AIR INDUSTRIES GROUP, INC.
Form 424B3
August 02, 2007

Prospectus

85,000,000 Shares

Air Industries Group, Inc.

Common Stock

This prospectus relates to the resale of up to 85,000,000 shares of our common stock, $.001 par value per share, by the selling security holders listed under the caption "Selling Security Holders", commencing on page 43, and consists of

- 43,412,410 shares held by selling security holders, 40,909,500 of which we issued upon conversion of our series A convertible preferred stock issued in connection with our reverse merger with our predecessor, the proceeds of which were used to acquire Air Industries Machining Corp.;
- up to 29,005,784 shares that we may issue upon conversion of the outstanding shares of our series B convertible preferred stock, which we issued principally to acquire Sigma Metals, Inc. and to provide us with additional working capital;
- up to 4,673,232 shares that we may issue as pay-in-kind dividends on our series B convertible preferred stock; and
- up to 7,908,574 shares that we may issue upon exercise of outstanding common stock purchase warrants, including 7,039,256 shares we are obligated to issue upon exercise of warrants we issued to the placement agents for our series A and B convertible preferred stock and bridge note financings and 869,318 shares we are obligated to issue upon exercise of warrants we issued in bridge financings.

The selling security holders acquired these securities in the private transactions described above and under the caption "Selling Security Holders," that were exempt from the registration requirements of the Securities Act. Of the selling security holders offering shares by this prospectus, other than the placement agent for our Series A convertible preferred stock, only six, five of whom own shares of our series B convertible preferred stock, are offering more than 1,400,000 shares, with only one, together with its affiliate, offering as many as 4,700,000 shares.

The selling security holders, by themselves or through brokers and dealers, may offer and sell the shares at prevailing market prices or in transactions at negotiated prices, and will pay any underwriting discounts and commissions. The selling security holders, and the brokers through whom sales of the securities are made, may be "underwriters" within the meaning of Section 2(11) of the Securities Act.

We will not receive any proceeds from the sale of the shares by the selling security holders. However, we will receive proceeds to the extent they exercise the common stock purchase warrants and do not utilize the "cashless" exercise provision of the warrants. Our common stock is traded on the OTC Bulletin Board under the symbol "AIRI.OB". For information concerning the market for our common stock, see "Market for Our Common Stock."

An investment in our common stock involves a high degree of risk. See "Risk

Factors" beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information from that contained in this prospectus. The selling security holders are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

No person is authorized in connection with this prospectus to give any information or to make any representations about us, the selling security holders, the securities or any matter discussed in this prospectus, other than the information and representations contained in this prospectus. If any other information or representation is given or made, such information or representation may not be relied upon as having been authorized by us or any selling security holder. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy the securities in any circumstances under which the offer or solicitation is unlawful. Neither the delivery of this prospectus nor any distribution of securities in accordance with this prospectus shall, under any circumstances, imply that there has been no change in our affairs since the date of this prospectus.

The date of this prospectus is July 27, 2007

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Cautionary Note Regarding Forward-Looking Statements

Our disclosure and analysis in this prospectus contains some forward-looking statements. Certain of the matters discussed concerning our operations, cash flows, financial position, economic performance and financial condition, including, in particular, future sales, product demand, competition and the effect of economic conditions include forward-looking statements within the meaning of section 27A of the Securities Act and Section 21E of the Securities Exchange Act.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions are forward-looking statements. Although we believe that these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flow, research and development costs, working capital, capital expenditures, distribution channels, profitability, new products, adequacy of funds from operations, these statements and other projections and statements contained herein expressing general optimism about future operating results and non-historical information, are subject to several risks and uncertainties, and therefore, we can give no assurance that these statements will be achieved.

Investors are cautioned that our forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from the expectations expressed in the forward-looking statements.

As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections and may be better or worse than projected. Given these uncertainties, you should not place any reliance on these forward-looking statements. These forward-looking statements also represent our estimates and assumptions only as of the date that they were made. We expressly disclaim a duty to provide updates to these forward-looking statements, and the estimates and assumptions associated with them, after the date of this filing to reflect events or changes in circumstances or changes in expectations or the occurrence of anticipated events.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our Form 10-KSB, Form 10-QSB and Form 8-K reports to the SEC. Also note that we provide a cautionary discussion of risk and uncertainties under the caption "Risk Factors" in this prospectus. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus, including "Risk Factors" and the consolidated financial statements and the related notes before making an investment decision. The information in this prospectus reflects a 1-for-1.249419586 reverse split of our common stock which became effective as of November 21, 2005.

As used in this prospectus, unless otherwise stated or the context requires otherwise, the "Company" and terms such as "we," "us" and "our," refer to (i) Air Industries Group, Inc., a Delaware corporation (f/k/a Gales Industries Incorporated) (ii) our 100% owned Delaware subsidiary, Gales Acquisition Group, Inc. ("Merger Sub"), (iii) Air Industries Machining, Corp., a New York corporation ("AIM") which is wholly owned by Merger Sub., and subsequent to April 16, 2007, our wholly-owned subsidiary, Sigma Metals, Inc. ("Sigma Metals"). When we refer to "Ashlin" in this prospectus, we are referring to our company prior to the transactions of November 30, 2005.

Our Business

We manufacture aircraft structural parts and assemblies principally for prime defense contractors in the aerospace industry, including Sikorsky, Lockheed Martin, Boeing and Northrop Grumman. During 2006, approximately 85% of our revenues were derived from sales of parts and assemblies directed toward military applications, although direct sales to the military (U.S. and NATO) constituted less than 8.5% of our revenues. Parts manufactured by us are installed onboard Sikorky's VH-3D, otherwise known as Marine One, the primary Presidential helicopter, and onboard Air Force One, Boeing's 747-2000B customized for use by the President.

Recent Developments

Sigma Metals, Inc

On April 16, 2007, we purchased all of the outstanding capital stock of Sigma Metals for approximately $7.0 million, plus an amount, yet to be finalized and paid, equal to Sigma Metal's earnings from January 1, 2007, to April 16, 2007. We paid the purchase price through a combination of cash, our promissory notes and shares of our common stock. See "Management's Discussion & Analysis of Financial Condition and Results of Operations."

Sigma Metals is a specialty distributor of strategic metals, primarily aluminum, stainless steels of various grades, titanium and other exotic end user specified materials sourced from suppliers throughout the world. Sigma Metal's products are sold to both commercial and defense aerospace manufacturers, throughout the U.S. and in numerous international markets. The customers of Sigma Metals include prime contractors in the defense and commercial aerospace industries, aerospace engine manufacturers and various subcontractors to aerospace manufacturers.

Private Equity Financing -- Series B Convertible Preferred Stock.

To finance the acquisition of Sigma Metals, and to provide us with additional working capital and funds for future acquisitions, on April 16 and May 3, 2007, we sold a total of 802,300 shares of our series B convertible preferred stock for an aggregate purchase price of $8,023,000, or $10.00 per share, in a private placement to "accredited investors," as that term is defined in Rule 501 under Regulation D. The series B convertible preferred stock is convertible into shares of our common stock at an initial conversion price per share of $0.2766. The terms of the series B convertible preferred stock are discussed in greater detail under the section of this prospectus captioned

"Description of Our Securities - Series B Convertible Preferred Stock."

Amendment to Our Credit Facility

To refinance the debt of Sigma Metals, on April 19, 2007, we entered into a Third Amendment to our Revolving Credit, Term Loan, Equipment Line of Credit and Security Agreement with PNC Bank. 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.

Welding Metallurgy, Inc

On March 9, 2007, we entered into a Stock Purchase Agreement to acquire all the outstanding shares of Welding Metallurgy, Inc., for aggregate consideration of $6,050,000, subject to adjustment for working capital, payable in a combination of cash, our secured promissory notes and shares of our common stock.

The closing of the acquisition is subject to certain conditions, including the consent of our lender and our ability to obtain additional financing to complete the acquisition. We cannot assure you that we will be able to complete the acquisition of Welding Metallurgy.

Our Corporate History

On November 30, 2005, our predecessor, Ashlin Development Corporation, consummated a merger with Gales Industries Incorporated, a privately-held Delaware corporation ("Original Gales"), and in connection with the merger, we issued 10,673,107 shares of our common stock, representing 74% of our then outstanding shares, and 900 shares of our series A convertible preferred stock, initially convertible into 40,909,500 shares of our common stock, for all outstanding common shares and preferred shares of Original Gales. As a result of the transaction, the former stockholders of Original Gales became the controlling stockholders of our company. The transaction was treated for accounting purposes as a reverse acquisition and the transaction has been accounted for as a recapitalization of Original Gales, rather than a business combination. Consequently, the historical financial statements of Original Gales are now the historical financial statements of our company.

Immediately prior to the closing of the merger, Original Gales acquired all of the outstanding capital stock of AIM. Because of the change in ownership, management and control that occurred in connection with the acquisition of AIM, for financial reporting purposes the acquisition was accounted for as a purchase. Immediately after the acquisition, AIM acquired its corporate campus located in Bay Shore, New York, from among others, certain of the former shareholders of AIM.

On February 15, 2006, we changed our state of incorporation from Florida to Delaware and changed our name from Ashlin Development Corporation to Gales Industries Incorporated. Subsequently, on June 26, 2007, we changed our name to Air Industries Group, Inc. Prior to January 25, 2005, we were known as Health & Nutrition Systems International, Inc. and we were organized under that name in the State of Florida in October 1993.

Our principal offices are located at 1479 North Clinton Avenue, Bay Shore,

New York 11706 and our telephone number is (631) 968-5000.

The Offering

This prospectus relates to the resale by the selling security holders of up to 85,000,000 shares of our common stock, consisting of:

- 43,412,410 shares held by selling security holders
- up to 29,005,784 shares that we may issue upon conversion of the outstanding shares of our series B convertible preferred stock
- up to 4,673,232 shares that we may issue as pay-in-kind dividends on our series B convertible preferred stock
- up to 7,908,574 shares that we may issue upon exercise of outstanding common stock purchase warrants.

All of these securities were issued to the selling security holders in private transactions exempt from the registration requirements of the Securities Act in reliance upon exemptions provided by Section 4(2) of the Securities Act and Regulation D thereunder. Additional information concerning the transactions in which these securities were acquired by the selling security holders are set forth in the section of this prospectus entitled "Selling Security Holders."

Plan of Distribution

The selling security holders may offer and sell the shares of common stock included in this prospectus through the facilities of the OTC Bulletin Board or such other exchange or reporting system where the common stock may be traded or in privately negotiated transactions. Although the selling security holders may pay brokerage commissions, or discounts may be allowed, in connection with sales of the shares, it is anticipated that the commissions paid or discounts allowed will be no more than the ordinary brokerage commissions paid on sales effected through brokers or dealers. To our knowledge, as of the date of this prospectus, no one has made any arrangements with a broker or dealer concerning the offer or sale of the shares of common stock included in this prospectus. See "Plan of Distribution."

Outstanding Securities

As of June 30, 2007, we had outstanding 67,008,507 shares of common stock. As of that date, on a fully-diluted basis, after giving effect to and assuming the exercise or conversion of all of our outstanding options, warrants and derivative securities, we had outstanding an aggregate of 109,972,865 shares of common stock. This number does not give effect to any dividends or interest which may accrue on the outstanding series B convertible preferred stock or convertible notes.

An investment in our shares of common stock is subject to the risks described under the heading "Risk Factors", which you should review carefully.

Summary Financial Data

The following table presents certain components of our consolidated statements of operations and information derived from our consolidated balance sheets included in this prospectus under the caption "Consolidated Financial Statements." The columns in the table captioned "pro forma" show the pro forma

effects of the acquisition of Sigma Metals on April 16, 2007 and the issuance of our series B convertible preferred stock on that date and on May 3, 2007, on our results of operations and financial condition. The pro forma

consolidated statement of operations data for the year ended December 31, 2006, and three months ended March 31, 2007, shows the pro forma effects of the acquisition of Sigma Metals and the issuance of the series B convertible preferred stock as if they had occurred as of the first day of the applicable fiscal period. The pro forma consolidated balance sheet is based on the assumption that the acquisition of Sigma Metals and the issuance of the series B convertible preferred stock had occurred effective on the last day of the applicable fiscal period.

The information presented in the table should be read in conjunction with our consolidated financial statements which are a part of this prospectus.

Statement of Operations Data:

	Fiscal year ended December 31,			Three
	2005	2006	2006	2006
	Pro Forma*	Actual	Pro Forma	Actual
			(Unaudited)	(Unaudited)
Net sales	$30,735,103	$33,044,996	$51,024,410	$ 8,898,272
Gross profit	4,308,550	5,042,054	10,198,974	1,512,706
Income from operations	1,510,502	651,456	2,666,476	507,621
Net income (loss)	676,046	(336,569)	744,496	136,635
Net income (loss) attributable to common stockholders	404,276	(756,572)	182,886**	43,635
Income (loss) per share (basic and diluted)	$ 0.03	$ (0.02)	$ 0.00	$ (0.00)
Weighted average shares outstanding (basic and diluted)	12,722,060	32,208,029	65,314,694	14,723,421

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* Reflects the 11-months ended November 30, 2005 of AIM and the 1-month ended December 31, 2005 of Original Gales.

** Reflects $561,610 dividend (at 7% per annum) on the $8,023,000 Series B Convertible Preferred Stock.

*** Reflects $140,402 dividend (at 7% per annum) on the $8,023,000 series B convertible preferred stock.

Balance Sheet Data:

	At December 31, 2006		
	Actual	Pro Forma	A

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		(Unaudited)	(Un
Working capital	$ 4,911,354	$10,515,106	$ 5
Total assets	24,892,182	38,736,016	25
Total current liabilities	14,268,449	16,947,475	14
Long term liabilities (excluding current portion)	3,754,035	5,665,183	2
Total stockholders' equity	$ 6,869,698	$16,123,358	$ 7

Risk Factors

The purchase of our common stock involves a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and other information and our consolidated financial statements and related notes included elsewhere in this prospectus. If any of the following events actually occurs, our financial condition or operating results may be materially and adversely affected, our business may be severely impaired, and the price of our common stock may decline, perhaps significantly. This means you could lose all or a part of your investment. We cannot assure you that any business we acquire will benefit from its acquisition by us.

We cannot assure you that any benefits to the business of AIM or Sigma Metals will be achieved from their acquisition by us or by our status as a public company, or that the results of operations of AIM or Sigma Metals prior to their acquisition by us will not be adversely impacted by their acquisition by us. The process of combining the organizations of Original Gales, AIM, our company, Sigma Metals and any other company we may acquire may cause fundamental changes in their operations, which could have an adverse effect on the results of operations of AIM, Sigma Metals and any other company we may acquire. The past results of AIM or Sigma Metals are not necessarily indicative of the future results of our operations.

Our inability to successfully manage the growth of our business may have a material adverse effect on our business, results of operations and financial condition.

We expect to experience growth in the number of employees and the scope of our operations as a result of internal growth and acquisitions. These activities could result in increased responsibilities for management.

Our future success will be highly dependent upon our ability to manage successfully the expansion of operations. Our ability to manage and support our growth effectively will be substantially dependent on our ability to implement adequate improvements to financial, inventory, management controls, reporting, union relationships, order entry systems and other procedures, and hire sufficient numbers of financial, accounting, administrative, and management personnel. We may not succeed in our efforts to identify, attract and retain experienced accounting and financial personnel.

Our future success also depends on our ability to address potential market opportunities and to manage expenses to match our ability to finance operations. The need to control our expenses will place a significant strain on our management and operational resources. If we are unable to control our expenses effectively, our business, results of operations and financial condition may be adversely affected.

The unsuccessful integration of a business or business segment we acquire could

have a material adverse effect on our results.

As part of our business strategy, we expect to acquire assets and businesses relating to or complementary to our operations. These acquisitions will involve risks commonly encountered in acquisitions. These risks include, among other things, exposure to unknown liabilities of the acquired companies, additional acquisition costs and unanticipated expenses. Our quarterly and annual operating results will fluctuate due to the costs and expenses of acquiring and integrating new businesses. We may also experience difficulties in assimilating the operations and personnel of acquired businesses. Our ongoing business may be disrupted and our management's time and attention diverted from existing operations. Our acquisition strategy will likely require additional debt or equity financing, resulting in additional leverage or dilution of ownership. We cannot assure you that any future acquisition will be consummated, or that if consummated, that we will be able to integrate such acquisition successfully.

Any reduction in government spending on defense could materially adversely impact our revenues, results of operations and financial condition.

There are risks associated with programs that are subject to appropriation by Congress, which could be potential targets for reductions in funding to pay for other programs. Future reductions in United States Government spending on defense or future changes in the kind of defense products required by United States Government agencies could limit demand for our products, which would have a materially adverse effect on our operating results and financial condition.

In addition, potential shifts in responsibilities and functions within the defense and intelligence communities could result in a reduction of orders for defense products by segments of the defense industry that have historically been our major customers. As a result, demand for our products could decline, resulting in a decrease in revenues and materially adversely affecting our operating results and financial condition.

We depend on revenues from a few significant relationships, in particular with Sikorsky Aircraft, and any loss, cancellation, reduction, or interruption in these relationships could harm our business.

In general, AIM has derived a material portion of its revenues from one or a limited number of customers. We expect that in future periods we may enter into contracts with customers which represent a significant concentration of our revenues. If such contracts were terminated, our revenues and net income could significantly decline. Our success will depend on our continued ability to develop and manage relationships with significant customers. Sikorsky accounted for approximately 61% of our sales during 2006. Any adverse change in our relationship with Sikorsky could have a material adverse effect on our business. Although we are attempting to expand our customer base, we expect that our customer concentration will not change significantly in the near future. The markets in which we sell our products are dominated by a relatively small number of customers who have contracts with United States governmental agencies, thereby limiting the number of potential customers. We cannot be sure that we will be able to retain our largest customers or that we will be able to attract additional customers, or that our customers will continue to buy our products in the same amounts as in prior years. The loss of one or more of our largest customers, any reduction or interruption in sales to these customers, our inability to successfully develop relationships with additional customers or future price concessions that we may have to make, could significantly harm our business.

Continued competition in our markets may lead to a reduction in our revenues and market share.

The defense and aerospace component manufacturing market is highly competitive and we expect that competition will continue to increase. Current competitors have significantly greater technical, manufacturing, financial and marketing resources than we do. We expect that more companies will enter the defense and aerospace component manufacturing market. We may not be able to compete successfully against either current or future competitors. Increased competition could result in reduced revenue, lower margins or loss of market share, any of which could significantly harm our business.

Our future revenues are inherently unpredictable, our operating results are likely to fluctuate from period to period and if we fail to meet the expectations of securities analysts or investors, our stock price could decline significantly.

Our quarterly and annual operating results are likely to fluctuate significantly due to a variety of factors, some of which are outside our control. Accordingly, we believe that period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indications of performance. Some of the factors that could cause quarterly or annual operating results to fluctuate include conditions inherent in government contracting and our business such as the timing of cost and expense recognition for contracts, the United States Government contracting and budget cycles, introduction of new government regulations and standards, contract closeouts, variations in manufacturing efficiencies, our ability to obtain components and subassemblies from contract manufacturers and suppliers, general economic conditions and economic conditions specific to the defense market. Because we base our operating expenses on anticipated revenue trends and a high percentage of our expenses are fixed in the short term, any delay in generating or recognizing forecasted revenues could significantly harm our business.

Fluctuations in quarterly results, competition or announcements of extraordinary events such as acquisitions or litigation may cause earnings to fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock could significantly decline. In addition, we cannot assure you that an active trading market will develop or be sustained for our common stock. These fluctuations, as well as general economic and market conditions, may adversely affect the future market price of our common stock, as well as our overall operating results.

We may lose sales if our suppliers fail to meet our needs.

Although we procure most of our parts and components from multiple sources or believe that these components are readily available from numerous sources, certain components are available only from sole sources or from a limited number or sources. While we believe that substitute components or assemblies could be obtained, use of substitutes would require development of new suppliers or would require us to re-engineer our products, or both, which could delay shipment of our products and could have a materially adverse effect on our operating results and financial condition.

Attracting and retaining key personnel is an essential element of our future success.

Our future success depends to a significant extent upon the continued

service of our executive officers and other key management and technical personnel and on our ability to continue to attract, retain and motivate executive and other key employees, including those in managerial, technical, marketing and information technology support positions. Attracting and retaining skilled workers and qualified sales representatives is also critical to us. Experienced management and technical, marketing and support personnel in the defense and aerospace industries are in demand and competition for their talents is intense. The loss of the services of one or more of our key employees or our failure to attract, retain and motivate qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

Terrorist acts and acts of war may seriously harm our business, results of operations and financial condition.

United States and global responses to the Middle East conflict, terrorism, perceived nuclear, biological and chemical threats and other global crises increase uncertainties with respect to U.S. and other business and financial markets. Several factors associated, directly or indirectly, with the Middle East conflict, terrorism, perceived nuclear, biological and chemical threats, and other global crises and responses thereto, may adversely affect the Company.

While some of our products may experience greater demand as a result of increased U.S. Government defense spending, various responses could realign U.S. Government programs and affect the composition, funding or timing of our government programs and those of our customers. U.S. Government spending could shift to defense programs in which we and our customers do not participate. Given the current Middle East and global situation, U.S. defense spending is generally expected to remain high over the next several years. Increased defense spending does not necessarily correlate to increased business, because not all the programs in which we participate or have current capabilities may be earmarked for increased funding.

Terrorist acts of war (wherever located around the world) may cause damage or disruption to us, our employees, facilities, partners, suppliers, distributors and resellers, and customers, which could significantly impact our revenues, expenses and financial condition. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility have created many economic and political uncertainties, which could adversely affect our business and results of operations in ways that cannot presently be predicted. In addition, as a company with headquarters and significant operations located in the United States, we may be impacted by actions against the United States.

Our indebtedness may affect operations.

As described under the caption "Management's Discussion and Analysis Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources", we have significant indebtedness. We are significantly leveraged and our indebtedness is substantial in relation to our stockholders' equity. Our ability to make principal and interest payments will depend on future performance, which is subject to many factors, some of which are outside our control. In addition, our Loan Facility is secured by substantially all of our assets. In the case of a continuing default under our Loan Facility, the lender will have the right to foreclose on our assets, which would have a material adverse effect on our business. Payment of principal and interest on the Loan Facility may limit our ability to pay cash dividends to shareholders and the documents governing the Loan Facility prohibit the payment of cash

dividends in certain situations. Our leverage may also adversely affect our ability to finance future operations and capital needs, may limit our ability to pursue business opportunities and may make our results of operations more susceptible to adverse economic conditions.

We may issue shares of our capital stock or debt securities to complete an acquisition, which would reduce the equity interest of our stockholders.

We may issue our securities to acquire companies or businesses. Most likely, we will issue additional shares of our common stock or preferred stock, or both, to complete acquisitions. If we issue additional shares of our common stock or shares of our preferred stock, the equity interest of our existing stockholders may be reduced significantly, and the market price of our common stock may decrease. The shares of preferred stock we issue are likely to provide holders with dividend, liquidation and voting rights, and may include participation rights, senior to, and more favorable than, the rights and powers of holders of our common stock.

If we issue debt securities as part of an acquisition, and we are unable to generate sufficient operating revenues to pay the principal amount and accrued interest on that debt, we may be forced to sell all or a significant portion of our assets to satisfy our debt service obligations, unless we are able to refinance or negotiate an extension of our payment obligation. Even if we are able to meet our debt service obligations as they become due, the holders of that debt may accelerate payment if we fail to comply with, and/or are unable to obtain waivers of, covenants that require us to maintain certain financial ratios or reserves or satisfy certain other financial restrictions. In addition, the covenants in the loan agreements may restrict our ability to obtain additional financing and our flexibility in operating our business.

Limited Number of Common Shares Available for Future Issuance

We are authorized to issue 120,055,718 shares of common stock. We currently have outstanding 67,008,507 shares of common stock or 109,972,865 shares of common stock after giving effect to the conversion of our Series B Convertible Preferred Stock and the exercise of all outstanding options and warrants. We are authorized to issue 8,003,716 shares of blank check preferred stock of which 2,000,000 shares have been designated Series B Convertible Preferred Stock. To facilitate the raising of additional capital or the completion of acquisitions, it is likely that we will seek shareholder approval to increase the number of shares of common stock we are authorized to issue.

Because of our limited resources and the significant competition for acquisitions, we may not be able to consummate an acquisition with growth potential, if at all.

We expect to encounter intense competition from other entities having a business objective similar to ours, including venture capital funds, leveraged buyout funds and operating businesses competing for acquisitions. Many of these entities are well established and have extensive experience in identifying and effecting business combinations. Many of these competitors possess greater technical, human and other resources than we do and our financial resources will be relatively limited when contrasted with those of many of these competitors. While we believe that there are numerous potential target businesses that we could acquire, our ability to compete in acquiring certain target businesses will be limited by our available financial resources. This inherent competitive limitation gives others an advantage in pursuing the acquisition of certain target businesses.

We may be unable to obtain financing, if required, to complete an acquisition or to fund the operations and growth of any business acquired, which could compel us to abandon a particular prospective acquisition.

If we require financing to complete an acquisition, that financing may not be available in amounts and on terms acceptable to us, if at all. To the extent that financing proves to be unavailable when needed to consummate a particular acquisition, we would be compelled to restructure the transaction or abandon that particular acquisition. In addition, if we consummate an acquisition, we may require financing to fund the operations or growth of the business acquired. Our inability to secure additional financing could have a material adverse effect on the continued development or growth of our business.

There is only a limited public market for our securities.

The trading market for our common stock is limited and conducted on the OTC Bulletin Board. Our common stock is very thinly traded. We cannot assure you that a more active trading market in our common stock will ever develop, or if one does develop, that it will be sustained. We also cannot assure you that our common stock will ever become eligible for listing on Nasdaq or a stock exchange.

If our common stock becomes subject to the SEC's penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected.

If at any time our net tangible assets are $5,000,000 or less and our common stock has a market price per share of less than $5.00, transactions in our common stock may be subject to the SEC's "penny stock" rules under the Securities Exchange Act. If our common stock falls within the definition of penny stock it will become subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000, or annual incomes exceeding $200,000 or $300,000, together with their spouse).

For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's prior written consent to the transaction. Additionally, for any transaction, other than exempt transactions, involving a penny stock, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell our common stock and may affect the ability of investors to sell our common stock in the secondary market. These rules also may cause fewer broker-dealers to be willing to make a market in our common stock, and it may affect the level of news coverage we receive.

Future sales of our common stock, or the perception that such sales could occur, could have an adverse effect on the market price of our common stock.

Future sales of our common stock, pursuant to a registration statement or Rule 144 under the Securities Act, or the perception that such sales could occur, could have an adverse effect on the market price of our common stock. In addition to the 85,000,000 shares included in this prospectus, as of June 30,

2007, we had outstanding options to purchase 6,125,000 shares of the 10,000,000 shares available and registered for issuance under our 2005 Stock Incentive Plan in a Registration Statement on Form S-8 filed with the SEC. In addition, shares

of our common stock held for at least one year are eligible for public resale pursuant to Rule 144. In general, the shares of common stock we issued in connection with the acquisition of AIM became eligible for public resale under Rule 144 as of November 30, 2006. The number of our shares available for sale pursuant to registration statements or Rule 144 is enormous relative to the trading volume of our shares. Any attempt to sell a substantial number of our shares will severely depress the market price of our common stock. In addition, we may use our capital stock in the future to finance acquisitions and to compensate employees and management, which will further dilute the interests of our existing shareholders and could eventually significantly depress the trading price of our common stock.

The issuance of shares of our common stock, or the possible issuance of shares, under our stock option plan may limit the price that investors are willing to pay in the future for shares of our common stock and have the effect of delaying or preventing a change in control of our company, and the issuance of shares under the plan will decrease the amount of earnings and assets available for distribution to existing holders of our common stock and dilute their voting power.

Our 2005 Stock Incentive Plan allows for the issuance of up to 10,000,000 shares of common stock, either as stock grants or options, to employees, officers, directors, advisors and consultants of the company. As of June 30, 2007, we had outstanding under the Plan options to purchase 6,125,000 shares. The committee administering the Plan, which has sole authority and discretion to grant options under the Plan, may grant options which become immediately exercisable in the event of a change in control of our company and in the event of certain mergers and reorganizations. The issuance of shares of our common stock, or the possible issuance of shares, under our stock option plan may limit the price that investors are willing to pay in the future for shares of our common stock and have the effect of delaying or preventing a change in control of our company, and the issuance of shares under the plan will decrease the amount of earnings and assets available for distribution to existing holders of our common stock and dilute their voting power.

Use of Proceeds

We will not receive any of the proceeds from the selling stockholders' sale of the shares offered under this prospectus. However, we will receive proceeds to the extent they exercise the common stock purchase warrants and do not utilize the "cashless" exercise provision of the warrants.

Determination of Offering Price

The shares of common stock offered by this prospectus are being offered by the selling security holders listed in this prospectus. The selling security holders may sell the shares at prevailing market prices on the date of sale or at a price negotiated in a private sale. Our common stock is traded on the OTC Bulletin Board under the symbol "GLDS.OB".

We have agreed to pay certain expenses in connection with the registration of the securities offered by the selling security holders for resale under this prospectus.

Business

Introduction

Original Gales was formed as a private company in October 2004 to acquire a company operating in the defense sector. While it was negotiating with the shareholders of AIM, Original Gales determined that it would be more likely to raise the funds necessary to acquire AIM if Original Gales were a public company or were to be acquired by a public company. In August 2005, after the execution of a purchase agreement with the former shareholders of AIM, and after it had entered into a letter of intent for a private placement to finance the acquisition of AIM, Original Gales was introduced to James Brown, then our President. We entered into negotiations with Original Gales that resulted in the execution of a merger agreement on November 14, 2005 (the "Merger Agreement").

Immediately prior to the consummation of the Merger Agreement, Original Gales acquired all of the outstanding capital stock of AIM. The aggregate purchase price paid to AIM's shareholders for 100% of the capital stock of AIM was: (i) $3,114,296 in cash, (ii) $1,627,262 principal amount of promissory notes, of which notes in the principal amount of $665,262 were convertible into common stock at a conversion price of $.40 per share and (iii) 490,060 shares of common stock. In addition, Original Gales paid an aggregate of $1,053,862 in connection with the acquisition, which included legal and accounting expenses ($300,000) incurred by AIM and its shareholders and $270,403 to enable AIM's shareholders to pay income taxes accrued prior to closing.

The funds used by Original Gales to acquire AIM were obtained through a $9 million private placement of its preferred stock. Original Gales sold 900 shares of its convertible preferred stock, each convertible into 45,455 shares of Original Gales' common stock, without giving effect to shares of common stock to be issued in payment of dividends upon conversion of shares of preferred stock. On an as converted basis, without giving any effect to the shares issued as dividends, Original Gales sold its common stock in the private placement at a price of approximately $0.22 per share. In addition to the payment of the cash portion of the purchase price for AIM, the proceeds of Original Gales' private placement were used to pay expenses relating to the private placement, the acquisition of AIM, the merger with us and related transactions, and to repay $150,000 in promissory note obligations which Original Gales incurred in bridge financings, and for working capital. Each share of convertible preferred stock of Original Gales was converted in the merger into one share of our series A convertible preferred stock. Each share of our series A convertible preferred stock was convertible into 45,455 shares of our common stock, or 40,909,500 shares in the aggregate.

