AIR INDUSTRIES GROUP, INC

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS and FOOTNOTES

With INDEPENDENT ACCOUNTANTS' REVIEW REPORT

MARCH 31, 2012 and 2011

Air Industries Group, Inc.

Index to Condensed Consolidated Financial Statements and Footnotes

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of
Air Industries Group, Inc.
Bay Shore, NY 11706

We have reviewed the accompanying condensed consolidated balance sheet of Air Industries Group, Inc. and Subsidiaries (the "Company") as of March 31, 2012, and the related condensed consolidated statements of operations, stockholders' equity, and cash flows for the three months ended March 31, 2012 and 2011. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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

We have previously audited, in accordance with auditing standards of the PCAOB, the condensed consolidated balance sheet of the Company as of December 31, 2011, and the related condensed consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 15, 2012, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the condensed consolidated balance sheet from which it has been derived.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
Saddle Brook, New Jersey
May 11, 2012

AIR INDUSTRIES GROUP, INC.
Condensed Consolidated Balance Sheets

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 911,000	$ 577,000
Accounts Receivable, Net of Allowance for Doubtful Account of $1,036,000 and $950,000	7,801,000	6,042,000
Inventory	21,664,000	22,521,000
Prepaid Expenses and Other Current Assets	342,000	330,000
Deposits - Customers	43,000	2,000
Total Current Assets	30,761,000	29,472,000
Property and Equipment, net	3,770,000	3,971,000
Capitalized Engineering Costs - net of Accumulated Amortization of $3,101,000 and $2,990,000	936,000	969,000
Deferred Financing Costs, net, deposit and other assets	639,000	671,000
Intangible Assets, net	1,565,000	1,607,000
Goodwill	291,000	291,000
TOTAL ASSETS	$ 37,962,000	$ 36,981,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes Payable and Capitalized Lease Obligations - Current Portion	$ 14,230,000	$ 14,055,000
Accounts Payable and Accrued Expenses	7,441,000	7,432,000
Lease Impairment - Current	96,000	85,000
Deferred Gain on Sale - Current Portion	38,000	38,000
Income Taxes Payable	264,000	41,000
Total Current Liabilities	22,069,000	21,651,000
Long term liabilities		
Notes Payable and Capitalized Lease Obligation - Net of Current Portion	8,684,000	8,992,000
Lease Impairment - Net of Current Portion	189,000	175,000
Deferred Gain on Sale - Net of Current Portion	514,000	523,000
Deferred Rent	998,000	974,000
Total Liabilities	32,454,000	32,315,000
Commitments and contingencies		
Stockholders' Equity		
Preferred Stock Par Value $.001-Authorized 8,003,716 shares		
Designated as Series "A" Convertible Preferred - $.001 par Value, 1,000 Shares Authorized 0 Shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively.	-	-
Designated as Series "B" Convertible Preferred -$.001 Par Value, 4,000,000 shares authorized, 0 and 0 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively; Liquidation Value, $ 0	-	-
Common Stock - $.001 Par, 20,000,000 Shares Authorized, 3,579,114 and 3,579,114 Shares Issued and Outstanding as of March 31, 2012 and December 31, 2011, respectively	4,000	4,000
Additional Paid-In Capital	26,163,000	26,141,000
Accumulated Deficit	(20,659,000)	(21,479,000)
Total Stockholders' Equity	5,508,000	4,666,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 37,962,000	$ 36,981,000

See independent accountants' review report and notes to condensed consolidated financial statements

AIR INDUSTRIES GROUP, INC.
Condensed Consolidated Statements of Operations for the Three months ended March 31,
(Unaudited)

	2012	2011
Net Sales	$ 16,038,000	$ 12,600,000
Cost of Sales	12,767,000	10,141,000
Gross Profit	3,271,000	2,459,000
Operating Expenses	1,674,000	1,577,000
Income from operations	1,597,000	882,000
Interest and financing costs	(497,000)	(520,000)
Other Expense (income), net	6,000	6,000
Income before provision for income taxes	1,106,000	368,000
Provision for income taxes	286,000	-
Net income attributable to common stockholders	$ 820,000	$ 368,000
Income per share - basic and diluted	$ 0.23	$ 0.10
Weighted average shares outstanding - basic and diluted	3,579,114	3,579,114

