

SECURITIES AND EXCHANGE COMMISSION

FORM SB-2/A

Optional form for registration of securities to be sold to the public by small business issuers
[amend]

Filing Date: **1999-09-10**
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FILER

AVIATION HOLDINGS GROUP INC/FL

CIK: **1051254** | IRS No.: **222945898** | State of Incorporation: **DE** | Fiscal Year End: **1231**
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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

AMENDMENT NO. 2

FORM SB-2
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

AVIATION HOLDINGS GROUP, INC.
(Name of Small Business Issuer in Its Charter)

| <TABLE> <CAPTION> | Delaware | 5008 | 22-2945898 |
|--|--|---|------------|
| <S> (State or other jurisdiction of incorporation or organization) | <C> (Primary Standard Industrial Classification Code Number) | <C> (I.R.S. Employer Identification Number) | |

15675 Northwest 15th Avenue
Miami, Florida 33169
(305) 624-6700
(Address and telephone number of
Principal Executive Officers and Principal Place of Business)

Joseph J. Nelson, President
AVIATION HOLDINGS GROUP, INC.
15675 Northwest 15th Avenue
Miami, Florida 33169
(305) 624-6700

(Name, Address and Telephone Number of Agent For Service)

with copy to:
Michael C. Forman, Esq.
Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 S. Broad Street
Philadelphia, PA 19102
(215) 568-6060

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box []

<TABLE>
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CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities To Be Registered | Amount To Be Registered (1) (2) | Proposed Maximum Offering Price Per Unit (3) | Proposed Maximum Aggregate Offering Price (3) | Amount of Registration Fee (4) |
|--|---------------------------------|--|---|--------------------------------|
| <S> | <C> | <C> | <C> | <C> |
| Units, each unit consisting of two shares of common stock, \$.0001 par value and One Class A Warrant | 825,000 | \$8.50 | \$7,012,500 | \$1,950 |
| Common stock, \$.0001 par value | 1,650,000 | — | — | — |
| Class A Warrants to purchase common stock | 825,000 | — | — | — |

</TABLE>

- (1) This Registration Statement covers such additional indeterminate number of shares of common stock as may be issued pursuant to Rule 416 under the Securities Act of 1993 (the "Act") by reason of adjustments in the number of shares of common stock pursuant to anti-dilution provisions contained in the Class A Warrant Agreement governing the Class A Warrants to prevent dilution resulting from stock splits, stock dividends or similar transactions. Because such additional shares of common stock will, if issued, be issued for no additional consideration, no registration fee is required.
- (2) Includes up to 75,000 units, and 150,000 shares of common stock and 75,000 Class A Warrants included in such units, that may be purchased from the Company at the option of the Underwriter solely to cover over-allotments, if any.
- (3) Estimated solely for purposes of calculating registration fee in accordance with Rule 457(a) under the Securities Act of 1933, as amended.
- (4) Previously paid

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 9, 1999
PROSPECTUS

AVIATION HOLDINGS GROUP, INC.

750,000 Units, each Unit Consisting of Two
Shares of Common Stock and a Class A Warrant to
Purchase One Share of Common Stock

Aviation Holdings Group is offering up to a maximum of 750,000 units at the purchase price of \$___ per unit. Each unit is comprised of two shares of common stock and one Class A Warrant. Each Class A Warrant is exercisable into one share of common stock at the purchase price of \$___. The Class A Warrants shall be exercisable for a period of three years upon registration with the Securities and Exchange Commission and shall be redeemable by us at \$.001 per Class A Warrant if the market value of a share of common stock exceeds \$____. The shares of common stock and Class A Warrants that make up each unit may not be separated or sold separately until 45 days after the date of issuance. We expect that the initial public offering price for the units will be between \$5.00 and \$6.00 per unit.

Silver Capital Group, a division of LCP Capital Corp., will serve as the underwriter for this public offering and will purchase 750,000 units for resale to the public. We have granted an option to the underwriter, exercisable for a period of 30 days after the date of this prospectus, to purchase up to an additional 75,000 units from us at the public offering price set forth in this prospectus less the underwriting discounts and commissions. The underwriter may exercise this option only for the purpose of filling orders for units in excess

of 750,000 units, if any.

Prior to August 2, 1999, shares of our common stock were sold on the OTC Bulletin Board under the trading symbol "AHGI" pursuant to the provisions of Rule 15c2-11 promulgated under the Securities Exchange Act of 1934. Since August 2, 1999, several broker/dealers have continued to submit quotations in the National Quotation Bureau's Pink Sheets.

We have applied to have the units, common stock and Class A Warrants quoted on the American Stock Exchange under the trading symbols "_____", "_____" and "_____" respectively.

Investing in units involves certain risks. See "Risk Factors" on pages 4 to 9.

| Offering of Units | Per Unit | Total |
|--|----------|---------|
| o Public Offering Price | \$ ____ | \$ ____ |
| o Underwriting Discounts and Commissions | \$ ____ | \$ ____ |
| o Proceeds to the Company | \$ ____ | \$ ____ |

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus dated _____, 1999

<TABLE>
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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and may not contain all of the information you should consider before investing in the units we are offering. You should read the entire prospectus carefully. You should also read our financial statements and the notes to the financial statements.

Aviation Holdings Group

We specialize in the sale, lease, exchange and purchase of technical spare parts for fixed-wing commercial jet transport aircraft manufactured by Boeing, McDonnell Douglas, Airbus and Lockheed. Technical spares are aircraft or engine parts affecting the performance of an aircraft or engine. We also provide our customers with inventory management services. We intend to pursue opportunities involving the purchase, sale and lease of jet turbine engines, jet turbine aircraft and related aviation industry equipment.

Our operations are in the United States. However, we also conduct operations in Europe and South America, and in China and other parts of Asia .

Our executive offices are located at 15675 Northwest 15th Avenue, Miami, Florida 33169. Our telephone number is (305) 624-6700. We also have offices in Beijing and Hong Kong, China.

The Offering

The following table excludes 255,750 shares of common stock reserved for issuance upon the exercise of stock options outstanding as of August 31, 1999 under our Stock Option Plan and 494,250 shares of common stock available for the future grant of stock options and other equity securities under the Stock Option Plan. This table also excludes 200,000 shares of common stock reserved for issuance to Joseph Nelson on the exercise of options granted under the terms of his employment agreement. See "Management." This table also excludes 325,000 shares issuable upon exercise of outstanding warrants. See "Description of Securities--Outstanding Warrants."

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| | |
|---|--|
| Common Stock Currently Outstanding | 4,214,315 shares of common stock |
| Securities Offered by the Company..... | 750,000 units, each unit consisting of two shares of common stock and one Class A Warrant, for an aggregate of 1,500,000 shares of common stock and 750,000 Class A Warrants. |
| Common Stock to be Outstanding after the Offering | 5,714,315 shares of common stock |
| Dividend Policy..... | We intend to retain all future earnings to fund the development and growth of our business. Therefore, we do not currently anticipate paying cash dividends. See "Dividend Policy." |
| Use of Proceeds by the Company..... | To fund our financial commitment to the SYNOR-A joint venture, to purchase additional inventory, to retire indebtedness, to purchase jet turbine engines, to fund acquisitions and for general |

Proposed American Stock Exchange Symbols....."_____", "_____" and "_____"
 for the common stock, units and
 Class A Warrants, respectively.
 </TABLE>

 SELECTED FINANCIAL INFORMATION

Set forth below is the historical selected financial information with respect to Aviation Holdings Group for the fiscal years ended December 31, 1997 and December 31, 1998, and for the six months ended June 30, 1998 and the six months ended June 30, 1999. Information for the fiscal year ended December 31, 1998 and the six months ended June 30, 1998 reflects operations of Aviation Holdings International from May 1998 through December 31, 1998 and June 30, 1998, respectively.

<TABLE>
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| | FISCAL YEAR ENDED | | SIX MONTHS ENDED | |
|--|-------------------|-------------|------------------|------------|
| | DECEMBER 31, | | JUNE 30, | |
| INCOME STATEMENT INFORMATION | 1997 | 1998 | 1998 | 1999 |
| <S> | <C> | <C> | <C> | <C> |
| Revenue. | \$ 0 | 8,365,197 | 2,067,356 | 6,371,942 |
| Net Income (Loss)..... | (57,437) | (1,384,780) | (1,135,375) | (160,868) |
| Net Income (Loss) per Share..... | (0.06) | (0.46) | (0.43) | (0.04) |
| Weighted Average Shares Outstanding..... | 1,046,235 | 3,035,856 | 2,610,511 | 3,854,092 |
| BALANCE SHEET INFORMATION AT END OF PERIOD | | | | |
| Working Capital..... | | \$1,371,885 | | 2,156,060 |
| Total Assets..... | | 8,763,366 | | 10,306,267 |
| Total Liabilities..... | | 5,187,685 | | 5,940,904 |
| Minority Interest..... | | 1,186,964 | | 345,391 |
| Stockholders' Equity..... | | 2,388,717 | | 4,019,972 |
| Net Tangible Book Value Per Share..... | | 0.58 | | 0.69 |

</TABLE>

RISK FACTORS

Investing in the units is very risky. Investors should carefully consider the following factors in addition to the other information in this prospectus, in evaluating an investment in Aviation Holdings Group, Inc.

The Underwriter Has Limited Underwriting Experience

Silver Capital Group, a division of LCP Capital Corp. has agreed to act as underwriter in connection with our offering of units. The underwriter, its affiliates and predecessors have engaged in only limited underwriting activities and have been the lead or sole underwriter in only a few public offerings during the past five years. Accordingly, the underwriter's lack of public offering experience may affect the offering of the units and the common stock or the subsequent development of a public trading market for the units or the common

stock, and purchasers of the units or the common stock may suffer a lack of liquidity in their investment. See "Underwriting."

We Are In Default Under Our Credit Facility

Aviation Holdings International is required to maintain tangible net worth of \$4,250,000 under its Comerica Bank credit facility. As of June 30, 1999, Aviation Holdings International had tangible net worth (as defined by Comerica Bank) of \$3,660,800 and therefore was in default. Comerica Bank has not declared an event of default and continues to advance funds, and we anticipate that our receipt of the proceeds from the offering will permit us to cure the default. However, in the event that we are unable to cure the default or obtain replacement financing, Comerica Bank could declare an event of default and exercise its rights as a secured lender to collect the accounts receivable and sell the assets of Aviation Holdings International in an amount sufficient to repay the loan. As of August 31, 1999, the outstanding balance due to Comerica Bank was \$2,075,000.

We Have A Limited Operating History On Which To Evaluate An Investment In This Offering

We have a limited operating history on which you must base your investment decision and are subject to all of the risks associated with development stage enterprises. We had no significant operations prior to the acquisition of a majority of the outstanding shares of capital stock of Aviation Holdings International, which only commenced operations in October 1996 and has a correspondingly limited operating history. Accordingly, we are subject to various risks common to developing businesses, including cash flow difficulties, competition for customers and employees and delays in implementing business plans. We intend to expand our operations, which will substantially increase our expenses and will likely decrease our cash flow and earnings in the near future. Our ability to operate profitably will depend on increasing sales, maintaining adequate profit margins and a continuing demand for Aviation Holdings International's products and services. Our expansion plans may have a negative impact on our profitability, at least in the short term, as significant expenses will be incurred prior to the receipt of additional revenues. See "Financial Statements" and "Business."

We May Fail To Obtain Additional Funding If Needed

Our inability to raise additional capital when needed would have an adverse effect on our plans to expand operations. We anticipate that this offering will generate net proceeds of approximately \$3,230,000. We believe that revenues from operations will be sufficient to fund our operational requirements for the foreseeable future and that the net proceeds from the offering will be sufficient to expand our existing business. However, we may need to raise additional funds for acquisitions. We do not know if additional funds will be available on acceptable terms, if at all.

A Downturn In The Airline Industry Would Adversely Affect Our Business

An economic downturn in the airline industry could have a serious negative impact on our business. Since our customers consist primarily of commercial airlines, original equipment manufacturers, aircraft maintenance and repair facilities and aircraft parts distributors, our business is impacted by all of the economic factors which affect the aircraft and airline industry. When the airline industry experiences an economic downturn, there is typically a corresponding reduction in demand for spare aircraft parts and related services which causes price reductions and increased credit risks associated with doing business. Additionally, the price of aircraft fuel affects the spare aircraft parts market. Older

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aircraft into which aircraft spare parts are most often placed tend to be less fuel efficient and become less viable as the price of aircraft fuel increases.