Contemporaneously with its acquisition by Original Gales, AIM completed the acquisition, for $4,190,000, of a three-building (76,000 square feet), 5.4-acre corporate campus in Bay Shore, New York, which was being leased by AIM from its affiliates prior to the closing. In connection with the real estate purchase, AIM entered into a loan facility with PNC Bank, secured by all of AIM's assets, including the newly acquired real property. The new loan facility provided AIM with up to $14,000,000 in debt facilities as follows: $9,000,000 in a revolving credit facility, $3,500,000 in a term loan, and $1,500,000 in new equipment financing. In addition to paying for the real estate acquisition, the proceeds of the new loan facility were used to pay off debts of AIM totaling approximately $5,800,000, and for working capital.

Immediately after its acquisition of AIM, on November 30, 2005, Original Gales was merged into our wholly-owned subsidiary. In connection with the

merger, we issued 10,673,107 shares of our common stock, representing 73.6% of our then outstanding shares, and 900 shares of our series A convertible preferred stock convertible into an aggregate of 40,909,500 shares of our common stock for all the outstanding shares of Original Gales. Those shares were the only consideration we paid for Original Gales. Our stockholders prior to the merger continued to own 3,823,980 shares of our common stock. Based upon a value of approximately $0.22 per share (the price at which the common shares of Original Gales were effectively sold in its private placement of preferred stock) on an as converted basis, our shares issued in connection with the merger were valued at approximately $11,348,174 and the shares that our stockholders prior to the merger continued to hold were valued at approximately $800,000. As a result of the merger, the former stockholders of Original Gales became the controlling stockholders of our company.

Our offices are located at 1479 North Clinton Avenue, Bay Shore, New York 11706 and our telephone number is (631) 968-5000.

About AIM

Founded in 1969, AIM manufactures aircraft structural parts and assemblies principally for prime defense contractors in the defense/aerospace industry including, Sikorsky, Lockheed Martin, Boeing and Northrop Grumman. During 2006, approximately 85% of AIM's revenues were derived from sales of parts and assemblies directed toward military applications, although direct sales to the military (U.S. and NATO) constituted less than 8.5% of AIM's revenues. The remaining 15% of revenues for 2006 represented sales in the airframe manufacturing sector to major aviation manufacturers such as Boeing. AIM is a provider of flight critical, technically complex structures: AIM's parts are installed onboard Sikorky's VH-3D, otherwise known as Marine One, the primary Presidential helicopter and on Air Force One, Boeing's 747-2000B customized for use by the President.

AIM has evolved from being an individual parts manufacturer to being a manufacturer of subassemblies (i.e., being an assembly constructor) and being an engineering integrator. AIM currently produces over 2,400 individual products (SKU's) that are assembled by a skilled labor force into electromechanical devices, mixer assemblies, and rotorhub components for Blackhawk helicopters, rocket launching systems for the F-22 Raptor Advanced Stealth Fighter, arresting gear for the E2C Hawkeye and US Navy Fighters, vibration absorbing assemblies for a variety of Sikorsky helicopters, landing gear components for the F-35 Joint Strike Fighter, and many other subassembly packages. AIM's achievements in manufacturing quality control have enabled it to receive various international certifications that distinguish it from less qualified manufacturers, as well as several highly technical, customer-based proprietary quality approvals, including supplier of the year awards from notable customers such as United Technologies and Northrop Grumman.

AIM is the largest supplier of flight safety components for Sikorsky. Sales of parts and services to Sikorsky accounted for approximately 61% of AIM's revenues during 2006, and are subject to General Ordering Agreements which were recently renegotiated and extended through 2012.

The parts and subassemblies produced by AIM are built to customer specifications and are not protected by patents, trademarks or other rights owned or licensed by AIM. As a result, AIM is not required to procure product liability insurance for such parts and subassemblies because such insurance is provided for by the customer. Historically, AIM has spent little or no money on the development of new proprietary products. We did not have any expenditures

for research and development in 2006 and 2005. In the past AIM has spent capital to acquire and retool machinery and equipment to enable it to qualify to bid on contracts to produce parts and subassemblies needed by its customers or, once such a contract was obtained, to improve its manufacturing efficiencies to increase its profits from a contractor or ensure that the contract would be retained as future quantities of the product were required.

About Sigma Metals

In April 2007, we purchased all of the outstanding capital stock of Sigma Metals, Inc. Sigma Metals is a specialty distributor of strategic metals, primarily aluminum, stainless steels of various grades, titanium and other exotic end user specified materials sourced from suppliers throughout the world. Sigma Metal's products are sold to both commercial and defense aerospace manufacturers, throughout the U.S. and in numerous international markets. The customers of Sigma Metals include prime contractors in the defense and commercial aerospace industries, aerospace engine manufacturers and subcontractors to aerospace manufacturers.

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Sales and Marketing

AIM's approach to sales and marketing can be best understood through the concept of customer alignment. The aerospace industry is dominated by a small number of large prime contractors and equipment manufacturers. We seek to position ourselves within the supply chain of these contractors and manufacturers to be selected for subcontracted projects as they develop.

Successful positioning requires that a company qualify to be a preferred supplier by achieving and maintaining independent third party quality approval certifications, specific customer quality system approvals and top supplier ratings through strong performance on existing contracts.

In addition to maintaining our status as a preferred supplier, we work closely with customers to assure that our investments are concentrated in production capabilities that are aligned with customer sourcing and subcontracting strategies. Also, we constantly work to support our customers in their political, industrial and international initiatives.

Initial contracts are usually obtained through competitive bidding against other qualified subcontractors, while follow-on contracts are usually obtained by successfully performing initial contracts. AIM's long-term business base generally benefits from barriers to entry resulting from investments, certifications and manufacturing techniques developed during the initial manufacturing phase.

As our business base grows with targeted customers and significant market share is obtained, we endeavor to develop our relationship to one of a partnership where initial contracts are also obtained as single source awards and follow-on pricing is negotiated on a cost plus basis.

Sigma Metals generates customer loyalty through its willingness and ability to supply metals in smaller quantities not available from larger producers, on tight time schedules and not generally available in the market. We anticipate that Sigma Metals will be able to increase its sales as a result of its affiliation with AIM.

Our Market

During most of the 1990s, defense spending remained flat or experienced a slight decline. In the late 1990s and the early years of the new millennium, Boeing experienced some market share loss to Airbus which adversely affected the domestic aerospace business. The events of 9/11 caused a further deterioration in the domestic commercial aircraft industry, which had been poised for growth as a result of the anticipated replacement of aging airframes.

More recently, the United States defense budget is at an all time high and is currently expected to continue at this level through the Bush Administration and for the next several years. In addition, the world wide commercial aircraft industry is experiencing an increase in activity as a consequence of significant growth in passenger flights and air cargo traffic, and the development of the Boeing 787 Fuel Efficient Dreamliner. Increased utilization of existing resources in the commercial aircraft industry should result in demand for our services. More specific to our business, the war on terrorism has hastened the need to replace older helicopters in the various state Army and Air National Guard Units with up to date Blackhawk models as these units have been mobilized to serve in Afghanistan and Iraq. We are the largest supplier of flight critical parts for the Sikorsky Blackhawk.

Our Backlog

AIM has a number of long-term multi-year general purchase agreements with several of our customers. These agreements specify the part number, specifications and price of the covered products for a specified period, but do not authorize immediate shipment. These agreements do not obligate a customer to buy required products from us. Nevertheless, generally, before a customer will award such an agreement, we or any other supplier must demonstrate the ability to produce products meeting the customer's specifications at an acceptable price. It is a time consuming process for a customer to qualify us or any other supplier for a particular part or subassembly, so most customers tend to limit the number of contracts awarded and, so long as performance is acceptable, will only seek to re-bid a contract at lengthy intervals. Customers issue release orders against these contracts periodically to satisfy their needs. In addition to our long term agreements, we regularly enter into agreements with customers calling for a specified quantity of a product at a fixed price on firm delivery dates.

AIM's "firm backlog" includes all fully authorized orders received for products to be delivered within the forward 18-month period. The "projected backlog" includes the firm backlog and forecasted demand from our base of leading prime aerospace/defense contractors for product releases against existing general purchase agreements ("GPAs"). Although the forecasted releases against GPAs within the forward 18-month period are included in the "projected backlog", we may actually receive additional substantial "follow-on" awards through the balance of a GPA period, some of which currently extend through 2012. The backlog information set forth herein does not include the sales that we expect to generate from long-term agreements associated with long-term production programs but for which we do not have actual purchase orders with firm delivery dates.

As of June 30, 2007, AIM's 18-month "firm backlog" was approximately $45.7 million and our "projected backlog" as of that date for the same 18-month period which includes both the firm backlog as well as anticipated order releases against long term agreements with our prime aerospace contractors was approximately $60.0 million. Because of the nature of the products and services it provides, Sigma Metals does not have a significant backlog and its backlog is not included in the numbers reported herein.

Competition

The markets for our products are highly competitive. For the most part AIM manufactures items to customer design and competes against companies that have similar manufacturing capabilities in a global marketplace. Consequently, its ability to obtain contracts is tied to its ability to provide quality products at competitive prices which requires continuous improvements in capabilities to assure competitiveness and value to our customers. AIM's marketing strategy involves developing long term ongoing working relationships with customers based on large multi-year agreements which foster mutually advantageous relationships.

Sigma Metals seeks to supply customers with metals that are not readily available in the market, in quantities smaller than those larger producers and distributors are willing to supply, on tight timetables or cut to specifications not generally available in the market. Sigma's ability to satisfy its customers' needs is determined by its ability to source products, often from obscure producers, its willingness to hold quantities of a product in excess of the amount desired by a customer and its knowledge of the markets for metals.

Many of AIM's competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers, including Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group, Heroux Aerospace and Ellanef Manufacturing, a division of Magellan Corporation. The competitors of Sigma Metals include the many mills which manufacture and directly distribute the metals sought by its customers and the suppliers which purchase and distribute such products. Many of our competitors are divisions of larger companies having significantly larger infrastructures, greater resources and the capabilities to respond to much larger contracts.

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Raw Materials and Replacement Parts

As a product integrator our manufacturing processes require substantial purchase of raw materials, hardware and subcontracted details. As a result, much of our success in meeting customer demand involves effective subcontract management. Price and availability of many raw materials utilized in the aerospace industry are subject to volatile global markets. Most suppliers are unwilling to commit to long-term contracts, which can represent a substantial risk as our strategy often involves long term fixed pricing with our customers. We believe that the availability of raw materials to us is adequate to support our operations.

AIM has approximately 14 key sole-source suppliers of various parts that are important for one or more of our products. These suppliers are our only source for such parts and, therefore, in the event any of them were to go out of business or be unable to provide us parts for any reason, our business could be materially adversely affected.

As a specialty distributor much of Sigma Metals' success in meeting customer demand involves sourcing various metals in quantities and at prices that provide it with a competitive advantage. Given its knowledge of the worldwide market, Sigma Metals often supplies foreign metals to U.S. customers. Given the nature of its business, Sigma Metals constantly seeks to develop new sources of materials and to develop supply relationship with aerospace manufacturers.

Future Expansion and Acquisition Strategy

Since the 1990s, the aerospace and defense and industries have undergone a radical restructuring and consolidation. The largest prime contractors have merged, resulting in fewer, but larger, entities. A prime example is Boeing, which acquired McDonnell Douglas. Others include Lockheed Martin, the result of Lockheed's acquisition of Martin Marietta, and the aerospace divisions of General Dynamics and Northrop Grumman, which fused together Northrop, Grumman, Westinghouse and Litton Industries into one entity.

This trend has permeated through the industry eliminating many companies as the prime contractors streamlined their supply chains. To survive, companies must invest in systems and infrastructures that align their capabilities with the needs of the prime contractors. At a minimum, Tier III and IV suppliers must be fully capable to interactively work within a computer aided three dimensional automated engineering environment and must have third party quality system certifications attesting to their abilities.

We believe the industry's drive to efficiency will create enhanced pressures on many aerospace/defense critical component manufacturers, particularly those with $15-$100 million in annual sales, referred to herein as the "Tier III/IV Manufacturing Sector", and these manufacturers will have to either upgrade their systems to achieve quality approvals or leave the industry.

In response to this drive towards greater operating and economic efficiency, our objective is to achieve a leading role in the consolidation of the Tier III and IV Manufacturing Sectors. In this regard, our core strategy will be to selectively acquire synergistic manufacturers of "linchpin" products and technologies, upon which larger, more complex and key defense systems and platforms can be established. We believe that numerous acquisition opportunities of such kind exist, particularly given the evolutionary stage of a number of existing businesses in the sector, the age of many of the owner-principals and their perceived and stated desire to facilitate a liquidity event for their investment in the near term. Furthermore, we believe that by executing a well-defined consolidation strategy in the Tier III and IV Manufacturing Sectors, we will be able to achieve significant cost savings, operational efficiencies and overall economic synergies. AIM was our initial strategic acquisition and will serve as our operating platform for subsequent acquisitions and organic growth.

We will focus on acquiring profitable, privately held entities or divisions of larger entities with annual sales between $15 and $100 million in the aerospace and defense-related fields. Initially, we will seek enterprises whose products are synergistic and complementary to AIM's current product line and which can benefit from our existing engineering talents and manufacturing capabilities, such as Sigma Metals. We will look for candidates whose products are components of larger mission critical systems and which can be upgraded from simple parts to complex, higher-margin component system subassemblies through the use of AIM's engineering talents. We intend to focus on entities with reputations for high quality standards whose management can be absorbed into our company. When possible, we will seek to combine existing operations to absorb excess capacity and eliminate duplicative facilities. It is contemplated that future acquisitions will be facilitated by using our stock, cash or debt financing, or some combination thereof. Given our limited available cash, it is likely that we will have to rely upon seller financing or debt financing provided by third parties to complete acquisitions for the foreseeable future. We cannot assure you that such financing will be made available to us and, our need to rely upon such sources may make it difficult for us to complete any transaction in competition with larger better capitalized competitors.

We also intend to expand our operations through internal growth. We will seek to attract new customers through proactive industry marketing efforts, including direct sales programs, participation at trade shows, technical society meetings and similar activities. Additionally, we will seek to capitalize on our engineering capabilities by partnering with other lower cost manufacturers which can benefit from our expertise.

Government Regulation

Environmental Regulation

We are 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 us. 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.

Federal Aviation Administration Regulation

We are subject to regulation by the Federal Aviation Administration ("FAA") under the provisions of the Federal Aviation Act of 1958, as amended. The FAA prescribes standards and licensing requirements for aircraft and aircraft components. We are subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. Our failure to comply with applicable regulations could result in the termination of or our disqualification from some of our contracts, which could have a material adverse effect on our operations.

Government Contract Compliance

Our government contracts and those of many of our 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, we may be audited in respect of the direct and allocated indirect costs attributed thereto. These audits may result in adjustments to our contract costs. Additionally, we may be subject to U.S. government inquiries and

investigations because of our participation in government procurement. Any inquiry or investigation can result in fines or limitations on our ability to continue to bid for government contracts and fulfill existing contracts.

We believe that we are in substantial compliance with all federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits required for the operation of our business.

Employees

As of July 1, 2007, we employed approximately 190 people. AIM is a party to two collective bargaining agreements with the United Services Workers, IUJAT, Local 355 (the "Union") with which the company believes it maintains good relations. One of our collective bargaining agreements is dated September 1, 2004, and covers all of AIM's full time production personnel (the "2004 Collective Bargaining Agreement"). The other is dated January 1, 2005, and covers all of AIM's non-management administrative employees (the "2005 Collective Bargaining Agreement", together with the 2004 Collective Bargaining Agreement, the "Collective Bargaining Agreements"). The terms and provisions of each of the Collective Bargaining Agreements are substantially the same. Each of the Collective Bargaining Agreements terminates on December 31, 2007; however, the 2005 Collective Bargaining Agreement automatically renews from year to year thereafter unless written notice is given by either party not less than sixty (60) days prior to the termination date of its intention to terminate or modify the 2005 Collective Bargaining Agreement. AIM is required to make a monthly contribution to each of the Union's United Welfare Fund and the United Service Worker's Security Fund. Each of the Collective Bargaining Agreements contains a "no strike" clause, whereby, during the terms of each of the Collective Bargaining Agreements, the Union will not strike and AIM will not lockout its employees. Employees of AIM covered by the 2004 Collective Bargaining Agreement have a sixty (60) day probationary period where they can be discharged by AIM for any reason whatsoever; however, employees of AIM covered by the 2005 Collective Bargaining Agreement have a thirty (30) day probationary period. Any discharge that occurs after the expiration of the probationary period may be challenged by the Union through the grievance procedure set forth in the Collective Bargaining Agreements.

Real Property

Our headquarters are situated on a 5.4-acre corporate campus in Bay Shore, New York. We occupy three buildings on the campus, consisting of 76,000 square feet.

On October 24, 2006, we sold the buildings and real property located at the corporate campus for a purchase price of $6,200,000.

Simultaneous with the sale of the property, we entered into a 20-year triple-net lease for the property. Base annual rent is approximately $540,000 for the first five years of the lease, increases to $621,000 for the sixth year of the term, and increases by 3% for each subsequent year. The lease grants AIM an option to renew the lease for an additional five years. We deposited $127,500 as security for the performance of our obligations under the lease, which we subsequently replaced with a $127,500 letter of credit. In addition, we deposited with the landlord an additional $393,000 as security for the completion of certain repairs and upgrades to the property. Under the terms of the lease, we are required to pay all of the costs associated with the operation of the facilities, including, without limitation, insurance, taxes and maintenance. The lease also contains customary representations, warranties,

obligations, conditions and indemnification provisions and grants the landlord customary remedies upon our breach of the lease, including the right to terminate the ease and hold us liable for any deficiency in future rent.

The operations of Sigma Metals are maintained in a building with approximately 20,000 sq. feet in Deer Park, Long Island. The lease for those premises continue until January 31, 2008, at an annual rental of $127,481, exclusive of utilities and other common charges.

Legal Proceedings

In October 2006 a former salesperson of Sigma Metals commenced an action alleging, among other items, that he was improperly dismissed in violation of New York State's age discrimination statute. To date, the plaintiff has repeatedly extended our time to respond to the complaint. The action seeks damages of $2,000,000. We believe there is no merit to the claim, that it is covered by insurance and intend to contest it vigorously.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Original Gales was formed as a private company in October 2004 to acquire a company operating in the defense sector. While it was negotiating with the shareholders of AIM, Original Gales determined that it would be more likely to raise the funds necessary to acquire AIM if Original Gales were a public company or were to be acquired by a public company. In August 2005, after the execution of a purchase agreement with the former shareholders of AIM, and after it had entered into a letter of intent for a private placement to finance the acquisition of AIM, Original Gales was introduced to James Brown, then our President. We entered into negotiations with Original Gales that resulted in the execution of a merger agreement on November 14, 2005, that was unanimously approved by our board of directors. In determining to enter into the merger agreement, we sought to ensure that our shareholders would retain shares valued, in the aggregate, at approximately $800,000 based upon the price at which Original Gales was offering its shares in its private placement.

Immediately prior to the closing of the merger with us, Original Gales acquired all of the outstanding capital stock of AIM. The aggregate purchase price paid to AIM's shareholders for 100% of the capital stock of AIM was: (i) $3,114,296 in cash, (ii) $1,627,262 principal amount of promissory notes, of which notes in the principal amount of $665,262 are convertible into common stock at a conversion price of $.40 per share and (iii) 490,060 shares of common stock. In addition, Original Gales paid an aggregate of $1,053,862 in connection with the acquisition, which included legal and accounting expenses ($300,000) incurred by AIM and its shareholders and $270,403 to enable AIM's shareholders to pay income taxes accrued prior to closing.

The funds used by Original Gales to acquire AIM were obtained through a $9 million private placement of its preferred stock. Original Gales sold 900 shares of its convertible preferred stock, each convertible into 45,455 shares of Original Gales' common stock, without giving effect to shares of common stock to be issued in payment of dividends upon conversion of shares of preferred stock. On an as converted basis, without giving any effect to the shares which may be issued as dividends, Original Gales sold its common stock in the private placement at a price of approximately 22 cents per share. In addition to the

payment of the cash portion of the purchase price for AIM, the proceeds of Original Gales' private placement were used to pay expenses relating to the private placement, the acquisition of AIM, the merger with us and related transactions, and to repay $150,000 in promissory note obligations which Original Gales incurred in bridge financings, and for working capital. Each share of convertible preferred stock of Original Gales was converted in the merger into one share of our series A convertible preferred stock. Each share of our series A convertible preferred stock was convertible into 45,455 shares of our common stock, or 40,909,500 shares in the aggregate.

Contemporaneously with the acquisition, AIM completed the acquisition for $4,190,000, of a three-building (76,000 square feet), 5.4-acre corporate campus in Bay Shore, New York which was being leased by AIM from its affiliates prior to the closing. In connection with the real estate purchase, AIM entered into a loan facility with PNC Bank, secured by all of AIM's assets, including the newly acquired real property. The new loan facility provided AIM with up to $14,000,000 in debt facilities as follows: $9,000,000 in a revolving credit facility, $3,500,000 in a term loan, and $1,500,000 in new equipment financing. In addition to paying for the real estate acquisition, the proceeds of the new loan facility were used to pay off debts of AIM totaling approximately $5,800,000, and for working capital.

Because of the change in ownership, management and control that occurred, for financial reporting purposes, the acquisition of AIM was accounted for as a purchase by Original Gales. Accordingly, the purchase price was allocated among AIM's assets and liabilities based upon their fair values as of the completion of the acquisition. Because the purchase price, net of the liabilities assumed, exceeded the fair value of the assets acquired, Original Gales recorded goodwill of $1,265,963. Because the acquisition of AIM's corporate campus was completed subsequent to the acquisition of AIM, the shareholders of the entities which owned the real estate were not affiliates of AIM as of the time the real estate acquisition was completed. Therefore, the acquisition of the real estate was treated as a purchase by AIM and the purchase price and related acquisition costs, which approximated the fair market value of the property, were reflected on Original Gales' financial statements (which now form the basis of our financial statements) as the basis of the real estate.

Prior to the acquisition of Original Gales, we had outstanding approximately 3,823,980 shares of common stock and stock options exercisable into approximately 44,020 shares of our common stock. Those 3,823,980 shares continued to be outstanding after, and were not cancelled or redeemed pursuant to, the merger and those 44,020 stock options expired in connection with the merger. On a fully-diluted basis, in connection with the merger and the offering, we issued an aggregate of approximately 63,325,352 shares of our common stock (or approximately 94.3% of the outstanding on a fully-diluted basis), after taking into account the shares that we may issue upon conversion of the Preferred Stock, placement agent warrants, stock options and convertible notes which were previously convertible or exercisable into shares of Original Gales common stock.

Since we had no substantial assets immediately prior to the merger, the merger was treated for accounting purposes as a reverse acquisition and has been accounted for as a recapitalization of Original Gales rather than a business combination. Consequently, the historical financial statements of our company presented herein are the historical financial statements of Original Gales. Further, since Original Gales had no significant operations before it acquired the business of AIM, AIM is considered a predecessor of Original Gales and so our financial statements and those of AIM for periods prior to December 1, 2005 have been included in this prospectus.

Prior to our acquisition of Sigma Metals, our business consisted of the manufacture of aircraft structural parts and assemblies principally for prime

defense contractors in the defense/aerospace industry.

AIM has evolved from being an individual parts manufacturer to being a manufacturer of subassemblies (i.e. being an assembly constructor) and being an engineering integrator. AIM currently produces over 2,400 individual products (SKU's) that are assembled by a skilled labor force into electromechanical devices, mixer assemblies, rotor-hub components, rocket launching systems, arresting gear, vibration absorbing assemblies, landing gear components and many other subassembly packages.

During 2006, approximately 85% of AIM's revenues were derived from sales of parts and assemblies directed toward military applications, although direct sales to the military (U.S. and NATO) constituted less than 8.5% of AIM's revenues. The remaining 15% of revenues for 2006 represent sales in the airframe manufacturing sector to major aviation manufacturers. Sales of parts and services to one customer accounted for 61% of AIM's revenue in 2006, and for approximately 65.5% of AIM's revenue in the first quarter of 2007, and are subject to General Ordering Agreements which were recently renegotiated and extended through 2013.

Sigma Metals is a specialty distributor of strategic metals, primarily aluminum, stainless steels of various grades, titanium and other exotic end user specified materials sourced from suppliers throughout the world. Sigma Metal's products are sold to both commercial and defense aerospace manufacturers, throughout the U.S. and in numerous international markets. The customers of Sigma Metals include prime contractors in the defense and commercial aerospace industries, aerospace engine manufacturers and various subcontractors to aerospace manufacturers.

Sales of Sigma Metals are more evenly distributed between the defense and commercial aerospace industries than those of AIM. Similarly, approximately one half of the sales of Sigma Metals are to customers outside the U.S. Consequently, we anticipate that one result of the acquisition of Sigma Metals will be to decrease the proportion of our sales derived from the aerospace defense industry.

The following discussion and analysis does not include the operations of Sigma Metals and should be read in conjunction with the consolidated financial statements and notes of our company included in this prospectus under the caption "Index to Consolidated Financial Statements." We have also included in this prospectus under the caption "Index to Consolidated Financial Statements" financial statements, including the notes thereto, of Sigma Metals and unaudited pro forma financial statements to show the pro forma effects of the acquisition of Sigma Metals and the issuance of our series B convertible preferred stock on our results of operations and financial condition. See "Index to Consolidated Financial Statements."

Results of Operations

Three months ended March 31, 2007 as compared to three months ended March 31, 2006

	Three months ended March 31, 2007 (Unaudited)	Three months ended March 31, 2006 (Unaudited)
Net sales	$ 7,488,130	$ 8,898,272
Cost of sales	6,239,484	7,385,566

Gross profit	1,248,646	1,512,706
Selling and marketing expenses	95,342	155,702
G&A expense	1,031,450	849,383
Interest expense	130,954	325,050
Gain on sale of life insurance policy		(53,047)
Gain on sale of real estate	(9,509)	--
Other income	(1,446)	--
Other expenses	8,578	--
(Loss) Income before income taxes	(6,723)	235,618
Provision for income taxes	64,764	99,253
Net (loss) income	(71,487)	136,365
Net loss attributable to preferred stock	--	180,000
Net loss attributable to common stock	$ (71,487)	$ (43,633)

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Net sales. Net sales were $7,488,130 for the three months ended March 31, 2007 ("First Quarter 2007"), a decrease of $1,410,142 (15.8%) from net sales of $8,898,272 for the three months ended March 31, 2006 ("First Quarter 2006"). The decrease in net sales was primarily attributable to decreased shipments of parts and related defense components to one customer which caused the portion of our revenues derived from such customer to decrease from approximately 69% in the First Quarter 2006 to approximately 65.5% in the First Quarter 2007.

Gross profit. In the First Quarter 2007, gross profit was $1,248,646 or 16.7% of net sales, compared to gross profit of $1,512,706 or 17.0% of net sales in First Quarter 2006. The decrease in gross profit primarily reflects the decrease in net sales. The decrease in gross profit as a percentage of net sales represents a slight decrease in the sales of higher margin products.

Selling and marketing expenses. Selling and marketing expenses were $95,342 in First Quarter 2007, a decrease of $60,360 or 38.8% from selling and marketing expenses of $155,702 in First Quarter 2006. The decrease in selling and marketing expenses were primarily attributable to lower sales and a change in the mix of products shipped, which translated into reduced cost of shipping supplies and a concerted effort to control the costs of meetings and conferences.

General and administrative expenses. General and administrative expenses were $1,031,450 in First Quarter 2007, an increase of $182,067 or 21.4% from general and administrative expenses of $849,383 in First Quarter 2006. The increase primarily reflects the addition of professional staff to provide adequate financial reporting and reporting capabilities.

Interest and financing costs. Interest and financing costs were $130,954 in First Quarter 2007, a decrease of $194,096 or 59.7% from interest and financing costs of $325,050 in First Quarter 2006. The decrease in interest and financing costs resulted from the decrease in the Company's debt outstanding as a result of the sale and leaseback of its real estate.

Gain on the sale of life insurance policy. In First Quarter 2006 there was a one-time gain on the sale of a life insurance policy of $53,047. There was no such gain in the First Quarter of 2007.

Gain on sale of real estate. The company was required to defer recognition of a portion of the gain on the sale of its real estate in the fourth quarter of 2006. This gain is being recognized ratably over the twenty year term of its lease for the real estate. Accordingly, the Company recognized a gain of $9,509 during the First Quarter of 2007.

Other expenses. Other expenses in the First Quarter 2007 of $8,578 are primarily franchise taxes There were no "other expenses" incurred during the First Quarter of 2006.

Income (Loss) before income taxes. The loss before the impact of income taxes was $6,723 in First Quarter 2007 reflecting lower quarterly sales compared to income before the provision for income taxes of $235,618 in First Quarter 2006. There was an income tax expense of $64,764 for the First Quarter 2007 as compared to an income tax expense of $99,253 for First Quarter 2006.

Net income. Net income decreased from $136,365 in First Quarter 2006 to a net loss of $71,487 in First Quarter 2007. The decrease in net income was primarily attributable to decreased shipments of parts and related defense components to one customer which caused the portion of revenues derived from such customer to decrease. Additionally, the decrease was due to the provision for income taxes in the amount of $64,764 reflecting book to tax timing differences.

Net loss attributable to common stock. The dividend payable on our series A convertible preferred stock in the First Quarter 2006 exceeded our net income during such period, resulting in a net loss attributable to common stock of $43,635. Our series A convertible preferred stock was automatically converted into common stock in August 2006, so there was no comparable charge in the First Quarter 2007.

Year ended December 31, 2006 as compared to year ended December 31, 2005

The following table sets forth, for the periods indicated, certain components of our statements of operations:

	Year ended December 31,		
	2006	2005(1)	2004(2)
Net sales	$ 33,044,996	$ 30,735,103	$ 24,818,333
Cost of sales	28,002,942	26,426,553	21,400,878
Gross profit	5,042,054	4,308,550	3,417,455
Selling expenses	601,011	357,854	321,727
G&A expense	3,789,587	2,440,194	1,356,809
Interest expense	1,040,108	759,552	505,425
Minority interest	--	74,904	131,552
Other expenses	246,659	--	--
Other income	788,711	--	2,573
Income before provision for taxes	153,400	676,046	1,104,515
Provision for taxes (3)	489,969	271,770	444,015
Net income (loss) (3)	(336,569)	404,276	660,550

(1) The information for the year ended December 31, 2005 combines the operating results of Original Gales and AIM for the year ended December 31, 2005, and the operating results of AIM operating as a Subchapter S corporation for the period January 1, 2005 through November 30, 2005.