See independent accountants' review report and notes to condensed consolidated financial statements

AIR INDUSTRIES GROUP, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

Three Months ended March 31, 2012

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, January 1, 2012	**-**	**$ -**	**-**	**$ -**	**3,579,114**	**$ 4,000**	**$ 26,141,000**	**$ (21,479,000)**	**$ 4,666,000**
Stock compensation expense	-	-	-	-	-	-	22,000	-	22,000
Net income	-	-	-	-	-	-	-	820,000	820,000
Balance, March 31, 2012	**-**	**$ -**	**-**	**$ -**	**3,579,114**	**$ 4,000**	**$ 26,163,000**	**$ (20,659,000)**	**$ 5,508,000**

Three Months ended March 31, 2011

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, January 1, 2011	**-**	**$ -**	**-**	**$ -**	**3,579,114**	**$ 4,000**	**$ 26,009,000**	**$ (23,726,000)**	**$ 2,287,000**
Stock compensation expense	-	-	-	-	-	-	31,000	-	31,000
Net income	-	-	-	-	-	-	-	368,000	368,000
Balance, March 31, 2011	**-**	**$ -**	**-**	**$ -**	**3,579,114**	**$ 4,000**	**$ 26,040,000**	**$ (23,358,000)**	**$ 2,686,000**

See independent accountants' review report and notes to condensed consolidated financial statements

AIR INDUSTRIES GROUP, INC.

Condensed Consolidated Statements of Cash Flows For the Three months Ended March 31,

		2012		2011
		(Unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	$	820,000	$	368,000
Adjustments to Reconcile Net Income (Loss) to Net				
Cash provided by Operating Activities				
Depreciation of property and equipment		356,000		412,000
Amortization of intangible assets		42,000		42,000
Amortization of capitalized engineering costs		110,000		174,000
Bad debt expense		86,000		59,000
Non-cash compenstion expense		22,000		31,000
Amortization of deferred financing costs		13,000		44,000
Gain on sale of real estate		(10,000)		(10,000)
Adjustments to Lease Impairment		53,000		-
Changes in Assets and Liabilities				
(Increase) Decrease in Operating Assets:				
Accounts Receivable		(1,844,000)		(1,298,000)
Inventory		856,000		(239,000)
Prepaid Expenses and Other Current Assets		(12,000)		58,000
Deposits		(41,000)		30,000
Other Assets		19,000		(47,000)
Increase (Decrease) in Operating Liabilities				
Accounts payable and accrued expenses		9,000		733,000
Deferred Rent		24,000		47,000
Income Taxes payable		223,000		-
NET CASH PROVIDED BY OPERATING ACTIVITIES		726,000		404,000
CASH FLOWS FROM INVESTING ACTIVITIES				
Capitalized engineering costs		(77,000)		(185,000)
Purchase of property and equipment		(54,000)		(42,000)
Deposit for new property and equipment		(101,000)		(44,000)
NET CASH USED IN INVESTING ACTIVITIES		(232,000)		(271,000)
CASH FLOWS FROM FINANCING ACTIVITIES				
Notes payable - Sellers		(146,000)		(128,000)
Capital lease obligations		(139,000)		(97,000)
Notes payable - Revolver		403,000		184,000
Notes payable - Term Loan PNC		(250,000)		(250,000)
Cash paid for deferred financing costs		-		(20,000)
Payments related to Lease Impairment		(28,000)		(25,000)
NET CASH USED IN FINANCING ACTIVITIES		(160,000)		(336,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		334,000		(203,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		577,000		537,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	911,000	$	334,000
Supplemental cash flow information				
Cash paid during the year for interest	$	437,000	$	470,000
Supplemental cash flow information				
Cash paid during the year for income taxes	$	64,000	$	-

See independent accountants' review report and notes to condensed consolidated financial statements

Note 1. FORMATION AND BASIS OF PRESENTATION

Organization and Principal Business Activity

Air Industries Group, Inc. (the "Company" or “AIRI”), a Delaware corporation, was incorporated on January 13, 2006.

