of at least ninety (90) days. The Executive shall be deemed to have a Disability at the end of such ninety (90) day period.

6.04 Surrender of Records and Property. Upon termination of Executive's employment by Executive or by the Company, for any reason or for no reason, Executive shall deliver promptly to the Company all records, manuals, books, blank forms, documents, letters, memoranda, notes, notebooks, reports, data, tables, and calculations, and copies thereof, in whatever medium, which

are the property of Employer or which relate in any way to the business, products, practices, techniques, customers, suppliers, functions or operations of Employer, and all other property and Confidential Information of Employer, including, but not limited to, all documents which in whole or in part contain any Confidential Information of Employer, which in any of these cases are in his possession or under his control.

6.05 Resignation. If the Executive's employment is terminated for any reason under the terms of this Agreement, he shall be deemed to resign (i) if a member, from the Board of Directors of the Company and any subsidiary of the Company or any other board to which he has been appointed or nominated by or on behalf of the Company and (ii) from any position with the Company or any subsidiary of the Company, including, but not limited to, as an officer of the Company or any of its subsidiaries.

6.05 Successor. The Company, or any Person which controls the Company, shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company by written agreement expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company and the Subsidiary would be required to perform if no such succession had occurred. Failure of the Company or a controlling entity to obtain such written agreement prior to the effective date of any such succession followed by the failure of the successor to honor this Agreement shall be a breach of this Agreement and shall entitle Executive to the rights and benefits hereunder as though he had terminated his employment with Employer for Good Reason, whether or not he terminates his employment with Employer.

7. Injunctive Relief; Arbitration.

7.01 Injunctive Relief. Executive agrees that (i) any breach or threatened breach of Sections 5 or 6.04 shall be a material breach of this Agreement, (ii) such breach will cause substantial harm to Employer and/or its customers, the amount of which will be difficult to determine and compute, (iii) the remedies of Employer at law for such breach would be inadequate to fully compensate Employer for the harm caused thereby and (iv) in addition to, but not to the exclusion of any other available remedy, Employer shall have the right to enforce the provisions of Sections 5 and 6.04 by applying for and obtaining temporary and permanent restraining orders, injunctions, decrees of specific performance and other equitable relief from any court of competent jurisdiction without the necessity of filing a bond therefor or proving irreparable harm.

7.02 Arbitration. Except as set forth in Section 7.01, any claim or dispute of any nature between the parties to this Agreement arising directly or indirectly from the relationship created by this Agreement shall be resolved exclusively by arbitration in New York, New York, in accordance with the applicable rules of the American Arbitration Association. The fees of the arbitrator(s) and other costs (not including attorneys' fees and expenses) incurred by the parties in connection with such arbitration shall be paid by the party which is unsuccessful in such arbitration. The decision of the arbitrator(s) shall be final and binding upon all parties. Judgment of the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. If any dispute is submitted to arbitration, each party shall, not later than 30 days before the date set for hearing, provide to the other parties and to the arbitrator(s) a copy of all exhibits upon which the party intends to rely at the hearing and a list of all Persons each party intends to call at the hearing.

8. Indemnification.

8.01 Indemnification. Employer desires to have Executive serve as an executive officer of the Subsidiary and as a member of the Boards of Directors of the Company and the Subsidiary, free from any undue concern for unpredictable, inappropriate or unreasonable legal risks and personal liabilities by his acting in good faith in the performance of his duties to the Company and the Subsidiary and will, therefore, (a) indemnify Executive to the fullest extent permitted under New York law, (b) advance all expenses incurred by Executive in defending any action or proceeding to which Executive is a party by reason of the fact that he was or is a director or officer of the Company or the Subsidiary to the fullest extent permitted under New York law, and (c) purchase and maintain for the benefit of Executive directors and officers liability insurance policies and errors and omissions insurance policies in reasonable amounts from established and reputable insurers.

8.02 Indemnification Hereunder Not Exclusive. The indemnification provided by this Agreement shall not be deemed to be exclusive of any other rights to which Executive may be entitled under any Articles of Incorporation, Bylaws, agreement or resolution of shareholders or directors, the Business Corporation Law of the State of New York, or otherwise.

8.03 Survival. All agreements and obligations of Employer contained in this Section 8 shall continue during the Term and shall continue thereafter so long as Executive shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitral, administrative or investigative, by reason of the fact that Executive was serving as a director or officer of the Company or the Subsidiary.

9. Miscellaneous.

9.01 Governing Law. This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflict of laws issues.

9.02 Entire Agreement. This Agreement contains the entire agreement of the parties relating to the employment of Executive by Employer and supersedes all prior agreements and understandings with respect to such matters, and the parties hereto have made no agreements, representations or warranties relating to such employment which are not set forth herein; provided, however, that the benefits conferred under this Agreement are in addition to, and not in lieu of, any and all benefits conferred to Executive under plans and arrangements of Employer.

9.03 Withholding Taxes. The Company may withhold from any compensation and benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

9.04 Amendments. No amendment or modification of the terms of this Agreement shall be valid unless made in writing and signed by all parties hereto.

9.05 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law but if any provision of this Agreement is held to be invalid, illegal or unenforceable under any applicable law or rule, the validity, legality and enforceability of the other provisions of this Agreement will not be affected or impaired thereby.

9.06 No Waiver. No waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the party against whom such waiver is sought to be enforced and any such waiver shall be effective only in the specific instance and for the specific purpose for which given.

9.07 Assignment. This Agreement is a personal service contract and, subject to Section 6.05, shall not be assignable by any party without the written consent of the other parties.

9.08 Counterparts; Facsimile Signatures. This Agreement may be executed in separate counterparts, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart. A facsimile signature by any party on a counterpart of this Agreement shall be binding and effective for all purposes. Such party shall subsequently deliver to each other party an original, executed copy of this Agreement; provided, however, that a failure of such party to delivery an original, executed copy shall not invalidate its signature.

9.09 Notices. All notices and other communications relating to this Agreement will be in writing and will be deemed to have been given when personally delivered, or one Business Day following delivery to a reliable overnight courier or following transmission by electronic facsimile. All notices to the Company or the Subsidiary shall be addressed to the following address and facsimile number:

1479 Clinton Avenue
Bay Shore, NY 11706
Attn: The President
Facsimile No.: 631-968-5377

With a copy to:

Eaton & Van Winkle
3 Park Avenue
New York, New York 10016
Attn: Vincent J. McGill

or at such other address as the Company may have advised the Executive in writing;

All notices to Executive shall be addressed to the Executive at the following address:

20 Coles Place
Northport, NY 11768

With a copy to:

Arnold & Porter LLP
399 Park Avenue
New York, NY 10022
Attn: Robert P. Wessely, Esq.
Fax: 212-715-1399

or at such other address as the Executive may have advised the Company in writing.

9.10 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

[The remainder of this page has been intentionally left blank]

IN WITNESS WHEREOF, Executive, the Company and the Subsidiary have executed this Employment Agreement as of the date set forth in the first paragraph.

Gales Industries Incorporated

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

Air Industries Machining, Corp.

By: /s/ Michael A. Gales

Name: Michael A. Gales
Title: Executive Chairman

/s/ Dario Peragallo

Dario Peragallo

EXHIBIT A

FORM OF OPTION AGREEMENT

EXHIBIT A to EMPLOYMENT AGREEMENT

GALES INDUSTRIES INCORPORATED

STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this ___ day of _____, 2005, by Gales Industries Incorporated, a Delaware corporation (hereinafter called the "Company"), with Dario Peragallo (hereinafter call the "Holder"):

The Company has adopted a 2005 Incentive Plan (the "Plan"). Said Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement. Terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

The Board, which in the absence of a Committee is charged with the administration of the Plan pursuant to Section 4 of the Plan, has determined that it would be to the advantage and interest of the Company to grant the option provided for herein to the Holder as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, pursuant to the Plan, the Company hereby grants to the Holder as of the date hereof an option (the "Option") to purchase all or any part of 1,200,000 shares of Common Stock of the Company, par value $.0001 per share, upon the following terms and conditions:

1. The Option shall continue in force through _____, 2015 (the "Expiration Date"), unless sooner terminated as provided herein and in the Plan. Subject to the provisions of the Plan, the right to exercise the Options shall vest as indicated below and the exercise price per share of the Options vesting as of any date shall be greater of twenty-two ($.22) cents per share and the amount indicated below:

Date	# of Shares Which Vest	Exercise Price
The date hereof	150,000	Twenty-Two cents
September 15, 2006	150,000	Average FMV for thirty trading days ended December 15,2005
September 15, 2007	150,000	Average FMV for thirty trading days ended September 15,2006
September 15, 2008	150,000	Average FMV for thirty trading days ended September 15,2007
September 15, 2009	150,000	Average FMV for thirty trading days ended September 15,2008
September 15, 2010	150,000	Average FMV for thirty trading days ended September 15,2009
September 15, 2011	150,000	Average FMV for thirty trading days ended September 15,2010
September 15, 2012	150,000	Average FMV for thirty trading days ended September 15,2011

For purposes hereof, FMV refers to the Fair Market Value of the shares as of the date indicated.

(a) Except as provided hereinbelow, the Option may not be exercised unless the Holder is then an employee (including officers and directors who are employees), non-employee director, consultant, advisor, agent or independent representative of the Company or any subsidiary of the Company or any combination thereof and unless the Holder has remained in the continuous employ or service thereof from the date of grant.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) the aggregate Fair Market Value of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value of the Common Stock or other securities for which this option or any other Incentive Stock Options granted to Holder prior to the date hereof (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollars ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Qualified Stock Option.

2. In the event that the employment or service of the Holder shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Holder was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date, provided, however, that if such termination shall have been for cause or voluntarily by the Holder and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement) or voluntarily by the Holder and Holder accepts employment with a competitor of the Company, the Option and all rights of the Holder hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Holder any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time.

3. If the Holder shall (a) die while he is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his part and without the Consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of normal retirement or voluntarily by the Holder and Holder accepts employment with a competitor of the Company), or (b) become permanently and totally disabled within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Holder or by the person or persons to whom the Holder's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Holder, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

4. (a) The Holder may exercise the Option with respect to all or any part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 8 hereof, of such exercise. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the Option is being exercised; provided that, if permitted by the Board, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value should be determined pursuant to the Plan.

(b) The Holder shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

5. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding shares of the Company by reason of a stock dividend, split-up, split-down, reverse split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off, reorganization, liquidation or the like, then the aggregate number of shares and price per unit subject to the Option shall be appropriately adjusted by the Board, whose determination shall be conclusive.

6. This Option shall be nontransferable and shall no be assignable, alienable, saleable or otherwise transferable by the Holder other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the life of the Holder, this Option shall be exercisable only by him. Notwithstanding the foregoing, to the extent the Option is deemed a Non-Qualified Stock Option, the Holder shall be permitted to transfer such Option to family members or family trusts established by the Holder. Except as otherwise provided for herein, in the event that the Holder terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Holder may nominate a third party, including but not limited to a "blind" trust, to act on behalf or and for the benefit of the Holder with respect to the Option. In addition, the Holder may designate a beneficiary or beneficiaries to exercise the rights of the Holder and receive any distributions upon the death of the Holder.

7. Neither the Holder nor in the event of his death, any person entitled to exercise his rights, shall have any of the rights of a member with respect to the shares subject to the Option until shares have been registered in the name of the Holder or his estate, as the case may be.

8. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its Chairman, Michael Gales, and any notice to the

Holder shall be addressed to him at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States.

9. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Board, or if one had been appointed, the Committee (as constituted at the time of such determination) of the rights of the Holder shall be conclusive, final and binding upon the Holder and upon any other person who shall assert any right pursuant to this Option.

GALES INDUSTRIES INCORPORATED

By:

Name: Michael Gales
Title: Executive Chairman

ACCEPTED AND AGREED:

- ---
Dario Peragallo

FORM OF NOTICE OF EXERCISE

TO: GALES INDUSTIRES INCORPORATED

The undersigned hereby exercises his option to purchase _____ shares of Common Stock of Gales Industries Incorporated (the "Company") as provided in the Stock Option Agreement dated as of _____, ___ at $_____ per share, a total of $_____ and makes payment therefor as follows:

(1) To the extent of $_____ of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock which, valued at $_____ per share, the fair market value thereof, equals such portion of the purchase price.

(2) To the extent of the balance of the purchase price, the undersigned has enclosed a check payable to the order of the Company for $_____.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his own account for investment, and not with a view to the distribution of any thereof, and agrees that he will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Signature:_____
Address:_____
_____
_____

Dated:_____

GALES INDUSTRIES INCORPORATED

2005 STOCK INCENTIVE PLAN

1. Purposes of the Plan.

The purposes of this Stock Incentive Plan are to attract and retain the best available personnel, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business.

2. Definitions.

As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any Committee appointed to administer the Plan.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act.

(c) "Applicable Laws" means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein.

(d) "Award" means the grant of an Option, SAR, Dividend Equivalent Right, Restricted Stock, Performance Unit, Performance Share, or other right or benefit under the Plan.

(e) "Award Agreement" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.

(f) "Board" means the Board of Directors of the Company.

(g) "Cause" means, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that such termination is for "Cause" as such term is expressly defined in a then-effective written agreement between the Grantee and the Company or such Related Entity, or in the absence of such then-effective written agreement and definition, is based on, in the determination of the Administrator, the Grantee's:

(i) refusal or failure to act in accordance with any specific, lawful direction or order of the Company or a Related Entity;

(ii) unfitness or unavailability for service or unsatisfactory performance (other than as a result of Disability);

(iii) performance of any act or failure to perform any act, in bad faith and to the detriment of the Company or a Related Entity; (1) 15

(iv) dishonesty, intentional misconduct or material breach of any agreement with the Company or a Related Entity; or

(v) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person.

(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Committee" means any committee appointed by the Board to administer the Plan.

(j) "Common Stock" means the common stock of the Company.

(k) "Company" means Gales Industries Incorporated, a Delaware corporation.

(l) "Consultant" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(m) "Continuous Service" means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant, is not interrupted or terminated. Continuous Service shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or Related Entity, (ii) transfers between locations of the Company or among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). For purposes of Incentive Stock Options, no such approved leave of absence may exceed ninety (90) days, unless re-employment upon expiration of such leave is guaranteed by statute or contract.

(n) "Corporate Transaction" means any of the following transactions:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company (including the capital stock of the Company's subsidiary corporations) in connection with the complete liquidation or dissolution of the Company;

(iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than eighty percent (80%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger; or

(iv) an acquisition by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than eighty percent (80%) of the total combined voting power of the Company's outstanding securities, but excluding any such transaction that the Administrator determines shall not be a Corporate Transaction.

(o) "Director" means a member of the Board or the board of directors of any Related Entity.

(p) "Disability" means that a Grantee is permanently unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.

(q) "Dividend Equivalent Right" means a right entitling the Grantee to compensation measured by dividends paid with respect to Common Stock.

(r) "Employee" means any person, including an Officer or Director, who is an employee of the Company or any Related Entity. The payment of a director's fee by the Company or a Related Entity shall not be sufficient to constitute "employment" by the Company.

(s) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(t) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) Where there exists a public market for the Common Stock, the Fair Market Value shall be (A) the closing price for a Share for the last market trading day prior to the time of the determination (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange determined by the Administrator to be the primary market for the Common Stock or the Nasdaq National Market, whichever is applicable or (B) if the Common Stock is not traded on any such exchange or national market system, the average of the closing bid and asked prices of a share on the Nasdaq Small Cap Market for the day prior to the time of the determination (or, if no such prices were reported on that date, on the last date on which such prices were reported), in each case, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(ii) In the absence of an established market for the Common Stock of the type described in subparagraph (i), above, the Fair Market Value shall be determined by the Administrator in good faith.

(u) "Grantee" means an Employee, Director or Consultant who receives an Award pursuant to an Award Agreement under the Plan.

(v) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(w) "Non-Qualified Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(x) "Officer" means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(y) "Option" means an option to purchase Shares pursuant to an Award Agreement granted under the Plan.

(z) "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(aa) "Performance Shares" means Shares or an Award denominated in Shares which may be earned in whole or in part upon attainment of performance criteria established by the Administrator.

(bb) "Performance Units" means an Award which may be earned in whole or in part upon attainment of performance criteria established by the Administrator and which may be settled for cash, Shares or other securities or a combination of cash, Shares or other securities as established by the Administrator.

(cc) "Plan" means this 2005 Stock Incentive Plan.

(dd) "Registration Date" means the first to occur of:

(i) the closing of the first sale to the general public of (A) the Common Stock or (B) the same class of securities of a successor corporation (or its Parent) issued pursuant to a Corporate Transaction in exchange for or in substitution of the Common Stock, pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended; and

(ii) in the event of a Corporate Transaction, the date of the consummation of the Corporate Transaction if the same class of securities of the successor corporation (or its Parent) issuable in such Corporate Transaction shall have been sold to the general public pursuant to a registration statement filed with and declared effective by, on or prior to the date of consummation of such Corporate Transaction, the Securities and Exchange Commission under the Securities Act of 1933, as amended.

(ee) "Related Entity" means any Parent, Subsidiary and any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or a Subsidiary holds a substantial ownership interest, directly or indirectly.

(ff) "Restricted Stock" means Shares issued under the Plan to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions, and other terms and conditions as established by the Administrator.

(gg) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor thereto.

(hh) "SAR" means a stock appreciation right entitling the Grantee to Shares or cash compensation, as established by the Administrator, measured by appreciation in the value of Common Stock.

(ii) "Share" means a share of the Common Stock.

(jj) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

(kk) "Related Entity Disposition" means the sale, distribution or other disposition by the Company of all or substantially all of the Company's interests in any Related Entity effected by a sale, merger or consolidation or other transaction involving that Related Entity or the sale of all or substantially all of the assets of that Related Entity.

3. Stock Subject to the Plan.

(a) Subject to the provisions of Section 10, below, the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Stock Options) is 10,000,000 Shares. The Shares to be issued pursuant to Awards may be authorized, but unissued, or reacquired Common Stock.

(b) Any Shares covered by an Award (or portion of an Award) which is forfeited or canceled, expires or is settled in cash, shall be deemed not to have been issued for purposes of determining the maximum aggregate number of Shares which may be issued under the Plan. If any unissued Shares are retained by the Company upon exercise of an Award in order to satisfy the exercise price for such Award or any withholding taxes due with respect to such Award, such retained Shares subject to such Award shall become available for future issuance under the Plan (unless the Plan has terminated). Shares that actually have been issued under the Plan pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan, except that if unvested Shares are forfeited, or repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Plan Administrator.

(i) Administration with Respect to Directors and Officers. With respect to grants of Awards to Directors or Employees who are also Officers or Directors of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the Applicable Laws and to permit such grants and related transactions under the Plan to be exempt from Section 16(b) of the Exchange Act in accordance with Rule 16b-3. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board.

(ii) Administration With Respect to Consultants and Other Employees. With respect to grants of Awards to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the Applicable Laws. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. The Board may authorize one or more Officers to grant such Awards and may limit such authority as the Board determines from time to time. Except for the power to amend the Plan as provided in Section 13 and except for determinations regarding Employees who are subject to Section 16 of the Exchange Act or certain key Employees who are, or may become, as determined by the Board or the Committee, subject to Section 162(m) of the Code compensation deductibility limit, and except as may otherwise be required under applicable stock exchange rules, the Board or the Committee may delegate any or all of its duties, powers and authority under the Plan pursuant to such conditions or limitations as the Board of the Committee may establish to any Officer or Officers of the Company

(iii) Administration Errors. In the event an Award is granted in a manner inconsistent with the provisions of this subsection, such Award shall be presumptively valid as of its grant date to the extent permitted by Applicable Laws.

(b) Powers of the Administrator. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion:

(i) to select the Employees, Directors and Consultants to whom Awards may be granted from time to time hereunder;

(ii) to determine whether and to what extent Awards are granted hereunder;

(iii) to determine the number of Shares or the amount of other consideration to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions of any Award granted hereunder;

(vi) to amend the terms of any outstanding Award granted under the Plan, provided that any amendment that would adversely affect the Grantee's rights under an outstanding Award shall not be made without the Grantee's written consent;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan, including without limitation, any notice of Award or Award Agreement, granted pursuant to the Plan;

(viii) to establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford Grantees favorable treatment under such laws; provided, however, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan; and

(ix) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be conclusive and binding on all persons.

5. Eligibility, Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants. Incentive Stock Options may be granted only to Employees of the Company, a Parent or a Subsidiary. An Employee, Director or Consultant who has been granted an Award may, if otherwise eligible, be granted additional Awards. Awards may be granted to such Employees, Directors or Consultants who are residing in foreign jurisdictions as the Administrator may determine from time to time.

6. Terms and Conditions of Awards.

(a) Type of Awards. The Administrator is authorized under the Plan to award any type of arrangement to an Employee, Director or Consultant that is not inconsistent with the provisions of the Plan and that by its terms involves or might involve the issuance of (i) Shares, (ii) an Option, a SAR or similar right with a fixed or variable price related to the Fair Market Value of the Shares and with an exercise or conversion privilege related to the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or (iii) any other security with the value derived from the value of the Shares. Such awards include, without limitation, Options, SARs, sales or bonuses of Restricted Stock, Dividend Equivalent Rights, Performance Units or Performance Shares, and an Award may consist of one such security or benefit, or two (2) or more of them in any combination or alternative.

(b) Designation of Award. Each Award shall be designated in the Award Agreement. In the case of an Option, the Option shall be designated as either an Incentive Stock Option or a Non-Qualified Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of Shares subject to Options designated as Incentive Stock Options which become exercisable for the first time by a Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options, to the extent of the Shares covered thereby in excess of the foregoing limitation, shall be treated as Non-Qualified Stock Options. For this purpose, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the date the Option with respect to such Shares is granted.

(c) Conditions of Award. Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of, increase in share price, earnings per share, total stockholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value added, personal management objectives, or other measure of performance selected by the Administrator. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement.

(d) Acquisitions and Other Transactions. The Administrator may issue Awards under the Plan in settlement, assumption or substitution for, outstanding awards or obligations to grant future awards in connection with the Company or a Related Entity acquiring another entity, an interest in another entity or an additional interest in a Related Entity whether by merger, stock purchase, asset purchase or other form of transaction.

(e) Deferral of Award Payment. The Administrator may establish one or more programs under the Plan to permit selected Grantees the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Grantee to payment or receipt of Shares or other consideration under an Award. The Administrator may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, Shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Administrator deems advisable for the administration of any such deferral program.

(f) Award Exchange Programs. The Administrator may establish one or more programs under the Plan to permit selected Grantees to exchange an Award under the Plan for one or more other types of Awards under the Plan on such terms and conditions as determined by the Administrator from time to time.

(g) Separate Programs. The Administrator may establish one or more separate programs under the Plan for the purpose of issuing particular forms of Awards to one or more classes of Grantees on such terms and conditions as determined by the Administrator from time to time.

(h) Early Exercise. The Award Agreement may, but need not, include a provision whereby the Grantee may elect at any time while an Employee, Director or Consultant to exercise any part or all of the Award prior to full vesting of the Award. Any unvested Shares received pursuant to such exercise may be subject to a repurchase right in favor of the Company or a Related Entity or to any other restriction the Administrator determines to be appropriate.

(i) Term of Award. The term of each Award shall be the term stated in the Award Agreement, provided, however, that the term of an Incentive Stock Option shall be no more than ten (10) years from the date of grant thereof. However, in the case of an Incentive Stock Option granted to a Grantee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.

(j) Transferability of Awards. Except as otherwise provided in this Section, all Awards under the Plan shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by the Grantee other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. Notwithstanding the preceding sentence, the Board or the Committee may provide that any Award of Non-Qualified Stock Options may be transferable by the recipient to family members or family trusts established by the Grantee. The Board or the Committee may also provide that, in the event that a Grantee terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, a third party, including but not limited to a "blind" trust, may be authorized by the Board or the Committee to act on behalf of and for the benefit of the respective Grantee with respect to any outstanding Awards. Except as otherwise provided in this Section, during the life of the Grantee, Awards under the Plan shall be exercisable only by him or her except as otherwise determined by the Board or the Committee. In addition, if so permitted by the Board or the Committee, a Grantee may designate a beneficiary or beneficiaries to exercise the rights of the Grantee and receive any distributions under the Plan upon the death of the Grantee.

(k) Time of Granting Awards. The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other date as is determined by the Administrator. Notice of the grant determination shall be given to each Employee, Director or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

7. Award Exercise or Purchase Price, Consideration, Taxes and Reload Options.

(a) Exercise or Purchase Price. The exercise or purchase price, if any, for an Award shall be as follows:

(i) In the case of an Incentive Stock Option: (A) granted to an Employee who, at the time of the grant of such Incentive Stock Option owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be not less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant; or (B) granted to any Employee other than an Employee described in the preceding clause, the per Share exercise price shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Non-Qualified Stock Option, the per Share exercise price shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant unless otherwise determined by the Administrator.

(iii) In the case of other Awards, such price as is determined by the Administrator.

(iv) Notwithstanding the foregoing provisions of this Section 7(a), in the case of an Award issued pursuant to Section 6(d), above, the exercise or purchase price for the Award shall be determined in accordance with the principles of Section 424(a) of the Code.

