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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Air Industries Group, Inc.

Speculative Buy

John Nobile
April 17, 2015

AIRI $10.38 — (NYSE MKT)

	2013A*	2014A	2015E	2016E
Revenues (millions)	$62.8	$64.3	$84.2	$95.4
Earnings (loss) per share	$0.63	$0.10	$0.37	$0.54

52-Week range	$13.12 – $8.52	Fiscal year ends:	December
Common shares out a/o 3/1/15	7.1 million	Revenue per share (TTM)	$9.30
Approximate float	6.3 million	Price/Sales (TTM)	1.1X
Market capitalization	$74 million	Price/Sales (FY2016)E	0.8X
Tangible book value/share	$2.58	Price/Earnings (TTM)	103.8X
Price/tangible book value	4.0X	Price/Earnings (FY2016)E	19.2X
Annual Dividend	$0.60	Dividend Yield	5.8%

* Includes $1.2 million tax benefit of approximately $0.21 per share.

Air Industries Group, Inc., headquartered in Hauppauge, New York, operates primarily in the aerospace and defense industry. The company designs and manufactures structural parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, jet engines and other components. Air Industries also provides sheet metal fabrication of aerostructures, tube bending and welding services. (www.airindustriesgroup.com)

Key investment considerations:

Reiterate Speculative Buy rating. Maintaining twelve-month price target of $12.50 per share.

With its strategic acquisitions and a growing commercial business, we believe the company is poised for strong growth in 2015 and 2016.

Acquisitions made in 2014 and 2015 should contribute over $23 million revenue in 2015 and $27 million in 2016. The contributions from these acquisitions and increased defense spending should drive revenue growth in 2015 and 2016.

Air Industries acquired Sterling Engineering Corporation in March 2015. Sterling is a manufacturer of components for aircraft and land-based gas turbines and should contribute approximately $9 million to 2015 revenue.

We raised our 2015 revenue projection to $84.2 million from $78.5 million primarily due to the acquisition of Sterling. Our EPS projection has been lowered to $0.37 from $0.50 to reflect to reflect lower margin expectations based on recent results.

For 2016 we project revenue of $95.4 million and EPS of $0.54. Results should be driven by a full year's contribution from Sterling, an anticipated 7% increase in operation and maintenance (O&M) spending, and a ramp up in commercial sales.

4Q14 revenue increased 14% to $20.4 million. The net loss was $0.10 per share versus EPS of $0.12. We projected 4Q14 sales of $19.7 million and EPS of $0.12. 4Q14 results were adversely affected by lower margins in the company's Complex Machining segment and acquisition costs.

****Please view our disclosures on pages 14 - 16.***

790 New York Avenue, Huntington, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on Air Industries Group, Inc. (AIRI) and maintaining our **twelve-month price target of $12.50 per share.**

Shares of AIRI are currently trading at a multiple of 19X forward earnings. We believe the market will accord the stock a multiple of 25X, a premium over the aerospace & defense industry multiple of 16X (excludes market caps over $100 million) based largely on the strong growth projected for AIRI (2015 and 2016 earnings growth of approximately 300% and 45%, respectively, vs. 15% and 13%, respectively, for the industry). Applying a multiple of 25X to our 2016 EPS of $0.54, discounted to a twelve-month value of $0.50, values the stock at $12.50 per share.

Air Industries' valuation is likely to remain higher than the aerospace and defense industry due to higher earnings growth stemming from recent acquisitions.

Recent Development

Acquisition of Sterling Engineering Corporation – Air Industries announced that it acquired Sterling Engineering Corporation in March 2015. Sterling, based in Barkhamsted, Connecticut, is a manufacturer of components for aircraft and land-based gas turbines.

Air Industries acquired all of the outstanding shares of Sterling for 425,000 shares of AIRI common stock and $1.9 million cash. The management and employees of Sterling will remain and Sterling's results will be included in AIRI's Turbine Engine Components segment. Sterling should add approximately $9 million to 2015 revenue based on revenue of $900,000 in its first month of contribution and management's guidance.

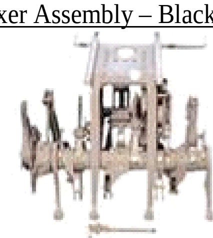
Business Overview

Air Industries Group, Inc., headquartered in Hauppauge, New York, designs and manufactures structural aircraft parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, jet engines and other components. Air Industries also provides sheet metal fabrication of aerostructures, tube bending and welding services.

Many of the company's products influence critical aspects of aircraft performance. Air Industries is required to have advanced certifications for these products as a condition to being a supplier. Many of these products are subject to wear and tear or fatigue and are routinely replaced on aircraft at a time of service or flight cycle basis. Replacement demand should continue so long as an aircraft remains in service. This should help to lessen the effect of reductions in defense spending which have adversely affected AIRI's revenue.

AIRI operates in three segments: Complex Machining, Aerostructures and Electronics, and Turbine Engine Components.

Mixer Assembly – Blackhawk



E-2D Landing Gear

Source: Air Industries Group, Inc.

Complex Machining accounted for 69% of 2014 revenue. Products include electromechanical devices, mixer (primary flight control) assemblies, rotor-hub components for Blackhawk helicopters, arresting gear for the E2C/D Hawkeye, C2A Greyhound and US Navy Fighters, vibration absorbing assemblies for Sikorsky helicopters, landing gear components for the F-35 Joint Strike Fighter (JSF), and many other subassembly packages.

