

RiceBran Technologies
Form SC 13D/A
March 14, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D/A

Under the Securities Exchange Act of 1934
(Amendment No. 3)*

RiceBran Technologies
(Name of Issuer)

Common Stock, No Par Value
(Title of Class of Securities)

762831204
(CUSIP Number)

Michael Mayberry
Senior Vice President - Legal
Continental Grain Company
767 Fifth Ave
New York, NY 10153
Tel. No.: (212) 207-2898
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

March 8, 2019
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 1(f) or 1(g), check the following box ☐.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of

Section 18 of the Securities Exchange Act of 1934 (“Act”) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

(Page 1 of 5 Pages)

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1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Continental Grain Company

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) ☐
(b) ☐

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) ☐

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

7 SOLE VOTING POWER

6,398,754

NUMBER OF
SHARES

8 SHARED VOTING POWER

0

BENEFICIALLY
OWNED BY EACH
REPORTING PERSON
WITH

9 SOLE DISPOSITIVE POWER

6,398,754

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

6,398,754

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES ☐

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

19.7%

14 TYPE OF REPORTING PERSON

CO

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1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Ari D. Gendason

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ☐
(b) ☐

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) ☐

6 CITIZENSHIP OR PLACE OF ORGANIZATION

United States

7 SOLE VOTING POWER

77,287

NUMBER OF
SHARES

8 SHARED VOTING POWER

BENEFICIALLY
OWNED BY EACH
REPORTING PERSON
WITH

0

9 SOLE DISPOSITIVE POWER

77,287

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

77,287

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES ☐

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

Less than 1%

14 TYPE OF REPORTING PERSON

IN

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This Amendment No. 3 amends and supplements the statement on Schedule 13D, dated September 25, 2017, as amended by Amendment No. 1 to the statement on Schedule 13D, dated March 26, 2018 and Amendment No. 2 to the statement on Schedule 13D, dated August 17, 2018 (so amended, the “Schedule 13D”), and is being filed with the Securities and Exchange Commission by Continental Grain Company, a Delaware corporation (“CGC”) and Ari D. Gendason (each of the foregoing, a “Reporting Person,” and collectively, the “Reporting Persons”), relating to the shares of common stock, no par value (“Common Stock”) of RiceBran Technologies, a California corporation (the “Issuer”).

Item 3. Source and Amount of Funds or Other Consideration.

The information contained in Item 3 of the Schedule 13D is hereby amended and supplemented by adding the following information:

On March 7, 2019, the Issuer entered into a Securities Purchase Agreement (the “Securities Purchase Agreement”) with CGC and the other investors party thereto pursuant to which, on March 8, 2019, the Company sold and issued (the “Private Placement”) (i) an aggregate of 3,046,668 shares of Common Stock to the investors for a purchase price of \$3 per share and (ii) a pre-funded warrant to CGC to purchase up to 1,003,344 shares of Common Stock (the “Warrant Shares”) for a purchase price of \$2.99 per Warrant Share (the “Warrant”). The closing of the transactions contemplated under the Securities Purchase Agreement took place on March 8, 2019 (the “Closing”). Pursuant to the Securities Purchase Agreement, CGC purchased 666,667 shares of Common Stock and a pre-funded warrant exercisable for up to 1,003,344 shares of Common Stock for an aggregate purchase price of \$4,999,999.56 (the “Investment”). The Warrant is exercisable at an exercise price equal to \$0.01 per share, subject to certain adjustments. The Investment was funded with CGC’s available cash on hand. The Warrant is exercisable at any time between March 8, 2019 and March 8, 2029 (the “Exercise Period”); provided, however, that CGC will not have the right to exercise any portion of the Warrant that would result in CGC, together with its affiliates, beneficially owning more than 19.99% of the outstanding Common Stock immediately after giving effect to such exercise (“Maximum Percentage”), unless the Issuer receives stockholder approval of such exercise above the Maximum Percentage as required under Nasdaq listing requirements. Under the terms of the Warrant, the Issuer is required to seek such stockholder approval at each annual meeting until the Issuer’s stockholders approve of the exercise of the Warrant above the Maximum Percentage or until the end of the Exercise Period. The Warrant contains a cashless exercise feature under which CGC may, in lieu of payment of the exercise price in cash, surrender such Warrant and receive a net amount of shares if the current market price of one share of Common Stock is greater than the exercise price.

Item 4. Purpose of Transaction.

The information contained in Item 4 of the Schedule 13D is hereby amended and supplemented by adding the following information:

CGC purchased the shares of Common Stock and the Warrant in the Private Placement for investment purposes.

Item 5. Interest in Securities of the Issuer.

The information contained in Item 5 of the Schedule 13D is hereby amended and restated in its entirety as follows:

Unless otherwise indicated, all calculations of percentage ownership in this Schedule 13D are based on a total of 32,465,632 shares of Common Stock. Such total includes (i) 29,299,912 shares of Common Stock outstanding as of March 7, 2019 (immediately before the issuance of securities pursuant to the Securities Purchase Agreement), as

represented to by the Issuer in connection with the Private Placement, (ii) the 3,046,668 shares of Common Stock issued in connection with the Private Placement and (iii) 119,052 shares of Common Stock issuable upon the exercise of the Warrant held by CGC taking into account the Maximum Percentage cap.

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Prior to the Closing, CGC beneficially owned 5,613,035 shares of Common Stock. After giving effect to the Private Placement, CGC now beneficially owns 6,279,702 shares of Common Stock and a right, upon exercise of the Warrant and taking into account the Maximum Percentage cap, to purchase up to 119,052 shares of Common Stock for a total of 6,398,754 shares of Common Stock (approximately 19.7% of the total number of shares of Common Stock outstanding). CGC has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition of, all such 6,398,754 shares of Common Stock. In the absence of the Maximum Percentage cap, CGC would beneficially own a total of 7,283,046 shares of Common Stock (approximately 21.8% of the total number of shares of Common Stock outstanding, which calculation of percentage ownership gives effect to the issuance of 1,003,344 shares of Common Stock issuable upon the exercise of the Warrant in full).

Mr. Gendason directly owns 77,287 shares of Common Stock, less than 1.0% of the total number of shares of Common Stock outstanding. An additional 26,107 shares of Common Stock are directly owned by Mr. Gendason subject to vesting on the earlier of June 19, 2019, or the day prior to the next annual meeting of stockholders of the Issuer.

The Reporting Persons may be deemed to be a group for the purposes of Section 13(d) of the Exchange Act. This filing shall not constitute an admission by the Reporting Persons that they are a group for such purpose. The Reporting Persons collectively own (taking into account the Maximum Percentage cap) 6,476,041 shares of Common Stock (approximately 19.9% of the total number of shares of Common Stock outstanding).

Other than the Investment, none of the Reporting Persons have made any transactions in the Common Stock within the past 60 days.

No person other than the Reporting Persons is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, any securities owned by the Reporting Persons.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

The information contained in Item 6 of the Schedule 13D is hereby amended and supplemented by adding the following information:

The description of the Stock Purchase Agreement and the Warrant in Item 3 is incorporated herein by reference.

In connection with the Private Placement, the Issuer and CGC entered into an Amendment to Registration Rights Agreement (the "Registration Rights Agreement Amendment"), effective as of March 7, 2019. The Registration Rights Agreement Amendment amends that certain Registration Rights Agreement, dated September 13, 2017, by and between the Company and CGC (the "Initial Registration Rights Agreement"), and provides for the registration of the shares of Common Stock and the Warrant Shares purchased by CGC pursuant to the Securities Purchase Agreement on the same terms and conditions as is provided in the Initial Registration Rights Agreement.

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Item 7. Material to be Filed as Exhibits.

The information contained in Item 7 of the Schedule 13D is hereby amended and supplemented by adding the following information:

- Exhibit 99.1: Stock Purchase Agreement, dated March 7, 2019, by and between RiceBran Technologies, Continental Grain Company and the other investors party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Issuer on March 13, 2019).
- Exhibit 99.2: Pre-Funded Warrant (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Issuer on March 13, 2019).
- Exhibit 99.3: Amendment to Registration Rights Agreement, effective as of March 7, 2019, between RiceBran Technologies and Continental Grain Company (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed by the Issuer on March 13, 2019).
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SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: March 14, 2019

CONTINENTAL GRAIN COMPANY

/s/ Frank W. Baier

By:

Name: Frank W. Baier

Title: Executive Vice President – Chief Financial Officer

/s/ Ari D. Gendason

Ari D. Gendason

cts, the financial position of Air Industries Group, Inc. (formerly Gales Industries Incorporated) and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for year then ended, in conformity with U.S. generally accepted accounting principles. We were not engaged to examine management's assertion about the effectiveness of Air Industries Group, Inc. (formerly Gales Industries Incorporated) and subsidiaries' internal control over financial reporting as of December 31, 2007 included in the accompanying Management's Annual Report on Internal Control over Financial Reporting and, accordingly, we do not express an opinion thereon. As described and listed as (3) of Note 19 to the financial statements, the 2007 financial statements have been restated for an error in recording a beneficial conversion on the issuance of Preferred Stock. We were not engaged to audit, review or apply any procedures to the adjustment for the correction of the error listed as (4) of Note 19 and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and properly applied. Those adjustments were audited by Rotenberg Meril Solomon Bertiger & Guttilla P.C. /s/ McGladrey & Pullen, LLP New York, New York April 14, 2008, except for item listed as (3) of Note 19 for which the date is November 19, 2008 F-3 REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM To the Board of Directors and Stockholders of Air Industries Group, Inc. We have audited the adjustments described in Note 19 Item (4) that were applied to restate the December 31, 2007 consolidated financial statements to correct certain expenses which should have been included in cost of goods sold that were classified as reductions of accounts payable and accrued expenses. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2007 consolidated financial statements of Air Industries Group, Inc. and Subsidiaries other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2007 consolidated financial statements taken as a whole. /s/ ROTENBERG MERIL SOLOMON BERTIGER & GUTTILLA, P.C. ROTENBERG MERIL SOLOMON BERTIGER & GUTTILLA, P.C. Saddle Brook, New Jersey October 5, 2009 F-4 AIR INDUSTRIES GROUP INC Consolidated Balance Sheet At December 31, ASSETS 2007 2006 ----- Current Assets (Restated) Accounts Receivable, Net of Allowance for Doubtful Accounts of \$302,016 and \$176,458 \$ 7,674,647 \$ 3,508,957

