

**AIR INDUSTRIES GROUP, INC**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 and 2009**  
**(Unaudited and Unreviewed)**

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

	<b>September 30, 2010 (Unaudited and Unreviewed)</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 375,000	\$ 165,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$225,000 and \$161,000	5,534,000	5,575,000
Inventory	23,215,000	21,568,000
Assets Held for Sale	233,000	248,000
Prepaid Expenses and Other Current Assets	157,000	267,000
Taxes Receivable	49,000	49,000
Deposits - Customers	35,000	94,000
<b>Total Current Assets</b>	<b>29,598,000</b>	<b>27,966,000</b>
Property and Equipment, net	3,892,000	4,933,000
Capitalized Engineering Costs - net of Accumulated Amortization of \$2,167,000 and \$1,418,000	1,146,000	1,688,000
Deferred Financing Costs, net, deposit and other assets	641,000	656,000
Intangible Assets, net	1,817,000	1,943,000
Goodwill	291,000	291,000
<b>TOTAL ASSETS</b>	<b>\$ 37,385,000</b>	<b>\$ 37,477,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Current Portion Notes Payable and Capitalized Lease Obligations	\$ 22,014,000	\$ 20,711,000
Accounts Payable and Accrued Expenses	6,535,000	6,034,000
Lease Impairment - Current	161,000	223,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Dividends Payable	-	460,000
Fractional Shares Payable	1,000	-
Liabilities Held for Sale	1,218,000	2,093,000
<b>Total Current Liabilities</b>	<b>29,967,000</b>	<b>29,559,000</b>
<b>Long term liabilities</b>		
Notes Payable and Capitalized Lease Obligation - Net of Current Portion	2,619,000	3,104,000
Lease Impairment - Net of Current Portion	255,000	356,000
Deferred Tax Liability	-	-
Deferred Gain on Sale - Net of Current Portion	753,000	599,000
Deferred Rent	570,000	610,000
<b>TOTAL LIABILITIES</b>	<b>34,164,000</b>	<b>34,228,000</b>
<b>Commitments and contingencies</b>		
<b>STOCKHOLDERS' EQUITY</b>		
<b>Preferred Stock Par Value \$.001-Authorized 8,003,716 shares</b>		
Designated as Series "A" Convertible Preferred - \$.001 par Value, 1,000 Shares Authorized 0 Shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively.	-	-
Designated as Series "B" Convertible Preferred -\$.001 Par Value, 4,000,000 shares authorized, 0 and 2,627,714 shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively.	-	3,000
<b>Common Stock - \$.001 Par, 20,000,000 Shares Authorized, 3,579,000 and 179,245 Shares Issued and Outstanding as of September 30, 2010 and December 31, 2009, respectively</b>		
	4,000	-
Additional Paid-In Capital	24,577,000	24,063,000
Accumulated Deficit	(21,360,000)	(20,817,000)
<b>Total Stockholders' Equity</b>	<b>3,221,000</b>	<b>3,249,000</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 37,385,000</b>	<b>\$ 37,477,000</b>

**AIR INDUSTRIES GROUP, INC.**  
**Consolidated Statement of Operations for the Nine Months Ended September 30,**  
**(Unaudited and Unreviewed)**

	<u><b>2010</b></u>	<u><b>2009</b></u>
Net Sales	\$ 36,678,000	\$ 33,282,000
Cost of Sales	29,741,000	26,890,000
Gross Profit	<u>6,937,000</u>	<u>6,392,000</u>
Operating Expenses	<u>4,079,000</u>	<u>4,775,000</u>
Total Operating Expenses	4,079,000	4,775,000
Income (loss) from operations	<u>2,858,000</u>	<u>1,617,000</u>
Interest and financing costs	(3,184,000)	(3,921,000)
Other (Loss) Income	(613,000)	(46,000)
Loss before benefit from income taxes	<u>(939,000)</u>	<u>(2,350,000)</u>
Benefit from income taxes	-	(165,000)
Loss From Continuing Operations	<u>(939,000)</u>	<u>(2,185,000)</u>
Income From Discontinued Operations	<u>395,000</u>	<u>16,000</u>
Net Loss	(544,000)	(2,169,000)
Dividend attributable to preferred stockholders	<u>1,436,000</u>	<u>607,000</u>
Net loss attributable to common stockholders	<u><u>\$ (1,980,000)</u></u>	<u><u>\$ (2,776,000)</u></u>
Loss per share (basic and diluted)		
Continuing Operations	\$ (0.66)	\$ (15.58)
Discontinued Operations	<u>0.11</u>	<u>0.09</u>
Total	<u><u>\$ (0.55)</u></u>	<u><u>\$ (15.49)</u></u>
Weighted average shares outstanding (basic and diluted)	<u><u>3,579,000</u></u>	<u><u>179,245</u></u>