The accompanying condensed consolidated financial statements presented are those of AIRI, and its wholly-owned subsidiaries; Air Industries Machining Corporation (“AIM”) and Welding Metallurgy, Inc. ("Welding").

The Company through its AIM subsidiary is primarily engaged in manufacturing aircraft structural parts, and assemblies for prime defense contractors in the aerospace industry in the United States. The Company's customers consist mainly of publicly- traded companies in the aerospace industry. Welding is a specialty welding and products provider whose significant customers include the world's largest aircraft manufacturers, subcontractors, and original equipment manufacturers.

Basis of Presentation

These condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. These unaudited interim condensed consolidated financial statements, which, in the opinion of management, reflect all adjustments (including normal recurring adjustments) necessary for a fair presentation, should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2011. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for any future interim period or for the entire fiscal year.

Note 2. ACQUISITION

On March 15, 2012, the Company, through a new created subsidiary, entered into a contract with Nassau Tool Works, Inc., (“NTW”) and its shareholders to purchase substantially all of the assets, and to assume certain liabilities, on a debt-free, cash-free basis for $12.0 million ($12,000,000), subject to positive or negative adjustment based on net working capital at closing. The acquisition is expected to close on or about June 15, 2012, after which the assets, liabilities and the business of Nassau Tool Works will operate as a third subsidiary of the Company. The two shareholders of NTW will join the management team of the Company pursuant to management contracts.

The acquisition of Nassau Tool Works, Inc is expected to be financed with a combination of debt and equity. The existing revolving loan and term facilities will be expanded, and the Company is anticipating an offering of between 750,000 and 1,250,000 shares of common stock to be completed in early June 2012.

NTW founded in 1979 is a manufacturer of aerospace components, principally landing gear for F-16 and F-18 fighter aircraft. In recent years approximately 80% of NTW’s net sales are direct to the US Government, specifically the US Navy and Air Force. NTW believes that some of its products are ultimately shipped abroad to support foreign military sales by the US Government. NTW supplies both individual components for repair and complete landing gear for refurbishment. The balance of NTW’s net sales involve machining, turning, deep-hole drilling, and trepanning projects for other aerospace manufacturers.

Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable

Accounts receivable are reported at their outstanding unpaid principal balances net of allowances for uncollectable accounts. The Company provides for allowances for uncollectible receivables based on management's estimate of uncollectible amounts considering age, collection history, and any other factors considered appropriate. The Company writes off accounts receivable against the Allowance for Doubtful Accounts when a balance is determined to be uncollectible.

	March 31, 2012	December 31, 2011
	(Unaudited)	
Accounts Receivable Gross	$ 8,837,000	$ 6,992,000
Allowance for Doubtful Accounts	(1,036,000)	(950,000)
Accounts Receivable Net	$ 7,801,000	$ 6,042,000

Inventory Valuation

Inventory at March 31, 2012 and 2011 was computed based on a “gross profit” method.

The Company valued inventory at December 31, 2011 at the lower of cost on a first-in-first-out basis or market.

AIM generally purchases inventory only when it has non-cancellable contracts from its customers for orders of its finished goods. Welding generally produces pursuant to customer orders and maintains relatively low inventory levels. AIM occasionally produces finished goods in excess of purchase order quantities in anticipation of future purchase order demand; historically this excess has been used in fulfilling future purchase orders. The Company periodically evaluates inventory items that are not secured by purchase orders and establishes reserves for obsolescence accordingly. The Company also reserves for excess quantities, slow-moving goods, and for other impairment of value.

Long-Lived and Intangible Assets

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit.

Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. There has been no impairment as of March 31, 2012 and December 31, 2011.

Credit and Concentration Risks

There were two customers that represented 67.9% of total sales for the three months ended March 31, 2012 and three customers that represented 70.1% of total sales for the three months ended March 31, 2011. This is set forth in the table below.

Customer	Percentage of Sales	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
1	37.8	43.2
2	30.1	16.6
3	*	10.3

* Customer was less than 10% of sales in 2012

There were three customers that represented 58.7% of gross accounts receivable at March 31, 2012 and five customers that represented 82.2% of gross accounts receivable at December 31, 2011. This is set forth in the table below.