AIRI's Complex Machining segment also manufactures complete landing gear assemblies and landing gear components for the US Air Force F-16 Fighting Falcon and the US Navy's F-18 Hornet aircraft. The company specializes in deep hole gun-drilling (a process that produces deep, straight holes in a variety of materials) and trepanning (the removal of a disk or cylindrical core from metal) and performs sub-contract machining services for prime contractors in the defense and aerospace industries.

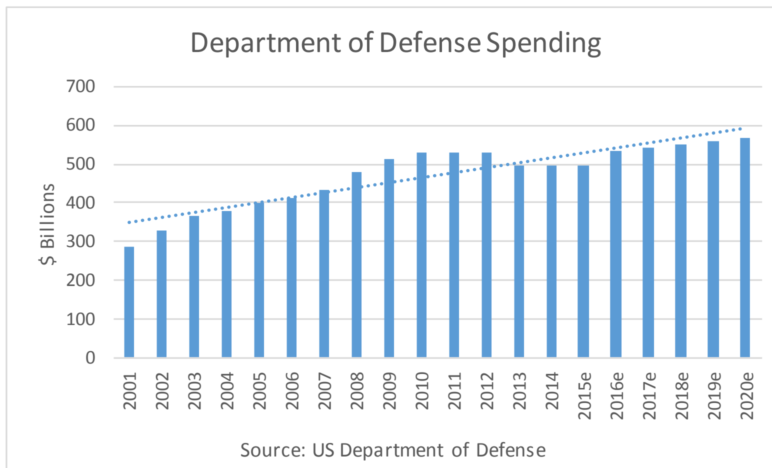
Aerostructures and Electronics accounted for 28% of total revenue in 2014. This segment provides specialty welding services and metal fabrications, electromechanical systems and assemblies, and wire harness and cable assemblies to the defense and commercial aerospace industry.

Turbine Engine Components accounted for 3% of total revenue in 2014. This segment provides complex machining and welding services with a focus on aircraft jet engines and ground turbines.

Defense Spending Overview

For much of the past decade, the Department of Defense (DOD) focused on fighting terrorism and countering violent insurgencies and will continue to do so as long as these threats exist. Today, US forces are postured globally, conducting counter-terrorism, stability, and deterrence operations in an effort to protect US interests.

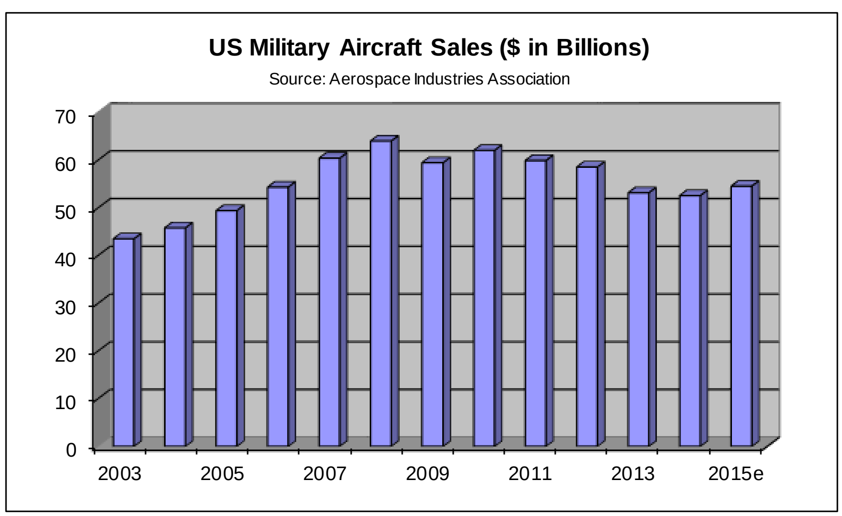
Changes in defense spending are likely to directly impact AIRI's revenues. US defense spending increased through much of the post-9/11 decade and peaked in 2012 at over $530 billion. However, budget cuts reduced defense spending by 7% to $495.5 billion in 2013 and the spending budget for 2014 and 2015 remained flat. The last (February 2015) DOD budget request for 2016 aims to increase spending by 8%. Defense spending is projected to increase through 2020 (see chart at right).



Although DOD spending was flat in 2014, Air Industries' revenues grew by 2% due to the acquisitions of Decimal Industries (July 2013), MSI (November 2013), Woodbine (April 2014), Eur-Pac (June 2014), ECC (September 2014), and AMK (October 2014).

