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
June 20, 2014

AIRI $11.49 — (NYSE MKT)

	2012A	2013A	2014E	2015E
Revenues (millions)	$64.2	$62.8	$67.1	$77.4
Earnings (loss) per share	$0.54	$0.63	$0.30	$0.48

52-Week range	$13.12 – $5.55	Fiscal year ends:	December
Common shares out as of 5/1/14	5.9 million	Revenue per share (TTM)	$10.80
Approximate float	5.3 million	Price/Sales (TTM)	1.1X
Market capitalization	$68 million	Price/Sales (FY2015)E	1.1X
Tangible book value/share	$2.76	Price/Earnings (TTM)	18.0X
Price/tangible book value	4.2X	Price/Earnings (FY2015)E	23.9X
Annual Dividend	$0.60	Dividend Yield	5.2%

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

Air Industries Group, Inc., headquartered in Bay Shore, 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 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 and raising twelve-month price target to $13.00 from $10.50 per share based on anticipated earnings growth. Our price target and the dividend yield imply a total year-ahead return of 18%.

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

Acquisitions made in the first half of 2014 should contribute approximately $7.7 million in annual revenue.

We lowered our 2014 revenue projection to $67.1 million from $71 million and our EPS projection to $0.30 from $0.44 primarily due to lower defense spending and lower gross margins than previously estimated (23.9% versus 24.7%). We project 2015 revenue of $77.4 million and EPS of $0.48. Growth will come primarily from commercial contracts and full-year revenue contributions of Eur-Pac and Woodbine Products.

1Q14 total revenue increased 8% to $15.5 million due to gains in specialty welding services sales and landing gear and related components partly offset by a drop in components and subassembly sales. EPS rose to $0.06 from $0.05.

****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 raising our **twelve-month price target to $13.00 per share (previously $10.50)** based on anticipated earnings growth**.** Our price target and the dividend yield imply a total year-ahead return of 18%.

Shares of AIRI are currently trading at a multiple of 18X TTM earnings (excluding non-recurring gain, TTM earnings multiple is 27X). We believe the market will accord the stock a multiple of 27X, a premium over the aerospace & defense industry multiple of 20X based largely on the strong growth projected for 2015 (AIRI earnings growth of over 50% vs. 15% for the industry). Applying a multiple of 27X to our 2015 earnings of $0.48 per share values the stock at approximately $13.00 per share.

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

Recent Developments

Acquisition of Eur-Pac – In June 2014, Air Industries announced it acquired Eur-Pac Corporation of Waterbury, CT for $1.6 million cash and 20,000 restricted shares of AIRI common stock. Eur-Pac specializes in parts kits, hose assemblies, hydraulic, mechanical and electrical assemblies for all branches of the US Defense Department. Eur-Pac will operate as a separate subsidiary.

Acquisition of Woodbine Products – In April 2014, Air Industries announced it acquired privately held Woodbine Products, Inc. of Deer Park, New York. Woodbine is a manufacturer of aerospace components whose customers include major aircraft component suppliers. Woodbine's factory in Deer Park, New York has been leased until December 2014 at which time operations will be transferred to Air Industries' facility in Hauppauge, NY.

Anticipated sales decline for 2Q14 – In May 2014, Air Industries announced it anticipates 2Q14 sales will be approximately $12.5 million, a decrease of approximately $3.0 million from first quarter sales of $15.5 million. The company said it encountered delays in the production of E2D landing gear and it expects that these problems will be corrected in 3Q14 and 4Q14.

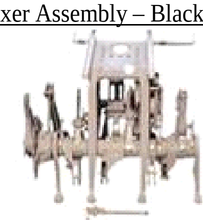
Air Industries anticipates FY14 sales of $64.5 million excluding sales from the Eur-Pac or Southwest acquisitions.

Business Overview

Air Industries Group, Inc., headquartered in Bay Shore, 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 and other components. Air Industries also provides sheet metal fabrication of aerostructures, tube bending and welding services.

Many of the company's products are flight critical, meaning they are a determining factor in how an aircraft performs on takeoff, during flight and when landing. Air Industries is required to have advanced certifications for these products as a condition to being a supplier. As 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 on AIRI's revenues caused by reductions in defense spending. Nevertheless, revenues have been adversely impacted by cuts in defense spending.

Mixer Assembly – Blackhawk



E-2D Landing Gear

Source: Air Industries Group, Inc.