Customer	Percentage of Receivables	
	March	**December**
	2012	**2011**
	(Unaudited)	
1	23.9	18.3
2	18.9	12.9
3	15.9	13.3
4	*	26.2
5	*	11.5

* Customer was less than 10% of receivables at March 31, 2012

During the year, the Company had occasionally maintained balances in its bank accounts that were in excess of the FDIC limit. The Company has not experienced any losses on these accounts.

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

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

Earnings per share

Basic earnings per share is computed by dividing the net income applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Potentially dilutive shares, using the treasury stock method, are included in the diluted per-share calculations for all periods when the effect of their inclusion is dilutive. The following securities have been excluded from the calculation as their effect would be anti-dilutive:

	March 31, 2012	December 31, 2011
Stock Options	306,336	291,316
Warrants	250	19,865

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provision of the ASC, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and warrants granted using the Black-Scholes-Merton option pricing model.

The Company recorded expenses of $22,000 and $31,000 in its consolidated statement of operations for the three months ended March 31, 2012 and 2011, respectively, and is included as a component of general and administrative expense.

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The goodwill amount of $291,000 relates to the acquisition of Welding Metallurgy. Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist. The Company has determined that there has been no impairment of goodwill at March 31, 2012 and December 31, 2011.

Subsequent Events

Management has evaluated subsequent events through May 11, 2012, the date at which the financial statements were available to be issued.

Note 4. INVENTORY

The components of inventory at December 31, 2011 consisted of the following:

	December 31, 2011
Raw Materials	$ 5,209,000
Work In Progress	12,094,000
Finished Goods	7,021,000
Inventory Reserve	(1,803,000)
Total Inventory	$ 22,521,000

Note 5. PROPERTY AND EQUIPMENT

The components of property and equipment consisted of the following:

	March 31, 2012 (Unaudited)	December 31, 2011	
Machinery and Equipment	$ 3,821,000	$ 3,700,000	5 - 8 years
Capital Lease Machinery and Equipment	3,877,000	3,877,000	5 - 8 years
Tools and Instruments	3,430,000	3,417,000	1.5 - 7 years
Automotive Equipment	55,000	55,000	5 years
Furniture and Fixtures	225,000	219,000	5 - 8 years
Leasehold Improvements	595,000	595,000	Term of Lease
Computers and Software	173,000	158,000	4-6 years
Deposit on new Machinery	-	-	
Total Property and Equipment	12,176,000	12,021,000	
Less: Accumulated Depreciation	(8,406,000)	(8,050,000)	
Property and Equipment, net	$ 3,770,000	$ 3,971,000	

Depreciation expense for the three months ended March 31, 2012 and 2011 were approximately $356,000 and $412,000, respectively.

Note 6. INTANGIBLE ASSETS

The components of the intangibles assets consisted of the following:

	March 31, 2012 (Unaudited)	December 31, 2011	
Customer Relationships	$ 890,000	$ 890,000	11 to 14 years
Trade Names	770,000	770,000	20 years
Technical Know-how	660,000	660,000	10 years
Professional Certifications	15,000	15,000	.25 to 2 years
Total Intangible Assets	2,335,000	2,335,000	
Less: Accumulated Amortization	(770,000)	(728,000)	
Intangible Assets, net	$ 1,565,000	$ 1,607,000	

The expense for the amortization of the intangibles for both the three months ended March 31, 2012 and 2011 was approximately $42,000.

Note 7. SALE AND LEASEBACK TRANSACTION

On October 24, 2006, the Company consummated a Sale and Leaseback Arrangement, whereby the Company sold the buildings and real property comprising its corporate headquarters in Bay Shore, New York (the "Property") for a purchase price of $6,200,000. The Company accounted for the transaction under the provisions of FASB ASC 840-40, “Leases – Sale-Leaseback Transactions.” The Company realized a gain on the sale of $1,051,000 of which $300,000 was recognized during the year ended December 31, 2006. The remaining $751,000 is being recognized ratably over the remaining term of the twenty year lease at approximately $38,000 per year. The gain is included in Other Income in the accompanying Consolidated Statement of Operations. The unrecognized portion of the gain in the amount of $552,000 and $561,000 as of March 31, 2012 and December 31, 2011, respectively, is classified as Deferred Gain on Sale in the accompanying Consolidated Balance Sheet.