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Inventory 21,820,514 15,257,641 Prepaid Expenses and Other Current Assets 230,209 232,749 Deposits - Customers 905,063 180,456 ----- Total Current 30,630,433 19,179,803 Assets Property and Equipment, net 4,786,143 3,565,316 Capitalized Engineering Costs - net of Accumulated Amortization of \$11,294 1,521,921 -- Deferred Financing Costs 575,502 369,048 Intangible Assets, net of accumulated amortization of \$ 277,251 5,876,974 -- Goodwill 6,372,372 1,265,963 Deposits - Landlord 103,226 448,530 Other Assets 423,469 63,522 -----
----- TOTAL ASSETS \$ 50,290,040 \$ 24,892,182 ===== LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities Notes Payable - Revolver \$ 11,332,940 \$ 5,027,463 Accounts Payable and Accrued Expenses 7,222,351 7,648,426 Notes Payable - Current Portion 4,627,776 127,776 Notes Payable - Sellers - Current Portion 1,435,796 192,400 Capital Lease Obligations - Current Portion 290,285 407,228 Due to Sellers -- 53,694 Dividends Payable 266,503 120,003 Deferred Gain on Sale - Current Portion 38,036 38,033 Income Taxes Payable 144,261 653,426 ----- Total current liabilities 25,357,948 14,268,449 Long term liabilities Notes Payable - Net of Current Portion 528,330 645,458 Notes Payable - Sellers - Net of Current Portion 2,503,036 1,290,562 Capital Lease Obligations - Net of Current Portion 1,188,506 552,589 Deferred Tax Liability 1,878,677 512,937 Deferred Gain on Sale - Net of Current Portion 675,082 713,118 Deferred Rent 229,604 39,371 ----- Total liabilities 32,361,183 18,022,484 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 December 31, 2007 and December 31, 2006, respectively. Designated as Series "B" Convertible Preferred -.001 Par Value, 2,000,000 shares authorized, 829, 098 and 0 shares issued and outstanding as as December 31, 2007 and December 31, 2006, respectively. Liquidation Value, \$ 18,060,000 829 -- Common Stock - \$.001 Par, 120,055,746 Shares Authorized, 69,122,189 and 57,269,301 Shares Issued and Outstanding as of December 31, 2007 and 2006, respectively 69,122 57,269 Additional Paid-In Capital 18,744,154 7,898,702 Accumulated Deficit (885,248) (1,086,273) ----- Total Stockholders' Equity 17,928,857 6,869,698 ----- TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 50,290,040 \$ 24,892,182 ===== See Notes to Consolidated Financial Statements. F-5 AIR INDUSTRIES GROUP INC Consolidated Statement of Operations for the Years Ended December 31, 2007 2006 ----- (Restated) Net sales \$46,068,645 \$33,044,996 Cost of Sales 34,011,228 28,002,942 ----- Gross profit 12,057,417 5,042,054 Operating costs and expenses: Selling and marketing 1,476,111 601,011 General and administrative 8,418,508 3,789,587 ----- Income from operations 2,162,798 651,456 Interest and financing costs 1,578,377 1,040,108 Gain on Sale of Life Insurance Policy -- (53,047) Gain on Sale of Real Estate (38,036) (300,037) Other Income (25,014) (435,627) Other Expenses 81,127 246,659 ----- Income before provision for income taxes 566,344 153,400 Provision for income taxes 365,319 489,969 ----- Net Income (Loss) 201,025 (336,569) Dividend attributable to preferred stockholders 394,042 420,003 Beneficial Conversion Feature 1,589,000 -- ----- Net Loss attributable to common stockholders \$(1,782,017) \$ (756,572) ===== Income (Loss) per share (basic) \$ (0.03) \$ (0.02) ===== Income (Loss) per share (diluted) \$ (0.03) \$ (0.02) =====
===== Weighted average shares outstanding (basic) 65,402,711 32,208,029 =====
Weighted average shares outstanding (diluted) 65,402,711 32,208,029 ===== See Notes to Consolidated Financial Statements. F-6 AIR INDUSTRIES GROUP INC Consolidated Statement of Stockholders' Equity For the Years Ended December 31, 2006 and 2007 Series A Series B Preferred Stock Preferred Stock Common Stock ----- Shares Amount Shares Amount Shares Amount
Amount ----- Balance, January 1, 2006 900 \$ 1 -- -- 14,723,421 \$ 14,723 Non-Cash Stock Option Compensation -- -- -- -- Preferred Stock Dividend -- -- -- -- Non-Cash Warrant Compensation -- -- -- -- Conversion of Preferred Shares to Common Shares in connection with filing the registration statement (900) (1) -- -- 40,909,500 40,910 Conversion of Preferred Dividend to Common Shares in connection with filing the registration statement -- -- -- -- 1,636,380 1,636 Net Loss -- -- -- -- -----
----- Balance, December 31, 2006 57,269,301 57,269 Conversion of warrants -- -- -- -- 311,265 312 Conversion of Seller's Notes -- -- -- -- 1,799,432 1,799 Issuance of Restricted Shares -- -- -- -- 200,000 200 Preferred Series B Stock Issuance -- -- 802,300 802 -- Transaction costs paid for Series B Issuance -- -- -- -- Issuance of Stock for Acquisition of Sigma -- -- -- -- 7,416,082 7,416 Exercise of Stock Options -- -- -- -- 90,580 91 Issuance of Stock for Acquisition of Welding Met -- -- -- -- 2,035,529 2,035 Non-cash stock option expense -- -- -- -- Non-cash Warrants Expense -- -- -- -- Preferred Dividend Paid In Stock -- --

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26,798 27 -- -- Dividend on Series B preferred stock -- -- -- -- -- Net Income -- -- -- -- --

----- Balance, December 31,

2007 (Restated) -- \$ -- 829,098 \$ 829 69,122,189 \$ 69,122 =====

===== Additional
Total Paid-in Accumulated Stockholders' Capital Deficit Equity ----- Balance, January 1,
2006 \$ 7,844,614 \$ (749,704) \$ 7,109,634 Non-Cash Stock Option Compensation 167,126 -- 167,126 Preferred Stock
Dividend (480,003) -- (480,003) Non-Cash Warrant Compensation 49,510 -- 49,510 Conversion of Preferred Shares
to Common Shares in connection with filing the registration statement (40,909) -- -- Conversion of Preferred Dividend
to Common Shares in connection with filing the registration statement 358,364 -- 360,000 Net Loss -- (336,569)
(336,569) ----- Balance, December 31, 2006 7,898,702 (1,086,273) 6,869,698 Conversion
of warrants (312) -- -- Conversion of Seller's Notes 717,974 -- 719,773 Issuance of Restricted Shares 51,800 -- 52,000
Preferred Series B Stock Issuance 8,022,198 -- 8,023,000 Transaction costs paid for Series B Issuance (698,840) --
(698,840) Issuance of Stock for Acquisition of Sigma 1,949,585 -- 1,957,001 Exercise of Stock Options (91) -- --
Issuance of Stock for Acquisition of Welding Met 564,464 -- 566,500 Non-cash stock option expense 354,210 --
354,210 Non-cash Warrants Expense 30,991 -- 30,991 Preferred Dividend Paid In Stock (27) -- -- Dividend on Series
B preferred stock (146,500) -- (146,500) Net Income -- 201,025 201,025 -----
----- Balance, December 31, 2007 (Restated) \$ 18,744,154 \$ (885,248) \$ 17,928,858

===== See Notes to
Consolidated Financial Statements. F-7 AIR INDUSTRIES GROUP INC Consolidated Statement of Cash Flows For
the Years Ended December 31, 2007 2006 ----- CASH FLOWS FROM OPERATING ACTIVITIES
(Restated) Net Income (loss) \$ 201,025 \$ (336,569) Adjustments to Reconcile Net Income (Loss) to Net Cash used in
Operating Activities, net of effect of acquisitions: Depreciation and amortization of property and equipment 850,428
597,009 Amortization of Intangible Assets 277,251 -- Amortization of Capitalized Engineering Costs 11,294 -- Bad
Debt Expense 356,240 177,444 Non-Cash Compensation Expense 406,210 167,126 Warrants issued for Services
30,991 49,510 Non-Cash Interest Expense 63,271 -- Amortization of Deferred Financing costs 161,046 117,159 Gain
on Sale of Officers Life Insurance -- (53,047) Gain on Sale of Real Estate (38,033) (300,037) Deferred Taxes 389,060
(163,457) Changes in Assets and Liabilities (Increase) Decrease in Operating Assets: Accounts Receivable
(1,569,686) (1,062,789) Inventory (3,323,195) (2,653,831) Prepaid Expenses and Other Current Assets 47,643
(22,625) Deposits (724,607) (114,861) Cash Surrender Value - Officers Life Insurance -- 33,263 Other Assets
(337,184) (22,216) Increase (Decrease) in Operating Liabilities Accounts payable and accrued expenses (2,431,218)
2,353,797 Income Taxes payable (509,165) 653,426 Deferred Rent 190,233 39,371 Advance Payments - Customers --
(188,199) ----- NET CASH USED IN OPERATING ACTIVITIES (5,948,396) (729,526) -----
----- CASH FLOWS FROM INVESTING ACTIVITIES Cash paid for deposit on Leasehold improvements
(24,040) (448,530) Cash paid for acquisitions, including transaction costs of \$486,200, net of cash acquired of
\$94,448 (7,952,548) -- Cash paid for Capitalized Engineering costs (1,533,215) -- Cash Received for sale of real
estate -- 5,417,704 Purchase of property and equipment (205,296) (812,372) ----- NET CASH (USED
IN) PROVIDED BY INVESTING ACTIVITIES (9,715,099) 4,156,802 ----- CASH FLOWS FROM
FINANCING ACTIVITIES Proceeds from Private Placement 8,023,000 -- Repayment of notes payable to Sellers
(527,017) (181,838) Payments for Issuance costs on Private Placement (698,840) -- Principal payments on capital
lease obligations (154,026) (219,755) Proceeds from notes payable 4,500,000 -- Net Proceeds from Revolver
6,305,477 -- Principal Payments on Notes Payable (1,417,599) -- Cash Paid for Deferred Financing Costs (367,500) --
Proceed from Sale of Officer's life insurance -- 86,000 Repayment of Mortgage Notes Payable -- (4,170,099)
----- NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES 15,663,495 (4,485,692)
----- Net decrease in cash and cash equivalents -- (1,058,416) Cash and cash equivalents at beginning
of year -- 1,058,416 ----- Cash and cash equivalents at end of year -- -- =====
===== Supplemental cash flow information Cash paid during the year for interest \$ 1,002,920 \$ 828,807
===== Supplemental cash flow information Cash paid during the year for Income taxes \$
678,729 \$ 12,758 ===== Supplemental schedule of non cash investing and financing
activities Property and Equipment acquired under capital leases \$ 673,000 ===== Non-cash Dividends on
Preferred Stock \$ 146,500 \$ 480,003 ===== Conversion of Preferred Stock to Common
Stock \$ 40,909 ===== Conversion of Preferred Dividends to Common stock \$ 360,000 =====