Components and subassemblies for defense and aerospace applications accounted for 56% of 2013 revenue. AIRI's 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.

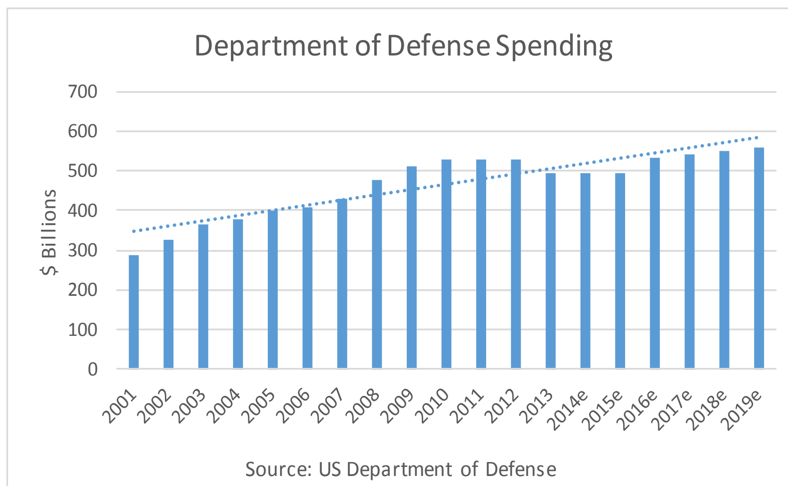
The company provides specialty welding services, and metal fabrications that were responsible for 22% of total revenue in 2013. Products include the inlet housing and auxiliary long and short beams for the Sikorsky Blackhawk helicopter and various welded door and panel assemblies for the Boeing CH-47 Chinook Helicopter. AIRI also provides environmental tubing to Lockheed for the F-35 Joint Strike Fighter.

Air Industries also manufactures complete landing gear assemblies and landing gear components for the F-16 Fighting Falcon and F-18 Hornet aircraft of the US Air Force and Navy which generated 23% of total revenue in 2013. 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.

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.

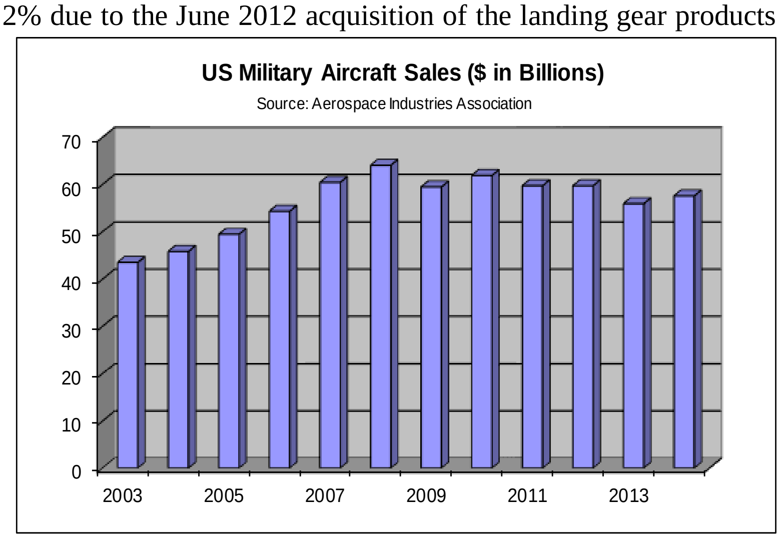
Changes in defense spending are likely to directly impact AIRI's revenues. US defense spending increased through much of the post-9/11 decade and peaked in 2012 at over $530 million. However, budget cuts reduced defense spending by 7% to $495.5 billion in 2013 and the 2014 spending budget is for spending to remain flat. The current (March 2014) DOD budget request for 2015 is for spending to remain at the 2014 level. Growth in defense spending is projected to start beginning in 2016 (see chart at right).



Although DOD spending declined by 7% in 2013, Air Industries' revenues only dropped by 2% due to the June 2012 acquisition of the landing gear products line (Nassau Tool Works).