Consolidation In The Aircraft Parts Industry Could Reduce Our Market Share

The airline industry is currently experiencing a reduction in the number of approved parts suppliers and a consolidation of the spare parts redistribution market. Although we presently are an "approved" supplier of 26 airlines, we cannot be certain that we will be able to maintain or expand this status. Our revenues will be reduced if we are unable to do so. A number of major airlines have reduced the number of "approved" suppliers during the last few years from as many as 50 to as few as five. Airlines choose "approved" suppliers based on a number of factors including product offerings and quality, management reputation and experience, financial strength and cost. Also, the reduction in the supplier base for airlines has contributed to a consolidation in the redistribution market which is likely to continue.

Stricter Government Regulations Could Reduce The Value Of Our Inventory And/Or Require Significant Expenditures

The aircraft parts which make up our inventory are subject to strict regulatory standards. If stricter standards are enacted, then some of our inventory may lose some or all of its value. Our inventory consists principally of overhauled, serviceable, repairable and new aircraft parts that are purchased from many sources. Before parts may be installed in an aircraft or engine, they must meet certain standards of condition established by the United States Federal Aviation Administration and/or similar regulatory agencies abroad. Specific regulations vary from country to country, although regulatory requirements in other countries generally coincide with FAA requirements. Parts must also be traceable to sources deemed acceptable by such agencies. Although we believe that the great majority of our inventory meets industry requirements, some parts may not meet applicable standards or standards may change in the future, in which case we will have to modify or scrap such parts. See "Business - Government Regulation and Traceability."

Our Planned Expansion Into The Jet Engine Business Will Subject Us To Additional Risks

Although we have made only limited purchases of turbine engines and no purchases of turbine aircraft for resale in the past, we intend to expand these activities in the future. These activities will involve risks not present in our current business. Market prices and demand for this type of equipment are subject to volatility, and we could suffer substantial losses if equipment cannot be resold at prices above the prices we paid, or if we must hold equipment in inventory for extended time periods. These activities will also require us to commit substantial capital, which will come from the proceeds of the offering. Such funds will not be available for other activities. In addition, the equipment may need repair work, which increases the costs associated with resale and may adversely affect our profitability.

Our Operating Results Could Be Adversely Affected By Fluctuations In Demand

Our operating results will be affected by many factors, including the timing of orders from customers, inventory purchases in anticipation of future sales, bulk inventory purchases, and purchases and financing requirements for aircraft engines or aircraft and the mix of available technical spare parts maintained, at any time, in our inventory. A significant portion of our operating expenses are relatively fixed. Since we typically do not obtain long-term purchase orders or commitments from our customers, we must anticipate the future volume of orders based upon the historical purchasing patterns of our customers and upon our discussions with them as to their future requirements. Cancellations, reductions or delays in orders by a customer or group of customers could have a material adverse effect on our business, financial condition and results of operations. See "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Business May Subject Us To Expensive Product Liability Claims

Our business exposes us to possible claims for personal injury or death which may result from a failure of equipment we sold. We believe that we have taken adequate precautions to assure the quality and traceability of the parts we sell, and we have not had any claims for product liability. However, we cannot be certain that we will not be the subject of lawsuits based on the failure of parts which we sold in the marketplace. These lawsuits may result in damage

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awards against us. We do not carry product liability insurance and therefore we would be required to pay any judgment levied against us. See "Business - Product Liability and Legal Proceedings."

Our Ownership Of Aviation Holdings International Is Subject To Significant Possible Dilution

We have pledged 51% of the outstanding stock of Aviation Holdings International to secure \$250,000 in loans made to us in October 1998 by Nancy Plotkin and the John G. Jacobs Trust. These loans have a final maturity date of September 17, 1999. If we are unable to pay these loans at maturity, then the lenders will have the right to sell these shares of Aviation Holdings International common stock in an amount sufficient to repay the loans, thus reducing our ownership of Aviation Holdings International.

Our Business Could be Adversely Affected if our Customers Encounter Year 2000 Problems

If the computer software programs and operating systems of our vendors, customers and other third parties with whom we transact business are not "Year 2000" compliant, then our business could experience disruption and other problems in early 2000. All of our hardware and software has been upgraded or replaced so that it can interpret appropriately the upcoming calendar year 2000, and our computer software programs and operating systems are "Year 2000" compliant. However, we have not fully determined the extent to which our

vendors, customers and other persons with whom we transact business have systems which are "Year 2000" compliant. In the event that a material portion of our suppliers or customer's suffer business disruption as the result of "Year 2000" problems, we could be adversely affected. See "Managements Discussion and Analysis of Financial Condition and Results of Operations - Year 2000 Issue."

We Maintain Bank Account Balances in Excess of Insured Amounts

We maintain our principal banking relationships with Comerica Bank, our working capital lender, and Citibank. As a result, our account balances typically exceed FDIC insurance limits. As of December 31, 1998 and June 30, 1999, these excess balances were \$403,377 and \$607,359, respectively. In the event of the failure of a bank in which we have such an excess balance, we could lose some or all of such excess.

The Units, Common Stock And Warrants May Be Subject To Certain Limitations Upon Trading Activities

In the event that the common stock, the units and the Class A Warrants are not listed on the American Stock Exchange, trading of our securities may be subject to material limitations as a consequence of certain provisions of the Securities Exchange Act of 1934 which limit the activities of broker-dealers effecting transactions in "penny stocks."

"Penny stocks" are equity securities with a market price below \$5.00 per share other than a security that is registered on a national exchange; included for quotation in the NASDAQ system; or whose issuer has net tangible assets of more than \$2,000,000 and has been in continuous operation for greater than three (3) years. Issuers who have been in operation less than three (3) years must have net tangible assets of at least \$5,000,000.

Rules promulgated by the Securities and Exchange Commission under Section 15(g) of the Exchange Act require broker-dealers engaging in transactions in "penny stocks," to first provide to their customers a series of disclosures and documents, including: (i) a standardized risk disclosure document identifying the risks inherent in investment in "penny stocks;" (ii) all compensation received by the broker-dealer in connection with the transaction; (iii) current quotation prices and other relevant market data; and (iv) monthly account statements reflecting the fair market value of the securities. In addition, these rules require that a broker-dealer obtain financial and other information from a customer, determine that transactions in penny stocks are suitable for such customer and deliver a written statement to such customer setting forth the basis for such determination.

If the common stock and units are not listed, they presently will constitute "penny stocks." In that event, trading activities for the common stock and units will be made more difficult for broker-dealers than in the case of securities not defined as "penny stock." This may have the result of depressing the market for our securities and an investor may find it difficult to dispose of such securities.

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Further, under the Exchange Act, and the regulations thereunder, any person engaged in a distribution of the common stock or units offered by this Prospectus may not simultaneously engage in market making activities with respect to the common stock during the applicable "cooling off" periods prior to the commencement of such distribution.

The Warrants May Not Be Exercisable If We Do Not Maintain A Current Prospectus And Registrations.

We intend to maintain registration of the common stock underlying the Class A Warrants so that holders of Class A Warrants may exercise them and sell the underlying common stock, but we cannot assure you that we will be able to do so. If we cannot, the Class A Warrants may have limited value.

We May Be Able To Redeem The Class A Warrants At A Time Adverse To The Interest Of A Class A Warrant Holder.

We have the right to redeem the Class A Warrants at any time for a price of \$.01 per share if the average closing price for the common stock equals or exceeds \$_____ for a specified period of time. This could force holders to exercise the Class A Warrants, and pay the exercise price, at a time when they otherwise would not do so. See "Description of Securities--Class A Warrants."

WHERE YOU CAN GET MORE INFORMATION

At your request, we will provide you, without charge, a copy of any exhibits to our Registration Statement. If you would like more information, write or call us at:

AVIATION HOLDINGS GROUP, INC.
15675 Northwest 15th Avenue

Our fiscal year ends on December 31. We intend to provide annual reports containing audited financial statements and other appropriate reports to our shareholders. In addition, we intend to become a reporting company and file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file at the SEC's public reference room in Washington, D.C. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Our SEC filings are also available to the public on the SEC Internet site at [http\www.sec.gov](http://www.sec.gov).

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus discuss future expectations, contain projections of results of operations or financial condition or state other "forward-looking" information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions.

Important factors that may cause actual results to differ from forward-looking statements may include, for example,

- o the success or failure of our efforts to implement our business strategy, including expanding our international operations;
- o our ability to raise sufficient capital to expand our business;
- o the effect of changing economic conditions on the airline and aircraft industries;

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- o changes in government regulations, tax rates and similar matters;
- o our ability to attract and retain quality employees; and
- o other risks which may be described in our future filings with the SEC.

We do not promise to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements.

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DILUTION

As of June 30, 1999, the net tangible book value of our common stock was \$2,890,224, or \$0.69 per share of common stock, based upon 4,208,315 shares outstanding. "Net tangible book value" per share represents the amount of our total tangible assets reduced by our total liabilities and minority interest and divided by the number of shares of common stock outstanding. After giving effect to the sale of 750,000 units being offered by us in this offering at an assumed initial public offering price of \$5.50 per unit less underwriting discounts and commissions and estimated offering expenses we owe, our pro forma net tangible book value at June 30, 1999 would have been \$6,120,224, or \$1.07 per share of common stock, based upon 5,708,315 shares outstanding. This does not include the 750,000 shares issuable on exercise of the Class A Warrants. This represents an immediate increase in net tangible book value of \$0.38 per share to existing stockholders and an immediate dilution per share of \$1.68 to new investors purchasing shares in this offering. "Dilution per share to new investors" represents the difference between the price per share of common stock in this offering and the pro forma net tangible book value per share at June 30, 1999, as adjusted to give effect to this offering.

| | |
|---|--------|
| Public offering price per share(1)..... | \$2.75 |
| Net tangible book value per share before offering..... | \$0.69 |
| Increase per share attributable to new investors..... | \$0.38 |
| Pro forma net tangible book value per share after offering..... | \$1.07 |
| Dilution per share to new investors..... | \$1.68 |

(1) Before deduction of underwriting discounts and commissions and estimated offering expenses .

The foregoing computations exclude (i) an aggregate of 255,750 shares of common stock reserved for issuance upon exercise of outstanding stock options under our stock option plan, as amended, at a weighted average exercise price of \$2.50 per share; and (ii) 525,000 shares of common stock reserved for issuance upon exercise of other outstanding warrants and options. Any exercise of such options or warrants may result in further dilution to new investors.

The following table summarizes on a pro forma basis as of June 30, 1999, the number of shares of common stock we issued, the total consideration we received and the average price per share paid by the existing stockholders and to be paid by purchasers of our common stock in the offering (before deducting offering expenses and underwriting discounts and commissions) at an assumed public offering price of \$2.75 per share. Excluded from the amount of consideration from existing stockholders is \$249,119 recorded for the shares and warrants issued to Nancy Plotkin and the John G. Jacobs Trust from APP Investments in consideration of the Company's extension of payment of their \$250,000 notes payable.

<TABLE>
<CAPTION>

| | Shares Purchased | | Total Consideration | | Average Price Per Share |
|------------------------------|------------------|---------|---------------------|---------|-------------------------|
| | Number | Percent | Amount | Percent | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Existing Common Stockholders | 4,208,315 | 73.7% | 6,105,881 | 59.7% | \$1.45 |
| New Investors | 1,500,000 | 26.3 | 4,125,000 | 40.3 | \$2.75 |
| Total | 5,708,315 | 100.0 | 10,230,881 | 100.0 | \$1.79 |

</TABLE>

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USE OF PROCEEDS

Our net proceeds from the offering will be approximately \$3,230,000, assuming a public offering price of \$5.50 per unit and after deducting underwriting discounts and commissions and estimated offering expenses. If the underwriter exercises its option in full however, we estimate to receive net proceed from this offering of \$3,602,000.