(2) The information for December 31, 2004 is from the audited operating statements of AIM.

(3) Prior to November 30, 2005, AIM elected to be treated under Subchapter "S" of the Internal Revenue Code and incurred no income taxes. For purposes of presentation, taxes were calculated using an effective 40.02% tax rate in accordance with FAS 109.

Year ended December 31, 2006 compared to year ended December 31, 2005

Net sales. Net sales were $33,044,996 in the year ended December 31, 2006 ("Fiscal 2006") an increase of $2,309,893 (7.5%) from net sales of $30,735,103 in Fiscal 2005. The increase in net sales was attributable to continued significant growth in sales in the military aerospace sector resulting from increased military activity, together with price increases that took effect in late 2005 and continued through 2006 under a number of our long term agreements with a significant customer.

Our net sales for Fiscal 2006 were substantially greater than our net sales for Fiscal 2005. Nevertheless, net sales during the second half of 2006 were less than the amount recorded during the first half of 2006, but modestly higher than

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net sales in the second half of Fiscal 2005. This decrease in net sales during the second half of 2006 resulted primarily from the need to prepare for production of subassemblies for the Joint Strike Fighter ("JSF") landing gear, and the E2D arresting gear. We delivered the first article for the JSF landing gear during December 2006, and the first article of the E2D arresting gear in the first quarter of 2007.

Sales during the second half of 2006 were also negatively impacted by a decision by our largest customer to delay deliveries of units previously projected to be delivered during this time period. These delivery delays have continued through the first quarter of 2007 and are reflected in higher inventory levels and lower revenue than anticipated. These delivery delays are the result of a strike at the aforementioned customer's facility earlier in 2006 and its continued inability to achieve complete production recovery.

Gross profit. Gross profit was $5,042,054 in Fiscal 2006 (15.3% of net sales), compared to gross profit of $4,308,550 in Fiscal 2005 (14.0% of net sales). The increase in gross profit reflects the increase in revenues and as well as the increase in gross profit as a percentage of sales. The increase in gross profits as a percentage of sales represents a continuation of the shift in our production to higher margin military products.

Selling expenses. Selling expenses were $601,011 in Fiscal 2006, an increase of $243,157(67.9%) from selling expenses of $357,854 in Fiscal 2005. The increase in selling expenses reflects an increase in shipping supplies, transportation expenses and depreciation of transportation equipment partially offset by decreases in field engineering expenses and out bound freight expenses.

General and administrative expenses. General and administrative expenses were $3,789,587 in Fiscal 2006, an increase of $1,349,393 (55.3%) from general and administrative expenses of $2,440,194 in Fiscal 2005. The increase was primarily due to an increase in officers' salaries, an increase in office personnel to support the increased sales, an increase in professional fees attributable to legal, accounting and audit fees and preparations for compliance with Sarbanes-Oxley, as well as consulting costs incurred in connection with modifications to AIM's information technology network. In addition, Fiscal 2006 reflects non-cash compensation charges resulting from the grant of options to management pursuant to the Company's Stock Option Plan. In addition, the Company incurred a bad debt expense of $177,444 based upon management's assessment of the collectibility of certain outstanding receivables.

Interest and amortization expense. Interest and amortization expense was $1,040,108 in Fiscal 2006 an increase of $280,556. (36.9%) from interest expense of $759,552 in Fiscal 2005. The increase in interest expense resulted from an increase in borrowing rates as well as additional interest expense as a result

of the financing of the acquisition of AIM and the purchase of AIM's real estate.

Minority interest. Minority interest represents the income attributable to AIM's real estate realized by the affiliates of AIM that owned the real estate prior to its acquisition by AIM in 2005. Because the real estate was owned by AIM at the beginning of 2006 there was no minority interest income in 2006, as compared to minority interest income of $74,904 in Fiscal 2005.

Income before provision for income taxes was $153,400 in Fiscal 2006 a decrease of $522,646 (77.3%) from income before income taxes of $676,046 in Fiscal 2005. The income before taxes in 2005 combines the income earned by AIM during the eleven month period ended November 30, 2005 of $1,425,750, with a $749,704 loss incurred during December 2005. The decrease in income during Fiscal 2006, resulted primarily from the impact on AIM's business of the acquisition, together with expenses incurred by us to comply with our reporting obligations as a public entity and orders deferred during the second half of 2006 due to a strike at the aforementioned customer's facility earlier in 2006. Income during 2006 was positively impacted by a gain of $300,037 on the sale of our corporate campus and a gain of $53,047 on the sale of a life insurance policy. Absent these non-recurring items we would have incurred a pre-tax net loss of $199,684.

Provision for income taxes. The increase in the provision for income taxes to $489,969 for Fiscal 2006 as compared to $271,770 for Fiscal 2005, primarily reflects the taxes payable as a result of the sale of our corporate campus, partially offset by the reduction in taxes payable as a result of the decrease in our operating income.

Impact of Inflation

Inflation has not had a material effect on our results of operations.

Financial Condition

Liquidity and Capital Resources

In connection with the acquisition of AIM and AIM's acquisition of its headquarters in November 2005, we entered into a secured loan facility with PNC Bank which included a $9,000,000 revolving credit facility, a $3,500,000 term loan and a $1,500,000 equipment line; issued promissory notes in the principal amount of $1,627,262 payable to the former shareholders of AIM; and issued our series A convertible preferred stock providing for the payment of pay-in-kind, in lieu of cash dividends, except under certain circumstances.

The loan facility with PNC Bank is secured by a lien on substantially all of our assets, including all of AIM's assets. In addition to paying for the real estate acquisition, the proceeds of the loan facility were used to pay off debts of AIM totaling approximately $5,800,000 and for working capital.

Amounts outstanding under the revolving credit portion of the loan facility accrue interest at a fluctuating rate that is paid monthly. The term loan portion of the loan facility is payable in 34 equal monthly payments of $10,648 plus interest with the balance due at the time of the final payment. We believe that all of the applicable interest rates under the loan facility are consistent with prevailing interest rates in the lending industry. The terms of the PNC Bank loan facility are set forth in note 6 to our audited consolidated financial statements and note 6 to our unaudited condensed consolidated financial statements for the three months ended March 31, 2007 included in this

prospectus.

In October 2006, we sold and leased back AIM's corporate campus for $6,200,000. We used a substantial portion of the net proceeds of this transaction to reduce our obligations under the loan facility. The balance of the term loan 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.

In August 2006, the outstanding shares of our series A convertible preferred stock were converted automatically into 40,909,500 shares of our common stock when the SEC declared effective our registration statement for the resale of those and certain other shares of common stock included in this prospectus, eliminating the dividend payable to the holders of the series A convertible preferred stock, other than the amounts accrued during a period of default.

As of December 31, 2006, our outstanding long term debt consisted of $5,800,697 under our loan facility, $1,482,962 under the notes payable to the former shareholders of AIM (which amount was reduced in January 2007 by $665,262 when Peter Rettaliata and Dario Peragallo converted their notes into shares of our common stock) and capital lease obligations of $959,817. Additionally at December 31, 2006 there was a standby letter of credit outstanding in the amount of $127,500. In addition, reflecting the sale leaseback of AIM's corporate campus, we now pay approximately $45,000 per month as rent, plus $15,662 to fund real estate tax escrow accounts and other reserves held by the landlord.

In April 2007, we acquired all of the outstanding capital stock of Sigma Metals in exchange for $3,988,501 in cash, our 7% promissory notes due 2010 in the aggregate principal amount of $1,084,213, and 7,337,891 shares of our common stock. In addition, upon determination of the earnings of Sigma Metal for the period from January 1, 2007 through April 16, 2007, the principal of the notes will be increased by an amount equal to the earnings.

In April and early May of 2007, we received gross proceeds of $8,023,000 from the sale of 802,300 shares of our series B convertible preferred stock, part of which was devoted to the acquisition of Sigma Metals with the balance available as working capital and for future acquisitions. The holders of the series B convertible preferred stock are entitled to a cumulative annual dividend of 7% per annum that we may pay in shares of our common stock, except under certain circumstances. The shares of series B convertible preferred stock are initially convertible into 29,005,784 shares of our common stock.

We paid the placement agent for the private placement of the series B convertible preferred stock, a sales commission of $641,840, representing 8% of the gross proceeds of that offering, plus $25,000 in reimbursement of its actual and reasonable out-of-pocket expenses, including fees and expenses of its counsel. We also issued to the placement agent warrants to purchase 2,900,578 shares of our common stock, representing 10% of the number of shares into which the series B convertible preferred stock may be converted. These warrants, which may be exercised over a period of five years, have an initial per share exercise price of $0.305 and allow a "cashless exercise."

In connection with the acquisition of Sigma Metals, we amended and modified the terms of the PNC Bank loan facility to allow Sigma Metals to become a borrower under that loan facility. Sigma Metals was required 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.

Prior to our acquisition of AIM, AIM was a Subchapter S corporation and periodically made distributions to its shareholders. AIM distributed to its shareholders $1,175,279 during the eleven months ended November 30, 2005 to allow the shareholders of AIM to pay the taxes owed on their proportionate share of AIM's income from the fiscal year immediately preceding such distributions and, in the case of certain distributions, to allow two of AIM's shareholders to pay the purchase price owed to a former shareholder of AIM who sold all of his shares of AIM to those two shareholders. We do not anticipate paying dividends to our stockholders in the foreseeable future.

We used approximately $729,526 in our operations during Fiscal 2006, as compared to $1,162,972 used in operating activities during Fiscal 2005. The use of cash reflects the net loss incurred by us of $336,569, increased by an increase in accounts receivable of $1,062,789 and an increase in inventory of $2,653,851, partially offset by an increase in accounts payable of $2,353,797, an increase of $653,426 in income taxes payable and depreciation of $597,009. The increase in inventories reflects a decision by one of our largest customers to delay deliveries of units previously projected to be delivered during the second half of 2006. These delivery delays are the result of a strike at the customer's facility earlier in 2006.

We generated approximately $5,417,704 in Fiscal 2006 through the sale of AIM's real estate campus, which amount was partially offset by purchases of equipment in the amount of $812,372 and $448,530 deposited to secure obligations under the lease for AIM's corporate campus. The funds generated from the sale of AIM's corporate campus primarily were used to reduce amounts payable under our loan facility by approximately $4,170,099.

As of March 31, 2007, we had outstanding under the PNC Bank loan facility, revolving loan balances of $5,352,845 and a term loan balance of $330,090 and an equipment loan balance of $411,200 and a standby letter of credit in the amount $127,500. In addition, as of March 31, 2007 we had capital lease obligations to other parties totaling $937,516.

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During the quarter ended March 31, 2007, we used $175,935 in operations due to an increase in inventory of $608,490, an increase in deposits with vendors of $596,217, an increase in prepaid expenses of $223,209, and a decrease in accounts payable and accrued expenses of $66,389, partially offset by a reduction in accounts receivable of $808,050. The increase in inventory resulted, in part, from work flow disruptions at our principal customer which prevented us from shipping all of the inventory originally anticipated. The increase in deposits with vendors and decrease in accounts payable is due to advanced payment requirements imposed by certain suppliers. As a result of efforts to reduce amounts due these suppliers, we anticipate that they may not require prepayments in the immediate future.

At March 31, 2007, we had working capital of $5,159,821 as compared to $4,911,354 as of December 31, 2006.

Prior to being acquired by us, AIM financed its operations and investments principally through revenues from operations. As a private company, AIM did not have many of the expenses which we have as a public company. In the near term, AIM will have to bear significantly increased cash requirements relating to the preparation of financial statements, compliance with requirements under the Securities Exchange Act, the registration of shares under the Securities Act and

other requirements applicable to public companies. We expect those cash requirements to be approximately $1,000,000 in 2007, since we are obligated to comply with Section 404 of Sarbanes-Oxley.

In connection with the acquisition of AIM, we incurred notes payable obligations to the former shareholders of AIM in the aggregate principal amount of $1,627,262, of which $665,262 were in the form of convertible promissory notes which they converted into 1,799,432 shares of common stock at a conversion price of $0.40 per share in January 2007. The principal amount of the remaining note is $769,600 and is repayable by us in equal quarterly installments of $48,100 principal, plus interest.

In connection with the acquisition of Sigma Metals, we incurred notes payable obligations to the former shareholders of Sigma Metals in the aggregate principal amount of $1,084,213, subject to in increase upon determination of the earnings of Sigma Metals from January 1, 2007 through April 16, 2007. The principal balance of the remaining balance is $993,862 and is repayable by us in equal monthly installments of $30,117 principal, plus interest.

One customer accounted for approximately 35.3% of our accounts receivable at March 31, 2007. This customer accounted for approximately 65.5% of net sales for the quarter ended March 31, 2007. If this customer is unable or unwilling to pay amounts due or our relationship with this customer is severed or negatively affected, our results of operations will be materially adversely affected and we may not have the resources to meet our capital obligations.

In March 2007, we entered into an agreement to acquire all of the outstanding capital stock of Welding Metallurgy, Inc. for $6,050,000, subject to adjustment for working capital, payable in a combination of cash, our secured promissory notes and shares of our common stock. The closing of this potential acquisition is subject to certain conditions, including the consent of our lender and our ability to obtain additional financing to complete the acquisition. We cannot assure you that we will be able to complete the acquisition of Welding Metallurgy.

We expect that the remaining net proceeds from the sale of our series B convertible preferred stock, together with cash flows from operations and amounts available under our loan facility, will be sufficient to pay our obligations through the second quarter of 2008. However, we may require financing to expand our business internally and will require financing to complete our contemplated acquisitions. We intend to finance those acquisitions through a combination of debt and equity. The incurrence of additional debt will require the consent of PNC Bank and will increase the leverage of our business. The issuance of equity securities, whether in the form of common or preferred shares, may dilute the interests of our existing stockholders. We cannot assure you that the necessary debt or equity financing will be available to us on acceptable terms, if at all. If financing is not available, we may not be able to expand our business internally or make acquisitions.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our financial results.

Inventory Valuation

We value 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. We occasionally produce 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. We occasionally evaluate inventory items that are not secured by a purchase orders and reserves for obsolescence accordingly. We also reserve an allowance for excess quantities, slow-moving goods, and obsolete items.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." We generally recognize 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.

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 all of the 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.

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 income statement based on their fair values at the date of grant. We recorded an expense of $167,126 and $121,297 for the years ended December 31, 2006 and 2005, respectively, in accordance with the measurement requirements under SFAS No. 123(R)

Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. We apply SFAS No. 142, Goodwill and Other Intangible Assets and accordingly do not amortize goodwill but test it for impairment. We will perform 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. Goodwill is reviewed for potential impairment at the reporting unit level on an annual basis, or in interim periods if events or circumstances indicate a potential impairment. The reporting units utilized for this test were those that are one level below the business segments identified

at the beginning of Business Segment Operations. The impairment test is performed in two phases. The first step of the Goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including Goodwill. If the fair value of the reporting unit exceeds its carrying amount, Goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit's Goodwill (as defined in SFAS 142) with the carrying amount of that Goodwill. An impairment loss is recorded to the extent that the carrying amount of Goodwill exceeds its implied fair value.

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 5.25% to 9.25% for 2006. Our evaluations for the year ended December 31, 2006 indicated there was no impairment of our Goodwill.

Quantitative and Qualitative Disclosure about Market Risk

Our primary exposure to market risk consists of changes in interest rates on borrowings under the loan facility. An increase in interest rates would adversely affect our operating results and the cash flow available after debt service to fund operations. We manage exposure to interest rate fluctuations by optimizing the use of fixed and variable rate debt. Except with respect to the interest rates under the loan facility, we do not have debts or hold instruments that are sensitive to changes in interest rates, foreign currency exchange rates or commodity prices.

Security Ownership

The following table sets forth information known to us regarding beneficial ownership of our series B convertible preferred stock and our common stock as of June 30, 2007 by (i) each person known by us to own beneficially more than 5% of the outstanding shares of each of those classes, (ii) each of our directors, nominees for director, and executive officers, and (iii) all of our officers and directors as a group. Except as otherwise indicated, we believe, based on information provided by each of the individuals named in the table below, that such individuals have sole investment and voting power with respect to such shares, subject to community property laws, where applicable.

As of June 30, 2007, we had outstanding 802,300 shares of our series B convertible preferred stock, with a face amount of $8,023,000, and 67,008,507 shares of our common stock. Each share of series B convertible preferred stock is convertible into shares of our common stock at a rate of $0.2766 per share. If all of our series B convertible preferred stock had been converted at the close of business on June 30, 2007, we would have had outstanding 95,280,502 shares of common stock, without giving any effect to the additional shares that we may issue pursuant to outstanding options and warrants exercisable at a range of prices from $0.22 to $0.55 per share.

Name	Number of Shares Series B Preferred	Common*	Percent Series B Prefe
Owner of More than 5% of Class			
Michael A. Gales 333 East 66th Street New York, NY 10022	--	5,257,379(1)	--
Hillson Partners LP(2) Hillson Private Partners II, LLLP(2) 110 N. Washington Street, Suite 401 Rockville, MD 20850	130,000	4,680,000	16.20%
Directors and Executive Officers			
Louis A. Giusto	--	3,884,538(3)	--
Peter Rettaliata	--	1,468,139(4)	--
Dario Peragallo	--	1,468,139(5)	--
Seymour G. Siegel	--	133,333(6)	--
Ira A. Hunt, Jr	--	842,430(6)(7)	--
James A. Brown	--	809,601(6)	--
David J. Buonanno	--	--	--
All Directors and officers as a group (7 persons)		8,606,180(3)(4)(5)(6)(7)	--

* Assumes the conversion of the shares of series B convertible preferred stock owned by the stockholder listed in the table, but not by any other holder.

** Less than 1%

(1) Includes 1,000,000 shares we may issue to Mr. Gales upon exercise of options granted under his employment agreement that pursuant to his separation agreement are exercisable until March 16, 2008.

(2) The general partner of Hillson Partners LP and Hillson Private Partners II, LLLP is Daniel H. Abramowitz, who has the sole power to vote and dispose of the shares.

(3) Includes 480,000 shares we may issue to Mr. Giusto upon exercise of the vested portion of the 1,200,000 options granted to him under his employment agreement.

(4) Includes 300,000 shares we may issue to Mr. Rettaliata upon exercise of the vested portion of the 1,200,000 options granted to him under his employment agreement.

(5) Includes 300,000 shares we may issue to Mr. Peragallo upon exercise of vested portion of the 1,200,000 options granted to him under his employment agreement.

(6) Includes, in each case, 33,333 shares we may issue to Messrs. Brown, Hunt, and Siegel upon exercise of the vested portion of the 100,000 options granted to each of them on February 13, 2007.

(7) Includes 709,097 shares owned by Mr. Hunt's spouse.

(8) Excludes 100,000 shares which vest on January 1, 2008, provided Mr. Brown continues to serve as our Chairman.

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Our Directors and Executive Officers

Our directors and executive officers are:

Name	Age	Position
James A. Brown	54	Chairman
Louis A. Giusto	64	Vice Chairman, Chief Financial Officer and Treasurer
Peter D. Rettaliata	56	Director, Chief Executive Officer and President
Dario A. Peragallo	42	Director and Executive Vice President, Manufacturing
Seymour G. Siegel	64	Director
M.Gen. Ira A.Hunt,Jr. (USA, Ret.)	81	Director
David J. Buonanno	51	Director

James A. Brown became our Chairman on March 17, 2007, following his appointment as Co-Chairman on February 13, 2007. Mr. Brown was Chief Executive Officer and Secretary of our predecessor, Ashlin Development Corporation, from September 2004 to November 30, 2005 and was Ashlin's Chairman of the Board from May 2003 to November 30, 2005. Ashlin filed for bankruptcy protection while Mr. Brown was its Chairman and CEO. Mr. Brown currently serves in a Board or advisory capacity with other firms, including Preferred Commerce, a privately held, seven year old technology solutions provider headquartered in West Palm Beach. Mr. Brown also advises a development stage Florida-based firm focused on bringing scientific breakthroughs in the acoustic arena to the consumer market. Mr. Brown has served as a private equity manager, targeting undervalued opportunities in both the public and private arenas. He has also served as a work-out specialist for firms at the behest of creditors, management and investors. Mr. Brown has advised more than thirty firms on matters including strategy, corporate finance and business process.

Louis A. Giusto has been our Vice Chairman, Chief Financial Officer and Treasurer since November 30, 2005. Mr. Giusto has over 30 years of financial control experience with foreign and domestic banks, non-bank financial service entities and consumer product companies. From 2003 to November 2005, Mr. Giusto acted as an independent consultant to a number of private businesses. From 2000 to 2003, Mr. Giusto was an Account Manager for a public accounting firm and the SVP Finance and Operations of Credit2B.com, a web-based internet company. Before joining C2B, Mr. Giusto served for fourteen years in various positions with Fleet Bank and, prior to its acquisition by Fleet Bank, NatWest PLC, London. During his tenure at NatWest, Mr. Giusto served as Senior Financial Officer and Treasurer of NatWest Commercial Services, Inc. (a billion dollar wholly owned subsidiary of NatWest PLC, London) and a Credit Administrator (Risk Manager) with Fleet Bank. Mr. Giusto serves as a director of Long Island Consultation Center, a not-for-profit psychiatric care facility. Mr. Giusto graduated from New York University with a BS in Economics and Accounting and from Long Island University (with Distinction) with an MBA in Finance.

Peter D. Rettaliata has been our President and Chief Executive Officer since November 30, 2005. He also has been the President of our wholly-owned subsidiary, Air Industries Machining Corp., referred to as AIM, since 1994. Prior to his involvement at AIM, Mr. Rettaliata was employed by Grumman Aerospace Corporation for twenty-two years. Professionally, Mr. Rettaliata is the Chairman of "ADAPT", an organization of regional aerospace companies, a past member of the Board of Governors of the Aerospace Industries Association, and a member of the Executive Committee of the AIA Supplier Council. He is a graduate of Niagara University where he received a B.A. in History and the Harvard Business School where he completed the PMD Program.

Dario Peragallo has been our Executive Vice President since November 30, 2005 and is also Executive Vice President of Manufacturing for AIM. Mr. Peragallo has been associated with AIM for over 25 years. He became AIM's Director of Manufacturing in 2000. In addition, he has helped develop and maintain AIM's current business systems. Mr. Peragallo has been the company "Lean Advocate" since the inception of the program at AIM to decrease its inventory and increase productivity. Mr. Peragallo became Executive Vice President with overall responsibility for engineering, manufacturing and customer-critical technical matters in 2003. He has been an active member of Diversity Business since 2000, an organization specializing in the promotion of small and minority owned businesses. He is a graduate of SUNY Farmingdale where he received a B.A. in Manufacturing Engineering. Mr. Peragallo oversees all engineering and production matters relating to AIM.

Seymour G. Siegel has been a principal in the Business Consulting Group of Rothstein, Kass & Company, P.C., a national firm of accountants and consultants since April 2000. He specializes in providing strategic advice to business owners including mergers and acquisitions; succession planning; capital introductions and long range planning. In 1974, Mr. Siegel founded, and from 1974 to 1990 was managing partner of, Siegel Rich and Co, P.C., CPAs. In 1990, Siegel Rich merged into Weiser LLP, then known as M.R.Weiser & Co., LLC, a large regional firm where he had been a senior partner. In 1995, Mr. Siegel founded another firm called Siegel Rich, which became a division of Rothstein, Kass in April 2000. Mr. Siegel has been a director, trustee and officer of numerous businesses, philanthropic and civic organizations. He serves as a director and audit committee chairman of Hauppauge Digital Inc. and Emerging Vision Incorporated and has served in a similar capacity at Oak Hall Capital Fund, Prime Motor Inns Limited Partnership, Noise Cancellation Technologies and Barpoint.com and serves as the chairman of the audit committee and as a member of the compensation committee for Global Aircraft Solutions Incorporated. Mr. Siegel is the Chairman of the Audit Committee of the Board.

General Ira A. Hunt, Jr. (USA, Ret) graduated from the United States Military Academy in 1945 and subsequently served thirty-three years in various command and staff positions in the U.S. Army, retiring from active military service as a Major General in 1978. His last military assignment was as Director of the Office of Battlefield Systems Integration. Subsequently, General Hunt was president of Pacific Architects and Engineers in Los Angeles and Vice President of Frank E. Basil, Inc. in Washington, D.C. Since 1990, General Hunt has been a director of SafeNet Inc. (Nasdaq: SFNT), an information security technology company. He is a Freeman Scholar of the American Society of Civil Engineers and has a M.S. in Civil Engineering from the Massachusetts Institute of Technology, a M.B.A. from the University of Detroit; a Doctor of the University Degree from the University of Grenoble, France and a Doctor of Business Administration Degree from the George Washington University. General Hunt is Chairman of the Compensation Committee of our Board and is a member of the Audit Committee.

David J. Buonanno has been a Director since June 26, 2007. He is a consultant to Dresser-Rand Corporation as well as other companies in the aerospace and defense industries. Mr. Buonanno has extensive experience in manufacturing, supply management and operations. He was employed by Sikorsky Aircraft, Inc., a subsidiary of United Technologies Corporation, as Vice President, Supply Management (from January 1997 to July 2006) and as Director, Systems Subcontracts (from November 1992 to January 1997). From May 1987 to November 1992, he was employed by General Electric Company and GE Astro Space, serving as Operations Manager for GE in 1992 and Manager, Program Materials Management of GE Astro Space from December 1989 to January 1992. From June 1977 to May 1987, he was employed by RCA and affiliated companies, including RCA Astro Space. Mr. Buonanno attended Lehigh University College of Electrical Engineering and holds a B.S. in Business Administration from Rutgers University. He completed the Program for Management Development at Harvard Business School

in 1996.

Information Concerning our Board of Directors, Board Committees and Corporate Governance

Board Composition

Our Board of Directors consists of seven (7) directors. Our Board has determined that James A. Brown, Seymour G. Siegel, General Ira A. Hunt, Jr. (USA Ret) and David J. Buonanno are "independent directors." Our Board held five meetings in 2006.

Committees of the Board

Our Board of Directors has established an Audit Committee and a Compensation Committee.

Audit Committee. Messrs. Siegel and Brown and General Hunt are members of the Audit Committee, each of whom is a non-employee member of the Board of Directors. Mr. Siegel serves as Chairman of the Audit Committee and also qualifies as an "audit committee financial expert," as that term is defined under the SEC rules implementing Section 407 of the Sarbanes-Oxley Act. The Board has determined that each member of our Audit Committee meets the current independence and financial literacy requirements under the Sarbanes-Oxley Act and SEC rules and regulations. Our Audit Committee met four times in 2006.

Compensation Committee. Our Compensation Committee is composed of General Hunt (Chairman), and Messrs. Siegel and Brown, each of whom is a non-employee member of our Board of Directors. Our Compensation Committee met once in 2006.

Code of Ethics

We have adopted a written code of ethics that applies to our principal executive officers, senior financial officers and persons performing similar functions. Upon written request to our corporate secretary, we will provide you with a copy of our code of ethics, without cost.

Director Compensation

For services rendered from the commencement of their terms through our next annual meeting of stockholders, each of the then non-management directors (Mr. Brown, General Hunt, Mr. Siegel and Mr. Nagler) was granted an option to purchase 100,000 shares of the our common stock. These options vest in equal increments on March 1 of each of 2007, 2008 and 2009 and are exercisable at a price of $0.27 per share for a period of seven years from the date of grant.

For their services, we will pay each non-management director a base fee of $18,000 per year and $1,500 for each Board meeting attended. In addition, we will pay the Chairman of the Audit Committee $12,000 for serving in that capacity, members of the Audit Committee $1,000 for each meeting attended, and the Chairman of the Compensation Committee $6,000 for serving in that capacity. Beginning in December 2006 and continuing into 2007, we paid Mr. Rounsevelle W. Schaum fees for certain per diem services to our company that are included in the table below. Our Board accepted the resignation of Mr. Schaum effective as

of April 13, 2007.

The following table sets forth information concerning the compensation we paid to our directors during the fiscal year ended December 31, 2006:

DIRECTOR COMPENSATION					
Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)
(a)	(b)	(c)	(d)	(e)	(f)
Michael A. Gales (1)	--	--	--	--	--
James A. Brown	15,831	--	--	--	--
Louis A. Giusto	--	--	--	--	--
Peter D. Rettaliata	--	--	--	--	--
Dario A. Peragallo	--	--	--	--	--
Stephen M. Nagler (2)	15,831	--	--	--	--
Seymour G. Siegel	24,231	--	--	--	--
Rounsevelle W. Schaum (3)	26,498	--	--	--	--
M.Gen. Ira A Hunt, Jr. (USA Ret.)	15,831	--	--	--	--

(1) Mr. Gales resigned as a member of the Board on March 16, 2007.
(2) Mr. Nagler's term as a director ended on June 26, 2007.
(3) Our Board accepted the resignation of Mr. Schaum effective as of April 13, 2007.

Compensation of Our Executive Officers

The following table shows compensation which we (including AIM) awarded or paid to, or which was earned from us, in all capacities for fiscal years ended December 31, 2006 and 2005, by (i) each individual who served as our chief executive officer for all, or a portion of, 2006 and (ii) each other individual who served as an executive officer of our company (including AIM) and received total compensation in excess of $100,000 for our 2006.

- o Michael A. Gales, our former Executive Chairman, who resigned all of his positions with us as of March 16, 2007;
- o Louis A. Giusto, our Vice Chairman, Chief Financial Officer

and Treasurer since November 30, 2005;

- o Peter D. Rettaliata, our Chief Executive Officer and President since November 30, 2005 and an officer of AIM; and
- o Dario A. Peragallo, our Executive Vice President since November 30, 2005 and an officer of AIM.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Val and Nonqualif Deferred Compen Earnings (
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Michael A.Gales, Executive Chairman	2006	$250,000	--	--	52,888(1)	--	--
	2005	$ 21,233	--	--	38,384(1)	--	--
Louis A. Giusto, Vice Chairman, CFO and Treasurer	2006	$230,000	--	--	50,772(1)	--	--
	2005	$ 19,534	--	--	36,850(1)	--	--
Peter D. Rettaliatta CEO	2006	$230,000	--	--	31,733(1)	--	--
	2005	$241,510	--	--	23,031(1)	--	--
Dario A. Peragallo Executive VP	2006	$230,000	--	--	31,773(1)	--	--
	2005	$242,344			23,031(1)	--	--

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(1) Consists of stock options to purchase shares of common stock, the vesting schedule and other terms of which are set forth in the footnotes to the table below under the caption "Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values".

(2) Consists of automobile leasing, maintenance, parking and insurance.

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information as of December 31, 2006, concerning outstanding equity awards granted to the individuals listed in the Summary Compensation Table. We did not grant options, or make stock awards, to any of our executive officers in 2006.