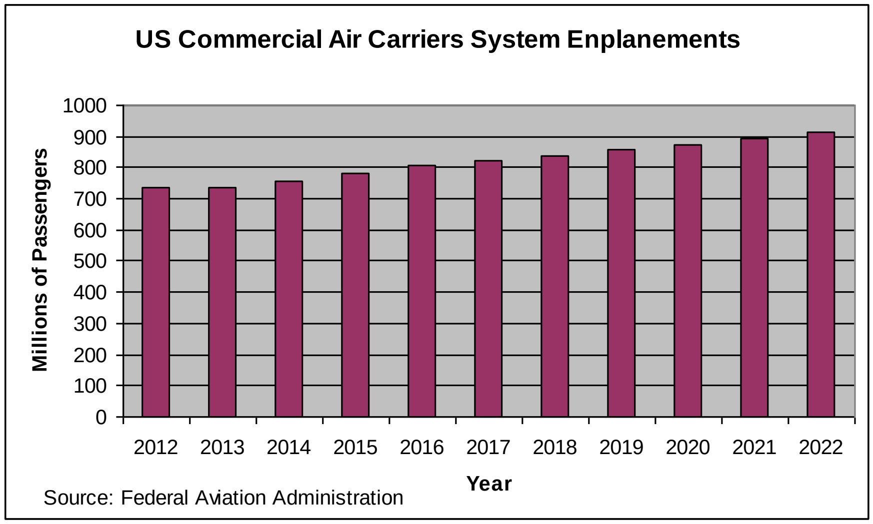
Military Aircraft Market and Forecast

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 $57.6 billion in 2014, up 3% from 2013 but down 10% from the peak in 2008. The AIA said the drop in 2013 US military aircraft sales 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 are in operation and maintenance spending. The latest (March 2014) DOD budget for operation and maintenance spending is for an 8% decrease in 2014 followed by a 3% increase in 2015. This should translate into reduced AIRI military sales in 2014 (excluding acquisitions) followed by an increase in 2015.

Commercial Aircraft Market and Forecast



In 2000, approximately 60% of AIRI's total revenue was generated from sales for commercial aircraft parts. 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 2013. Although all three of the company's product lines primarily serve the defense market, they also serve the commercial markets. However, defense budgets are forecasted to remain flat over the next two years. In an effort to grow revenue, prime contractors are beginning to shift their focus to the commercial sector with its more promising outlook. 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 2013-2022, 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 2.2 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 average annual US GDP growth of 2.9% from 2014 to 2018 slowing to 2.5% from 2018 to 2022.

Competition

The aerospace industry is dominated by a small number of large prime contractors and equipment manufacturers who seek subcontractors that can supply and are qualified to integrate the fabrication of complete subassemblies.

Winning a new contract is highly competitive and 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. Despite these barriers to entry, 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 are mostly private companies and include Sterling Machine, Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group (TTM revenues of $3.8B), Heroux-Devtek (TTM revenues of $272M), and Ellanef Manufacturing, a division of Magellan Corporation.

Strategy

With reduced levels of defense spending, 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. In this regard, Air Industries recently acquired privately held Woodbine Products, Inc. of Deer Park, New York in April 2014 and Eur-Pac of Waterbury, Connecticut in June 2014. 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. 2013 revenue for the recently acquired companies was approximately $2.2 million for Woodbine and $5.5 million for Eur-Pac.

Since the 1990s, the aerospace and defense industries have undergone consolidation. 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' acquisition of Welding Metallurgy (August 2007), Nassau Tool Works (June 2012), Decimal Industries (July 2013), and Miller Stuart (November 2013) 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 10% over the past five years due to strategic acquisitions.

Economic Outlook

In June 2014, The IMF lowered its 2014 economic growth estimate for the US to 2.0%, down from its April 2014 estimate of 2.8%. The IMF's growth estimate for 2015 remained unchanged at 3.0%. The IMF said that a brutal winter and slowing housing recovery caused the economy to shrink in 1Q14. However, the IMF said that recent figures suggest a meaningful rebound will propel US economic growth for the rest of 2014. Some of the factors helping to drive US growth will come from accommodative monetary conditions and higher household wealth.

1Q14 and FY13 Financial Results

Product Sales
($ in thousands)

	1Q14A	1Q13A
Components	7,131	7,478
Specialty welding	3,313	3,139
Landing gear	5,009	3,708
Total	15,453	14,325

Source: Company filings

1Q14 - 1Q14 total revenue increased 8% to $15.5 million. Components and subassembly sales decreased 5% to $7.1 million, specialty welding services sales increased 6% to $3.3 million, and landing gear and related components sales increased 35% to $5 million. Net income rose to $341,000 or $0.06 per share from $279,000 or $0.05 per share.