Over the twelve months following completion of the sale of the units, we intend to use the net proceeds as follows:

- o \$0.3 million to fund the remaining portion of our commitment to the SYNOR-A joint venture (see "Business-Asian Operations");
- o approximately \$0.6 million to fund purchases of additional inventory;
- o approximately \$0.8 million to pay off outstanding debt, of which \$250,000 will be applied to repay working capital loans bearing interest at 10% and maturing September 17, 1999. The remainder will be used to pay down the principal balance of our line of credit, which is payable on demand and bears interest at Comerica Bank's prime rate plus 1%. See "Business - Operations - Credit Facilities."
- o approximately \$0.9 million of the net proceeds to fund purchases of aircraft and/or jet turbine engines; and
- o approximately \$0.6 million of the net proceeds for general corporate purposes, including possible business acquisitions.

If the underwriter exercises its option in full, \$0.2 million of the additional proceeds would be applied to purchase inventory, \$0.1 million would be used to pay down the line of credit, and \$0.1 million would be available for general corporate purposes.

We have had discussions with a number of acquisition candidates which primarily are FAA certified aircraft part repair facilities in various parts of the country. We also have had discussions with aircraft parts manufacturers and distributors. It is too early to tell which, if any, of these potential business acquisitions will take place. We anticipate that any business acquisitions will be accomplished using a combination of cash and shares of our common stock for the purchase price.

The amounts actually expended for the purposes described above could vary significantly depending on, among other things, our ability to obtain capital from other sources, the demand for our services and the availability of

inventory, jet engines and aircraft at attractive prices.

Pending application of the net proceeds we receive from the offering, we intend to invest the funds in short-term investment-bearing, investment grade securities or guaranteed obligations of the United States government.

MARKET PRICE OF THE COMMON STOCK

Prior to August 2, 1999, our common stock was traded in the over-the-counter market through the OTC Bulletin Board under the symbol "AHGI." Since August 2, 1999, broker/dealers have continued to submit quotations in the National Quotation Bureau's Pink Sheets. The market for our common stock is sporadic, and the quarterly average daily volume of shares traded since formation ranged from a low of 25,944 shares to a high of 37,957 shares. The following table presents the range of the high and low bid and average daily volume information for our common stock for the periods indicated, which information was provided by the Nasdaq Stock Market, Inc. and the National Quotation Bureau, LLC. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

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<TABLE>
<CAPTION>

| | High | Low | Average Daily Volume (Shares) |
|---|-------|-------|-------------------------------------|
| | ---- | --- | ----- |
| <S> | <C> | <C> | <C> |
| Year Ended December 31, 1998 | | | |
| First Quarter | 4.75 | 3.469 | 27,172 |
| Second Quarter | 5.875 | 3.625 | 37,957 |
| Third Quarter | 5.875 | 4 | 26,473 |
| Fourth Quarter | 5 | 3 | 31,366 |
| Year Ending December 31, 1999 | | | |
| First Quarter | 5.25 | 3 | 25,944 |
| Second Quarter | 5.25 | 4 | 29,524 |
| Third Quarter (through August 31, 1999) | 4.50 | 1 | 45,593 |

</TABLE>

Records of our stock transfer agent indicate that as of August 17, 1999, there were 68 record holders of our common stock.

DIVIDEND POLICY

We have not paid any cash dividends to date, and do not anticipate or contemplate paying cash dividends in the foreseeable future. Under the terms of its credit agreement with Comerica Bank, Aviation Holdings International is prohibited from declaring or paying cash dividends to Aviation Holdings Group without the consent of Comerica Bank. We intend to utilize all available funds for the purposes set forth above under "Use of Proceeds."

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MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements and accompanying notes. This prospectus contains certain forward-looking information, which involves risks and uncertainties. The actual results could differ from the results we anticipate. See "Special Note Regarding Forward-Looking Statements."

Overview

Our principal asset is our ownership of a controlling interest in Aviation Holdings International. Accordingly, our results of operations are highly dependent upon the results of operations of Aviation Holdings International.

Aviation Holdings International was incorporated in Florida on May 28, 1997 as Schuylkill Acquisition Corp. for the purpose of acquiring, by merger, the business and operations of Jet Aviation Trading, Inc. On July 28, 1997, Schuylkill Acquisition Corp. acquired 100% of the outstanding common stock of

Jet Aviation Trading, Inc., a Florida corporation, in exchange for 1,776,800 shares of common stock of Schuylkill Acquisition Corp. in a one-for-one stock exchange. The former Jet Aviation Trading, Inc. was incorporated in the state of Florida on October 3, 1996 for the purpose of buying, selling, leasing and exchanging spare parts for fixed-wing commercial jet transport aircraft. Effective July 28, 1997, the name of Schuylkill Acquisition Corp. was changed to Jet Aviation Trading, Inc. Effective September 15, 1998, the name of Jet Aviation Trading, Inc. was changed to Aviation Holdings International.

The effect of the transaction between Schuylkill Acquisition Corp. and the former Jet Aviation Trading, Inc. was a reverse merger. Accordingly, the historical financial statements presented for Aviation Holdings International are those of the accounting survivor, Jet Aviation Trading, Inc., and the stockholders' equity of the merged company was recapitalized to reflect the capital structure of the surviving legal entity (Schuylkill Acquisition Corp.) and the retained earnings of Jet Aviation Trading, Inc.

In February 1998, Aviation Holdings International acquired all or a majority of the capital stock of PASCO International Aviation Corp., PASCO International Aviation Corp. Limited, PASCO Financial Services Limited and Aero-Link Flight Systems Limited (collectively "PASCO").

Effective in May 1998, we acquired a majority of the common stock of Aviation Holdings International. Accordingly, our financial statements and those of Aviation Holdings International were consolidated as of that date and our financial statements for the year ended December 31, 1998 include the results of Aviation Holdings International's operations for the period May 1998 through December 31, 1998.

Aviation Holdings International currently derives its revenues from selling, leasing and exchanging spare parts for fixed-wing commercial jet transport aircraft, selling turbine jet engines and management services.

We have only a limited operating history upon which you may base an evaluation of our operations and prospects. Although since our inception we have experienced increased net sales, we may experience significant fluctuations in our gross margins and operating results in the future, both on an annual and quarterly basis. Various factors cause these fluctuations, including general economic conditions, specific economic conditions in the commercial aviation industry, the availability and price of surplus aviation parts, the size and timing of customer orders, returns by and allowances to customers and our cost of capital.

Six Months Ended June 30, 1999 v. Six Months Ended June 30, 1998.

Results of Operation

Effective in May 1998, we acquired a majority of the common stock of Aviation Holdings International. Accordingly, our financial statements and those of Aviation Holdings International were consolidated as of that date

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and our financial statements for the six months ended June 30, 1999 include the results of Aviation Holdings International's operations. The financial statements for the six months ended June 30, 1998 include the results of Aviation Holdings International for the period May 4, 1998 through June 30, 1998 only.

Net sales of aircraft and engine parts were \$6,371,942 for the six months ended June 30, 1999 as compared to \$2,067,356 for the six months ended June 30, 1998. The increase in net sales of aircraft and engine parts was due to our acquisition of the controlling interest in Aviation Holdings International.

Cost of goods sold was \$4,253,559 for the six months ended June 30, 1999 as compared to \$1,593,776 for the six months ended June 30, 1998. Gross profit increased to \$2,118,383 in the six months ended June 30, 1998 from \$473,580 in the six months ended June 30, 1998. Our increases in cost of goods sold and gross profit were due to our acquisition of the controlling interest in Aviation Holdings International.

Salary and wage expense was \$646,019 in the six months ended June 30, 1999 and \$715,710 in the six months ended June 30, 1998. This overall decrease is a result of an increase from the acquisition of the controlling interest in Aviation Holdings International offset by a nonrecurring compensation bonus expense recorded May 1998 in the amount of \$360,200 for options issued to our CEO.

General and administrative expenses were \$998,381 in the six months ended June 30, 1999 and \$716,798 for the six months ended June 30, 1998. Our general and administrative expenses for the six months ended June 30, 1998 consisted primarily of a valuation allowance on a promissory note due to the Company from Environmental Waste Systems, Inc. which has been sold by the

Company (see "Certain Transactions"), a nonrecurring expense. Our general and administrative expenses for the six months ended June 30, 1999 related primarily to Aviation Holdings International's operations.

Professional fees were \$128,332 in the six months ended June 30, 1999 and \$197,798 in the six months ended June 30, 1998. We incurred additional accounting and legal expenses related to our efforts to acquire businesses in the first six months of 1998. Activities related to acquisitions in the first six months of 1999 declined.

Interest expense was \$449,305 in the six months ended June 30, 1999 and \$1,908 in the six months ended June 30, 1998. This increase was primarily due to additional borrowings from Comerica Bank and stockholders and amortization of the discount on the notes payable to the John G. Jacobs Trust and Nancy Plotkin.

Interest income was \$15,492 in the six months ended June 30, 1999 and \$64,670 in the six months ended June 30, 1998. We stopped recording interest on the Environmental Waste Solutions note receivable after the note was in default and therefore interest income decreased.

Income from the joint venture was \$19,651 in the six months ended June 30, 1999 and \$2,486 in the six months ended June 30, 1998. This increase is primarily a result of our investment in the SYNOR-A Joint Venture which we acquired along with our controlling interest in Aviation Holdings International.

Income tax expense was \$49,000 in the six months ended June 30, 1999 and \$13,022 in the six months ended June 30, 1998. This increase is primarily due to Aviation Holdings International's earnings for the three months ended March 31, 1999. As of March 31, 1999, we qualified to file a consolidated income tax return under the Internal Revenue Code. Therefore, as of April 1, 1999 we were able to offset the earnings of Aviation Holdings International against our losses. At June 30, 1999 and June 30, 1998, due to the uncertainty of our ability to generate future earnings, we have recorded a valuation allowance for the income tax benefits that would have been generated by our losses incurred for the six months ended June 30, 1998 and June 30, 1999, respectively.

Minority interest was \$43,357 in the six months ended June 30, 1999 and \$30,875 in the six months ended June 30, 1998. This increase is mainly due to the acquisition of the controlling interest in Aviation Holdings International.

As a result of the foregoing, our net loss was \$160,868 for the six months ended June 30, 1999, which was a decrease from a net loss of \$1,135,375 for the six months ended June 30, 1998. Basic and diluted loss per common share decreased from \$.43 for the six months ended June 30, 1998 to \$.04 for the six months ended June 30, 1999.

Liquidity and Capital Resources

As of June 30, 1999, our principal source of liquidity included cash and cash equivalents of \$581,991, compared with cash and cash equivalents of \$365,383 as of June 30, 1998. As of June 30, 1999, total outstanding debt was \$3,137,911 compared to \$983,374 as of June 30, 1998. Aviation Holdings International obtained a revolving working capital line of credit from Comerica Bank in 1998. At June 30, 1999, the amount of principal owed to the bank was \$2,075,000. The credit agreement governing the revolving line of credit provides for a maximum aggregate borrowing limit of \$3,500,000, subject to certain borrowing restrictions and is secured by substantially all of Aviation Holdings International's assets. The line of credit bears interest per annum at Comerica Bank's prime rate plus 1%. As of June 30, 1999, Aviation Holdings International did not meet the tangible net worth covenant of \$4,250,000 in the Comerica Bank credit agreement, which puts it in technical default under the terms of the credit agreement. Comerica Bank has, however, continued to make advances under the credit agreement.

Cash used in operating activities for the six months ended June 30, 1999 was \$282,995, which was primarily attributable to overall decreases in accounts payable and accrued expenses amounting to \$254,729, and increases in accounts receivable of \$361,668 and inventory of \$20,898 offset by losses from operations after adding back non-cash expenses. Cash used in operating activities for the six months ending June 30, 1998 was \$596,763, which was primarily attributable to increases in accounts receivable of \$539,932 and inventory of \$531,542 and offset partially by an increase in accounts payable of \$569,644 and operating losses.

Cash flows used in investing activities for the six months ended June 30, 1999 was \$235,108 compared with \$152,298 of cash provided for the six months ended June 30, 1998. For the six months ended June 30, 1999, cash used was related primarily to the investment in the SYNOR-A joint venture of \$200,000 and the purchase of property and equipment for \$36,192. For the six months ended June 30, 1998, the primary use of cash was funding advances under the

Environmental Waste Solutions credit facility of \$535,100 and purchase of property and equipment for \$142,933, which was offset by \$830,331 of cash acquired in the acquisition of Aviation Holdings International, Inc.