Note 8. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Notes payable and capital lease obligations at consist of the following:

	March 31, 2012 (Unaudited)	December 31, 2011
Revolving credit notes payable to PNC Bank N.A. ("PNC") and secured by substantially all assets	$ 11,283,000	$ 10,880,000
Term loan, PNC	1,750,000	2,000,000
Capital lease obligations	1,731,000	1,871,000
Notes payable to sellers of acquired business	1,830,000	1,976,000
Junior subordinated notes	6,320,000	6,320,000
Subtotal	22,914,000	23,047,000
Less: Current portion of notes and capital obligations	(14,230,000)	(14,055,000)
Notes payable and capital lease obligations, net of current portion	$ 8,684,000	$ 8,992,000

PNC Bank N.A. ("PNC")

The Company has a credit facility with PNC (the "Loan Facility"), secured by substantially all of its assets. The Loan Facility provided for maximum borrowings of $19,000,000 consisting of the following:

(i) a $16,000,000 revolving loan (includes inventory sub-limit of $11,250,000)
(ii) a $3,000,000 term loan and
(iii) included Welding Metallurgy as one of the borrowers

The revolving loan bears interest at (a) the sum PNC's base commercial lending rate as published from time to time ("PNC Rate") plus 2.25% or (b) the greater of (i) the sum of the Eurodollar rate plus 3.5% and (ii) 5.5%. The revolving loan had an interest rate of 5.50% per annum at both March 31, 2012 and December 31, 2011, and an outstanding balance of $11,283,000 and $10,880,000, respectively. The maturity date of the revolving loan is November 15, 2013.

Each day, the Company's cash collections are swept directly by the bank to reduce the revolving loans and we then borrow according to a borrowing base. As such, the Company generally has no cash on hand. Because the revolving loans contain a subjective acceleration clause which could permit PNC to require repayment prior to maturity, the loans are classified with the current portion of notes and capital lease obligations.

The term loan in the amount of $3,000,000 matures in December 2013 and bears interest, at the option of the Company equal to (a) the greater of (i) the sum of the PNC Rate plus 6.5% and (ii) 11.5%, with respect to Domestic Rate Loans or (b) the greater of (i) the sum of the Eurodollar Rate plus 8.5% and (ii) 10.5%, with respect to Eurodollar Rate Loans. Repayment under the term loan shall consist of 36 consecutive monthly principal installments, the first 35 of which will be in the amount of $83,330 commencing on the first business day of January 2011, with the 36th and final payment of any unpaid balance of principal and interest payable on the first business day of December 2013. Additionally, there is a mandatory prepayment equal to 50% of Excess Cash Flow (as defined) for each fiscal year commencing with the fiscal year 2011, payable upon the delivery of the financial statements to PNC for such fiscal period, but no later than 90 days after the end of the fiscal year. This has been calculated to be approximately $1,295,000 for the year ended December 31, 2011. The payment for the Excess Cash Flow recapture has been extended until the earlier of the closing of the acquisition of NTW, or June 30, 2012. At

March 31, 2012 and December 31, 2011, the balance due under the term loan was $1,750,000 and $2,000,000, respectively.

To the extent that the Company disposes of collateral used to secure the Loan Facility, other than inventory, the Company must promptly repay the draws on the credit facility in amount equal to the net proceeds of such sale.

The terms of the Loan Facility require that, among other things, the Company maintain certain financial ratios and levels of working capital. As of March 31, 2012 and December 31, 2011, the Company was in compliance with all terms of its credit facility with PNC.

The Loan Facility also is secured by all assets of the Company and the Company's receivables are payable directly into a lockbox controlled by PNC (subject to the terms of the Loan Facility). PNC may use some elements of subjective business judgment in determining whether a material adverse change has occurred in the Company's condition, results of operations, assets, business, properties or prospects allowing it to demand repayment of the Loan Facility.