Conversion of Preferred Dividends to Preferred Stock \$ 247,542 ===== Notes Payable-Seller and accrued interest converted to common Stock \$ 719,773 ===== Conversion of Warrants to common stock \$ 312 ===== Purchase of all capital stock of Sigma Metals, Inc and assumption of liabilities in the acquisition as follows: Fair Value of Assets acquired \$ 5,590,165 Goodwill 1,549,931 Intangibles 3,720,000 Cash paid (includes transaction costs of \$280,500) (4,341,296) Notes payable issued to Sellers (1,497,411) Common Stock issued (1,957,001) ----- Liabilities Assumed \$ 3,064,388 ===== Purchase of all capital stock of Welding Metallurgy, Inc and assumption of liabilities in the acquisition as follows: Fair Value of Assets acquired \$ 1,587,686 Goodwill 3,556,478 Intangibles 2,434,225 Cash paid (includes transaction costs of \$205,700) (3,705,700) Accrued Purchase Price (190,377) Notes payable issued to Sellers (net of accredited value of \$140,000) (1,860,000) Common Stock issued (566,500) ----- Liabilities Assumed \$ 1,255,812 ===== See Notes to Consolidated Financial Statements. F-8 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Note 1. FORMATION AND BASIS OF PRESENTATION Merger and Acquisition Ashlin Development Corp. (the "Company" or "Ashlin"), a Florida corporation, entered into a Merger Agreement on November 14, 2005 with Gales Industries Incorporated, a privately-held Delaware corporation ("Original Gales"). As a result of the transaction, the former stockholders of Original Gales became the controlling stockholders of Ashlin. Additionally, since Ashlin had no substantial assets prior to the merger, the transaction was treated for accounting purposes as a reverse acquisition of a public shell. Accordingly, for financial statement presentation purposes, Original Gales is the surviving entity. Prior to the closing of the merger, Original Gales acquired all of the outstanding capital stock of Air Industries Machining Corporation ("AIM"). Because of the change in ownership, management and control that occurred in connection with the acquisition of AIM by Original Gales, in accordance with Statement of Financial Accounting Standards ("SFAS") 141, Business Combinations, the transaction was accounted for as a purchase. Accordingly, the purchase price was allocated to assets acquired and liabilities assumed based on SFAS No. 141. Original Gales was formed in October 2004 and, since prior to the acquisition it did not have any business operations or activity other than the transactions contemplated with the merger and succeeded substantially all of the business operations of AIM, AIM is the "Predecessor" to Original Gales. On February 15, 2006, Ashlin changed its name to Gales Industries Incorporated and its state of domicile from Florida to Delaware. On June 26, 2007, the name of the Company was changed from Gales Industries Incorporated to Air Industries Group, Inc. The financial statements presented are those of Original Gales, now known as Air Industries Group, Inc. ("AIRI") and its wholly owned subsidiaries; AIM, Sigma Metals ("Sigma") and Welding Metallurgy ("WeldingMet"). Sigma and Welding are included from the dates of acquisition to the current year end. F-9 Note 2. ACQUISITIONS On April 16, 2007, the Company purchased all of the outstanding capital stock of Sigma for approximately \$7.5 million. We paid \$4,060,796 of the purchase price in cash and issued to the former shareholders of Sigma our 7 % promissory notes due April 1, 2010 in the aggregate principal amount of \$1,497,411 and 7,416,082 shares of our common stock having a value of \$1,957,000. The remaining principal balance of the promissory notes, \$1,216,488 as of December 31, 2007, is repayable in equal monthly installments of \$43,446 principal, plus accrued interest at the rate of 7% per annum, through April, 1, 2010. In connection with the acquisition of Sigma Metals we entered into Employment Agreements, discussed below, with three members of the management of Sigma. The acquisition has been accounted for in accordance with the provisions of SFAS No. 141, "Business Combinations." The total purchase price was allocated to the net tangible assets based on the estimated fair values. The allocation of the purchase price was based upon valuation data as of April 17, 2007. The final valuation has been completed. For tax reporting purposes the Company will amortize goodwill. The allocation of the purchase price is as follows: F-10 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Purchase of all capital stock of Sigma Metals, Inc and assumption of liabilities in the acquisition as follows: Fair Value of Assets acquired \$ 5,590,164 Goodwill 1,549,931 Intangibles 3,720,000 Cash paid (includes transaction costs of \$280,500) (4,341,296) Notes payable issued to Sellers (1,497,411) Common Stock issued (1,957,000) ----- Liabilities Assumed \$ 3,064,388 ===== On August 24, 2007, we purchased, through a wholly-owned indirect subsidiary, WMS Merger Corp, all of the issued and outstanding capital stock of Welding Metallurgy, Inc pursuant to that certain Stock Purchase Agreement, dated as of March 9, 2007, with the shareholders of Welding, as amended by Amendment No.1 thereto dated as of August 2, 2007 (the "Welding Stock Purchase Agreement"). In consideration for the shares of Welding, the Company paid the former shareholders of Welding \$3,500,000 in cash, and issued to them our promissory note in the principal amount of \$2,000,000 due August 31, 2011 and 2,035,529 shares of our common stock, having a value of \$566,500. The

promissory note bears no interest until August 24, 2008, and thereafter bears interest at the rate of 7% per annum. To reflect the fact that this note does not bear interest for the first year, the Company has discounted the value of the note in its balance sheet to \$1,860,000, and will expense the imputed interest on a monthly basis and accrete up the value of the note to its face value of \$2,000,000. Under the stock purchase agreement, we are obligated to pay the sellers an additional \$190,377 as an adjustment to the purchase price. We have agreed to pay this adjustment to the purchase price in four equal monthly installments of \$49,400 (which includes interest of 7% per annum from November 1, 2007) commencing on March 31, 2008 and on the last day of each calendar month thereafter through June 30, 2008. The cash portion of the purchase price was provided by the proceeds of a term loan of \$4,500,000 under a Loan and Security Agreement dated as of August 24, 2007 by and among our wholly-owned subsidiaries, Air Industries Machining, Corp., or AIM, Sigma and Welding, and Steel City Capital Funding LLC (the SCCF Loan Agreement"). To secure payment of the indebtedness under the promissory note, AIM and Sigma Metals pledged to the former shareholders of Welding Metallurgy, and granted them a security interest in, all of the outstanding shares of Welding, subject to the prior rights of Steel City Capital Funding LLC. Since the purchase price paid by the Company was in excess of the fair market value of the assets acquired, the excess has been recorded as goodwill. The acquisition has been accounted for in accordance with the provisions of SFAS No. 141, "Business Combinations." The total purchase price was allocated to the net tangible assets based on the estimated fair values. The allocation of the purchase price was based upon valuation data as of August 27, 2007. The final valuation has been completed. For tax reporting purposes, the Company will amortize goodwill. The allocation of the purchase price is as follows: Purchase of all capital stock of Welding Metallurgy, Inc and assumption of liabilities in the acquisition as follows: Fair Value of Assets acquired \$ 1,587,686 Goodwill 3,556,478 Intangibles 2,434,225 Cash paid (includes transaction costs of \$205,700) (3,705,700) Accrued Purchase Price (190,377) Notes payable issued to Sellers (net of discount of \$140,000) (1,860,000) Common Stock issued (566,500) ----- Liabilities Assumed \$ 1,255,812 =====

F-11 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS The components of the intangibles acquired for Sigma and Welding are comprised of the following: Estimated 2007 Useful Lives ---- (Restated) Trade Names \$ 2,480,000 20 Years Customer Relationships 2,900,000 11 to 14 Years Technical know-how 660,000 10 Years Professional Certification Certificates 114,225 0.25 to 2 years ----- Total 6,154,225 ----- Less: Accumulated Amortization (277,251) ----- Intangibles, Net \$ 5,876,974

===== The expense for the amortization of the intangibles for the year ended December 31, 2007 amounted to \$277,251. The table set forth below indicates the amortization of intangibles over the next five years: Year Amount ---- 2008 \$489,496 2009 \$450,894 2010 \$436,299 2011 \$436,299 2012 \$436,299 In the case of both Sigma and Welding, the fair value of the net assets acquired was less than the amounts paid for the stock of the acquired entity.

This excess has been recognized as goodwill. The following unaudited pro forma information assumes the acquisitions of Sigma and Welding occurred as of the beginning of each year. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisitions been in effect for the period presented. (Restated) (pro forma) (pro forma) 2007 2006 ---- (unaudited) (unaudited) Net sales \$54,412,000 \$55,481,000 ----- Gross Profit \$15,737,000 \$13,433,000 ----- Net income \$ 2,554,000 \$ 1,971,000 ----- Net income attributable to common stockholders \$ 570,958 \$ 1,550,997

===== Earnings per share, basic \$ 0.01 \$ 0.05 ===== Earnings per share, diluted \$ 0.01 \$ 0.04 ===== Weighted average shares outstanding (Basic) 68,889,275 41,659,640 ===== Weighted average shares outstanding (Diluted) 71,347,588 46,382,620 =====

F-12 AIR INDUSTRIES GROUP, INC. NOTES TO

CONSOLIDATED FINANCIAL STATEMENTS Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING

POLICIES Principal Business Activity The Company is primarily engaged in manufacturing aircraft structural parts, assemblies and the distribution of metals principally for prime defense contractors in the aerospace industry in the United States. The Company's customer base consists mainly of publicly traded companies in the aerospace industry. Principles of Consolidation The accompanying consolidated financial statements include accounts of the Company and Merger Sub and Merger Sub's wholly owned subsidiaries, AIM, Sigma Metals and Welding Metallurgy.