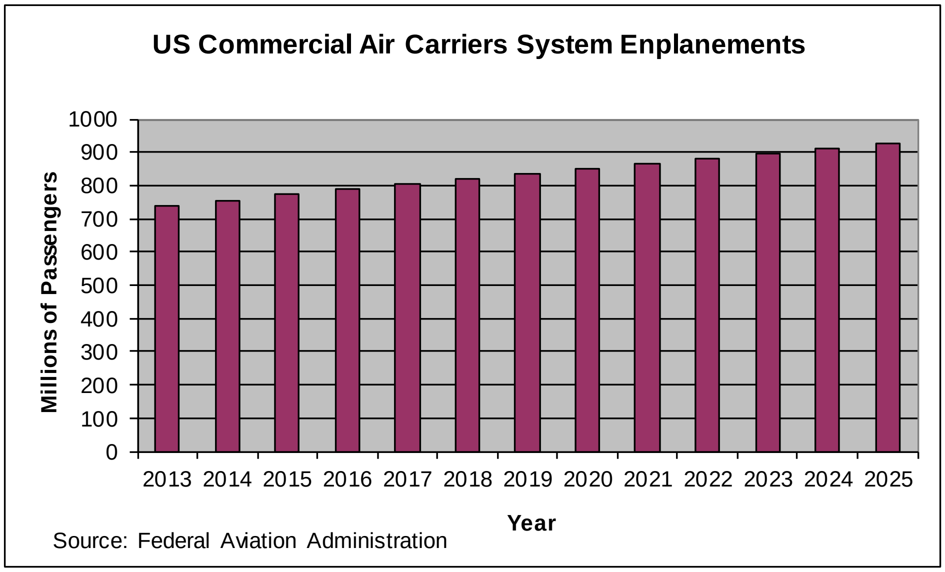
Military Aircraft Market and Forecast

Over 90% of Air Industries' revenue is derived from sales to the US military aircraft market. The Aerospace Industries Association (AIA) forecasts US military aircraft sales will total $54.5 billion in 2015, up 4% from 2014 but down 15% from the peak in 2008. The AIA said the large drop in US military aircraft sales since 2012 was due to budget cuts caused in large part by the Budget Control Act of 2011 which resulted in reductions in military spending and a drop in overseas contingency operations funding.



The four largest components of the DOD's spending budget are in operation and maintenance (largest component), military personnel, procurement, and research, development, test & evaluation (RDT&E). As over 90% of AIRI's military sales are for the repair and maintenance of existing aircraft, the category with the greatest impact on AIRI's sales is operation and maintenance spending. The latest (February 2015) DOD budget for operation and maintenance spending is for a 1% increase in 2015 followed by a 7% increase in 2016. This should translate into relatively flat AIRI military sales in 2015 (excluding acquisitions) followed by an increase in 2016.

Commercial Aircraft Market and Forecast



In 2000, commercial aircraft parts accounted for approximately 60% of AIRI's total revenue. AIRI'S customers began shifting to defense after September 11, 2001 resulting in approximately 90% of AIRI'S total revenue coming from defense and less than 10% from the commercial aircraft market in 2014. Although the company's product lines primarily serve the defense market, they also serve the commercial markets. With defense budgets being under pressure over the last three years, prime contractors began to shift their focus to the commercial sector. AIRI's customers (such as Boeing and United Technologies' Sikorsky and Goodrich divisions) typically build to both military and commercial specifications.

According to the Federal Aviation Administration's (FAA) Aerospace Forecast 2015-2025, the number of passengers flying US commercial air carriers is projected to increase steadily throughout its forecast horizon. The FAA is forecasting US carrier passenger growth over the next ten years to average two percent per year (see chart above). Driving this growth will be a rise in economic activity. The FAA cited economic forecasts from IHS Global Insight, Inc. for US GDP growth of 2.2% in 2015 and for growth to average 2.6% annually from 2016 to 2019, slowing to 2.4% from 2020 to 2025.

Competition

The aerospace industry is dominated by a small number of large prime contractors and equipment manufacturers who seek subcontractors capable of integrating the fabrication of complete subassemblies.

A new contract is usually obtained through competitive bidding against other qualified subcontractors. Follow-on contracts are usually obtained by successfully performing initial contracts. The company's long term business generally benefits from barriers to entry such as advanced quality approvals and certifications, and tooling investments that are difficult and expensive to duplicate. But, many of the company's competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers.

Air Industries' competitors include Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group (TTM revenues of $3.7B), Heroux-Devtek (TTM revenues of $279M), and Ellanef Manufacturing, a division of Magellan Corporation.

Strategy

The company aims to focus on the commercial market in an effort to reduce its dependence on sales to the US military. The company also intends to continue to seek accretive acquisition candidates. Air Industries acquired privately held Woodbine Products, Inc. of Deer Park, New York (April 2014), Eur-Pac of Waterbury, Connecticut (June 2014), Electronic Connection Corporation of Bloomfield, Connecticut (September 2014), AMK Technical Services of South Windsor, Connecticut (October 2014), and Sterling Engineering Corporation of Barkhamsted, Connecticut (March 2015).

Woodbine is a manufacturer of aerospace components whose customers include major aircraft component suppliers. Eur-Pac specializes in parts kits, hose assemblies, hydraulic, mechanical and electrical assemblies for all branches of the US Defense Department. Electronic Connection Corporation (ECC) is a custom manufacturer of processed wire, cable and wire harnesses. AMK is a provider of sophisticated welding and machining services for diversified aerospace and industrial customers. Sterling Engineering is a manufacturer of components for aircraft and land-based gas turbines. 2014 revenue contribution from these acquisitions can be seen in the table at right along with AIRI's organic sales and our projections for 2015 and 2016. Sterling Engineering did not contribute to AIRI's 2014 results as it was acquired in March 2015.