Although total sales increased, the effect of reduced defense spending kept gains limited. Gross margins increased to 26.2% from 25.5% primarily due to a tilt in sales to higher margin landing gear components. Operating (SG&A) expenses increased to $2.8 million or 18.2% of sales from $2.5 million or 17.2% of sales.

Interest and financing costs decreased to $303,000 from $385,000 primarily due to lower debt levels and lower interest rates. The company paid $0.6 million in taxes in 1Q14 for a tax rate of 63%.

2013 - Total revenue decreased 2% to $62.8 million. Components and subassembly sales decreased 17% to $35 million, specialty welding services sales decreased 9% to $13.6 million, and landing gear and related components sales increased 96% to $14.2 million. Net income rose to $3.7 million or $0.63 per share from $2.5 million or $0.54 per share. We projected 2013 revenue of $61.4 million and net income of $3.6 million or $0.62 per share. 2013 pre-tax income included a $361,000 gain related to the acquisition of Miller Stuart. 2013 net income included a $170,000 tax benefit from the reversal of a valuation allowance on certain deferred tax assets.

Product Sales
($ in thousands)

	FY13A	FY12A
Components	34,997	42,075
Specialty welding	13,630	14,907
Landing gear	14,206	7,233
Total	62,833	64,215

Source: Company filings

The decrease in sales was primarily due to a 2013 reduction in defense spending from $530.4 billion in 2012 to $495.5 billion in 2013. Landing gear and related components sales included a full year's worth of sales versus a little over six months' worth in 2012. Air Industries acquired this product line on June 20, 2012.

Gross margins increased to 24.2% from 23.1% primarily due to a full year's contribution from sales of higher margin (38.4%) landing gear and related components. Operating (SG&A) expenses increased to $10.6 million from $8.9 million primarily due to the inclusion of the landing gear and related components product line. These factors resulted in operating income decreasing to $4.6 million or 7.3% of revenue from $6 million or 9.3% of revenue.

Interest and financing costs decreased to $1.3 million from $1.8 million primarily due to the conversion of debt into common stock which reduced interest expense. The company realized a tax benefit of $170,000 from the reversal of a valuation allowance on certain deferred tax assets.

Liquidity

As of March 31, 2014, the company had $0.7 million cash and a current ratio of 1.5X versus 1.3X for the aerospace and defense industry. Total debt was $21 million for a debt/equity ratio of 1X versus 0.6X for the aerospace and defense industry. By our forecasts, the company should have sufficient capital to meets its operational needs for the next twelve months.

Cash used in operations in the first three months of 2014 was $2.3 million consisting of cash earnings of $1.3 million and a $3.6 million increase in working capital stemming from an increase in accounts receivable. Cash used in investing was $241,000 consisting of $54,000 of capitalized engineering costs and $187,000 of capital expenditures. Cash provided by financing was $2.7 million and consisted primarily of a $3.5 million increase in net debt offset by $0.7 million in dividend payments. Cash increased by $126,000 to $0.7 million at March 31, 2014.

Cash provided by operations in 2013 was $8.9 million consisting of cash earnings of $5.9 million and a $3 million decrease in working capital stemming from a decrease in accounts receivable. Cash used in investing was $1.1 million consisting of $450,000 for acquisitions, $380,000 of capitalized engineering costs and $288,000 of capital expenditures. Cash used in financing was $7.7 million and consisted primarily of a $6 million pay down of debt and $1.4 million in dividend payments. Cash increased by $71,000 to $0.6 million at December 31, 2013.

Air Industries has a revolving credit line and term loan with PNC bank. The credit line provides for maximum borrowings of $20 million (current outstanding balance of $16.2 million) and the term loan of $1.9 million (current outstanding balance of $1.5 million). Air Industries pays an annual interest rate of 4% on the credit facility. As of March 31, 2014, Air Industries was in compliance with all debt covenants.

In June 2014, Air Industries raised $10.5 million ($9.7 million after fees) by selling 1,170,000 shares of its common stock at $9.00 per share in a registered direct offering. Taglich Brothers acted as the exclusive placement agent for the offering.