Cash provided by financing activities for the six months ended June 30, 1999 was \$736,404 compared with \$807,673 for the six months ended June 30, 1998. Cash provided for the six months ended June 30, 1999 primarily resulted from the proceeds from the sale of stock of \$295,000 and additional borrowings under the bank line of credit of \$575,000 partially offset by repayments of advances from stockholders and debt of \$73,852. For the six months ended June 30, 1998, the primary source of cash were advances from our stockholders of \$807,952.

We believe that existing cash balances, the credit agreement with Comerica and the proceeds of this offering will be sufficient to meet our capital requirements for at least the next eighteen months, including those expenditures described in "Use of Proceeds" and, in particular, the capital required for expansion of our turbine engine and aircraft sales. Thereafter, if our capital requirements increase, we could be required to secure additional sources of capital. There can be no assurance we will be capable of securing additional capital or that the terms upon which such capital will be available to us will be acceptable.

Year ended December 31, 1998 v. Year Ended December 31, 1997

Results of Operations

Effective in May 1998, we acquired a majority of the common stock of Aviation Holdings International. Accordingly, our financial statements and those of Aviation Holdings International were consolidated as of that date and our financial statements for the year ended December 31, 1998 include the results of Aviation Holdings International's operations for the period May 1998 through December 31, 1998.

Net sales of aircraft and engine spare parts were \$8,365,197 for the year ended December 31, 1998 as compared to \$0 for the year ended December 31, 1997. The increase in net sales of aircraft and engine spare parts was due to our acquisition of the controlling interest in Aviation Holdings International.

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Cost of goods sold was \$5,839,049 for the year ended December 31, 1998 as compared to \$0 for the year ended December 31, 1997. Our increase in cost of goods sold was due to the sales generated by the acquisition of the controlling interest in Aviation Holdings International.

Salary and wage expenses increased to \$1,300,172 in the year ended December 31, 1998 from \$0 in the year ended December 31, 1997. This increase is primarily the result of our acquisition of the controlling interest in Aviation Holdings International and \$380,328 of noncash compensation expense for common stock and options to purchase common stock granted to our President.

General and administrative expenses increased to \$1,771,560 in the year ended December 31, 1998 from \$15,950 in the year ended December 31, 1997. This increase is primarily due to our acquisition of the controlling interest in Aviation Holdings International, our increased acquisition activities during the first five months of 1998, and the provision in the amount of \$633,410 for a valuation allowance on the Environmental Waste Solutions note.

Professional fees increased to \$617,099 in the year ended December 31, 1998 from \$48,227 in the year ended December 31, 1997. This increase is primarily due to our acquisition of the controlling interest in Aviation Holdings International and to our increased acquisition activities during the first five months of 1998.

Interest expense increased to \$96,044 in the year ended December 31, 1998 from \$0 in the year ended December 31, 1997. The increase is due to interest incurred on advances from our stockholders, interest on borrowings under the Comerica credit facility by Aviation Holdings International and amortization of the discount on the notes payable to the John G. Jacobs Trust and Nancy Plotkin.

Interest income increased to \$72,825 in the year ended December 31, 1998 from \$6,740 in the year ended December 31, 1997. The increase is primarily due to the interest recorded under the Environmental Waste Solutions note receivable.

Loss from the joint venture increased to \$8,313 in the year ended December 31, 1998 from \$0 in the year ended December 31, 1997. The increase is due to the losses recorded on our investment in the SYNOR-A Joint Venture.

Income tax expense increased to \$186,863 in the year ended December 31, 1998 from \$0 in the year ended December 31, 1997. The increase is primarily the

result of income generated by Aviation Holdings International. We have recorded a valuation allowance against our deferred tax asset because we are unable to determine if we will ever generate taxable income to utilize those benefits.

Minority interest increased to \$3,702 in the year ended December 31, 1998 from \$0 in the year ended December 31, 1997. This increase is primarily due to our acquisition of less than 100% of Aviation Holdings International in 1998.

As a result of the foregoing, net loss increased to \$1,384,780 for the year ended December 31, 1998 as compared to \$57,437 for the year ended December 31, 1997. Basic and diluted loss per share of common stock increased from \$.06 in the year ended December 31, 1997 as compared to \$.46 for the year ended December 31, 1998.

Liquidity and Capital Resources

As of December 31, 1998 our liquidity and capital resources included cash and cash equivalents of \$363,690 and working capital of \$1,371,885, compared with cash and cash equivalents of \$2,175 and a working capital deficit of \$36,128 for the year ended December 31, 1997. The increase in working capital was primarily due to our acquisition of the controlling interest in Aviation Holdings International.

Cash used in operating activities for the year ended December 31, 1998 was \$1,828,124 compared to \$41,009 for the year ended December 31, 1997. Cash used in the year ended December 31, 1998 was primarily to fund increases in accounts receivable of \$1,059,241, inventory of \$613,306, interest receivable of \$64,351, and to reduce accounts payable by \$169,081 and accrued expenses by \$173,823. Cash provided for the year ended December 31, 1998 was primarily due to a decrease in prepaid expenses of \$27,905 and an increase in income taxes payable of \$188,500. Cash used in the year ended December 31, 1997 was primarily related to increases in interest receivable of \$6,740 and prepaid

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expenses of \$2,957, and a decrease in the amount due to stockholder of \$7,207. Cash provided for the year ended December 31, 1997 was due to an increase in accrued expenses of \$8,000.

Cash used in investing activities for the year ended December 31, 1998 was \$97,007 compared to \$950,673 of cash used for investing activities in the year ended December 31, 1997. Cash used in the year ended December 31, 1998 was for funds we advanced under the Environmental Waste Systems credit facility of \$535,100, purchases of equipment of \$88,198 and additional investment in SYNOR-A Joint Venture of \$300,000. Cash provided for the year ended December 31, 1998 was due to the cash acquired in the acquisition of the controlling interest in Aviation Holdings International of \$830,331. The primary components of cash used in the year ended December 31, 1997 was from funds we advanced under the Environmental Waste Solutions credit facility of \$940,000.

Cash provided by financing activities for the year ended December 31, 1998 was \$2,286,646 compared to \$993,857 for the year ended December 31, 1997. The primary sources of cash provided from the year ended December 31, 1998 related to \$1,500,000 borrowed on the bank line of credit, \$50,000 borrowed from the John G. Jacobs Trust, \$200,000 borrowed from Nancy Plotkin, and advances from stockholders, net of repayments, of \$550,284. The source of cash provided from the year ended December 31, 1997 was the proceeds received from the sale of securities, net of offering costs paid, in the amount of \$993,857.

Since our principal sources of funds are those generated by Aviation Holdings International, the following sets forth certain information relating to the operations of Aviation Holdings International for the periods indicated. Aviation Holdings International formerly maintained its accounting records on a fiscal year basis ending August 31. Beginning January 1, 1999, Aviation Holdings International has changed its reporting to a calendar year basis.

Year ended August 31, 1998 v. October 3, 1996 (Date of Inception) to August 31, 1997.

Results of Operations

Aviation Holdings International's net sales of aircraft and engine spare parts for the fiscal year ended August 31, 1998 increased \$6,858,043, or 110%, over the period ended August 31, 1997. During this period, domestic sales increased by 119% from \$3,559,585 to \$7,788,597, and international sales increased 99% from \$2,655,968 to \$5,284,999. The increase in net sales was due to several factors which include the sale of a single jet engine to Federal Express for \$2,000,000, the addition of new sales personnel, increased customer penetration, increased investment in, and availability of, inventory and the expansion of services offered to customers.

Cost of sales was \$11,066,005 for the fiscal year ended August 31, 1998 and \$4,684,864 for the fiscal period ended August 31, 1997, which is an increase of 136% resulting from the increase in sales. There was a decrease in gross profit from 25% to 15%. The decrease in gross profit was primarily due to a lower profit margin on the cost of the jet engine sold to Federal Express and the establishment of reserves for obsolete and slow-moving inventory of \$515,421.

General and administrative expenses decreased \$441,735 in the fiscal year ended August 31, 1998, or 15% compared to the fiscal period ended August 31, 1997. General and administrative expenses were 19% of operating revenues for the fiscal year ended August 31, 1998, compared to 46% for the fiscal period ended August 31, 1997. There was nonrecurring compensation expense recorded in the period ended August 31, 1997 for the issuance of common stock to Aviation Holdings International's founders in the amount of \$1,399,600. The decrease in this expense in the year ended August 31, 1998 was offset by increases in salary expense of \$630,807, professional fees of \$96,145, and other general and administrative expenses of \$230,913, so that overall general administrative costs only decreased by \$441,735.

As a result of these and other factors, Aviation Holdings International generated a loss from operations of \$295,264 for the fiscal year ended August 31, 1998, compared to a loss of \$1,383,641 for the fiscal period ended August 31, 1997.

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Liquidity and Capital Resources

Aviation Holdings International's liquidity and capital resources included cash and cash equivalents of \$559,578 and working capital of \$2,632,231 as of August 31, 1998 compared with cash and cash equivalents of \$341,660 and working capital of \$3,246,086 as of August 31, 1997. The principal reason for the decrease in working capital was the increase in the reserves for uncollectible accounts and the establishment of the reserve for obsolete and slow-moving inventory.

Cash provided by operations was \$90,180 for the fiscal year ended August 31, 1998 compared to cash used in operating activities of \$1,516,173 for the fiscal period ended August 31, 1997. For the fiscal year ended August 31, 1998, cash provided was primarily attributable to increases in accounts payable and accrued expenses of \$1,325,114. Cash used in the fiscal year ended August 31, 1998 was primarily related to increases in inventory of \$922,519, accounts receivable of \$516,035, and prepaid expenses amounting to \$57,805. Cash provided from the period ended August 31, 1997 was \$1,179,058 which was primarily from increases in accounts payable and accrued expenses. For the period ended August 31, 1997, cash was primarily used to fund increases in inventory of \$1,006,754, accounts receivable of \$1,857,119, and prepaid expenses of \$29,610.

Cash used in investing activities was \$412,142 for the fiscal year ended August 31, 1998 compared to \$121,730 for the fiscal period ended August 31, 1997. For the year ended August 31, 1998, cash was used for the acquisition of property and equipment of \$212,142 and the funding of the SYNOR-A joint venture commitment of \$200,000. The primary use of cash for the period ended August 31, 1997 was for the acquisition of property and equipment of \$96,730.

Cash provided by financing activities was \$539,880 for the fiscal year ended August 31, 1998 compared to \$1,979,563 for the fiscal period ended August 31, 1997. Cash from the fiscal year ended August 31, 1998 was from proceeds from the issuance of stock in the amount of \$165,000 and borrowings under the line of credit of \$425,000. Cash provided by the fiscal period ended August 31, 1997 was from the proceeds received from stockholder loans, net of repayments, in the amount of \$1,070,000, and proceeds from the issuance of securities in the amount of \$923,313.

Inflation

Although we cannot accurately anticipate the effect of inflation on our operations, we do not believe that inflation has had, or is likely in the foreseeable future to have, a material effect on our results of operations or financial condition. Increases in fuel costs due to inflation may adversely affect demand for used aircraft that typically are less fuel efficient, thereby decreasing demand for aircraft and engine components and spare parts for these aircraft.

Year 2000 Issue

The widespread use of computer programs that rely on two-digit dates to perform computations and decision making functions may cause computer systems to malfunction prior to or in the year 2000 and lead to significant business delays and disruptions in the U.S. and Internationally.

We recently upgraded all of our current computer hardware and software

applications as part of our normal business operations, and we believe that all of our hardware and software applications are year 2000 compliant. As this upgrade would have occurred in any event, we had no additional costs attributable to the Year 2000 issue. We have completed an assessment of our non-information technology systems, and we are not currently aware of any Year 2000 problems relating to these systems which would materially adversely affect our business operating results or financial condition.