Outstanding Equity Awards at Fiscal Year-End

Option Awards

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Exercise Price	Expiration Date	Shares o Stock Not Number M
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Michael A. Gales (1)	1,250,000		--	(1)	03/16/2008	--
Louis A. Giusto (2)	480,000	720,000	--	(2)	11/30/2015	--
Peter D. Rettaliata (3)	300,000	900,000	--	(3)	11/30/2015	--
Dario A. Peragallo (3)	300,000	900,000	--	(3)	11/30/2015	--

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* On December 29, 2006, the last trading day of 2006, the last sale price of a share of our common stock was $0.25.

(1) Represents options granted to Mr. Gales pursuant to his employment agreement. One-fifth of these options vested as of November 30, 2005 at an exercise price of $0.22 per share and another 250,000 vested on September 15, 2006 at an exercise price of $0.428 per share. Mr. Gales terminated his employment with us and his employment agreement effective March 16, 2007. Under the terms of his separation agreement, 750,000 options vested on March 16, 2007, and all of his options are exercisable through March 16, 2008.

(2) One-fifth of these options vested as of November 30, 2005 at an exercise price of $0.22 per share and another 240,000 vested on September 15, 2006 at an exercise price of $0.428 per share. The balance will vest in equal increments of 240,000 shares each on the second through fourth anniversaries of September 15, 2005. The exercise price of the options vesting on each of September 15, 2007, 2008 and 2009 will be the higher of (a) $0.22 per share or (b) the average trading price of our common stock for the thirty trading days ending September 15, 2007, 2008 and September 15, 2009, respectively.

(3) One-eighth of these options vested as of November 30, 2005 at an exercise price of $0.22 per share and another 150,000 vested on September 15, 2006, at an exercise price of $0.428 per share. The balance will vest in equal increments of 150,000 shares each on the second through seventh anniversaries of September 15, 2005. The exercise price of the options vesting on each of September 15, 2007, 2008, 2009, 2010, 2011 and 2012 will be the higher of (a)$0.22 per share or (b) the average trading price of our common stock for the thirty trading days ending September 15, 2007, 2008, 2009, 2010, 2011 and September 15, 2012, respectively.

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Equity Compensation Plan Information

The following table provides certain information with respect to all of our equity compensation plans in effect as of December 31, 2006.

Plan Category	Number of Securities to be Issued upon Exercise of Oustanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Rem for Equity (Exc Referr
Equity compensation plans approved by security holders	None	$ --	--
Equity compensation plans not approved by security holders (1)	9,030,346	$.23	5,150,
Total (1)	9,030,346	$.23	5,150,

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(1) Shareholder approval of our 2005 Stock Incentive Plan was completed as of February 15, 2006. In connection with our merger, our Board adopted our 2005 Stock Incentive Plan, and issued stock options to purchase 4,850,000 shares to our new executive officers. The vesting and exercise prices of the 4,850,000 options which we have granted to our executive officers are set forth under the section captioned "Executive Compensation - Outstanding Equity Awards at Fiscal Year-End." As of December 31, 2006, 5,150,000 shares remained available for grant under our 2005 Stock Incentive Plan.

Of the 9,030,346 shares included above, (i) 4,138,678 shares may be acquired upon exercise of warrants issued to GunnAllen Financial, Inc., at an exercise price of $0.22 per share, and (ii) 41,668 shares may be acquired upon exercise of warrants issued to an investor relations firm, at a weighted average price of $0.70 per share.

Employment Agreements

The employment agreement of Louis Giusto became effective as of November 30, 2005 and will terminate on November 30, 2010, but will be extended for successive three one-year renewal periods unless he or our company decides not to extend the agreement. Under his employment agreement, Mr. Giusto will receive an annual base salary of $230,000, which will increase a minimum of 10% per year if our operating profits have increased by at least 5% over the preceding 12-month period. Mr. Giusto will be entitled to an annual bonus to be determined by our Board of Directors but which must equal at least 50% of his annual base salary. If he is dismissed without cause, Mr. Giusto is entitled to receive salary and benefits for the period which is the greater of the remaining initial term (or renewal period, as the case may be) of his employment agreement or one year. In addition, upon the execution of his employment agreement, we granted Mr. Giusto options to purchase 1,200,000 shares of common stock, exercisable over a ten-year period commencing on the date of grant. See the applicable footnote to the table captioned "Outstanding Equity Awards at Fiscal Year-End". Mr. Giusto's employment agreement also contains restrictive covenants prohibiting Mr. Giusto (i) from directly or indirectly competing with us, (ii) from soliciting any customer of our company or AIM for any competitive purposes and (iii) from employing or retaining any employee of our company or AIM or soliciting any such employee to become affiliated with any entity other than our

company or AIM during the twelve-month period commencing upon the termination of his agreement.

The employment agreement of Peter D, Rettaliata became effective as of November 30, 2005, and will terminate on November 30, 2010, but will be extended for successive three one-year periods unless he or our company decides not to extend the agreement. Under his employment agreement, Mr. Rettaliata will receive an annual base salary of $230,000, which will increase a minimum of 5% per year if our operating profits have increased by at least 5% over the preceding 12-month period, and such bonus compensation as the Board of Directors may determine. The terms of Mr. Rettaliata's employment agreement relating to severance upon termination without cause are the same as those provided for in Mr. Giusto's employment agreement. In addition, upon the execution of his employment agreement, we granted Mr. Rettaliata options to purchase 1,200,000 shares of common stock, exercisable over a ten-year period commencing on the date of grant. Please see the applicable footnote to the table captioned "Outstanding Equity Awards at Fiscal Year-End". Mr. Rettaliata's employment agreement also contains the restrictive covenants included in Mr. Giusto's employment agreement, discussed above.

The employment agreement of Dario A. Peragallo became effective as of November 30, 2005, and will terminate on November 30, 2010, but will be extended for successive three one-year periods, unless he or our company decides not to extend the agreement. Under his employment agreement, Mr. Peragallo will receive an annual base salary of $230,000, which will increase a minimum of 5% per year if our operating profits have increased by at least 5% over the preceding 12-month period, and such bonus compensation as the Board of Directors may determine. The terms of Mr. Peragallo's employment agreement relating to severance upon termination without cause are the same as those provided for in Mr. Giusto's employment agreement. In addition, upon the execution of his employment agreement, we granted Mr. Peragallo options to purchase 1,200,000 shares of common stock, exercisable over a ten-year period commencing on the date of grant. The vesting schedule and exercise price relating to Mr. Peragallo's options are the same as those relating to Mr. Rettaliata's options set forth above. Mr. Peragallo's employment agreement also contains the restrictive covenants included in Mr. Giusto's employment agreement, discussed above.

We have agreed with GunnAllen Financial, Inc., placement agent for our private placement of series A convertible preferred stock, that we will not change or modify the employment agreements with, or grant more stock options to, Messrs. Giusto, Rettaliata and Peragallo before November 30, 2007, without its prior consent.

In March 2007, we entered into an agreement with James A. Brown for his service as our Chairman. Under the agreement, we have paid Mr. Brown $15,000 and we will compensate him at a rate of $175,000 per annum until December 31, 2007, or until such date as he shall cease to serve as Chairman. In addition to his cash compensation, we issued to Mr. Brown, under a Restricted Stock Agreement, 200,000 shares of our common stock, of which 100,000 shares became vested on March 30, 2007 and the second 100,000 will vest as of December 31, 2007.

Prior to March 16, 2007, we employed Michael A. Gales under an employment agreement effective November 30, 2005. We entered into a Separation Agreement and General Release with Mr. Gales, effective March 16, 2007, under which Mr. Gales resigned from his positions with our company. Under the separation agreement, our employment agreement with Mr. Gales was terminated effective March 16, 2007. In lieu of the compensation payable to Mr. Gales under his

employment agreement, from March 16, 2007, to November 30, 2010, we will pay Mr. Gales $100,000 per annum, and from December 1, 2010 to May 31, 2011, we will pay him $50,000. In addition, if we achieve certain agreed-upon levels of performance, he may receive up to an additional $50,000. Upon the execution of his employment agreement we granted Mr. Gales options to purchase 1,250,000 shares of our common stock, subject to an agreed upon vesting schedule and exercisable over a ten-year period commencing on the date of grant. Under the separation agreement, all unvested options held by Mr. Gales vested as of March 16, 2007, and the right to exercise all of his options will terminate as of March 16, 2008.

On May 11, 2007, we entered into a Letter Agreement with Mr. Gales confirming that, due to an oversight between the parties, the Separation Agreement and Release, dated March 15, 2007, failed to indicate that notwithstanding that the former Chairman was resigning from his positions with us, he would make himself available (i) from time to time for consultations with members of our Board and senior management regarding our business and affairs, potential acquisitions and strategic alliances, expansion and other business opportunities and (ii) once each calendar quarter for meetings to be held in Manhattan, New York, with one or more members of our Board to review our strategic plan.

Certain Relationships and Related Transactions

On November 30, 2005, in connection with our acquisition of AIM, we issued our convertible promissory notes in the principal amount of $332,631 to each of Peter Rettaliata, our Chief Executive Officer and a Director, and Dario Peragallo, our Executive Vice President and a Director, convertible into shares of our common stock at the conversion price of $0.40 per share. On January 26, 2007, each of Mr. Rettaliata and Mr. Peragallo exercised their right to convert their promissory notes, including accrued interest of $27,255, into 899,716 shares of common stock. In consideration for the shares of common stock issued, all of our indebtedness under the promissory notes was cancelled.

On February 13, 2007, each of the non-management members of the Board was issued an option to purchase 100,000 shares of our common stock. The options will vest in equal thirds on March 1, 2007, 2008 and 2009 and are exercisable at a price of $0.27 per share until March 1, 2014.

Stephen M. Nagler, a director of our company until June 26, 2007, is a partner in Eaton & Van Winkle LLP, our legal counsel. We paid Eaton & Van Winkle LLP $500,000 in 2006 and $630,000 in 2005 for legal fees and disbursements.

For information concerning our agreement with James A. Brown under which he serves as our Chairman and the Separation Agreement and Release we entered into with Michael A. Gales, our former Executive Chairman, see "Our Directors and Executive Officers - Employment Agreements."

Transactions of Ashlin Prior to the Merger:

In connection with our Plan of Reorganization, in January 2005, we entered into an employment agreement with James A. Brown, who was then our Chief Executive Officer, and disposed of substantially all of our assets to an entity controlled by another person who had been our former Chief Executive Officer.

Mr. Brown received 100,000 shares, with a fair value of $7,000, as of November 2005 in connection with the merger.

Transactions Relating to Original Gales Prior to the Merger:

In August 2005, Mr. Stephen Nagler, at that time one of our directors and our Secretary, loaned $10,000 to Original Gales, a privately-owned Delaware corporation. Co-investors of Mr. Nagler loaned an additional $35,000 to Original Gales in the same financing. In connection with that financing, Original Gales issued to the investors its 12% convertible bridge notes in the aggregate principal amount of $45,000. The bridge notes were

repaid with a portion of the proceeds of the offering. In connection with the financing, Original Gales issued to the investors warrants to purchase 204,547 shares of its common stock at $0.22 per share and, as a result of the merger, those warrants became warrants to purchase an equal number of shares of our common stock. The warrants allow for cashless exercise and have weighted-average anti-dilution protection with respect to the exercise price.

Transactions Relating to Air Industries Machining Corporation Prior to the Merger:

Prior to its acquisition by Original Gales, AIM leased manufacturing and office space from KPK Realty Corp. which, since October, 1974, has been owned 49% by Luis Peragallo, an officer, a director and the largest shareholder of AIM prior to its acquisition by Original Gales. The annual rent under the lease was approximately $300,000, plus annual real estate taxes on the leased property. Between 1989 and 1990, AIM advanced $208,233 to KPK Realty Corp. In partial repayment of the advances from AIM, rent in the amount of $11,496 in 2005 was offset by KPK Realty Corp. from the amounts due under the lease. In addition, from 1990 to 2005, AIM was a guarantor of the mortgage (with a balance of approximately $677,000 as of September 30, 2005) on such leased property. This guaranty was terminated in connection with the real estate acquisition.

Prior to its acquisition by Original Gales, AIM leased manufacturing space at an annual rental of approximately $82,800, plus annual real estate taxes on such property, from DPPR Realty Corp. which, since January 2003 has been 100% owned by Peter Rettaliata and Dario Peragallo. Prior to the acquisition, Messrs. Rettaliata and D. Peragallo owned an aggregate of 36.84% of AIM's outstanding capital stock. Messrs. Rettaliata and D. Peragallo were officers of AIM and are officers and directors of our company. From February 2003 to November 30, 2005, AIM was also a guarantor of the mortgage (with a balance of approximately $567,000 as of September 30, 2005) on such leased property. This guaranty was terminated in connection with the real estate acquisition.

In June 1995, an individual who held 49% of the outstanding capital stock of AIM sold such interest to Jorge Peragallo and Peter Rettaliata for cash and a $625,000 principal amount promissory note from each of Mr. J. Peragallo and Mr. Rettaliata ($1,250,000 in the aggregate). AIM guaranteed the repayment of these promissory notes, which aggregated $1,250,000 in principal amount. These promissory notes were repaid in full in June 2005.

Peter Rettaliata, who was an officer of AIM, advanced $5,000 to AIM during 2003 and $42,678 to AIM during 2004. Dario Peragallo, who was an officer of AIM, advanced $5,000 to AIM during 2003 and $39,334 to AIM during 2004. Luis Peragallo, who was an officer of AIM, advanced $5,000 to AIM during 2003 and $18,179 to AIM during 2004. Jorge Peragallo, who was an officer of AIM, advanced $5,000 to AIM during 2003 and $38,344 to AIM during 2004. As of September 30, 2005, AIM had received an aggregate of $363,323 in loans from its officers and was obligated to repay such amount to its officers. Such amount was repaid in connection with our acquisition of AIM. In October 2005, AIM agreed to pay an

aggregate of $225,000 to its officers to enable them to pay income taxes accrued while operating AIM as a Subchapter S corporation. Such amount was paid in connection with our acquisition of AIM.

Transactions Relating to the Merger and Acquisition of AIM:

On November 30, 2005, Original Gales completed the acquisition from Messrs. Luis Peragallo, Jorge Peragallo, Peter Rettaliata and Dario Peragallo, of all of the outstanding capital stock of AIM. Original Gales had entered into a Stock Purchase Agreement with AIM and the shareholders of AIM as of July 25, 2005. The aggregate purchase price paid to the AIM shareholders consisted of (i) $3,114,296 in cash, (ii) $1,627,262 principal amount of promissory notes, payable over five years, of which $962,000 were in the form of a secured

subordinated promissory note payable to Mr. Luis Peragallo and $665,262 were in the form of unsecured convertible promissory notes ($332,631 payable to Mr. Peter Rettaliata and $332,631 payable to Mr. Dario Peragallo), convertible into shares of our common stock at a price of $0.40 per share, and (iii) 490,060 shares of newly issued common stock. The 490,060 shares of common stock issued to the AIM shareholders were allocated as follows: 253,214 shares to Luis Peragallo, 118,423 shares to Peter Rettaliata and 118,423 shares to Dario Peragallo. In addition to the purchase price, Original Gales paid an aggregate of $1,053,862 in connection with the acquisition, a portion of which represented legal and accounting expenses ($300,000) incurred by AIM and its shareholders and $270,403 to enable AIM's shareholders to pay income taxes accrued prior to closing. The purchase price paid to AIM's shareholders was the result of arms' length negotiation between Original Gales and the AIM shareholders.

Our employment agreements with Messrs. Gales, Giusto, Rettaliata and D. Peragallo became effective on November 30, 2005 and we issued stock options to them as of that date. See "Our Directors and Executive Officers -- Employment Agreements."

As of November 30, 2005, Original Gales Acquisition Corp., Inc. completed the purchased from entities which are owned, in part, by affiliates of AIM (KPK Realty Corp. and DPPR Realty Corp.), for the aggregate purchase price $4,190,000, of the properties, described above, which were being leased by AIM prior to November 30, 2005 from such entities. The purchase price paid to KPK Realty Corp. was $2,690,000 and the purchase price paid to DPPR Realty Corp. was $1,500,000. Gales Industries Acquisition Corp., Inc. contemporaneously merged into AIM, with AIM being the surviving entity, so that AIM became the owner of those properties.

Selling Security Holders

Based on information provided by the selling security holders, the table below sets forth certain information, as of June 30, 2007, unless otherwise noted, regarding the selling security holders.

As of June 30, 2007, we had outstanding 67,008,507 shares of our common stock. The table below assumes, for calculating each selling security holder's beneficial ownership, that options, warrants and convertible securities held by that security holder (but not, unless otherwise noted, those held by any other person) that may be exercised or converted within 60 days after the reference date of June 30, 2007, have been exercised or converted and that the shares of common stock issued upon exercise or conversion have been added to the number of shares deemed to be outstanding. For purposes of calculating the post-offering ownership of each selling security holder, the table also assumes the sale of

all of the shares being offered by each selling security holder. Where the name of a natural person appears next to a selling security holder that is not a natural person, that person has the power to exercise voting and/or investment power over the shares owned by that selling security holder.

The second column in the table below lists the number of shares of common stock beneficially owned by each selling security holder, including shares the selling security holder has the right to acquire upon exercise or conversion of a derivative security within 60 days of the reference date of June 30, 2007.

The third column lists the shares of common stock being offered by this prospectus by the selling security holders. This column does not include shares that the selling security holder may acquire in lieu of cash dividends. We have registered, but not allocated among the selling security holders owning shares of our series B convertible preferred stock, up to 4,673,232 shares that we may issue in lieu of cash dividends.

The fourth column assumes the sale of all of the shares offered by the selling security holders pursuant to this prospectus.

Each selling security holder may offer all or part of the shares of common stock beneficially owned for resale from time to time. The table assumes that the selling security holders will sell all of the shares offered for sale and accordingly, own no shares of common stock upon completion of the offering. However, a selling security holder is under no obligation to sell any shares immediately pursuant to this prospectus, nor is a selling security holder obligated to sell all or any portion of the shares at any time. Therefore, we are not able to estimate the number of shares of common stock that will be sold pursuant to this prospectus or the number of shares that will be owned by any selling security holder upon termination of this offering. Each selling security holder may sell all, some or none of the shares, depending upon our results of operations, financial condition, business prospects, the market price of our common stock and market conditions generally, the selling security holder's need for liquidity and other factors that may influence the selling security holder's decision to dispose of or continue to own our shares. Except as otherwise noted, none of the selling security holders have held a position or office, or had any other material relationship, with us.

	Shares Beneficially Owned Before Offering			Share
Names	Number	Percent	Shares Offered	Nu
ECH Consulting, Inc. (1)	325,000	*	325,000	
Croft Investments Limited Partnership (2)	250,000	*	250,000	
Atlas Capital Services, LLC and Designees (3):				
ACS Holdings, LLC	1,285,796		1,285,796	
Edward Wahrsager	50,000	*	50,000	
Robert A. Schecter	185,546	*	185,546	
Shimon S. Fishman	46,387	*	46,387	
Steven Pollan	303,592	*	303,592	
Atlas Private Equity, LLC	635,425	*	635,425	

Holders of $45,000 Bridge Financing Warrants (4):				
Rhoda Lewis	45,455	*	45,455	
MTP Operating Corp.	45,455	*	45,455	
Marilyn Thypin	68,182	*	68,182	
Holders of $105,000 Bridge Financing Warrants (5):				
Stephen Caragol	340,909	*	340,909	
Frank and Cynthia Gasztonyi	136,364	*	136,364	
Placement Agent:				
GunnAllen Financial Services, Inc.(6)(8)	4,138,678	6.18	4,138,678	
Global Business Resources, Inc. (7)	80,038	*	80,038	
IRA FBO James L. Robbins Pershing LLC As Custodian	236,366	*	236,366	
IRA FBO James J. O'Neill	118,184	*	118,184	
IRA FBO Theodore Haberer	118,184	*	118,184	

	Shares Beneficially Owned Before Offering			Share
Names	Number	Percent	Shares Offered	Nu
IRA FBO John Carlson	118,184	*	118,184	
IRA FBO Larry W. Williams	118,184	*	118,184	
IRA FBO Joseph P. Chrisman Pershing LLC As Custodian Rollover Account	236,366	*	236,366	
IRA FBO Thomas A. Ross	118,184	*	118,184	
IRA FBO Don Walker	118,184	*	118,184	
IRA FBO Andrew McClure	118,184	*	118,184	
IRA FBO Allen Ruth	118,184	*	118,184	
IRA FBO Arthur Kenyon	118,184	*	118,184	
IRA FBO George A. Lee	497,732	*	472,732	25
Michelle Levite DDS	236,366	*	236,366	
IRA FBO Sandra Rake	118,184	*	118,184	
IRA FBO Walter G. Clemons	118,184	*	118,184	
IRA FBO Stanley Watkins	118,184	*	118,184	
IRA FBO Mike Cushner	118,184	*	118,184	
James Wickenden	945,464	1.41	945,464	
Leon Cooprider	118,184	*	118,184	
Jonathan & Lisa Kratter JT TEN	1,675,561	2.50	1,675,561	21
Mickey D. & Shelley A. Tucker JT WROS	118,184	*	118,184	
Dave Dhondt	236,366	*	236,366	
Timothy & Lisa B. Wallace JT TEN	165,457	*	165,457	
TWM Capital, LP	1,181,830	1.76	1,181,830	
Gordon Van Vliet	472,732	*	472,732	1
Mark Heiman	945,464	1.41	945,464	

David C. Megan	472,732	*	472,732
Charles R. & Carol Costa JT TEN	236,366	*	236,366
Alan & Margie A. Harney JT TEN	236,366	*	236,366
Paul Whitcomb	236,366	*	236,366
Stuart A. Becker	236,366	*	236,366
Stuart Heller	472,732	*	472,732
James A. Mastrocola	354,550	*	354,550
Randy McFarland Defined Benefit Plan	945,463	1.41	945,463
Lon Rake	236,366	*	236,366
Louis Suglia	472,732	*	472,732

	Shares Beneficially Owned Before Offering			Share
Names	Number	Percent	Shares Offered	Nu
Robert & Lana Olivadoti JT TEN	354,550	*	354,550	
Kaushik B. Patel	118,184	*	118,184	
John & Kathleen Signorelli JT TEN	118,184	*	118,184	
Tobias Salgado	595,915	*	590,915	5
Mathew Zachariah	118,184	*	118,184	
Beat the Street, Inc.	118,184	*	118,184	
Paul Gittelson	118,184	*	118,184	
Chuck Ennis	287,043	*	287,043	
Daniel & Roni Farrell JT TEN	118,184	*	118,184	
Andrew McClure	118,184	*	118,184	
William Lynch Defined Benefit Pl William H. Lynch TTEE	236,366	*	236,366	
Steven S. & Anat Cole JT TEN	118,184	*	118,184	
James F. Selander	118,184	*	118,184	
Stephan Gais	945,464	1.41	945,464	
Robert Wolf L Wolf Company	118,184	*	118,184	
Carl & Phillis Elkins Trust	472,732	*	472,732	
Anthony & Dorothy L. Rakos JT WROS	118,184	*	118,184	
Off Shore Drywall, Inc.	236,366	*	236,366	
J & B Rentals Inc. (Neil Kipp)	236,366	*	236,366	
Gerald W. Moreland	118,184	*	118,184	
Moreland Crosby Industries	118,184	*	118,184	
Jochen Burrichter	472,732	*	472,732	
Jack and Rochelle Friedman	472,732	*	472,732	
Daniel A. Diaz	472,732	*	472,732	
Dr. Herbert & Rosalie Goldberg JT TEN	236,635	*	236,635	
Joe & Loretta Pillari JT TEN	236,366	*	236,366	
Theodore & Marilouise Brayer JT TEN	119,508	*	119,508	
Joseph Zappulla & Lawrence F. Frasca TEN COM	165,457	*	165,457	
James Herold	236,367	*	236,367	
Jerred D. Ruble	472,732	*	472,732	
Patrick & Sonja Boyce JT TEN	236,366	*	236,366	
Eric Billingsley	236,366	*	236,366	
George E. Foote	472,732	*	472,732	
John Bridwell	472,732	*	472,732	

Betty Bridwell	472,732	*	472,732
James & Diana Jones JT TEN	236,366	*	236,366
Greg Small	236,366	*	236,366

	Shares Beneficially Owned Before Offering			Share
Names	Number	Percent	Shares Offered	Nu
Dave Tennant	945,463	1.41	945,463	
Patrick Sherman	236,366	*	236,366	
Kalman Pila	236,366	*	236,366	
Tim P. Baldwin, Jr.	236,366	*	236,366	
The Larsen 2000 Revocable Trust	236,366	*	236,366	
Paul P. Pompa, Jr.	472,732	*	472,732	
Jerome A. Shinkay	118,184	*	118,184	
Ty P. Johnston	236,366	*	236,366	
David Kincheloe	472,732	*	472,732	
Caroline & Joseph Rispoli JT TEN	236,366	*	236,366	
Pedro Hernandez	165,457	*	165,457	
Mansukh Pipaliya	118,184	*	118,184	
Steve W. Thompson	354,550	*	354,550	
Theodore Green	118,184	*	118,184	
John Klopp	236,366	*	236,366	
Ronnie Kirkland	118,184	*	118,184	
Jerry H. Chitwood	179,639	*	179,639	
Jason & Jamie Salgado JT TEN	354,549	*	354,549	
Joseph G. & Louise A. Albano JT TEN	165,457	*	165,457	
Scott Evanter	236,366	*	236,366	
Thomas Prendergast	472,732	*	472,732	
Jeffrey A. Grossman & Elizabeth Grace JT TEN	236,367	*	236,367	
Ken W. Chism	472,732	*	472,732	
Christopher P. Schlieker	118,184	*	118,184	
Charles S. Madden	118,184	*	118,184	
Dave Ertler	236,366	*	236,366	
David Cheung	472,732	*	472,732	
PCR Inc. (Jeffrey Cox)	118,184	*	118,184	
Jay A. Hintze	236,366	*	236,366	
Charles A. Rizzuto, Sr.	118,184	*	118,184	
John William Long TTEE DTD 7/2/92	118,184	*	118,184	
Paul Goudie	118,184	*	118,184	
Joseph J. & Tessie Perrini JT TEN	222,185	*	222,185	
Doug & Lidia Ross JT TEN	827,281	1.23	827,281	
Robert A. Loe	236,366	*	236,366	
George D. Johnston	118,184	*	118,184	
Pat McQuillan	236,367	*	236,367	
Agnes L. Miller	236,366	*	236,366	
William H. Reynolds	118,184	*	118,184	
Preston Morris	141,820	*	141,820	

Names	Shares Beneficially Owned Before Offering		Shares Offered	Share
	Number	Percent		Nu
Joseph A. Santoro	472,732	*	472,732	
George M. Martin	118,184	*	118,184	
James E. Clark	236,366	*	236,366	
Douglas Coleman	118,183	*	118,183	
John Duncan	472,731	*	472,731	
J. J. Peirce	236,365	*	236,365	
E. Scott Nolan	118,183	*	118,183	
James E. Clark	236,365	*	236,365	
D. Dale Bryant	118,183	*	118,183	
Phillip E. Thompson	118,183	*	118,183	
Abraham M. Fishoff	945,463	1.41	945,463	
C & G Family Christopher J. Heller & Geneva C. Heller	236,365	*	236,365	
James A. Dailey, Jr. & Lisa A. Dailey JT TEN	118,183	*	118,183	
Piotr D. Moncarz	118,183	*	118,183	
Joseph A. Santoro	141,819	*	141,819	
C. Eric Mayer	118,183	*	118,183	
Bernard Klein	236,365	*	236,365	
Michael E. Rose	94,546	*	94,546	
Mary O'Neil Revocable Trust	89,819	*	89,819	
Mary R. & James J. O'Neil TTEE				
Joseph J. Perrini & Tessie Perrini JT TEN	260,003	*	260,003	
Marty Johnson	118,183	*	118,183	
Ronald M. & Sonja Diaz JT TEN	141,819	*	141,819	
James A. Mastrocola	118,183	*	118,183	
Jonathan Webb	118,183	*	118,183	
Herman Moskowitz	118,183	*	118,183	
David Davis	118,089	*	118,089	
Global Capital Partners, LLC	236,365	*	236,365	
Huffman General Contractors	118,183	*	118,183	
Shirlee Gordon	59,091	*	59,091	
Melvin S. Jacobson & Cynthia Jacobson JT WROS	472,731	*	472,731	

Names	Shares Beneficially Owned Before Offering		Shares Offered	Share
	Number	Percent		Nu
Adam Harris	118,183	*	118,183	
George E. Foote	236,365	*	236,365	
Larry Edgar	118,183	*	118,183	
Larry Gelbfish	472,731	*	472,731	

Allan S. Kalt Revocable Trust	118,183	*	118,183
William B. & Martha Perillo	709,098	1.06	709,098
Lina R. Merlino	236,365	*	236,365
Luis & Lucia Peragallo (9)	697,375	1.04	697,375
Holders of series B convertible preferred stock:			
Mike Taglich Poa Tag/Kent Partnership F/B/O Garlinghouse/M Taglich B Taglich	180,766	*	180,766
Michael N. Taglich (10)	1,597,506	2.33	1,597,506
Robert F. Taglich (10)	874,440	1.29	874,440
Donald V Moline	54,230	*	54,230
Robert W Allen & Susan M Allen Jt/Wros	723,066	1.08	723,066
Raymond M Beebe & Joan P Beebe Jtwros	90,383	*	90,383
Garland S Sydnor Jr	90,383	*	90,383
Eh Arnold	903,832	1.35	903,832
Ashok Kumar Narang	361,533	*	361,533
Applebaum Famiily Ltd Partners Irving Applebaum General Ptnr	234,996	*	234,996
Frank M Durrance	180,766	*	180,766

	Shares Beneficially Owned Before Offering			Share
Names	Number	Percent	Shares Offered	Nu
Joseph Martha	36,153	*	36,153	
Meadowbrook Opportunity Fd Llc	1,446,132	2.16	1,446,132	
Kevin C. Mance & Janet C. Rost Jtwros	180,766	*	180,766	
Jeremy Bond	180,766	*	180,766	
Hillson Private Partners Ii, Lllp	632,683	*	632,683	
Hillson Partners Lp	4,067,245	6.07	4,067,245	
Shadow Capitol Llc Attn B Kent Garlinghouse	723,066	1.08	723,066	
Michael Fourticq C/O Hancock Park Assoc	361,533	*	361,533	
Richard C Clayton	180,766	*	180,766	
Steven A Boggs	108,460	*	108,460	
Dennis Fortin	903,832	1.35	903,832	
A F Lehmkuhl	54,230	*	54,230	
Phillip L Burnett & Allyson Burnett Jtwros	54,230	*	54,230	
Lucille Solomon	180,766	*	180,766	