**AIR INDUSTRIES GROUP, INC.**  
**Consolidated Statement of Operations for the Three Months Ended September 30,**  
**(Unaudited and Unreviewed)**

	<u><b>2010</b></u>	<u><b>2009</b></u>
Net Sales	\$ 12,036,000	\$ 11,002,000
Cost of Sales	10,001,000	9,169,000
Gross Profit	<u>2,035,000</u>	<u>1,833,000</u>
Operating Expenses	<u>1,355,000</u>	<u>1,612,000</u>
Total Operating Expenses	1,355,000	1,612,000
Income (loss) from operations	<u>680,000</u>	<u>221,000</u>
Interest and financing costs	(609,000)	(1,418,000)
Other (Loss) Income	(609,000)	31,000
Loss before benefit from income taxes	<u>(538,000)</u>	<u>(1,166,000)</u>
Benefit from income taxes	-	-
Loss From Continuing Operations	<u>(538,000)</u>	<u>(1,166,000)</u>
Income From Discontinued Operations	<u>(41,000)</u>	<u>105,000</u>
Net Loss	(579,000)	(1,061,000)
Dividend attributable to preferred stockholders	-	388,000
Net loss attributable to common stockholders	<u>\$ (579,000)</u>	<u>\$ (1,449,000)</u>
Loss per share (basic and diluted)		
Continuing Operations	\$ (0.15)	\$ (8.67)
Discontinued Operations	<u>(0.01)</u>	<u>0.59</u>
Total	<u>\$ (0.16)</u>	<u>\$ (8.08)</u>
Weighted average shares outstanding (basic and diluted)	<u>3,579,000</u>	<u>179,245</u>

AIR INDUSTRIES GROUP, INC.  
Consolidated Statement of Cash Flows For the Nine Months September 30,  
(Unaudited and Unreviewed)

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (544,000)	(2,169,000)
Adjustments to Reconcile Net Loss to Net		
Cash used in Operating Activities		
Depreciation and amortization of property and equipment	1,385,000	1,427,000
Amortization of intangible assets	126,000	141,000
Amortization of capitalized engineering costs	749,000	635,000
Bad debt expense	64,000	71,000
Non-cash compensation expense	55,000	70,000
Non-Cash Warrant expense	1,000	-
Non-Cash Interest Expense Including Amortization of Debt Discounts	1,323,000	2,145,000
Amortization of deferred financing costs	245,000	284,000
Gain on Sale of Real Estate	(28,000)	(28,000)
Deferred Income Taxes	-	(170,000)
Deferred Rent	143,000	143,000
Lease Impairment	(163,000)	-
Changes in Assets and Liabilities		
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(23,000)	1,301,000
Assets Held for Sale	15,000	855,000
Inventory	(1,647,000)	(1,002,000)
Prepaid Expenses and Other Current Assets	110,000	(114,000)
Deposits	59,000	(202,000)
Other Assets	(191,000)	22,000
Increase (Decrease) in Operating Liabilities		
Accounts payable and accrued expenses	501,000	(861,000)
Income Taxes payable	-	5,000
Liabilities Held For Sale	(875,000)	(698,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,305,000</u>	<u>1,855,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for Capitalized Engineering costs	(206,000)	(415,000)
Purchase of property and equipment	(344,000)	(533,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(550,000)</u>	<u>(948,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Notes payable - Sellers	(114,000)	(186,000)
Capital lease obligations	(273,000)	(236,000)
Notes payable-Jr. Subordinated Debt	-	445,000
Notes payable-SFFC	(180,000)	-
Notes payable-Revolver	62,000	(1,049,000)
Notes payable-Bank	-	(106,000)
Cash paid for deferred financing costs	(40,000)	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(545,000)</u>	<u>(1,132,000)</u>
Net increase in cash and cash equivalents	210,000	(225,000)
Cash and cash equivalents at beginning of year	165,000	164,000
Cash and cash equivalents at end of year	<u>375,000</u>	<u>(61,000)</u>