Sales (in thousands $)

	2014A	2015E	2016E
Woodbine	1,047	1,410	1,509
Eur-Pac	2,756	4,772	5,106
ECC	281	851	911
AMK	1,838	7,426	7,946
Sterling	-	9,090	11,556
Organic	58,409	60,691	68,342
Total sales	$64,331	$84,240	$95,370

Source: 2014 total sales are actual, remainder are Taglich Brothers' estimates

The aerospace and defense industries have consolidated since the 1990s. The consolidation of the prime contractors has caused a similar consolidation of their suppliers. Major contractors seek to streamline supply chains by buying both larger quantities and more complete sub-assemblies from fewer suppliers. Air Industries' acquisitions are part of the company's strategy to grow in this market. AIRI is now producing more complete sub-assemblies sought after by major contractors and sales have grown at a compound annual growth rate of 9% over the past six years due to strategic acquisitions.

Economic Outlook

In April 2015, the International Monetary Fund (IMF) lowered its economic growth estimate for the US to 3.1% for 2015 and 2016, down from 3.6% in 2015 (January 2015) and 3.3% in 2016. The IMF said that US growth should be driven by domestic demand supported by low oil prices. In March 2015, the US GDP third estimate showed the US economy grew at an annual rate of 2.2% in 4Q14. For all of 2014, the US economy grew at a rate of 2.4%, in line with the latest figures from the IMF.

The latest fiscal 2016 Pentagon budget request is higher than the cap set in the Budget Control Act of 2011 (roughly $500 billion). In March 2015, the House of Representatives approved a bill that calls for balancing the federal budget in 10 years but contains a proposal for $619 billion in military spending. That bill will now be used in negotiations with the Senate. While we do not know how this will ultimately play out and what level of spending Congress might approve, we believe that Congress will pass a bill that raises the current cap on military spending to support the military operations needed to counter threats from terrorists.

4Q and FY2014 Financial Results

4Q14 - Total revenue increased 14% to $20.4 million. The net loss was $670,000 or ($0.09) per share versus net income of $700,000 or $0.12 per share. We projected 4Q14 sales of $19.7 million and net income of $870,000 or $0.12 per share.

The increase in total sales was primarily due to acquisitions that were completed in 2014. Organic sales decreased 6% to $16.7 million primarily due to delayed contract awards. Gross margins decreased to 15.4% from

23.7% primarily due to approximately $5 million of lower sales of higher margin after-market product sales (landing gear and landing gear components) in the Complex Machining segment. These higher-margin sales were affected by delayed contract awards. These contracts were awarded in December 2014 and are expected to ship in 2015. Margins were also adversely affected by an inventory reconciliation that was taken in 4Q14. Operating (SG&A) expenses increased to $3.5 million from $2.9 million primarily due to $403,000 of costs related to acquisitions resulting in an operating loss of $311,000 versus operating income of $1.3 million. Excluding acquisition costs, operating expenses were $3.1 million resulting in operating income of $92,000.

Product Sales ($ in thousands)

	2014A	2013A
Complex Machining	44,220	49,203
Aerostructures & Electronics	18,273	13,630
Turbine Engine Components	1,838	-
Total	64,331	62,833

Source: Company filings

FY2014 - Total revenue increased 2% to $64.3 million. Net income fell to $667,000 or $0.10 per share from $3.7 million or $0.63 per share. Complex machining sales decreased 10% to $44.2 million, aerostructures and electronics sales increased 34% to $18.3 million, and turbine engine components sales were $1.8 million (no sales reported for 2013 as this segment was acquired in 4Q14).

The increase in sales was primarily due acquisitions completed in 2014 offset by contract award delays of approximately $9 million that were received and are expected to ship in 2015.

Gross margins decreased to 21.9% from 24.2% primarily due to lower sales of higher margin after-market products in the Complex Machining segment. Operating (SG&A) expenses increased to $12.4 million from $10.6 million primarily due to 2014 acquisitions resulting in operating margins of 2.7% versus 7.3%.

Liquidity

As of December 31, 2014, the company had $1.4 million cash and a current ratio of 1.6X versus 1.3X for the aerospace and defense industry. Total debt increased by approximately $10 million in 2014 to $26.1 million for a debt/equity ratio of 0.9X versus 0.7X for the aerospace and defense industry. By our forecasts, the company should need to raise approximately $10 million to meets its operational needs for the next twelve months.

Cash used in operations in 2014 was $2.8 million consisting of cash earnings of $3.9 million and a $6.7 million increase in working capital stemming primarily from an increase in accounts receivable and inventory and a decrease in taxes payable. Cash used in investing was $9.7 million consisting primarily of $8.9 million for acquisitions and $571,000 of capital expenditures. Cash provided by financing was $13.3 million and consisted primarily of net proceeds from the issuance of common stock and additional borrowings under AIRI's term loans. Cash increased by $857,000 to $1.4 million at December 31, 2014.

Air Industries has a revolving credit line and term loan with PNC bank. The credit line provides for maximum borrowings of $23 million (current outstanding balance of $17.7 million) and term loans of $8.4 million. Air Industries pays an annual interest rate of 4% on the credit facility. As of December 31, 2014, Air Industries was in compliance with all debt covenants.

Projections

The chart at right provides a breakdown of Air Industries' organic sales and the effect of recent acquisitions. 2015 sales should benefit from a full year's contribution from Woodbine, Eur-Pac, ECC and AMK, and 10 months from Sterling. AIRI's FY15 organic sales reflect the anticipated 1% increase in operation and maintenance (O&M) spending and the start of deliveries associated with commercial contracts that were awarded in 2013 for nacelle thrust struts (structural members that attach to aircraft engine housings) totaling $38 million over six years.