Shares Beneficially Owned Share

Names	Before Offering Number	Before Offering Percent	Shares Offered	Nu
Maurice Solomon	90,383	*	90,383	
Andrew K Light	180,766	*	180,766	
Douglas Friedrich & Melanie Friedrich Jt/Wros	180,766	*	180,766	
Joseph Regan	180,766	*	180,766	
Guerino Deluca & Frances Deluca Jt/Wros	180,766	*	180,766	
Mark L Rochester	180,766	*	180,766	
J. Nutie Dowdle	90,383	*	90,383	
Stephen C Radocchia	72,307	*	72,307	
John R Wiencek	108,460	*	108,460	
James R Foutch	361,533	*	361,533	
Philip Baroni & Rachel Baroni Trust Dtd 8/1/95	180,766	*	180,766	
Dr Richard V Nuttal & Annetta Mets Nuttall Jtwros	72,307	*	72,307	
John R Worthington Tr John R Worthington Trust	54,230	*	54,230	
The Robert W Main Trust	126,537	*	126,537	
John R Bertsch Trust Dtd	723,066	1.08	723,066	
Charles Brand	180,766	*	180,766	

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Names	Shares Beneficially Owned Before Offering Number	Shares Beneficially Owned Before Offering Percent	Shares Offered	Share Nu
Special Trust For Nina B Sando Nina Bertsch Sando & John W. Mcneil Ttees	180,766	*	180,766	
Howard A Kalka	180,766	*	180,766	
Richard Buchakjian	90,383	*	90,383	
Thomas J Bean	180,766	*	180,766	
Glenn Schabel	180,766	*	180,766	
Norper Investments	90,383	*	90,383	
Astute Capital Special Opportunity Fund L.P.	108,460	*	108,460	
Sara Bower Penn Ttee Sara Bower Penn Living Trust	361,533	*	361,533	
Wulf Paulick & Renate Paulick Jt/Wros	90,383	*	90,383	
William C Steele Ttee Uad 5-11-98	289,226	*	289,226	
Arthur D Sterling & Marie E Sterling Jt/Wros	361,533	*	361,533	
Robert Edmondson	180,766	*	180,766	
Stanley A Bornstein	108,460	*	108,460	
Michael P Hagerty	36,153	*	36,153	

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Names	Shares Beneficially Owned Before Offering		Shares Offered	Share
	Number	Percent		Nu
Ira Fbo Albert Esposito	180,766	*	180,766	
Ira Fbo Margaret Esposito	28,923	*	28,923	
Robert L Debruyn Trust	180,766	*	180,766	
Robert L Debruyn & Tracey H Debruyn Ttee				
Tracey H Debruyn Trust	180,766	*	180,766	
Tracey H Debruyn & Robert L Debruyn Ttee				
Clyde Berg	361,533	*	361,533	
Donald S Hall & June C Hall Jt Ten Wros	54,230	*	54,230	
William Kehl	72,307	*	72,307	
Edward J Cook & Eleanor A Cook Jtwros	54,230	*	54,230	
Larry S Kaplan Marla B Kaplan	108,460	*	108,460	
D & M Partnership C/O Dean Weinberg	54,230	*	54,230	
Austin Brown	54,230	*	54,230	
Charles E Klabunde Trust 4/9/03	72,307	*	72,307	

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Names	Shares Beneficially Owned Before Offering		Shares Offered	Share
	Number	Percent		Nu
Robert B Cashion	54,230	*	54,230	
Ira Fbo Juliana K. Taglich	36,153	*	36,153	
Angus Bruce Lauralee Bruce	72,307	*	72,307	
James Wilen	361,533	*	361,533	
Dr Baldev S Brar & Dr Gurmukh K Brar	90,383	*	90,383	
David L Allen	108,460	*	108,460	
Ronald C Hintz	90,383	*	90,383	
James Tadych	180,766	*	180,766	
Mark Ravich	108,460	*	108,460	
Richard S Benson	36,153	*	36,153	
Scot Holding Inc	180,766	*	180,766	
Patricia Tschohl	90,383	*	90,383	
Robert G Moussa	180,766	*	180,766	

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Names	Shares Beneficially Owned Before Offering		Shares Offered	Share
	Number	Percent		Nu
Patrick R Gordon	72,307	*	72,307	
Glenn R Hubbard	180,766	*	180,766	
Matthew A. Keefer	144,613	*	144,613	
Paul G Detkin	54,230	*	54,230	
Robert Louis Fisher & Carroll Fisher	72,307	*	72,307	
Louis And Judith Miller Family Trust	90,383	*	90,383	
T. Mark Sledge	54,230	*	54,230	
Mark Bourque	54,230	*	54,230	
Lawrence D Feldhacker	90,383	*	90,383	
Paul R Winter	180,766	*	180,766	
Leo Jones	72,307	*	72,307	
Valdemar Skov	54,230	*	54,230	

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Names	Shares Beneficially Owned Before Offering		Shares Offered	Share
	Number	Percent		Nu
Starr F. Schlobohm Trustee	180,766	*	180,766	
Howard Smith	72,307	*	72,307	
Jeffrey H Golden	72,307	*	72,307	
Joann Ruggiero	54,230	*	54,230	
Nicholas Taglich	72,307	*	72,307	
Douglas E. Hailey	90,383	*	90,383	
John E. Sullivan	72,307	*	72,307	
Shirley J Lewis & Guy W Lewis Co-Ttee	180,766	*	180,766	
Frank M Elliott	36,153	*	36,153	
Pension Inc Trustee Fbo Thuemling Industrial Products Inc Profit Sharing Plan	271,150	*	271,150	

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Names	Shares Beneficially Owned Before Offering		Shares Offered	Share
	Number	Percent		Nu
Robert G Paul	180,766	*	180,766	

Fraydun Enterprises	361,533	*	361,533
Warren Earl Fuller	90,383	*	90,383
Ed Brody Pershing LLC	271,150	*	271,150
Frank & Philomena Gimenez	54,230	*	54,230
Neil A. Wiess	180,766	*	180,766
Robert W Allen Jr	108,460	*	108,460
Lighthouse Capital Llc	361,533	*	361,533
Randall S Knox	72,307	*	72,307
Keith Becker	216,920	*	216,920
Jay Goldman	54,230	*	54,230
Sandra L Brecher	361,533	*	361,533
Diana Simich John Simich	90,383	*	90,383

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	Shares Beneficially Owned Before Offering			Share
Names	Number	Percent	Shares Offered	Nu
James Q Grimshaw	36,153	*	36,153	
Kyle G Buchakjian	36,153	*	36,153	
Ben Sevack	90,383	*	90,383	
Terry Schaefer & Company	36,153	*	36,153	
Dr Mordecai Bluth	36,153	*	36,153	
Louis Sirard Tod Dtd 01/23/06	54,230	*	54,230	
Mary M. Schnurer	54,230	*	54,230	
Steve Redmon & Brenda Redmon	90,383	*	90,383	
Stephen Friedland & Linda Friedland	72,307	*	72,307	
Bruce Newell	361,533	*	361,533	
Iroquois Master Fund, Ltd.	723,066	1.08	723,066	
Ebs Microcap Partners, Lp A Partnership	723,066	1.08	723,066	
Designees of Taglich Brothers, Inc. (11):				
Robert Schroeder	580,115	*	580,115	
Douglas Hailey	348,069	*	348,069	
Vincent Palmieri	232,046	*	232,046	
Russell Bernier	140,000	*	140,000	
Robert Africk (12)	125,000	*	125,000	
Others (19 persons)**	665,754	*	0	

* Less than 1%

** Selling security holders offering in the aggregate less than 1% of the total number of outstanding shares of our common stock prior to this offering.

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(1) ECH Consulting, Inc. is a consultant to us, controlled by Edmund Chavez. It received these 325,000 shares, contributed to us by Michael Gales, our then

Executive Chairman, as part of a finders' fee paid in connection with our PNC Bank loan facility which we entered into on November 30, 2005.

(2) Croft Investments Limited Partnership, controlled by Milton Barbarosh, acquired these 250,000 shares as of November 30, 2005 in exchange for the cancellation of an equal number of shares of Original Gales common stock. Mr. Barbarosh acquired the Original Gales shares through subscription as of October 28, 2004.

(3) Represents shares received by the designees of Atlas Capital Services, LLC, listed in the table, as of November 30, 2005, in exchange for the cancellation of an equal number of shares of Original Gales common stock owned by Atlas Capital Services, LLC. Steven Pollan was originally issued 318,592 shares as a designee of Atlas Capital Services, LLC but transferred 15,000 of those shares to American Friends of Neveh Zion in July 2006. Atlas Private Equity, LLC holds 226,334 shares which it acquired by converting a convertible promissory note in the principal amount of $22,500, and also holds 409,091 shares it acquired upon exercise of a warrant with an initial per share exercise price of $0.055 that it acquired from us in February 2005 in connection with its purchase of that $22,500 convertible note. Atlas Capital Services, LLC, ACS Holdings, LLC and Atlas Private Equity, LLC are directly or indirectly owned by the same entity.

(4) Rhoda Lewis, MTP Operating Corp., Marilyn Thypin and Stephen M. Nagler, our corporate secretary and a member of our Board, were investors in a convertible bridge note financing completed in August 2005, in which Original Gales raised $45,000 and issued to the investors, together with $45,000 principal amount of convertible notes, warrants to purchase an aggregate of 204,545 shares of Original Gales common stock at an initial per share exercise price of $0.22. Those warrants provided for a cashless exercise. As of November 30, 2005, those warrants were automatically converted into warrants to purchase an equal number of our shares of common stock on the same terms. The shares set opposite the names of these selling security holders in the table represent the number of shares each of them may obtain upon exercise of these warrants. The controlling person of MTP Operating Corp. is David Avital.

(5) Stephen Caragol and Frank and Cynthia Gasztonyi were investors in a bridge note financing completed in September 2005, in which Original Gales raised $105,000 and issued to the investors, together with $105,000 principal amount of notes, warrants to purchase an aggregate of 477,273 shares of Original Gales common stock at an initial per share exercise price of $0.22. Those warrants provided for a cashless exercise. As of November 30, 2005, those warrants were automatically converted into warrants to purchase an equal number of our shares of common stock on the same terms. The shares set opposite the names of these selling security holders in the table represent the number of shares each of them may obtain upon exercise of these warrants. A warrant to purchase 47,728 shares was issued to the placement agent for the $105,000 Bridge Financing (see note 6).

(6) GunnAllen Financial, Inc. was the placement agent for our series A convertible preferred stock offering in December 2005 and $105,000 Bridge Financing in September 2005, and serves as a consultant to us. The 4,138,678 shares represent shares that GunAllen Financial may acquire upon exercise of placement warrants issued in connection with our series A convertible preferred stock offering and $105,000 Bridge Financing. The placement agent warrants from our series A convertible preferred stock offering may be exercised until December 15, 2010 into a total of 4,090,950 shares of our common stock and the placement agent warrants from our $105,000 Bridge Financing may be exercised until September 2010 into a total of 47,728 shares of our common stock. These warrants have an initial per share exercise price of $0.22 and allow a cashless exercise. GunnAllen Financial is an NASD member brokerage firm and a registered broker dealer. It is controlled by Richard A. Frueh, who has the control and power to vote and/or sell the securities held by GunnAllen Financial.

(7) In March 2005, we issued to Global Business Resources, Inc., controlled by Peter Goldstein, these 80,038 shares in consideration for consulting services.

(8) This person is a broker dealer and therefore is deemed to be an underwriter within the meaning of the Securities Act.

(9) Luis Peragallo was an officer and major shareholder of AIM prior to November 30, 2005 and is the brother of Jorge Peragallo and the father of Dario Peragallo. He acquired 253,214 shares in connection with our acquisition of AIM. He, jointly with his spouse, acquired an additional 670,553 shares upon conversion of our series A convertible preferred stock.

(10) Michael N. Taglich and Robert F. Taglich are principals of Taglich Brothers, Inc., placement agent for our private offering of series B convertible preferred stock. The shares offered by each of them include 693,674 shares he may acquire as a designee of Taglich Brothers, Inc. upon exercise of warrants issued for services as placement agent.

(11) Represents shares that may be acquired by the named individuals, as designees of Taglich Brothers, Inc., upon exercise of warrants issued for services as placement agent. Michael and Robert Taglich also are designees of Taglich Brothers, Inc. who received a portion of these warrants. See footnote 10.

(12) Represents shares that may be acquired upon exercise of warrants issued for consulting services.

Plan of Distribution

All costs, expenses and fees in connection with the registration of the shares of our common stock offered by this prospectus will be borne by us. Brokerage commissions, if any, attributable to the sale of those shares will be borne by the selling security holders.

The selling security holders may sell the shares of common stock included in this prospectus directly or through brokers, dealers or underwriters who may act solely as agents or may acquire shares of common stock as principals. The selling stockholders may distribute the shares of common stock included in this prospectus by one or more of the following methods:

- ordinary brokers transactions, which may include long or short sales;
- transactions involving cross or block trades or otherwise on the open market;
- purchases by brokers, dealers or underwriters as principal and resale by these purchasers for their own accounts under this prospectus;
- "at the market" to or through market makers or into an existing market for the common stock;
- in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales made through agents;
- through transactions in options, swaps or other derivatives (whether exchange listed or otherwise); or
- any combination of the above, or by any other legally available means.

Selling security holders will not be restricted as to the price or prices at which the selling security holders may sell their common stock. Sales of common stock by the selling security holders may depress the market price of our common stock since the number of shares which may be sold by the selling security holders is very large compared to the historical average weekly trading volume of our common stock, which has been quite low. Accordingly, if the selling security holders were to sell, or attempt to sell, all of such securities at once or during a short time period, we believe such a transaction would dramatically adversely affect the market price of our common stock.

From time to time a selling security holder may pledge shares of common stock under margin provisions of customer agreements with brokers or under loans with third parties. Upon a default by the selling security holder, the broker or other third party may offer and sell any pledged securities from time to time.

In effecting sales, brokers and dealers engaged by a selling security holder may arrange for other brokers or dealers to participate in the sales as agents or principals. Brokers or dealers may receive commissions or discounts from the selling security holder or, if the broker-dealer acts as agent for the purchaser of shares of common stock, from the purchaser in amounts to be negotiated, which compensation as to a particular broker dealer might be in excess of commissions customary in the types of transactions involved. Broker-dealers may agree with the selling security holders to sell a specified number of shares of common stock at a stipulated price, and to the extent the broker-dealer is unable to do so acting as agent for the selling security

holders, to purchase as principal any unsold securities at the price required to fulfill the broker-dealer commitment to the selling security holder. Broker-dealers who acquire securities as principal may then resell those securities from time to time in transactions: in the over-the counter market or otherwise; at prices and on terms prevailing at the time of sale; at prices related to the then-current market price; or in negotiated transactions.

These resales may involve block transactions or sales to and through other broker-dealers, including any of the transactions described above. In connection with these sales, these broker-dealers may pay to or receive from the purchasers of the common stock commissions as described above. The selling security holders may also sell the common stock in open market transactions under Rule 144 under the Securities Act, rather than under this prospectus.

The selling security holders and any broker-dealers or agents that participate with the selling security holders in sales of the common stock may be deemed to be "underwriters" within the meaning of the Securities Act in connection with these sales. In this event, any commissions received by these broker-dealers or agents and any profit on the resale of the common stock purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

The selling security holders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the common stock against certain liabilities, including liabilities arising under the Securities Act.

GunnAllen Financial, Inc., a registered broker dealer and NASD member firm, acted as placement agent for our private offering of series A convertible preferred stock and received, in addition to cash commissions, five-year warrants to purchase an aggregate of 4,090,950 shares of our common stock with

an exercise price of $0.22 per share. GunnAllen Financial also served as placement agent for a September 2005 bridge note financing in which Original Gales raised $105,000 and, in connection therewith, received, in addition to a cash commission, a five year warrant to purchase 47,728 shares of common stock with an exercise price of $0.22 per share. The registration statement of which this prospectus forms a part includes the shares we are obligated to issue upon exercise of those warrants. In addition, we have retained and pay GunnAllen Financial, $7,500 per month to serve as our financial consultant. We have the right to terminate our advisory agreement with GunnAllen Financial upon thirty days' notice.

GunnAllen Financial has indicated to us its willingness to act as selling agent on behalf of the selling shareholders named in this prospectus under "Selling Security Holders" who purchased our privately placed securities. All shares sold, if any, on behalf of selling shareholders by GunnAllen Financial would be in transactions executed by GunnAllen Financial on an agency basis and commissions charged to its customers in connection with each transaction shall not exceed a maximum of 5% of the gross proceeds. GunnAllen Financial does not have an underwriting agreement with us and/or the selling shareholders and no selling shareholders are required to execute transactions through GunnAllen Financial. To our knowledge, none of the selling shareholders has any pre-arranged agreement with GunnAllen Financial to sell its securities through GunnAllen Financial, other than an existing brokerage relationship as customers with GunnAllen Financial.

Taglich Brothers, Inc., a registered broker-dealer and NASD member firm, acted as the placement agent for the private offering of our series B convertible preferred stock, and received a sales commission of $641,840, representing 8% of the gross proceeds of that offering, plus $25,000 in reimbursement of its actual and reasonable out-of-pocket expenses, including fees and expenses of its counsel. We also issued to Taglich Brothers, Inc. warrants to purchase 2,900,578 shares of our common stock, representing 10% of the number of shares into which the series B convertible preferred stock may be converted. These warrants, which may be exercised over a period of five years, have an initial per share exercise price of $0.305 and allow a "cashless exercise." The shares underlying these warrants are being offered for resale by this prospectus.

Taglich Brothers, Inc. has indicated to us its willingness to act as selling agent on behalf of the selling shareholders named in this prospectus under "Selling Security Holders" who purchased our privately placed series B convertible preferred stock. All shares sold, if any, on behalf of selling shareholders by Taglich Brothers, Inc. would be in transactions executed by Taglich Brothers, Inc. on an agency basis and commissions charged to its customers in connection with each transaction shall not exceed a maximum of 5% of the gross proceeds. Taglich Brothers, Inc. does not have an underwriting agreement with us and/or the selling shareholders and no selling shareholders are required to execute transactions through Taglich Brothers, Inc. To our knowledge, none of the selling shareholders has any pre-arranged agreement with Taglich Brothers, Inc. to sell its securities through Taglich Brothers, Inc., other than an existing brokerage relationship as customers with Taglich Brothers, Inc.

NASD Notice to Members 88-101 states that in the event a selling shareholder intends to sell any of the shares registered for resale in this prospectus through a member of the NASD participating in a distribution of our securities, such member is responsible for insuring that a timely filing is first made with the Corporate Finance Department of the NASD and disclosing to the NASD the following:

- it intends to take possession of the registered securities or to facilitate the transfer of such certificates;

- the complete details of how the selling shareholders shares are and will be held, including location of the particular accounts;
- whether the member firm or any direct or indirect affiliates thereof have entered into, will facilitate or otherwise participate in any type of payment transaction with the selling shareholders, including details regarding any such transactions; and
- in the event any of the securities offered by the selling shareholders are sold, transferred, assigned or hypothecated by any selling shareholder in a transaction that directly or indirectly involves a member firm of the NASD or any affiliates thereof, that prior to or at the time of said transaction the member firm will timely file all relevant documents with respect to such transaction(s) with the Corporate Finance Department of the NASD for review.

We have advised the selling shareholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling shareholders and their affiliates. In addition, we will make copies of this prospectus available to the selling shareholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling security holders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of our common stock against certain liabilities, including liabilities arising under the Securities Act.

The selling security holders are subject to applicable provisions of the Exchange Act and the SEC's rules and regulations, including Regulation M, which provisions may limit the timing of purchases and sales of the securities by the selling security holders.

In order to comply with certain states' securities laws, if applicable, the common stock may be sold in those jurisdictions only through registered or licensed brokers or dealers. In certain states the securities may not be sold unless they have been registered or qualified for sale in such state, or unless an exemption from registration or qualification is available and is obtained.

We have agreed to indemnify each selling stockholder whose shares we have included in this prospectus from all liability and losses resulting from any misrepresentations we make in connection with the registration statement of which this prospectus is a part.

Market for Our Common Stock

Our common stock is quoted on the OTC Bulletin Board under the trading symbol "AIRI.OB" ("GLDS" prior to July 16, 2007 and "ASHN" prior to February 15, 2006). Prior to the effectiveness of our Plan of Reorganization, our symbol was "HNNS". The prices set forth below reflect the quarterly high and low sale price information for shares of our common stock for the periods indicated, as reported by Bloomberg LLP. These quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

2007 Quarter Ended	High	Low
September 30, 2007 (through July 26, 2007)	$0.40	$0.26
June 30, 2007	$0.40	$0.25
March 31, 2007	0.33	0.22

2006 Quarter Ended	High	Low
December 31, 2006	$0.30	$0.24
September 30, 2006	1.01	0.27
June 30, 2006	1.65	0.76
March 31, 2006	2.25	0.33

2005 Quarter Ended	High	Low
December 31, 2005	$0.85	$0.11
September 30, 2005	0.15	0.07
June 30, 2005	0.10	0.06
March 31, 2005	0.18	0.05

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The closing sale price of a share of our common stock on July 26, 2007 was $0.38, as reported by Bloomberg LLP.

As of June 12, 2007, there were approximately 225 holders of record of our common stock.

We have not declared or paid any cash dividends on our common stock since our inception, and our Board of Directors currently intends to retain all earnings for use in the business for the foreseeable future. Any future payment of dividends will depend upon our results of operations, financial condition, cash requirements, and other factors deemed relevant by our Board of Directors. Prior to the merger, AIM was a Subchapter S corporation and made distributions to its shareholders to enable them to pay income taxes on their allocable portion of our income.

The following table provides information as of December 31, 2006 about our equity compensation plans and arrangements as of December 31, 2006.

Equity Compensation Plan Information - December 31, 2006

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number o remaining future is equity c plans securitie colu
Equity compensation plans approved by security holders	--	$ --	--
Equity compensation plans not approved by security holders (1)	9,030,436	$.23	5,150,000
Total (1)	9,030,346	$.23	5,150,000

(1) Shareholder approval of our 2005 Stock Incentive Plan was completed as of

February 15, 2006. In connection with the Merger, our Board adopted our 2005 Stock Incentive Plan, and issued stock options to purchase 4,850,000 shares to

our new executive officers. The vesting and exercise prices of the 4,850,000 options which we granted to executive officers in 2005 are described below in the footnotes under "Executive Compensation - Aggregated Option Exercises in last Fiscal Year and Fiscal Year-End Option Values". As of December 31, 2006, 5,150,000 shares remained available for grant under our 2005 Stock Incentive Plan. Of the 9,030,346 shares included above, (i) 4,138,678 shares underlie warrants issued to GunnAllen Financial, Inc. exercisable at $0.22 per share and (ii) 41,668 shares underlie warrants issued to an investor relations company exercisable at a weighted average price of $0.70 per share

Transfer Agent

Florida Atlantic Stock Transfer, with offices at 7130 N. Nob Hill Road, Tamarac, Florida 33321-1841, is the registrar and transfer agent for our common stock.

Description of Our Securities

We are authorized to issue 120,055,746 shares of common stock, $.001 par value, and 8,003,716 shares of preferred stock, $.001 par value.

Common Stock

As of June 30, 2007, we had outstanding 67,008,507 shares of common stock without giving effect to 41,587,590 common shares issuable upon conversion of our Class B Preferred and outstanding options and warrants.

Holders of our common stock are entitled to receive dividends when and as declared by our Board out of funds legally available therefor. Upon dissolution of our company, the holders of common stock are entitled to share, pro rata, in our net assets after payment of or provision for all of our debts and liabilities, and subject to the preferential rights of any class of preferred stock or other senior security which we may issue. Each share of common stock is entitled to participate on a pro rata basis with each other share of such stock in dividends and other distributions declared on shares of common stock.

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders and may not cumulate their votes for the election of directors. The holders of common stock do not have preemptive rights to subscribe for additional shares of any class that we may issue, and no share of common stock is entitled in any manner to any preference over any other share of such stock.

Preferred Stock

We are authorized to issue a total of 8,003,716 shares of "blank check" preferred stock, $.001 par value, of which 1,000 shares have been designated Series A Convertible Preferred Stock and 2,000,000 shares have been designated Series B Convertible Preferred Stock. We issued 900 shares of our series A convertible preferred stock in connection with the merger, all of which were converted automatically into an aggregate of 40,909,500 shares of our common stock in August 2006 upon the effectiveness of the registration statement for the resale of those shares which are included in this prospectus. We issued 802,300 shares of our series B convertible preferred stock in a private offering in April and May of 2007, to finance the acquisition of Sigma Metals, provide

working capital and to finance future acquisitions.

In accordance with our Certificate of Incorporation, our Board of Directors may, by resolution, issue additional preferred stock in one or more series at such time or times and for such consideration as the Board of Directors may determine. The Board of Directors is expressly authorized to provide for such designations, preferences, voting power (or no voting power), relative, participating, optional or other special rights and privileges as it determines.

We have the power to issue additional preferred stock, or different classes or series of preferred stock ranking senior to or on parity with our series B convertible preferred stock as to dividend rights or rights upon liquidation, winding up, or dissolution, only with the approval or consent of at least a majority of the then-outstanding shares of our series B convertible preferred stock.

We may issue additional preferred stock to effect a business combination, to raise capital or for other reasons. In addition, additional preferred stock could be utilized as a method of discouraging, delaying or preventing a change in control of our company.

Our Series B Convertible Preferred Stock

Our board of directors authorized a series of preferred stock designated as the "Series B Convertible Preferred Stock," having a par value of $0.001 per share in an amount up to 2,000,000 shares, which may not be increased without the written consent of all of the holders of that series. Each share of our series B convertible preferred stock has an original issue price of $10.00. As of July 1, 2007, we had outstanding 802,300 shares of series B convertible preferred stock owned by approximately 150 stockholders of record.

Our series B convertible preferred stock has the powers, rights, preferences and limitations set forth in the Certificate of Designation we filed with the Secretary of State of the State of Delaware on April 11, 2007. The following is a summary of certain material provisions of that certificate, which summary is qualified in its entirety by reference to the Certificate of Designation which we have filed as an exhibit to the registration statement of which this prospectus is a part.

Voting Rights. Generally, holders of our series B convertible preferred stock are entitled to vote, on all matters in which holders of our common stock are entitled to vote, voting together with the common stock as a single class, with the number of their votes determined on an as-converted basis, assuming conversion of our series B convertible preferred stock into our common stock as of the applicable record date, disregarding fractional shares, if any. Holders of our series B convertible preferred stock are entitled to vote as a separate class on the issuance of any class of equity securities which ranks equal to or senior to our series B convertible preferred stock, or to change or repeal any of the express terms of our series B convertible preferred stock.

Dividends. Holders of our series B convertible preferred stock are entitled to cumulative preferential dividends payable quarterly, on January 2, April 1, July 1, and October 1 of each year, commencing October 1, 2007, at the rate of 7.0% per annum, with the first dividend payable on a pro rata basis. We may pay dividends in cash or additional shares of our series B convertible preferred stock at our option. For purposes of determining the number of shares of our series B convertible preferred stock to be issued in lieu of cash in

payment of dividends, our series B convertible preferred stock is to be valued at the lesser of its then per share conversion price or the average of the daily "volume weighted average price for a share of our common stock" (the "Average VWAP") for ten (10) consecutive trading days prior to the end of the quarter. If the average closing price for our common stock during any sixty (60) day period commencing May 1, 2010 is equal to the conversion price or less, holders of a majority of outstanding our series B convertible preferred stock may elect to have dividends paid in cash for as long as our series B convertible preferred stock is outstanding. If we fail to honor a holder's election to receive payment of dividends on our series B convertible preferred stock in cash, we must pay dividends in additional shares of our series B convertible preferred stock (valued at the lesser of the conversion price and the Average VWAP for ten (10) consecutive trading days prior to the end of the quarter) and a majority of holders of our series B convertible preferred stock shall have the right to designate one (1) board member and we shall immediately appoint a designee and use our best efforts to cause the election of the designee for so long as

twenty-five (25%) percent of our series B convertible preferred stock remains outstanding. If the average closing price per share of our common stock during the last thirty (30) day period of any quarter commencing with the first quarter three years after the end of the quarter in which the initial closing of the private offering occurred is the conversion price or less, annual dividends on our series B convertible preferred stock will be automatically readjusted to ten (10.0%) percent per annum for dividends paid in cash or twelve (12.0%) percent per annum for dividends paid in additional shares of our series B convertible preferred stock for as long as shares of our series B convertible preferred stock are outstanding.

Liquidation Preference. In the event of a liquidation, dissolution or winding up of our company, the holders of our series B convertible preferred stock are entitled to receive cash in an amount equal to the greater of (i) (a) $10.00 per share (subject to adjustment as provided in the Certificate of Designation) plus (b) until the date fixed for payment, any declared and accrued but unpaid dividends, or (ii) that amount per share which would have been payable to them as holders of our common stock assuming a complete conversion of our series B convertible preferred stock had occurred immediately prior to the liquidation event; in each case before any distribution is made to the holders of common stock and any other junior stock, but after distribution is made to holders of senior stock (if any). If upon any such liquidation event our remaining assets available for distribution to our stockholders shall be insufficient to pay the holders of shares of our series B convertible preferred stock the full amount to which they are entitled, the holders of shares of our series B convertible preferred stock and any other class or series of stock ranking on liquidation on a parity with our series B convertible preferred stock will share ratably in any distribution of the remaining assets and legally available funds of our company in proportion to the respective amounts that would otherwise be payable in respect of the shares held by them upon such distribution of the entire liquidation amount and such pari passu payments on such other class or series of stock were paid in full.

Voluntary Conversion. Each share of our series B convertible preferred stock is convertible at each holder's option into shares of our common stock, at any time prior to the effective date of the forced conversion or redemption at an initial conversion price of $0.2766, subject to adjustment (the "Conversion Price"). In the event of a merger or consolidation (in which we are not the surviving entity) or in the event of a sale of all or substantially all of our assets, the holders of our series B convertible preferred stock will have a right to convert their shares into shares of our common stock immediately prior

to any such transaction at a conversion price equal to the lesser of (a) the Conversion Price or (b) the price per share of common stock paid in the change of control transaction. We will not issue fractional shares of our common stock upon conversion of our series B convertible preferred stock, but we will pay a cash amount for fractional shares based upon the prevailing market price of a share of our common stock.

Forced Conversion. We have the right to force conversion of our series B convertible preferred stock into shares of our common stock, provided that on the day that notice of forced conversion is given the following conditions are satisfied: (a) the issuance of the shares of common stock issued or issuable upon conversion of our series B convertible preferred stock or the resale thereof have been registered pursuant to the Securities Act and such registration is then currently effective; and (b) the closing price of the common stock as listed on the Nasdaq Stock Market ("NASDAQ"), the New York Stock Exchange ("NYSE"), the American Stock Exchange ("ASE") or wherever our common stock then trades, is at least 250% of the Conversion Price for twenty (20) trading days within a thirty (30) consecutive trading day period. Any notice of forced conversion must be given to all holders no less than thirty (30) days nor more than forty-five (45) days prior to the date set forth for conversion (the "Forced Conversion Date"). On the Forced Conversion Date, we are obligated to pay all registered holders of our series B convertible preferred stock all accrued and unpaid dividends through and including the Forced Conversion Date.