Projections

The chart at right provides a breakdown of Air Industries' organic sales and the effect of recent acquisitions. AIRI's FY14 organic sales are projected to decline with the anticipated 8% decline in O&M spending. Helping to offset this anticipated decline should be a full year's contribution from the 2013 acquisitions of Decimal Industries and Miller Stuart, 9 months of sales from the April 2014 acquisition of Woodbine Products, and 7 months of sales from the June 2014 acquisition of Eur-Pac. FY14 organic growth should benefit from the 4Q13 commercial contracts (totaling $38 million over six years). AIRI's FY15 organic sales reflect the anticipated 3% increase in O&M spending and a ramp up in commercial sales from the 2013 contracts. FY15 sales should benefit from a full year's contribution from Eur-Pac.

Sales (in thousands $)	2013E	2014E	2015E
Decimal	1,250	2,500	2,600
Miller Stuart	450	2,800	2,900
Woodbine	-	1,650	2,300
Eur-Pac	-	2,500	5,700
Organic	61,133	57,600	63,900
Total sales	$ 62,833	$ 67,050	$ 77,400

Source: 2013 total sales are actual, remainder are Taglich Brothers' estimates

The following chart provides a segmented breakdown of Air Industries' 2013 actual sales and gross margins along with our projections for 2014 and 2015. Eur-Pac is classified as a separate segment under kitting.

	1Q13A	2Q13A	3Q13A	4Q13A	FY13A	1Q14A	2Q14E	3Q14E	4Q14E	FY14E	1Q15E	2Q15E	3Q15E	4Q15E	FY15E
Sales ($ in thousands)															
Components	7,478	8,188	9,863	9,469	34,998	7,131	6,400	11,400	12,000	36,931	10,600	10,700	10,900	11,000	43,200
Specialty welding	3,139	3,307	3,800	3,384	13,630	3,313	3,600	3,700	3,900	14,513	3,600	3,700	3,800	3,900	15,000
Landing gear	3,708	3,144	2,389	4,964	14,205	5,009	2,500	2,700	2,900	13,109	3,300	3,350	3,400	3,450	13,500
Kitting	-	-	-	-	-	-	200	1,100	1,200	2,500	1,350	1,400	1,450	1,500	5,700
Total	14,325	14,639	16,052	17,817	62,833	15,453	12,700	18,900	20,000	67,053	18,850	19,150	19,550	19,850	77,400
Gross Profit ($ in thousands)															
Components	1,460	1,599	1,926	1,320	6,305	1,285	1,152	2,052	2,160	6,649	1,908	1,926	1,962	1,980	7,776
Specialty welding	849	894	953	786	3,482	838	911	936	987	3,672	911	936	961	987	3,795
Landing gear	1,338	1,137	864	2,109	5,448	1,922	960	1,037	1,114	5,032	1,267	1,286	1,306	1,325	5,184
Kitting	-	-	-	-	-	-	52	288	314	655	354	367	380	393	1,493
Total	3,647	3,630	3,743	4,215	15,235	4,045	3,075	4,313	4,575	16,008	4,440	4,515	4,609	4,685	18,248
Gross Margin															
Components	19.5%	19.5%	19.5%	13.9%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Specialty welding	27.0%	27.0%	27.0%	23.2%	25.5%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%
Landing gear	36.1%	36.2%	36.1%	42.5%	38.4%	38.4%	38.4%	38.4%	38.4%	38.4%	38.4%	38.4%	38.4%	38.4%	38.4%
Kitting	-	-	-	-	-	-	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%
Total	25.5%	24.8%	23.3%	23.7%	24.2%	26.2%	24.2%	22.8%	22.9%	23.9%	23.6%	23.6%	23.6%	23.6%	23.6%

Source: Company filings and Taglich Brothers' estimates

FY14 - We lowered our revenue projection to $67.1 million from $71 million and our net income projection to $2.1 million or $0.30 per share from $2.7 million or $0.44 per share primarily due to a projected reduction in defense spending (for operation and maintenance) from $210.1 billion in 2013 to $192.8 billion in 2014 and lower gross margins than previously estimated (23.9% versus 24.7%). We believe the reduction in defense spending has resulted in more competitive bidding and increased pressure on pricing and gross margins.

The recent acquisitions should increase operating expenses to $11.3 million from $10.6 million. Operating margins are projected to fall to 7% from 7.3% as gross margins decrease.

Interest expense should decrease to $0.9 million from $1.3 million as the company pays off debt. The company estimates a 40% tax rate.