(b) Consideration. Subject to Applicable Laws, the consideration to be paid for the Shares to be issued upon exercise or purchase of an Award including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). In addition to any other types of consideration the Administrator may determine, the Administrator is authorized to accept as consideration for Shares issued under the Plan the following, provided that the portion of the consideration equal to the par value of the Shares must be paid in cash or other legal consideration permitted by the Delaware General Corporation Law:

(i) cash;

(ii) check;

(iii) delivery of Grantee's promissory note with such recourse, interest, security, and redemption provisions as the Administrator determines is appropriate;

(iv) if the exercise or purchase occurs on or after the Registration Date, surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require (including withholding of Shares otherwise deliverable upon exercise of the Award) which have a Fair Market Value on the date of surrender or attestation equal to the aggregate exercise price of the Shares as to which said Award shall be exercised (but only to the extent that such exercise of the Award would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price unless otherwise determined by the Administrator);

(v) with respect to options, if the exercise occurs on or after the Registration Date, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (A) shall provide written instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (B) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction; or

(vi) any combination of the foregoing methods of payment.

(c) Taxes. No Shares shall be delivered under the Plan to any Grantee or other person until such Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any foreign, federal, state, or local income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares or the disqualifying disposition of Shares received on exercise of an Incentive Stock Option. Upon exercise of an Award, the Company shall withhold or collect from Grantee an amount sufficient to satisfy such tax obligations.

(d) Reload Options. In the event the exercise price or tax withholding of an Option is satisfied by the Company or the Grantee's employer withholding Shares otherwise deliverable to the Grantee, the Administrator may issue the Grantee an additional Option, with terms identical to the Award Agreement under which the Option was exercised, but at an exercise price as determined by the Administrator in accordance with the Plan.

8. Exercise of Award.

(a) Procedure for Exercise; Rights as a Stockholder.

(i) Any Award granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator under the terms of the Plan and specified in the Award Agreement.

(ii) An Award shall be deemed to be exercised upon the later of receipt by the Company of written notice of such exercise in accordance with the terms of the Award by the person entitled to exercise the Award and

(iii) full payment for the Shares with respect to which the Award is exercised, including, to the extent selected, use of the broker-dealer sale and remittance procedure to pay the purchase price as provided in Section 7(b)(v). Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to Shares subject to an Award, notwithstanding the exercise of an Option or other Award. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Award. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in the Award Agreement or Section 10, below.

(b) Exercise of Award Following Termination of Continuous Service.

(i) An Award may not be exercised after the termination date of such Award set forth in the Award Agreement and may be exercised following the termination of a Grantee's Continuous Service only to the extent provided in the Award Agreement.

(ii) Where the Award Agreement permits a Grantee to exercise an Award following the termination of the Grantee's Continuous Service for a specified period, the Award shall terminate to the extent not exercised on the last day of the specified period or the last day of the original term of the Award, whichever occurs first.

(iii) Any Award designated as an Incentive Stock Option to the extent not exercised within the time permitted by law for the exercise of Incentive Stock Options following the termination of a Grantee's Continuous Service shall convert automatically to a Non-Qualified Stock Option and thereafter shall be exercisable as such to the extent exercisable by its terms for the period specified in the Award Agreement.

(c) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Award previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Grantee at the time that such offer is made.

9. Conditions Upon Issuance of Shares.

(a) Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

10. Adjustments Upon Changes in Capitalization. Subject to any required action by the stockholders of the Company, the Administrator may, in its discretion, proportionately adjust the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, as well as any other terms that the Administrator determines require adjustment for (a) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of

the Shares, (b) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (c) as the Administrator may determine in its discretion, any other transaction with respect to Common Stock to which Section 424(a) of the Code applies; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive. Except as the Administrator determines, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Award.

11. Corporate Transactions and Related Entity Dispositions. Except as may be provided in an Award Agreement:

(a) The Administrator shall have the authority, exercisable either in advance of any actual or anticipated Corporate Transaction or Related Entity Disposition or at the time of an actual Corporate Transaction or Related Entity Disposition and exercisable at the time of the grant of an Award under the Plan or any time while an Award remains outstanding, to provide for the full automatic vesting and exercisability of one or more outstanding unvested Awards under the Plan and the release from restrictions on transfer and repurchase or forfeiture rights of such Awards in connection with a Corporate Transaction or Related Entity Disposition, on such terms and conditions as the Administrator may specify. The Administrator also shall have the authority to condition any such Award vesting and exercisability or release from such limitations upon the subsequent termination of the Continuous Service of the Grantee within a specified period following the effective date of the Corporate Transaction or Related Entity Disposition. Effective upon the consummation of a Corporate Transaction or Related Entity Disposition, all outstanding Awards under the Plan, shall remain fully exercisable until the expiration or sooner termination of the Award.

(b) The portion of any Incentive Stock Option accelerated under this Section 11 in connection with a Corporate Transaction or Related Entity Disposition shall remain exercisable as an Incentive Stock Option under the Code only to the extent the $ 100,000 dollar limitation of Section 422(d) of the Code is not exceeded. To the extent such dollar limitation is exceeded, the accelerated excess portion of such Option shall be exercisable as a Non-Qualified Stock Option.

12. Effective Date and Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated. Subject to Section 13 below, and Applicable Laws, Awards may be granted under the Plan upon its becoming effective.

13. Amendment, Suspension or Termination of the Plan.

(a) The Board may at any time amend, suspend or terminate the Plan. To the extent necessary to comply with Applicable Laws, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) No Award may be granted during any suspension of the Plan or after termination of the Plan.

(c) Any amendment, suspension or termination of the Plan (including termination of the Plan under Section 12, above) shall not affect Awards already granted, and such Awards shall remain in full force and effect as if the Plan had not been amended, suspended or terminated, unless mutually agreed otherwise between the Grantee and the Administrator, which agreement must be in writing and signed by the Grantee and the Company.

14. Reservation of Shares.

(a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

(b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. No Effect on Terms of Employment/Consulting Relationship. The Plan shall not confer upon any Grantee any right with respect to the Grantee's Continuous Service, nor shall it interfere in any way with his or her right or the Company's right to terminate the Grantee's Continuous Service at any time, with or without cause.

16. Unfunded Plan. Unless otherwise determined by the Board or the Committee, the Plan shall be unfunded and shall not create (or construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Grantee or other person. To the extent any person holds any rights by virtue of a Award granted under the Plan, such right (unless otherwise determined by the Board or the Committee) shall be no greater than the right of an unsecured general creditor of the Company.

17. No Effect on Retirement and Other Benefit Plans. Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

18. Stockholder Approval. The grant of Incentive Stock Options under the Plan shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted excluding Incentive Stock Options issued in substitution for outstanding Incentive Stock Options pursuant to Section 424(a) of the Code. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws. The Administrator may grant Incentive Stock Options under the Plan prior to approval

by the stockholders, but until such approval is obtained, no such Incentive Stock Option shall be exercisable. In the event that stockholder approval is not obtained within the twelve (12) month period provided above, all Incentive Stock Options previously granted under the Plan shall be exercisable as Non-Qualified Stock Options.

EXHIBIT 10.15

GALES INDUSTRIES INCORPORATED

STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this 26th day of September, 2005, by Gales Industries Incorporated, a Delaware corporation (hereinafter called the "Company"), with Michael A. Gales (hereinafter call the "Holder"):

The Company has adopted a 2005 Incentive Plan (the "Plan"). Said Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement. Terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

The Board, which in the absence of a Committee is charged with the administration of the Plan pursuant to Section 4 of the Plan, has determined that it would be to the advantage and interest of the Company to grant the option provided for herein to the Holder as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, pursuant to the Plan, the Company hereby grants to the Holder as of the date hereof an option (the "Option") to purchase all or any part of 1,250,000 shares of Common Stock of the Company, par value $.0001 per share, upon the following terms and conditions:

1. The Option shall continue in force through September 26, 2015 (the "Expiration Date"), unless sooner terminated as provided herein and in the Plan. Subject to the provisions of the Plan, the right to exercise the Options shall vest as indicated below and the exercise price per share of the Options vesting as of any date shall be the greater of twenty-two ($.22) cents per share and the amount indicated below:

Date	# of Shares Which Vest	Exercise Price
The date hereof	250,000	Twenty-Two cents
September 15, 2006	250,000	Average FMV for thirty trading days ended December 15, 2005
September 15, 2007	250,000	Average FMV for thirty trading days ended September 15, 2006
September 15, 2008	250,000	Average FMV for thirty trading days ended September 15, 2007
September 15, 2009	250,000	Average FMV for thirty trading days ended September 15, 2008

For purposes hereof, FMV refers to the Fair Market Value of the shares as of the date indicated.

(a) Except as provided hereinbelow, the Option may not be exercised unless the Holder is then an employee (including officers and directors who are employees), non-employee director, consultant, advisor, agent or independent

representative of the Company or any subsidiary of the Company or any combination thereof and unless the Holder has remained in the continuous employ or service thereof from the date of grant.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) the aggregate Fair Market Value of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value of the Common Stock or other securities for which this option or any other Incentive Stock Options granted to Holder prior to the date hereof (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollars ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Qualified Stock Option.

2. In the event that the employment or service of the Holder shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Holder was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date, provided, however, that if such termination shall have been for cause or voluntarily by the Holder and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement) or voluntarily by the Holder and Holder accepts employment with a competitor of the Company, the Option and all rights of the Holder hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Holder any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time.

3. If the Holder shall (a) die while he is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his part and without the Consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of

normal retirement or voluntarily by the Holder and Holder accepts employment with a competitor of the Company), or (b) become permanently and totally disabled within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Holder or by the person or persons to whom the Holder's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Holder, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

4. (a) The Holder may exercise the Option with respect to all or any part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 8 hereof, of such exercise. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the

Option is being exercised; provided that, if permitted by the Board, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value should be determined pursuant to the Plan.

(b) The Holder shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

5. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding shares of the Company by reason of a stock dividend, split-up, split-down, reverse split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off, reorganization, liquidation or the like, then the aggregate number of shares and price per unit subject to the Option shall be appropriately adjusted by the Board, whose determination shall be conclusive. 1.
6. This Option shall be nontransferable and shall no be assignable, alienable, saleable or otherwise transferable by the Holder other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the life of the Holder, this Option shall be exercisable only by him. Notwithstanding the foregoing, to the extent the Option is deemed a Non-Qualified Stock Option, the Holder shall be permitted to transfer such Option to family members or family trusts established by the Holder. Except as otherwise provided for herein, in the event that the Holder terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Holder may nominate a third party, including but not limited to a "blind" trust, to act on behalf or and for the benefit of the Holder with respect to the Option. In addition, the Holder may designate a beneficiary or beneficiaries to exercise the rights of the Holder and receive any distributions upon the death of the Holder.

7. Neither the Holder nor in the event of his death, any person entitled to exercise his rights, shall have any of the rights of a member with respect to the shares subject to the Option until shares have been registered in the name of the Holder or his estate, as the case may be.

8. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its Chairman, Michael Gales, and any notice to the Holder shall be addressed to him at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States.

9. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Board, or if one had been appointed, the Committee (as

constituted at the time of such determination) of the rights of the Holder shall be conclusive, final and binding upon the Holder and upon any other person who shall assert any right pursuant to this Option.

GALES INDUSTRIES INCORPORATED

By: /s/ Louis A. Guisto

Name: Louis A. Giusto
Title: Vice Chairman and Chief Financial Officer

ACCEPTED AND AGREED:

/s/ Michael A. Gales
- ---
Michael A. Gales

FORM OF NOTICE OF EXERCISE

TO: GALES INDUSTIRES INCORPORATED

The undersigned hereby exercises his option to purchase _____ shares of Common Stock of Gales Industries Incorporated (the "Company") as provided in the Stock Option Agreement dated as of _____, ___ at $_____ per share, a total of $_____ and makes payment therefor as follows:

(1) To the extent of $_____ of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock which, valued at $_____ per share, the fair market value thereof, equals such portion of the purchase price.

(2) To the extent of the balance of the purchase price, the undersigned has enclosed a check payable to the order of the Company for $_____.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his own account for investment, and not with a view to the distribution of any thereof, and agrees that he will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Signature: _____

Address: _____

_____

_____

Dated: _____

GALES INDUSTRIES INCORPORATED

STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this 26th day of September, 2005, by Gales Industries Incorporated, a Delaware corporation (hereinafter called the "Company"), with Louis A. Giusto (hereinafter call the "Holder"):

The Company has adopted a 2005 Incentive Plan (the "Plan"). Said Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement. Terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

The Board, which in the absence of a Committee is charged with the administration of the Plan pursuant to Section 4 of the Plan, has determined that it would be to the advantage and interest of the Company to grant the option provided for herein to the Holder as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, pursuant to the Plan, the Company hereby grants to the Holder as of the date hereof an option (the "Option") to purchase all or any part of 1,200,000 shares of Common Stock of the Company, par value $.0001 per share, upon the following terms and conditions:

1. The Option shall continue in force through September 26, 2015 (the "Expiration Date"), unless sooner terminated as provided herein and in the Plan. Subject to the provisions of the Plan, the right to exercise the Options shall vest as indicated below and the exercise price per share of the Options vesting as of any date shall be the greater of twenty-two ($.22) cents per share and the amount indicated below:

Date	# of Shares Which Vest	Exercise Price
The date hereof	240,000	Twenty-Two cents
September 15, 2006	240,000	Average FMV for thirty trading days ended December 15, 2005
September 15, 2007	240,000	Average FMV for thirty trading days ended September 15, 2006
September 15, 2008	240,000	Average FMV for thirty trading days ended September 15, 2007
September 15, 2009	240,000	Average FMV for thirty trading days ended September 15, 2008

For purposes hereof, FMV refers to the Fair Market Value of the shares as of the date indicated.

(a) Except as provided hereinbelow, the Option may not be exercised unless the Holder is then an employee (including officers and directors who are employees), non-employee director, consultant, advisor, agent or independent representative of the Company or any subsidiary of the Company or any combination thereof and unless the Holder has remained in the continuous employ or service thereof from the date of grant.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) the aggregate Fair Market Value of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value of the Common Stock or other securities for which this option or any other Incentive Stock Options granted to Holder prior to the date hereof (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollars ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Qualified Stock Option.

2. In the event that the employment or service of the Holder shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Holder was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date, provided, however, that if such termination shall have been for cause or voluntarily by the Holder and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement) or voluntarily by the Holder and Holder accepts employment with a competitor of the Company, the Option and all rights of the Holder hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Holder any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time.

3. If the Holder shall (a) die while he is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his part and without the Consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of normal retirement or voluntarily by the Holder and Holder accepts employment with a competitor of the Company), or (b) become permanently and totally

disabled within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Holder or by the person or persons to whom the Holder's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Holder, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

4. (a) The Holder may exercise the Option with respect to all or any part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 8 hereof, of such exercise. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the

Option is being exercised; provided that, if permitted by the Board, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value should be determined pursuant to the Plan.

(b) The Holder shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

5. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding shares of the Company by reason of a stock dividend, split-up, split-down, reverse split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off, reorganization, liquidation or the like, then the aggregate number of shares and price per unit subject to the Option shall be appropriately adjusted by the Board, whose determination shall be conclusive. 1.
6. This Option shall be nontransferable and shall no be assignable, alienable, saleable or otherwise transferable by the Holder other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the life of the Holder, this Option shall be exercisable only by him. Notwithstanding the foregoing, to the extent the Option is deemed a Non-Qualified Stock Option, the Holder shall be permitted to transfer such Option to family members or family trusts established by the Holder. Except as otherwise provided for herein, in the event that the Holder terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Holder may nominate a third party, including but not limited to a "blind" trust, to act on behalf or and for the benefit of the Holder with respect to the Option. In addition, the Holder may designate a beneficiary or beneficiaries to exercise the rights of the Holder and receive any distributions upon the death of the Holder.

7. Neither the Holder nor in the event of his death, any person entitled to exercise his rights, shall have any of the rights of a member with respect to the shares subject to the Option until shares have been registered in the name of the Holder or his estate, as the case may be.

8. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its Chairman, Michael Gales, and any notice to the Holder shall be addressed to him at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States.

9. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Board, or if one had been appointed, the Committee (as

constituted at the time of such determination) of the rights of the Holder shall be conclusive, final and binding upon the Holder and upon any other person who shall assert any right pursuant to this Option.

GALES INDUSTRIES INCORPORATED

By: /s/ Michael Gales

Name: Michael Gales
Title: Executive Chairman

ACCEPTED AND AGREED:

/s/ Louis A. Guisto
- ---
Louis A. Giusto

FORM OF NOTICE OF EXERCISE

TO: GALES INDUSTIRES INCORPORATED

The undersigned hereby exercises his option to purchase _____ shares of Common Stock of Gales Industries Incorporated (the "Company") as provided in the Stock Option Agreement dated as of _____, ___ at $_____ per share, a total of $_____ and makes payment therefor as follows:

(1) To the extent of $_____ of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock which, valued at $_____ per share, the fair market value thereof, equals such portion of the purchase price.

(2) To the extent of the balance of the purchase price, the undersigned has enclosed a check payable to the order of the Company for $_____.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his own account for investment, and not with a view to the distribution of any thereof, and agrees that he will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Signature: _____

Address: _____

_____

_____

Dated: _____

GALES INDUSTRIES INCORPORATED

STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this 26th day of September, 2005, by Gales Industries Incorporated, a Delaware corporation (hereinafter called the "Company"), with Peter Rettaliata (hereinafter call the "Holder"):

The Company has adopted a 2005 Incentive Plan (the "Plan"). Said Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement. Terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

The Board, which in the absence of a Committee is charged with the administration of the Plan pursuant to Section 4 of the Plan, has determined that it would be to the advantage and interest of the Company to grant the option provided for herein to the Holder as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, pursuant to the Plan, the Company hereby grants to the Holder as of the date hereof an option (the "Option") to purchase all or any part of 1,200,000 shares of Common Stock of the Company, par value $.0001 per share, upon the following terms and conditions:

1. The Option shall continue in force through September 26, 2015 (the "Expiration Date"), unless sooner terminated as provided herein and in the Plan. Subject to the provisions of the Plan, the right to exercise the Options shall vest as indicated below and the exercise price per share of the Options vesting as of any date shall be the greater of twenty-two ($.22) cents per share and the amount indicated below:

Date	# of Shares Which Vest	Exercise Price
The date hereof	150,000	Twenty-Two cents
September 15, 2006	150,000	Average FMV for thirty trading days ended December 15, 2005
September 15, 2007	150,000	Average FMV for thirty trading days ended September 15, 2006
September 15, 2008	150,000	Average FMV for thirty trading days ended September 15, 2007
September 15, 2009	150,000	Average FMV for thirty trading days ended September 15, 2008
September 15, 2010	150,000	Average FMV for thirty trading days ended September 15, 2009
September 15, 2011	150,000	Average FMV for thirty trading days ended September 15, 2010
September 15, 2012	150,000	Average FMV for thirty trading days ended September 15, 2011

For purposes hereof, FMV refers to the Fair Market Value of the shares as of the date indicated.

(a) Except as provided hereinbelow, the Option may not be exercised unless the Holder is then an employee (including officers and directors who are employees), non-employee director, consultant, advisor, agent or independent representative of the Company or any subsidiary of the Company or any combination thereof and unless the Holder has remained in the continuous employ or service thereof from the date of grant.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) the aggregate Fair Market Value of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value of the Common Stock or other securities for which this option or any other Incentive Stock Options granted to Holder prior to the date hereof (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollars ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Qualified Stock Option.

2. In the event that the employment or service of the Holder shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Holder was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date, provided, however, that if such termination shall have been for cause or voluntarily by the Holder and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement) or voluntarily by the Holder and Holder accepts employment with a competitor of the Company, the Option and all rights of the Holder hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Holder any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time.

3. If the Holder shall (a) die while he is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his part and without the Consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of normal retirement or voluntarily by the Holder and Holder accepts employment with a competitor of the Company), or (b) become permanently and totally disabled within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Holder or by the person or persons to whom the Holder's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Holder, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

4. (a) The Holder may exercise the Option with respect to all or any part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 8 hereof, of such exercise. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the Option is being exercised; provided that, if permitted by the Board, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value should be determined pursuant to the Plan.

(b) The Holder shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

5. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding shares of the Company by reason of a stock dividend, split-up, split-down, reverse split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off, reorganization, liquidation or the like, then the aggregate number of shares and price per unit subject to the Option shall be appropriately adjusted by the Board, whose determination shall be conclusive. 1.
6. This Option shall be nontransferable and shall no be assignable, alienable, saleable or otherwise transferable by the Holder other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the life of the Holder, this Option shall be exercisable only by him. Notwithstanding the foregoing, to the extent the Option is deemed a Non-Qualified Stock Option, the Holder shall be permitted to transfer such Option to family members or family trusts established by the Holder. Except as otherwise provided for herein, in the event that the Holder terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Holder may nominate a third party, including but not limited to a "blind" trust, to act on behalf or and for the benefit of the Holder with respect to the Option. In addition, the Holder may designate a beneficiary or beneficiaries to exercise the rights of the Holder and receive any distributions upon the death of the Holder.

7. Neither the Holder nor in the event of his death, any person entitled to exercise his rights, shall have any of the rights of a member with respect to the shares subject to the Option until shares have been registered in the name of the Holder or his estate, as the case may be.

8. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its Chairman, Michael Gales, and any notice to the Holder shall be addressed to him at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States.

9. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Board, or if one had been appointed, the Committee (as constituted at the time of such determination) of the rights of the Holder shall be conclusive, final and binding upon the Holder and upon any other person who shall assert any right pursuant to this Option.

GALES INDUSTRIES INCORPORATED

By: /s/ Michael Gales

Name: Michael Gales
Title: Executive Chairman

ACCEPTED AND AGREED:

/s/ Peter Rettaliata
- ---

Peter Rettaliata

FORM OF NOTICE OF EXERCISE

TO: GALES INDUSTIRES INCORPORATED

The undersigned hereby exercises his option to purchase _____ shares of Common Stock of Gales Industries Incorporated (the "Company") as provided in the Stock Option Agreement dated as of _____, ___ at $_____ per share, a total of $_____ and makes payment therefor as follows:

(1) To the extent of $_____ of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock which, valued at $_____ per share, the fair market value thereof, equals such portion of the purchase price.

(2) To the extent of the balance of the purchase price, the undersigned has enclosed a check payable to the order of the Company for $_____.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his own account for investment, and not with a view to the distribution of any thereof, and agrees that he will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Signature: _____

Address: _____

_____

_____

Dated: _____

GALES INDUSTRIES INCORPORATED

STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this 26th day of September, 2005, by Gales Industries Incorporated, a Delaware corporation (hereinafter called the "Company"), with Dario Peragallo (hereinafter call the "Holder"):

The Company has adopted a 2005 Incentive Plan (the "Plan"). Said Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement. Terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

The Board, which in the absence of a Committee is charged with the administration of the Plan pursuant to Section 4 of the Plan, has determined that it would be to the advantage and interest of the Company to grant the option provided for herein to the Holder as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, pursuant to the Plan, the Company hereby grants to the Holder as of the date hereof an option (the "Option") to purchase all or any part of 1,200,000 shares of Common Stock of the Company, par value $.0001 per share, upon the following terms and conditions:

1. The Option shall continue in force through September 26, 2015 (the "Expiration Date"), unless sooner terminated as provided herein and in the Plan. Subject to the provisions of the Plan, the right to exercise the Options shall vest as indicated below and the exercise price per share of the Options vesting as of any date shall be greater of twenty-two ($.22) cents per share and the amount indicated below:

Date	# of Shares Which Vest	Exercise Price
The date hereof	150,000	Twenty-Two cents
September 15, 2006	150,000	Average FMV for thirty trading days ended December 15, 2005
September 15, 2007	150,000	Average FMV for thirty trading days ended September 15, 2006
September 15, 2008	150,000	Average FMV for thirty trading days ended September 15, 2007
September 15, 2009	150,000	Average FMV for thirty trading days ended September 15, 2008
September 15, 2010	150,000	Average FMV for thirty trading days ended September 15, 2009
September 15, 2011	150,000	Average FMV for thirty trading days ended September 15, 2010
September 15, 2012	150,000	Average FMV for thirty trading days ended September 15, 2011

For purposes hereof, FMV refers to the Fair Market Value of the shares as of the date indicated.

(a) Except as provided hereinbelow, the Option may not be exercised unless the Holder is then an employee (including officers and directors who are employees), non-employee director, consultant, advisor, agent or independent representative of the Company or any subsidiary of the Company or any combination thereof and unless the Holder has remained in the continuous employ or service thereof from the date of grant.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) the aggregate Fair Market Value of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value of the Common Stock or other securities for which this option or any other Incentive Stock Options granted to Holder prior to the date hereof (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollars ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Qualified Stock Option.

2. In the event that the employment or service of the Holder shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Holder was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date, provided, however, that if such termination shall have been for cause or voluntarily by the Holder and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement) or voluntarily by the Holder and Holder accepts employment with a competitor of the Company, the Option and all rights of the Holder hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Holder any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time.