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We are currently reviewing the efforts of our vendors and customers to become Year 2000 compliant. Letters and questionnaires have been or are in the process of being sent to all critical entities with which we do business to assess their Year 2000 readiness. To date, we have received minimal responses. Each of the companies that have responded have assured us that they have already addressed, or that they will address on a timely basis, all of their known significant Year 2000 issues. In particular, we have been assured that the principal electronic database on which we advertise parts, ILS, is Year 2000 compliant. Although this review is continuing, we are not currently aware of any vendor or customer circumstances that may materially adversely impact us.

We cannot assure you that Year 2000 compliance plans of our vendors and customers will be completed on a timely manner. With respect to vendors, we believe that there are sufficient numbers of vendors of parts that any Year 2000 problems encountered by a particular vendor will not adversely impact our ability to purchase inventory. In the event that any particular customer encounters Year 2000 difficulties, it may impact our sales to, or collection of receivables from, that customer until the problems are resolved. We believe that our sales are sufficiently diversified that this would not result in a material adverse impact on operating results. In addition, any such disruption is likely to be temporary and result in a delay, rather than loss, of sales to that customer. However, if a number of customers experience problems resulting in significant delays in payment on outstanding accounts receivable, we could experience material cash flow difficulties until such problems are resolved.

The great majority of aircraft spare parts in our inventory do not involve computers or embedded chips that might present Year 2000 problems. We have contacted our vendors of the parts that might have such problems to assess the Year 2000 compliance of those parts. If any such parts are determined to be Year 2000 non-compliant, we will seek to return them to the vendor and believe that we will be successful in doing so. However, we cannot be sure that this will always be the case, and some parts may be rendered unsaleable as a result. We do not believe that this will be material in amount.

Plan of Operation

Following the completion of this offering we intend to use a portion of the proceeds, as well as trade credit, to expand our inventory of aircraft and engine spare parts and to acquire turbine jet engines and/or aircraft. We also anticipate hiring additional employees, particularly in the marketing area.

Aviation Holdings International owns a one-half interest in a DC10-30 flight simulator. See "Certain Transactions." Our management, and the co-owner of the DC10-30 flight simulator, have determined that the flight simulator will be best utilized if disassembled and sold as spare parts to current users of DC10 parts and peripheral equipment. We anticipate this liquidation will be completed by the end of 1999.

We believe that anticipated cash flows from operations, together with net proceeds we receive from the offering, will meet our anticipated short term cash needs for working capital and will enable us to make future inventory expenditures for the foreseeable future. On August 12, 1998, Aviation Holdings International entered into a credit agreement with Comerica Bank whereby Comerica Bank agreed to extend a revolving line of credit to Aviation Holdings International of up to \$3,500,000. The revolving line of credit is intended to fund working capital needs such as inventory purchases and, subject to Comerica's approval, strategic acquisitions. The funds advanced to Aviation Holdings International by Comerica are secured by the assets of Aviation Holdings International. The outstanding balance may not at any time exceed the sum of (a) 85% of Aviation Holdings International's eligible accounts receivable and (b) 35% of Aviation Holdings International's eligible inventory. As of August 31, 1999, the maximum amount available to Aviation Holdings International under this formula was approximately \$2.592 million, and the outstanding balance was approximately \$2.075 million.

We do not anticipate material capital expenditures for the coming fiscal year other than as described above under "Use of Proceeds."

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General

Aviation Holdings Group was incorporated in January 1998 as a Delaware corporation and wholly-owned subsidiary of EyeQ Networking, Inc., a Colorado corporation formed in May 1988. In February, 1998, EyeQ Networking, Inc. merged with and into Aviation Holdings Group, with Aviation Holdings Group surviving as the newly merged entity under the name of EyeQ Networking, Inc. In September 1998, Aviation Holdings Group changed its name from EyeQ Networking, Inc. to Aviation Holdings Group, Inc.

We acquired approximately 96% of the issued and outstanding capital stock of Aviation Holdings International through a series of share exchanges in which holders of Aviation Holdings International common stock exchanged it for newly-issued shares of Aviation Holdings Group common stock.

We are in the aircraft and engine spare parts redistribution business and specialize in the sale, lease, exchange and purchase of technical spare parts for fixed-wing commercial jet transport aircraft manufactured by Boeing, McDonnell Douglas, Airbus and Lockheed. As part of this business, we provide customers with inventory management services including new product distribution, technical purchasing, maintenance and repair management, consignment marketing and purchase/leaseback of technical spare parts inventory. We also pursue opportunities involving the purchase, sale and lease of jet turbine engines, jet turbine aircraft and related aviation industry equipment.

Industry Overview

The aircraft spare parts redistribution market includes sellers of parts other than parts manufacturers. This market is highly fragmented, with a limited number of large, well-capitalized companies selling a broad range of aircraft spare parts and many smaller competitors servicing particular segments of the aircraft spare parts industry. We believe that significant trends affecting the aircraft spare parts market will increase our overall size and at the same time eliminate some market participants and cause consolidation in the industry due to the inability of some participants to compete efficiently. These trends are:

Growth in Market for Aircraft Spare Parts

Boeing's 1999 Market Outlook estimates that:

- o the worldwide fleet of commercial passenger airplanes will more than double from 12,600 airplanes at the end of 1998 to 28,400 airplanes by 2018; and
- o cargo jet aircraft will increase from 1,545 airplanes in 1998 to 3,036 airplanes by 2018.

Seventy percent of the airplanes delivered to cargo operators are expected to be used aircraft which were converted from commercial passenger service. Further, the number of planes in service for more than 10 years is continuing to increase, and these older planes are the primary market for parts redistributors. Finally, cost considerations are forcing many airlines and repair and maintenance facilities to utilize aircraft spare parts sold by redistributors, instead of purchasing new parts for inventory. We believe that all of these factors will increase the demand for aircraft spare parts from the redistribution market.

Increased Outsourcing of Inventory Management Function

Airlines incur substantial expenditures in connection with fuel, labor and aircraft ownership. During the last decade, airlines have come under increasing pressure from consumers to reduce air travel costs. Although some expenditures required to operate an airline are beyond the direct control of airline operators (e.g., the price of fuel and labor costs), we believe that obtaining replacement parts from the redistribution market and outsourcing inventory management functions are steps airlines will take to manage these functions with less expense and greater efficiency.

Increasing Emphasis on Traceability

Due to concerns regarding unapproved aircraft spare parts, regulatory authorities now require airlines to maintain stricter parts documentation. This requirement has, in turn, been extended by airlines to the spare parts vendors. The sophistication required to track the history of an inventory consisting of thousands of aircraft spare parts is considerable and has required companies to invest significantly in information systems technology. On March 25, 1999 our quality control systems were certified by the Airline Suppliers Association as meeting its quality system standards and FAA guidelines.

Increased Consignment

Certain of our customers adjust inventory levels on a periodic basis by disposing of excess aircraft spare parts. Traditionally, larger airlines have used internal personnel to manage such dispositions. We believe that major airlines and other owners of aircraft spare parts are increasingly entering into long-term consignment agreements with redistributors in order to concentrate on their core businesses and to more effectively redistribute their excess parts inventories. By consigning inventories to a redistributor such as us, customers are able to distribute their aircraft spare parts to a larger number of prospective inventory buyers, allowing the customer to maximize the value of its inventory. Consignment also enables us to offer for sale significant parts inventory at minimal capital cost to us.

Increased Leasing

We believe that cost considerations will cause airlines to lease, rather than purchase, more spare parts and engines. This would benefit us by:

- o providing a steady income stream over a period of time from lease payments;
- o upon termination of the lease, we would regain the part or engine for subsequent sale; and
- o provide the opportunity to obtain additional financing.

Operations

Our core business is buying and selling aircraft and engine spare parts. We purchase spare parts from numerous unaffiliated sources, including airlines, original equipment manufacturers and other parts distributors. We have also pursued opportunities to purchase and sell related aviation industry equipment. For example, Aviation Holdings International acquired a 50% interest in a DC10 flight simulator and related support package and software. We also provide value-added inventory management services to our customers. We believe that inventory management services provide significant opportunities for expansion of our business in the future. We also intend to develop business as a redistributor of turbine jet engines and become involved in the purchase, sale and lease of jet turbine aircraft and engines.

Aircraft and Engine Spare Parts

Aircraft and engine spare parts can be categorized by their ongoing ability to be repaired and returned to service. The general categories are as follows:

- o rotatable: means a part which is removed periodically as dictated by an operator's maintenance procedures or on an "as needed" basis and is typically repaired or overhauled and reused an indefinite number of times. An important type of rotatable is a "life limited" part, which means it has a predetermined designated number of allowable flight hours and/or flights after which it is rendered unusable;
- o repairable means a part limited by the number of times it can be repaired before it must be discarded; and
- o expendable means a part which is used and not thereafter repaired for further use.

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Rotatable and repairable aircraft and engine spare parts are further classified as:

- o factory new means parts that have never been installed or used which are purchased from manufacturers or their authorized distributors, aircraft manufacturers and engine manufacturers;
- o new surplus means parts that have never been installed or used which are purchased from excess stock of airlines, repair facilities or other redistributors;
- o overhauled means a part that has been completely disassembled, inspected, repaired, reassembled and tested by a licensed repair facility;
- o serviceable means a part repaired by an approved maintenance center that is functional and meets any manufacturer or time and cycle restrictions applicable to it; and
- o as removed means a part that requires functional testing,

repair or overhaul by a licensed facility prior to being returned to service in an aircraft or engine.

A factory new, new surplus, overhauled or serviceable part designation indicates that the part can be immediately utilized on an aircraft.

Inventory Purchases and Sales

Our daily operations encompass inventory sales, brokering and exchanging aircraft spare parts. We advertise our available inventories held for sale or exchange on the Inventory Locator Service ("ILS"), the Airline Inventory Redistribution System ("AIRS") and BCOM electronic databases. Buyers of aircraft spare parts can access the ILS, AIRS and BCOM databases and determine the companies which have the desired inventory available. We estimate that 25% of our daily sales activity results from an ILS, AIRS or BCOM inquiry. All major airlines and repair agencies subscribe to one or more of these databases and accordingly, we maintain continual on-line direct access with them. ILS, AIRS and BCOM do not, however, list price information relating to particular parts. The ability to properly evaluate and price spare parts and to predict competitive supply and demand trends derives from management experience in the industry. We are currently developing an internet web site that will describe in detail the parts and services we offer.

We typically have over 50,000 line items in stock. We monitor market availability, pricing and historical data on a continuous basis. We sell new, overhauled and serviceable replacement parts from our inventory and buy them at the request of its customers against a specific order. We usually purchase parts for our own account and sell them to our customers.

For the twelve months ended December 31, 1998 and the six months ended June 30, 1999, Aviation Holdings International's total revenues were approximately as follows:

| 12/31/98 ----- | 6/30/99 ----- |
|----------------------------|----------------------------|
| 83% from inventory sales; | 93% from inventory sales; |
| 16% from engine sales; and | 6% from engine sales; and |
| 1% from consignment sales. | 1% from consignment sales. |

Inventory Management Services

We provide a number of inventory management services to our customers. These services assist airlines in downsizing their inventory management operations, thus enabling them to utilize their capital more efficiently and reduce costs. We believe we can provide an inventory management program geared to any particular customer's requirements. Such programs would be supported by our operating agreements with various airlines and independent repair agencies. We do not charge separately for these services, but consider them to be a marketing advantage to our inventory sales.

Consignment

By consigning inventories to a redistributor such as us, consignors are able to distribute their aircraft spare parts to a larger number of prospective inventory buyers, allowing the consignor to maximize the value of its inventory.

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Consignment also enables us to sell a broad range of parts at minimal capital cost. We anticipate that revenues from consignment will increase as a percentage of total revenues in the future.

Purchasing Services

We purchase spare parts on behalf of smaller and start-up airlines. This service allows our customers to take advantage of our greater purchasing power, repair management services, information systems technology, quality and logistics systems and industry expertise. We do not charge separately for these services, but consider them to be a marketing tool for our inventory sales.