We project $4.7 million cash from operations consisting of cash earnings of $6 million and increases in working capital of $1.3 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. The recent private placement proceeds should cover acquisition costs, debt pay downs, and dividend payments, resulting in a $2.3 million increase in cash to $2.8 million at year-end 2014.

FY15 - We project revenue of $77.4 million and net income of $3.6 million or $0.48 per share. Growth will come primarily from commercial contracts and a full year's inclusion of Eur-Pac.

The significant increase in commercial revenue will result in a higher mix of lower-margin component revenue reducing gross margins to 23.6% from 23.9% in 2014. Operating margins are projected to increase to 8.6% from 7% as Woodbine's operations are consolidated into AIRI's helping to keep SG&A expenses relatively low.

We project interest expense of $0.7 million and a tax rate of 40%.

We project $1.8 million cash from operations consisting of cash earnings of $6.4 million and increases in working capital of $4.6 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, requiring another common stock sale to raise an additional $2 million. Cash should decrease by $1.8 million to $1 million at year-end 2015.

Risks

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

Reliance on government spending - Approximately 90% of AIRI's revenue is derived from products for US military aviation. FY13 financial results 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 FY13, 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 5.3 million shares in the float and the average daily volume is approximately 25,000 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	3/14A	2014E	2015E
Cash and cash equivalents	490	561	687	2,812	981
Accounts receivable	11,631	8,584	12,909	9,161	10,574
Inventory	26,739	26,222	26,816	28,121	32,587
Deferred tax asset	-	1,051	1,114	1,114	1,114
Prepaid expenses and other current assets	546	510	422	422	422
Deposits - vendors	133	-	-	-	-
Total current assets	39,539	36,928	41,948	41,629	45,678
Property and equipment, net	5,883	6,523	6,158	7,344	6,410
Capitalized engineering costs	802	752	692	692	492
Deferred financing costs	590	605	638	638	638
Intangible assets	5,889	4,726	4,435	4,435	4,435
Deferred tax asset	-	185	230	230	230
Goodwill	453	453	453	453	453
Total assets	**53,156**	**50,172**	**54,554**	**55,421**	**58,336**
Notes payable and capitalized lease obligations	19,211	14,969	17,735	11,950	11,950
Accounts payable and accrued expenses	7,077	6,855	7,560	7,351	8,519
Lease impairment	85	71	68	68	68
Deferred gain on sale	38	38	38	38	38
Customer deposits	-	251	254	254	254
Dividends payable	-	717	880	880	880
Income taxes payable	1,448	1,496	2,112	2,112	2,112
Total current liabilities	27,859	24,397	28,647	22,653	23,821
Long-term debt	4,640	2,527	3,219	1,527	1,527
Lease impairment	127	56	40	40	40
Deferred gain on sale	485	447	437	437	437
Deferred rent	1,057	1,132	1,151	1,151	1,651
Total liabilities	**34,168**	**28,559**	**33,494**	**25,808**	**27,476**
Total stockholders' equity	**18,988**	**21,613**	**21,060**	**29,613**	**30,860**
Total liabilities & stockholders' equity	**53,156**	**50,172**	**54,554**	**55,421**	**58,336**

Source: Company filings and Taglich Brothers' estimates

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

	2012A	2013A	2014E	2015E
Net sales	64,215	62,833	67,053	77,400
Cost of sales	49,357	47,598	51,045	59,152
Gross profit	14,858	15,235	16,008	18,248
Operating expenses	8,874	10,622	11,316	11,600
Operating income	5,984	4,613	4,692	6,648
Interest and financing costs	(1,843)	(1,340)	(878)	(700)
Other (expense) income	(146)	296	(1)	-
Income before taxes	3,995	3,569	3,813	5,948
Income tax (benefit)	1,447	(170)	1,739	2,379
Net Income / (Loss)	2,548	3,739	2,074	3,569
EPS	0.54	0.63	0.30	0.48
Shares Outstanding	4,759	5,933	6,806	7,500
Margin Analysis				
Gross margin	23.1%	24.2%	23.9%	23.6%
Operating margin	9.3%	7.3%	7.0%	8.6%
Net margin	4.0%	6.0%	3.1%	4.6%
Tax rate	36.2%	(4.8)%	45.6%	40.0%
Year / Year Growth				
Total Revenues	19.5%	(2.2)%	6.7%	15.4%
Net Income	13.4%	46.7%	(44.5)%	72.1%
EPS	(14.7)%	17.7%	(51.7)%	56.2%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2013A -2015E
(in thousands $)