Significant inter-company accounts and transactions have been eliminated in consolidation. Cash and Cash Equivalents Cash and cash equivalents include all highly liquid instruments with an original maturity of three months or less. All cash is applied on a daily basis to amounts outstanding under the revolving portion of the Loan Facility. 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.

Inventory Valuation The Company values inventory at the lower of cost on a first-in-first-out basis or market. AIM purchases inventory only when it has signed non-cancellable contracts with its customers for orders of its finished goods. Welding Metallurgy 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 demands but historically this excess has been used in fulfilling future purchase orders. Sigma routinely acquires inventory without corresponding 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 obsolete items.

Capitalized Engineering Cost The Company has contractual agreements with certain customers to produce parts, which the customers design. The production of these parts require pre-production engineering and programming of our machines. The Company accounts for these pre-production costs pursuant to Emerging Issues Task Force Issue No. 99-5, "Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements" (EITF 99-5). The pre-production costs associated with a particular contract are capitalized and beginning with the first shipment of product pursuant to such contract, amortized over a period determined as follows: (i) if deliverables are scheduled for a period of three years or less, on a straight line basis over the anticipated length of the contract and (ii) if deliverables are scheduled for more than three years, on a straight line basis over three years. If the Company were to be reimbursed for a portion of the pre-production expenses associated with a particular contract only the unreimbursed portion would be capitalized under EITF 99-5. The Company also may progress bill on certain engineering being expended. These billings are recorded as progress billings (a reduction of the associated inventory) until the appropriate revenue recognition criteria have been met. The Terms and Conditions contained in customer purchase orders provide for liquidated damages in the event that a stop-work order is issued prior to the final delivery of the product.

F-13 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment Property and equipment are carried at cost net of accumulated depreciation and amortization. Repair and maintenance charges are expensed as incurred. Property, equipment, and improvements are depreciated using the straight-line method over the estimated useful lives of the assets. Expenditures for repairs and improvements in excess of \$1,000 that add to the productive capacity or extend the useful life of an asset are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings.

Impairment of Long Lived Assets The Company reviews long-lived assets for impairment if events or whenever circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of an asset compared to its carrying value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows.

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

Revenue Recognition The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Payments received in advance from customers for products delivered are recorded as customer advance payments until earned, at which time revenue is recognized. The Terms and Conditions contained in our customer Purchase orders provide for liquidated damages in the event that a stop work order is issued prior to the final delivery. The Company utilizes an RMA process for determining whether to accept returned products. Customer requests to return products are reviewed by the contracts department and if the request is approved credit is issued upon receipt of the product. Net sales represent gross sales less returns and allowances. Shipping costs are included in cost of sales.

Use of Estimates In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant management estimates are the useful lives of property and equipment, provisions for inventory obsolescence, accrued expenses and various contingencies. Actual results could differ from those estimates. Changes

in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known. Credit Risk Financial instruments involving potential credit risk include accounts receivable. Of the accounts receivable balance outstanding as of December 31, 2007 approximately 22% and 11% are attributable to two customers, respectively. Of the account receivable balance at December 31, 2006, approximately 34% and 17% are attributable to these customers, respectively. Two customers accounted for approximately 46% and 11% of net sales for the years ended December 31, 2007. One of these customers accounted for approximately 61% of net sales for the year ended December 31, 2006.

F-14 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Financial Instruments The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." Management of the Company believes that the fair value of financial instruments, consisting of cash, accounts receivable, accounts payable and accrued liabilities, approximates carrying value due to the immediate or short-term maturity associated with these instruments and that the notes payable approximate fair value in that they carry market-based interest rates.

Income Taxes Income taxes are calculated using an asset and liability approach as prescribed by SFAS No. 109, "Accounting for Income Taxes". The provision for income taxes includes federal and state taxes currently payable and deferred taxes, due to temporary differences between financial statement and tax bases of assets and liabilities. In addition, future tax benefits are recognized to the extent that realization of such benefits is more likely than not. Valuation allowances are established when management determines that it is more likely than not that some portion or the entire deferred asset will not be realized. The effect of a change in tax rates is recognized as income or expense in the period of change. In June 2006, the FASB issued Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes--An Interpretation of FASB Statement No. 109," regarding accounting for, and disclosure of, uncertain tax positions. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company will recognize interest and penalties, if any, related to taxes not properly paid in prior periods in tax expense. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 effective as of January 1, 2007.

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 Company did not include 3,025,578 warrants and 4,060,000 options to purchase the Company's common stock for the year ended December 31, 2007 and 5,271,257 warrants and 4,850,000 options to purchase the Company's common stock for the year ended December 31, 2006 in the calculation of diluted earnings per share because the effects of their inclusion would have been anti-dilutive. The shares of Series B Preferred Stock that are convertible into 30,039,783 shares of common stock at December 31, 2007 are not included in the calculation of diluted earnings per shares because the effect of the inclusion would have been anti-dilutive.

Stock-Based Compensation In December 2004, the FASB issued SFAS 123(R) which is a revision of SFAS No. 123 and supersedes Accounting Principles Board Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values at the date of grant. The Company recorded in the accompanying statement of operations an expense of \$437,202 and \$167,126 for the years ended December 31, 2007 and 2006, respectively, in accordance with the measurement requirements under SFAS No. 123(R). The Company adopted SFAS No. 123(R), effective as of January 1, 2005.

Goodwill and Intangibles Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. The Company applies SFAS No. 142, "Goodwill and Other Intangible Assets" and accordingly does not amortize goodwill but tests it for impairment. The Company performs impairment testing for goodwill annually, or more frequently when indicators of impairment exist, using a two-step approach. Step one compares the fair value of the net assets of the relevant reporting unit (calculated using a discounted cash flow method) to its carrying value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value

represents the amount of goodwill impairment. F-15 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS The fair values of the reporting units were determined using a combination of valuation techniques consistent with the income approach. For purposes of the income approach, discounted cash flows were calculated by taking the net present value of estimated cash flows using a combination of historical results, estimated future cash flows and an appropriate price to earnings multiple. We use our internal forecasts to estimate future cash flows and actual results may differ from forecasted results. However, these differences have not been material and we believe that this methodology provides a reasonable means to determine fair values. Cash flows were discounted using a discount rate based on expected equity return rates, which ranged from 12.61% to 14.73% for 2007. Our evaluations for the year ended December 31, 2007 indicated there was no impairment of our Goodwill. Recently Issued Accounting Standards In September 2006, FASB issued SFAS 157 "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Management is currently evaluating the effect of this pronouncement on its financial statements. In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) requires contingent consideration to be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value to be recognized in earnings until settled. SFAS 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities" ("SFAS No. 159"). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new guidance is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of the adoption of SFAS No. 159 on its financial position and results of operations. In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements an Amendment of ARB No. 51" ("SFAS 160"), which establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 also provides guidance when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the non controlling owners of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the impact this statement will have on its financial position and results of operations. F-16 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Note 4 INVENTORY The components of inventory consisted of the following: 2007 2006 ---- (Restated) Raw Materials \$ 9,050,196 \$ 2,234,175 Work In Progress 7,755,367 7,546,178 Finished Goods 5,014,951 5,477,288 ----- Total Inventory \$21,820,514 \$15,257,641 ===== Note 5 PROPERTY AND EQUIPMENT The components of property and equipment, at cost, consisted of the following: Estimated 2007 2006 Useful Life ---- (Restated)

Machinery and Equipment \$ 3,105,545 \$ 2,117,441 5 - 8 years Capital Lease Machinery and Equipment 1,669,718 1,164,671 5 - 8 years Tools and Instruments 827,351 555,164 3 - 7 years Automotive Equipment 30,227 30,227 5 years Furniture and fixtures 146,455 274,837 5 - 8 years Leasehold Improvements 312,727 3,583 Term of Lease Computer Software 131,168 4 years ----- Total property and equipment 6,223,191 4,145,923 Less: Accumulated Depreciation and Amortization (1,437,048) (580,607) ----- Property and equipment, net \$ 4,786,143 \$ 3,565,316 ===== Depreciation and amortization expense for the years ended December 31, 2007 and 2006, amounted to \$850,428 and \$597,009 respectively. Note 6

SALE-LEASEBACK TRANSACTION On October 24, 2006, the Company consummated an agreement, whereby the Company sold the buildings and real property located at its corporate headquarters in Bay Shore, New York (the "Property") for a purchase price of \$6,200,000. As a result, the Company had a gain on the sale of approximately \$1,051,188 of which we recognized \$300,037 during the year ended December 31, 2006. The remaining \$751,151 will be recognized ratably over the remaining term of the twenty year lease, and is included in the caption Deferred Gain on Sale of Real Estate in the accompanying Balance Sheet. Simultaneous with the closing of the sale of the Property, the Company entered into a 20-year triple-net lease (the "Lease") with the Purchaser for the property. Base annual rent is approximately \$540,000 for the first five years, \$621,000 for the sixth year, and thereafter increases 3% per year. The Lease grants AIM an option to renew the Lease for an additional period of five years. The Company deposited with the Purchaser \$127,500 as security for the performance of its obligations under the Lease, which it subsequently replaced with a \$127,500 letter of credit. In addition, the Company deposited with the landlord \$393,000 (Deposits) as security for the completion of certain repairs and upgrades to the Property. As of December 31, 2007, the Company has completed certain of the improvements and has reclassified the amounts to the appropriate fixed asset accounts. The Company still has deposits of \$103,226 deposited with the landlord. This amount is included in the caption Deposits - Landlord on the accompanying Balance Sheet. Pursuant to the terms of the Lease, the Company is required to pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance. These costs will be offset against the funds that are deposited with the landlord. The lease also contains customary representations, warranties, obligations, conditions and indemnification provisions and grants the Purchaser customary remedies upon a breach of the lease by the Company, including the right to terminate the Lease and hold the Company liable for any deficiency in future rent. (See Note 12).