Asian Operations

While the majority of our operations are conducted in the United States, we also operate in Asia and the Pacific Rim directly and through a joint venture with a third party and a number of subsidiaries. These Asian operations currently account for approximately 20% of our gross revenues on a consolidated basis and we intend to continue to expand them. The Asian operations are supervised by Simon Chiang, Vice President for Asia and the Pacific Rim. From our Miami headquarters, business is conducted through a number of entities controlled by us that share employees and office facilities. There are two employees in Hong Kong, one in Shenyang and one in Beijing. The bulk of the Asian operations consist of business similar to our core operations in the United States and Europe. We intend to expand the Asian operations to include other lines of business related to aviation.

Pasco International Aviation Corp. Ltd., a Hong Kong corporation ("Pasco-HK") and majority-owned subsidiary of Aviation Holdings International, accounted for approximately 13% and 2% of our gross revenues on a consolidated basis for the year ended December 31, 1998 and the six months ended June 30, 1999. The following is a list of some of its major customers: Ameco Beijing, Air China Group, China Northern Airlines Sanya Branch, China Shandong Airlines, China Southwest Airlines, China Northwest Airlines, China Shanghai Airlines, China Airlines-Taiwan, HAECO-HK, Cathay Pacific Airlines and Thai Airways.

Shenyang Northern Aircraft Maintenance & Engineering Co., Ltd. is a Sino-American joint venture company established in November 1997. The joint venture mainly deals with inspection, repair and recertification of DC9, MD80 and A300-600 components, line replacement units, instruments and avionics. It also represents some of the world's leading original equipment manufacturers for certain items. It is the first Sino-foreign joint venture approved by the Civil Aviation Administration of China in the avionics and accessories repair field and which commenced operations in March 1998. Twenty-five percent of the joint venture is held by PASCO International Aviation Corporation, Inc., a Florida corporation and a subsidiary of Aviation Holdings International ("Pasco-FLA"). China Northern Airlines, one of the largest airlines in China, holds the remaining 75%. The joint venture is currently certified by the Chinese aviation authorities and expects to complete FAA certification by the end of 1999.

Pasco-FLA's total financial commitment to the joint venture is \$1,000,000. As of June 30, 1999, Aviation Holdings International had funded approximately \$700,000 of this total and intends to fund the remaining approximately \$300,000 with proceeds from this offering and from internal operations. Under the terms of the joint venture, Pasco-FLA is entitled to certain preferences in any initial distributions of net income. This preference provides that Pasco-FLA will recoup its investment prior to any regular distributions being made to China Northern. Pasco-FLA provides technological advice to the joint venture and promotes, markets and sells its services. The joint venture serves approximately 14 airlines. In July 1999, Pasco-FLA received an initial distribution of approximately \$14,600 from the joint venture.

Pasco Financial Services Ltd., Corp., a Hong Kong corporation and majority-owned subsidiary of Aviation Holdings International ("Pasco-Financial"), specializes in providing financing from banks on behalf of airlines for aircraft and aviation-related purchases. Pasco-Financial was recently appointed by China Southwest Airlines to work with banks to provide financing for three newly-purchased Boeing B737-800 aircraft which are expected to be delivered in 1999 and 2000. Pasco-Financial has also been appointed by certain airlines to act as their agent for the sale or lease of aircraft on behalf of such airlines. Pasco-Financial was also invited by China Southwest Airlines to arrange the leasing of one of their B757-200 aircraft. To date, Aviation Holdings International has not recognized any revenue from Pasco-Financial.

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China Airlines, located in Taipei, Taiwan, has a sophisticated, quality conscious engine overhaul facility and aircraft maintenance center. Its maintenance base is located in Taipei, Taiwan. Their \$150 million investment in facilities, equipment, backshops and support mechanisms was completed in 1997 and is certified by every major aviation regulatory authority in the world. Two majority owned subsidiaries of Aviation Holdings International, Aero-Link Flight Systems Ltd., a Hong Kong corporation, and Aero-Link Flight System, Inc., a Florida corporation (collectively, "Aero-Link"), act as China Airlines' global marketing representative outside of Taiwan. To date, we have recognized \$122,866 in revenue from Aero-Link.

Credit Facilities

On August 12, 1998, Aviation Holdings International entered into a Credit Agreement with Comerica Bank ("Comerica") whereby Comerica agreed to extend a revolving line of credit to Aviation Holdings International in an amount not to exceed \$3,500,000. The revolving line of credit is intended to fund, if necessary, working capital needs, such as inventory purchases, and, subject to Comerica's approval, strategic acquisitions. The funds advanced to Aviation Holdings International by Comerica are secured by the assets of Aviation Holdings International and may not at any time exceed the sum of (a) 85% of Aviation Holdings International's eligible accounts receivable and (b) 35% of Aviation Holdings International's eligible inventory. As of August 31, 1999, Aviation Holdings International had an aggregate availability of approximately \$2.592 million and an outstanding balance due to Comerica under the revolving line of credit of approximately \$2.075 million.

Strategy

We believe that we can become a low cost leader in the redistribution market, as well as in the inventory management services industry, by combining its managerial experience with increased capital and continuing to build upon its present operations. The essential elements of our business strategy are:

Internal Growth

We seek to increase our operating revenues and operating income through continued customer penetration in our existing markets and expansion into new markets. We intend to achieve such growth by continuing to increase the size and scope of our inventory and by continuing to expand our marketing efforts worldwide. We will also expand our inventory management, leasing and consignment services to allow our customers to reduce their costs of operations by outsourcing some or all of their inventory management and supply functions and to take advantage of opportunities to maximize the value of their spare parts inventory. We will seek to establish and maintain close working relationships with our customers and to become their vendor of choice.

Capitalize on Large Bulk Purchase Opportunities

Although opportunities to purchase large inventories in bulk in the aircraft spare parts industry cannot be predicted, historically they become available on a regular basis. "Bulk" purchase opportunities arise when:

- o airlines, in order to reduce capital requirements, sell large amounts of inventory in a single transaction;
- o inventories of aircraft spare parts are sold in conjunction with asset sales or bankruptcy proceedings, or
- o when operators upgrade their fleet.

In these situations, we can obtain large inventories of aircraft spare parts at a lower cost than can ordinarily be obtained by purchasing on an individual basis. This results generally in higher gross margins on sales of such parts. As of June 30, 1999, we had successfully completed approximately eight bulk inventory purchases in excess of \$100,000. We believe that due to our experience, and as a result of additional capital, we will be able to complete an increased number of larger bulk purchases.

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Purchase and Sale of Jet Turbine Engines and Aircraft

We believe that with sufficient financial resources, we would be in a position to increase our activity in the market for the purchase and sale of jet turbine engines and aircraft. This market is extremely competitive and capital intensive. We feel, however, that our management has the expertise and industry contacts to make prudent purchases, which are the key to profitability in this market.

Pursue Acquisitions of Complementary Businesses

We will also seek acquisitions of other companies, assets or product lines that would complement or expand our existing aircraft spare parts redistribution and inventory management services business. We believe that such acquisitions will enable us to achieve economies of scale and expand the product and service lines available to our customers. We are currently evaluating a number of acquisition opportunities, including several FAA certified aircraft part repair facilities. No commitments or binding agreements have been entered into to date and accordingly, no assurance can be given that any of the acquisitions currently being considered will be consummated.

Diversification

We are interested in contracting with manufacturers of specialty products that could diversify our product line. New product distribution agreements would allow us to exploit our established network of customers, while providing a value-added service to smaller manufacturers who lack marketing expertise and distribution capabilities. On a cost basis, such contracts prove to be lucrative for us, as we are in a position to reap residual commissions without any of the associated product costs or liability. On January 23, 1997, we entered into such an agreement with Mirandy Products Ltd., a leading manufacturer of lavatory systems cleaner for aircraft. We feel that distribution sales of Mirandy's latest product, "Mirabowl," will serve to augment our existing line of products and services. Mirabowl is essentially a lavatory system cleaner and deodorizer that has been designed for flush tank treatment of all types. Mirandy also manufactures "Super Vinall," a multi-purpose aircraft wash which removes carbon and hydraulic fluid buildup from fuselage areas, degreases aircraft parts and may be used as an interior cleaner for the cabin area. We intend to begin active marketing of these products in the near future and have not realized revenues from sales of these products to date. We are

currently negotiating agreements with other manufacturers whose products relate to aircraft environmental systems and fluid processing systems.

We have also been awarded the opportunity to represent six FAA/JAA approved repair stations throughout specific areas of the world. This representation applies to component, aircraft and engine repair services originating from various national and international customers. This opportunity should allow us to recognize additional income, receive volume discounts on products and obtain increased recognition in the commercial aviation community, which will enhance overall brand awareness. We have entered into contracts with additional maintenance providers and intend to pursue additional relationships.

We also are seeking to expand our operations in Asia and the Pacific Rim to include the arrangement of aircraft financing and leasing, aircraft repair and maintenance coordination, technology consulting and the facilitation of contracts and cross-border business arrangements between aviation-related entities from different countries. See "Business - Asian Operations."

Sales and Marketing; Customers

We utilize twelve inside and outside salespersons and a network of independent representatives in our sales and marketing efforts. The respective Directors of Sales, Marketing and New Business Development provide the synergy and management which is responsible for obtaining new customers and maintaining relationships with existing customers. The majority of Aviation Holdings International's day-to-day sales are accomplished through our inside sales force.

We provide sales and delivery services seven days a week, 24 hours a day. This service is critical to provide support to airline customers which, at any time, may have an aircraft grounded in need of a particular part. Our South Florida location, with easy access to Miami International Airport and Fort Lauderdale International Airport, assists in

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the reliable and timely delivery of purchased products. This location also provides access to exceptional import and export facilities.

We have over 140 customers, which include aircraft and engine manufacturers, commercial passenger airlines, air cargo carriers, maintenance and repair facilities, original equipment manufacturers and other aircraft parts redistribution companies. During the twelve month period ended December 31, 1998, Aviation Holdings International's top 10 customers accounted for approximately 47% of net sales, and one customer, Federal Express Corp., accounted for more than 16% of net sales. During the six month period ended June 30, 1999, the top 10 customers accounted for approximately 45% of net sales, and one customer, Nielsen Aviation Corp. accounted for 6% of net sales.

Management Information System

We have upgraded our management information systems by acquiring computer hardware and software. Our data system is being developed to incorporate state-of-the-art records imaging, archiving, inventory and asset management analysis, financial record and other support systems. We believe that upon full implementation, our data management system will be adequate to manage our requirements in accordance with our forecasted growth.

Competition

The aircraft spare parts redistribution market is highly-fragmented. Competition is generally based on price, availability of product and quality, including traceability. Our major competitors include AAR Corp., Aero Controls Corp., Solair, Inc., The Memphis Group and Aviation Sales Company. There is also substantial competition, both domestically and overseas, from smaller, independent dealers who generally participate in niche markets. Several of our competitors have greater financial and other resources.

The jet turbine engine and jet turbine aircraft market is currently dominated by various financial institutions, such as GE Capital, CIT Group, and International Lease Finance Corp. as well as the major competitors from the spare parts redistribution market. The market also includes many smaller entities who engage in transactions on an infrequent basis.

Government Regulation and Traceability

The FAA regulates the manufacture, repair and operation of all aircraft, engines and aircraft and engine parts operated in the United States. Its regulations are designed to ensure that all aircraft and aviation equipment are continuously maintained in proper condition for the safe operation of aircraft. Similar rules apply in other countries. All aircraft must be maintained under a continuous condition monitoring program and must periodically

undergo thorough inspection and maintenance. The inspection, maintenance and repair procedures for the various types of aircraft and equipment are prescribed by regulatory authorities and can be performed only by certified technicians at certified repair facilities. Certification and conformance is required before installation of a part on an aircraft. Presently, whenever necessary with respect to a particular part, we utilize FAA and/or Joint Aviation Authority ("JAA") certified repair stations to repair and certify parts to ensure worldwide marketability. Our operations may in the future be subject to new and more stringent regulatory requirements. In that regard, we closely monitor the FAA and industry trade groups in an attempt to understand how possible future regulations might impact us. See "Risk Factors -- Stricter Government Regulations Could Reduce The Value Of Our Inventory And/Or Require Significant Expenditures."

An important factor in the aircraft and engine spare parts redistribution market relates to the documentation or traceability that is supplied with an aircraft or engine spare part. We require all of our suppliers to provide adequate documentation as required by the industry and the regulatory agencies. We are designing out data management system to image, capture, manage and communicate this documentation.