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Redemption. We may redeem all of the outstanding shares of our series B convertible preferred stock at any time prior to May 3, 2010 upon thirty (30) days notice at a redemption price equal to the par value plus accrued and unpaid dividends to the date of redemption. Holders of our series B convertible preferred stock called for redemption may exercise their right to convert any or all of their shares into common stock at any time prior to the close of business on the date set for redemption. After the redemption date, their right to convert shares called for redemption shall cease and they will be entitled only to the redemption price.

Information Rights. Holders of our series B convertible preferred stock are entitled to receive all communications we send to the holders of our common stock.

Registration Rights. We have filed the registration statement of which this prospectus is a part to register for resale the shares of our common stock we may issue upon conversion of our series B convertible preferred stock, as well as the shares of common stock we may issue upon the exercise of warrants we issued to the placement agent for the offering in accordance with our obligations under the subscription agreements we entered into with the purchasers of the series B convertible preferred stock. We have agreed to maintain the registration statement through April 2010.

Changes and Disagreements with Accountants

On December 15, 2005, we appointed Goldstein Golub Kessler LLP as our independent auditor and, as of that date, we dismissed the firm of Daszkal Bolton LLP, which had been serving as our independent auditor until that date. The change in auditors was in connection with the merger which occurred on November 30, 2005 and the resulting change in control of our company. The dismissal of Daszkal Bolton LLP and the appointment of Goldstein Golub Kessler LLP as our independent auditor were approved by our Board of Directors on December 15, 2005.

During the period from January 1, 2005 to December 15, 2005, we did not have any disagreements within the meaning of Instruction 4 of Item 304 of Regulation S-K) with Daszkal Bolton LLP as to any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure and there have been no reportable events (as defined in Item 304 of Regulation S-K).

We have not consulted with Goldstein Golub Kessler LLP regarding the application of accounting principles to a specified transaction or the type of audit opinion that might be rendered on our financial statements during the two most recent fiscal years through the present.

The reports of Daszkal Bolton LLP on our financial statements for the fiscal years ended December 31, 2004 and December 31, 2003 did not contain an adverse opinion, a disclaimer of opinion or any qualifications or modifications related to uncertainty, limitation of audit scope or application of accounting principles, except that such reports express "substantial doubt about our ability to continue as a going concern" and state that "The financial statements do not include any adjustments that might result from the outcome of this uncertainty". These "going concern" qualifications relate only to periods prior

to November 30, 2005 and do not relate to the financial statements of Original Gales or AIM. During the fiscal years ended December 31, 2004 and December 31, 2003 and the period from January 1, 2005 to December 15, 2005, we did not have any disagreements (within the meaning of Instruction 4 of Item 304 of Regulation S-K) with Daszkal Bolton LLP as to any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure and there have been no reportable events (as defined in Item 304 of Regulation S-K).

SEC Policy Concerning Indemnification for Securities Act Liabilities

Under Section (b) of Article TENTH of our Certificate of Incorporation, as well as Article VII of our By-Laws, we have agreed to indemnify our officers, directors, employees and agents to the fullest extent permitted by the laws of the State of Delaware, as amended from time to time. In addition, under paragraph (i) of Section (a) of Article TENTH of our Certificate of Incorporation, our directors are not subject to personal liability to us or our stockholders for monetary damages for breach of their fiduciary duties as a director to the fullest extent provided by Delaware law. Section 102 (b) (7) of the Delaware General Corporation Law provides for the elimination off such personal liability, except for liability (i) for any breach of the director's duty of loyalty to the Registrant or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent,

submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Where You Can Find More Information

We have filed a registration statement on Form SB-2 (Registration No. 333-144561) under the Securities Act for the offer and sale by the selling security holders of the shares of common stock included in this prospectus with the U.S. Securities and Exchange Commission, 100 F Street, NE, Washington, D.C. 20549. In accordance with the rules of the SEC, we have not included in this prospectus all the information contained in the registration statement.

Any statement in this prospectus about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the registration statement, the contract or document is deemed to modify the description contained in this prospectus. You must review the exhibits themselves for a complete description of the contract or document.

We are required to file reports with the SEC under Section 13 of the Securities Exchange Act, including annual reports on Form 10-KSB, quarterly reports on Form 10-QSB and current reports on Form 8-K. We intend to furnish our stockholders with annual reports containing audited financial statements and other reports as we think appropriate or as may be required by law.

You may read and copy the registration statement, and any amendments thereto, including the information we are not required to include in this prospectus and the exhibits we have filed with the registration statement (and any amendments thereto), and the reports, statements and other information that we have filed with the SEC, at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You also may access our SEC filings and information electronically on the internet at the web site maintained by the SEC (http://www.sec.gov). You also may obtain our SEC filings from commercial document retrieval services.

Legal Matters

Our counsel, Eaton & Van Winkle LLP, Three Park Avenue, New York, New York 10016, has issued a legal opinion concerning the validity of the issuance of the shares of common stock offered by this prospectus. Stephen Nagler, until June 26, 2007, a director, is a partner of Eaton & Van Winkle LLP. Eaton & Van Winkle LLP owns 150,000 shares of our common stock. Mr. Nagler is the beneficial owner of 145,455 shares of our common stock.

Experts

Goldstein Golub Kessler LLP, independent certified public accountants, located in New York, New York has audited our financial statements, and Bildner & Giannasco LLP, independent certified public accountants, located in Jericho, New York, has audited the financial statements of AIM and Sigma Metals included in this registration statement to the extent, and for the periods set forth in their reports. We have relied upon such reports, given upon the authority of such firms as experts in accounting and auditing.

AIR INDUSTRIES GROUP, INC.
(formerly known as Gales Industries Incorporated)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Gales Industries Incorporated

We have audited the accompanying consolidated balance sheet of Gales Industries Incorporated and Subsidiary as of December 31, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Air Industries Group, Inc. and Subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with United States generally accepted accounting principles.

GOLDSTEIN GOLUB KESSLER LLP
New York, New York

March 30, 2007

GALES INDUSTRIES INCORPORATED
Consolidated Balance Sheet At December 31,

	2006
ASSETS	
Current Assets	
Cash and Cash Equivalents	
Accounts Receivable, Net of Allowance for Doubtful Accounts of $176,458 and $45,000	$ 3,508,9
Inventory	15,257,6
Prepaid Expenses and Other Current Assets	232,7
Deposits	180,4
Total Current Assets	19,179,8
Property, Plant, and Equipment, net	3,565,3
Cash Surrender Value - Officer's Life Insurance	
Deferred Financing Costs	369,0
Other Assets	63,5
Goodwill	1,265,9
Deposits	448,5
TOTAL ASSETS	$ 24,892,1
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts Payable and Accrued Expenses	$ 7,648,4
Advance Payment - Customers	
Notes Payable - Revolver	5,027,4
Notes Payable - Current Portion	127,7
Notes Payable - Sellers - Current Portion	192,4
Capital Lease Obligations - Current Portion	407,2
Due to Sellers	53,6
Dividends Payable	120,0
Deferred Gain on Sale - Current Portion	38,0
Income Taxes Payable	653,4
Total current liabilities	14,268,4
Long term liabilities	
Notes Payable - Net of Current Portion	645,4
Notes Payable - Sellers - Net of Current Portion	1,290,5
Capital Lease Obligations - Net of Current Portion	552,5
Deferred Tax Liability	512,9
Deferred Gain on Sale - Net of Current Portion	713,1
Deferred Rent	39,3
Total liabilities	$ 18,022,4
Commitments and contingencies	
Stockholders' Equity	
Series A Convertible Preferred - $.001 Par value, 8,003,716 Shares Authorized, 0 Shares and 900 Shares Issued and Outstanding as of December 31, 2006 and 2005, respectively Liquidation Value, $ 18,060,000	
Common Stock - $.001 Par, 120,055,746 Shares Authorized, 57,269,301 and 14,723,421 Shares Issued and Outstanding as of December 31, 2006 and 2005, respectively	$ 57,2
Additional Paid-In Capital	7,898,7
Accumulated Deficit	(1,086,2
Total Stockholders' Equity	6,869,6

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 24,892,1

See notes to financial statements

GALES INDUSTRIES INCORPORATED
Consolidated Statement of Operations for the Year Ended December 31,

	2006	2005
Net sales	$ 33,044,996	$ 2,777,409
Cost of Sales	28,002,942	2,539,433
Gross profit	5,042,054	237,976
Operating costs and expenses		
Selling and marketing	601,011	34,987
General and administrative	3,789,587	774,401
Income (Loss) from operations	651,456	(571,412)
Other (income) and expenses:		
Interest and financing costs	1,040,108	178,292
Gain on Sale of Life Insurance Policy	(53,047)	--
Gain on Sale of Real Estate	(300,037)	--
Other Income	(435,627)	--
Other Expenses	246,659	--
Net Income (Loss) before provision for income taxes	153,400	(749,704)
Provision for income taxes	489,969	--
Net Loss	(336,569)	(749,704)
Dividend attributable to preferred stockholders	420,003	60,000
Net Loss attributable to common stockholders	$ (756,572)	$ (809,704)
Loss per share (basic and diluted)	$ (0.02)	$ (0.06)
Weighted average shares outstanding (basic and diluted)	32,208,029	12,722,060

See notes to financial statements

GALES INDUSTRIES INCORPORATED
Consolidated Statement of Stockholders' Equity For The Years
Ended December 31, 2006 and 2005

	Series A Preferred Stock		Common Stock		Additiona
	Shares	Amount	Shares	Amount	Paid-in Capital
Balance, January 1, 2005			12,529,737	$ 12,530	$ (136,86
Issuance of common stock to merger and acquisition intermediary on recapitalization			1,477,290	1,477	(1,47
Contribution of common stock from shareholder in connection with bank financing					71,50
Value of warrants issued in connection with bridge financing					43,86
Beneficial conversion feature on shares issued in connection with bridge financing					24,89
Non-cash stock option compensation					121,29
Issuance of shares in connection with convertible note			226,334	226	24,67
Issuance of common stock to Sellers			490,060	490	489,57
Private placement issued at $10,000 per share	900	$ 1			8,999,99
Expenses of private placement					(1,792,84
Net loss					
Balance, Dec. 31, 2005	900	$ 1	14,723,421	$ 14,723	$ 7,844,61
Non-cash stock option compensation					167,12
Preferred stock dividend					(480,00
Non-cash warrant compensation					49,51
Conversion of preferred shares to common shares in connection with filing of registration statement	(900)	(1)	40,909,500	40,910	(40,90
Conversion of preferred dividend to common shares in connection with filing of registration statement			1,636,380	1,636	358,36
Net Loss					
Balance, December 31, 2006	--	--	57,269,301	$ 57,269	$ 7,898,70

See notes to financial statements

GALES INDUSTRIES INCORPORATED
Consolidated Statement of Cash Flows For the Year Ended December 31,

	2006	2
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (336,569)	$ (7
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and Amortization	597,009	
Write-off of building improvements	--	2
Non-Cash Interest Expense	--	
Bad debt expense	177,444	
Non-Cash Compensation Expense	167,126	1
Warrants issued for services	49,510	
Amortization of deferred financing costs	117,159	
Gain on Sale of officer's life insurance	(53,047)	
Deferred Tax Liability	(163,457)	
Gain on sale of real estate	(300,037)	
Changes in Assets and Liabilities, net of effects of Acquisition and recapitalization:		
(Increase) Decrease in Operating Assets -		
Accounts Receivable	(1,062,789)	5
Inventory	(2,653,831)	(4
Prepaid Expenses and Other Current Assets	(22,625)	(
Deposits	(114,861)	1
Cash Surrender Value - Officer's Life Insurance	33,263	
Other Assets	(22,216)	(
Increase (Decrease) In Operating Liabilities -		
Accounts Payable and Accrued Expenses	2,353,797	(1,3
Income Taxes Payable	653,426	
Deferred Rent	39,371	
Advance Payment-Customers	(188,199)	1
NET CASH USED IN OPERATING ACTIVITIES	$ (729,526)	$ (1,1
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Paid for Deposit on Leasehold Improvements	(448,530)	
Cash paid in acquisition, including transaction costs of $1,053,862, net of cash received of $47,538	--	(4,1
Cash received on sale of real estate	5,417,704	
Cash received on recapitalization	--	
Purchase of property and equipment	(812,372)	(4,3
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	$ 4,156,802	$ (8,4
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Principal - Capital Lease Obligations	(219,755)	(
Repayment of notes payable to Officers and Sellers	(181,838)	(8
Proceeds from notes payable	--	4,7
Repayment of Mortgage Note Payable	(4,170,099)	
Proceeds from Private Placement	--	9,0

Payment of issuance costs on private placement	--	(1,7
Payment of Deferred Financing Costs	--	(4
Proceeds from sale of officer's life insurance	86,000	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ (4,485,692)	$ 10,6
Net increase (decrease) in cash and cash equivalents	(1,058,416)	1,0
Cash and cash equivalents at beginning of year	$ 1,058,416	
Cash and cash equivalents at end of year	--	$ 1,0

GALES INDUSTRIES INCORPORATED

Consolidated Statement of Cash Flows For the Year Ended December 31,

	2006	
Supplemental cash flow information		
Cash paid during the year for interest	$ 828,807	$
Supplemental cash flow information		
Cash paid during the year for Income taxes	$ 12,758	
Supplemental schedule of non cash investing and financing activities		
Non-cash Dividends on Preferred Stock	$ 480,003	
Conversion of Preferred Stock to Common Stock	$ 40,909	
Conversion of Preferred Dividends to Common Stock	$ 360,000	
Shares issued in connection with deferred financing costs	--	$
Beneficial conversion feature charged as interest on bridge financing	--	$
Common stock issued on conversion of bridge note	--	$
Issuance of warrants in bridge financing	--	$
Common stock issued to Sellers in acquisition	--	$
Net liabilities assumed on recapitalization restated to 2004	--	$
Notes payable issued for acquisition	--	$
The Company purchased all of the outstanding stock of AIM for an aggregate purchase price of $6,285,480,including transaction costs, and in conjunction with this acquisition, liabilities assumed were as follows:		
Fair value of assets acquired	--	$
Consideration given for acquisition	--	
Liabilities assumed	--	$

See notes to financial statements

GALES INDUSTRIES INCORPORATED
Notes to the Consolidated Financial Statements

Note 1. FORMATION AND BASIS OF PRESENTATION

Merger and Acquisition

Ashlin Development Corp. (the "Company" or "Ashlin"), a Florida corporation and its subsidiary Gales Industries Merger Sub, Inc. ("Merger Sub"), entered into a Merger Agreement (the "Merger Agreement") on November 14, 2005 with Air Industries Group, Inc., a privately-held Delaware corporation ("Original Gales"). On November 30, 2005 (the "Closing Date") Original Gales merged (the "Merger") into Merger Sub. Pursuant to the Merger Agreement, the Company issued 10,673,107 shares of Common Stock (representing 73.6% of Ashlin's outstanding shares) and 900 shares of Series A Convertible Preferred Stock which was initially convertible into 40,909,500 shares of Common Stock of the Company for all the issued and outstanding shares of Original Gales the "Successor". 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.

On February 15, 2006, Ashlin changed its name to Air Industries Group, Inc. and its state of domicile from Florida to Delaware.

Prior to the closing of the Merger, Original Gales, which did not have any business operations other than in connection with the transactions contemplated by the Merger Agreement, acquired (the "Acquisition") 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, 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. Simultaneously with the Acquisition, AIM entered into a bank facility (the "Loan Facility") and used proceeds from the Loan Facility to acquire real estate (the "Real Estate Acquisition").

Prior to the Acquisition, Original Gales raised bridge financing. In connection with the Acquisition, Original Gales procured a private placement of Series A Preferred Stock, the proceeds of which were used to acquire AIM. Immediately prior to the Merger, Original Gales had outstanding certain bridge notes convertible into shares of Original Gales' common stock and certain bridge warrants to purchase shares of Original Gales' common stock.

Original Gales was formed in October 2004 and, since prior to the acquisition it did not have any business operations or activity other then the transactions contemplated with the merger and succeeded substantially all of the business operations of AIM, AIM is the "Predecessor" to Original Gales. The Company is required to separately present the historical statement of operations and cash flows of the Predecessor. The financial information presented in these financial statements may not reflect the combined financial position. The operating results and cash flows of the Predecessor and the Successor are not compatible in all material respects.

GALES INDUSTRIES INCORPORATED
Notes to the Consolidated Financial Statements

The financial statements presented are those of Original Gales and its wholly owed subsidiary AIM from the date of acquisition, November 30, 2005, to December 31, 2005 and its full year of operations for 2006. Original Gales was formed in October 2004 and prior to the Acquisition did not have any business operations or other activity. For presentation purposes, see Note 15 for the results of pro forma operations if the acquisition occurred on January 1, 2005.

Reverse stock split

Pursuant to the terms of the Merger Agreement, prior to the Merger, Ashlin effected a 1-for-1.249419586 reverse split of its Common Stock (the "Reverse Split"). The Reverse Split became effective November 21, 2005. The Reverse Split reduced the number of shares of Common Stock which the Company had outstanding on a fully diluted basis to 3,868,000. As a result of the Reverse Split, the conversion of the outstanding shares of Original Gales pursuant to the Merger for new shares of the Company's Common Stock was on a one-for-one basis. Any of the Company's shareholders who, as a result of the Reverse Split, held a fractional share of Common Stock received a whole share of Common Stock in lieu of such fractional share. After giving effect to the Reverse Split, prior to the Merger, the Company had outstanding 3,823,980 shares of Common Stock which continued to be outstanding after the Merger.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

The Company is primarily engaged in manufacturing aircraft structural parts and assemblies 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 subsidiary, AIM. Significant inter company accounts and transactions have been eliminated in consolidation. The operations of the Company are conducted principally through AIM.

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 our Loan Facility.

Accounts Receivable

Accounts receivable are reported at their outstanding unpaid principal balances net of allowances for bad debt. The Company provides for allowances for uncollectible receivables based on management's estimate of uncollectible amounts at year-end, considering age, collection history, and any other factors considered appropriate.

GALES INDUSTRIES INCORPORATED
Notes to the Consolidated Financial Statements

Inventory Valuation

The Company values inventory at the lower of cost on a first-in-first-out basis or market.

The Company purchases inventory only when it has signed non-cancellable contracts with its customers for orders of its finished goods. The Company periodically 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. The Company occasionally evaluates inventory items that are not secured by purchase orders and reserves for obsolescence accordingly. The Company also reserves an allowance for excess quantities, slow-moving goods, and obsolete items.

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 Live Assets

The Company reviews long-lived assets for impairment at the facility level annually or if events or 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 the assets 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 generally 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.

GALES INDUSTRIES INCORPORATED

Cost of Goods Sold

Costs for goods sold includes all direct material, labor costs, and those indirect costs related to manufacturing, such as indirect labor, supplies, tools, repairs and depreciation costs.

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, 2006 approximately 34%, 17%, and 16% are attributable to three customers respectively. Of the account receivable balance at December 31, 2005, approximately 23% and 10% are attributable to two customers, respectively.

One customer accounted for approximately 61% and 57% of the total revenues for the years ended December 31, 2006 and 2005, respectively.

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 all of the 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.

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 5,318,985 warrants and 4,850,000 options to purchase the Company's common stock for the year ended December 31, 2006 and 5,229,589 warrants and 4,850,000 options to purchase the Company's common stock for the year ended December 31, 2005 in the calculation of diluted earnings per share because the effects of their 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 $167,126 and $121,297 for the years ended December 31, 2006 and 2005, respectively, in accordance with the measurement requirements under SFAS No. 123(R). The Company adopted SFAS No. 123(R), effective in 2005.

Goodwill

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. Goodwill is reviewed for potential impairment at the reporting unit level on an annual basis, or in interim periods if events or circumstances indicate a potential impairment. The reporting units utilized for this test were those that are one level below the business segments identified at the beginning of Business Segment Operations. The impairment test is performed in two phases. The first step of the Goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including Goodwill. If the fair value of the reporting unit exceeds its carrying amount, Goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit's Goodwill (as defined in SFAS 142) with the carrying amount of that Goodwill. An impairment loss is recorded to the extent that the carrying amount of Goodwill exceeds its implied fair value.

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 5.25% to 9.25% for 2006. Our evaluations for the year ended December 31, 2006 indicated there was no impairment of our Goodwill.

Recently Issued Accounting Standards

In June 2006, Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes--An Interpretation of FASB Statement No. 109," was issued 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 derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this statement to its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans--An Amendment of SFAS No. 87, 88, 106 and 132(R)" ("SFAS No. 158"). The statement requires employers to recognize the overfunded and underfunded portion of a defined benefit plan as an asset or liability, respectively, and any unrecognized gains and losses or prior service costs as a component of accumulated other comprehensive income. SFAS No. 158 also requires a plan's funded status to be measured at the employer's fiscal year-end. The requirement to recognize the funded status of a defined benefit plan and the disclosure requirements of SFAS No. 158 are effective for the Company as of December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year end is effective for the Company in 2008. The adoption of the requirements of SFAS No. 158 that became effective on December 31, 2006 did not have a material impact to the financial position, results of operations or cash flows of the Company.

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.

Note 3. INVENTORY

The components of inventory consisted of the following:

	December 31, 2006	December 31, 2005
Raw Materials	$ 2,234,175	$ 2,319,523
Work in Progress	7,546,178	4,905,535
Finished Goods	5,477,288	5,378,752
Total Inventory	$ 15,257,641	$ 12,603,810

Note 4. PROPERTY AND EQUIPMENT

The components of property and equipment, at cost, consisted of the following:

	December 31, 2006	December 31, 2005	Useful Lives
Land	$ --	$ 1,075,589	--
Building	--	3,226,767	25-31.5 years
Machinery and Equipment	2,117,441	1,766,829	5 - 8 years
Capital Lease Machinery and Equipment	1,164,671	1,145,171	5 - 8 years
Tools and Instrument	555,164	253,994	3 - 7 years
Building Improvements	--	17,700	25 years
Automotive Equipment	30,227	26,827	5 years
Furniture and fixtures	274,837	248,998	5 - 8 years
Leasehold Improvements	3,583	--	5 years
Total property, plant, and equipment	4,145,923	7,761,875	
Less: Accumulated Depreciation	(580,607)	(45,406)	
Property, plant, and equipment, net	$ 3,565,316	$ 7,716,469	

Depreciation and amortization expense for the year ended December 31, 2006 and 2005, amounted to $597,009 and $45,406, respectively.

Note 5. SALE-LEASEBACK TRANSACTION

On October 24, 2006, the Company consummated its agreement with STNLA-SPVEF Bay Shore, LLC, successor in interest to Net Lease Advisors LLC (the "Purchaser"), whereby the Company sold the buildings and real property located at its corporate headquarters in Bay Shore, New York (the "Property") to the Purchaser for a purchase price of $6,200,000. As a result, of this transaction 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 our twenty year lease, and is included it 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 of the Lease, increases to $621,000 for the sixth year of the term, 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. This amount is included in the caption Deposits 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 our 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 11).

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Note 6. 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 all of its assets (see Note 14).

The Loan Facility provided for a maximum loan amount 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 paid 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.

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 8.50% per annum on December 31, 2006 and an outstanding balance of $5,027,463. The revolving loans, equipment loans and the term loan are payable in full on November 30, 2009 ("Termination Date") unless PNC agrees to extend the Termination Date.

The term loan is for a period of 4 years and bears interest, at the option of the Company at the end of an interest period, 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 in the principal amount of $383,330 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, 2006, the balance of the term loan was $362,034

In addition to the foregoing, the Loan Facility was further amended to allow for 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 the Termination Date, which will occur on November 30, 2009.

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 8.75% per annum at December 31, 2006. 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, 2006. 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, 2006, the equipment financing loan had a balance of $411,200.

To the extent that the Company may dispose of collateral used to secure any of 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, 2006 the Company has met these terms. The Loan Facility is also 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.

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 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.

Interest expense related to these credit facilities amounted to $686,917 for the year ended December 31, 2006.

The Company incurred an aggregate of $492,065 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. At December 31, 2005, the Company amortized $123,017 of these costs.

As of December 31, 2006, future minimum principal payments are as follows:

Year	Amount
2007	$ 127,776
2008	127,776
2009	517,682
	773,234
Less: Current portion	(127,776)
Long-term portion	$ 645,458

Note 7. 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 8. 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 $959,817 and $1,179,572 as of December 31, 2006 and 2005, respectively.

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As of December 31, 2006, future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

Year	Amount
2007	$ 469,986
2008	468,212
2009	79,515
2010	42,396
Total future minimum lease payments	1,060,109
Less: imputed interest	(100,292)
Less: current portion	(407,228)
Total long-term capital lease obligation	$ 552,589

Note 9. NOTES PAYABLE - SELLERS

On November 30, 2005, as part of the stock purchase between Gales and AIM (See Note 14), Gales 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 in the Company.

The balance of the notes payable to the two senior management members as of December 31, 2006 aggregated $665,262. These notes bear an interest rate equal to Prime Rate plus 0.5% per annum, (8.75% at December 31, 2006) and mature on November 30, 2010. Interest shall accrue on any portion of the principal amount of these notes outstanding after November 30, 2010 until payment thereof in full, at a floating rate equal to the Prime Rate plus 7% per annum. All of the outstanding principal amounts of these notes together with accrued interest are convertible, at the option of the Company, into shares of the Company's common stock at $0.40 per share. From and after the earlier of (i) January 1, 2007, and (ii) the first date on which the Company intends to effect any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger, or consolidation or other combination of the Company with or into any other Company, or any sale or transfer of all or substantially all of the assets of the Company, the outstanding principal amount of these notes together with interest accrued thereon is convertible, at the option of the holder, into the Company's Common Stock at $0.40 per share.

The remaining note of $962,000 matures on September 30, 2010 is subordinated to all of Gale'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, 2006). 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, 2006, future minimum principal payments on these notes to the three former shareholders are as follows:

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Year	Amount
2007	$ 192,400
2008	192,400
2009	192,400
2010	192,400
2011	713,362
	1,482,962
Less: Current portion	(192,400)
Long-term portion	$ 1,290,562

Interest expense on these notes amounted to $132,193 and $10,711 for the year ended December 31, 2006 and 2005 respectively.

On January 26, 2007, the two senior management members exercised their right to convert their $665,262 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. (See Note 16)

Note 10. 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 $2,275,295 and $133,570 in union benefits during the years ended December 31, 2006 and 2005 respectively.

Note 11. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities under an operating lease agreement, which contain renewal options and escalation provisions. Rent expense was $111,775 and $0 for the years ended December 31, 2006 and 2005, respectively. The Company is responsible for paying all operating costs under the term of the lease. As of December 31, 2006, future minimum lease payments are as follows:

Year	Amount
2007	$ 540,000
2008	540,000
2009	540,000
2010	540,000
2011	563,824
Thereafter	11,737,644
	$14,461,468

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 from inception of the lease in excess of required lease payments. At December 31, 2006, this excess of $39,371 is shown as deferred rent in the accompanying balance sheet.

Litigation

A legal action was brought against the Company for personal injures sustained by an independent contractor as a result of a fall on the Company's premises. The carrier assumed the defense of this action and it was settled during 2006 by the carrier at no cost to the Company.

The Company was involved in litigation with J.C. Herbert Bryant, III, a former officer, director and shareholder of the Company, and KMS-Thin Tab 100, Inc., which was settled in September 2002. As part of the settlement, the Company entered into a distribution agreement with KMS permitting it to purchase certain products from the Company and to exclusively distribute those products in Florida from Orlando south. In October 2003, the Company terminated the distribution agreement with KMS. On December 1, 2003, the Company filed suit against KMS in the Palm Beach County Circuit Court for breach of contract, trademark infringement and for a declaration of rights that the distribution agreement is terminated. KMS answered the complaint and filed its own counterclaim for fraud in the inducement, trademark infringement, dilution and fraudulent misrepresentation; the fraud-based counterclaims were dismissed with prejudice by the Court on summary judgment. KMS subsequently amended its counterclaim to allege a breach of contract under the distribution agreement. In January 2005, the State Court in Florida ruled that neither party should prevail and rejected a request for attorney's fees by KMS of approximately $60,000. KMS subsequently filed a notice of appeal. Subsequent to the Company's emergence from Bankruptcy, KMS requested that the Bankruptcy Court reopen our bankruptcy case and award it the attorney's fees previously rejected by the Florida State Court. The Bankruptcy Court granted the motion in so far as it allowed KMS to prosecute in the Fourth District Court of Appeal in Florida its appeal of the State Court decision. Subsequently, KMS filed its appeal and brief with the Fourth District seeking attorney's fees. The Company intends to contest this claim vigorously, local counsel has responded on behalf of the Company and we await the decision of the Appellate Division. We note that even if a decision adverse to the Company was rendered by the Appellate Division, the Bankruptcy Court could elect to determine that the distribution of assets provided for was appropriate and KMS would be unable to collect upon its judgment.

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.

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The Company believes that it is in substantial 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.

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. Additionally, 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, 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, 2006 and 2005 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 2,370,000 have been granted as of December 31, 2006.

Subsequent to year-end the Company and one of its four senior executives 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 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 will terminate as of March 16, 2008.

Note 12. INCOME TAXES:

The provision for income taxes at December 31, 2006 consists of the following:

Current	
Federal	$ 504,585
State	148,841
Total Current Provision	653,426
Deferred	
Federal	(127,595)
State	(35,862)
Total Deferred Taxes	(163,457)

Net Provision for Income Taxes	$ 489,969

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The components of deferred income tax assets as of December 31, 2006 and 2005, are as follows:

	2006	2005
Federal loss after M-1 adjustments	--	$ 81,022
Bad debts	$ 76,080	38,804
Inventory - 263A Adjustment	338,092	145,776
Non-cash compensation - warrants	40,121	18,774
Non-cash compensation - options	124,354	52,297
Deferred Rent	16,977	--
Deferred gain on sale of real estate	323,859	--
Federal tax benefit of State Tax	(64,790)	(24,200)
Total deferred tax asset	854,693	312,473
Valuation allowance	(854,693)	(312,473)
Net deferred tax asset	$ --	$ --

The component of the deferred tax liability as of December 31, 2006 and 2005 is as follows:

	2006	2005
Property and equipment	$512,937	$676,394
Total deferred tax liability	$597,671	$676,394

The difference between income taxes computed at the statutory federal rate and the provison for income taxes for the years ended December 31, 2006 and 2005 relates to the following:

	2006	2005
Tax benefit at federal statutory rate	34.00%	34.00%
State income taxes, net of federal income tax benefit	6.02%	6.02%
Permanent differences	6.66%	--
True-up	(84.37)%	--
Change in valuation allowance	357.10%	--
Total	319.41%	40.02%
Valuation allowance	--	(40.02)%
Total effective tax rate	319.41	--

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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 13. STOCK-BASED COMPENSATION ARRANGEMENTS

During 2005, the Company's Board of Directors approved a stock option 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 four and seven years.