F-17 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Note 7. **NOTES PAYABLE - BANKS AND CREDIT FACILITY** On November 30, 2005 the Company executed a credit facility with PNC Bank N.A. (the "Loan Facility"), secured by substantially all of its assets. The Loan Facility provided for maximum borrowings of \$14,000,000 consisting of (i) a \$9,000,000 revolving loan, (ii) a \$3,500,000 term loan, and (iii) a \$1,500,000 equipment financing loan. In connection with the Loan Facility the Company paid a finder's fee of \$196,500, consisting of \$125,000 in cash and 325,000 shares of Common Stock, which is included in deferred financing costs. The shares issued to the finder were valued at \$0.22 per share and were contributed by one of the Company's senior executives and accounted for as a capital contribution. On January 10, 2007, the Company and PNC further amended the terms of the Loan Facility to revise the formula to determine the amounts of revolving advances permitted to be borrowed under the Loan Facility. The cost of this amendment was \$42,500 and is being amortized over the remaining term of the Credit Facility. The amount that the Company is permitted to borrow as a revolving advance under the Loan Facility is based on a percentage of the Company's eligible receivables, which now includes government receivables that have not been assigned by the Company. To refinance the debt of Sigma Metals, on April 19, 2007, the Company entered into a Third Amendment to the Loan Facility. The amendment modified the terms of the loan facility to add Sigma Metals as a borrower, but required Sigma Metals to pledge all of its assets and properties to PNC Bank to secure its obligations under the Loan Facility. In addition, the termination date of the Loan Facility was extended to April 30, 2010 and the maximum revolving advance amount was increased from \$9,000,000 to \$11,000,000. In connection with the acquisition of Welding Metallurgy, the Company entered into the Fourth Amendment to the Loan Facility, dated as of August 24, 2007, which adds Welding Metallurgy as a borrower under the Facility and the Company as a guarantor of the obligations there under. Additionally, amendment four increased the maximum revolving advance amount from \$11,000,000 to \$14,000,000. The revolving loans bear interest, at the option of the Company, that is based on (i) the higher of (A) PNC's base commercial lending rate as published from time to time ("PNC Rate") plus 0.25% or (B) the Federal Funds rate plus 0.5%, or (ii) the Eurodollar Rate for the Interest Period selected by the Company plus 2.5%. The revolving loans had an interest rate of 7.75% per annum on

December 31, 2007 and an outstanding balance of \$11,332,940. The revolving loans and equipment loans are payable in full on November 30, 2009. The term loan is for a period of 4 years and bears interest, at the option of the Company, at the (i) PNC Rate plus 0.50% per annum or (ii) the Eurodollar Rate for the interest period selected by the Company plus 2.75 %. In October 2006 the Term Note was reduced by \$2,800,000 and the remaining balance of \$383,330 became an Amended and Restated Term Note providing for principal payments of \$10,648 per month and the Maturity Date was amended to become the first business day of October 2009. At December 31, 2007 the balance of the term loan was \$244,906. In connection with the Welding Metallurgy acquisition, Steel City Capital Funding LLC ("SCCF") provided a Term Loan of \$4,500,000, which is payable on August 24, 2010. Borrowings under the SCCF Loan Agreement bear interest, payable monthly, generally at a rate of 6% over the base commercial lending rate of PNC Bank as publicly announced to be in effect from time to time. Under the terms of the Loan Facility and the SCCF Loan Agreement, the amounts are not due to be repaid until August 2010, but have been included in current liabilities due to the right of the banks to demand immediate repayment pursuant to a subjective acceleration clause, which management believes are not likely to occur, combined with the existence of a lockbox arrangement. To secure payment of the indebtedness under the SCCF Loan Agreement, AIR pledged all of the outstanding shares of AIM and Sigma, which, in turn, pledged all of the outstanding shares of Welding Metallurgy.

F-18 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS In addition to the foregoing, the Loan Facility was further amended to allow the Company to borrow or to obtain the issuance, renewal, extension and increase of standby letters of credit, up to an aggregate availability of \$500,000, for its account until November 30, 2009. At December 31, 2007 the Company had an outstanding letter of credit in the amount of \$127,500. The equipment loans bear interest, at the option of the Company, that is based on (i) the PNC Rate plus 0.50% per annum or (ii) the Eurodollar Rate for the interest period selected plus 2.75% per annum. The equipment loan had an interest rate of 7.75% per annum at December 31, 2007. Such equipment financing is limited to an aggregate of \$750,000 in any fiscal year and amortized in equal installments of sixty months following the close of each "borrowing period", the first of which ended December 31, 2007. Each subsequent "borrowing period" ends on each December 31 thereafter. All equipment loans are due and payable on November 30, 2009. As of December 31, 2007, the equipment financing loan had a balance of \$411,200. To the extent that the Company may dispose 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 December 31, 2007 the Company has met these terms. 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, as such, the revolving loan has been classified as a current liability. Interest expense related to these credit facilities amounted to \$821,492 and \$686,917 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007, future minimum principal payments are as follows:

Year	Amount
2008	\$ 4,627,776
2009	528,330

	5,156,106
Less: current portion (4,627,776)	-----
Total Long Term Portion	\$ 528,330

===== The Company incurred an aggregate of \$859,564 in finders' fees and legal costs in connection with the Loan Facility which is being amortized over the 48 month term of the Loan Facility. During the years ended December 31, 2007 and 2006, the Company amortized \$161,046 and \$117,159, respectively, of these costs. On December 28, 2007, the Company and PNC entered into an amendment to the Loan Facility modifying certain financial covenants.

F-19 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Note 8. **CASH SURRENDER VALUE - OFFICER'S LIFE INSURANCE** During the year ended December 31, 2006, the Company sold its key-man life insurance policies. Proceeds from the sale of the insurance policy were \$86,000 which was offset by the cash surrender value of \$33,263. The resulting gain of \$53,047 was recognized as Other Non-Operating Income in the accompanying Statement of Operations for the year ended December 31, 2006.

Note 9. **CAPITAL LEASES PAYABLE-EQUIPMENT** The Company is committed under several capital leases for manufacturing and computer equipment. All leases have bargain purchase options exercisable at the termination of each lease. Capital lease obligations totaled \$1,478,791 and \$959,817 as of December 31, 2007 and 2006, respectively. As of December 31, 2007, the aggregate future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

Year	Amount
2008	\$ 409,861

2009 413,798 2010 409,861 2011 409,861 2012 145,310 ----- Total future minimum lease payments 1,788,691
Less: imputed interest (309,900) Less: current portion (290,285) ----- Total Long Term Portion \$ 1,188,506
===== Note 10. NOTES PAYABLE - SELLERS On November 30, 2005, in connection with the acquisition of AIM, the Company issued notes payable for an aggregate of \$1,627,262 to three former AIM shareholders, two of whom have become part of the Company's senior management and are also stockholders of the Company. On January 26, 2007, the two senior management members converted \$665,262 principal amount of their notes, plus accrued interest of \$54,511, into an aggregate of 1,799,432 shares of common stock at a conversion price of \$0.40 per share. The remaining principal amount of the note of \$625,300 matures on September 30, 2010, is subordinated to all of the Company's senior debt and is payable in twenty consecutive calendar quarters of equal installments of principal plus accrued interest commencing on December 31, 2005. The interest rate on this note is equal to Prime Rate plus 0.5% per annum (8.75% at December 31, 2007). Interest on outstanding balances at September 30, 2010, in the event of nonpayment, shall accrue at a floating rate equal to the Prime Rate plus 7% per annum as of December 31, 2007. In connection with the acquisition of Sigma, the Company incurred notes payable obligations to the former shareholders of Sigma in the aggregate principal amount of \$1,497,411. The remaining principal balance, at December 31, 2007, of \$1,216,488, is payable in equal monthly installments of \$43,446 of principal plus interest at 7% per annum through 2010, except that in April 2008 \$247,090 was prepaid on the notes due the former shareholders. These notes are subordinated to all of the Company's senior debt. In connection with the acquisition of Welding, the Company incurred a note payable to the former shareholders of Welding in the aggregate principal amount of \$2,000,000, which bears no interest until August 24, 2008, and bears interest thereafter at 7% per annum. F-20 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS To reflect the fact that this note does not bear interest for the first year, at December 31, 2007 the Company has discounted the value of the note in its balance sheet to \$1,906,667. The Company will expense the imputed interest on a monthly basis and accrete up the value of the note to its face value of \$2,000,000. This note was originally recorded at the discounted value of \$1,860,000 and resulted in a non cash interest charge. The indebtedness evidenced by this note is subordinate to the Company's indebtedness to PNC and SCCF and is payable in one installment in the principal amount of \$500,000 due on August 24, 2008 and twelve consecutive quarterly installments of principal in the amount of \$125,000, plus accrued interest commencing on November 30, 2008 and continuing through August 31, 2011. This note is subordinated to all of the Company's senior debt and accrues interest at 7% per annum. Additionally the Company will pay an additional \$190,377 to the former owners as a working capital adjustment under the stock purchase agreement. This will be paid in four monthly installments of \$47,494 plus accrued interest at 7% per annum, commencing on March 31, 2008. As of December 31, 2007, the aggregate future minimum note payments, with remaining terms of greater than one year are as follows: Year Amount ---- 2008 \$ 1,529,130 2009 1,213,752 2010 866,184 2011 423,100 ----- Sellers Notes Payable 4,032,166 Less: Unaccrued Interest (93,334) Less: Current portion (1,435,796) ----- Long-term portion \$ 2,503,036 ===== Interest expense on these notes amounted to \$107,111 and \$132,193 for the years ended December 31, 2007 and 2006 respectively. Note 11. EMPLOYEE BENEFITS PLANS The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code (the "Plan"). Pursuant to the Plan qualified employees may contribute a percentage of their pretax eligible compensation to the Plan. The Company does not match any contributions that employees may make to the Plan. The Employees of the Company are members of the United Service Workers Union TUJAT Local 355 (the "Union"), which provided medical benefit plans at defined rates which are contributed in their entirety by the Company. The company paid \$1,712,115 and \$2,275,295 in union benefits during the years ended December 31, 2007 and 2006 respectively. Note 12. COMMITMENTS AND CONTINGENCIES The Company leases its facilities under various operating lease agreements, which contain renewal options and escalation provisions. Rent expense was \$842,795 and \$111,775 for the years ended December 31, 2007 and 2006, respectively. The Company is responsible for paying all operating costs under the term of the lease. As of December 31, 2007, the aggregate future minimum lease payments are as follows: Year Annual Rent ---- 2008 \$1,054,572 2009 1,069,968 2010 1,086,176 2011 1,126,206 2012 1,219,606 Thereafter 12,940,984 ----- Total \$18,497,512 ===== F-21 AIR INDUSTRIES GROUP, INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS The lease provides for scheduled increases in base rent. Rent expense is charged to operations using the straight-line method over the term of the lease which results in rent expense being charged to operations at inception of the lease in excess of required lease payments. This excess is shown as deferred rent in the accompanying balance sheet. Litigation We were

a defendant in an action by our former investor relations firm filed on September 18, 2007 in the Supreme Court of the State of New York, New York County captioned Porter, Levay & Rose, Inc. against Air Industries Group, Inc. et al. (Index No. 003104/07). This case has been settled for \$65,000.