Employees

As of August 31, 1999, Aviation Holdings Group employed two persons and Aviation Holdings International employed 32 persons, including two in Hong Kong, one in Shenyang and one in Beijing. None of these employees are covered by collective bargaining agreements. We believe that our relations with our employees are good.

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Properties

Our offices and warehouse facilities are located in Miami, Florida. These facilities comprise a total of approximately 17,600 square feet. The premises are subject to a lease, under which Aviation Holdings International is the tenant, dated January 1, 1997 and subsequently amended on November 1, 1997, which expires on December 31, 2000. Annual rental is \$78,348 plus pass-through of (1) utilities, (2) increases in real estate taxes, (3) assessments, (4) increases in insurance and (5) a pro rata share of assessments imposed by the industrial park's association. Rent is subject to a cost of living increase adjustment. We have two additional one year options to renew. These facilities are adequate for our present and anticipated needs. Pasco-HK leases office space in Hong Kong at a monthly rental of \$2,500 under a two year lease that expires December 31, 1999. Pasco-HK also leases twenty square meters of office space in Beijing at an annual rental of \$3,600 under a three year lease that expires November 20, 2001.

Product Liability and Legal Proceedings

Our business exposes us to possible claims for personal injury or death which may result from a failure of aircraft spare parts sold by it. Management takes what it believes are adequate precautions to ensure the quality and traceability of the aircraft parts which it sells. We have a director of quality control whose responsibilities include implementation of our quality control system and supervision of our licensed airframe and powerplant inspectors and operations personnel. Our President, with over 20 years of experience in the industry, also works with the director of quality control. Parts that require maintenance are submitted to FAA/JAA certified facilities for overhaul and recertification as required. We also ensure that all parts received or shipped are accompanied by proper documentation. The director of quality control also supervises our document traceability program. We do not carry product liability insurance. See "Risk Factors -- Our Business May Subject Us To Expensive Product Liability Claims."

Neither Aviation Holdings Group nor Aviation Holdings International is currently involved in any litigation.

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MANAGEMENT

Directors and Executive Officers

The Directors and executive officers of Aviation Holdings Group and Aviation Holdings International, their ages and positions are set forth below:

| | | |
|------------------|----|--|
| Joseph J. Nelson | 49 | President, Chief Executive Officer and Director of Aviation Holdings International |
|------------------|----|--|

and Aviation Holdings Group

| | | |
|--------------------|----|---|
| Simon Chiang | 44 | Executive Vice President of Aviation Holdings International and Aviation Holdings Group and Director of Aviation Holdings International |
| Michael J. Cirillo | 31 | Director of Aviation Holdings International and Aviation Holdings Group |
| Theodore H. Gregor | 48 | Director of Aviation Holdings International and Aviation Holdings Group |
| Joseph F. Janusz | 47 | Vice President-Finance and Chief Financial Officer of Aviation Holdings International |

Joseph J. Nelson has been our President, Chief Executive Officer and a Director since August 1998 and President, Chief Executive Officer and a Director of Aviation Holdings International since October 1996. Prior to October 1996 he was Senior Vice-President of The AGES Group, L.P. ("AGES"), responsible for the operations of four divisions with revenues of approximately \$100 million, and held other positions with AGES since October 1990. Prior thereto, Mr. Nelson was with Ryder Corporation attaining the position of Vice President of Sales. Mr. Nelson holds a B.S. degree from DePaul University and an M.B.A. in Finance from Farleigh Dickinson University.

Simon Chiang has been Executive Vice President since August 1999, prior to which he was Vice President of Asia and Pacific Rim Operations and a Director of Aviation Holdings International since February 1998 and has been a Director of ours since August 1998. From 1986 to 1995, Mr. Chiang was President of Simon International Trading Corp., a company engaged primarily in the import and export of aviation tooling. Mr. Chiang is also the founder and has served as President of Pacific Airlines Support Corp. and of Pasco-Financial from 1995 to 1998. Mr. Chiang holds a B.A. degree from Fu Ren University, Taipei, Taiwan.

Michael J. Cirillo has been President of The D.A.R. Group, Inc., an investment banking firm and President of CBM Consultants, Inc., a marketing and consulting firm since 1995. From 1987 through 1995 Mr. Cirillo was an officer and director of Flex Resources, Inc., a temporary and permanent employment firm. Mr. Cirillo has been a Director of Aviation Holdings International since June 1997 and a Director of Aviation Holdings Group since August 1998. Mr. Cirillo holds a B.S. degree from Farleigh Dickinson University.

Theodore H. Gregor has been a director of Aviation Holdings International since October 1997 and a director of Aviation Holdings Group since August 1998. Since 1972, he has been the President of Aero Kool Corporation, a privately-held company engaged in business as an FAA approved repair facility. Mr. Gregor holds a B.S. degree in Mechanical Engineering from the University of Miami.

Joseph F. Janusz has been Vice President of Finance and Chief Financial Officer of Aviation Holdings International since June 1, 1997. From March 1996 through May 1997, he was a practicing certified public accountant. From September 1993 through March 1996, Mr. Janusz was the Chief Financial and Operations Officer of Homeshield Industries, Inc. a privately-held manufacturing company. Mr. Janusz received a B.S. degree in Accounting from the

University of Florida. He is a member of the American Institute of CPAs, the Florida Institute of CPAs and is a licensed real estate broker in Florida.

The officers of Aviation Holdings Group and Aviation Holdings International are elected by the Board of Directors of Aviation Holdings Group and Aviation Holdings International, respectively, to serve until their successors are elected and qualified. The Directors are elected at the annual meeting of the stockholders.

Aviation Holdings Group's Certificate of Incorporation and Bylaws and Aviation Holdings International's Certificate of Incorporation and Bylaws provide for the indemnification of, and advancement of expenses to, directors and officers. Aviation Holdings International has also entered into agreements to provide indemnification for its Directors and executive officers.

Committees

Our Board of Directors has not to date established any committees, but intends to establish an Audit Committee in connection with the listing of its securities on the American Stock Exchange. The Audit Committee will recommend the independent accountants appointed by the Board of Directors to audit our financial statements, and will review with such accountants the scope of their

audit and their report thereon, including any questions and recommendations that may arise relating to such audit and report of our internal accounting and auditing procedures.

Director Compensation

Our Directors have not received any compensation for their services as Directors in the past. We intend to pay directors who are not employed by us a fee of \$500 for each meeting of the Board of Directors attended and \$500 for each committee meeting attended.

In addition, all Directors will receive stock option grants under the Stock Option Plan for serving on our Board of Directors. Options to purchase 5,000 shares of common stock will be automatically granted to each Director on December 31 of each year, starting December 31, 1999, at an option exercise price equal to the closing bid or sales price of the common stock on such date. Additionally, Directors appointed to the Board of Directors of Aviation Holdings International in the future will be granted options to purchase 10,000 shares of common stock at an exercise price equal to the closing bid or sales price of the common stock on the date of their appointment.

Executive Compensation

The following table reflects compensation paid or accrued during the indicated fiscal years, which end on August 31 of the indicated year with respect to compensation paid or accrued by Aviation Holdings International and which end on December 31 of the indicated year with respect to compensation paid or accrued by Aviation Holdings Group.

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Summary Compensation Table

<TABLE>
<CAPTION>

| Name and Principal Position | Year | Salary | Bonus | Other (1) | All other Compensation |
|--|-------|---------|--------|------------|------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Joseph J. Nelson President, Chief Executive Officer and Director | 1998 | 160,000 | 29,999 | 20,128 (2) | 0.00 |
| | 1997 | 160,000 | 11,153 | 0.00 | 0.00 |
| Simon Chiang Executive Vice President and Director | 1998 | 87,653 | 21,500 | 0.00 | 0.00 |
| Joseph F. Janusz Vice President of Aviation Holdings International | 1998 | 78,000 | 14,500 | 62,500 (3) | 0.00 |
| | 1997 | 29,500 | 0.00 | 0.00 | 0.00 |

</TABLE>

- (1) Does not include perquisites and other personal benefits, securities or property if the aggregate amount of such compensation for each of the persons listed did not exceed the lesser of (i) \$50,000 or (ii) ten percent of the combined salary and bonus for such person during the applicable year.
- (2) Represents 4,000 shares of the common stock granted on August 1, 1998 by the Company's Board of Directors at \$5.03 per share. The shares were issued in consideration of services rendered.
- (3) Represents 25,000 shares of Aviation Holdings International's common stock granted on June 11, 1998 by Aviation Holdings International's Board of Directors at \$2.50 per share. The shares were issued by Aviation Holdings International in consideration of services rendered.

The following table contains information concerning stock options granted to officers and directors through August 31, 1999.

<TABLE>
<CAPTION>

| Name | Number of Options/Warrants Granted | % of Options Granted to Employees (1) | Exercise or Base Price | Earliest Exercise Date | Expiration Date |
|---------------|------------------------------------|---------------------------------------|------------------------|------------------------|-------------------|
| ---- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Joseph Nelson | 50,000 | 12.5% | 2.50 | 12/24/97 | December 23, 2002 |
| Joseph Nelson | 200,000 | 49.8% | 2.50 | 5/31/98 | May 30, 2003 |
| Joseph Nelson | 25,000 | 6.2% | 2.50 | 5/31/98 | May 30, 2003 |
| Joseph Janusz | 20,000 | 5.0% | 2.50 | 10/29/98 | June 11, 2004 |
| Joseph Janusz | 20,000 | 5.0% | 2.50 | 12/24/97 | June 11, 2004 |
| Joseph Janusz | 15,000 | 3.7% | 2.50 | 5/31/98 | June 11, 2004 |

| | | | | | |
|-----------------|--------|------|------|-------------|-------------------|
| Simon Chiang | 15,000 | 3.7% | 2.50 | 2/12/99 (2) | February 11, 2003 |
| Simon Chiang | 10,000 | 2.5% | 2.50 | 5/31/98 | May 30, 2003 |
| Theodore Gregor | 10,000 | 2.5% | 2.50 | 11/6/97 | November 5, 2002 |

</TABLE>

- (1) Excludes from total options those options canceled due to employee termination and options canceled under the provisions of Joseph Nelson's employment agreement. The cancellations amounted to 35,000 options shares in 1998 and 15,750 option shares in the six months ended June 30, 1999.

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- (2) Options vest as to 5,000 shares on February 12 of each year, commencing February 12, 1999.

The following table sets forth information regarding the number and value of options held as of August 31, 1999 by the directors and officers, based on an assumed value of \$2.75 per share of common stock. No options have been exercised to date.

<TABLE>

<CAPTION>

| Name ----- | Number of Unexercised Options at July 1, 1999 ----- | | Value of Unexercised In-the Money Options at July 1, 1999 ----- | |
|-----------------|---|------------------------|---|------------------------|
| | Exercisable ----- | Unexercisable ----- | Exercisable ----- | Unexercisable ----- |
| <S> | <C> | | <C> | |
| Joseph Nelson | 275,000 | --- | \$68,750 | --- |
| Joseph Janusz | 55,000 | --- | \$13,750 | --- |
| Simon Chiang | 15,000 | 10,000 | \$ 3,750 | \$2,500 |
| Theodore Gregor | 10,000 | --- | \$ 2,500 | --- |

</TABLE>

Employment Agreements

Aviation Holdings Group and Mr. Nelson have entered into an employment agreement dated as of May 31, 1998 providing for Mr. Nelson's employment as President and Chief Executive Officer of Aviation Holdings Group. The agreement has a term of three years and, thereafter, continues on a month-to-month basis. The agreement provides for compensation consisting of (i) annual base compensation of \$175,000, (ii) an annual bonus equal to 3% of the pre-tax net income of Aviation Holdings Group (exclusive of the pre-tax net income of Aviation Holdings International) and 3% of the pre-tax net income of Aviation Holdings International, and (iii) certain fringe and other employee benefits that are made available to the senior executives of Aviation Holdings Group. Pursuant to the agreement, Mr. Nelson was granted options to purchase 200,000 shares of common stock at a price of \$2.50 per share. The options are fully vested and expire on May 31, 2003. In the event of a change in control of Aviation Holdings Group other than one approved by its Board of Directors or in the event that Mr. Nelson's employment is terminated by Aviation Holdings Group for any reason other than his death or disability or for "cause" (as defined in the agreement), Mr. Nelson will be entitled to receive a lump sum payment equal to his annual base compensation multiplied by three. In the event of Mr. Nelson's death or disability, Mr. Nelson or his estate shall receive Mr. Nelson's base compensation for 24 months or the remainder of the term of the agreement, whichever is shorter.