The balance of the new PNC term loan is all due within the next twelve months and is therefore classified as a current liability on the accompanying Condensed Consolidated Balance sheet, under the caption Notes Payable and Capital Lease Obligation – Current Portion at both March 31, 2012 and December 31, 2011.

Interest expense related to these credit facilities amounted to approximately $205,000 and $250,000 for the three months ended March 31, 2012 and 2011, respectively.

Capital Leases Payable – Equipment

The Company is committed under several capital leases for manufacturing and computer equipment. All leases had bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled $1,731,000 and $1,871,000 as of March 31, 2012 and December 31, 2011, respectively, with various interest rates ranging from 7.7% to 9.5%.

As of March 31, 2012, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

For the twelve months ending	Amount
March 31, 2013	$ 711,000
March 31, 2014	710,000
March 31, 2015	298,000
March 31, 2016	207,000
March 31, 2017	52,000
Total future minimum lease payments	1,978,000
Less: imputed interest	(247,000)
Less: current portion	(586,000)
Total Long Term Portion	$ 1,145,000

Notes Payable - Sellers

As of March 31, 2012 and December 31, 2011, the balance owed to the sellers of Welding is:

	March 31, 2012 (Unaudited)	Decemeber 31, 2011
Former Welding Shareholders	$ 1,830,000	$ 1,976,000
Less: Current Portion	(611,000)	(601,000)
Total long-term portion	$ 1,219,000	$ 1,375,000

In connection with the acquisition of Welding on August 24, 2007, the Company incurred a note payable ("Note") to the former stockholders of Welding. Our obligation under the Note is subordinate to our indebtedness to PNC.

The Note and payment terms were adjusted and/or amended several times. On October 1, 2010, the Company entered into letter agreement with the former stockholders of Welding. It was agreed that all interest that had been accrued and not yet paid under prior arrangements would be capitalized into the principal balance of the note, making the new balance of the note $2,397,967. Payments on the note began on October 1, 2010. It was further agreed that payments would be made according to the following schedule: equal monthly installments of $40,000 on the first business day of each month until December 31, 2011, followed by equal monthly installments of $60,000 on the first business day of each month commencing on January 1, 2012 and continuing until the entire principal amount of the obligation is paid in full, which is estimated to be in January 2015. Interest shall accrue at the rate of 7% per annum, and each payment will first apply to interest and then principal. At March 31, 2012 and December 31, 2011, the balance owed under the note was $1,830,000 and $1,976,000 respectively.

As of March 31, 2012, the future minimum payments for the note payable to the former stockholders of Welding are as follows:

For the twelve months ending	Amount
March 31, 2013	$ 611,000
March 31, 2014	656,000
March 31, 2015	563,000
Former WMI Shareholder Notes Payable	1,830,000
Less: Current portion	(611,000)
Long-term portion	$ 1,219,000

Interest expense related to notes payable to the former stockholder was $34,000 and $40,000 for the three months ended March 31, 2012 and 2011, respectively.

Junior Subordinated Notes

In 2008, the Company sold in a series of private placements to accredited investors $5,545,000 of principal in junior subordinated notes, together with 983,324 shares of its common stock and 207,600 shares of Series B Convertible Preferred Stock ("Series B Preferred"), for a total purchase price of $5,545,000. The notes bear interest at the rate of 1% per month (or 12% per annum).

In the first quarter ended March 31, 2009, the Company sold in a private placement to accredited investors, an additional $445,000 of principal in notes together with 35,600 shares of our Series B Preferred for a total purchase price of $445,000.

In connection with the offering of the Company's junior subordinated notes and Series B Preferred which commenced in September 2008, the Company issued to Taglich Brothers, Inc. ("Taglich"), as placement agent, a junior subordinated note in the principal amount of $510,000 and 39,640 shares of Series B Preferred, The terms of the note issued to Taglich are identical to the notes. In addition, the Company issued a warrant to purchase 137,138 shares of its Series B Preferred to Taglich. In connection with the amounts raised in 2009, the Company issued Taglich 3,560 shares of Preferred Series B and will issue to Taglich a note on the same terms as the junior subordinated note referred to above for commission of $44,500.

The notes mature on November 18, 2013 and are subordinated to the Company's obligations to PNC.