	3/13A	6/13A	9/13A	12/13A	2013A	3/14A	6/14E	9/14E	12/14E	2014E	3/15E	6/15E	9/15E	12/15E	2015E
Net sales	14,325	14,639	16,052	17,817	62,833	15,453	12,700	18,900	20,000	67,053	18,850	19,150	19,550	19,850	77,400
Cost of sales	10,678	11,009	12,309	13,602	47,598	11,408	9,625	14,587	15,425	51,045	14,410	14,635	14,941	15,166	59,152
Gross profit	3,647	3,630	3,743	4,215	15,235	4,045	3,075	4,313	4,575	16,008	4,440	4,515	4,609	4,685	18,248
Operating expenses	2,469	2,552	2,712	2,889	10,622	2,816	2,800	2,850	2,850	11,316	2,900	2,900	2,900	2,900	11,600
Operating income	1,178	1,078	1,031	1,326	4,613	1,229	275	1,463	1,725	4,692	1,540	1,615	1,709	1,785	6,648
Interest and financing costs	(385)	(393)	(281)	(281)	(1,340)	(303)	(225)	(175)	(175)	(878)	(175)	(175)	(175)	(175)	(700)
Other (expense) income	(25)	(29)	(11)	361	296	(1)	-	-	-	(1)	-	-	-	-	-
Income before taxes	768	656	739	1,406	3,569	925	50	1,288	1,550	3,813	1,365	1,440	1,534	1,610	5,948
Income tax (benefit)	489	430	(1,795)	706	(170)	584	20	515	620	1,739	546	576	614	644	2,379
Net Income / (Loss)	279	226	2,534	700	3,739	341	30	773	930	2,074	819	864	920	966	3,569
EPS	0.05	0.04	0.43	0.12	0.63	0.06	0.00	0.11	0.13	0.30	0.11	0.12	0.12	0.13	0.48
Shares Outstanding	5,810	5,789	5,854	5,933	5,933	6,125	6,500	7,300	7,300	6,806	7,500	7,500	7,500	7,500	7,500
Margin Analysis															
Gross margin	25.5%	24.8%	23.3%	23.7%	24.2%	26.2%	24.2%	22.8%	22.9%	23.9%	23.6%	23.6%	23.6%	23.6%	23.6%
Operating margin	8.2%	7.4%	6.4%	7.4%	7.3%	8.0%	2.2%	7.7%	8.6%	7.0%	8.2%	8.4%	8.7%	9.0%	8.6%
Net margin	1.9%	1.5%	15.8%	3.9%	6.0%	2.2%	0.2%	4.1%	4.6%	3.1%	4.3%	4.5%	4.7%	4.9%	4.6%
Tax rate	63.7%	65.5%	(242.9)%	50.2%	(4.8)%	63.1%	40.0%	40.0%	40.0%	45.6%	40.0%	40.0%	40.0%	40.0%	40.0%
Year / Year Growth															
Total Revenues	(10.7)%	(3.9)%	3.2%	2.5%	(2.2)%	7.9%	-13.2%	17.7%	12.3%	6.7%	22.0%	50.8%	3.4%	-0.7%	15.4%
Net Income	(66.0)%	(29.2)%	312.7%	(11.9)%	46.7%	22.2%	(86.7)%	(69.5)%	32.8%	(44.5)%	140.1%	NMF	19.1%	3.9%	72.1%
EPS	(79.0)%	(53.7)%	308.3%	(12.7)%	17.7%	15.9%	(88.1)%	(75.5)%	8.0%	(51.7)%	96.1%	NMF	15.9%	1.1%	56.2%