Sales (in thousands $)

	2014A	2015E	2016E
Woodbine	1,047	1,410	1,509
Eur-Pac	2,756	4,772	5,106
ECC	281	851	911
AMK	1,838	7,426	7,946
Sterling	-	9,090	11,556
Organic	58,409	60,691	68,342
Total sales	$64,331	$84,240	$95,370

Source: 2014 total sales are actual, remainder are Taglich Brothers' estimates

Deliveries are expected to start in 2H15 of approximately $1.7 million and ramp over the next five and a half years.

2016 sales should benefit from a full year's contribution from Sterling and the anticipated 7% increase in O&M spending. AIRI's 2016 organic sales reflect increased O&M spending and a ramp up in commercial sales from the 2013 contracts.

The following table provides a segmented breakdown of Air Industries' 2014 actual sales and gross margins along with our projections for 2015 and 2016. Woodbine, Eur-Pac and ECC are classified under AIRI's Aerostructures & Electronics segment while AMK and Sterling are classified under AIRI's Turbine Engine Components segment.

	2014A	1Q15E	2Q15E	3Q15E	4Q15E	2015E	1Q16E	2Q16E	3Q16E	4Q16E	2016E
Sales ($ in thousands)											
Complex Machining	44,220	11,000	11,300	11,600	12,400	46,300	12,750	12,800	12,850	12,900	51,300
Aerostructures & Electronics	18,273	5,200	5,300	5,400	5,500	21,400	5,700	5,800	5,900	6,000	23,400
Turbine Engine Components	1,838	4,030	4,100	4,170	4,240	16,540	4,650	5,000	5,340	5,680	20,670
Total	64,331	20,230	20,700	21,170	22,140	84,240	23,100	23,600	24,090	24,580	95,370
Gross Profit ($ in thousands)											
Complex Machining	8,691	2,167	2,226	2,285	2,443	9,121	2,512	2,522	2,531	2,541	10,106
Aerostructures & Electronics	4,812	1,368	1,394	1,420	1,447	5,628	1,499	1,525	1,552	1,578	6,154
Turbine Engine Components	595	1,306	1,328	1,351	1,374	5,359	1,507	1,620	1,730	1,840	6,697
Total	14,098	4,840	4,948	5,056	5,263	20,108	5,517	5,667	5,813	5,960	22,957
Gross Margin											
Complex Machining	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%
Aerostructures & Electronics	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%
Turbine Engine Components	32.4%	32.4%	32.4%	32.4%	32.4%	32.4%	32.4%	32.4%	32.4%	32.4%	32.4%
Total	21.9%	23.9%	23.9%	23.9%	23.8%	23.9%	23.9%	24.0%	24.1%	24.2%	24.1%

Source: Company filings and Taglich Brothers' estimates

2015 – We raised our revenue projection to $84.2 million from $78.5 million primarily due to the March 2015 acquisition of Sterling and the October 2014 acquisition of AMK, both part of the Turbine Engine Components segment. Sterling is projected to contribute over $9 million in sales in 2015 and AMK is projected to contribute over $7 million in sales in 2015. Also, the contract delays that affected 2014 sales and margins in the Complex Machining segment, were awarded in December 2014 and are expected to ship in 2015. While our revenue projection has been increased, our net income projection has been lowered to $2.9 million or $0.37 per share from $3.7 million or $0.50 per share to reflect lower margins than previously anticipated (23.9% currently versus 25.6% previously). Our lower margins are the result of using the current (2014) segment margins as a basis for our projections (although Complex Machining segment margins have the potential to increase from 2014 levels as the higher margin after-market business that did not ship in 2014 is scheduled to ship in 2015).

Although our margin projections have been reduced from previous projections, a greater mix of higher margin Turbine Engine Component sales should result in margins of 23.9% in 2015 versus 21.9% in 2014. The Turbine Engine Components segment (with margins of 32.4%) should drive most of the margin improvement as it only accounted for 3% of total sales in 2014, but we project this segment will account for almost 20% of total sales in 2015. Operating margins are projected to increase to 7.8% from 2.7% as the increase in sales more than offsets higher SG&A expenses primarily from the acquisition of Sterling. We project interest expense of $1.8 million and a tax rate of 40%.

We project $3.1 million cash used in operations consisting of cash earnings of $6.6 million and increases in working capital of $9.7 million. The increase in working capital is primarily due to increases in inventory and accounts receivable, offset in part by an increase in accounts payable and accrued expenses. Cash used in operations, $3.7 million cash used in investing, and $4.2 million in dividend payments will necessitate the company raising approximately $10 million in debt and equity offerings (starting in 1Q15 AIRI will need to raise approximately $2 million cash for the acquisition of Sterling) resulting in an $884,000 decrease in cash to $534,000 at year-end 2015.

2016 – We project revenue of $95.4 million and net income of $4.2 million or $0.54 per share. Gross margins are projected to increase to 24.1% from 23.9% as sales from AIRI's higher margin Turbine Engine Component segment make up a higher percentage of total revenue (22.7% from 19.6% in 2015).