Customer Audits The Company's government contracts and those of many of its customers are subject to the procurement rules and regulations of the United States government, including the Federal Acquisition Regulations ("FAR"). Many of the contract terms are dictated by these rules and regulations. During and after the fulfillment of a government contract, the Company may be audited in respect of the direct and allocated indirect costs attributed thereto. These audits may result in adjustments to its contract costs. Additionally, the Company may be subject to U.S. 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. The Company believes that it is in compliance with all federal, state and local laws and regulations governing its operations and has obtained all material licenses and permits required for the operation of its business.

Governmental Regulation The Company is subject to regulations administered by the United States Environmental Protection Agency, the Occupational Safety and Health Administration, various state agencies and county and local authorities acting in cooperation with federal and state authorities. Among other things, these regulatory bodies impose restrictions to control air, soil and water pollution, to protect against occupational exposure to chemicals, including health and safety risks, and to require notification or reporting of the storage, use and release of certain hazardous chemicals and substances. The extensive regulatory framework imposes compliance burdens and risks on the Company. Governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose civil and criminal fines in the case of violations. The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") imposes strict, joint and several liability on the present and former owners and operators of facilities that release hazardous substances into the environment. The Resource Conservation and Recovery Act of 1976 ("RCRA") regulates the generation, transportation, treatment, storage and disposal of hazardous waste. In New York, the handling, storage and disposal of hazardous substances are governed by the Environmental Conservation Law, which contains the New York counterparts of CERCLA and RCRA. In addition, the Occupational Safety and Health Act, which requires employers to provide a place of employment that is free from recognized and preventable hazards that are likely to cause serious physical harm to employees, obligates employers to provide notice to employees regarding the presence of hazardous chemicals and to train employees in the use of such substances.

Employment Contracts In September 2005, the Company entered into employment agreements (the "Agreements") with four senior executives that became effective November 30, 2005. The Agreements are for a period of approximately eight years. The Agreements provide for annual base compensation aggregating \$940,000. The Board, at its sole discretion, determines whether a bonus is issued, provided that in the case of two executives, the amount of the bonus shall be predicated on their performance and the achievement by the Company of its operating targets set forth in its annual budget, and in the case of these two executives, provided further, in no event shall the amount of their bonuses be less than 50% of their salary at that time. For the years ended December 31, 2007 and 2006 no bonuses were paid. Each senior executive's agreement also call for grants of stock options to purchase the Company's common stock aggregating 4,850,000 shares of which 3,410,000 have been granted as of December 31, 2007. The Company and one of its four senior executives mentioned above entered into a Separation Agreement and General Release (the "Separation Agreement") effective March 16, 2007, whereby the executive resigned from his positions with the Company. Pursuant to the Separation Agreement, the Employment Agreement between the executive and the Company terminated effective March 16, 2007. In lieu of the compensation payable to the executive pursuant to his Employment Agreement, from March 16, 2007, to November 30, 2010, the executive will be paid \$100,000 per annum; from December 1, 2010 to May 31, 2011, he will be paid \$50,000. In addition, if the Company achieves certain agreed-upon levels of performance he may receive up to an additional \$50,000. Upon the execution of his employment agreement mentioned above the Company granted this executive options to purchase 1,250,000 shares of Common Stock, subject to an agreed upon vesting schedule and exercisable over a ten-year period commencing on the date of grant. Pursuant to the Separation Agreement, all unvested options held by this executive vested as of March 16, 2007, and the right to exercise all of his options terminated as of March 16, 2008. On April 17, 2007, the Company entered into employment agreements (the "Agreements") with three senior executives at Sigma Metals. The Agreements are for a period of approximately five years.

F-22 AIR INDUSTRIES GROUP, INC. NOTES ON CONSOLIDATED FINANCIAL STATEMENTS The Agreements provide for annual base compensation aggregating

\$600,000. Additionally, each of these Agreements provide for performance based bonus compensation of up to 15% of the Executive's base salary and options to purchase up to 100,000 shares per year, should Sigma achieve specified levels of growth in its year over year earnings, as defined in the agreements. Sigma did not achieve the requisite level of growth in earnings in 2007 and, accordingly, no accrual was made for performance bonuses under these Agreements. Note 13. INCOME TAXES: The provision for income taxes at December 31, 2007 and 2006 consists of the following: 2007 2006 (Restated) ----- Current Federal \$ 233,248 \$ 504,585 State 7,391 148,841 ----- Total Current Provision 240,639 653,426 Deferred Federal (150,623) (127,595) State 104,238 (35,862) ----- Total Deferred Taxes (46,385) (163,457) Valuation Allowance 171,065 -- ----- Net deferred taxes after valuation allowance 124,680 (163,457) ----- Net Provision for Income Taxes \$ 365,319 \$ 489,969 ===== The components of deferred tax assets as of December 31, 2007 and 2006, are as follows: 2007 2006 ---- (Restated) Bad debts \$ 120,014 \$ 76,080 Inventory - 263A Adjustment 340,617 338,092 Non-cash compensation - warrants 43,108 40,121 Non-cash compensation - options 240,685 124,354 Deferred Rent 79,591 16,977 Deferred gain on sale of real estate 247,202 323,859 Federal tax benefit of State Tax -- (64,790) ----- Total deferred tax asset 1,071,217 854,693 Valuation allowance (1,071,217) (854,693) ----- Net deferred tax asset \$ -- \$ -- ===== The components of the deferred tax liability as of December 31, 2007 and 2006 are as follows: 2007 2006 ---- (Restated) Property and equipment \$ 772,895 \$ 512,937 Amortization - Sigma Transaction 91,658 -- Amortization - Welding Transaction 1,014,124 -- ----- Total deferred tax liability \$1,878,677 \$ 512,937 ===== The difference between income taxes computed at the statutory federal rate and the provision for income taxes for the years ended December 31, 2007 and 2006 relates to the following: 2007 2006 ---- (Restated) Tax benefit at federal statutory rate 34.00% 34.00% State income taxes, net of federal income tax benefit 1.12% 6.02% Permanent differences 1.37% 6.66% Other -0.38% -- True-up from prior year -1.81% -84.37% Change in valuation allowance 30.21% 357.10% ----- Total effective tax rate 64.50% 319.41% ===== F-23 AIR INDUSTRIES GROUP, INC. NOTES ON CONSOLIDATED FINANCIAL STATEMENTS 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 valuation allowance. In assessing the realizability of it, management considers whether it is more likely than not that some or all of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making the assessment. Note 14 STOCK-BASED COMPENSATION ARRANGEMENTS During 2005, the Company's Board of Directors approved a stock option plan and reserved 10,000,000 shares of its Common Stock for issuance under the plan. The stock option plan permits the Company to grant non-qualified and incentive stock options to employees, directors, and consultants. Awards granted under the Company's plans vest over one and five years. Weighted Weighted Number Average Remaining Aggregate of Exercise Contractual Intrinsic Shares Price Term Value ----- Outstanding at January 1, 2006 2,370,000 \$0.38 -- -- ----- Outstanding at December 31, 2006 2,370,000 0.38 9 \$ 20,540 Options granted 3,923,900 0.35 -- -- Options exercised (250,000) -- -- Options cancelled (66,667) -- -- Reserved for grant based on future market price 1,440,000 N/A -- -- ----- Outstanding at December 31, 2007 7,417,233 \$0.35 6 \$ 8,100 ===== Options vested and exercisable At December 31, 2007 2,786,665 \$0.44 6 \$ 8,100 ===== The Company accounts for its stock option plans under the measurement provisions of Statement of Financial Accounting Standards No. 123(R) (revised 2004), Share-Based Payment ("SFAS 123(R)"). The weighted average fair values of options granted for December 31, 2007 and 2006 are \$0.35 and \$0.38. During the year ended December 31, 2007, 250,000 stock options were exercised. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model using weighted average assumptions for grants in the years ended December 31, 2007 and 2006 as follows: 2007 2006 ---- Risk Free Interest Rates 3.55%- 4.77% 4.77% Expected Dividend Yields 0% 0% Expected Terms to Exercise 1 - 8 Years 9 Years Expected Volatility 78.07% -177.30% 180% Certain of the Company's stock options contain features which include variability in grant prices. A portion of the currently issued stock options will be priced based on average trading prices of the Company's Common Stock at the end of a given future period. Due to this variable

feature, these stock options are not deemed to be granted for purposes of applying SFAS 123(R) and accordingly, their fair value will be calculated and expensed in future periods. F-24 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS At December 31, 2007 and 2006, 2,786,665 and 1,580,000 options are vested and exercisable, respectively. The weighted average exercise price of exercisable options at December 31, 2007 and 2006 was \$0.44 and \$0.32 per share, respectively. A summary of the status of the Company's stock options as of December 31, 2007, and changes during the year then ended is presented below. The Company recorded expenses of \$437,202 and \$167,126 in its consolidated statement of operations, which reflects the value of granted stock options over the vesting period in accordance with SFAS No. 123R, for the years ended December 31, 2007 and 2006, respectively. The following table summarizes information about stock options at December 31, 2007: Options Outstanding Options Exercisable Weighted Weighted Average Number Average Remaining Exercise Number Weighted Average Exercise Price Outstanding Contractual Life Price Exercisable Exercise Price \$0.22 - \$0.29 3,897,233 6.87 \$0.26 706,665 \$0.23 \$0.43 - \$0.48 1,580,000 7.74 0.46 1,580,000 0.46 \$0.67 500,000 0.21 0.67 500,000 0.67 Based on Future Market Price 1,440,000 -- N/A -- --