3. If the Holder shall (a) die while he is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his part and without the Consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of normal retirement or voluntarily by the Holder and Holder accepts employment with a competitor of the Company), or (b) become permanently and totally disabled within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Holder or by the person or persons to whom the Holder's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Holder, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

4. (a) The Holder may exercise the Option with respect to all or any part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 8 hereof, of such exercise. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the Option is being exercised; provided that, if permitted by the Board, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value should be determined pursuant to the Plan.

(b) The Holder shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

5. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding shares of the Company by reason of a stock dividend, split-up, split-down, reverse split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off, reorganization, liquidation or the like, then the aggregate number of shares and price per unit subject to the Option shall be appropriately adjusted by the Board, whose determination shall be conclusive. 1.
6. This Option shall be nontransferable and shall no be assignable, alienable, saleable or otherwise transferable by the Holder other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the life of the Holder, this Option shall be exercisable only by him. Notwithstanding the foregoing, to the extent the Option is deemed a Non-Qualified Stock Option, the Holder shall be permitted to transfer such Option to family members or family trusts established by the Holder. Except as otherwise provided for herein, in the event that the Holder terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Holder may nominate a third party, including but not limited to a "blind" trust, to act on behalf or and for the benefit of the Holder with respect to the Option. In addition, the Holder may designate a beneficiary or beneficiaries to exercise the rights of the Holder and receive any distributions upon the death of the Holder.

7. Neither the Holder nor in the event of his death, any person entitled to exercise his rights, shall have any of the rights of a member with respect to the shares subject to the Option until shares have been registered in the name of the Holder or his estate, as the case may be.

8. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its Chairman, Michael Gales, and any notice to the Holder shall be addressed to him at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States.

9. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Board, or if one had been appointed, the Committee (as constituted at the time of such determination) of the rights of the Holder shall be conclusive, final and binding upon the Holder and upon any other person who shall assert any right pursuant to this Option.

GALES INDUSTRIES INCORPORATED

By: /s/ Michael Gales

Name: Michael Gales
Title: Executive Chairman

ACCEPTED AND AGREED:

/s/ Dario Peragallo
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Dario Peragallo

FORM OF NOTICE OF EXERCISE

TO: GALES INDUSTIRES INCORPORATED

The undersigned hereby exercises his option to purchase _____ shares of Common Stock of Gales Industries Incorporated (the "Company") as provided in the Stock Option Agreement dated as of _____, ___ at $_____ per share, a total of $_____ and makes payment therefor as follows:

(1) To the extent of $_____ of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock which, valued at $_____ per share, the fair market value thereof, equals such portion of the purchase price.

(2) To the extent of the balance of the purchase price, the undersigned has enclosed a check payable to the order of the Company for $_____.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his own account for investment, and not with a view to the distribution of any thereof, and agrees that he will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Signature: _____

Address: _____

_____

_____

Dated: _____

EXHIBIT 10.19

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REVOLVING CREDIT, TERM LOAN,

EQUIPMENT LINE OF CREDIT

AND

SECURITY AGREEMENT

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PNC BANK, NATIONAL ASSOCIATION
(AS LENDER AND AS AGENT)

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WITH

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AIR INDUSTRIES MACHINING, CORP.
(BORROWER)

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November 30, 2005

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REVOLVING CREDIT, TERM LOAN, EQUIPMENT LINE OF CREDIT
AND
SECURITY AGREEMENT

Revolving Credit, Term Loan, Equipment Line of Credit and Security Agreement dated November 30, 2005 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 ("Borrower"), 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").

IN CONSIDERATION of the mutual covenants and undertakings herein contained, Borrower, Lenders and Agent 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, 2004.

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 July 25, 2005 by and among Gales Industries Incorporated, as buyer (the "Original Buyer"), and Air Industries Machining, Corp., Luis Peragallo, Jorge Peragallo, Peter Rettalliata and Dario Peragallo, as sellers (collectively, the "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 "Buyer").

"Advance Rates" shall mean, collectively, the Receivables Advance Rate and the Inventory Advance Rate.

"Advances" shall mean and include the Revolving Advances as well as the Term Loan, the Converted Equipment Loans and the Equipment Loans.

"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.

"Agent" shall have the meaning set forth in the preamble to this Agreement and shall include its successors and assigns.

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

"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.

"Assignment of Rents, Leases and Profits" shall mean that certain Assignment of Rents, Leases and Profits executed by the Borrower in favor of the Agent for the benefit of the Lenders dated the date hereof with regard to the Mortgaged Premises, together with all extensions, renewals, amendments, supplements, modifications, substitutions and replacements thereto and thereof.

"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 5.24(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.

"Borrower's Account" shall have the meaning set forth in Section 2.8.

"Borrowing Base Certificate" shall mean a certificate in substantially the form of Exhibit 1.2 duly executed by the President, Chief Financial Officer or Controller of the Borrower and delivered to the Agent, appropriately completed, by which such officer shall certify to Agent the Formula Amount and calculation thereof as of the date of such certificate.

"Borrowing Period" shall have the meaning set forth in Section 2.4(b) hereof.

"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.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 November 30, 2005 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 Agent hereunder, or in any amendment or supplement hereto or thereto, or under any other agreement between Agent 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 any Lender shall mean the percentage set forth below such Lender's name on the signature page hereof as same may be adjusted upon any assignment by a Lender pursuant to Section 15.3(b) 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 Agent by which the Purchasing Lender purchases and assumes a portion of the obligation of Lenders to make Advances 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, 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.

"Contract Rate" shall mean, as applicable, the Revolving Interest Rate or the Term Loan Rate or the Equipment Line of Credit Rate, as more fully described in Section 3.1 herein.

"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.

"Conversion Date" shall have the meaning set forth in Section 2.4(b) hereof.

"Converted Equipment Loan(s)" shall have the meaning set forth in Section 2.4(b) hereof.

"Converted Equipment Line of Credit Note" shall mean the promissory notes referred to in Section 2.4(b) hereof.

"Current Assets" at a particular date, shall mean all cash, cash equivalents, accounts and inventory of Borrower and all other items which would, in conformity with GAAP, be included under current assets on a balance sheet of Borrower as at such date; provided, however, that such amounts shall not include (a) any amounts for any Indebtedness owing by an Affiliate of Borrower, unless such Indebtedness arose in connection with the sale of goods or rendition of services in the Ordinary Course of Business and would otherwise constitute current assets in conformity with GAAP, (b) any Equity Interests issued by an Affiliate of Borrower, or (c) the cash surrender value of any life insurance policy.

"Current Liabilities" at a particular date, shall mean all amounts which would, in conformity with GAAP, be included under current liabilities on a balance sheet of Borrower, as at such date, but in any event including the amounts of (a) all Indebtedness of Borrower payable on demand, or, at the option of the Person to whom such Indebtedness is owed, not more than twelve (12) months after such date, (b) any payments in respect of any Indebtedness of Borrower (whether installment, serial maturity, sinking fund payment or otherwise) required to be made not more than twelve (12) months after such date, (c) all reserves in respect of liabilities or Indebtedness payable on demand or, at the option of the Person to whom such Indebtedness is owed, not more than twelve (12) months after such date, the validity of which is not contested at such date, and (d) all accruals for federal or other taxes measured by income payable within a twelve (12) month period.

"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.

"Defaulting Lender" shall have the meaning set forth in Section 2.13(a) 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 Advance 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.

"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.

"Eligible Inventory" shall mean and include Inventory, 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.

"Eligible Receivables" shall mean and include with respect to Borrower, each Receivable of Borrower arising in the Ordinary Course of Business and which Agent, in its sole credit judgment, shall deem to be an Eligible Receivable, based on such considerations as Agent may from time to time deem appropriate. A Receivable shall not be deemed eligible unless such Receivable is subject to Agent's first priority perfected security interest and no other Lien (other than Permitted Encumbrances), and is evidenced by an invoice or other documentary evidence satisfactory to Agent. In addition, no Receivable shall be an Eligible Receivable if:

(a) it arises out of a sale made by Borrower to an Affiliate of Borrower or to a Person controlled by an Affiliate of Borrower;

(b) it is due or unpaid more than ninety (90) days after the original invoice date;

(c) fifty percent (50%) or more of the Receivables from such Customer are not deemed Eligible Receivables hereunder. Such percentage may, in Agent's sole discretion, be increased or decreased from time to time;

(d) any covenant, representation or warranty contained in this Agreement with respect to such Receivable has been breached;

(e) the Customer shall (i) apply for, suffer, or consent to 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 or call a meeting of its creditors, (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, any petition which is 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;

(f) the sale is to a Customer outside the continental United States of America, unless the sale is on letter of credit, guaranty or acceptance terms, in each case acceptable to Agent in its sole discretion;

(g) the sale to the Customer is on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by chattel paper;

(h) Agent believes, in its sole judgment, that collection of such Receivable is insecure or that such Receivable may not be paid by reason of the Customer's financial inability to pay;

(i) the Customer is the United States of America, any state or any department, agency or instrumentality of any of them, unless Borrower assigns its right to payment of such Receivable to Agent pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. Sub-Section 3727 et seq. and 41 U.S.C. Sub-Section 15 et seq.) or has otherwise complied with other applicable statutes or ordinances;

(j) the goods giving rise to such Receivable have not been delivered to and accepted by the Customer or the services giving rise to such Receivable have not been performed by Borrower and accepted by the Customer or the Receivable otherwise does not represent a final sale;

(k) the Receivables of the Customer exceed a credit limit determined by Agent, in its sole discretion, to the extent such Receivable exceeds such limit;

(l) the Receivable is subject to any offset, deduction, defense, dispute, or counterclaim, the Customer is also a creditor or supplier of Borrower or the Receivable is contingent in any respect or for any reason;

(m) Borrower has made any agreement with any Customer for any deduction therefrom, except for discounts or allowances made in the Ordinary Course of Business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto;

(n) any return, rejection or repossession of the merchandise has occurred or the rendition of services has been disputed;

(o) such Receivable is not payable to Borrower; or

(p) such Receivable is not otherwise satisfactory to Agent as determined in good faith by Agent in the exercise of its discretion in a reasonable manner.

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

"Environmental Indemnity Agreement" shall mean that certain Environmental Indemnity Agreement executed by the Borrower in favor of the Agent for the benefit of the Lenders dated the date hereof with regard to the Mortgaged Premises, together with all extensions, renewals, amendments, supplements, modifications, substitutions and replacements thereto and thereof.

"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.

"Equipment Line of Credit Note" shall mean the promissory note referred to in Section 2.4(b) hereof.

"Equipment Line of Credit Rate" shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus one half of one percent (.50%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and three quarters of one percent (2.75%) with respect to Eurodollar Rate Loans.

"Equipment Loans" shall have the meaning set forth in Section 2.4(b) hereof.

"Equipment Note" shall mean, collectively, the promissory notes referred to in Section 2.4(b) hereof.

"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 Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (i) the rate of interest determined by Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the average of the London interbank offered rates for U.S. Dollars quoted by the British Bankers' Association as set forth on Moneyline Telerate (or appropriate successor or, if British Banker's Association or its successor ceases to provide such quotes, a comparable replacement determined by Agent) display page 3750 (or such other display page on the Moneyline Telerate system as may replace display page 3750) two (2) Business Days prior to the first day of such Interest Period 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 may also be expressed by the following formula:

$$\text{Eurodollar Rate} = \frac{\text{Average of London interbank offered rates quoted by BBA as shown on Moneyline Telerate Service display page 3750 or appropriate successor}}{\text{1.00 - Reserve Percentage.}}$$

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. The Agent 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 Loan" shall mean an Advance at any time that bears interest based on the Eurodollar Rate.

"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) that certain Phase 1 Environmental Site Assessment dated October 12, 2005 prepared by CA Rich Consultants, Inc. 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 the Agent 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 the Agent, as set forth on the applicable Telerate 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 the Agent 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.

"Formula Amount" shall have the meaning set forth in Section 2.1(a).

"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.

"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.

"Hedge Liabilities" shall have the meaning provided in the definition of "Lender-Provided Interest Rate Hedge".

"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.

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

"Interest Rate Hedge" shall mean an interest rate exchange, collar, cap, swap, adjustable strike cap, adjustable strike corridor or similar agreements entered into by the Borrower or its Subsidiaries in order to provide protection to, or minimize the impact upon, the Borrower, any guarantor and/or their respective Subsidiaries of increasing floating rates of interest applicable to Indebtedness.

"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.

"Inventory Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(ii) hereof.

"Inventory Sublimit" shall mean $6,000,000.

"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.

"Lender" and "Lenders" shall have the meaning ascribed to such term in the preamble to this Agreement and shall include each Person which becomes a transferee, successor or assign of any Lender.

"Lender-Provided Interest Rate Hedge" shall mean an Interest Rate Hedge which is provided by any Lender and with respect to which the Agent confirms meets the following requirements: such Interest Rate Hedge (i) is documented in a standard International Swap Dealer Association Agreement, (ii) provides for the method of calculating the reimbursable amount of the provider's credit exposure in a reasonable and customary manner, and (iii) is entered into for hedging (rather than speculative) purposes. The liabilities of the Borrower to the provider of any Lender-Provided Interest Rate Hedge (the "Hedge Liabilities") shall be "Obligations" hereunder and otherwise treated as Obligations for purposes of each of the Other Documents. The Liens securing the Hedge Liabilities shall be pari passu with the Liens securing all other Obligations under this Agreement and the Other Documents.

"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/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 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 Agent 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 Agent 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.

"Loans" shall mean, collectively, the Revolving Advances, the Term Loan, the Equipment Loans and the Converted Equipment Loans.

"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 Agent's Liens on the Collateral or the priority of any such Lien or (d) the practical realization of the benefits of Agent's and each Lender's rights and remedies under this Agreement and the Other Documents.

"Maximum Equipment Loan Amount" shall mean $1,500,000 less the aggregate outstanding principal amount of all Equipment Loans, whether or not such have been converted to Converted Equipment Loans.

"Maximum Loan Amount" shall mean $14,000,000 less repayments of the Term Loan, the Converted Equipment Loans and Equipment Loans.

"Maximum Revolving Advance Amount" shall mean $9,000,000.

"Mortgage" shall mean that certain Mortgage and Security Agreement executed by Borrower in favor of the Agent for the benefit of the Lenders with regard to the Mortgaged Premises dated the date hereof, together with all extensions, renewals, amendments, supplements, modifications, substitutions and replacements thereto and thereof.

"Mortgaged 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.

"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 collectively, the Term Note, , the Converted Equipment Line of Credit Note, the Equipment Line of Credit Note and the Revolving Credit Note.

"Obligations" shall mean and include any and all loans, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower 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 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 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 Borrower's Indebtedness and/or liabilities under this Agreement, the Other Documents or under any other agreement between Agent or Lenders and Borrower 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 Borrower to Agent or Lenders 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 Gales Industries Incorporated, a Delaware corporation.

"Other Documents" shall mean the Note, 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.

"Out-of-Formula Loans" shall have the meaning set forth in Section 15.2(b).

"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 any Lender to participate in any of the Advances and who shall have entered into a participation agreement in form and substance satisfactory to such Lender.

"Payment Office" shall mean initially Two Tower Center Boulevard, East Brunswick, New Jersey 08816; thereafter, such other office of Agent, if any, which it may designate by notice to Borrower and to each Lender 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 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 Borrower; 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 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 (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 Borrower; (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 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; (i) 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 Agent's or Lenders' 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 (j) 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.

"PNC" shall have the meaning set forth in the preamble to this Agreement and shall extend to all of 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 the Agent (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 Lender" shall have the meaning set forth in Section 16.3 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 Agent hereunder.

"Receivables Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(i) 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.

"Required Lenders" shall mean Lenders holding at least fifty one percent (51%) of the Advances and, if no Advances are outstanding, shall mean Lenders holding fifty one percent (51%) of the Commitment Percentages; provided, however, if there are fewer than three (3) Lenders, Required Lenders shall mean all Lenders.

"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".

"Revolving Advances" shall mean Advances made other than Equipment Loans, the Converted Equipment Loans and the Term Loan.

"Revolving Credit Note" shall mean the promissory note referred to in Section 2.1(a) hereof.

"Revolving Interest Rate" shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus one quarter of one percent (.25%)with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and one half of one percent (2.50%)with respect to Eurodollar Rate Loans.

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

"Section 20 Subsidiary" shall mean the Subsidiary of the bank holding company controlling PNC, which Subsidiary has been granted authority by the Federal Reserve Board to underwrite and deal in certain Ineligible Securities.

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

"Seller Note Payable Reserve" shall mean a reserve established by the Agent in the amount of $11,800.

"Settlement Date" shall mean the Closing Date and thereafter Wednesday or Thursday of each week or more frequently if Agent deems appropriate unless such day is not a Business Day in which case it shall be the next succeeding Business Day.

"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 2.4 hereof.

"Term Loan Rate" shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus one half of one percent (.50%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and three quarters of one percent (2.75%) with respect to Eurodollar Rate Loans.

"Term Note" shall mean the promissory note described in Section 2.4 hereof.

"Termination Date" shall mean November 30, 2009 or such other date as the Lenders may agree in writing to extend the Termination Date until, without there being any obligation on the part of the Lenders to extend the Termination Date.

"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(c) hereof.

"Undrawn Availability" at a particular date shall mean an amount equal to (a) the lesser of (i) the Formula Amount or (ii) the Maximum Revolving Advance Amount, minus (b) the sum of (i) the outstanding amount of Advances (other than the Equipment Loans, Converted Equipment Loans and Term Loan) plus (ii) all amounts due and owing to Borrower's trade creditors which are outstanding beyond normal trade terms , plus (iii) fees and expenses for which Borrower is liable but which have not been paid or charged to Borrower's Account.

"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 Agent 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 the Required Lenders. Any Lien referred to in this Agreement or any of the Other Documents as having been created in favor of Agent, any agreement entered into by Agent pursuant to this Agreement or any of the Other Documents, any payment made by or to or funds received by Agent pursuant to or as contemplated by this Agreement or any of the Other Documents, or any act taken or omitted to be taken by Agent, shall, unless otherwise expressly provided, be created, entered into, made or received, or taken or omitted, for the benefit or account of Agent and Lenders. 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. ADVANCES, PAYMENTS.

2.1 Revolving Advances. (a) Subject to the terms and conditions set forth in this Agreement including Section 2.1(b), each Lender, severally and not jointly, will make Revolving Advances to Borrower in aggregate amounts outstanding at any time equal to such Lender's Commitment Percentage of the lesser of (x) the Maximum Revolving Advance Amount or (y) an amount equal to the sum of:

(i) up to 85%, subject to the provisions of Section 2.1(b) hereof ("Receivables Advance Rate"), of Eligible Receivables, plus

(ii) up to the lesser of (A) 50%, subject to the provisions of Section 2.1(b) hereof, of the value of the Eligible Inventory, (B) 85% of the appraised net orderly liquidation value of Eligible Inventory (as evidenced by an Inventory appraisal satisfactory to Agent in its sole discretion exercised in good faith) or (C) the Inventory Sublimit in the aggregate at any one time ("Inventory Advance Rate" and together with the Receivables Advance Rate, collectively, the "Advance Rates"), minus

(iii) such reserves as Agent may reasonably deem proper and necessary from time to time including, but not limited to, the Seller Note Payable Reserve.

The amount derived from the sum of (x) Sections 2.1(a)(y)(i) and (ii) minus (y) Section 2.1 (a)(y)(iii) at any time and from time to time shall be referred to as the "Formula Amount". The Revolving Advances shall be evidenced by one or more secured promissory notes (collectively, the "Revolving Credit Note") substantially in the form attached hereto as Exhibit 2.1(a).

(b) Discretionary Rights. The Advance Rates may be increased or decreased by Agent at any time and from time to time in the exercise of its reasonable discretion. Borrower consents to any such increases or decreases and acknowledges that decreasing the Advance Rates or increasing or imposing reserves may limit or restrict Advances requested by Borrower. The rights of Agent under this subsection are subject to the provisions of Section 15.2(b).

2.2 Procedure for Revolving Advances and Equipment Loan Borrowing. (a) Borrower may notify Agent prior to 10:00 a.m. on a Business Day of Borrower's request to incur, on that day, a Revolving Advance hereunder. Subject to the satisfaction of the conditions set forth in Section 8.3 hereof, in the event Borrower desires an Equipment Loan, Borrower shall give Agent at least three (3) Business Days' prior written notice. Should any amount required to be paid as interest hereunder, or as fees or other charges under this Agreement or any other agreement with Agent or Lenders, or with respect to any other Obligation, become due, same shall be deemed a request for a Revolving Advance as of the date such payment is due, in the amount required to pay in full such interest, fee, charge or Obligation under this Agreement or any other agreement with Agent or Lenders, and such request shall be irrevocable.

(b) Notwithstanding the provisions of subsection (a) above, in the event Borrower desires to obtain a Eurodollar Rate Loan, Borrower shall give Agent written notice by no later than 10:00 a.m. on the day which is three (3) Business Days prior to the date such Eurodollar Rate Loan is to be borrowed, specifying (i) the date of the proposed borrowing (which shall be a Business Day), (ii) the type of borrowing and the amount on the date of such Advance to be borrowed, which amount shall be an integral multiple of $250,000, and (iii) the duration of the first Interest Period therefor. 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 commence on the date such Eurodollar Rate Loan is made and shall end on such date as Borrower may elect as set forth in subsection (b)(iii) 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 notice of borrowing given to Agent pursuant to Section 2.2(b) or by its notice of conversion given to Agent 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 Agent 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 Agent 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 subject to Section 2.2(d) hereinbelow.

(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 Advances 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 Agent and Lenders therefor in accordance with Section 2.2(f) hereof.

(f) Borrower shall indemnify Agent and Lenders and hold Agent and Lenders harmless from and against any and all losses or expenses that Agent and Lenders 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 Agent or Lenders 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 Agent or any 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 any Lender (for purposes of this subsection (g), the term "Lender" shall include any Lender and the office or branch where any Lender or any corporation or bank controlling such Lender makes or maintains any Eurodollar Rate Loans) to make or maintain its Eurodollar Rate Loans, the obligation of Lenders 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 Agent, 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 Agent, upon Agent's request, such amount or amounts as may be necessary to compensate Lenders for any loss or expense sustained or incurred by Lenders 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 Lenders to lenders of funds obtained by Lenders 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 Lenders to Borrower shall be conclusive absent manifest error.

2.3 Disbursement of Advance Proceeds. All Advances shall be disbursed from whichever office or other place Agent may designate from time to time and, together with any and all other Obligations of Borrower to Agent or Lenders, shall be charged to Borrower's Account on Agent's books. During the Term, Borrower may use the Revolving Advances by borrowing, prepaying and reborrowing, all in accordance with the terms and conditions hereof. The proceeds of each Revolving Advance requested by Borrower or deemed to have been requested by Borrower under Section 2.2(a) hereof shall, with respect to requested Revolving Advances to the extent Lenders make such Revolving Advances, be made available to Borrower on the day so requested by way of credit to Borrower's operating account at PNC, or such other bank as Borrower may designate following notification to Agent, in immediately available federal funds or other immediately available funds or, with respect to Revolving Advances deemed to have been requested by Borrower, be disbursed to Agent to be applied to the outstanding Obligations giving rise to such deemed request.

2.4 Loans.

(a) Term Loan. Subject to the terms and conditions of this Agreement, each Lender, severally and not jointly, will make a Term Loan to Borrower in the sum equal to such Lender's Commitment Percentage of $3,500,000. The Term Loan shall be advanced on the Closing Date and shall be, with respect to principal, payable as follows, subject to acceleration upon the occurrence of an Event of Default under this Agreement or termination of this Agreement: eighty four (84) consecutive monthly principal installments, the first eighty three (83) of which shall be in the amount of $31,667 commencing on the first Business Day of January, 2006, and continuing on the first Business Day of each month thereafter, with an eighty fourth (84th) and final payment of any unpaid balance of principal and interest payable on the first Business Day of December, 2012, subject to mandatory prepayment and acceleration upon the occurrence of an Event of Default hereunder or earlier termination of the Loan Agreement pursuant to the terms hereof. Notwithstanding anything to the contrary herein, in the Term Note and/or in any Other Document, all outstanding principal and interest hereunder is due and payable on the Termination Date in the event that the Termination Date is before the first Business Day of December, 2012. 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 2.4a.