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, 2006 and 2005 are $0.38 and $0.17. During the twelve months December 31, 2006 no 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, 2006 and 2005 is as follows:

	2006	2005
Risk Free Interest Rates	4.77%	4.095 - 4.375%
Expected Dividend Yields	n/a	n/a
Expected Terms to Exercise	9	10
Expected Volatility	180%	35%

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 issued 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.

At December 31, 2006 and 2005, 1,580,000 and 790,000 options are vested and exercisable, respectively. The weighted average exercise price of exercisable options at December 31, 2006 and 2005 was $0.32 and $0.22 per share, respectively.

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A summary of the status of the Company's stock options as of December 31, 2006, and changes during the year then ended is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Remaining Contractual Term	Average Aggregate Intrinsic Value
Outstanding at January 1, 2006	2,370,000	$ 0.38		
Reserved for grant based on future market price	2,480,000			
Outstanding at December 31, 2006	4,850,000	$ 0.38	9	20,540
Options vested and exercisable At December 31,2006	1,580,000	$ 0.32	9	20,540

The Company recorded expenses of $167,126 and $121,297 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, 2006 and 2005, respectively.

The following table summarizes information about stock options at December 31, 2006:

	Options Outstanding			Options
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-average Exercise Price	Number Exercisable
$0.220	790,000	9	$ 0.220	790,000
$0.428	790,000	9	0.428	790,000
$0.480	790,000	9	0.480	--
Based on future market price	2,480,000	9	N/A	--
	4,850,000	9	$ 0.380	790,000

A summary of the status of the Company's non-vested options as of December 31, 2006 and changes during the twelve months ended is presented below:

	Number of Options	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term (in years)
Non-vested Options at			

January 1, 2006	1,580,000	$ 0.453	10
Options based on future market price	2,480,000	N/A	N/A
Options granted	--	--	--
Options vested	(790,000)	$ 0.428	--
Options forfeited or expired	--	--	--
Non-vested Options at December 31, 2006	3,270,000	$ 0.450	9

As of December 31, 2006, there was $166,329 of unrecognized compensation cost related to non vested stock option awards, which is to be recognized over the remaining weighted average vesting period of eight months.

During the year ended December 31, 2006, the Company issued to a consulting firm, in return for services an aggregate of 41,668 warrants, exercisable during a five year term, to purchase 41,668 shares of the company's Common Stock. Such warrants have a "cashless exercise" feature and have varying exercise prices equal to 120% of the average closing price of the Company's Common Stock during the month immediately preceding the date of issuance. The warrants were valued using the Black-Scholes model and the Company recorded an expense of $49,510 in its consolidated statement of operations for the year ended December 31, 2006. The Company's agreement with this consultant was terminated during the first week of September 2006.

The following table summarizes the Company's outstanding warrants as of December 31, 2006 and changes during the year then ended:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at beginning of year	5,229,589	$ 0.21	4.1
Granted	41,668	$ 0.97	4.8
Cancelled	--		--
Exercised	--		--
Outstanding at end of year	5,271,257	$ 0.22	4.9

Note 14. EQUITY TRANSACTONS AND ASSET ACQUISITION

Private Placement

Immediately prior to, and shortly after the completion of the Merger, Original Gales received gross proceeds of $9,000,000 from the closing of a private placement ("Private Placement") to accredited investors of 900 shares of convertible preferred stock at $10,000 per share which, pursuant to the Merger, were exchanged for shares of the Company's Preferred Stock, $.001 par value per share. The shares of Preferred Stock issued in connection with such private placement are convertible into 40,909,500 shares of the Company's Common Stock.

The proceeds of the Private Placement, in general, were used for paying the cash portion of the purchase price of the Acquisition, for paying expenses relating to the Private Placements, Acquisition, Merger, and related transactions, for the repayment of $150,000 in promissory note obligations which Gales incurred in bridge financings, and for working capital for the Company.

The Placement Agent received 4,090,950 warrants, exercisable during a five year term, to purchase 4,090,950 shares of the Company's Common Stock. Such warrants have a "cashless exercise" feature and are exercisable at $0.22 per share. These warrants were valued at $201,402 using the Black-Scholes model.

Acquisition

Pursuant to a stock purchase agreement between Gales and AIM dated July 25, 2005, original Gales acquired 100% of the capital stock of AIM. The total aggregate price original Gales paid to acquire AIM was $5,231,618 as follows: (i) $3,114,296 in cash, (ii) $1,627,262 in principal amount of promissory notes, and (iii) 490,060 shares of Common Stock valued at a negotiated rate of $1.00 per share (concluded prior to the merger with the public company). The results of AIM's operations have been included in the consolidated financial statements since that date. A portion of the proceeds from original Gales' Private Placement was used to pay such purchase price (See "Private Placement"), including transaction costs of $1,053,862. This stock acquisition was accounted for under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. Under the purchase method of accounting, the total purchase price was allocated to the assets acquired and liabilities assumed based upon the fair values as of the completion of the acquisitions. As a result of the stock purchase, the Company recorded $1,265,963 in goodwill which represents the excess of the fair market value over book value of the assets acquired and liabilities assumed from AIM. The liabilities assumed also included $676,394 of a deferred tax liability representing book to tax differences on assets acquired.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of stock acquisition:

Current assets	$15,640,164
Other assets	283,128
Property and equipment	3,695,532
Total assets acquired	19,618,824
Current liabilities	8,277,921
Long-term debt	5,644,992
Deferred tax liability	676,394
Total liabilities assumed	14,599,307

Net assets acquired	5,019,517
Consideration given	6,285,480
Goodwill	$ 1,265,963

Real estate acquisition

Contemporaneously with the close of the Merger and the Acquisition: (i) AIM completed the acquisition from affiliates of AIM, for an aggregate purchase price of $4,190,000, of three buildings and land which was being leased prior to the closing of the Merger and the Acquisition by AIM (the "Real Estate Acquisition"). The purchase price and related acquisition costs approximated the appraised value of both the buildings and land (ii) AIM entered into the Loan Facility with PNC Bank (See Note 6).

Preferred Stock

The Company currently has no shares of Preferred Stock outstanding. The 900 shares of preferred stock issued in connection with its private placement were automatically converted into 40,909,500 shares of common stock upon the effectiveness of its registration statement in August of 2006.

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Note 15. UNAUDITED PRO-FORMA FINANCIAL STATEMENTS

The accompanying unaudited pro forma condensed statement of operations gives effect to the Merger Agreement, Acquisition, and Real Estate Acquisition as if they occurred on January 1, 2005. The Acquisition was accounted for under the purchase method of accounting in accordance with SFAS No. 141. Under the purchase method of accounting, the total purchase price was allocated to the assets acquired and liabilities assumed based upon the fair values at the completion of the acquisitions.

The unaudited pro forma condensed combined statement of operations has been prepared for illustrative purposes and are not necessarily indicative of the condensed consolidated results of operations in future periods or the results that actually would have been realized had the acquisition actually occurred on January 1, 2005. The pro forma adjustments are based on the information available at the time of the preparation of this document.

The unaudited pro forma condensed combined statement of operations should be read in conjunction with the audited consolidated financial statements of Gales Industries Incorporated as of December 31, 2005.

	Year Ended December 31, 2005 (Unaudited)
Net sales	$30,735,103
Cost of Sales	26,361,387

Gross profit	4,373,716
Operating costs and expenses	
Selling and marketing	357,854
General and Administrative	2,583,375
Income from operations	1,432,487
Other expenses	
Interest and financing costs	1,056,317
Income before income taxes	376,170
Provision for income taxes	151,031
Net Income	$ 225,139
Earnings per share	
Basic	$ 0.02
Diluted	$ 0.01
Weighted average shares outstanding Basic	14,723,421
Diluted	40,282,810

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Note 16. SUBSEQUENT EVENTS

Sigma Metals, Inc

On January 2, 2007, the Company entered into a Stock Purchase Agreement (the "Sigma Agreement") with Sigma Metals, Inc., a New York corporation ("Sigma Metals"), and the holders of all of the outstanding shares of Sigma Metals (the "Shareholders"). Pursuant to the Sigma Agreement, subject to the satisfaction of various terms and conditions, the Company will acquire from the Shareholders all of the issued and outstanding capital stock of Sigma Metals.

The closing of the Sigma Agreement is scheduled to occur in April 2007 or on such other date as the Company and the Shareholders may agree. The purchase price for all of the shares is $5,008,204 plus an amount equal to Sigma Metals' earnings for the period from January 1, 2006, until the closing, subject to certain adjustments as set forth in the Sigma Agreement.

Conversion of Notes Payable

On January 26, 2007, the two senior management members exercised their right to convert their $665,262 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. (See Note 9)

Welding Metallurgy, Inc

On March 9, 2007, the Company entered into a Stock Purchase Agreement (the "Welding Agreement") to acquire Welding Metallurgy, Inc., a New York corporation ("Welding Metuallurgy"), from the holders (the "Shareholders") of all of the outstanding shares of Welding Metallurgy. Pursuant to the Welding Agreement, subject to the satisfaction of various terms and conditions, the Company will acquire from the Shareholders all of the issued and outstanding capital stock of Welding Metallurgy for aggregate consideration of $6,050,000, subject to adjustment for working capital, payable in a combination of cash, a secured promissory note and shares of the Company's common stock.

On February 13, 2007, each of the non-management members of the Board was issued an option to purchase 100,000 shares of the common stock of the Company. The options will vest in equal thirds on March 1, 2007, 2008 and 2009 and are exercisable at a price of $0.27 per share until March 1, 2014.

In March 2007, the Company entered into an Agreement to compensate James Brown for services to be rendered as a director of the Company. Pursuant to such Agreement Mr. Brown will receive a cash payment of $15,000 and will be compensated at a rate of $175,000 per annum until December 31, 2007, or if prior to December 31, 2007, until such date as he shall cease to serve as Chairman. In addition to his cash compensation, Mr. Brown was issued 200,000 shares of common stock of the Company, pursuant to a Restricted Stock Agreement, of which 100,000 vested on the date of grant and the second 100,000 shall vest on December 31, 2007.

The Company and Michael A. Gales entered into a Separation Agreement and General Release (the "Separation Agreement") effective March 16, 2007, whereby Mr. Gales resigned from his positions with the Company. Pursuant to the Separation Agreement, the Employment Agreement between Mr. Gales and the Company terminated effective March 16, 2007. In lieu of the compensation payable to Mr. Gales pursuant to his Employment Agreement, from March 16, 2007, to November 30, 2010, Mr. Gales 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 the Company granted Mr. Gales 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 Mr. Gales vested as of March 16, 2007, and the right to exercise all of his options will terminate as of March 16, 2008.

AIR INDUSTRIES MACHINING, CORP.
Predecessor to Air Industries Group, Inc.

FINANCIAL STATEMENTS

(PRIOR TO MERGER)

NOVEMBER 30, 2005

Independent Accountants' Report

To the Board of Directors and Stockholders of Air Industries Machining

Corporation

We have audited the accompanying Consolidated Balance Sheets of Air Industries Machining Corporation as of November 30, 2005, and the related Consolidated Statement of Income and Retained Earnings and Cash Flows for the eleven months ended November 30, 2005. These consolidated financial statements are the responsibility of the Air Industries Machining Corporation management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred above present fairly, in all material respects, the financial position of Air Industries Machining Corporation as of November 30, 2005, and the results of its operations and its cash flows for the eleven months then ended in conformity with accounting principles generally accepted in the United States.

Respectfully submitted,

BILDNER & GIANNASCO, LLP
Certified Public Accountants

Jericho, New York
February 28, 2006

AIR INDUSTRIES MACHINING CORPORATION

Consolidated Balance Sheet

ASSETS	November 30, 2005
Current Assets	
Cash and Cash Equivalents	$ 71,197
Accounts Receivable	3,202,991
Inventory	11,588,521
Prepaid Expenses	174,850
Other Current Assets	4,215
Deposits	192,972
Total Current Assets	$15,234,746
Property, plant and equipment, net	3,919,599
Security Deposits	34,522
Cash Surrender Value - Officer's Life	62,761
Unamortized Finance Costs	102,187
Total Assets	$19,353,815

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The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Consolidated Balance Sheet

LIABILITIES AND STOCKHOLDERS' EQUITY	November 30, 2005
Current Liabilities	
Accounts Payable	$ 4,429,016
Advance Payment - Customer	293,226
Mortgage Payable - Current	96,000
Dividends Payable	511,055
Obligations Under Capital Lease - Current	359,197
Notes Payable - Banks	5,180,000
Accrued Operating Expenses	1,074,025
Total Current Liabilities	11,942,519
Long Term Liabilities	
Advances From Shareholders	464,992
Mortgage Payable	1,145,813
Obligations Under Capital Lease - Long Term	849,652
Total Long Term Liabilities	2,460,457
Total liabilities	14,402,976
Commitments and contingencies	
Minority interest	446,805
Stockholders' Equity	
Capital Stock - 200 Shares Authorized No Par Value, 95 Shares Issued and Outstanding As of November 30, 2005	32,223
Additional Paid-In Capital	221,580
Retained Earnings	4,346,231
Less: Treasury Stock at Cost	(96,000)
Total Stockholders' Equity	4,950,839
Total Liabilities and Stockholders' Equity	$ 19,353,815

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION

Consolidated Statement of Income and Retained Earnings

	Audited	Unaudited Pro Forma (1)
	ELEVEN MONTHS ENDED November 30, 2005	ELEVEN MONTHS ENDED November 30, 2005
Net sales	$27,957,694	$27,957,694
Cost of sales	23,887,120	23,887,120
Gross profit	4,070,574	4,070,574
Operating expenses		
Selling	322,867	$ 322,867
General and administrative	1,665,793	1,665,793
Total operating expenses	1,988,660	1,988,660
Income from operations	2,081,914	2,081,914
Interest and financing costs	605,602	605,602
Income before minority interest and income taxes	1,476,312	1,476,312
Less: minority interest	74,904	74,904
Income before provision for income taxes	1,401,408	1,401,408
Provision for income taxes (1)	--	560,843
Net Income	1,401,408	$ 840,565
Retained Earnings, Beginning of Period	4,120,102	
Deduct: Distribution to Shareholders	(1,175,279)	
Retained Earnings, End of Period	$ 4,346,231	

(1) Since our inception we have elected to be treated as a Subchapter " S" corporation of the Internal Revenue Code and incurred no income taxes. The pro forma amounts include income taxes that would have been incurred if the Company had been a "C" corporation. The effective rate of the pro forma income tax is 40.02% and is based upon the combined Federal and State tax rates that were in effect for the period December 1, 2005 to December 31, 2005 when the company became a "C" corporation.

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AIR INDUSTRIES MACHINING CORPORATION

Statement of Cash Flows

	Eleven Months Ended November 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	$ 1,401,408
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation And Amortization	522,299
Minority Interest in Net Income	74,904
Non Cash Interest Expense	24,342
Changes in Assets and Liabilities:	
(Increase) Decrease In Assets-	
Accounts Receivable	(559,455)
Inventory	(730,065)
Prepaid Expenses	(42,582)
Other Current Assets	1,264
Deposits	(171,812)
Cash Surrender Value - Officer's Life	200,875
Increase (Decrease) In Liabilities-	
Accounts Payable	736,956
Dividends Payable	390,599
Advance Payments - Customers	(1,061,040)
Accrued Expenses	570,347
Advances from Shareholders	197,435
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,555,475
CASH FLOWS (USED) IN INVESTING ACTIVITIES	
Purchase of Equipment	(301,051)
NET CASH (USED) IN INVESTING ACTIVITIES	(301,051)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Credit Line Facilities	304,388
Principle Payments of Capital Lease Obligations	(264,396)
Principle Payments of Mortgage	(81,973)
Repayment of Notes Payable	(100,000)
Distribution to Shareholders	(1,090,521)
NET CASH (USED) IN FINANCING ACTIVITIES	(1,232,502)
Net increase in cash and cash equivalents	21,922
Cash and cash equivalents, beginning of year	49,275
Cash and cash equivalents, end of year	$ 71,197
Supplementary disclosure of cash flow information	
Cash Paid During The Year For Interest	$ 566,467
Supplementary noncash disclosure of financing activities	
Equipment acquisition through capital lease financing	$ 449,559

The accompanying audit report and notes are an integral part of these statements.

AIR INDUSTRIES MACHINING CORPORATION
Notes to the Consolidated Financial Statements
November 30, 2005

1- SIGNIFICANT ACCOUNTING POLICIES

Background of Company

Air Industries Machining Corporation ("Air" or "The Company"), founded in 1969, was incorporated in the State of New York and maintains its principal place of business in Bay Shore, New York. The Corporation is primarily engaged in manufacturing aircraft structural parts and assemblies principally for prime defense contractors in the aerospace industry machining parts for the aerospace industry predominantly located in the United States. The Company's customer base consists mainly of publicly traded companies in the aerospace industry.

Principles of Consolidation

The Company's consolidated financial statements include those of variable interest entities ("VIEs"). Conditions in which the Company would consolidate VIE's are cases in which the Company is the primary beneficiary. Conditions under which the Company would consolidate entities that are not VIE's are cases in which the Company would maintain a controlling interest (50% or more) investment or exert significant management influence. (See Note 11).

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with an original maturity of three months or less. Cash consists of aggregate cash balances in the Company's bank accounts and cash equivalents consist primarily of money market accounts.

Accounts Receivable

Accounts receivable are reported at their outstanding unpaid principal balances. The Company writes off accounts when they are deemed to be uncollectible. The Company has experienced insignificant amounts of bad debts in such accounts.

Inventories

The Company values inventory at the lower of cost on a first-in-first-out basis or market.

The Company purchases inventory only when it has signed non-cancellable contracts with its customers for orders of its finished goods. The Company 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. The Company occasionally evaluates inventory items that are not secured by a purchase orders and reserves for obsolescence accordingly. The Company also reserves an allowance for excess quantities, slow-moving goods, and obsolete items.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. The Company maintains a policy to capitalize all property and equipment purchases in excess of $1,000. 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. Repair and maintenance charges are expensed as incurred. Property under a capital lease is capitalized and

amortized over the lease terms. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets.

The useful lives of property, plant and equipment for purposes of computing depreciation are:

Tools and instruments	7 Years
Leasehold improvements...............	25 Years
Machinery and equipment	5-8 Years
Automotive Equipment.................	5 Years
Furniture and fixtures...............	5-8 Years
Buildings............................	25-31.5 Years

Impairment of Long Live Assets

The Company reviews long-lived assets for impairment at the facility level annually or if events or 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 the assets compared to its carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows.

Finance Costs

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 generally 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.

Cost of Goods Sold

Costs for goods sold includes all direct material, labor costs, tooling and those indirect costs related to manufacturing, such as indirect labor, supplies, tools, repairs and depreciation costs.

Expenses

Selling, general, and administrative costs are charged to expense as incurred.

Income Taxes

The Company, with the consent of its stockholders, elected under the Internal Revenue Code and New York State law to be taxed as an "S" corporation. In lieu of corporate income taxes, the stockholders are taxed on their proportionate share of the company's net income. Accordingly, no provision for federal income taxes has been made in the accompanying financial statements.

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, unamortized finance costs, 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 November 30, 2005, approximately 54% is attributed to two customers.

Treasury Stock

The Company records treasury stock under the cost method.

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 Statement of Financial Accounting Standards 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 is carried at fair value in that it carries interest rates that are comparable to similar instruments with similar maturities.

Reclassifications

Certain reclassifications have been made to prior year's financial statement information to conform to the current year presentation.

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AIR INDUSTRIES MACHINING CORPORATION
Notes to the Consolidated Financial Statements
November 30, 2005

2- INVENTORY

The components of inventory consisted of the following as of November 30, 2005:

	November 30, 2005
Raw Materials	$ 2,294,020

Work in Progress	2,639,006
Finished Goods	6,655,495
Total Inventory	$ 11,588,521

3- PROPERTY, PLANT AND EQUIPMENT

The components of property and equipment as of November 30, 2005 include:

	November 30, 2005
Land	$ 134,922
Building	3,173,071
Machinery and Equipment	8,541,083
Tools and Instrument	279,803
Leasehold Improvements	515,211
Automotive Equipment	290,083
Furniture and fixtures	872,112
Total property, plant, and equipment	13,806,285
Less: Accumulated Depreciation	(9,886,686)
Property, plant, and equipment, net	$ 3,919,599

Depreciation and amortization expense for the eleven months ended November 30, 2005 was $477,827.

AIR INDUSTRIES MACHINING CORPORATION
Notes to the Consolidated Financial Statements
November 30, 2005

4- NOTES PAYABLE - BANKS

The Company has negotiated a credit facility dated August of 2003 with a major lending institution with a termination date of March of 2006. The facility is secured by a first priority interest in all accounts receivable, inventory and equipment presently owned or hereafter acquired by the Company. The indebtedness bears interest at the rate of 1/2 percent above the prime rate of interest or a libor margin of 3%.

The terms of the facility require that, among other things, the Company maintain certain financial ratios and levels of working capital. As of November 30, 2005, the Company has met these terms.

The loans are guaranteed jointly and severally by the principals of the Company, as well as the affiliated companies KPK Realty Corporation and DPPR Realty Corp. (See Note 9)

Interest expense related to the notes payable - bank amounted to $337,447 for the eleven months ended November 30, 2005.

5- ADVANCES FROM SHAREHOLDERS

Advances represent non-interest bearing advances from shareholders to cover the Company's working capital needs. The Company imputed as interest based on the prime rate and recorded as interest expense and additional paid in capital an amount of $24,342 for the eleven months ended November 30, 2005.

5A- DISTRIBUTIONS TO SHAREHOLDERS

The Company distributed to its shareholders $1,175,279 during the eleven months ended November 30, 2005. These distributions were made from time to time to the Company's shareholders in proportion to their ownership interests in the Company at such times as it had sufficient cash on hand or availability under its lines of credit.

6- MORTGAGE PAYABLE

As the Company consolidates the assets and liabilities of variable interest entities (see Note 11) it has two mortgages covering buildings and land. These mortgages carry interest rates of 6.15% and 7.18% per annum.

Future mortgage payments are as follows for the period ended November 30, 2005:

Year	Amount
2006	$ 126,000
2007	128,000
2008	139,000
2009	133,000
2010	142,000
Thereafter	573,813
	1,241,813
Less: current maturities:	96,000
Long term	$1,145,813

6A. CASH SURRENDER VALUE - LIFE INSURANCE

The Company is the owner and beneficiary of key-man life insurance policies carried on the lives of certain key executives with cash surrender values. The aggregate face amounts of the policies were $4,250,000 for the eleven months ended November 30, 2005. There are loans in place against these policies. As of November 30, 2005 the cash surrender value was $62,761, net of $226,632 in loans. As the Company has the right to offset the loans against the cash surrender value of the policies, the Company presents the net asset in its consolidated financial statements.

7- CAPITAL LEASES PAYABLE-EQUIPMENT

The Company is committed under several capital leases for manufacturing equipment and computer equipment. All leases have bargain purchase options that

the Company expects to exercise at the termination of each lease. Capital lease obligations totaled $1,208,849 as of November 30, 2005.

As of November 30, 2005, future minimum lease payments, including imputed interest, with remaining terms of greater than one year are as follows:

Year	Amount
2006	$ 404,000
2007	428,000
2008	427,000
2009	106,000
Total future minimum lease payments	1,365,000
Less: imputed interest	(156,151)
Less: current maturities	(359,197)
Total long-term capital lease obligation	$ 849,652

8- EMPLOYEE BENEFITS PLANS

On January 1, 1997, the Company instituted 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 IUJAT Local 355 (the "Union'), which provides a medical benefit plan at defined rates which are contributed in their entirety by the Company. For the eleven-month period ending November 30, 2005, the Company contributed $1,279,743 to the plan.

9- RELATED PARTY TRANSACTIONS

The following transactions occurred between the Company and certain related parties.

The Company presently leases manufacturing and office space from KPK Realty Corp. a corporation in which 49% is owned by the majority stockholder of the Company.

Additionally, the Company leases manufacturing space from DPPR Realty Corp. which is 100% owned by two of the shareholders of the Corporation who in the aggregate own 36.84% of the Company.

KPK Realty Corp. and DPPR Realty Corp. are considered variable interest entities under FIN 46 (See Note 11) and accordingly, their assets, liabilities and results of operations have been consolidated into the Company's financial statement.

10- COMMITMENTS AND CONTINGENCIES

Litigation

A legal action has been brought against the Company for personal injuries sustained by an independent contractor as a result of a fall on the Company's premises. The Company has insurance coverage for this claim in the amount of $4,000,000. The carrier has assumed the defense of this action and at a settlement mediation, the plaintiff made a demand of $2,000,000 which was rejected by the carrier. The Company believes that any judgement or settlement in this matter will be paid by the carrier.

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AIR INDUSTRIES MACHINING CORPORATION
Notes to the Consolidated Financial Statements
November 30, 2005

11- VARIABLE INTEREST ENTITIES

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. Under FIN 46, we are required to consolidate variable interest entities for which we are deemed to be the primary beneficiary by the third quarter of 2003, and disclose information about those in which we have significant variable interests effective immediately.

The Company has leasing arrangements for its operating and manufacturing facilities with two lessors. Under FIN 46 these lessors are Variable Interest Entities and the Company is the primary beneficiary. Therefore, the Company has consolidated the respective lessors' assets and debt into these consolidated statements. At November 30, 2005, these entities had gross assets of $1,900,000 and gross liabilities of $985,000. These facilities were subsequently purchased in connection with a merger transaction in November 2005. The minority interest on the Company's financial statements consists of the non-controlling portion of these respective entities (See Note 9).

12- SUBSEQUENT EVENTS

On November 30, 2005 merger agreements were consummated between the Company and an Acquisition Entity and between the Acquisition Entity and a Public Entity whose stock is traded in Over the Counter Market. Contemporaneously with the merger agreements, the Company secured $14,000,000 in debt facilities from a major lending institution and used funds from the facility to purchase real property that it had subsequently leased and paid off debts to its prior lender. As part of the merger agreements, the Acquisition Entity completed the first of two closings of private placement stock offerings which grossed $9,000,000 in the aggregate. These transactions and their associated costs have not been reflected in these financial statements.

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SIGMA METALS, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2006
DECEMBER 31, 2005

Independent Auditors' Report

Board of Directors
Sigma Metals, Inc.

We have audited the accompanying Comparative Balance Sheets of Sigma Metals, Inc. as of December 31, 2006 and December 31, 2005 and the related Statements of Income and Retained Earnings, and Cash Flows for each of the years then ended. These financial statements are the responsibility of the Sigma Metals, Inc. management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sigma Metals, Inc. as of December 31, 2006 and December 31, 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the accompanying schedules of expenses is presented only for supplementary analysis purposes. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Respectfully submitted,

BILDNER & GIANNASCO, LLP
Certified Public Accountants

Jericho, New York
March 19, 2007

SIGMA METALS, INC.

Comparative Balance Sheets

ASSETS	DECEMBER 31, 2006	DECEMBER 31, 2005
CURRENT ASSETS		
Cash and Cash Equivalents	$ 44,798	$ 21,477

Accounts Receivable	2,392,947	975,951
Inventory	2,812,873	1,355,606
Prepaid Expenses	27,818	16,325
TOTAL CURRENT ASSETS	$5,278,436	$2,369,359
FIXED ASSETS - AT COST		
Property and Equipment	$ 290,775	$ 200,320
Less: Accumulated Depreciation	158,780	135,018
FIXED ASSETS - NET	$ 131,995	$ 65,302
OTHER ASSETS		
Security Deposits	$ 22,763	$ 19,117
Other Assets	851	400
TOTAL OTHER ASSETS	$ 23,614	$ 19,517
TOTAL ASSETS	$5,434,045	$2,454,178

The accompanying audit report and notes are an integral part of these statements.

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SIGMA METALS, INC.

Comparative Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY	DECEMBER 31, 2006	DECEMBER 31, 2005
CURRENT LIABILITIES		
Accounts Payable	$2,035,030	$1,081,994
Notes Payable - SBA	7,345	17,054
Notes Payable - State Bank - Software	26,196	--
Notes Payable - State Bank	897,800	666,702
Lease Payable	--	3,061
Accrued Operating Expenses	282,592	157,552
TOTAL CURRENT LIABILITIES	$3,248,963	$1,926,363
LONG-TERM LIABILITIES		
Advances from Stockholders	$ 257,000	$ 250,000
Notes Payable - SBA	--	7,338
TOTAL LONG-TERM LIABILITIES	$ 257,000	$ 257,338

TOTAL LIABILITIES	$3,505,963	$2,183,701
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common Stock ($300 par value; 100 shares authorized and outstanding)	$ 30,000	$ 30,000
Retained Earnings	1,898,082	240,477
TOTAL STOCKHOLDERS' EQUITY	$1,928,082	$ 270,477
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,434,045	$2,454,178

SIGMA METALS, INC.

Comparative Statements of Income and Retained Earnings

	FOR THE YEAR ENDED	
	DECEMBER 31, 2006	DECEMBER 31, 2005
REVENUE	$ 17,979,414	$ 11,783,651
COST OF GOODS SOLD		
Inventory, Beginning	1,355,606	$ 753,041
Purchases	13,375,354	8,769,224
Testing & Tolling	$ 295,646	$ 194,838
Manufacturing Overhead	608,761	542,239
	$ 15,635,367	$ 10,259,342
Less: Inventory, Ending	2,812,873	1,355,606
COST OF GOODS SOLD	$ 12,822,494	$ 8,903,736
GROSS PROFIT	$ 5,156,920	$ 2,879,915
EXPENSES		
Selling	923,847	770,409
General and Administrative	2,218,053	1,865,417
Interest	129,490	139,553
Franchise Tax	425	425
TOTAL EXPENSES	$ 3,271,815	$ 2,775,804
NET INCOME FOR YEAR	$ 1,885,105	$ 104,111

DISTRIBUTIONS	(227,500)	(66,000)
RETAINED EARNINGS, BEGINNING OF YEAR	240,477	202,366
RETAINED EARNINGS, END OF YEAR	$ 1,898,082	$ 240,477

The accompanying audit report and notes are an integral part of these statements.

SIGMA METALS, INC.

Comparative Statements of Cash Flows

	FOR THE YEAR ENDED	
	DECEMBER 31, 2006	DECEMBER 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for Year	$ 1,885,105	$ 104,111
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	23,761	17,338
Changes in Assets and Liabilities:		
(Increase) Decrease In -		
Accounts Receivable	(1,416,996)	225,960
Inventory	(1,457,267)	(602,565)
Prepaid Expenses	(11,493)	1,315
Other Current Assets	(451)	(400)
Deposits	(3,646)	(4,847)
Increase (Decrease) In -		
Accounts Payable	953,037	101,237
Lease Payable	(3,061)	3,061
Accrued Operating Costs	125,040	87,604
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES (Forward)	$ 94,029	$ (67,186)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	$ (90,455)	$ (26,123)
NET CASH (USED) BY INVESTING ACTIVITIES (Forward)	$ (90,455)	$ (26,123)

SIGMA METALS, INC.