----- 7,417,233 4.94 \$0.35 2,786,665 \$0.44

=====

A summary of the status of the Company's non-vested options as of December 31, 2007 and changes during the year ended December 31, 2007 is presented below: Weighted Weighted Average Average Remaining Number of Exercise Price Contractual Term Options Per Option (in years) ----- Non-vested Options at January 1, 2007 3,270,000 \$0.45 9 Options granted and priced 4,463,900 \$0.32 -- Options vested (2,786,665) \$0.44 -- Options forfeited, expired or exercised (316,667) \$0.22 -- ----- Non-vested Options at December 31, 2007 4,630,568 \$0.26 8 ===== F-25 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of December 31, 2007, there was \$480,826 of unrecognized compensation cost related to non vested stock option awards, which is to be recognized over the remaining weighted average vesting period of five years. On February 13, 2007, the Company granted each of the four non-management members of the Board an option to purchase 100,000 shares of common stock. The options vested as to 33,333 shares upon grant, as to a total of 66,666 on March 1, 2008 and will vest as to all 100,000 shares on March 1, 2009 and are exercisable at a price of \$0.27 per share until March 1, 2014. Options to purchase 66,667 shares granted to Stephen M. Nagler lapsed upon his failure to stand for re-election in June 2007. On August 29, 2007, the Company granted David Buonanno, a non-management director, an option to purchase 100,000 shares of common stock, which was immediately exercisable as to 33,333 shares. The option will become exercisable as to a total of 66,666 shares on June 26, 2008, and as to all 100,000 shares on June 26, 2009. The exercise price of the option is \$0.28 per share. The option expires on August 1, 2014. Warrants to acquire 125,000 shares with a grant date of March 16, 2007 were issued to a consulting firm. These warrants are exercisable at a per share price of \$0.28, which was the average closing price of the Company's common stock for the 20 days preceding the date of grant, and have a cashless exercise feature and vested on the grant date. The warrants were valued using the Black-Scholes model and the Company recorded an expense of \$25,789 in its consolidated statement of operations for the year ended December 31, 2007. The Company issued to a placement agent in the Private offering of the Company's Series B Convertible Preferred Stock described in Note 14, warrants to purchase 2,900,578 shares of Common Stock at a per share exercise price of \$0.305 in addition to other consideration. These warrants have a term of five-years and a cashless exercise feature. These warrants were valued at \$32,000 using the Black-Scholes model and the value of such warrants was deducted from the additional paid in capital resulting from the offering. The following table summarizes the Company's outstanding warrants as of December 31, 2007 and changes during the year then ended: Average Remaining Weighted Number Weighted Average Contractual Life of Shares Exercise Price (Years) Outstanding at January 1, 2006 5,229,589 \$0.21 4.1 Granted 41,668 0.97 4.8 ----- Outstanding at December 31, 2006 5,271,257 \$0.22 4.9 Granted 3,025,578 0.30 4.3 Cancelled (41,668) 0.97 3.7 Exercised (409,091) -- ----- Outstanding at December 31, 2007 7,846,076 0.25 3.4 =====

The following tables summarizes the Company's outstanding restricted shares as of December 31, 2007: Weighted Number Exercise of Shares Grant Date Price ----- Outstanding at -- January 1, 2007 Granted 200,000 \$ 0.26 Vested (200,000) 0.26 ----- Outstanding at December 31, 2007 -- --

===== F-26 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Note 15. EQUITY TRANSACTIONS AND ASSET

ACQUISITIONS Sigma Metals, Inc. On April 16, 2007, the Company purchased all of the outstanding capital stock of Sigma Metals for approximately \$7.5 million. The Company paid \$4,060,796 of the purchase price in cash and issued to the former shareholders of Sigma Metals 7% promissory notes due April 1, 2010 in the aggregate principal amount of \$1,497,411 and 7,416,082 shares of the Company's common stock having a value of \$1,957,000. The remaining principal balance of the promissory notes, \$1,216,488 as of December 31, 2007, is repayable in equal monthly installments of \$43,446 principal, plus accrued interest at the rate of 7% per annum, through April, 1, 2010, except that in April 2008 \$247,090 was prepaid to the former shareholders. To finance the acquisition of Sigma and provide us with additional working capital, the Company completed a private placement of our Series B Convertible Preferred Stock, par value \$0.001 per share ("Series B Preferred Stock") in which the Company raised gross proceeds of \$8,023,000. A first closing, in which we received gross proceeds of \$4,955,000 occurred simultaneously with the acquisition of Sigma and was entirely devoted to the acquisition. A second closing occurred on May 3, 2007, in which the Company received gross proceeds of \$3,068,000. The Company recorded a beneficial conversion feature of \$1,589,000, as the conversion price of the convertible preferred stock is less than the fair value of the common shares into which it is convertible. The holders of the Series B Preferred Stock are entitled to a cumulative annual dividend of 7% per annum which the Company has the right to pay in additional shares of Series B Preferred Stock, except under certain circumstances. In October 2007 and January 2008, an aggregate of 26,798 shares and 16,456 shares of Series B Preferred Stock were issued in payment of accrued dividends on the Series Preferred Stock of \$247,542 and \$146,500 respectively. The shares of Series B Preferred Stock issued in the offering and in payment of accrued dividends are convertible into approximately 30,439,944 shares of the Company's common stock. The series B convertible preferred stock is convertible into shares of the Company's common stock at a conversion price per share of \$0.276, subject to adjustment for certain anti-dilution events. Welding Metallurgy, Inc. On August 24, 2007, the Company purchased, through a wholly-owned indirect subsidiary, all of the outstanding capital stock of Welding Metallurgy, Inc. pursuant to that certain Stock Purchase Agreement, dated as of March 9, 2007, as amended, with the shareholders of Welding Metallurgy (the "Welding Metallurgy Stock Purchase Agreement"). In consideration for the shares of Welding Metallurgy, the Company paid the former shareholders of Welding Metallurgy \$3,500,000 in cash, and issued to them a promissory note in the principal amount of \$2,000,000 due August 31, 2011 and 2,035,529 shares of common stock, having a value of \$566,500. The promissory note bears no interest until August 24, 2008, and thereafter bears interest at the rate of 7% per annum. To reflect the fact that this note does not bear interest for the first year, the Company has discounted the value of the note in its balance sheet to \$1,860,000, and will expense the imputed interest on a monthly basis and accrete up the value of the note to its face value of \$2,000,000. The cash portion of the purchase price was provided by the proceeds of a term loan of \$4,500,000 under a Loan and Security Agreement dated as of August 24, 2007 by and among the Company's wholly-owned subsidiaries, Air Industries Machining, Corp., Sigma Metals and Welding Metallurgy, and Steel City Capital Funding LLC (the "SCCF Loan Agreement"). To secure payment of the indebtedness under the promissory note, AIM and Sigma Metals pledged to the former shareholders of Welding Metallurgy, and granted them a security interest in, all of the outstanding shares of Welding Metallurgy, subject to the prior rights of Steel City Capital Funding LLC. The Company has agreed to register for resale under the Securities Act the shares of its common stock issued to the former shareholders of Welding Metallurgy, at their request, in connection with certain registration statements the Company may file in the future. One half of the shares of the common stock issued to the former shareholders of Welding Metallurgy have been deposited in escrow to secure their indemnity obligations under the Stock Purchase Agreement until February 24, 2009.

F-27 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 RELATED PARTY TRANSACTIONS Stephen M. Nagler, a director of the Company until June 26, 2007, is a partner in Eaton & Van Winkle LLP, the Company's legal counsel. The Company paid Eaton & Van Winkle LLP \$443,991 in 2007 and \$500,000 in 2006 for legal fees and disbursements.

Note 17 SUBSEQUENT EVENTS The operations of Sigma Metals and Welding Metallurgy have been relocated to a new 81,035 square foot facility located in Hauppauge, New York. This space is occupied under a sublease which provides for an annual base rent of approximately \$514,572 for the first year of the sublease, with increases of approximately 3% per year for the remainder of the following eight years. Sigma Metals operations had previously been conducted at a facility in Deer Park, Long Island under a lease which expired on January 31, 2008. Welding Metallurgy's operations had previously been conducted at a facility located in West Babylon, New York under a lease which expired at the end of February 2008. In February 2008, the Company and PNC entered into an amendment to the Loan Facility increasing the inventory sublimit used in the

borrowing base calculation to \$10,250,000. On April 1, 2008, the Company declared a dividend on its series B convertible preferred stock, payable in 19,825 shares of series B convertible preferred stock. At a Special Meeting of Stockholders on April 3, 2008, the stockholders approved an amendment to the certificate of incorporation increasing to 250,000,000 the number of shares of common stock we are authorized to issue and authorized the Board of Directors to effect, at its discretion at any time not later than December 31, 2008, if at all, a reverse stock split of common stock at a ratio within the range from one-for-ten to one-for-thirty, with the ratio and timing to be selected and implemented by our Board. The reverse stock split is part of a plan intended to enable the Company to obtain a listing for common stock on a national securities exchange. If the reverse stock split is effected, the number of authorized shares of common stock would be reduced to 125,000,000 shares. On April 11, 2008, the Company granted each of its four non-management directors an option to purchase 100,000 shares of common stock at an exercise price per share of \$0.225 exercisable immediately for five years. In addition, the terms of the options previously granted to Messrs. Rettaliata, Giusto and Peragallo were modified to provide that the options scheduled to vest from 2008 through 2012, 1,440,000 options in the aggregate, will be exercisable at a per share price of \$0.225.