Operating margins are projected to increase to 9.2% from 7.8% due to improved leverage of SG&A expenses. We project interest expense of $1.8 million and a tax rate of 40%.

We project $3.3 million cash from operations consisting of cash earnings of $8.8 million and increases in working capital of $5.4 million. The increase in working capital is primarily due to increases in inventory and accounts receivable, offset in part by an increase in accounts payable and accrued expenses. Cash from operations will not be sufficient to cover capital expenditures and dividend payments, necessitating a $1.7 million increase in debt (AIRI should need to raise this amount in 1Q15 to cover capital expenditures and dividend payments for the year) and decreasing cash by $69,000 to $465,000 at year-end 2016.

Risks

In our view, these are the principal risks underlying the stock.

Reliance on government spending - Approximately 90% of AIRI's sales are to US military and commercial aviation. In 2014, AIRI's Complex Machining segment experienced a reduction in sales as a result of a slowing of orders from reduced military spending. Further reductions in defense spending could materially adversely impact AIRI's financial results.

Reliance on a small number of customers – Air Industries derives most of its revenues from a small number of customers. In 2014, three customers accounted for 56% of net sales. The loss of one or more of the company's largest customers will likely have a materially adverse impact on AIRI's financial results.

Reliance on a few aircraft platforms – The company derives most of its revenues from components for a few aircraft platforms, specifically the Sikorsky BlackHawk helicopter, the Northrop Grumman E-2 Hawkeye naval aircraft, the McDonnell Douglas (Boeing) C-17 Globemaster, the F-16 Falcon and the F-18 Hornet. A reduction in the production of new aircraft or a reduction in the use of existing aircraft in the fleet (reducing after-market demand) would have a material adverse effect on AIRI's financial results.

Competition - The defense and aerospace component manufacturing market is highly competitive. Many of the company's competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers. Air Industries' prime competitors include Sterling Machine, Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group, Heroux Aerospace, and Ellanef Manufacturing, a division of Magellan Corporation.

Competitive bidding – The company obtains many contracts through a competitive bidding process. There can be no assurance that the prices bid will be sufficient to allow Air Industries to generate a profit.

Regulations – Air Industries may be subject to US government inquiries and investigations because of its participation in government procurement. Any inquiry or investigation can result in fines or limitations on the company's ability to continue to bid for government contracts and fulfill existing contracts.

Liquidity risk - Shares of Air Industries Group have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 6.3 million shares in the float and the average daily volume is approximately 7,300 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	2012A	2013A	2014A	2015E	2016E
Cash and cash equivalents	490	561	1,418	534	465
Accounts receivable	11,631	8,584	11,916	15,604	17,665
Inventory	26,739	26,222	28,391	36,246	40,927
Deferred tax asset	-	1,051	1,421	-	-
Prepaid expenses and other current assets	546	510	875	875	875
Deposits - vendors	133	-	-	-	-
Total current assets	39,539	36,928	44,021	53,259	59,932
Property and equipment, net	5,883	6,523	9,557	13,772	10,631
Capitalized engineering costs	802	752	712	652	652
Deferred financing costs	590	605	825	425	425
Intangible assets	5,889	4,726	4,513	3,285	2,057
Deferred tax asset	-	185	858	-	566
Goodwill	453	453	5,434	5,434	5,434
Total assets	**53,156**	**50,172**	**65,920**	**76,827**	**79,697**
Notes payable and capitalized lease obligations	19,211	14,969	19,508	19,508	19,508
Accounts payable and accrued expenses	7,077	6,855	6,948	8,870	10,016
Lease impairment	85	71	56	56	56
Deferred gain on sale	38	38	38	38	38
Customer deposits	-	251	158	158	158
Dividends payable	-	717	1,066	1,066	1,066
Income taxes payable	1,448	1,496	71	71	71
Total current liabilities	27,859	24,397	27,845	29,767	30,913
Long-term debt	4,640	2,527	8,213	14,213	15,913
Lease impairment	127	56	4	4	4
Deferred gain on sale	485	447	409	409	409
Deferred rent	1,057	1,132	1,177	1,177	1,177
Total liabilities	**34,168**	**28,559**	**37,648**	**45,570**	**48,416**
Total stockholders' equity	**18,988**	**21,613**	**28,272**	**31,257**	**31,281**
Total liabilities & stockholders' equity	**53,156**	**50,172**	**65,920**	**76,827**	**79,697**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	2012A	2013A	2014A	2015E	2016E
Net sales	64,215	62,833	64,331	84,240	95,370
Cost of sales	49,357	47,598	50,233	64,132	72,413
Gross profit	14,858	15,235	14,098	20,108	22,957
Operating expenses	8,874	10,622	12,363	13,500	14,200
Operating income	5,984	4,613	1,735	6,608	8,757
Interest and financing costs	(1,843)	(1,340)	(1,295)	(1,800)	(1,800)
Other (expense) income	(146)	296	(141)	-	-
Income before taxes	3,995	3,569	299	4,808	6,957
Income tax (benefit)	1,447	(170)	(368)	1,923	2,783
Net Income / (Loss)	2,548	3,739	667	2,885	4,174
EPS	0.54	0.63	0.10	0.37	0.54
Shares Outstanding	4,759	5,933	6,916	7,800	7,800
Margin Analysis					
Gross margin	23.1%	24.2%	21.9%	23.9%	24.1%
Operating margin	9.3%	7.3%	2.7%	7.8%	9.2%
Net margin	4.0%	6.0%	1.0%	3.4%	4.4%
Tax rate	36.2%	(4.8)%	(123.1)%	40.0%	40.0%
Year / Year Growth					
Total Revenues	19.5%	(2.2)%	2.4%	30.9%	13.2%
Net Income	13.4%	46.7%	(82.2)%	332.5%	44.7%
EPS	(14.7)%	17.7%	(84.7)%	283.5%	44.7%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2014A -2016E
(in thousands $)