Comparative Statements of Cash Flows
(Continued)

	FOR THE YEAR ENDED	
	DECEMBER 31, 2006	DECEMBER 31, 2005
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES (Forward)	$ 94,029	$ (67,186)
NET CASH (USED) BY INVESTING ACTIVITIES (Forward)	$ (90,455)	$ (26,123)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Bank Debt	$ 231,098	$ 179,500
Increase (Decrease) in Notes Payable Equipment	9,149	(16,365)
Increase in Shareholders Loans	7,000	10,626
Distributions	(227,500)	(66,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 19,747	$ 107,761
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 23,321	$ 14,452
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	21,477	7,025
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 44,798	$ 21,477
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	$ 122,490	$ 139,553
Income Taxes Paid	$ 425	$ 425

The accompanying audit report and notes are an integral part of these statements.

SIGMA METALS, INC.

Notes to Financial Statements
For the Years Ended
December 31, 2006
December 31, 2005

1- SIGNIFICANT ACCOUNTING POLICIES

Background of Company

Sigma Metals, Inc. ("The Company") is a stocking aircraft metals warehouse with value added capability. The Company also services the critical needs of aircraft manufacturers and the major airlines. The Company is located in Deer Park, New York. Its customer base consists of both foreign and domestic Corporations.

Cash & Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with an original maturity of three month or less. Cash consists of aggregate cash balances in the Company's bank accounts and cash equivalents consist primarily of money market accounts.

Accounts Receivable

Accounts receivable are presented at face value, net of the allowance for doubtful accounts. The allowances for doubtful accounts are established through provisions charged against income and are maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions. Management considers all accounts to be collectible and, therefore, has not established a provision for uncollectible accounts.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade accounts receivable. The Company grants credits to its customers, which are located in and out of the United States. The Company does have foreign sales, but they are primarily with large corporations that the Company has done business with for a number of years. The majority of these transactions are insured.

Inventory

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. The Company maintains a policy to capitalize all property and equipment purchases in excess of $1,000. 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. Repair and maintenance charges are expensed as incurred. Property under a capital lease is capitalized and amortized over the lease terms. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets.

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Property and Equipment - (Continued)

Depreciation and Amortization are provided by charges to operations over the estimated useful lives, principally on the straight-line method. The estimated useful lives are:

Tools	5 Years
Furniture, Fixtures and Office Equipment	5 Years

Transportation Equipment	5 Years
Machinery and Equipment	7 Years
Leasehold Improvements	3-15 Years

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment at the facility level annually or when events or 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 the assets compared to their carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to their fair value, based on discounted estimated future cash flows.

Finance Costs

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 generally 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.

Expenses

Selling, general, and administrative costs are charged to expense as incurred.

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, unamortized finance costs, 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.

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 Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments."

Fair Value of Financial Instruments -- (Continued)

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 is carried at fair value in that is carries interest rates that are comparable to similar instruments with similar maturities.

Income Taxes

The Company has elected to be taxed as a Small Business Corporation and, consequently, no Federal tax liability is reflected on the Comparative Statements of Income and Retained Earnings.

2- INVENTORY

Inventory consists primarily of sheet metal and is considered all raw materials.

Raw Material (Sheet Metal)	2006	2005
	$2,812,873	$1,355,606

3- PROPERTY AND EQUIPMENT

A schedule of Property and Equipment as of December 31, 2006 and December 31, 2005 is set forth below:

	2006	2005
Tools, Machinery and Equipment	$ 107,702	$ 92,724
Furniture, Fixtures and Office Equipment	112,578	59,337
Transportation Equipment	17,006	7,006
Leasehold Improvements	53,489	41,253
Total Property, and Equipment	$ 290,775	$ 200,320
Less: Accumulated Depreciation	(158,780)	(135,018)
Property. and Equipment. Net	$ 131,995	$ 65,302

Depreciation and amortization expense for the years ended December 31, 2006 and December 31, 2005 was $23,761 and $17,338, respectively.

4- LINES OF CREDIT

The Company had a Bank Line of Credit expiring on May 31, 2006 with a maximum borrowing limit of $800,000 and interest at one and one half over prime. The prime interest rate at December 31, 2006 and December 31, 2005 was 8.25% and 7.25% respectively. The Line of Credit was renewed for a maximum borrowing limit of $900,000 and interest at one and one half over prime. This new Line of Credit is due to expire on May 31, 2007. As of December 31, 2006 and 2005 the balance was $897,800 and $666,702, respectively.

4- LINES OF CREDIT - (Continued)

The Line of Credit is secured by a first security interest in all assets. The Line of Credit is due on demand or, if no demand is made, in one payment of all outstanding principal plus accrued unpaid interest on May 31, 2007, at which time it is subject to annual review, pending receipt of the subject's financial statements.

5- NOTES PAYABLE - SOFTWARE

In March of 2006, the Company financed the purchase of new computer software with State Bank of Long Island in the amount of $50,000. The terms of the Note are 2 years at 8% payable monthly in the amount of $2,261.36. As of the Balance Sheet date, the current balance was $26,196. Interest incurred amounted to $2,311.37.

Scheduled amortization payments for the following years are set forth below:

December 31, 2007	$25,980
December 31, 2008	216

6- LONG TERM DEBT

The Company has an SBA Loan of $50,000, payable in monthly installments of $1,477 that started on June 17, 2004 with an interest rate of 4%. The loan is secured by the Company's assets. This loan matures in May of 2007.

Scheduled amortization payments for the following years are set forth below:

	2006	2005
December 31, 2006	--	$17,054
December 31, 2007	$7,345	7,345

Retirement Plan

The Company adopted a 401(k) Profit Sharing Plan effective June 6, 1994. The terms of the Plan are as follows:

CONTRIBUTION: Up to 25% of Plan Participations' Compensation.

ALLOCATION- EMPLOYER: 3.32% of Annual Compensation greater than Cov. Comp. plus 3.32070% of Annual Compensation. Cov. Comp. is based upon $72,001 year.

NORMAL RETIREMENT AGE: 65 or 5 years of Participation, if later.

FORFEITURES: Allocated to Participants' Accounts.

ELIGIBILITY: All Non-Union Employees over the Age of 21 who completed 1 year of service.

DEATH BENEFIT: 100% of the Total Account

Retirement Plan -- (Continued)

DISABILITY: 100% of the Total Account

EMPLOYEES CONTRIBUTIONS: Up to 100% of Annual Compensation. (Maximum $14,000)

MATCHING CONTRIBUTIONS: 0.00% of Employee deferral up to 0.00% of Compensation deferred.

Vesting Schedule

Year	Pct Vested
1	0
2	20
3	40
4	60
5	80
6-15	100

The contributions for December 31, 2006 and December 31, 2005 were $76,790 and $76,551 respectively.

Shareholder Loans

Two of the major shareholders have advanced the Company $125,000 each for working capital. These notes are payable on demand and bear interest at a rate of 6%. They also have been subordinated to State Bank of Long Island.

Commitments and Contingencies

The Company presently leases manufacturing and office facilities under a lease expiring January 31, 2008, at an annual rental of approximately $22,000, plus annual real estate tax and utilities by the lessee.

This lease is between the Company and Giaquinto -- Lusting Associates, LLC, a Limited Liability Company.

Subsequent Events

On January 2, 2007, the Company entered into a Stock Purchase Agreement (the "Sigma Agreement") with Air Industries Group, Inc., a Delaware Corporation and the holders of all of the outstanding shares of Sigma Metals (the "Shareholder"). Pursuant to the Sigma Agreement, subject to the satisfaction of various terms and conditions, the Company will acquire from the Shareholders all of the issued and outstanding capital stock of Sigma Metals.

The closing of the Agreement is scheduled to occur in April of 2007 or on such other date as the Company and the Shareholders may agree. The purchase price for all of the shares is $5,008,204, plus an amount equal to Sigma Metals' earnings for the period from January 1, 2006, until the closing, subject to certain adjustments as set forth in the Sigma Agreement.

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GALES INDUSTRIES INCORPORATED
Predecessor to Air Industries Group, Inc.

FINANCIAL STATEMENTS

MARCH 31, 2007
(Unaudited)

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GALES INDUSTRIES INCORPORATED
Condensed Consolidated Balance Sheet

	March 31, 2007 (unaudited)
ASSETS	
Current Assets	
Cash and Cash Equivalents	$ --
Accounts Receivable, Net of Allowance for Doubtful	

Accounts of $204,566	2,672,799
Inventory	15,866,131
Prepaid Expenses and Other Current Assets	455,958
Deposits	776,673
Total Current Assets	19,771,561
Property, Plant, and Equipment, net	3,399,089
Deferred Financing Costs	338,294
Other Assets	65,122
Goodwill	1,265,963
Deposits	495,632
TOTAL ASSETS	$ 25,335,661
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts Payable and Accrued Expenses	$ 7,544,130
Notes Payable - Revolver	5,352,845
Notes Payable - Current Portion	127,776
Notes Payable - Sellers - Current Portion	192,400
Capital Lease Obligations - Current Portion	413,463
Due to Sellers	53,694
Dividends Payable	120,003
Deferred Gain on Sale - Current Portion	38,033
Income Taxes Payable	769,396
Total current liabilities	14,611,740
Long term liabilities	
Notes Payable - Net of Current Portion	613,514
Notes Payable - Sellers - Net of Current Portion	577,200
Capital Lease Obligations - Net of Current Portion	524,053
Deferred Tax Liability	461,731
Deferred Gain on Sale - Net of Current Portion	703,609
Deferred Rent	86,929
Total liabilities	17,578,776
Commitments and contingencies	
Stockholders' Equity	
Preferred Stock - 8,003,716 shares authorized; Series A - 1,000 shares authorized, 0 shares issued and outstanding; Series B - 2,000,000 shares authorized, 0 shares issued and outstanding	--
Common Stock - $.001 Par, 120,055,746 Shares Authorized 59,579,998 Shares Issued and Outstanding as of March 31, 2007	59,580
Additional Paid-In Capital	8,855,065
Accumulated Deficit	(1,157,760)
Total Stockholders' Equity	7,756,885
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 25,335,661

See notes to condensed consolidated financial statements

GALES INDUSTRIES INCORPORATED
Condensed Consolidated Statement of Operations
For the three month period ended March 31,
(unaudited)

	2007	2006
Net sales	$ 7,488,130	$ 8,898,272
Cost of Sales	6,239,484	7,385,566
Gross profit	1,248,646	1,512,706
Operating costs and expenses:		
Selling and marketing	95,342	155,702
General and administrative	1,031,450	849,383
Income from operations	121,854	507,621
Interest and financing costs	130,954	325,050
Gain on sale of life insurance policy	--	(53,047)
Gain on Sale of Real Estate	(9,509)	--
Other Income	(1,446)	--
Other Expenses	8,578	--
(Loss) income before income taxes	(6,723)	235,618
Provision for income taxes	64,764	99,253
Net (Loss) Income	(71,487)	136,365
Less: Dividend attributable to preferred stockholders	--	180,000
Net loss attributable to common stockholders	$ (71,487)	$ (43,635)
Loss per share (basic and diluted)	$ (0.00)	$ (0.00)
Weighted average shares outstanding (basic and diluted)	58,833,681	14,723,421

See notes to condensed consolidated financial statements

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GALES INDUSTRIES INCORPORATED
Condensed Consolidated Statement of Cash Flows
For the three month period ended March 31,
(Unaudited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Income	$ (71,487)	$ 136,365
Adjustments to Reconcile Net Income (Loss) to Net Cash Used in Operating Activities:		
Depreciation and amortization of property and equipment	166,227	138,111
Bad Debt Expense	28,108	--
Non-Cash Compensation Expense	207,598	25,905
Warrants issued for services	31,303	--
Accrued Interest on Notes Payable-Sellers	16,604	--
Amortization of deferred financing costs	30,754	35,148
Gain on Sale of Real Estate	(9,509)	--
Deferred Taxes	(51,206)	(13,573)
Changes in Assets and Liabilities		
(Increase) Decrease in Assets:		
Accounts receivable	808,050	(1,181,596)
Inventory	(608,490)	(926,672)
Prepaid expenses and Other Current Assets	(223,209)	(112,895)
Deposits	(596,217)	(11,329)
Cash surrender value - officer's life insurance	--	28,460
Other assets	(1,600)	84
Increase (Decrease) in Liabilities:		
Accounts payable and accrued expenses	(66,389)	1,877,767
Income Taxes Payable	115,970	--
Deferred Rent	47,558	--
NET CASH USED IN OPERATING ACTIVITIES	(175,935)	(4,225)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Paid for Deposit on Leasehold Improvements	(47,102)	--
Purchase of property and equipment	--	(99,645)
NET CASH USED IN INVESTING ACTIVITIES	(47,102)	(99,645)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of Principal - Capital Lease Obligations	(22,301)	(88,944)
Repayment of notes payable to Officers and Sellers	(48,100)	(148)
Proceeds (repayments) from notes payable, net	(31,944)	12,358
Proceeds from Notes Payable-Revolver	325,382	--
NET CASH PROVIDED BY (USED IN) BY FINANCING ACTIVITIES	223,037	(76,734)
Net decrease in cash and cash equivalents	--	(180,604)
Cash and cash equivalents at the beginning of period	--	1,058,416
Cash and cash equivalents at the end of period	$ --	$ 877,812
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 126,616	$ 170,995
Supplemental disclosure of non-cash investing financing activity:		
Note Payable-Seller and accrued interest converted to common stock	$ 719,773	--

See notes to condensed consolidated financial statements

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Note 1. FORMATION AND BASIS OF PRESENTATION

Merger and Acquisition

Ashlin Development Corp. (the "Company" or "Ashlin"), a Florida corporation and its subsidiary Gales Industries Merger Sub, Inc. ("Merger Sub"), entered into a Merger Agreement (the "Merger Agreement") on November 14, 2005 with Air Industries Group, Inc., a privately-held Delaware corporation ("Original Gales"). On November 30, 2005 (the "Closing Date") Original Gales merged (the "Merger") into Merger Sub. Pursuant to the Merger Agreement, the Company issued 10,673,107 shares of Common Stock (representing 73.6% of Ashlin's outstanding shares) and 900 shares of Series A Convertible Preferred Stock which was initially convertible into 40,909,500 shares of Common Stock of the Company for all the issued and outstanding shares of Original Gales the "Successor". 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.

On February 15, 2006, Ashlin changed its name to Air Industries Group, Inc. and its state of domicile from Florida to Delaware.

Prior to the closing of the Merger, Original Gales, which did not have any business operations other than in connection with the transactions contemplated by the Merger Agreement, acquired (the "Acquisition") 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, 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. Simultaneously with the Acquisition, AIM entered into a bank facility (the "Loan Facility") and used proceeds from the Loan Facility to acquire real estate (the "Real Estate Acquisition").

Prior to the Acquisition, Original Gales raised bridge financing. In connection with the Acquisition, Original Gales procured a private placement of Series A Preferred Stock, the proceeds of which were used to acquire AIM. Immediately prior to the Merger, Original Gales had outstanding certain bridge notes convertible into shares of Original Gales' common stock and certain bridge warrants to purchase shares of Original Gales' common stock.

Original Gales was formed in October 2004 and, since prior to the acquisition it did not have any business operations or activity other then the transactions contemplated with the merger and succeeded substantially all of the business operations of AIM, AIM is the "Predecessor" to Original Gales.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures are adequate to make the financial information presented not misleading. These condensed consolidated financial statements should be read in conjunction

with the audited consolidated financial statements and the

notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006, filed with the Securities and Exchange Commission on April 2, 2007. All adjustments were of a normal recurring nature unless otherwise disclosed. In the opinion of management, all adjustments necessary for a fair statement of the results of operations for the interim period have been included. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

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.

Share-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 123(R) "Share Based Payments" which is a revision of SFAS No. 123 "Accounting for Stock-Based Compensation" 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 $207,598 and $25,905 for the three months period ended March 31, 2007 and 2006, respectively, in accordance with the measurement requirements under SFAS No. 123(R) (See Note 4). The Company adopted SFAS No. 123(R), effective in 2005.

Taxes

Effective January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). There were no unrecognized tax benefits as of January 1, 2007 and as of March 31, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position. The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial position, results of operations and cash flows.

Recently Issued Accounting Standards

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.

Note 2. CASH SURRENDER VALUE - LIFE INSURANCE

During the quarter ended March 31, 2006, the Company sold one of 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 $32,953. The resulting gain of $53,047 was recognized as Other Non-Operating Income in the accompanying Statement of Operations for the three month period ended March 31, 2006.

Note 3. Conversion of Notes Payable

On January 26, 2007, the two senior management members exercised their right to convert their $665,262 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.

Note 4. SHARE-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 three, four, five and seven years.

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 123R"). The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. During the three months ended March 31, 2007 and 2006, 2,280,000 and 0 stock options were granted, respectively.

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 exercisable 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.

At March 31, 2007 and 2006, 2,463,333 and 790,000 options are vested and exercisable, respectively. The weighted average exercise price of exercisable options at March 31, 2007 was $0.43 per share.

During the quarter ended March 31, 2007, for services rendered, the Company

accrued the expense related to an aggregate of 20,833 warrants, exercisable during a five year term, to purchase 20,833 shares of the company's Common Stock. Such warrants have a "cashless exercise" feature and have varying exercise prices equal to 120% of the average closing price of the Company's Common Stock during the month immediately preceding the date of issuance. The warrants were valued using the Black-Scholes model and the Company recorded an expense of $5,514 in its consolidated statement of operations for the quarter ended March 31, 2007. The Company's agreement with this consultant was terminated during the first week of September 2006.

In addition warrants to acquire 125,000 shares with a grant date of March 16, 2007, were issued to another consulting firm. These warrants are exercisable at a per share price equal to the average closing price of Company's common stock for the 20 days preceding the date of grant. These warrants 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 quarter ended March 31, 2007.

Note 5. Change in Chairman in of the Board

The Company and its former Executive Chairman entered into a Separation Agreement and General Release (the "Separation Agreement") effective March 16, 2007, whereby the Chairman resigned from his positions with the Company. Pursuant to the Separation Agreement, the Employment Agreement between the Chairman and the Company terminated effective March 16, 2007. In lieu of the compensation payable to the Chairman pursuant to his Employment Agreement, from March 16, 2007, to November 30, 2010, the Chairman 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. These amounts will be expensed in the period in which services are rendered. Additionally, upon the execution of his employment agreement the Company granted to the former Chairman 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 then held by the Executive Chairman, specifically, options to purchase 750,000 shares vested as of March 16, 2007, and the right to exercise all of his options will terminate as of March 16, 2008. The exercise price of the 750,000 options that vested as of March 16, 2007, is $0.673 per shares and based on the Black-Scholes option pricing model there was an expense of $93,386. This agreement has been further clarified.

On May 11, 2007, the Company and its former Executive Chairman, entered into a Letter Agreement, confirming that, due to an oversight between the parties, the Separation Agreement and Release, dated March 15, 2007, by and between the Company and this individual (the "Separation Agreement"), failed to indicate that notwithstanding that the former Chairman was resigning from his positions with the Company, he would make himself available (i) from time to time for consultations with members of the Board and senior management of the Company regarding the business and affairs of the Company, potential acquisitions and strategic alliances, expansion and other business opportunities and (ii) once each calendar quarter for meetings to be held in Manhattan, New York, with one or more members of the Board of the Company to review the Company's strategic plan.

In March 2007, the Company entered into an Agreement to compensate its new Chairman for services to be rendered as a director of the Company. Pursuant to such Agreement the new Chairman will receive a cash payment of $15,000 and will be compensated at a rate of $175,000 per annum until December 31, 2007, or if prior to December 31, 2007, until such date as he shall cease to serve as Chairman. In addition to his cash compensation, this individual was issued 200,000 shares of common stock of the Company, pursuant to a Restricted Stock

Agreement, of which 100,000 vested on the date of grant and the second 100,000 shall vest on December 31, 2007. The Company incurred an expense of $26,000 as a result of the Restricted Stock Agreement.

Note 6. Subsequent Events

On April 16, 2007, we acquired all of the issued and outstanding capital stock of Sigma Metals, Inc. ("Sigma"), pursuant to that certain Stock Purchase Agreement, dated as of January 2, 2007, by and among the Company, as purchaser, and each of the three shareholders of Sigma, as sellers (the "Sellers"), in exchange for $3,988,501 in cash, three promissory notes, one in favor of each Seller, in total principal amount of $1,084,173, and 7,337,891 shares of our Common Stock. In addition, upon determination of the earnings of Sigma Metals for the period from January 1, 2007, through April 16, 2007, the principal of the notes will be increased by an amount equal to the earnings.

Sigma Metals is a specialty distributor of strategic metals, primarily aluminum, stainless steels of various grades, titanium and other exotic end user specified metals. Sigma's products are sold to both aerospace/defense contractors as well as commercial accounts throughout the U.S. and numerous international markets. Customers include the world's largest aircraft manufacturers, subcontractors, original equipment manufacturers and various government agencies.

To finance the acquisition of Sigma and provide us with additional working capital, portions of which may be used in connection with future acquisitions, we completed a private placement (the "Offering") to accredited investors of our Series B Convertible Preferred Stock, par value $0.001 per share ("Series B Preferred Stock") in which we 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 we received gross proceeds of $3,068,000 which will be used as working capital and in connection with future acquisitions.

Taglich Brothers, Inc. acted as Placement Agent in the Offering ("Placement Agent") and received: (i) a sales commission equal to 8% of the gross proceeds of the Offering, (ii) $25,000 as reimbursement of its actual and reasonable out-of-pocket expenses incurred in connection with Offering, including fees and expenses of its counsel, and (iii) warrants (the "Placement Agent Warrants"), exercisable during a five-year term, to purchase the number of shares of Common Stock equal to 10% of the number of shares of Common Stock into which the Preferred Stock sold in the Offering may be converted. The Placement Agent Warrants have a "cashless exercise" feature and are exercisable at the price per share equal to the per share conversion price-equivalent with respect to the Preferred Stock.

On April 19, 2007, in connection with the acquisition of Sigma Metals, the Company entered into a Third Amendment to the Revolving Credit, Term Loan, Equipment Line of Credit and Security Agreement. The amendment modified the terms of the Loan Facility with PNC to allow for Sigma to become a borrower under the Loan Facility. As a result of Sigma becoming a borrower under the Loan Facility, Sigma pledged all of its assets and properties to PNC 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 by $2,000,000, from $9,000,000 to $11,000,000.

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SIGMA METALS, INC.

FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED
MARCH 31, 2007

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SIGMA METALS, INC.

Balance Sheet

ASSETS	MARCH 31, 2007
CURRENT ASSETS	
Cash and Cash Equivalents	$ 26,895
Accounts Receivable	2,734,910
Inventory	2,874,510
Prepaid Expenses	32,234
TOTAL CURRENT ASSETS	$ 5,668,549
FIXED ASSETS - AT COST	
Property and Equipment	$ 298,218
Less: Accumulated Depreciation	168,378
FIXED ASSETS - NET	$ 129,840
OTHER ASSETS	
Security Deposits	$ 22,763
Other Assets	63
TOTAL OTHER ASSETS	$ 22,826
TOTAL ASSETS	$ 5,821,215

The accompanying notes are an integral
part of these statements.

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SIGMA METALS, INC.

Balance Sheet

LIABILITIES AND STOCKHOLDERS' EQUITY	MARCH 31, 2007
CURRENT LIABILITIES	
Accounts Payable	$ 2,162,808
Notes Payable - SBA	4,451
Notes Payable - State Bank - Software	19,889
Notes Payable - State Bank	897,800
Accrued Operating Expenses	79,713
TOTAL CURRENT LIABILITIES	$ 3,164,661
LONG-TERM LIABILITIES	
Advances from Stockholders	$ 257,000
TOTAL LONG-TERM LIABILITIES	$ 257,000
TOTAL LIABILITIES	$ 3,421,661
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Common Stock ($300 par value; 100 shares authorized and outstanding)	$ 30,000
Retained Earnings	2,369,554
TOTAL STOCKHOLDERS' EQUITY	$ 2,399,554
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,821,215

SIGMA METALS, INC.

Statements of Income and Retained Earnings

	THREE MONTHS ENDED	
	MARCH 31, 2007	MARCH 31, 2006
REVENUE	$ 5,186,868	$ 4,406,314
COST OF GOODS SOLD		
Inventory, Beginning	$ 2,812,873	$ 1,355,606
Purchases	3,503,662	2,813,588
Testing & Tolling	80,974	88,188
Manufacturing Overhead	206,807	165,652

	$ 6,604,316	$ 4,423,034
Less: Inventory, Ending	2,874,510	1,673,947
COST OF GOODS SOLD	$ 3,729,806	$ 2,749,087
GROSS PROFIT	$ 1,457,062	$ 1,657,227
EXPENSES		
Selling	$ 442,454	$ 191,536
General and Administrative	505,120	431,190
Interest	37,591	24,067
Franchise Tax	425	425
TOTAL EXPENSES	$ 985,590	$ 647,218
NET INCOME FOR PERIOD	$ 471,472	$ 1,010,009
RETAINED EARNINGS, BEGINNING OF PERIOD	1,898,082	240,477
RETAINED EARNINGS, END OF PERIOD	$ 2,369,554	$ 1,250,486

The accompanying notes are an integral part of these statements.

SIGMA METALS, INC.

Statements of Cash Flows

	THREE MONTHS ENDED	
	MARCH 31, 2007	MARCH 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for Period	$ 471,472	$ 1,010,009
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	9,598	9,599
Changes in Assets and Liabilities:		
(Increase) Decrease In -		
Accounts Receivable	(341,963)	(1,237,943)
Inventory	(61,637)	(318,341)
Prepaid Expenses	(4,416)	--
Other Current Assets	788	(900)
Deposits	--	(3,646)
Increase (Decrease) In -		
Accounts Payable	127,778	563,429
Accrued Operating Costs	(202,879)	1,847

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES (Forward)	$ (1,259)	$ 24,054
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	$ (7,443)	$ (38,222)
NET CASH USED IN INVESTING ACTIVITIES (Forward)	$ (7,443)	$ (38,222)

SIGMA METALS, INC.

Statements of Cash Flows
(Continued)

	THREE MONTHS ENDED	
	MARCH 31, 2007	MARCH 31, 2006
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES (Forward)	$ (1,259)	$ 24,054
NET CASH USED IN INVESTING ACTIVITIES (Forward)	$ (7,443)	$ (38,222)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Bank Debt	$ --	$ (15,000)
Increase (Decrease) in Notes Payable Equipment	(9,201)	9,149
NET CASH USED IN FINANCING ACTIVITIES	$ (9,201)	$ (5,851)
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (17,903)	$ (20,019)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	44,798	21,477
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 26,895	$ 1,458
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	$ 37,591	$ 24,067
Income Taxes Paid	$ 425	$ 425

The accompanying notes are an integral
part of these statements.

SIGMA METALS, INC.

Notes to Financial Statements
March 31, 2007
March 31, 2006

1- SIGNIFICANT ACCOUNTING POLICIES

Background of Company

Sigma Metals, Inc. ("The Company") is a stocking aircraft metals warehouse with value added capability. The Company also services the critical needs of aircraft manufacturers and the major airlines. The Company is located in Deer Park, New York. Its customer base consists of both foreign and domestic Corporations.

Cash & Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with an original maturity of three month or less. Cash consists of aggregate cash balances in the Company's bank accounts and cash equivalents consist primarily of money market accounts.

Accounts Receivable

Accounts receivable are presented at face value, net of the allowance for doubtful accounts. The allowances for doubtful accounts are established through provisions charged against income and are maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions. Management considers all accounts to be collectible and, therefore, has not established a provision for uncollectible accounts.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade accounts receivable. The Company grants credits to its customers, which are located in and out of the United States. The Company does have foreign sales, but they are primarily with large corporations that the Company has done business with for a number of years. The majority of these transactions are insured.

Inventory

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. The Company maintains a policy to capitalize all property and equipment purchases in excess of $1,000. 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. Repair and maintenance charges are expensed as incurred. Property under a capital

lease is capitalized and amortized over the lease terms. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets.

1- SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - (Continued)

Depreciation and Amortization are provided by charges to operations over the estimated useful lives, principally on the straight-line method. The estimated useful lives are:

Tools	5 Years
Furniture, Fixtures and Office Equipment	5 Years
Transportation Equipment	5 Years
Machinery and Equipment	7 Years
Leasehold Improvements	3-15 Years

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment at the facility level annually or when events or 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 the assets compared to their carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to their fair value, based on discounted estimated future cash flows.

Finance Costs

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 generally 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.

Expenses

Selling, general, and administrative costs are charged to expense as incurred.

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, unamortized finance costs, 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.

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 Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments."

1- SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

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 is carried at fair value in that is carries interest rates that are comparable to similar instruments with similar maturities.

Income Taxes

The Company has elected to be taxed as a Small Business Corporation and, consequently, no Federal tax liability is reflected on the Comparative Statements of Income and Retained Earnings.

2- INVENTORY

Inventory consists primarily of sheet metal and is considered all raw materials.

	2007	2006
Raw Material (Sheet Metal)	$2,874,510	$1,690,306

3- PROPERTY AND EQUIPMENT

A schedule of Property and Equipment at March 31 is set forth below:

	2007	2006
Tools, Machinery and Equipment	$ 107,702	$ 96,991
Furniture, Fixtures and Office Equipment	120,021	110,075
Transportation Equipment	17,006	17,006
Leasehold Improvements	53,489	45,828
Total Property and Equipment	$ 298,218	$ 269,899
Less: Accumulated Depreciation	(168,378)	(144,616)
Property, and Equipment, Net	$ 129,840	$ 125,284

Depreciation and amortization expense for the three months ended March 31,

2007 and March 31, 2006 were $9,598 and $9,853, respectively.

4- LINES OF CREDIT

The Company had a Bank Line of Credit that expired on May 31, 2006 with a maximum borrowing limit of $800,000 and interest at one and one half over prime. The prime interest rate at March 31, 2007 was 8.25%. The Line of Credit was renewed for a maximum borrowing limit of $900,000 and interest at one and one half over prime. This new Line of Credit expired on May 31, 2007. As of March 31, 2007 the balance was $897,800. Subsequent to the Balance Sheet date, as part of the stock purchase agreement (see Note 10), the line of credit was satisfied.

4- LINES OF CREDIT - (Continued)

The Line of Credit is secured by a first security interest in all assets. The Line of Credit is due on demand or, if no demand is made, in one payment of all outstanding principal plus accrued unpaid interest on May 31, 2007, at which time it is subject to annual review, pending receipt of the subject's financial statements.

5- NOTES PAYABLE - SOFTWARE

In March of 2006, the Company financed the purchase of new computer software with State Bank of Long Island in the amount of $50,000. The terms of the Note are 2 years at 8% payable monthly in the amount of $2,261.36. As of the Balance Sheet date, the current balance was $19,889.

Scheduled amortization payments for the following years are set forth below:

December 31, 2007	$19,673
December 31, 2008	216

6- NOTES PAYABLE - SBA

The Company has an SBA Loan of $50,000, payable in monthly installments of $1,477 that started on June 17, 2004 with an interest rate of 4%. The loan is secured by the Company's assets. Subsequent to the