(b) Equipment Loans. Subject to the terms and conditions of this Agreement, each Lender, severally and not jointly, shall, from time to time, make available Advances to Borrower (each, an "Equipment Loan" and collectively, the "Equipment Loans") to finance Borrower's purchase of Equipment for use in Borrower's business. All such Equipment Loans shall be in such amounts as are requested by Borrower, but in no event shall any Equipment Loan

exceed eighty percent (80%) of the net invoice cost (excluding taxes, shipping, delivery, handling, installation, overhead and other so called "soft" costs) of the Equipment then to be purchased by Borrower and the total amount of all Equipment Loans outstanding hereunder (whether or not such Equipment Loans have been converted to a Converted Equipment Loan) shall not exceed, in the aggregate, the Maximum Equipment Loan Amount. Once repaid (whether or not such Equipment Loans have been converted to and repaid as a Converted Equipment Loan) Equipment Loans may not be reborrowed. Notwithstanding anything in the contrary herein, the maximum amount of Equipment Loans advanced by the Lenders in any fiscal year shall not exceed $750,000. The Equipment Loans shall be evidenced by a secured promissory note (the "Equipment Line of Credit Note"), executed by Borrower in substantially the form annexed hereto as Exhibit 2.4(b)(i). Until the Termination Date, Advances constituting Equipment Loans shall be accumulated during at the end of each fiscal year of the Borrower (each a "Borrowing Period") during the Term. Notwithstanding the foregoing, the first Borrowing Period shall commence on the Closing Date and end on December 31, 2006. Each subsequent Borrowing Period shall consist of twelve month periods commencing on January 1, 2007 provided, however, that no Borrowing Period shall extend beyond the Termination Date. During each Borrowing Period, the Borrower shall pay to the Agent interest accrued on the outstanding balance of the Equipment Loans on the first day of each month. At the end of each Borrowing Period (each a "Conversion Date"), the sum of all Equipment Loans made during the Borrowing Period shall be converted to a term loan (each a "Converted Equipment Loan") and shall amortize on the basis of a sixty (60) month schedule (such amount converted shall be referred to as the "Amortization Amount") provided, however, if, for any such Borrowing Period, the sum of all Equipment Loans made during such Borrowing Period is less than $500,000, then such Equipment Loans shall not convert to a Converted Equipment Loan until the earliest Conversion Date thereafter on which the sum of all outstanding Equipment Loans are equal to or greater than $500,000. Each Converted Equipment Loan shall be, with respect to principal, payable in equal monthly installments based upon the amortization schedule set forth above, commencing on the first day of the first month following the applicable Conversion Date and continuing on the first day of each month thereafter with the balance payable upon the first day of the sixtieth (60th) month thereafter, subject to acceleration upon the occurrence and during the continuance of an Event of Default under this Agreement or termination of this Agreement. Notwithstanding anything to the contrary herein, in any Converted Equipment Line of Credit Note and/or in any Other Document, all outstanding principal and interest hereunder is due and payable on the Termination Date. Each Converted Equipment Loan shall be evidenced by a secured promissory note (the "Converted Equipment Line of Credit Note"), executed by Borrower in substantially the form annexed hereto as Exhibit 2.4(b)(ii).

2.5 Maximum Advances. The aggregate balance of Revolving Advances outstanding at any time shall not exceed the lesser of (a) the Maximum Revolving Advance Amount or (b) the Formula Amount.

2.6 Repayment of Advances.

(a) The Revolving Advances shall be due and payable in full on the Termination Date subject to earlier prepayment as herein provided. The Term Loan shall be due and payable as provided in Section 2.4(a) 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. The Equipment Loans shall be due and payable as provided in Section 2.4(b) hereof and in the Equipment Line of Credit Note, subject to mandatory prepayments as herein provided, however, notwithstanding anything to the contrary herein or in any Other Document, all outstanding principal and interest with regard to the Equipment Line of Credit Note shall be due and payable on the Termination Date. The Converted Equipment Loans shall be due and payable as provided in Section 2.4(b) and in the Converted Equipment Line of Credit Note, subject to mandatory prepayments as herein provided, however, notwithstanding anything to the contrary herein or in any Other Document, all outstanding principal and interest with regard to the Converted Equipment Line of Credit Note shall be due and payable on the Termination Date.

(b) Borrower recognizes that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by Agent on the date received. In consideration of Agent's agreement to conditionally credit Borrower's Account as of the Business Day on which Agent receives those items of payment, Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by Agent on account of the Obligations one (1) Business Day after (i) the Business Day Agent receives such payments via wire transfer or electronic depository check or (ii) in the case of payments received by Agent in any other form, the Business Day such payment constitutes good funds in Agent's account. Agent is not, however, required to credit Borrower's Account for the amount of any item of payment which is unsatisfactory to Agent and Agent may charge Borrower's Account for the amount of any item of payment which is returned to Agent unpaid.

(c) All payments of principal, interest and other amounts payable hereunder, or under any of the Other Documents shall be made to Agent 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 Agent. Agent shall have the right to effectuate payment on any and all Obligations due and owing hereunder by charging Borrower's Account or by making Advances as provided in Section 2.2 hereof.

(d) 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.

2.7 Repayment of Excess Advances. The aggregate balance of Advances outstanding at any time in excess of the maximum amount of Advances permitted hereunder shall be immediately due and payable without the necessity of any demand, at the Payment Office, whether or not a Default or Event of Default has occurred.

2.8 Statement of Account. Agent 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 each Advance made by Agent and the date and amount of each payment in respect thereof; provided, however, the failure by Agent to record the date and amount of any Advance shall not adversely affect Agent or any Lender. Each month, Agent shall send to

Borrower a statement showing the accounting for the Advances made, payments made or credited in respect thereof, and other transactions between Agent 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 Lenders and Borrower unless Agent receives a written statement of Borrower's specific exceptions thereto within thirty (30) days after such statement is received by Borrower. The records of Agent with respect to the loan account shall be conclusive evidence absent manifest error of the amounts of Advances and other charges thereto and of payments applicable thereto.

2.9 Additional Payments. Any sums expended by Agent or any 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 charged to Borrower's Account as a Revolving Advance and added to the Obligations.

2.10 Manner of Borrowing and Payment.

(a) Each borrowing of Revolving Advances shall be advanced according to the applicable Commitment Percentages of Lenders. The Term Loan shall be advanced according to the Commitment Percentages of Lenders. Each borrowing of Equipment Loans shall be advanced according to the applicable Commitment Percentages of Lenders. The Converted Equipment Loan shall be advanced according to the applicable Commitment Percentages of Lenders.

(b) Each payment (including each prepayment) by Borrower on account of the principal of and interest on the Revolving Advances, shall be applied to the Revolving Advances pro rata according to the applicable Commitment Percentages of Lenders. Each payment (including each prepayment) by Borrower on account of the principal of and interest on the Term Note, shall be made from or to, or applied to that portion of the Term Loan evidenced by the Term Note pro rata according to the Commitment Percentages of Lenders. Each payment (including each prepayment) by Borrower on account of the principal of and interest on the Equipment Note, shall be applied to that portion of the Equipment Loan evidenced by the Equipment Note pro rata according to the Commitment Percentages of Lenders. Each payment (including each prepayment) by Borrower on account of the principal of and interest on the Converted Equipment Line of Credit Note, shall be applied to that portion of the Converted Equipment Loan evidenced by the Converted Equipment Line of Credit Note pro rata according to the Commitment Percentages of Lenders. Except as expressly provided herein, all payments (including prepayments) to be made by Borrower on account of principal, interest and fees shall be made without set off or counterclaim and shall be made to Agent on behalf of the Lenders to the Payment Office, in each case on or prior to 1:00 P.M., New York time, in Dollars and in immediately available funds.

(c)

(i) Notwithstanding anything to the contrary contained in Sections 2.10(a) and (b) hereof, commencing with the first Business Day following the Closing Date, each borrowing of Revolving Advances shall be advanced by Agent and each payment

by Borrower on account of Revolving Advances shall be applied first to those Revolving Advances advanced by Agent. On or before 1:00 P.M., New York time, on each Settlement Date commencing with the first Settlement Date following the Closing Date, Agent and Lenders shall make certain payments as follows: (I) if the aggregate amount of new Revolving Advances made by Agent during the preceding Week (if any) exceeds the aggregate amount of repayments applied to outstanding Revolving Advances during such preceding Week, then each Lender shall provide Agent with funds in an amount equal to its applicable Commitment Percentage of the difference between (w) such Revolving Advances and (x) such repayments and (II) if the aggregate amount of repayments applied to outstanding Revolving Advances during such Week exceeds the aggregate amount of new Revolving Advances made during such Week, then Agent shall provide each Lender with funds in an amount equal to its applicable Commitment Percentage of the difference between (y) such repayments and (z) such Revolving Advances.

(ii) Each Lender shall be entitled to earn interest at the applicable Contract Rate on outstanding Advances which it has funded.

(iii) Promptly following each Settlement Date, Agent shall submit to each Lender a certificate with respect to payments received and Advances made during the Week immediately preceding such Settlement Date. Such certificate of Agent shall be conclusive in the absence of manifest error.

(d) If any Lender or Participant (a "benefited Lender") shall at any time receive any payment of all or part of its Advances, or interest thereon, or receive any Collateral in respect thereof (whether voluntarily or involuntarily or by set-off) in a greater proportion than any such payment to and Collateral received by any other Lender, if any, in respect of such other Lender's Advances, or interest thereon, and such greater proportionate payment or receipt of Collateral is not expressly permitted hereunder, such benefited Lender shall purchase for cash from the other Lenders a participation in such portion of each such other Lender's Advances, or shall provide such other Lender with the benefits of any such Collateral, or the proceeds thereof, as shall be necessary to cause such benefited Lender to share the excess payment or benefits of such Collateral or proceeds ratably with each of the other Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. Each Lender so purchasing a portion of another Lender's Advances may exercise all rights of payment (including rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(e) Unless Agent shall have been notified by telephone, confirmed in writing, by any Lender that such Lender will not make the amount which would constitute its applicable Commitment Percentage of the Advances available to Agent, Agent may (but shall not be obligated to) assume that such Lender shall make such amount available to Agent on the next Settlement Date and, in reliance upon such assumption, make available to Borrower a

corresponding amount. Agent will promptly notify Borrower of its receipt of any such notice from a Lender. If such amount is made available to Agent on a date after such next Settlement Date, such Lender shall pay to Agent on demand an amount equal to the product of (i) the daily average Federal Funds Effective Rate (computed on the basis of a year of 360 days) during such period as quoted by Agent, times (ii) such amount, times (iii) the number of days from and including such Settlement Date to the date on which such amount becomes immediately available to Agent. A certificate of Agent submitted to any Lender with respect to any amounts owing under this paragraph (e) shall be conclusive, in the absence of manifest error. If such amount is not in fact made available to Agent by such Lender within three (3) Business Days after such Settlement Date, Agent shall be entitled to recover such an amount, with interest thereon at the rate per annum then applicable to such Revolving Advances hereunder, on demand from Borrower; provided, however, that Agent's right to such recovery shall not prejudice or otherwise adversely affect Borrower's rights (if any) against such Lender.

2.11 Mandatory Prepayments. Subject 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 Advances in an amount equal to the net proceeds of such sale (i.e., gross proceeds less the reasonable costs of such sales or other dispositions), 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 Agent. 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 (i) if the Collateral disposed of is Equipment the purchase of which was financed by an Equipment Loan, (x) first, to the outstanding principal installments of the Equipment Loans and/or the Converted Equipment Loans in the inverse order of the maturities thereof, (y) second, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof and (z) third, to the remaining Advances in such order as Agent may determine, subject to Borrower's ability to reborrow Revolving Advances in accordance with the terms hereof, (ii) if the Collateral disposed of is Equipment other than as set forth in (i) above, (x) first, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof, (y) second, to the outstanding principal installments of the Equipment Loans and/or the Converted Equipment Loans in the inverse order of the maturities thereof and (z) third, to the remaining Advances in such order as Agent may determine, subject to Borrower's ability to reborrow Revolving Advances in accordance with the terms hereof, or (ii) if the Collateral disposed of is the Mortgaged Premises, (y) first, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof up to $2,800,000, and (z) second, to the Revolving Advances in such order as Agent may determine, subject to Borrower's ability to reborrow Revolving Advances in accordance with the terms hereof.

2.12 Use of Proceeds. Borrower shall apply the proceeds of Advances to (i) purchase the Mortgaged Premises, (ii) repay existing indebtedness owed to Citibank, (iii) pay fees and expenses relating to this transaction, and (iv) provide for its working capital needs.

Without limiting the generality of Section 2.12(a) 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 Advances, directly or indirectly, for any purpose in violation of the Trading with the Enemy Act.

2.13 Defaulting Lender.

(a) Notwithstanding anything to the contrary contained herein, in the event any Lender (x) has refused (which refusal constitutes a breach by such Lender of its obligations under this Agreement) to make available its portion of any Advance or (y) notifies either Agent or Borrower that it does not intend to make available its portion of any Advance (if the actual refusal would constitute a breach by such Lender of its obligations under this Agreement) (each, a "Lender Default"), all rights and obligations hereunder of such Lender (a "Defaulting Lender") as to which a Lender Default is in effect and of the other parties hereto shall be modified to the extent of the express provisions of this Section 2.13 while such Lender Default remains in effect.

(b) Advances shall be incurred pro rata from Lenders (the "Non-Defaulting Lenders") which are not Defaulting Lenders based on their respective Commitment Percentages, and no Commitment Percentage of any Lender or any pro rata share of any Advances required to be advanced by any Lender shall be increased as a result of such Lender Default. Amounts received in respect of principal of any type of Advances shall be applied to reduce the applicable Advances of each Lender pro rata based on the aggregate of the outstanding Advances of that type of all Lenders at the time of such application; provided, that, such amount shall not be applied to any Advances of a Defaulting Lender at any time when, and to the extent that, the aggregate amount of Advances of any Non-Defaulting Lender exceeds such Non-Defaulting Lender's Commitment Percentage of all Advances then outstanding.

(c) A Defaulting Lender shall not be entitled to give instructions to Agent or to approve, disapprove, consent to or vote on any matters relating to this Agreement and the Other Documents. All amendments, waivers and other modifications of this Agreement and the Other Documents may be made without regard to a Defaulting Lender and, for purposes of the definition of "Required Lenders", a Defaulting Lender shall be deemed not to be a Lender and not to have Advances outstanding.

(d) Other than as expressly set forth in this Section 2.13, the rights and obligations of a Defaulting Lender (including the obligation to indemnify Agent) and the other parties hereto shall remain unchanged. Nothing in this Section 2.13 shall be deemed to release any Defaulting Lender from its obligations under this Agreement and the Other Documents, shall alter such obligations, shall operate as a waiver of any default by such Defaulting Lender hereunder, or shall prejudice any rights which Borrower, Agent or any Lender may have against any Defaulting Lender as a result of any default by such Defaulting Lender hereunder.

(e) In the event a Defaulting Lender retroactively cures to the satisfaction of Agent the breach which caused a Lender to become a Defaulting Lender, such Defaulting Lender shall no longer be a Defaulting Lender and shall be treated as a Lender under this Agreement.

III. INTEREST AND FEES.

3.1 Interest. Interest on Advances shall be payable in arrears on the first day of each month with respect to Domestic Rate Loans and, with respect to Eurodollar Rate Loans, at the end of each Interest Period or, for Eurodollar Rate Loans with an Interest Period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar Rate Loan or (b) the end of the Interest Period. Interest charges shall be computed on the actual principal amount of Advances outstanding during the month at a rate per annum equal to (i) with respect to Revolving Advances, the applicable Revolving Interest Rate and (ii) with respect to the Term Loan, the applicable Term Loan Rate and (iii) with respect to the Equipment Loans and the Converted Equipment Loan, the applicable Equipment Line of Credit Rate (as applicable, the "Contract Rate"). Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Contract 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, (i) at the option of Agent or at the direction of Required Lenders, the Obligations other than Eurodollar Rate Loans shall bear interest at the applicable Contract Rate for Domestic Loans plus two percent (2%) per annum and (ii) Eurodollar Rate Loans shall bear interest at the Revolving Interest Rate for Eurodollar Rate Loans plus two percent (2%) per annum (as applicable, the "Default Rate").

3.2 Closing Fee and Facility Fee.

(a) Closing Fee. Upon the execution of this Agreement, Borrower shall pay to Agent for the ratable benefit of Lenders a closing fee of $140,000 less that portion of the commitment fee of $40,000 heretofore paid by Borrower to Agent remaining after application of such fee to out of pocket expenses.

(b) Facility Fee. If, for any calendar quarter during the Term, the average daily unpaid balance of the Revolving Advances for each day of such calendar quarter does not equal the Maximum Revolving Advance Amount, then Borrower shall pay to Agent for the ratable benefit of Lenders a fee at a rate equal to one half of one percent (.50%) per annum on the amount by which the Maximum Revolving Advance Amount exceeds such average daily unpaid balance. Such fee shall be payable to Agent in arrears on the first day of each calendar quarter with respect to the previous calendar quarter.

3.3 Collateral Evaluation Fee, Collateral Monitoring Fee and Fee Letter.

(a) Collateral Evaluation Fee. Borrower shall pay Agent a collateral evaluation fee equal to $1,500.00 per month commencing on the first day of the month following the Closing Date and on the first day of each month thereafter during the Term. The collateral evaluation fee shall be deemed earned in full on the date when same is due and payable hereunder and shall not be subject to rebate or proration upon termination of this Agreement for any reason.

(b) Collateral Monitoring Fee. Borrower shall pay to Agent on the first day of each month following any month in which Agent performs any collateral monitoring - namely any field examination, collateral analysis or other business analysis, the need for which is to be determined by Agent and which monitoring is undertaken by Agent or for Agent's benefit - a collateral monitoring fee in an amount equal to $750.00 per day for each person employed to perform such monitoring, plus all costs and disbursements incurred by Agent in the performance of such examination or analysis.

3.4 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 applicable Contract Rate for Domestic Rate Loans during such extension.

3.5 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, Lenders shall promptly refund such excess amount to Borrower and the provisions hereof shall be deemed amended to provide for such permissible rate.

3.6 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 any Lender (for purposes of this Section 3.6, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) and the office or branch where Agent or any 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 Agent or any 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 Agent or any 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 Agent or any 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 Agent or any Lender, including pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(c) impose on Agent or any 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 Agent or any Lender of making, renewing or maintaining its Advances hereunder by an amount that Agent or such 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 Advances by an amount that Agent or such Lender deems to be material, then, in

any case Borrower shall promptly pay Agent or such Lender, upon its demand, such additional amount as will compensate Agent or such 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. Agent or such Lender shall certify the amount of such additional cost or reduced amount to Borrower, and such certification shall be conclusive absent manifest error.

3.7 Basis For Determining Interest Rate Inadequate or Unfair. In the event that Agent or any 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 Agent 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 Agent 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 Agent, 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 Agent, 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, Lenders 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.

3.8 Capital Adequacy.

(a) In the event that Agent or any 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 Agent or any Lender (for purposes of this Section 3.8, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) and the office or branch where Agent or any 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 Agent or any Lender's capital as a consequence of its obligations hereunder to a level below that which Agent or such Lender could have achieved but for such adoption, change or compliance (taking into consideration Agent's and each Lender's policies with respect to capital adequacy) by an amount deemed by Agent or any Lender to be material, then, from time to time, Borrower shall pay upon demand to Agent or such Lender such additional amount or amounts as will compensate Agent or such Lender for such reduction. In determining such amount or amounts, Agent or such Lender may use any reasonable averaging or attribution methods. The protection of this Section 3.8 shall be available to Agent and each Lender regardless of any possible contention of invalidity or inapplicability with respect to the Applicable Law, regulation or condition.

(b) A certificate of Agent or such Lender setting forth such amount or amounts as shall be necessary to compensate Agent or such Lender with respect to Section 3.8(a) hereof when delivered to Borrower shall be conclusive absent manifest error.

3.9 Gross Up for Taxes. Subject to Section 3.6(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 Agent, or any Lender, assignee of any 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 3.10 hereof.

3.10 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 Agent, each other Payee) agrees that it will deliver to Borrower and Agent 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 Agent a valid Withholding Certificate pursuant to Section 3.10(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 Agent 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 Agent). Each Payee which so delivers a valid Withholding Certificate further undertakes to deliver to Borrower and Agent 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 Agent.

(c) Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of or exemption from U.S. withholding tax required under Section 3.10(b) hereof, Agent 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, Agent 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. To secure the prompt payment and performance to Agent and each Lender of the Obligations, Borrower hereby assigns, pledges and grants to Agent for its benefit and for the ratable benefit of each 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 Agent's security interest and shall cause its financial statements to reflect such security interest. Borrower shall promptly provide Agent 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 Agent 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 Agent may request, so as at all times to maintain the validity, perfection, enforceability and priority of Agent's security interest in and Lien on the Collateral or to enable Agent 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 Agent, endorsed or accompanied by such instruments of assignment as Agent may specify, and stamping or marking, in such manner as Agent 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 Agent, 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 Agent, relating to the creation, validity, perfection, maintenance or continuation of Agent's security interest and Lien under the Uniform Commercial Code or other Applicable Law. By its signature hereto, Borrower hereby authorizes Agent to file against Borrower, one or more financing, continuation or amendment statements pursuant to the Uniform Commercial Code in form and substance satisfactory to Agent (which statements may have a description of collateral which is broader than that set forth herein). All charges, expenses and fees Agent may incur in doing any of the foregoing, and any local taxes relating thereto, shall be charged to Borrower's Account as a Revolving Advance of a Domestic Rate Loan and added to the Obligations, or, at Agent's option, shall be paid to Agent for its benefit and for the ratable benefit of Lenders immediately upon demand.

4.3 Disposition of Collateral. Borrower will safeguard and protect all Collateral for Agent'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 Agent's first priority security interest or (ii) the proceeds of which are remitted to Agent to be applied pursuant to Section 2.11.

4.4 Preservation of Collateral. In addition to the rights and remedies set forth in Section 11.1 hereof, Agent: (a) may at any time take such steps as Agent deems necessary to protect Agent's interest in and to preserve the Collateral, including the hiring of such security guards or the placing of other security protection measures as Agent 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 Agent's interests in the Collateral; (c) may lease warehouse facilities to which Agent 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 Agent's efforts to preserve the Collateral and will take such actions to preserve the Collateral as Agent may direct. All of Agent's expenses of preserving the Collateral, including any expenses relating to the bonding of a custodian, shall be charged to Borrower's Account as a Revolving Advance and added to the Obligations.

4.5 Ownership of Collateral. (a) With respect to the Collateral, at the time the Collateral becomes subject to Agent's security interest: (i) Borrower shall be the sole owner of and fully authorized and able to sell, transfer, pledge and/or grant a first priority security interest in each and every item of the its respective Collateral to Agent; 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 Agent or any 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 Agent 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 Agent's and Lenders' Interests. Until (a) payment and performance in full of all of the Obligations and (b) termination of this Agreement, Agent's interests in the Collateral shall continue in full force and effect. During such period Borrower shall not, without Agent'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 Agent's interests in the Collateral against any and all Persons whatsoever. At any time following demand by Agent for payment of all Obligations, Agent 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 Agent 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 Agent at a place reasonably convenient to Agent. In addition, with respect to all Collateral, Agent and Lenders 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. Borrower shall, and Agent may, at its option, instruct all suppliers, carriers, forwarders, warehousers or others receiving or holding cash, checks, Inventory, documents or instruments in which Agent holds a security interest to deliver same to Agent and/or subject to Agent's order and if they shall come into Borrower's possession, they, and each of them, shall be held by Borrower in trust as Agent's trustee, and Borrower will immediately deliver them to Agent 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 Agent and each 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 Agent and each 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, the Agent and each 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 Agent within ten (10) Business Days of any request for such information and materials.. Borrower hereby authorizes all Governmental Bodies to furnish to Agent and each 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, the Agent and each 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 the Agent 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 Agent to protect Agent'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 Agent and each 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. Agent, any Lender and their 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 Agent, 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 Agent 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 Agent, naming Agent 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 Agent, (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 Agent. In the event of any loss thereunder in excess of $100,000, the carriers named therein hereby are directed by Agent and Borrower to make payment for such loss to Agent and not to Borrower and Agent jointly. If any insurance losses are paid by check, draft or other instrument payable to Borrower and Agent jointly, Agent may endorse Borrower's name thereon and do such other things as Agent may deem advisable to reduce the same to cash. Agent 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, the Agent shall consult the Borrower with regard to such adjustments and compromises. All loss recoveries received by Agent upon any such insurance may be applied to the Obligations, in such order as Agent in its sole discretion shall determine. Any surplus shall be paid by Agent to Borrower or applied as may be otherwise required by law. Any deficiency thereon shall be paid by Borrower to Agent, on demand.

4.12 Failure to Pay Insurance. If Borrower fails to obtain insurance as hereinabove provided, or to keep the same in force, Agent, if Agent so elects, may obtain such insurance and pay the premium therefor on behalf of Borrower, and charge Borrower's Account therefor as a Revolving Advance of a Domestic Rate Loan and such expenses so paid shall be part of the Obligations.

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 Agent or any Lender which Agent or any 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 Agent's or any Lender's opinion, may possibly create a valid Lien on the Collateral, Agent may without notice to Borrower pay the taxes, assessments or other Charges and Borrower

hereby indemnifies and holds Agent and each Lender harmless in respect thereof, subject to Sections 3.6(a) and 3.10 herein. Agent 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 Agent to protect Agent's security interest in or Lien on the Collateral. The amount of any payment by Agent under this Section 4.13 shall be charged to Borrower's Account as a Revolving Advance and added to the Obligations and, until Borrower shall furnish Agent with an indemnity therefor (or supply Agent with evidence satisfactory to Agent that due provision for the payment thereof has been made), Agent may hold without interest any balance standing to Borrower's credit and Agent shall retain its security interest in and Lien on any and all Collateral held by Agent.

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 Agent'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 Agent.

(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 1460 North Fifth Avenue, Bay Shore, New York 11706. Until written notice is given to Agent 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 Agent (which notice Agent may give at any time following the occurrence of an Event of Default or a Default or when Agent in its sole discretion deems it to be in Lenders' best interest to do so), Borrower will, at Borrower's sole cost and expense, but on Agent's behalf and for Agent's account, collect as Agent's property and in trust for Agent 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 Agent, deliver to Agent, 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 Agent shall have the right to send notice of the assignment of, and Agent'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, Agent shall have the sole right to collect the Receivables, take possession of the Collateral, or both. Agent'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 charged to Borrower's Account and added to the Obligations.