F-28 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Note 18 SEGMENT REPORTING Financial information about the Company's operating segments for the year ended December 31, 2007 and 2006 as required under Statement of Financial Accounting Standard 131 is as follows: Year Ended December 31, ----- 2007 2006 -----

Air Industries Machining (Restated) Revenue	\$ 34,088,056	\$ 33,044,996
Gross Profit	7,687,817	5,042,054
Pre Tax Income	2,739,500	1,563,036
Assets	31,304,053	24,576,329
Sigma Metals Revenue	9,890,659	--
Gross Profit	2,781,253	--
Pre Tax Income	303,996	--
Assets	11,463,079	--
Welding Metallurgy Revenue	2,089,930	--
Gross Profit	1,588,347	--
Pre Tax Income	1,026,715	--
Assets	8,425,658	--
Corporate Revenue	--	--
Gross Profit	--	--
Pre Tax Income	(3,503,866)	(1,409,636)
Assets	22,962,665	8,333,815
Consolidated Revenue	46,068,645	33,044,996
Gross Profit	12,057,417	5,042,054
Pre Tax Income	566,344	153,400
Provision for Taxes	365,319	489,969
Net Income	201,025	(336,569)
Elimination of Assets	(23,865,005)	(8,017,962)
Assets	50,290,040	24,892,182

F-29 AIR INDUSTRIES GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Note 19 RESTATEMENT AND ADJUSTED UNAUDITED QUARTERLY DATA We have made certain adjustments, described below, to our balance sheet as of December 31, 2007 and our results of operations previously reported in our Form 10-K for the year ended December 31, 2007 and Form 10-QSBs for the first three fiscal quarters of 2007. These adjustments were the result of: o our determination to capitalize certain amounts related to development expenditures made in the first three quarters of 2007 previously expensed and the completion of the allocation of the purchase price we paid for Sigma Metals and Welding Metallurgy among certain intangible assets of those companies that initially had been allocated to goodwill. These adjustments were previously included on our Form 10K filed on April 14, 2008, for the year-ended December 31, 2007. These adjustments have been audited by McGladrey & Pullen, LLP and are indicated in the tables below as adjustment (1) and (2). o our determination to make certain adjustments to our statement of operations to account for the "beneficial conversion feature" upon the issuance of our Series B Preferred Stock issued in the second quarter of 2007, following our receipt of a letter from the Staff of the Securities and Exchange Commission dated August 29, 2008, requesting information with respect to the accounting treatment of the Series B Preferred Stock. This adjustment was previously included on our Form 10Q filed on November 19, 2008 under the caption, restated statement of operations for the nine months ended September 30, 2007. This adjustment reduces the Net Income Available to Common Shareholders by \$1,589,000. This adjustment has been audited by McGladrey & Pullen, LLP and is indicated in the tables below as adjustment (3). o our discovery that certain expenses in the amount of \$673,229 which should have been included in cost of goods sold were classified as a reduction of accounts payable and accrued expenses, resulting in the understatement of cost of goods sold and accounts payable and accrued expenses by a like amount. Additionally the results of this adjustment created an income tax benefit in the amount of \$246,354. The aggregate effect of which is to reduce our net income for the year ended December 31, 2007 and to reduce our stockholders' equity at December 31, 2007 by \$426,875. This adjustment has been audited by Rotenberg Meril Solomon Bertiger & Guttilla PC and are indicated in the tables below as adjustment (4). Balance Sheet Restated Items 2007 2007 as filed adjustments Note restated -----

Accounts Payable and Accrued expenses	\$ 6,549,122	\$ 673,229	(4)	\$ 7,222,351
Income Taxes Payable	390,615	(246,354)	(4)	144,261
Accumulated Deficit	\$ (458,373)	\$ (426,875)	(4)	\$ (885,248)

2007 2007 As Filed Adjustments Note Adjusted -----

Net Income	\$ 46,068,645	\$ --	\$ 46,068,645	
Cost of Sales	33,337,999	673,229	(4)	34,011,228
Gross Profit	12,730,646	673,229		

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12,057,417 Cost and expenses 9,894,619 -- 9,894,619 ----- Operating Income
2,836,027 673,229 2,162,798 Interest and amortization costs 1,578,377 -- 1,578,377 Other (Income) Expenses 18,077
-- 18,077 ----- Income before income taxes 1,239,573 (673,229) 566,344 Income
tax provision 611,673 (246,354) (4) 365,319 ----- Net (Loss) Income 627,900
(426,875) 201,025 Less: Dividend attributable to 394,042 -- 394,042 preferred stockholders Less: Beneficial
conversion Feature -- 1,589,000 (3) 1,589,000 ----- Net (loss) income attributable
to common stockholders \$ 233,858 \$ (1,548,158) \$ (1,782,016)
===== Loss per common share: -- -- -- Net loss per
common share (Basic) \$ 0.00 -- \$ (0.03) ===== Net
loss per common share (Diluted) \$ 0.00 -- \$ (0.03)
===== Weighted average shares outstanding (Basic)
65,402,711 -- 65,402,711 Weighted average shares outstanding (Diluted) 67,861,015 -- 65,402,711 F-30 Q1 2007 Q1
2007 Q2 2007 Q2 2007 as filed Adjustments Notes Adjusted as filed Adjustments Notes Adjusted -----
----- Net Income \$ 7,488,130 \$ -- \$ 7,488,130 \$ 10,989,536
\$ -- \$ 10,989,536 Cost of Sales 6,239,484 (418,014) (1) -- 8,616,698 (434,234) (1)(2) -- -- (88,169) (4) 5,733,301 --
562,026 (4) 8,182,464 ----- Gross Profit 1,248,646 506,183
1,754,829 2,372,838 (127,792) 2,245,046 Cost and expenses 1,126,792 -- 1,126,792 2,330,498 55,881 (1)(2)
2,386,379 ----- Operating Income 121,854 506,183 628,037
42,340 (183,673) (141,333) Interest and amortization costs 130,954 -- 130,954 280,869 -- 280,869 Other (Income)
Expenses (2,377) -- (2,377) (1,224) -- (1,224) ----- Income
before income taxes (6,723) 506,183 499,460 (237,305) (183,673) (420,978) Income tax provision 64,764 194,430 (1)
-- 78,138 (85,445) (1)(2) -- -- 41,046 (4) 300,240 -- -(4) (7,307) -----
----- Net (Loss) Income (71,487) 270,707 199,220 (315,443) (98,228) (413,671) Less: Dividend attributable to
preferred stockholders -- -- -- 110,964 -- 110,964 Less: Beneficial conversion Feature -- -- -- 1,589,000 (3)
1,589,000 ----- Net (loss) income attributable to common
stockholders (71,487) 270,707 199,220 (426,407) (1,687,228) (2,113,635) =====
===== Loss per common share: Net loss per common
share (Basic) \$ (0.00) \$ 0.00 \$ (0.01) \$ (0.03) =====
Net loss per common share (Diluted) \$ (0.00) \$ 0.00 \$ (0.01) \$ (0.03) =====
===== Weighted average shares outstanding (Basic) 58,833,681 58,833,681 65,667,564
65,667,564 Weighted average shares outstanding (Diluted) 58,833,681 60,202,835 65,667,564 65,667,564 Q3 2007
Q3 2007 Q4 2007 Q4 2007 as filed Adjustments Notes Adjusted as filed Adjustments Notes Adjusted -----
----- Net Income \$ 12,845,821 \$ -- \$ 12,845,821 \$
14,745,158 \$ -- \$ 14,745,158 Cost of Sales 9,254,338 (456,336) (1) -- 10,536,063 161,150 (4) -- -- 38,222 (4)
8,836,224 -- -- 10,697,213 ----- Gross Profit 3,591,483
418,114 4,009,597 4,209,065 (161,150) 4,047,945 Cost and expenses 2,617,134 112,921 (1)(2) 2,730,055 3,651,393
-- 3,651,393 ----- Operating Income 974,349 305,193
1,279,542 557,702 (161,150) 396,552 Interest and amortization costs 478,920 -- 478,920 687,634 -- 687,634 Other
(Income) Expenses 26,074 -- 26,074 (4,396) -- (4,396) -----
Income before income taxes 469,355 305,193 774,548 (125,536) (161,150) (286,686) Income tax provision 46,761
159,757 (1)(2) 188,737 (108,217) (8,134) (4) (116,351) -- (17,781) (4) -- -- -----
----- Net (Loss) Income 422,594 163,217 585,811 (17,319) (153,016) (170,334) Less:
Dividend attributable to preferred stockholders 136,578 -- 136,578 146,500 -- 146,500 Less: Beneficial conversion
Feature -- -- -- ----- Net (loss) income attributable to
common stockholders \$ 286,016 \$ 163,217 449,233 (163,819) (153,016) (316,834) =====
===== Loss per common share: Net loss per common
share (Basic) \$ 0.00 \$ 0.01 \$ (0.00) \$ (0.03) =====
Net loss per common share (Diluted) \$ 0.00 \$ 0.01 \$ (0.00) \$ (0.03) =====
===== Weighted average shares outstanding (Basic) 67,838,959 67,838,959 69,122,227 69,122,227
Weighted average shares outstanding (Diluted) 70,734,615 70,734,615 70,738,078 70,738,078 (1) The adjustments to
Cost of Sales relates to our determination to capitalize certain engineering costs initially expensed. (2) The

adjustments to costs and expenses relate to the amortization of amounts attributable to intangibles that have been specifically identified among the assets of Sigma and Welding Metallurgy that initially had been included in goodwill. As of June 30, 2007 and September 30, 2007, \$3,720,000 and \$2,434,225 was reclassified from goodwill to intangibles, respectively, related to the completion of the allocation of purchase prices. There was no impact on cash flow for any of the periods. (3) The beneficial conversion feature adjustment arises as the conversion price of the convertible preferred stock is less than the fair value of the common shares into which it is convertible. (4) The adjustment to Cost of Sales relates to certain expenses which should have been included in cost of goods sold were classified as a reduction of accounts payable and accrued expenses. F-31 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to the report to be signed on its behalf by the undersigned, thereunto duly authorized. AIR INDUSTRIES GROUP, INC. Dated: October 9, 2009 By: /s/ Peter D. Rettaliata ----- Peter D. Rettaliata President and CEO (principal executive officer) By: /s/ Scott Glassman ----- Scott Glassman Chief Accounting Officer (principal financial and accounting officer)