Source: Company filings and Taglich Brothers' estimates

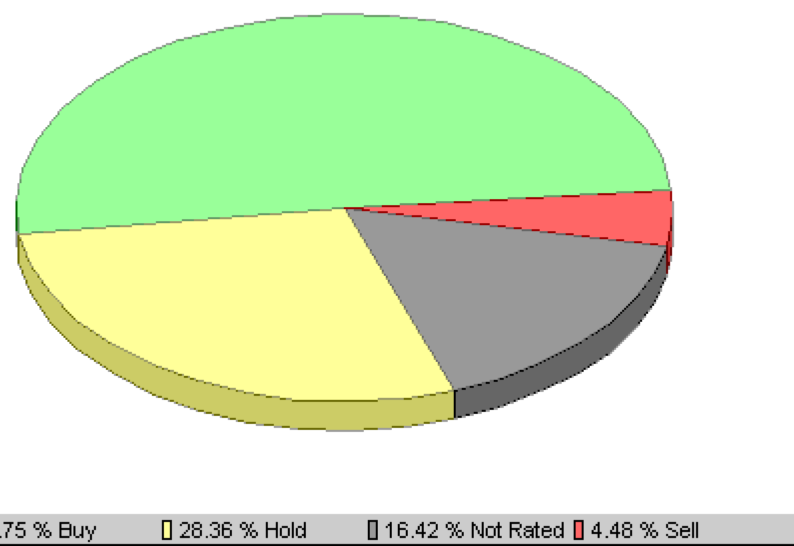
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2012A	2013A	3mos14A	2014E	2015E
Net income	2,548	3,739	341	2,074	3,569
Depreciation	1,557	1,709	552	1,929	1,684
Amortization of intangible assets	693	1,163	291	1,163	640
Amortization of capitalized engineering costs	459	430	114	430	230
Bad debt expense	80	394	93	394	194
Stock compensation expense	101	38	3	38	38
Amortization of deferred financing costs	52	69	18	69	69
Negative goodwill from acquisition	-	(361)	-	-	-
Gain on sale of real estate	(38)	(38)	(10)	(10)	-
Deferred income taxes	-	(1,236)	(108)	(108)	-
Adjustments to lease impairment	53	-	-	-	-
Changes in assets and liabilities					
Accounts receivable	(4,606)	2,871	(4,418)	(577)	(1,414)
Inventory	1,136	440	(594)	(1,899)	(4,466)
Prepaid expenses and other current assets	(216)	35	89	88	-
Deposits	(132)	134	(1)	-	-
Other assets	51	20	(51)	(51)	-
Accounts payable and accrued expenses	(1,534)	(892)	705	496	1,168
Deferred rent	82	75	19	19	75
Income taxes payable	1,408	48	616	616	-
Customer deposits	-	251	3	3	-
Net Cash Provided by Operations	**1,694**	**8,889**	**(2,338)**	**4,675**	**1,787**
Cash paid for acquisitions	(11,600)	(450)	-	(4,000)	-
Capitalized engineering costs	(292)	(380)	(54)	(54)	-
Purchase of property and equipment	(1,059)	(288)	(187)	(750)	(750)
Deposit for new property and equipment	(87)	-	-	-	-
Net Cash Used in Investing	**(13,038)**	**(1,118)**	**(241)**	**(4,804)**	**(750)**
Proceeds from private placement	7,115	997	-	10,530	2,000
Payment of issuance costs for private placement	(587)	-	-	(842)	(160)
Notes payable - sellers	(601)	(644)	(168)	-	-
Capital lease obligations	(608)	(996)	(108)	(432)	(432)
Notes payable - jr. subordinated debt	(115)	-	-	-	-
Notes payable - revolver	4,787	(3,637)	4,183	(2,000)	-
Proceeds from notes payable - term loan	3,900	-	-	-	-
Payments of notes payable - term loan	(2,153)	(1,800)	(450)	(1,000)	-
Cash paid for deferred financing costs	(21)	(102)	-	-	-
Payments related to lease impairment	(101)	(85)	(19)	(76)	(76)
Dividends paid	(359)	(1,433)	(733)	(3,800)	(4,200)
Net Cash Provided by (Used in) Financing	**11,257**	**(7,700)**	**2,705**	**2,380**	**(2,868)**
Net Change in Cash	**(87)**	**71**	**126**	**2,251**	**(1,831)**
Cash - Beginning of Period	**577**	**490**	**561**	**561**	**2,812**
Cash - End of Period	**490**	**561**	**687**	**2,812**	**981**

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**	**7**
Hold	**1**	**14**
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 351,997 shares of AIRI common stock, 41,667 shares of AIRI restricted stock, 9,750 stock options (right to purchase), and 31,190 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. and a Director of Air Industries Group, Inc, owns or has a controlling interest in 369,998 shares of AIRI common stock, 95,715 shares of AIRI restricted stock, 9,750 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 61,042 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, 9,750 stock options (right to purchase), and 20,005 warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 10,413 shares of AIRI common stock and 6,700 warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 11,400 AIRI warrants. Taglich Brothers, Inc. owns 45,980 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

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

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.