(f) Power of Agent to Act on Borrower's Behalf. Agent shall have the right to receive, endorse, assign and/or deliver in the name of Agent 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 Agent or Agent'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 Agent to preserve, protect, or perfect Agent'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, Agent shall have the right at any time to change the address for delivery of mail addressed to Borrower to such address as Agent may designate and to receive, open and dispose of all mail addressed to Borrower.

(g) No Liability. Neither Agent nor any Lender shall, 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. Agent 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. Agent 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 Agent or (ii) depository accounts ("Depository Accounts") established at the Agent for the deposit of such proceeds. Borrower, Agent and each Blocked Account Bank shall enter into a deposit account control agreement in form and substance satisfactory to Agent directing such Blocked Account Bank to transfer such funds so deposited to Agent, either to any account maintained by Agent at said Blocked Account Bank or by wire transfer to appropriate account(s) of Agent. All funds deposited in such Blocked Accounts shall immediately become the property of Agent and Borrower shall obtain the agreement by such Blocked Account Bank to waive any offset rights against the funds so deposited. Neither Agent nor any Lender assumes 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 Agent'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.

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 Agent or any Lender as Borrower's agent for any purpose whatsoever, nor shall Agent or any 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. Neither

Agent nor any Lender, whether by anything herein or in any assignment or otherwise, assume any of Borrower's obligations under any contract or agreement assigned to Agent or such Lender, and neither Agent nor any Lender shall 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 Agent 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 Agent 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 Agent or any Lender with respect thereto.

(e) Borrower shall promptly forward to Agent 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 Agent until the claim is settled. Borrower shall promptly forward to Agent 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 Agent to protect Agent's security interest in and Lien on the Real Property and the Collateral. The Agent and other Lenders hereby acknowledge 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, Agent on behalf of Lenders may, but without the obligation to do so, for the sole purpose of protecting Agent'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 Agent (or such third parties as directed by Agent) 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 Agent and Lenders (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 constituting Revolving Advances 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 Agent, any Lender and Borrower.

(g) Promptly upon the written request of Agent from time to time, Borrower shall provide Agent, 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 Agent, 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 Agent. If such estimates, individually or in the aggregate, exceed $100,000, Agent shall have the right to require Borrower to post a bond, letter of credit or other security reasonably satisfactory to Agent to secure payment of these costs and expenses.

(h) Borrower shall defend and indemnify Agent and Lenders and hold Agent, Lenders and their respective 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 Agent or Lenders 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 Agent or any 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) 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 Agent copies of all documentation with regard thereto.

(j) 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 Agent 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 and the Other Documents have been duly executed and delivered by Borrower, and this 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, (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 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 Agent true and complete copies of its certificate of incorporation and by-laws and will promptly notify Agent 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, 2002. 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, 2004. 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, 2004, 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 Agent, 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 June 30, 2005 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 Agent 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 Agent 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 any Advance 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 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 Agent in writing with respect to the transactions contemplated by the Acquisition Agreement or this Agreement which could reasonably be expected to have a Material Adverse Effect.

5.18 Delivery of Acquisition Agreement. Agent has received complete copies of 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.

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 Section 20 Subsidiaries. Borrower does not intend to use and shall not use any portion of the proceeds of the Advances, directly or indirectly, to purchase during the underwriting period, or for 30 days thereafter, Ineligible Securities being underwritten by a Section 20 Subsidiary.

5.24 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 Advances 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 any 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 Advances 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.

5.25 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.

5.26 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 Agent on demand all usual and customary fees and expenses which Agent incurs in connection with (a) the forwarding of Advance proceeds and (b) the establishment and maintenance of any Blocked Accounts or Depository Accounts as provided for in Section 4.15(h). Agent may, without making demand, charge Borrower's Account for all such fees and expenses.

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 Agent 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 Agent's interest in the Collateral under the Federal Assignment of Claims Act (if such Collateral is to be deemed Eligible Receivables), the Uniform Commercial Code and all other applicable state or local statutes or ordinances and deliver to Agent 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) $3,500,000 as of the Closing Date and from the Closing Date through and including December 30, 2006 and (ii) as of December 31, 2006, an amount equal to the Borrower's Tangible Net Worth for the fiscal year ended December 31, 2005 plus an amount equal to fifty (50%) percent of the Borrower's Net Income for fiscal year ending December 31, 2006, 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 1.20 to 1.00, tested quarterly on a consolidated, rolling four quarter basis.

6.6 Execution of Supplemental Instruments. Execute and deliver to Agent 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 Agent 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 Agent may reasonably deem proper and necessary, subject at all times to any applicable subordination arrangement in favor of Lenders.

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 Agent 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 Agent has approved in writing a perpetual inventory accounting system acceptable to the Agent in its sole discretion and such perpetual inventory accounting system has been implemented to the satisfaction of the Agent.

VII. NEGATIVE COVENANTS.

Borrower shall not, until satisfaction in full of the Obligations and 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, (ii) any other sales or dispositions expressly permitted by this Agreement and (iii) Borrower may sell the Mortgaged Premises and enter into a sale and lease-back transaction with regard thereto so long as (I) no Default and/or Event of Default has occurred and (II) the sales price with regard thereto is not less than $2,800,000.

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 Lenders) 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 dividends may be paid in cash to the

shareholders of the Borrower as long as (a) after payment of said dividend, Undrawn Availability is equal to or greater than $2,000,000, (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 Lenders; and (ii) 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 the Agent, 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 Mortgaged Premises if it enters into a sale and lease-back transaction with regard to the Mortgaged 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 Agent's or any Lender's credit on any purchases or for any purpose whatsoever or use any portion of any Advance 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 Agent 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 7.21 hereof, at any time, directly or indirectly, prepay any Indebtedness (other than to Lenders), or repurchase, redeem, retire or otherwise acquire any Indebtedness of Borrower.

7.18 Anti-Terrorism Laws. Borrower shall not, until satisfaction in full of the Obligations and 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 Lenders any certification or other evidence requested from time to time by any 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 Other Agreements. Enter into any material amendment, waiver or modification of the Acquisition Agreement or any related agreements.

7.22 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 Initial Advances. The agreement of Lenders to make the initial Advances requested to be made on the Closing Date is subject to the satisfaction, or waiver by Agent, immediately prior to or concurrently with the making of such Advances, of the following conditions precedent:

(a) Note. Agent 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 the Agent to be filed, registered or recorded in order to create, in favor of Agent, 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 Agent 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. Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors of Borrower authorizing (i) the execution, delivery and performance of this 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. Agent 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. Agent 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. Agent 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) Legal Opinion. Agent shall have received the executed legal opinion of Eaton & Van Winkle LLP in form and substance satisfactory to Agent which shall cover such matters incident to the transactions contemplated by this Agreement and the Other Documents and related agreements as Agent may reasonably require and Borrower hereby authorizes and directs such counsel to deliver such opinions to Agent and Lenders;

(h) 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 or any of the transactions contemplated thereby and which, in the reasonable opinion of Agent, is deemed material or (B) which could, in the reasonable opinion of Agent, 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. Agent shall have received a summary of all existing litigation regarding the Borrower;

(i) Financial Condition Certificates. Agent shall have received an executed Financial Condition Certificate in the form of Exhibit 8.1(i).

(j) Collateral Examination. Agent shall have completed Collateral examinations and received appraisals, the results of which shall be satisfactory in form and substance to Lenders, of the Receivables, Inventory, General Intangibles, Real Property, Leasehold Interest and Equipment of Borrower and all books and records in connection therewith;

(k) Fees. Agent shall have received all fees payable to Agent and Lenders on or prior to the Closing Date hereunder, including pursuant to Article III hereof;

(l) Financial Statements. Agent 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 the Agent;

(m) Acquisition Agreement. Agent shall have received final executed copies of the Acquisition 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 Agent and the transactions contemplated by such documentation shall be consummated prior to or simultaneously with the making of the initial Advance Such documentation shall include, but not be limited to, all documentation with regard to the $6,500,000 preferred equity investment;

(n) Fictitious, Assumed or Alternate Names. Agent shall have received certified copies of any fictitious, assumed or alternate names of the Borrower;

(o) Insurance. Agent shall have received in form and substance satisfactory to Agent, certified copies of Borrower's casualty insurance policies, together with loss payable endorsements on Agent's standard form of loss payee endorsement, and certified copies of Borrower's liability insurance and property insurance policies, together with endorsements naming Agent as additional insured, mortgagee and lender loss payee;

(p) Title Insurance. Agent shall have received fully paid mortgagee title insurance policies (or binding commitments to issue title insurance policies, marked to Agent's satisfaction to evidence the form of such policies to be delivered with respect to the Mortgage), in standard ALTA form, issued by a title insurance company satisfactory to Agent, each in an amount equal to not less than the fair market value of the Mortgaged Premises subject to the Mortgage, insuring the Mortgage to create a valid Lien on the Mortgaged Premises with no exceptions which Agent shall not have approved in writing and no survey exceptions;

(q) Environmental Reports. Agent shall have received all environmental studies and reports prepared by independent environmental engineering firms with respect to all Mortgaged Premises owned or leased by Borrower;

(r) Payment Instructions. Agent shall have received written instructions from Borrower directing the application of proceeds of the initial Advances made pursuant to this Agreement;

(s) Blocked Accounts. Agent shall have received duly executed agreements establishing the Blocked Accounts or Depository Accounts with financial institutions acceptable to Agent for the collection or servicing of the Receivables and proceeds of the Collateral;

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

(u) No Adverse Material Change. (i) since June 30, 2005, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect and (ii) no representations made or information supplied to Agent or Lenders shall have been proven to be inaccurate or misleading in any material respect;

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

(w) Mortgage Documents. Agent shall have received in form and substance satisfactory to Lenders for the Mortgaged Premises (i) an executed Mortgage, Assignment of Rents, Leases and Profits and Environmental Indemnity Agreement, (ii) affidavit of title, (iii) survey certified to Agent and the title company, (iv) appraisal in form, substance and amount satisfactory to the Agent, and (v) flood hazard certification (life of the loan) and flood insurance, if necessary;

(x) ERISA Compliance. Agent shall have received in form and substance satisfactory to Agent 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;

(y) Other Documents. Agent shall have received the executed Other Documents, all in form and substance satisfactory to Agent;

(z) Projections. Agent 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;

(aa) Contract Review. Agent 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 Agent;

(bb) Closing Certificate. Agent 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;

(cc) Borrowing Base. Agent shall have received a Borrowing Base Certificate from Borrower evidencing that the Borrower will have a minimum aggregate Undrawn Availability of at least $1,000,000 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);

(dd) Operating Accounts. Agent shall have received evidence that the Borrower has established and is maintaining operating accounts with the Agent;

(ee) Compliance with Laws. Agent 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;

(ff) Searches. Agent 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 the Agent;

(gg) Intellectual Property. Agent 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;

(hh) Trade References. Receipt and satisfactory review by Agent of trade references with regard to the Borrower;

(ii) Review of Records. Agent shall have reviewed to its satisfaction all of Borrower's books and records;

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

(kk) 1st West Investigation. Receipt and satisfactory review by Agent of 1st West investigation;

(ll) Federal Acquisition Regulations. 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;

(mm) Orderly Liquidation Valuation Appraisal. Satisfactory review by Agent of an Orderly Liquidation Valuation Appraisal of the Borrower's machinery and equipment from Gordon Brothers; and

(nn) 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 Agent and its counsel.

8.2 Conditions to Each Advance. The agreement of Lenders to make any Advance requested to be made on any date (including the initial Advance), is subject to the satisfaction of the following conditions precedent as of the date such Advance is made:

(a) Representations and Warranties. Each of the representations and warranties made by Borrower in or pursuant to this Agreement, the Other Documents and any related agreements to which it is a party, and each of the representations and warranties contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement, the Other Documents or any related agreement shall be true and correct in all material respects on and as of such date as if made on and as of such date;

(b) No Default. No Event of Default or Default shall have occurred and be continuing on such date, or would exist after giving effect to the Advances requested to be made, on such date and, in the case of the initial Advance, after giving effect to the consummation of the transactions

contemplated by the Acquisition Agreement; provided, however that Agent, in its sole discretion, may continue to make Advances notwithstanding the existence of an Event of Default or Default and that any Advances so made shall not be deemed a waiver of any such Event of Default or Default; and

(c) Maximum Advances. In the case of any type of Advance requested to be made, after giving effect thereto, the aggregate amount of such type of Advance shall not exceed the maximum amount of such type of Advance permitted under this Agreement.

Each request for an Advance by Borrower hereunder shall constitute a representation and warranty by Borrower as of the date of such Advance that the conditions contained in this subsection shall have been satisfied.

8.3 Conditions to Each Equipment Loan. The agreement of Lenders to make any Equipment Loan is subject to satisfaction of the following conditions precedent: (a) receipt by Agent of (i) a copy of the invoice relating to the Equipment being purchased, (ii) evidence that such Equipment has been shipped to Borrower, (iii) evidence that the requested Equipment Loan does not exceed eighty percent (80%) of the net invoice cost of such Equipment purchased by Borrower (which shall be exclusive of shipping, delivery, handling, taxes, overhead, installation and all other "soft" costs), and (iv) such other documentation and evidence that Agent may request; and (b) after giving effect thereto, the aggregate outstanding principal amount of Equipment Loans shall not exceed the Maximum Equipment Loan Amount.

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 Agent 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 Agent (I) on or before the fifteenth (15th) day of each month as and for the prior month (a) accounts receivable ageings inclusive of reconciliations to the general ledger, and (b) a Borrowing Base Certificate in form and substance satisfactory to Agent (which shall be calculated as of the last day of the prior month and which shall not be binding upon Agent or restrictive of Agent's rights under this Agreement) and (II) 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 Agent at such intervals as Agent 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 Agent may require including trial balances and test verifications. Agent 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 Agent and executed by Borrower and delivered to Agent from time to time solely for Agent's convenience in maintaining records of the Collateral, and Borrower's failure to deliver any of such items to Agent shall not affect, terminate, modify or otherwise limit Agent's Lien with respect to the Collateral.

9.3 Environmental Reports. Furnish Agent, 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 Agent 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 Agent in writing upon the occurrence of (a) any Event of Default or Default; (b) 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; (c) 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; (d) 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 (e) 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 Agent 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 Agent 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 Agent (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 Agent 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 July, 2006, furnish Agent 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 Agent as soon as available, but in any event within ten (10) days after the issuance thereof, with copies of such financial statements, reports and returns as Borrower shall send to its stockholders.

9.11 Additional Information. Furnish Agent with such additional information as Agent shall reasonably request in order to enable Agent 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 Agent, (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 Agent, no later than thirty (30) days prior to the beginning of Borrower's fiscal years commencing with fiscal year 2005, 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 Agent, 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 Agent 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 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 Agent 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 Agent, upon request, such documents and agreements as Agent 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 Agent or any 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, and (ii) the Borrower does not establish reserves with regard thereto in an amount reasonably satisfactory to the Agent, unless any such judgment is fully covered by insurance and evidence thereof acceptable to the Agent in it sole discretion is provided to the Agent;

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 Play. 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 Agent'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 first priority interest;

10.12 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;

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

10.14 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 Agent or any Lender;

10.15 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 Agent 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;

10.16 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 Agent, upon final determination, result in impairment or loss of the security provided by this Agreement or the Other Documents;

10.17 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

10.18 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 Agent be reasonably likely to incur, a liability to a Plan or the PBGC (or both) which, in the reasonable judgment of Agent, would have a Material Adverse Effect.

XI. LENDERS' 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 this Agreement and the obligation of Lenders to make Advances shall be deemed terminated; 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 Required Lenders all Obligations shall be immediately due and payable and Lenders shall have the right to terminate this Agreement and to terminate the obligation of Lenders to make Advances 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 and the obligation of Lenders to make Advances hereunder shall be terminated other than as may be required by an appropriate order of the bankruptcy court having jurisdiction over Borrower. Upon the occurrence of any Event of Default, Agent 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. Agent may enter any of Borrower's premises or other premises without legal process and without incurring liability to Borrower therefor, and Agent 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 Agent may deem advisable and Agent may require Borrower to make the Collateral available to Agent at a convenient place. With or without having the Collateral at the time or place of sale, Agent 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 Agent 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, Agent 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 Agent or any Lender may bid for and become the purchaser, and Agent, any 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, Agent is granted a perpetual nonrevocable, royalty free, nonexclusive license and Agent 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 Agent and Lenders therefor.

To the extent that Applicable Law imposes duties on the Agent to exercise remedies in a commercially reasonable manner, Borrower acknowledges and agrees that it is not commercially unreasonable for the Agent (i) to fail to incur expenses reasonably deemed significant by the Agent 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 the Agent against risks of loss, collection or disposition of Collateral or to provide to the Agent a guaranteed return from the collection or disposition of Collateral, or (xii) to the extent deemed appropriate by the Agent, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Agent 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 the Agent would not be commercially unreasonable in the Agent's exercise of remedies against the Collateral and that other actions or omissions by the Agent 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 Agent 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 Agent's Discretion. Agent shall have the right in its sole discretion to determine which rights, Liens, security interests or remedies Agent 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 Agent's or Lenders' rights hereunder.

11.3 Setoff. Subject to Section 14.12, in addition to any other rights which Agent or any Lender may have under Applicable Law, upon the occurrence of an Event of Default hereunder, Agent and such Lender shall have a right, immediately and without notice of any kind, to apply Borrower's property held by Agent and such 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 the Agent on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Agent'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 the Agent in connection with enforcing its rights and the rights of the Lenders under this Agreement and the Other Documents and any protective advances made by the Agent with respect to the Collateral under or pursuant to the terms of this Document;

SECOND, to payment of any fees owed to the Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of each of the Lenders in connection with enforcing its rights under this Agreement and the Other Documents or otherwise with respect to the Obligations owing to such Lender;

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

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

SIXTH, 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 "FIFTH" above; and

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

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive (so long as it is not a Defaulting Lender) an amount equal to its pro rata share (based on the proportion that the then outstanding Advances held by such Lender bears to the aggregate then outstanding Advances) of amounts available to be applied pursuant to clauses "FOURTH", "FIFTH" and "SIXTH" above.

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 Agent's or any 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, Agent and each 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 other than any Obligations with regard to the Term Loan are prepaid in full 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 Agent for the benefit of Lenders an early termination fee in an amount equal to (y) $140,000 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, and (z) $70,000 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.

13.2 Termination. The termination of the Agreement shall not affect Borrower's, Agent's or any 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 Agent and Lenders hereunder and the financing statements filed hereunder shall continue in full force and effect, notwithstanding the termination of this Agreement or the fact that Borrower's Account may from time to time be temporarily in a zero or credit position, until all of the Obligations of Borrower have been indefeasibly paid and performed in full after the termination of this Agreement or Borrower has furnished Agent and Lenders with an indemnification satisfactory to Agent and Lenders 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 Agent 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 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. REGARDING AGENT.

14.1 Appointment. Each Lender hereby designates PNC to act as Agent for such Lender under this Agreement and the Other Documents. Each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and the Other Documents and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto and Agent shall hold all Collateral, payments of principal and interest, fees (except the fees set forth in Sections 3.2(a) and 3.3), charges and collections (without giving effect to any collection days) received pursuant to this Agreement, for the ratable benefit of Lenders. Agent may perform any of its duties hereunder by or through its agents or employees. As to any matters not expressly provided for by this Agreement (including collection of the Note) Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding; provided, however, that Agent shall not be required to take any action which exposes Agent to liability or which is contrary to this Agreement or the Other Documents or Applicable Law unless Agent is furnished with an indemnification reasonably satisfactory to Agent with respect thereto.

14.2 Nature of Duties. Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and the Other Documents. Neither Agent nor any of its officers, directors, employees or agents shall be (i) liable for any action taken or omitted by them as such hereunder or in connection herewith, unless caused by their gross (not mere) negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment), or (ii) responsible in any manner for any recitals, statements, representations or warranties made by Borrower or any officer thereof contained in this Agreement, or in any of the Other Documents or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any of the Other Documents or for the value, validity, effectiveness, genuineness, due execution, enforceability or sufficiency of this Agreement, or any of the Other Documents or for any failure of Borrower to perform its obligations hereunder. Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any of the Other Documents, or to inspect the properties, books or records of Borrower. The duties of Agent as respects the Advances to Borrower shall be mechanical and administrative in nature; Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon Agent any obligations in respect of this Agreement except as expressly set forth herein.

14.3 Lack of Reliance on Agent and Resignation. Independently and without reliance upon Agent or any other Lender, each Lender has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of Borrower in connection with the making and the continuance of the Advances hereunder and the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the creditworthiness of Borrower. Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before making of the Advances or at any time or times thereafter except as shall be provided by Borrower pursuant to the terms hereof. Agent shall not be responsible to any Lender for any recitals, statements, information, representations or warranties herein or in any agreement, document, certificate or a statement delivered in connection with or for the execution, effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any Other Document, or of the financial condition of Borrower, or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, the Note, the Other Documents or the financial condition of Borrower, or the existence of any Event of Default or any Default.

Agent may resign on sixty (60) days' written notice to each of Lenders and Borrower and upon such resignation, the Required Lenders will promptly designate a successor Agent reasonably satisfactory to Borrower.

Any such successor Agent shall succeed to the rights, powers and duties of Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent. After any Agent's resignation as Agent, the provisions of this Article XIV shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

14.4 Certain Rights of Agent. If Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any Other Document, Agent shall be entitled to refrain from such act or taking such action unless and until Agent shall have received instructions from the Required Lenders; and Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, Lenders shall not have any right of action whatsoever against Agent as a result of its acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

14.5 Reliance. Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telecopier message, cablegram, order or other document or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper person or entity, and, with respect to all legal matters pertaining to this Agreement and the Other Documents and its duties hereunder, upon advice of counsel selected by it. Agent may employ agents and attorneys-in-fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by Agent with reasonable care.

14.6 Notice of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder or under the Other Documents, unless Agent has received notice from a Lender or Borrower referring to this Agreement or the Other Documents, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that Agent receives such a notice, Agent shall give notice thereof to Lenders. Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of Lenders.

14.7 Indemnification. To the extent Agent is not reimbursed and indemnified by Borrower, each Lender will reimburse and indemnify Agent in proportion to its respective portion of the Advances (or, if no Advances are outstanding, according to its Commitment Percentage), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against Agent in performing its duties hereunder, or in any way relating to or arising out of this Agreement or any Other Document; provided that, Lenders shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent's gross (not mere) negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment).

14.8 Agent in its Individual Capacity. With respect to the obligation of Agent to lend under this Agreement, the Advances made by it shall have the same rights and powers hereunder as any other Lender and as if it were not performing the duties as Agent specified herein; and the term "Lender" or

any similar term shall, unless the context clearly otherwise indicates, include Agent in its individual capacity as a Lender. Agent may engage in business with Borrower as if it were not performing the duties specified herein, and may accept fees and other consideration from Borrower for services in connection with this Agreement or otherwise without having to account for the same to Lenders.

14.9 Delivery of Documents. To the extent Agent receives financial statements required under Sections 9.7, 9.8, 9.9, 9.12 and 9.13 or Borrowing Base Certificates from Borrower pursuant to the terms of this Agreement which Borrower is not obligated to deliver to each Lender, Agent will promptly furnish such documents and information to Lenders.

14.10 Borrower's Undertaking to Agent. Without prejudice to its obligations to Lenders under the other provisions of this Agreement, Borrower hereby undertakes with Agent to pay to Agent from time to time on demand all amounts from time to time due and payable by it for the account of Agent or Lenders or any of them pursuant to this Agreement to the extent not already paid. Any payment made pursuant to any such demand shall pro tanto satisfy the relevant Borrower's obligations to make payments for the account of Lenders or the relevant one or more of them pursuant to this Agreement.

14.11 No Reliance on Agent's Customer Identification Program. Each Lender acknowledges and agrees that neither such Lender, nor any of its Affiliates, participants or assignees, may rely on the Agent to carry out such Lender's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA PATRIOT Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with Borrower, its Affiliates or its agents, this Agreement, the Other Documents or the transactions hereunder or contemplated hereby: (1) any identity verification procedures, (2) any record-keeping, (3) comparisons with government lists, (4) customer notices or (5) other procedures required under the CIP Regulations or such other laws.

14.12 Other Agreements. Each of the Lenders agrees that it shall not, without the express consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the request of Agent, set off against the Obligations, any amounts owing by such Lender to Borrower or any deposit accounts of Borrower now or hereafter maintained with such Lender. Anything in this Agreement to the contrary notwithstanding, each of the Lenders further agrees that it shall not, unless specifically requested to do so by Agent, take any action to protect or enforce its rights arising out of this Agreement or the Other Documents, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the Other Documents shall be taken in concert and at the direction or with the consent of Agent or Required Lenders.

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 Agent or any 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 Agent or any 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, Agent and each 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, Agent's and each 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) The Required Lenders, Agent with the consent in writing of the Required Lenders, and Borrower may, subject to the provisions of this Section 15.2 (b), 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 Lenders, Agent 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; provided, however, that no such supplemental agreement shall, without the consent of all Lenders:

(i) increase the Commitment Percentage, the maximum dollar commitment of any Lender or the Maximum Revolving Advance Amount.