	3/14A	6/14A	9/14A	12/14A	2014A	3/15E	6/15E	9/15E	12/15E	2015E	3/16E	6/16E	9/16E	12/16E	2016E
Net sales	15,453	13,360	15,154	20,364	64,331	20,230	20,700	21,170	22,140	84,240	23,100	23,600	24,090	24,580	95,370
Cost of sales	11,408	10,007	11,597	17,221	50,233	15,390	15,752	16,114	16,877	64,132	17,583	17,933	18,277	18,620	72,413
Gross profit	4,045	3,353	3,557	3,143	14,098	4,840	4,948	5,056	5,263	20,108	5,517	5,667	5,813	5,960	22,957
Operating expenses	2,816	3,096	2,997	3,454	12,363	3,325	3,375	3,400	3,400	13,500	3,500	3,500	3,600	3,600	14,200
Operating income	1,229	257	560	(311)	1,735	1,515	1,573	1,656	1,863	6,608	2,017	2,167	2,213	2,360	8,757
Interest and financing costs	(303)	(304)	(260)	(428)	(1,295)	(450)	(450)	(450)	(450)	(1,800)	(450)	(450)	(450)	(450)	(1,800)
Other (expense) income	(1)	(62)	(1)	(77)	(141)	-	-	-	-	-	-	-	-	-	-
Income before taxes	925	(109)	299	(816)	299	1,065	1,123	1,206	1,413	4,808	1,567	1,717	1,763	1,910	6,957
Income tax (benefit)	584	(725)	(81)	(146)	(368)	426	449	483	565	1,923	627	687	705	764	2,783
Net Income / (Loss)	341	616	380	(670)	667	639	674	724	848	2,885	940	1,030	1,058	1,146	4,174
EPS	0.06	0.09	0.05	(0.10)	0.10	0.08	0.09	0.09	0.11	0.37	0.12	0.13	0.14	0.15	0.54
Shares Outstanding	6,125	6,598	7,389	6,916	6,916	7,800	7,800	7,800	7,800	7,800	7,800	7,800	7,800	7,800	7,800
Margin Analysis															
Gross margin	26.2%	25.1%	23.5%	15.4%	21.9%	23.9%	23.9%	23.9%	23.8%	23.9%	23.9%	24.0%	24.1%	24.2%	24.1%
Operating margin	8.0%	1.9%	3.7%	(1.5)%	2.7%	7.5%	7.6%	7.8%	8.4%	7.8%	8.7%	9.2%	9.2%	9.6%	9.2%
Net margin	2.2%	4.6%	2.5%	(3.3)%	1.0%	3.2%	3.3%	3.4%	3.8%	3.4%	4.1%	4.4%	4.4%	4.7%	4.4%
Tax rate	63.1%	665.1%	(27.1)%	17.9%	(123.1)%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Year / Year Growth															
Total Revenues	7.9%	(8.7)%	(5.6)%	14.3%	2.4%	30.9%	54.9%	39.7%	8.7%	30.9%	14.2%	14.0%	13.8%	11.0%	13.2%
Net Income	22.2%	172.6%	(85.0)%	(195.7)%	(82.2)%	87.4%	9.4%	90.5%	(226.5)%	332.5%	47.1%	52.8%	46.2%	35.1%	44.7%
EPS	15.9%	139.1%	(88.1)%	(182.1)%	(84.7)%	47.2%	(7.4)%	80.5%	(212.2)%	283.5%	47.1%	52.8%	46.2%	35.1%	44.7%