The balance owed at both March 31, 2012 and December 31, 2011 amounted to $6,320,000.

Interest expense amounted to $191,000 and $194,000 for the three months ended March 31, 2012 and 2011, respectively.

Note 9. COMMITMENTS AND CONTINGENCIES

Lease Impairment

A former subsidiary was located in our Plant Avenue facility and following the discontinuance of its operations, a portion of the facility was vacant. The Company recorded a charge for $579,000 at December 31, 2009 representing the estimated discounted future cost of part of the Plant Avenue facility.

As of March 31, 2012, the estimated discounted future cost will be charged to expense as follows:

For the twelve months ending	Amount
March 31, 2013	$ 96,000
March 31, 2014	81,000
March 31, 2015	68,000
March 31, 2016	40,000
Total future minimum lease payments	285,000
Less: current portion	(96,000)
Total Long-Term Portion	$ 189,000

Litigation

Sigma Metals, Inc ("Sigma"): Several former vendors to Sigma had commenced legal action against Sigma seeking to recover amounts owed to them. All of these have been settled except for one that is still deciding to commence litigation seeking the recovery of approximately $71,000. Settlement discussions have commenced with this vendor but there is not yet a definitive resolution. Such amount is included in accounts payable and accrued expenses at March 31, 2012 and December 31, 2011.

Note 10. INCOME TAXES

The provision for income taxes at March 31, 2012 and 2011 is as follows:

	2012 (Unaudited)	2011 (Unaudited)
Current		
Federal AMT	$ 227,000	$ -
State	59,000	-
Total Expense	286,000	-
Deferred		
Federal	-	-
State	-	-
Total Deferred Taxes	-	-
Net Expense for Income Taxes	$ 286,000	$ -

The components of net deferred tax assets as of March 31, 2012 and December 31, 2011 are set forth below:

	March 31, 2012 (Unaudited)	December 31, 2011
Deferred tax assets:		
Net operating loss carry forwards	$ -	$ 289,000
Capital loss carry forwards	1,088,000	1,088,000
Bad debts	414,000	380,000
Stock based compensation - options and restricted stock	475,000	466,000
Capitalized engineering costs	376,000	356,000
Account payable, accrued expenses and reserves	9,000	9,000
Deferred rent	399,000	390,000
Inventory - 263A adjustment	627,000	-
Lease Impairment	114,000	-
Deferred gain on sale of real estate	221,000	224,000
Section 1231 loss carryover	86,000	86,000
Total deferred tax assets before valuation allowance	3,809,000	3,288,000
Valuation allowance	(2,465,000)	(1,217,000)
Total deferred tax assets after valuation allowance	1,344,000	2,071,000
Deferred tax liabilities:		
Property and equipment	(718,000)	(801,000)
Amortization - Welding Transaction	(626,000)	(643,000)
Inventory - 263A adjustment	-	(627,000)
Total Deferred Tax Liability	(1,344,000)	(2,071,000)
Net deferred tax asset	$ -	$ -

Realization of deferred tax assets is dependent on future earnings. Due to the uncertainty of realization of the net deferred tax assets, the Company has provided a 100% valuation allowance.

Note 11. SEGMENT REPORTING

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

Financial information about the Company's operating segments for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31,	
	2012	**2011**
Air Industries Machining		
Net Sales	$ 12,143,000	$ 10,092,000
Gross Profit	2,246,000	1,757,000
Pre Tax Income	1,197,000	752,000
Assets	27,721,000	28,495,000
Welding Metallurgy		
Net Sales	3,895,000	2,508,000
Gross Profit	1,025,000	702,000
Pre Tax Income	587,000	386,000
Assets	8,338,000	7,293,000
Corporate		
Net Sales	-	-
Gross Profit	-	-
Pre Tax Loss	(678,000)	(770,000)
Assets	6,832,000	10,795,000
Consolidated		
Net Sales	16,038,000	12,600,000
Gross Profit	3,271,000	2,459,000
Pre Tax Income	1,106,000	368,000
Provision for Taxes	286,000	-
Net Income	820,000	368,000
Elimination of Assets	(4,929,000)	(11,346,000)
Assets	37,962,000	35,237,000