(ii) extend the maturity of any Note or the due date for any amount payable hereunder, or decrease the rate of interest or reduce any fee payable by Borrower to Lenders pursuant to this Agreement.

(iii) alter the definition of the term Required Lenders or alter, amend or modify this Section 15.2(b).

(iv) release any Collateral during any calendar year (other than in accordance with the provisions of this Agreement) having an aggregate value in excess of $75,000 (exclusive of the Mortgaged Premises upon the sale thereof).

(v) change the rights and duties of Agent.

(vi) permit any Revolving Advance to be made if after giving effect thereto the total of Revolving Advances outstanding hereunder would exceed the Formula Amount for more than sixty (30) consecutive Business Days or exceed one hundred and five percent (105%) of the Formula Amount.

(vii) increase the Advance Rates above the Advance Rates in effect on the Closing Date.

(viii) release any guarantor.

Any such supplemental agreement shall apply equally to each Lender and shall be binding upon Borrower, Lenders and Agent and all future holders of the Obligations. In the case of any waiver, Borrower, Agent and Lenders 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.

In the event that Agent requests the consent of a Lender pursuant to this Section 15.2 and such Lender shall not respond or reply to Agent in writing within five (5) days of delivery of such request, such Lender shall be deemed to have consented to the matter that was the subject of the request. In the event that Agent requests the consent of a Lender pursuant to this Section 15.2 and such consent is denied, then PNC may, at its option, require such Lender to assign its interest in the Advances to PNC or to another Lender or to any other Person designated by the Agent (the "Designated Lender"), for a price equal to the then outstanding principal amount thereof plus accrued and unpaid interest and fees due such Lender, which interest and fees shall be paid when collected from Borrower. In the event PNC elects to require any Lender to assign its interest to PNC or to the Designated Lender, PNC will so notify such Lender in writing within forty five (45) days following such Lender's denial, and such Lender will assign its interest to PNC or the Designated Lender no later than five (5) days following receipt of such notice pursuant to a Commitment Transfer Supplement executed by such Lender, PNC or the Designated Lender, as appropriate, and Agent.

Notwithstanding (a) the existence of a Default or an Event of Default, (b) that any of the other applicable conditions precedent set forth in Section 8.2 hereof have not been satisfied or (c) any other provision of this Agreement, Agent may at its discretion and without the consent of the Required Lenders, voluntarily permit the outstanding Revolving Advances at any time to exceed the Formula Amount by up to ten percent (10%) of the Formula Amount for up to thirty (30) consecutive Business Days (the "Out-of-Formula Loans"). If Agent is willing

in its sole and absolute discretion to make such Out-of-Formula Loans, such Out-of-Formula Loans shall be payable on demand and shall bear interest at the Default Rate for Revolving Advances consisting of Domestic Rate Loans; provided that, if Lenders do make Out-of-Formula Loans, neither Agent nor Lenders shall be deemed thereby to have changed the limits of Section 2.1(a). For purposes of this paragraph, the discretion granted to Agent hereunder shall not preclude involuntary overadvances that may result from time to time due to the fact that the Formula Amount was unintentionally exceeded for any reason, including, but not limited to, Collateral previously deemed to be either "Eligible Receivables" or "Eligible Inventory", as applicable, becomes ineligible, collections of Receivables applied to reduce outstanding Revolving Advances are thereafter returned for insufficient funds or overadvances are made to protect or preserve the Collateral. In the event Agent involuntarily permits the outstanding Revolving Advances to exceed the Formula Amount by more than ten percent (10%), Agent shall use its efforts to have Borrower decrease such excess in as expeditious a manner as is practicable under the circumstances and not inconsistent with the reason for such excess. Revolving Advances made after Agent has determined the existence of involuntary overadvances shall be deemed to be involuntary overadvances and shall be decreased in accordance with the preceding sentence.

In addition to (and not in substitution of) the discretionary Revolving Advances permitted above in this Section 15.2, the Agent is hereby authorized by Borrower and the Lenders, from time to time in the Agent's sole discretion, (A) after the occurrence and during the continuation of a Default or an Event of Default, or (B) at any time that any of the other applicable conditions precedent set forth in Section 8.2 hereof have not been satisfied, to make Revolving Advances to Borrower on behalf of the Lenders which the Agent, in its reasonable business judgment, deems necessary or desirable (a) to preserve or protect the Collateral, or any portion thereof, (b) to enhance the likelihood of, or maximize the amount of, repayment of the Advances and other Obligations, or (c) to pay any other amount chargeable to Borrower pursuant to the terms of this Agreement; provided, that at any time after giving effect to any such Revolving Advances the outstanding Revolving Advances do not exceed one hundred and ten percent (110%) of the Formula Amount.

15.3 Successors and Assigns; Participations; New Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of Borrower, Agent, each 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 Agent and each Lender.

(b) Borrower acknowledges that in the regular course of commercial banking business one or more Lenders may at any time and from time to time sell participating interests in the Advances 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 such Advances 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 Lender which granted an interest in its Advances or other Obligations payable hereunder to such

Participant had such Lender retained such interest in the Advances 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 same Advances or other Obligations payable hereunder to both such 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 Advances.

(c) Any Lender may with the consent of Agent which shall not be unreasonably withheld or delayed sell, assign or transfer all or any part of its rights under this Agreement and the Other Documents to one or more additional banks or financial institutions and one or more additional banks or financial institutions may commit to make Advances hereunder (each a "Purchasing Lender", and together with each Participant, each a "Transferee" and collectively the "Transferees"), in minimum amounts of not less than $5,000,000, pursuant to a Commitment Transfer Supplement, executed by a Purchasing Lender, the transferor Lender, and Agent and delivered to Agent 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 a Lender thereunder with a Commitment Percentage as set forth therein, and (ii) the transferor 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 such transferor 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 such transferor 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) Agent shall maintain at its address a copy of each Commitment Transfer Supplement delivered to it and a register (the "Register") for the recordation of the names and addresses of each 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, Agent and Lenders may treat each Person whose name is recorded in the Register as the owner of the Advance recorded therein for the purposes of this Agreement. The Register shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice. Agent shall receive a fee in the amount of $3,500 payable by the applicable Purchasing Lender upon the effective date of each transfer or assignment to such Purchasing Lender.

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

15.4 Application of Payments. Agent 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 Agent or any 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 Agent or such Lender.

15.5 Indemnity. Borrower shall indemnify Agent, each Lender and each of their respective 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 Agent or any 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 Agent or any 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 Agent and Lenders, but including any intangibles taxes, stamp tax, recording tax or franchise tax) shall be payable by Agent, Lenders 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 Agent and Lenders 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 Agent or any 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.

Any Lender giving a Notice to Borrower shall concurrently send a copy thereof to the Agent, and the Agent shall promptly notify the other Lenders of its receipt of such Notice.

(A) If to Agent or PNC at:

PNC Bank, National Association
70 East 55th Street
14th Floor
New York, New York 10022
Attention: Stephen Mangiante, Vice President
Telephone: (212) 752-6093
Facsimile: (212) 303-0060

with a copy to:

PNC Bank, National Association
PNC Agency Services
PNC Firstside Center
500 First Avenue, 4th Floor
Pittsburgh, Pennsylvania 15219
Attention: Lisa Pierce
Telephone: (412) 762-6442
Facsimile: (412) 762-8672

with an additional copy to: Wilentz, Goldman and Spitzer P.A.
90 Woodbridge Center Drive
Woodbridge, New Jersey 07095
Attention: Stuart A. Hoberman
Telephone: (732) 855-6052
Facsimile: (732) 855-6117

(B) If to a Lender other than Agent, as specified on the signature pages hereof

(C) If to Borrower: Air Industries Machining, Corp.
1460 North Fifth 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), 3.6, 3.7, 3.8, 4.19(h), and 15.5 and the obligations of Lenders under Section 14.7, 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 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 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 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 Borrower or any guarantor or (e) in connection with any advice given to Agent or any Lender with respect to its rights and obligations under this Agreement and all related agreements, documents and instruments, may be charged to Borrower's Account and shall be part of the Obligations.

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 Lenders; therefore, Agent, if Agent 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 Agent nor any Lender, nor any agent or attorney for any of them, 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) Agent, each Lender and each Transferee shall hold all non-public information obtained by Agent, such Lender or such Transferee pursuant to the requirements of this Agreement in accordance with Agent's, such Lender's and such Transferee's customary procedures for handling confidential information of this nature; provided, however, Agent, each Lender and each Transferee may disclose such confidential information (a) to its examiners, Affiliates, outside auditors, counsel and other professional advisors, (b) to Agent, any Lender or to any prospective Transferees, 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, Agent, each 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 a Lender or a Transferee by such Governmental Body) or (B) pursuant to legal process and (ii) in no event shall Agent, any Lender or any Transferee be obligated to return any materials furnished by Borrower other than those documents and instruments in possession of Agent or any 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 any Lender or by one or more Subsidiaries or Affiliates of such Lender and Borrower hereby authorizes each Lender to share any information delivered to such Lender by Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such Subsidiary or Affiliate of such Lender, it being understood that any such Subsidiary or Affiliate of any Lender receiving such information shall be bound by the provisions of this Section 15.15 as if it were a Lender hereunder. Such authorization shall survive the repayment of the other Obligations and the termination of this Agreement.

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

15.17 Certifications From Banks and Participants; US PATRIOT Act. Each Lender or assignee or participant of a 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 the Agent the certification, or, if applicable, recertification, certifying that such 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.

ATTEST:

/s/ Louis A. Giusto
- ----------
Name: LOUIS A. GIUSTO
Title: Secretary

AIR INDUSTRIES MACHINING, CORP.

By: /s/ Michael A. Gales

Name: MICHAEL A. GALES
Title: President

PNC BANK, NATIONAL ASSOCIATION,
as Lender and as Agent

By: /s/ Jeffrey J. Bender

Name: JEFFREY J. BENDER
Title: Vice President

70 East 55th Street
New York, New York 10022
Commitment Percentage: 100%

List of Exhibits and Schedules

Exhibits

Exhibit 1.2	Borrowing Base Certificate
Exhibit 2.1(a)	Revolving Credit Note
Exhibit 2.4(a)	Term Note
Exhibit 2.4(b)(i)	Equipment Line of Credit Note
Exhibit 2.4(b)(ii)	Converted Equipment Line of Credit Note
Exhibit 8.1(i)	Financial Condition Certificate
Exhibit 15.3	Commitment Transfer Supplement

Schedules

Schedule 1.2	Permitted Encumbrances
Schedule 1.2(a)	Leasehold Interests
Schedule 4.5	Equipment and Inventory Locations
Schedule 4.15(h)	Deposit and Investment Accounts
Schedule 4.19	Real Property
Schedule 5.1	Consents
Schedule 5.2(a)	States of Qualification and Good Standing
Schedule 5.2(b)	Subsidiaries
Schedule 5.4	Federal Tax Identification Number
Schedule 5.6	Prior Names
Schedule 5.7(b)	Environmental Licenses, Certificates and Permits
Schedule 5.8(b)	Litigation
Schedule 5.8(d)	Plans
Schedule 5.9	Intellectual Property, Source Code Escrow Agreements
Schedule 5.10	Licenses and Permits
Schedule 5.14	Labor Disputes

EXHIBIT 10.20

MORTGAGE AND SECURITY AGREEMENT

AIR INDUSTRIES MACHINING, CORP.,

Mortgagor

AND

PNC BANK, NATIONAL ASSOCIATION,

Mortgagee

Return to:

Wilentz, Goldman & Spitzer P.A.
90 Woodbridge Center Drive
Woodbridge, New Jersey 07095
Attn: Stuart A. Hoberman, Esq.

Mortgage and Security Agreement [LOGO OF PNCBANK]

THIS MORTGAGE AND SECURITY AGREEMENT (this "Mortgage") is made as of the 30th day of November, 2005, by AIR INDUSTRIES MACHINING, CORP., a New York corporation (the "Mortgagor" and the "Borrower"), with an address at 1479 Clinton Avenue, Bay Shore, New York 11706 in favor of PNC BANK, NATIONAL ASSOCIATION (the "Mortgagee"), with an address at Two Tower Center Boulevard, East Brunswick, New Jersey 08816.

WHEREAS, the Mortgagor is the owner of a certain tract or parcel of land described in Exhibit A attached hereto and made a part hereof, together with the improvements now or hereafter erected thereon; and

WHEREAS, pursuant to a certain Revolving Credit, Term Loan, Equipment Line of Credit and Security Agreement by and among the Mortgagor, the Mortgagee, the other financial institutions named therein (collectively with the Mortgagee, the "Lenders"), and the Mortgagee as Agent for the Lenders (Mortgagee in such capacity, the "Agent") dated the date hereof (as may be amended, modified, restated, replaced, increased and/or extended from time to time, the "Loan Agreement"), the Borrower has borrowed from the Lenders certain loans in the original principal amount of $14,000,000 (as such amount may be increased and/or decreased from time to time, the "Loan") as evidenced by a certain Revolving Credit Note executed by the Borrower in favor of the Agent for the benefit of the Lenders in the original principal amount of $9,000,000 dated the date hereof, a certain Term Note executed by the Borrower in favor of the Agent for the benefit of the Lenders in the original principal amount of $3,500,000 dated the date hereof, a certain Equipment Line of Credit Note executed by the Borrower in favor of the Agent for the benefit of the Lenders in the original principal amount of $1,500,000 dated the date hereof and certain Converted Equipment Line of Credit Notes executed by the Borrower in favor of the Agent for the benefit of the Lenders from time to time (collectively and with any and all other notes that may be delivered from time to time in connection with any obligation of the Borrower to the Lenders, as all may be amended, modified, restated, replaced, increased and/or extended from time to time, the "Note"), which Loan Agreement and Note are incorporated herein by reference and made a part hereof;

NOW, THEREFORE, for the purpose of securing the payment and performance of the following obligations (collectively called the "Obligations"):

(A) The Loan, the Note and all other loans, advances, debts, liabilities, obligations, covenants and duties owing by the Mortgagor to the Mortgagee or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., 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 Mortgagor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), 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, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, or (vii) arising out of overdrafts on deposit or other accounts or out of electronic funds transfers (whether by wire transfer or through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of the Mortgagee to receive final payment for, any check, item, instrument, payment order or other deposit or credit to a deposit or other account, or out of the Mortgagee's non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository or other similar arrangements; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all costs and expenses of the Mortgagee incurred in the documentation, negotiation, modification, enforcement, collection and otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses. Notwithstanding anything to the

contrary in this Mortgage, the maximum aggregate principal amount of the

Obligations that is, or under any contingency may be, secured by this Mortgage (including Borrower's obligation to reimburse advances made by any Lender), either at execution or any time thereafter is $4,000,000 (collectively, with the following, the "Secured Amount"), plus amounts that any Lender expends after a declaration of default under this Mortgage to the extent that any such amounts shall constitute payment of (i) taxes, charges or assessments that may be imposed by law upon any of the Property; (ii) premiums on insurance policies covering any of the Property; (iii) expenses incurred in upholding the lien of this Mortgage, including the expenses of any litigation to prosecute or defend the rights and lien created by this Mortgage; or, (iv) any amount, cost or charge to which any Lender becomes subrogated, upon payment, whether under recognized principles of law or equity, or under express statutory authority; then, in each such event, such amounts or costs, together with interest thereon, shall be added to the Obligations secured hereby and shall be secured by this Mortgage.

(B) Any sums advanced by the Mortgagee or which may otherwise become due pursuant to the provisions of the Note or this Mortgage or pursuant to any other document or instrument at any time delivered to the Mortgagee to evidence or secure any of the Obligations or which otherwise relate to any of the Obligations (as the same may be amended, supplemented or replaced from time to time, the "Loan Documents").

The Mortgagor, for good and valuable consideration, receipt of which is hereby acknowledged, and intending to be legally bound hereby, does hereby give, grant, bargain, sell, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm unto the Mortgagee and does agree that the Mortgagee shall have a security interest in the following described property, all accessions and additions thereto, all substitutions therefor and replacements and proceeds thereof, and all reversions and remainders of such property now owned or held or hereafter acquired (the "Property"), to wit:

(a) All of the Mortgagor's estate in the premises described in Exhibit A, together with all of the easements, rights of way, privileges, liberties, hereditaments, gores, streets, alleys, passages, ways, waters, watercourses, rights and appurtenances thereunto belonging or appertaining, and all of the Mortgagor's estate, right, title, interest, claim and demand therein and in the public streets and ways adjacent thereto, either in law or in equity (the "Land");

(b) All the buildings, structures and improvements of every kind and description now or hereafter erected or placed on the Land, and all facilities, fixtures, machinery, apparatus, appliances, installations, machinery and equipment, including all building materials to be incorporated into such buildings, all electrical equipment necessary for the operation of such buildings and heating, air conditioning and plumbing equipment now or hereafter attached to, located in or used in connection with those buildings, structures or other improvements (the "Improvements");

(c) All rents, issues and profits arising or issuing from the Land and the Improvements (the "Rents") including the Rents arising or issuing from all leases, licenses, subleases or any other use or occupancy agreement now or hereafter entered into covering all or any part of the Land and Improvements (the "Leases"), all of which Leases and Rents are hereby assigned to the Mortgagee by the Mortgagor. The foregoing assignment shall be an absolute assignment of all of the Mortgagor's entire interest in the Rents. The foregoing assignment shall also include all fees, charges, accounts or other payments for the use or occupancy of rooms and other public facilities in hotels, motels, or other lodging properties, and all cash or securities deposited under Leases to

secure performance of lessees of their obligations thereunder, whether such cash or securities are to be held until the expiration of the terms of such leases or applied to one or more installments of rent coming due prior to the expiration of such terms. The foregoing assignment extends to Rents arising both before and after the commencement by or against the Mortgagor of any case or proceeding under any Federal or State bankruptcy, insolvency or similar law, and is intended as an absolute assignment and not merely the granting of a security interest. The Mortgagor, however, shall have a license to collect, retain and use the Rents so long as no Event of Default shall have occurred and be continuing or shall exist. The Mortgagor will execute and deliver to the Mortgagee, on demand, such additional assignments and instruments as the Mortgagee may require to confirm, maintain and continue the assignment of Rents hereunder;

(d) All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims; and

(e) Without limiting any of the other provisions of this Mortgage, the Mortgagor, as debtor, expressly grants unto the Mortgagee, as secured party, a security interest in all personal property of the Mortgagor, including the following, all whether now owned or hereafter acquired or arising and wherever located: (i) accounts (including health-care-insurance receivables and credit card receivables); (ii) securities entitlements, securities accounts, commodity accounts, commodity contracts and investment property; (iii) deposit accounts; (iv) instruments (including promissory notes); (v) documents (including warehouse receipts); (vi) chattel paper (including electronic chattel paper and tangible chattel paper); (vii) inventory, including raw materials, work in process, or materials used or consumed in Mortgagor's business, items held for sale or lease or furnished or to be furnished under contracts of service, sale or lease, goods that are returned, reclaimed or repossessed; (viii) goods of every nature, including stock-in-trade, goods on consignment, standing timber that is to be cut and removed under a conveyance or contract for sale, the unborn young of animals, crops grown, growing, or to be grown, manufactured homes, computer programs embedded in such goods and farm products; (ix) equipment, including machinery, vehicles and furniture; (x) fixtures; (xi) agricultural liens; (xii) as-extracted collateral; (xiii) letter of credit rights; (xiv) general intangibles, of every kind and description, including payment intangibles, software, computer information, source codes, object codes, records and data, all existing and future customer lists, choses in action, claims (including claims for indemnification or breach of warranty), books, records, patents and patent applications, copyrights, trademarks, tradenames, tradestyles, trademark applications, goodwill, blueprints, drawings, designs and plans, trade secrets, contracts, licenses, license agreements, formulae, tax and any other types of refunds, returned and unearned insurance premiums, rights and claims under insurance policies; (xv) all supporting obligations of all of the foregoing property; (xvi) all property of the Mortgagor now or hereafter in the Mortgagee's possession or in transit to or from, or under the custody or control of, the Mortgagee or any affiliate thereof; (xvii) all cash and cash equivalents thereof; and (xviii) all cash and noncash proceeds (including insurance proceeds) of all of the foregoing property, all products thereof and all additions and accessions thereto, substitutions therefor and replacements thereof. The Mortgagor will execute and deliver to the Mortgagee on demand such financing statements and other instruments as the Mortgagee may require in order to perfect, protect and maintain such security interest under the Uniform Commercial Code ("UCC") on the aforesaid collateral.

To have and to hold the same unto the Mortgagee, its successors and assigns, forever.

Provided, however, that if the Mortgagor shall pay to the Mortgagee the Obligations, and if the Mortgagor shall keep and perform each of its other covenants, conditions and agreements set forth herein and in the other Loan Documents, then, upon the termination of all obligations, duties and commitments of the Mortgagor under the Obligations and this Mortgage, and subject to the provisions of the paragraph entitled "Survival; Successors and Assigns", the estate hereby granted and conveyed shall become null and void.

1. Representations and Warranties. The Mortgagor represents and warrants to the Mortgagee that (i) the Mortgagor has good and marketable title to an estate in fee simple absolute in the Land and Improvements and has all right, title and interest in all other property constituting a part of the Property, in each case free and clear of all liens and encumbrances, except as may otherwise be set forth on an Exhibit B hereto and (ii) its name, type of organization, jurisdiction of organization and chief executive office are true and complete as set forth in the heading of this Mortgage. This Mortgage is a valid and enforceable first lien on the Property and the Mortgagee shall, subject to the Mortgagor's right of possession prior to an Event of Default, quietly enjoy and possess the Property. The Mortgagor shall preserve such title as it warrants herein and the validity and priority of the lien hereof and shall forever warrant and defend the same to the Mortgagee against the claims of all persons.

2. Affirmative Covenants. Until all of the Obligations shall have been fully paid, satisfied and discharged the Mortgagor shall:

(a) Payment and Performance of Obligations. Pay or cause to be paid and perform all Obligations when due as provided in the Loan Documents.

(b) Legal Requirements. Promptly comply with and conform to all present and future laws, statutes, codes, ordinances, orders and regulations and all covenants, restrictions and conditions which may be applicable to the Mortgagor or to any of the Property (the "Legal Requirements").

(c) Impositions. Before interest or penalties are due thereon and otherwise when due, the Mortgagor shall pay all taxes of every kind and nature, all charges for any easement or agreement maintained for the benefit of any of the Property, all general and special assessments (including any condominium or planned unit development assessments, if any), levies, permits, inspection and license fees, all water and sewer rents and charges, and all other charges and liens, whether of a like or different nature, imposed upon or assessed against the Mortgagor or any of the Property (the "Impositions"). Within thirty (30) days after the payment of any Imposition, the Mortgagor shall deliver to the Mortgagee written evidence acceptable to the Mortgagee of such payment. The Mortgagor's obligations to pay the Impositions shall survive the Mortgagee's taking title to (and possession of) the Property through foreclosure, deed-in-lieu or otherwise, as well as the termination of the Mortgage including, without limitation, by merger into a deed.

(d) Maintenance of Security. Use, and permit others to use, the Property only for its present use or such other uses as permitted by applicable Legal Requirements and approved in writing by the Mortgagee. The Mortgagor shall keep the Property in good condition and order and in a rentable and tenantable state of repair and will make or cause to be made, as and when necessary, all repairs, renewals, and replacements, structural and nonstructural, exterior and interior, foreseen and unforeseen, ordinary and extraordinary, provided, however, that no structural repairs, renewals or replacements shall be made without the Mortgagee's prior written consent. The Mortgagor shall not remove or demolish the Property nor commit or suffer waste with respect thereto, nor permit the Property to become deserted or abandoned. The Mortgagor covenants and agrees not to take or permit any action with respect to the Property which will in any manner impair the security of this Mortgage or the use of the Property as set forth in the Loan Documents.

3. Leases. The Mortgagor shall not (a) execute an assignment or pledge of the Rents or the Leases other than in favor of the Mortgagee; (b) accept any prepayment of an installment of any Rents prior to the due date of such installment; or (c) enter into or amend any of the terms of any of the Leases without the Mortgagee's prior written consent. Any or all leases or subleases of all or any part of the Property shall be subject in all respects to the Mortgagee's prior written consent, shall be subordinated to this Mortgage and to the Mortgagee's rights and, together with any and all rents, issues or profits relating thereto, shall be assigned at the time of execution to the Mortgagee as additional collateral security for the Obligations, all in such form, substance and detail as is satisfactory to the Mortgagee in its sole discretion.

4. Due on Sale Clause. The Mortgagor shall not sell, convey or otherwise transfer any interest in the Property (whether voluntarily or by operation of law), or agree to do so, without the Mortgagee's prior written consent, including (a) any sale, conveyance, assignment, or other transfer of (including installment land sale contracts), or the grant of a security interest in, all or any part of the legal or equitable title to the Property; (b) any lease of all of the Property; or (c) any sale, conveyance, encumbrance, assignment, or other transfer of, or the grant of a security interest in, any share of stock of the Mortgagor, if a corporation or any partnership interest in the Mortgagor, if a partnership, or any membership interest, if a limited liability entity, except in favor of the Mortgagee. Any default under this Section shall cause an immediate acceleration of the Obligations without any demand by the Mortgagee.