Source: Company filings and Taglich Brothers' estimates

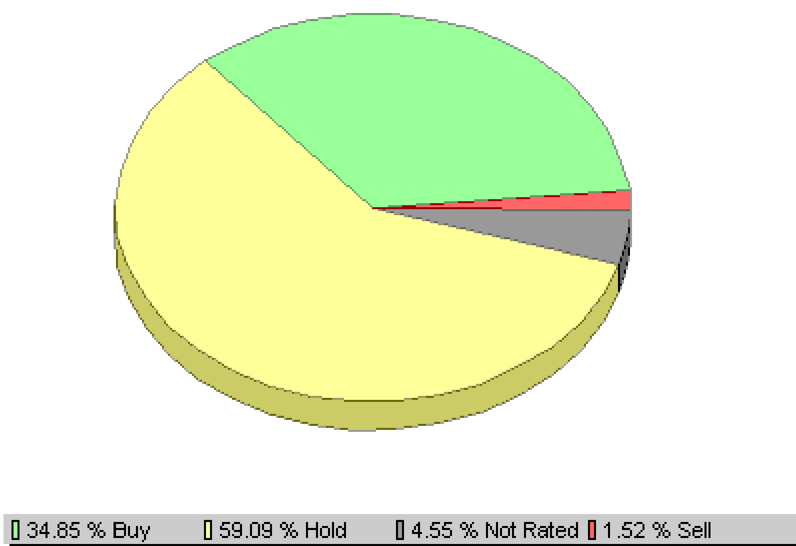
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2012A	2013A	2014A	2015E	2016E
Net income	2,548	3,739	667	2,885	4,174
Depreciation	1,557	1,709	2,364	3,435	2,641
Amortization of intangible assets	693	1,163	1,163	1,228	1,228
Amortization of capitalized engineering costs	459	430	375	325	325
Bad debt expense	80	394	299	299	299
Stock compensation expense	101	38	42	50	50
Amortization of deferred financing costs	52	69	49	49	49
Negative goodwill from acquisition	-	(361)	-	-	-
Gain on sale of real estate	(38)	(38)	(38)	-	-
Deferred income taxes	-	(1,236)	(1,043)	(1,709)	-
Adjustments to lease impairment	53	-	-	-	-
Cash earnings (loss)	5,505	5,907	3,878	6,562	8,766
Changes in assets and liabilities					
Accounts receivable	(4,606)	2,871	(2,417)	(3,688)	(2,062)
Inventory	1,136	440	(1,802)	(7,855)	(4,680)
Prepaid expenses and other current assets	(216)	35	(244)	-	-
Deposits	(132)	134	(46)	-	-
Other assets	51	20	(118)	(118)	118
Accounts payable and accrued expenses	(1,534)	(892)	(577)	1,922	1,145
Deferred rent	82	75	45	45	45
Income taxes payable	1,408	48	(1,425)	-	-
Customer deposits	-	251	(93)	-	-
(Increase) decrease in working capital	(3,811)	2,982	(6,677)	(9,694)	(5,433)
Net Cash Provided by Operations	**1,694**	**8,889**	**(2,799)**	**(3,132)**	**3,333**
Cash paid for acquisitions, net	(11,600)	(450)	(8,757)	(2,900)	-
Capitalized engineering costs	(292)	(380)	(335)	(335)	(335)
Purchase of property and equipment	(1,059)	(288)	(571)	(500)	(500)
Deposit for new property and equipment	(87)	-	-	-	-
Net Cash Used in Investing	**(13,038)**	**(1,118)**	**(9,663)**	**(3,735)**	**(835)**
Proceeds from sales of common stock	7,115	997	9,530	4,250	-
Costs to raise capital	(587)	-	(968)	-	-
Notes payable - sellers	(601)	(644)	(691)	-	-
Capital lease obligations	(608)	(996)	(143)	-	-
Notes payable - jr. subordinated debt	(115)	-	-	-	-
Notes payable - revolver	4,787	(3,637)	3,142	2,000	700
Proceeds from notes payable - term loan	3,900	-	7,328	4,000	1,000
Payments of notes payable - term loan	(2,153)	(1,800)	(913)	-	-
Cash paid for deferred financing costs	(21)	(102)	(151)	-	-
Payments related to lease impairment	(101)	(85)	(67)	(67)	(67)
Dividends paid	(359)	(1,433)	(3,748)	(4,200)	(4,200)
Net Cash Provided by (Used in) Financing	**11,257**	**(7,700)**	**13,319**	**5,983**	**(2,567)**
Net Change in Cash	**(87)**	**71**	**857**	**(884)**	**(69)**
Cash - Beginning of Period	**577**	**490**	**561**	**1,418**	**534**
Cash - End of Period	**490**	**561**	**1,418**	**534**	**465**

Source: Company filings and Taglich Brothers' estimates

Price Chart

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	**2**	**8**
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of AIRI common stock. Michael Taglich, President of Taglich Brothers, Inc. and Chairman of Air Industries Group, Inc., owns or has a controlling interest in 410,723 shares of AIRI common stock, 15,250 stock options (right to purchase), and 41,190 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. and a Director of Air Industries Group, Inc, owns or has a controlling interest in 428,724 shares of AIRI common stock, 15,250 stock options (right to purchase), and 41,190 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 56,042 shares of AIRI common stock and 14,000 warrants. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and a Director of Air Industries Group, Inc., owns or has a controlling interest in 50,554 shares of AIRI common stock, 15,250 stock options (right to purchase), and 27,585 warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 13,054 shares of AIRI common stock. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 356 shares of AIRI common stock and 10,500 AIRI warrants. Taglich Brothers, Inc. owns 17,990 shares of AIRI common stock. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In April and May of 2007, Taglich Brothers Inc. served as the placement agent in the sale of convertible preferred stock for the company. In June 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes for the company. In September and October of 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes and convertible preferred stock for the company. In October 2013 and May 2014, Taglich Brothers, Inc. served as the placement agent in the sale of common stock for the company.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $1,500 (USD) in October 2013 for the creation and dissemination of research reports. After the initial publication, the company will pay a monthly monetary fee of $1,500 (USD) to Taglich Brothers, Inc., for a minimum of six months for the creation and dissemination of research reports.

General Disclosures

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Boeing (NYSE: BA)
Heroux-Devtek, Inc. (OTC: HERXF)
Lockheed Martin (NYSE: LMT)
Northrop Grumman (NYSE: NOC)
Triumph Group, Inc. (NYSE: TGI)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.