5. Insurance. The Mortgagor shall keep the Property continuously insured, in an amount not less than the cost to replace the Property or an amount not less than eighty percent (80%) of the full insurable value of the Property, whichever is greater, covering such risks and in such amounts and with such deductibles as are satisfactory to the Mortgagee and its counsel including, without limitation, insurance against loss or damage by fire, with extended coverage and against other hazards as the Mortgagee may from time to time require. With respect to any property under construction or reconstruction, the Mortgagor shall maintain builder's risk insurance. The Mortgagor shall also maintain comprehensive general public liability insurance, in an amount of not less than One Million Dollars ($1,000,000) per occurrence and Two Million Dollars ($2,000,000) general aggregate per location, which includes contractual liability insurance for the Mortgagor's obligations under the Leases, and worker's compensation insurance. All property and builder's risk insurance shall include protection for continuation of income for a period of twelve (12) months, in the event of any damage caused by the perils referred to above. All policies, including policies for any amounts carried in excess of the required minimum and policies not specifically required by the Mortgagee, shall be with an insurance company or companies satisfactory to the Mortgagee, shall be in form satisfactory to the Mortgagee, shall meet all coinsurance requirements of the Mortgagee, shall be maintained in full force and effect, shall be assigned to the Mortgagee, with premiums prepaid, as collateral security for payment of the Obligations, shall be endorsed with a standard mortgagee clause in favor of the Mortgagee and shall provide for at least thirty (30) days notice of cancellation to the Mortgagee. Such insurance shall also name the Mortgagee as an additional insured, lender loss payee and mortgagee under the comprehensive general public liability and property insurance policies and the Mortgagor shall also deliver to the Mortgagee a copy of the replacement cost coverage endorsement. If the Property is located in an area which has been identified by any governmental agency, authority or body as a flood hazard area or the like, then the Mortgagor shall maintain a flood insurance policy covering the Property in an amount not less than the original principal amount of the Loan or the maximum limit of coverage available under the federal program, whichever amount is less.

6. Rights of Mortgagee to Insurance Proceeds. In the event of loss, the Mortgagee shall have the exclusive right to adjust, collect and compromise all insurance claims, and the Mortgagor shall not adjust, collect or compromise any claims under said policies without the Mortgagee's prior written consent. Each insurer is hereby authorized and directed to make payment under said policies, including return of unearned premiums, directly to the Mortgagee instead of to

the Mortgagor and the Mortgagee jointly, and the Mortgagor appoints the Mortgagee as the Mortgagor's attorney-in-fact to endorse any draft therefor. All insurance proceeds may, at the Mortgagee's sole option, be applied to all or any part of the Obligations and in any order (notwithstanding that such Obligations may not then otherwise be due and payable) or to the repair and restoration of any of the Property under such terms and conditions as the Mortgagee may impose.

7. Installments for Insurance, Taxes and Other Charges. Upon the Mortgagee's request, the Mortgagor shall pay to the Mortgagee monthly, an amount equal to one-twelfth (1/12) of the annual premiums for the insurance policies referred to hereinabove and the annual Impositions and any other item which at any time may be or become a lien upon the Property (the "Escrow Charges"). The amounts so paid shall be used in payment of the Escrow Charges so long as no Event of Default shall have occurred. No amount so paid to the Mortgagee shall be deemed to be trust funds, nor shall any sums paid bear interest. The Mortgagee shall have no obligation to pay any insurance premium or Imposition if at any time the funds being held by the Mortgagee for such premium or Imposition are insufficient to make such payments. If, at any time, the funds being held by the Mortgagee for any insurance premium or Imposition are exhausted, or if the Mortgagee determines, in its sole discretion, that such funds will be insufficient to pay in full any insurance premium or Imposition when due, the Mortgagor shall promptly pay to the Mortgagee, upon demand, an amount which the Mortgagee shall estimate as sufficient to make up the deficiency. Upon the occurrence of an Event of Default, the Mortgagee shall have the right, at its election, to apply any amount so held against the Obligations due and payable in such order as the Mortgagee may deem fit, and the Mortgagor hereby grants to the Mortgagee a lien upon and security interest in such amounts for such purpose.

8. Condemnation. The Mortgagor, immediately upon obtaining knowledge of the institution of any proceedings for the condemnation or taking by eminent domain of any of the Property, shall notify the Mortgagee of the pendency of such proceedings. The Mortgagee may participate in any such proceedings and the Mortgagor shall deliver to the Mortgagee all instruments requested by it to permit such participation. Any award or compensation for property taken or for damage to property not taken, whether as a result of such proceedings or in lieu thereof, is hereby assigned to and shall be received and collected directly by the Mortgagee, and any award or compensation shall be applied, at the Mortgagee's option, to any part of the Obligations and in any order (notwithstanding that any of such Obligations may not then be due and payable) or to the repair and restoration of any of the Property under such terms and conditions as the Mortgagee may impose.

9. Environmental Matters. (a) For purposes of this Section 9, the term "Environmental Laws" shall mean all federal, state and local laws, regulations and orders, whether now or in the future enacted or issued, pertaining to the protection of land, water, air, health, safety or the environment. The term "Regulated Substances" shall mean all substances regulated by Environmental Laws, or which are known or considered to be harmful to the health or safety of persons, or the presence of which may require investigation, notification or remediation under the Environmental Laws. The term "Contamination" shall mean the discharge, release, emission, disposal or escape of any Regulated Substances into the environment.

(b) The Mortgagor represents and warrants to Borrower's knowledge (i) that no Contamination is present at, on or under the Property and that no Contamination is being or has been emitted onto any surrounding property; (ii) all operations and activities on the Property have been and are being conducted in accordance with all Environmental Laws, and the Mortgagor has all permits and licenses required under the Environmental Laws; (iii) except as set forth on Exhibit C attached hereto, no underground or aboveground storage tanks are or have been located on or under the Property; and (iv) no legal or administrative proceeding is pending or threatened relating to any environmental condition, operation or activity on the Property, or any violation or alleged violation of Environmental Laws. These representations and warranties shall be true as of the date hereof, and shall be deemed to be continuing representations and warranties which must remain true, correct and accurate during the entire duration of the term of this Mortgage.

(c) The Mortgagor shall ensure, at its sole cost and expense, that the Property and the conduct of all operations and activities thereon comply and continue to comply with all Environmental Laws. The Mortgagor shall notify the Mortgagee promptly and in reasonable detail in the event that the Mortgagor becomes aware of any violation of any Environmental Laws, the presence or release of any Contamination with respect to the Property, or any governmental or third party claims relating to the environmental condition of the Property or the conduct of operations or activities thereon. The Mortgagor also agrees not to permit or allow the presence of Regulated Substances on any part of the Property, except for (i) those Regulated Substances which are used in the ordinary course of the Mortgagor's business, but only to the extent they are in all cases used in a manner which complies with all Environmental Laws; and (ii) those Regulated Substances which are naturally occurring on the Property. The Mortgagor agrees not to cause, allow or permit the presence of any Contamination on the Property.

(d) The Mortgagee shall not be liable for, and the Mortgagor shall indemnify, defend and hold the Mortgagee and the Indemnified Parties (as hereinafter defined) and all of their respective successors and assigns harmless from and against all losses, costs, liabilities, damages, fines, claims, penalties and expenses (including reasonable attorneys', consultants' and contractors' fees, costs incurred in the investigation, defense and settlement of claims, as well as costs incurred in connection with the investigation, remediation or monitoring of any Regulated Substances or Contamination) that the Mortgagee or any Indemnified Party may suffer or incur (including as holder of the Mortgage, as mortgagee in possession or as successor in interest to the Mortgagor as owner of the Property by virtue of a foreclosure or acceptance of a deed in lieu of foreclosure) as a result of or in connection with (i) any Environmental Laws (including the assertion that any lien existing or arising pursuant to any Environmental Laws takes priority over the lien of the Mortgage); (ii) the breach of any representation, warranty, covenant or undertaking by the Mortgagor in this Section 9; (iii) the presence on or the migration of any Contamination or Regulated Substances on, under or through the Property; or (iv) any litigation or claim by the government or by any third party in connection with the environmental condition of the Property or the presence or migration of any Regulated Substances or Contamination on, under, to or from the Property.

(e) Upon the Mortgagee's request, the Mortgagor shall execute and deliver an Environmental Indemnity Agreement satisfactory in form and substance to the Mortgagee, to more fully reflect the Mortgagor's representations, warranties, covenants and indemnities with respect to the Environmental Laws.

10. Inspection of Property. The Mortgagee shall have the right to enter the Property at any reasonable hour for the purpose of inspecting the order, condition and repair of the buildings and improvements erected thereon, as well as the conduct of operations and activities on the Property. The Mortgagee may enter the Property (and cause the Mortgagee's employees, agents and consultants to enter the Property), upon prior written notice to the Mortgagor, to conduct any and all environmental testing deemed appropriate by the Mortgagee in its sole discretion. The environmental testing shall be accomplished by whatever means the Mortgagee may deem reasonably appropriate, including the taking of soil samples and the installation of ground water monitoring wells or other intrusive environmental tests. The Mortgagor shall provide the Mortgagee (and the Mortgagee's employees, agents and consultants) reasonable rights of access to the Property as well as such information about the Property and the past or present conduct of operations and activities thereon as the Mortgagee shall reasonably request.

11. Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default" hereunder: (a) any Event of Default (as defined in any of the Obligations); (b) any default under any of the Obligations that does not have a defined set of "Events of Default" and the lapse of any notice or cure period provided in such Obligations with respect to such default; (c) demand by the Mortgagee under any of the Obligations that have a demand feature; (d) the Mortgagor's failure to perform any of its obligations under this Mortgage or under any Environmental Indemnity Agreement executed and delivered pursuant to Section 9(e); (e) falsity, inaccuracy or material breach by the Mortgagor of any written warranty, representation or statement made or furnished to the Mortgagee by or on behalf of the Mortgagor; (f) an uninsured material loss, theft, damage, or destruction to any of the Property, or the entry of any judgment against the Mortgagor or any lien against or the making of any levy, seizure or attachment of or on the Property; (g) the Mortgagee's failure to have a mortgage lien on the Property with the priority required under Section 1; (h) any indication or evidence received by the Mortgagee that the Mortgagor may have directly or indirectly been engaged in any type of activity which, in the Mortgagee's discretion, might result in the forfeiture of any property of the Mortgagor to any governmental entity, federal, state or local; (i) foreclosure proceedings are instituted against the Property upon any other lien or claim, whether alleged to be superior or junior to the lien of this Mortgage; (j) the failure by the Mortgagor to pay any Impositions as required under Section 2(c), or to maintain in full force and effect any insurance required under Section 5.

12. Rights and Remedies of Mortgagee. If an Event of Default occurs, the Mortgagee may, at its option and without demand, notice or delay, do one or more of the following:

(a) The Mortgagee may declare the entire unpaid principal balance of the Obligations, together with all interest thereon, to be due and payable immediately.

(b) The Mortgagee may (i) institute and maintain an action of mortgage foreclosure against the Property and the interests of the Mortgagor therein, (ii) institute and maintain an action on any instruments evidencing the Obligations or any portion thereof, and (iii) take such other action at law or in equity for the enforcement of any of the Loan Documents as the law may allow, and in each such action the Mortgagee shall be entitled to all costs of suit and attorneys' fees.

(c) The Mortgagee may, in its sole and absolute discretion: (i) collect any or all of the Rents, including any Rents past due and unpaid, (ii) perform any obligation or exercise any right or remedy of the Mortgagor under any Lease, or (iii) enforce any obligation of any tenant of any of the Property. The Mortgagee may exercise any right under this subsection (c), whether or not the Mortgagee shall have entered into possession of any of the Property, and nothing herein contained shall be construed as constituting the Mortgagee a "mortgagee in possession", unless the Mortgagee shall have entered into and shall continue to be in actual possession of the Property. The Mortgagor hereby authorizes and directs each and every present and future tenant of any of the Property to pay all Rents directly to the Mortgagee and to perform all other obligations of that tenant for the direct benefit of the Mortgagee, as if the Mortgagee were the landlord under the Lease with that tenant, immediately upon receipt of a demand by the Mortgagee to make such payment or perform such obligations. The Mortgagor hereby waives any right, claim or demand it may now or hereafter have against any such tenant by reason of such payment of Rents or performance of obligations to the Mortgagee, and any such payment or performance to the Mortgagee shall discharge the obligations of the tenant to make such payment or performance to the Mortgagor.

(d) The Mortgagee shall have the right, in connection with the exercise of its remedies hereunder, to the appointment of a receiver to take possession and control of the Property or to collect the Rents, without notice and without regard to the adequacy of the Property to secure the Obligations. The Mortgagee or a receiver, while in possession of the Property, shall have the right to make repairs and to make improvements necessary or advisable in its or his opinion to preserve the Property, or to make and keep them rentable to the best advantage, and the Mortgagee may advance moneys to a receiver for such purposes. Any moneys so expended or advanced by the Mortgagee or by a receiver shall be added to and become a part of the Obligations secured by this Mortgage.

13. Application of Proceeds. The Mortgagee shall apply the proceeds of any foreclosure sale of, or other disposition or realization upon, or Rents or profits from, the Property to satisfy the Obligations in such order of application as the Mortgagee shall determine in its exclusive discretion.

14. Mortgagee's Right to Protect Security. The Mortgagee is hereby authorized to do any one or more of the following, irrespective of whether an Event of Default has occurred: (a) appear in and defend any action or proceeding purporting to affect the security hereof or the Mortgagee's rights or powers hereunder; (b) purchase such insurance policies covering the Property as it may elect if the Mortgagor fails to maintain the insurance coverage required hereunder; and (c) take such action as the Mortgagee may determine to pay, perform or comply with any Impositions or Legal Requirements, to cure any Events of Default and to protect its security in the Property.

15. Appointment of Mortgagee as Attorney-in-Fact. The Mortgagee, or any of its officers, is hereby irrevocably appointed attorney-in-fact for the Mortgagor (without requiring any of them to act as such), such appointment being coupled with an interest, to do any or all of the following: (a) collect the Rents after the occurrence of an Event of Default; (b) settle for, collect and receive any awards payable under Section 8 from the authorities making the same; and (c) execute, deliver and file, at Mortgagor's sole cost and expense such financing, continuation or amendment statements and other instruments as the Mortgagee may require in order to perfect, protect and maintain its security interest under the UCC on any portion of the Property.

16. Certain Waivers. The Mortgagor hereby waives and releases all benefit that might accrue to the Mortgagor by virtue of any present or future law exempting the Property, or any part of the proceeds arising from any sale thereof, from attachment, levy or sale on execution, or providing for any stay of execution, exemption from civil process or extension of time for payment or any rights of marshalling in the event of any sale hereunder of the Property, and, unless specifically required herein, all notices of the Mortgagor's default or of the Mortgagee's election to exercise, or the Mortgagee's actual exercise of any option under this Mortgage or any other Loan Document.

17. No Merger. There shall be no merger of the interest or estate created by this Mortgage with any other interest or estate in the Property at any time held by or for the benefit of the Mortgagee or any subsidiary or affiliate in any capacity, without the express prior written consent of the Mortgagee.

18. Mortgage Secures Future Advances. This Mortgage is given for the purpose of creating a lien on real property in order to secure not only existing indebtedness, but also future advances, whether such advances are obligatory or to be made at the option of the Mortgagee, or otherwise, and whether made before or after a default or Event of Default or maturity or other similar events, to the same extent as if such future advances were made on the date of the execution hereof, although there may be no advance made at the time of the execution hereof and although there may be no indebtedness outstanding at the time any advance is made. The types of future advances secured by and having priority under this Mortgage shall include, without limitation, (i) advances and readvances of principal under the Note or other Loan Documents and (ii) disbursements and other advances for the payment of taxes, assessments, maintenance charges, insurance premiums or costs relating to the Property, for the discharge of liens having priority over the lien of this Mortgage, for the curing of waste of the Property and for the payment of service charges and expenses incurred by reason of default and including late charges, attorneys' fees and court costs, together with interest thereon. The lien of this Mortgage, as to third persons with or without actual knowledge thereof, shall be valid as to all such indebtedness and future advances, from the date of recordation, to

the extent permitted by the laws of the state in which the Property is situated. Pursuant to the Loan Agreement, the amount of the Obligations may increase and decrease from time to time as the Lenders advance, Borrower repays, and Lenders readvance sums on account of the Loan, all as more fully described in the Loan Agreement. For purposes of this Mortgage, so long as the balance of the Loan equals or exceeds the Secured Amount, the amount of the Loan secured by this Mortgage shall at all times equal only the Secured Amount as more fully described herein. Such Secured Amount represents only a portion of the first sums advanced by Lenders with respect to the Loan.

19. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("Notices") must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this section.

20. Further Acts. By its signature hereon, the Mortgagor hereby irrevocably authorizes the Mortgagee to execute (on behalf of the Mortgagor) and file against the Mortgagor one or more financing, continuation or amendment statements pursuant to the UCC in form satisfactory to the Mortgagee, and the Mortgagor will pay the cost of preparing and filing the same in all jurisdictions in which such filing is deemed by the Mortgagee to be necessary or desirable in order to perfect, preserve and protect its security interests. If required by the Mortgagee, the Mortgagor will execute all documentation necessary for the Mortgagee to obtain and maintain perfection of its security interests in the Property. The Mortgagor will, at the cost of the Mortgagor, and without expense to the Mortgagee, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignment, transfers and assurances as the Mortgagee shall, from time to time, require for the better assuring, conveying, assigning, transferring or confirming unto the Mortgagee the property and rights hereby mortgaged, or which Mortgagor may be or may hereafter become bound to convey or assign to the Mortgagee, or for carrying out the intent of or facilitating the performance of the terms of this Mortgage or for filing, registering or recording this Mortgage. The Mortgagor grants to the Mortgagee an irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to the Mortgagee under the Note, this Mortgage, the other Loan Documents, at law or in equity, including, without limitation, the rights and remedies described in this paragraph.

21. Changes in the Laws Regarding Taxation. If any law is enacted or adopted or amended after the date of this Mortgage which deducts the Obligations from the value of the Property for the purpose of taxation or which imposes a tax, either directly or indirectly, on the Mortgagor or the Mortgagee's interest in the Property, the Mortgagor will pay such tax, with interest and penalties thereon, if any. If the Mortgagee determines that the payment of such tax or interest and penalties by the Mortgagor would be unlawful or taxable to the Mortgagee or unenforceable or provide the basis for a defense of usury, then the Mortgagee shall have the option, by written notice of not less than ninety (90) days, to declare the entire Obligations immediately due and payable.

22. Documentary Stamps. If at any time the United States of America, any State thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Note or this Mortgage, or impose any other tax or charge on the same, the Mortgagor will pay for the same, with interest and penalties thereon, if any.

23. Preservation of Rights. No delay or omission on the Mortgagee's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Mortgagee's action or inaction impair any such right or power. The Mortgagee's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Mortgagee may have under other agreements, at law or in equity.

24. Illegality. If any provision contained in this Mortgage should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions of this Mortgage.

25. Changes in Writing. No modification, amendment or waiver of, or consent to any departure by the Mortgagor from, any provision of this Mortgage will be effective unless made in a writing signed by the Mortgagee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Mortgagor will entitle the Mortgagor to any other or further notice or demand in the same, similar or other circumstance.

26. Entire Agreement. This Mortgage (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Mortgagor and the Mortgagee with respect to the subject matter hereof.

27. Survival; Successors and Assigns. This Mortgage will be binding upon and inure to the benefit of the Mortgagor and the Mortgagee and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Mortgagor may not assign this Mortgage in whole or in part without the Mortgagee's prior written consent and the Mortgagee at any time may assign this Mortgage in whole or in part; and provided, further, that the rights and benefits under the Paragraphs entitled "Environmental Matters", "Inspection of Property" and "Indemnity" shall also inure to the benefit of any persons or entities who acquire title or ownership of the Property from or through the Mortgagee or through action of the Mortgagee (including a foreclosure, sheriff's or judicial sale). The provisions of Paragraphs entitled "Environmental Matters", "Inspection of Property" and "Indemnity" shall survive the termination, satisfaction or release of this Mortgage, the foreclosure of this Mortgage or the delivery of a deed in lieu of foreclosure.

28. Interpretation. In this Mortgage, unless the Mortgagee and the Mortgagor otherwise agree in writing, the singular includes the plural and the plural the singular; words importing any gender include the other genders; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to articles, sections (or subdivisions of sections) or exhibits are to those of this Mortgage; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Mortgage. Section headings in this Mortgage are included for convenience of reference only and shall not constitute a part of this Mortgage for any other purpose. If this Mortgage is executed by more than one party as Mortgagor, the obligations of such persons or entities will be joint and several. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Loan Agreement.

29. Indemnity. The Mortgagor agrees to indemnify each of the Mortgagee, each legal entity, if any, who controls, is controlled by or is under common control with the Mortgagee and each of their respective directors, officers, employees and agents (the "Indemnified Parties"), and to hold each Indemnified Party harmless from and against, any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of

litigation and preparation therefor) which any Indemnified Party may incur, or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Mortgagor), in connection with or arising out of or relating to the matters referred to in this Mortgage or in the other Loan Documents, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Mortgagor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to any claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Mortgage, payment of any Obligations and assignment of any rights hereunder. The Mortgagor may participate at its expense in the defense of any such action or claim.

30. Governing Law and Jurisdiction. This Mortgage has been delivered to and accepted by the Mortgagee and will be deemed to be made in the State where the Mortgagee's office indicated above is located. THIS MORTGAGE WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, EXCLUDING ITS CONFLICT OF LAWS RULES, EXCEPT THAT THE LAWS OF THE STATE WHERE THE PROPERTY IS LOCATED (IF DIFFERENT FROM THE STATE WHERE SUCH OFFICE OF THE MORTGAGEE IS LOCATED) SHALL GOVERN THE CREATION, PERFECTION AND FORECLOSURE OF THE LIENS CREATED HEREUNDER ON THE PROPERTY OR ANY INTEREST THEREIN. The Mortgagor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court for the county or judicial district where the Mortgagee's office indicated above is located; provided that nothing contained in this Mortgage will prevent the Mortgagee from bringing any action, enforcing any award or judgment or exercising any rights against the Mortgagor individually, against any security or against any property of the Mortgagor within any other county, state or other foreign or domestic jurisdiction. The Mortgagee and the Mortgagor agree that the venue provided above is the most convenient forum for both the Mortgagee and the Mortgagor. The Mortgagor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Mortgage.

31. Authorization to Obtain Credit Reports. By signing below, each Mortgagor who is an individual provides written authorization to the Mortgagee or its designee (and any assignee or potential assignee hereof) authorizing review of the Mortgagor's personal credit profile from one or more national credit bureaus. Such authorization shall extend to obtaining a credit profile in considering the Obligations and/or this Mortgage and subsequently for the purposes of update, renewal or extension of such credit or additional credit and for reviewing or collecting the resulting account.

32. Change in Name or Locations. The Mortgagor hereby agrees that if the location of any of the Property changes from the Land or its chief executive office, or if the Mortgagor changes its name, its type of organization, its state of organization (if Mortgagor is a registered organization), its principal residence (if Mortgagor is an individual), its chief executive office (if Mortgagor is a general partnership or non-registered organization) or establishes a name in which it may do business that is not the current name of the Mortgagor, the Mortgagor will immediately notify the Mortgagee in writing of the additions or changes.

33. WAIVER OF JURY TRIAL. THE MORTGAGOR IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS MORTGAGE, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS MORTGAGE OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE MORTGAGOR ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

34. TRUE AND CORRECT COPY. THE MORTGAGOR ACKNOWLEDGES THAT THE MORTGAGOR HAS RECEIVED, WITHOUT CHARGE, A TRUE AND CORRECT COPY OF THIS MORTGAGE.

35. Miscellaneous. (a) The Mortgagor covenants that the Mortgagor will, in compliance with Section 13 of the New York State Lien Law, receive the advances secured hereby and will hold the right to receive such advances as a trust fund to be applied first for the purpose of paying the cost of the improvement and will apply the same first to the payment of the cost of the improvement before using any part of the total of the same for any other purpose.

(b) This Mortgage does not cover real property principally improved or to be improved by one or more structures containing in the aggregate not more than six residential dwelling units, each having their own separate cooking facilities."

(c) The Secured Amount shall be reduced only by the last and final sums that Borrower repays with respect to the Loan and shall not be reduced by any intervening repayments of the Loan by Borrower. As of the Closing Date, the total amount of the Loan exceeds the Secured Amount, so that the Secured Amount represents only a portion of the Obligations actually outstanding.

(d) So long as the balance of the Loan exceeds the Secured Amount, any payments and repayments of the Loan by Borrower shall not be deemed to be applied against, or to reduce, the portion of the Obligations secured by this Mortgage, as more fully described herein. Such payments shall instead be deemed to reduce only such portions of the Obligations as are secured by mortgages encumbering real property located outside the State of New York, if any, which mortgages secure the entire Obligations (except to the extent, if any, that specific mortgages in such states contain specific limitations on the amount secured).

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

ATTEST:	AIR INDUSTRIES MACHINING, CORP.
/s/ Louis A. Giusto	By: /s/ Michael A. Gales
- ----------	----------
Name: LOUIS A. GIUSTO	Name: MICHAEL A. GALES
Title: Secretary	Title: President

ACKNOWLEDGMENTS

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

On the 30th day of November in the year 2005 Before me, the undersigned, personally appeared MICHAEL A. GAINES, personally known to me or proved to me on the basis of satisfactory evidence to be the President of AIR INDUSTRIES MACHINING, CORP., individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

_____

Notary Public

EXHIBITS

A. Legal Description

B. Permitted Encumbrances

C. Underground Storage Tanks

EXHIBIT B
(Permitted Encumbrances)

NONE

EXHIBIT C
(Underground Storage Tanks)

As set forth in that certain Phase 1 Environmental Site Assessment dated October 12, 2005 prepared by CA Rich Consultants, Inc. and that certain letter from the County of Suffolk, New York with regard to Project No. 226-97-86 dated January 8, 1998.

LONG TERM AGREEMENT TERMS AND CONDITIONS
Rev. 00
7/18/00

This Long Term Agreement, No. 00996194 has been made as of the 18th day of Aug 2004 between Sikorsky Aircraft Corporation, a Delaware Corporation having an office and place of business in Stratford, CT (hereafter referred to as "Buyer") and a New York Corporation having an office and place of business in Air Ind (hereafter referred to as "Seller").

1. This Long Term Agreement (hereafter "LTA" or "Agreement") and the terms thereof shall be applicable to all orders issued by Buyer to Seller for those products listed in Attachment "A" to this Agreement, attached hereto and made a part hereof, during the time period commencing on the 18th day of Aug 2000 and expiring on the 31st day of Dec 2004. Deliveries made pursuant to this Agreement shall occur no later than the 31st day of Dec 2005. This Agreement may be extended by the buyer for an additional five (5) years provided however that written notice is so provided to Seller no later than the 31st day of Dec 2004.

2. During the term of this Agreement, Buyer agrees to issue to Seller and Seller agrees to accept purchase orders (hereafter "Long Term Agreement Releases" or "Releases") against this Agreement for some or all of those goods listed and at the prices provided in Attachment "A", attached hereto and made a part hereof. The estimated value of this Agreement is $4,056,459.18. The quantities of products and dollar value thereof listed in Attachment "A" describes Buyer's estimated purchase requirements during the term of this Agreement; however, Buyer is under no obligation to purchase any or all of the total estimated quantities or dollar value; further, Buyer reserves the right to purchase quantities greater than those listed in Attachment "A". In the event that Buyer does not purchase the estimated quantities, Seller shall not be entitled to any adjustment in the prices of other provisions of this Agreement. Seller agrees to fill Buyer's Releases for products ordered by Buyer under this Agreement and comply with the requirements on each Release. Buyer will exercise its best efforts to place on the face of every Release a statement referencing this Agreement as controlling the terms and conditions of purchase. However, such

Releases shall be subject to the terms hereof whether they shall expressly so state or not. If Seller is unable to supply Buyer with any items described in Attachment "A" in accordance with the delivery need dates of any such Release, Seller shall immediately notify Buyer in writing, and Buyer may, in addition to any other remedies available to Buyer, at its option, reschedule such items for later delivery, reduce the quantity of such items ordered to the amount available, purchase such items from other sources or terminate the Release without any liability or obligation to the Seller. In any event, Buyer shall have no further liability to Seller for the items, which Seller could not deliver in accordance with the terms of Buyer's Releases. Releases may be issued at any time prior to termination or expiration of this LTA and Seller shall perform such Releases to the extent that deliveries are not required subsequent to the expiration date of this Agreement.

3. In addition to the information required under Attachment B, Terms and Conditions of Purchase, Seller shall designate this Long Term Agreement Number, the applicable Release number, item number, and item description on all packing slips and invoices of material delivered pursuant to this Long Term Agreement and any Releases issued hereunder.

4. Seller hereby agrees to utilize E-Commerce and Bar Coding where applicable and practiced by Buyer.

5. Seller agrees to comply with the delivery dates set forth in Buyer's Releases. Seller acknowledges and understands that this may require that supplies be delivered from Seller to Buyer in less than the standard lead times listed in Attachment "A" hereto.

6. The supplies as required by this Agreement shall be delivered on dock at the destination specified by Buyer and in accordance with the delivery dates specified in Releases issued pursuant to this LTA. Time is of the essence for all deliveries required by the Releases. The supplies shall be delivered to Buyer at the location specified by Buyer but not be delivered to the location specified by Buyer earlier than two (2) weeks prior to such need dates unless prior approval is granted by Buyer.

7. All items delivered under this LTA shall be inspected and accepted in accordance with this LTA. Final acceptance of supplies delivered under Releases issued pursuant to this LTA will take place at Buyer's facility to which said supplies are delivered. Final inspection shall take place as specified in each Release issued pursuant to this LTA. In the event that a Release does not specify final inspection, final inspection shall be at the facility of Buyer. This Paragraph is not nor is to be construed as a limitation of the rights of Buyer and the obligations of the Seller as provided for in this LTA.

8. Prices to be paid by Buyer shall be those listed in Attachment "A" and shall remain firm for the term of the Agreement. Should prices lower than those listed for items of like grade, quality and quantity in Attachment "A" be offered to any customer of Seller during the term of this Agreement, such prices will also be offered to Buyer. Prices paid will be based on the units of measure delivered pursuant to Releases issued hereunder multiplied by the unit of measure price. Seller represents that the prices in Attachment "A" contain all taxes, duties, levies, and fees that could be imposed by any taxing authority in the jurisdiction in which Seller does business or which may be imposed by any governmental agency regarding the export of supplies from the country of origin.

10. Seller agrees to provide to other subcontractors, subsidiaries and joint venture partners of Buyer the right to purchase the same material as is being purchased under this Agreement at the same prices as are contained in this Agreement. Seller's obligation to provide material to other subcontractors at the same prices as are contained in this Agreement with Buyer is limited to those contracts under which other subcontractors are purchasing material from Seller to fulfill obligations under purchase orders with Buyer. Seller shall obtain from each subcontractor of Buyer a representation that any such materials purchased by the subcontractors under this clause shall be used solely and exclusively for fulfilling the purchase order requirements of Buyer. There shall be no change or other adjustments to the prices contained in this Agreement regardless of the amount of material, if any, purchased by Buyer's subcontractors, subsidiaries or joint venture partners under this clause.

11. Seller agrees that it shall accept amendments to this Agreement as reasonably deemed necessary by Buyer to comply with the provisions of any Sales Contract that Buyer may execute, any federal, state, local or provincial laws and regulations that may be applicable to Seller as a subcontractor to Buyer and any laws or regulations necessary for Buyer to comply with the requirements of Buyer's Sales Contracts.

12. Buyer reserves the unilateral right to make delivery schedule adjustments for supplies purchased pursuant to this LTA to comply with Buyer's internal build plan. In this event, Seller shall comply with such adjustments. No price adjustments shall be allowed for delivery schedule adjustments made by Buyer, pursuant to this provision.

13. Seller represents and warrants to the Buyer that the supplies delivered pursuant to this Agreement shall meet or exceed the requirements set forth in each Release issued pursuant hereto and that any and all data, specifications and drawings developed or made by Seller pursuant to this Agreement shall also meet or exceed the requirements in each Release. Seller shall deliver items made in accordance with the revision levels in effect at the time the Release under which the items were ordered was issued.

14. Except as may be required for detail instructions concerning administration of purchase orders issued hereunder, any notices or reports required by this Agreement or with respect to the Agreement shall be in writing and addressed as follows:

If mailed to Seller:
Air Industries Mach. Corp.
1479 Clinton Ave.
Bayshore, N.Y. 11706

If mailed to Buyer:
Sikorsky Aircraft Corporation
6900 North Main St. PO Box 9729
Stratford, CT 06497-9129
Attn: Manager Material Contracts
Mail Stop: S204A

15. Terms of payment shall be 2% 10 days, Net 30 after final acceptance by Buyer

16. Transportation provisions are Delivered Duty Paid (Incoterms 1990 Edition) Buyer's facility, Stratford, CT USA or as otherwise specified in each Release.

17. The terms and conditions of this Long Term Agreement and any purchase orders or Releases issued pursuant hereto shall be controlled by the following, listed in order of precedence: (1) by all Articles of this Agreement; (2) by the terms contained in the Attachments incorporated by reference herein and attached hereto; (3) by the terms on the face sheets of the Releases issued pursuant hereto and (4) by the Sikorsky Aircraft Terms and Conditions of Purchase contained in S/A 908.

The terms on the face sheets hereof shall apply to any and all Releases issued by Buyer to Seller for the item(s) listed in Attachment "A" during the term of this Agreement and shall be applicable thereto with the same effect as if they physically appeared thereon. All other conditions of any Releases or acceptances thereof whether printed, stamped, typed, written on the face or reverse thereof, or incorporated by reference, or attached thereto in any manner, shall be deemed inapplicable and of no effect except those terms, conditions, and instructions appearing on the face of Buyer's Release forms.

18. At any point in time during the term of this Agreement, additional part numbers may be added to this Agreement by written agreement. The prices governing any additional part numbers shall be incorporated in a written agreement.

19. Seller agrees to develop productivity and cost reduction improvements plans during the course of this Agreement. Seller agrees to develop and maintain comprehensive continuous improvement plans, which shall extend to all processes and procedures. Buyer may require Seller to develop and implement specific action plans for any activities or processes that Buyer deems necessary.

20. This LTA must be accepted in writing by Seller. If for any reason Seller should fail to accept a release order issued under this Agreement in writing, the shipment by Seller of any goods ordered, the furnishing of any service called for hereunder, or the acceptance of any payment by Seller or any other conduct by Seller which recognizes the existence of a contract pertaining to the subject matter hereof shall constitute an unqualified acceptance by Seller of this Order and all of its terms and conditions. Seller's acceptance of Buyer's offer or Seller's acknowledgement, invoice, or other form of acceptance that adds to, varies from, or conflicts with the terms herein are hereby objected to. Any such proposed terms shall be void and the terms and conditions of this order

(a) shall constitute the complete and exclusive statement of the terms and conditions of the contract between the parties and shall apply to each shipment received by Buyer from Seller hereunder and (b) may hereafter be modified only by both parties. If this order has been issued by Buyer in response to an offer by Seller and if any of the terms herein are additional to or different from any terms of such offer, then the issuance of this order by Buyer shall constitute final acceptance of such offer. Any additional terms and conditions shall be deemed acceptable to Seller unless Seller notifies Buyer to the contrary in writing within ten (10) calendar days of receipt of this order.

21. All non-recurring costs including tooling and first article/qualification as defined in the Sikorsky Engineering drawings are to be performed by the Supplier at its sole expense. Any tooling which is supplied by Sikorsky Aircraft is supplied in "AS IS" condition. Supplier assumes responsibility for use of tooling or for design and manufacture of new tooling.

22. In the event that supplier does not complete first article and/or qualification testing by the time frame required by releases issued pursuant to this agreement, Buyer may terminate the delayed items at no cost or liabilities whatsoever.

23. Seller shall not make any publicity releases or authorize others to make such releases regarding the subject matter of this Agreement without the prior written approval of the Buyer.

24. Seller may not assign or transfer this Agreement or any Releases issued under this Agreement.

25. The place of performance shall be Seller's facility designated as 1479 Clinton Ave.. This place of performance shall not be changed without the express written permission of an authorized representative of the Buyer.

26. In the performance of this Agreement and all Releases issued under this Agreement, Seller and Buyer shall each comply with all local, state, federal and provincial laws, rules and regulations.

27. This agreement shall be interpreted in accordance with the plain English meaning of its terms and the construction thereof shall be governed by the laws of Connecticut, excepting Connecticut's choice of law statutes. Buyer may, but it is not obligated to, bring any action or claim relating to or arising out of this Agreement in the appropriate state or federal court in Connecticut, and Seller hereby irrevocably consents to personal jurisdiction in any such court, hereby appointing the Secretary of State of Connecticut as agent for receiving service of process. Any action or claim by Seller with respect hereto shall also be brought in such appropriate state or federal court in Connecticut, if Buyer so elects. Accordingly, Seller shall give written notice to Buyer of any such intended action or claim, including the intended venue thereof, and shall not commence such action or claim outside of Connecticut if Buyer, within (30) days from the receipt thereof, makes its election as aforesaid. Further, the United Nations Convention on Contract for the Internal Sale of Goods shall not apply, and this SUBCONTRACT shall not be construed in accordance herewith. All rights not specifically granted herein are retained by SIKORSKY.

SELLER: Air Ind. Mach. Corp
Title: President
Date : 8/18/2000
Signature: /s/ Peter D. Rettaliata
Peter D. Rettaliata

SIKORSKY AIRCRAFT CORPORATION

Title: Procurement Specialist
Date: 8/18/2000
Signature: /s/ James S. Attardo
James S. Attardo

SIKORSKY AIRCRAFT CORPORATION

Title: Director Procurement
Date: 8/21/2000
Signature: /s/ M.A. Smeltzer
M.A. Smeltzer

Attachment: (A) to LTA G0996194

Part Number	Period of Performance Pricing				
	2000	2001	2002	2003	2004
70301-01100-814					
70301-21100-815					
96209-01040-041					
96209-02160-041					

/s/ Peter D. Retalliata
8-18-00

Long Term Agreement Terms and Conditions
Attachment "B"

This Long Term Agreement, No. 996271 has been made as of the 7th day of September 2000 between Sikorsky Aircraft Corporation, a Delaware Corporation having an office and place of business in Stratford, CT (hereafter referred to as "Buyer") and Air Industries Corporation having an office and place of business in Bayshore, NY (hereafter referred to as "Seller").

1. This Long Term Agreement (hereafter "LTA" or Agreement") and the terms thereof shall be applicable to all order issued by Buyer to Seller for those products listed in Attachment "A" to this Agreement, attached hereto and made a part hereof, during the time period commencing on the 30th day of September 2000 and expiring on the 31st day of December 2005. Deliveries made pursuant to this Agreement shall occur no later than the 31st day of December 2005. This Agreement may be extended by the Buyer for an additional five (5) years provided that written notice is so provided to Seller no later than the 30th day of June 2005.

2. During the term of this Agreement, Buyer agrees to issue to Seller and Seller agrees to accept purchase orders (hereafter "Long Term Agreement Releases" or "Releases") against this Agreement for some or all of those goods listed and at the prices provided in Attachment "A", attached hereto and made a part hereof. The estimated value of this Agreement is $787,220.00. The quantities of products and dollar value thereof listed in Attachment "A" describes Buyer's estimated purchase requirements during the term of this Agreement; however, Buyer is under no obligation to purchase any or all of the total estimated quantities or dollar value; further, Buyer reserves the right to purchase quantities greater than those listed in Attachment "A". In the event that Buyer does not purchase the estimated quantities, Seller shall not be entitled to any adjustment in the prices of other provisions of this Agreement. Seller agrees to fill Buyer's Releases for products ordered by Buyer under this Agreement and comply with the requirements on each Release. Buyer will exercise its best efforts to place on the face of every Release a statement referencing this Agreement as controlling the terms and conditions of purchase. However, such Releases shall be subject to the terms hereof whether they shall expressly so state or not. If Seller is unable to supply Buyer with any items described in Attachment "A" in accordance with the delivery need dates of any such Release, Seller shall immediately notify Buyer in writing, and Buyer may, in addition to any other remedies available to Buyer, at its option, reschedule such items for later delivery, reduce the quantity of such items ordered to the amount available, purchase such items from other sources or terminate the release without any liability or obligation to the Seller. In any event, Buyer shall have no further liability to Seller for the items, which Seller could not deliver in accordance with the terms of Buyer's Releases. Releases may be issued at any time prior to termination or expiration of this LTA and Seller shall perform such releases to the extent that deliveries are not required subsequent to the expiration date of this Agreement.

3. In addition to the information required under Attachment B, Terms and Condition of Purchase, Seller shall designate this Long Term Agreement Number, the applicable Release number, item number, and item description on all packing slips and invoices of material delivered pursuant to this Long term Agreement and any Releases issued hereunder.

4. Seller hereby agrees to utilize E-Commerce and Bar Coding where applicable and practiced by Buyer.

5. Seller agrees to comply with the delivery dates set forth in Buyer's Releases. Seller acknowledges and understands that this may require that supplies be delivered from Seller to Buyer in less than the standard lead-times listed in Attachment "A" hereto.

6. The supplies as required by this Agreement shall be delivered on dock at the destination specified by Buyer and in accordance with the delivery dates specified in its Releases issued pursuant to this LTA. Time is of the essence for all deliveries required by the Releases. The supplies shall be delivered to Buyer at the location specified by Buyer but not be delivered to the location specified by Buyer earlier than two (2) weeks prior to such need dates unless prior approval is granted by Buyer.

7. All items delivered under this LTA shall be inspected and accepted in accordance with this LTA. Final acceptance of supplies delivered under Releases issued pursuant to this LTA will take place at Buyer's facility to which said supplies are delivered. Final inspection shall take place as specified in each Release issued pursuant to this LTA. In the event that a Release does not specify final inspection, final inspection shall be at the facility of Buyer. This Paragraph is not nor is to be construed as a limitation of the rights of Buyer and the obligations of the Seller as provided for in this LTA.

8. Prices to be paid by Buyer shall be those listed in Attachment "A" and shall remain firm for the term of the Agreement. Should prices lower than those listed for items of like grade, quality and quantity in Attachment "A" be offered to any customer of Seller during the term of this Agreement, such prices will also be offered to Buyer. Prices paid will be based on the units of measure delivered pursuant to Releases issued hereunder multiplied by the unit of measure price. Seller represents that the prices in Attachment "A" contain all taxes, duties, levies, and fees that could be imposed by any taxing authority in the jurisdiction in which

Seller does business or which may be imposed by any governmental agency regarding the export of supplies from the country of origin.

9. [Intentionally left blank]

10. Seller agrees to provide to other subcontractors, subsidiaries and joint venture partners of Buyer the right to purchase the same material as is being purchase under this Agreement at the same prices as are contained in ties Agreement. Seller's obligation to provide material to other subcontractors at the same prices as are contained in this Agreement with Buyer is limited to those contracts under which other subcontractors are purchasing material from Seller to fulfill obligations under purchase orders with Buyer. Seller shall obtain from each subcontractor of Buyer a representation that any such materials purchased by the subcontractors under this clause shall be used solely and exclusively for fulfilling purchase order requirements of Buyer. There shall be no change or other adjustments to the prices contained in this Agreement regardless of the amount of material, if any, purchased by Buyer's subcontractors, subsidiaries or joint venture partners under this clause.

11. Seller agrees that it shall accept amendments to this Agreement as reasonably deemed necessary by Buyer to comply with the provisions of any Sales Contract that Buyer may execute, any federal, state, local or provincial laws and regulation that may be applicable to Seller as a subcontractor to Buyer and any laws or regulations necessary for Buyer to comply with the requirements of Buyer's Sales Contracts.

12. Buyer reserves the unilateral right to make delivery schedule adjustments for supplies purchase pursuant to this LTA to comply with Buyer's internal build plan. In this event, Seller shall comply with such adjustments. No price adjustments shall be allowed for delivery schedule adjustments made by Buyer, pursuant to this provision.

13. Seller represents and warrants to the Buyer that the supplies delivered pursuant to this Agreement shall meet or exceed the requirements set forth in each release issued pursuant hereto and that any and all data, specifications and drawings developed or made by Seller pursuant to this Agreement shall also meet or exceed the requirements in each release. Seller shall deliver items made in accordance with the revision levels in effect at the time the Release under which the items were ordered was issued.

14. Except as may be required for detail instructions concerning administration of purchase orders issued hereunder, any notices or reports required by this Agreement or with respect to the Agreement shall be in writing and addressed as follows:

    If mailed to Seller:
    Air Industries
    1479 Clinton Avenue
    Bayshore, NY 11706

If mailed to Buyer:
Sikorsky Aircraft Corporation
6900 North Main St. PO Box 9729
Stratford, CT 06497-9129
Attn: Manager Material Contracts
Mail Stop: S204A

15. Terms of payment shall be 1% 10 days, Net 30 after final acceptance by Buyer.

16. Transportation provisions are Delivered Duty Paid (Incoterms 1990 Edition) Buyer's facility, Stratford, CT USA or as otherwise specified in each Release.

17. The terms and conditions of this Long Term Agreement and any purchase orders or Releases issued pursuant hereto shall be controlled by the following, listed in order of precedence: (1) by all Articles of this Agreement; (2) by the terms contained in the Attachments incorporated by reference herein and attached hereto; (3) by the terms on the face sheets of the releases issued pursuant hereto; and (4) by the Sikorsky Aircraft Terms and Conditions of Purchase contained in S/A 908.

1 The terms on the face sheets hereof shall apply to any and all Releases issued by Buyer to Seller for the item(s) listed in Attachment "A" during the term of this Agreement and shall be applicable thereto with the same effect as if they physically appeared thereon. All other conditions of any Releases or acceptances thereof whether printed, stamped, typed, written on the face or reverse thereof, or incorporated by reference, or attached thereto in any manner, shall be deemed inapplicable and of no effect except those terms, conditions, and instructions appearing on the face of Buyer's Release forms.

18. At any point in time during the term of this Agreement, additional part numbers may be added to this Agreement by written agreement. The prices governing any additional part numbers shall be incorporated in a written agreement.

19. Seller agrees to develop productivity and cost reduction improvements plans during the course of this Agreement. Seller agrees to develop and maintain comprehensive continuous improvement plans, which shall extend to all processes and procedures. Buyer may require Seller to develop and implement specific action plans for any activities or processes that Buyer deems necessary.

20. This LTA must be accepted in writing by Seller. If for any reason Seller should fail to accept a release or order issued under this Agreement in writing, the shipment by Seller of any goods ordered, the furnishing of any service called for hereunder, of the acceptance of any payment by Seller or any other conduct by Seller which recognizes the existence of a contract pertaining to the subject matter hereof shall constitute an unqualified acceptance by Seller of this Order and all of its terms and conditions. Seller's acceptance of Buyer's offer or Seller's acknowledgment, invoice, or other form of acceptance that adds to, varies from, or conflicts with the terms herein are hereby objected to. Any such

proposed terms shall be void and the terms and conditions of this order (a) shall constitute the complete and exclusive statement of the terms and conditions of the contract between the parties and shall apply to each shipment received by Buyer from Seller hereunder and (b) may hereafter be modified only by both parties. If this order has been issued by Buyer in response to an offer by Seller and if any of the terms herein are additional to or different from any terms of such offer, then the issuance of this order by Buyer shall constitute final acceptance of such offer. Any additional terms and conditions shall be deemed acceptable to Seller unless Seller notifies Buyer to the contrary in writing within ten (10) calendar days of receipt of this order.

21. All non-recurring costs including tooling and first article/qualification as defined in the Sikorsky Engineering drawings are to be performed by the Supplier at its sole expense. Any tooling which is supplied by Sikorsky Aircraft is supplied in "AS IS" condition. Supplier assumes responsibility for use of tooling or for design and manufacture of new tooling.

22. In the event that Supplier does not complete first article and/or qualification testing by the time frame required by releases issued pursuant to this agreement, Buyer may terminate the delayed items at no cost or liabilities whatsoever.

23. Seller shall not make any publicity releases or authorize others to make such releases regarding the subject matter of this Agreement without the prior written approval of the Buyer.

24. Seller may not assign or transfer this Agreement or any Releases issued under this Agreement.

25. The place of performance shall be Seller's Facility designated as Air Industries. This place of performance shall not be changed without the express written permission of an authorized representative of the Buyer.

26. In the performance of this Agreement and all Releases issued under this Agreement, Seller and Buyer shall each comply with all local, state, federal and provincial laws, rules and regulations.

27. This agreement shall be interpreted in accordance with the plain English meaning of its terms and the construction thereof shall be governed by the laws of Connecticut, excepting Connecticut's choice of law statutes. Buyer may, but is not obligated to, bring any action or claim relating to or arising out of this Agreement in the appropriate state or federal court in Connecticut, and Seller hereby irrevocably consents to personal jurisdiction in any such court, hereby appointing the Secretary of State of Connecticut as agent for receiving service of process. Any action or claim by Seller with respect hereto shall also be brought in such

appropriate state or federal court in Connecticut, if Buyer so elects. Accordingly, Seller shall give written notice to Buyer of any such intended action or claim, including the intended venue thereof, and shall not commence such action or claim outside of Connecticut if Buyer, within thirty (30) days from the receipt thereof, makes its election as aforesaid. Further the United Nations Convention on Contract for the Internal Sale of Goods shall not apply, and this SUBCONTRACT shall not be construed in accordance herewith. All rights not specifically granted herein are retained by SIKORSKY.

AIR INDUSTRIES CORP.	SIKORSKY AIRCRAFT CORPORATION
Name: Paula Castellano	Name: Monty Smeltzer
Title: Director	Title: Director
Date: September 7, 2000	Date: 9/11/00
Signature:	Signature:
s/Paula Castellano	s/ Monty Smeltzer

EXHIBIT 21.1

LIST OF SUBSIDIARIES OF ASHLIN DEVELOPMENT CORPORTION

Gales Industries Merger Sub, Inc. (Delaware), wholly owned by Ashlin Development Corporation

Air Industries Machining, Corp. (New York), wholly owned by Gales Industries Merger Sub, Inc.