Aviation Holdings International and Simon Chiang have entered into an employment agreement dated as of February 12, 1998, as amended August 1, 1999, providing for Mr. Chiang's employment as Vice President of Aviation Holdings International prior to August 1, 1999, and Executive Vice President of Aviation Holdings Group and Aviation Holdings International thereafter. The agreement has a term of three years and thereafter continues on a month-to-month basis. The agreement provides for compensation consisting of (i) annual base compensation of \$131,000 (\$95,000 prior to August 1, 1999), (ii) an annual graduated bonus based on a percentage of Aviation Holdings International's net sales from business conducted within China (0% of first \$1.5 million; 1% of next \$1 million; 2% of next \$1.5 million; 3% of next \$1.5 million; and 4% of net sales in excess of \$5.5 million), and (iii) certain fringe and other employee benefits that are made available to similarly situated executives of Aviation Holdings International. Pursuant to the agreement, Mr. Chiang was granted options, under Aviation Holdings International's Stock Option Plan, to purchase 15,000 shares of Aviation Holdings International common stock at a price of \$2.50 per share. The options vest at the rate of 5,000 per year. In the event that Mr. Chiang's employment is terminated by Aviation Holdings International for any reason other than his death or disability or for "cause" (as defined in the agreement), Mr. Chiang will be entitled to receive any bonus due to the date of such event and his annual base compensation for the unexpired term of the agreement. In the event of Mr. Chiang's death, his estate shall be entitled to receive Mr. Chiang's base compensation for sixty days.

Aviation Holdings International and Joseph F. Janusz have entered into

an employment agreement dated as of June 11, 1999 pursuant to which Mr. Janusz serves as Chief Financial Officer of Aviation Holdings International.

The agreement has a term of two years and provides for (i) annual base compensation of \$89,500, (ii) an annual bonus, and (iii) benefits consistent with Aviation Holdings International's then current policies and reasonable expense reimbursement. Pursuant to the agreement, Mr. Janusz was granted, under Aviation Holdings International's Stock Option Plan, options to purchase 20,000 shares of Aviation Holdings International common stock. In the event that Mr. Janusz's employment is terminated by Aviation Holdings International for reasons other than his death or permanent disability or for "cause" (as defined in the agreement), Mr. Janusz will be entitled to receive his annual base compensation for 12 months prorated, annualized and calculated through the date of termination. In the event that Mr. Janusz's employment is terminated for disability, Mr. Janusz shall be entitled to receive his base compensation for six months. In the event of Mr. Janusz's death, his estate shall be entitled to receive Mr. Janusz's base compensation for six months. The agreement provides that Aviation Holdings International will require any successor to all or substantially all of the business or assets of Aviation Holdings International to assume Aviation Holdings International's obligations under the agreement.

Stock Option Plan

On September 1, 1997, the Board of Directors of Aviation Holdings International adopted a Stock Option Plan which was superseded, effective March 1, 1999, by a Stock Option Plan of Aviation Holdings Group (the "Plan"). This Plan provides for the grant of Incentive Stock Options, Non-qualified Stock options and Stock Appreciation Rights to employees selected by the Board of Directors of Aviation Holdings Group, or Compensation Committee. The Plan also sets forth applicable rules and regulations for stock options granted to non-employee directors. To date, 255,750 options have been granted under the Plan, replacing the same number of options granted under the predecessor plan, including 75,000 to Mr. Nelson, 25,000 to Mr. Chiang, 10,000 to Mr. Gregor and 55,000 to Mr. Janusz. The Plan is subject to stockholder approval and will be submitted to the stockholders at our annual meeting in 1999.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the common stock (including common stock acquirable within 60 days pursuant to options, warrants, conversion privileges or other rights) of the Company as of June 30, 1999 (i) by each of the Company's directors and executive officers, (ii) all executive officers and directors as a group, and (iii) all persons known by the Company to own beneficially more than 5% of the common stock. All persons listed have sole voting and investment power over the indicated shares unless otherwise indicated.

<TABLE>
<CAPTION>

| NAME | SHARES | PERCENT | |
|---|---------|-----------------|-------------------|
| | | Before Offering | After Offering(9) |
| <S> | <C> | <C> | <C> |
| Joseph J. Nelson (1) (2) | 475,800 | 11.3 | 8.3 |
| Joseph F. Janusz (1) (3) | 70,000 | 1.7 | 1.2 |
| Simon Chiang (1) (4) | 187,123 | 4.4 | 3.3 |
| Michael J. Cirillo (1) (5) | 234,000 | 5.6 | 4.1 |
| Theodore H. Gregor (6) 1495 Southeast Avenue Hialeah, FL 33010 | 10,000 | 0.2 | 0.2 |
| APP Investments, Inc. (7) Two Penn Center Plaza Suite 605 Philadelphia, PA 19102 | 915,000 | 21.7 | 16.0 |

<TABLE>
<CAPTION>

| NAME | SHARES | PERCENT | |
|------|--------|-----------------|-------------------|
| | | Before Offering | After Offering(9) |

| <S> | <C> | <C> | <C> |
|--|---------|------|------|
| Argaman, Inc. (8) M.S.A. Trust Company, Ltd., Co. Daniel Frisch Street 64731 Tel Aviv, Israel | 600,000 | 14.2 | 10.5 |
| Norton Herrick 2295 Corporate Blvd., N.W. Boca Raton, FL 33431 | 220,000 | 5.2 | 3.8 |
| All officers and directors as a group (2) (3) (4) (7) | 976,923 | 23.2 | 17.1 |

</TABLE>

- (1) The addresses for Messrs. Nelson, Janusz, Chiang and Cirillo are c/o Aviation Holdings Group, Inc., 15675 N.W. 15th Avenue, Miami, Florida 33169
- (2) Includes 275,000 shares subject to options presently exercisable.
- (3) Includes 55,000 shares subject to options presently exercisable.
- (4) Includes 55,556 shares held by Ann Chiang, Mr. Chiang's wife. Also includes 15,000 shares subject to options presently exercisable.
- (5) Includes 30,000 shares of common stock, and warrants to purchase 200,000 shares of common stock, owned by the D.A.R. Group, Inc. of which Mr. Cirillo is the President. Also includes 4,000 shares owned by RP Capital Growth, L.P., of which Mr. Cirillo is a partner.
- (6) Includes 10,000 shares subject to options presently exercisable.
- (7) APP is a personal holding company. The sole shareholder of APP is Andrew P. Panzo. Neither APP nor Mr. Panzo is affiliated with any officer, director, or other principal stockholder.
- (8) Includes warrants to purchase 100,000 shares of common stock. Argaman is an Israeli corporation making investments on behalf of a group of investors. Argaman is not affiliated with any officer, director or other principal stockholder.
- (9) Does not include exercise of the underwriter's option.

CERTAIN TRANSACTIONS

Effective October 1, 1996, Aviation Holdings International issued 600,000 shares of its common stock to Jet Avionics Systems, Inc. ("Jet Avionics") in consideration of a promissory note in the principal amount of \$175,000, payable on demand, together with accrued interest at the applicable federal rate. Aviation Holdings International also entered into a Consignment Agreement with Jet Avionics, whereby Aviation Holdings International agreed to sell certain inventory of technical spares for the benefit of Aviation Holdings International and Jet Avionics. The Consignment Agreement was for a period of one year and provided for the delivery of inventory by Jet Avionics to Aviation Holdings International and the storage by Aviation Holdings International, on a segregated basis, of such inventory. Title to such inventory remained with Jet Avionics until sale to a third party, at which time title passed to Aviation Holdings International and then to the third party. Aviation Holdings International insured the inventory. The Consignment Agreement provided that Aviation Holdings International retained 25% of the selling price of the inventory and remitted

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the balance of 75% to Jet Avionics. Jet Avionics certified that each item of inventory covered by the Agreement was maintained by an FAA approved source and was properly documented. Pursuant to such Consignment Agreement, Aviation Holdings International sold to third parties certain of the consignment inventory for approximately \$452,000 and owed Jet Avionics \$303,000 after giving effect to a \$36,000 payment.

On August 29, 1997, Aviation Holdings International and Jet Avionics entered into a Consignment Cancellation and Purchase Agreement whereby (i) Jet Avionics canceled the debt of \$303,000 and (ii) Aviation Holdings International purchased the remaining consignment inventory with a value of approximately \$336,000 from Jet Avionics all in exchange for 230,000 shares of Aviation Holdings International's common stock, \$4,000 in cash, and the cancellation of \$175,000 of indebtedness of Jet Avionics to Aviation Holdings International. The

President and sole shareholder of Jet Avionics is Sharon Taoz. Ms. Taoz was employed by Aviation Holdings International, as an account executive, from October 3, 1996 through August 31, 1997 and was paid \$37,000. Ms. Taoz is married to a current employee of Aviation Holdings International.

On October 3, 1996, Aviation Holdings International sold 80,000 shares of its common stock to IP Services, Inc. ("IP") for \$24,510. IP is an affiliate of Howard M. Appel. During 1996 FAC Enterprises, Inc. ("FAC"), an affiliate of Mr. Appel, loaned Aviation Holdings International aggregate of \$325,000. During the year, Aviation Holdings International repaid \$125,000. The balance (\$200,000) was repaid on August 29, 1997 through the issuance of 100,000 shares of Aviation Holdings International common stock. FAC was also issued 7,500 shares for advisory services rendered. Mr. Appel may be deemed to have been an organizer of Aviation Holdings International.

On November 1, 1996, Aviation Holdings International sold 192,000 shares of its common stock to its president, Joseph J. Nelson, in consideration of a promissory note in the principal amount of \$80,000 payable on demand. The outstanding balance as of June 30, 1999 was \$80,000. The note bears interest at the applicable federal rate.

On November 14, 1996, Aviation Holdings International entered into a contract with Fersam International Ltd. ("Fersam") for the purchase of a one-half interest in a CAE Electronics Ltd. Sigma six (6) axis DC-10 simulator (the "DC-10 simulator"). In consideration for the purchase of this interest, Aviation Holdings International paid \$125,000 in cash and issued 40,000 shares of Aviation Holdings International common stock valued at \$100,000. On March 28, 1997, Aviation Holdings International entered into another contract with Fersam for the purchase of one (1) Novoview 2000 Visual Support System, Simulator Spare Parts Package and Maintenance Training Data Package to be used in connection with the DC-10 simulator. In consideration of and as payment for the purchase of these assets, Aviation Holdings International issued 200,000 shares of Aviation Holdings International common stock valued at \$500,000.

On March 27, 1997, Silvertown International Corp. ("Silvertown") loaned Aviation Holdings International \$120,000. This loan was evidenced by a promissory note payable to Silvertown, due on June 27, 1997, together with interest at 6% per annum. In consideration for this unsecured loan, Aviation Holdings International issued to Silvertown 4,800 shares of Aviation Holdings International common stock. This note was extended for an additional three (3) months. On May 12, 1997, Silvertown loaned Aviation Holdings International \$250,000. This loan was evidenced by a promissory note payable to Silvertown, due on or about July 27, 1997, together with interest at 6% per annum. In consideration for this unsecured loan, Aviation Holdings International issued to Silvertown 10,000 shares of Aviation Holdings International common stock. On August 29, 1997, Aviation Holdings International satisfied the principal amounts of these promissory notes through the issuance of 185,000 shares of Aviation Holdings International common stock to Silvertown.

On May 23, 1997, Joseph Laura loaned \$500,000 to Aviation Holdings International. This loan was evidenced by a promissory note payable to Mr. Laura, due on the earlier of May 31, 1998 or Aviation Holdings International obtaining equity financing in excess of \$1,000,000, together with interest at 12% per annum. Aviation Holdings International satisfied the principal amount of this note through the issuance of 250,000 shares of common stock to Mr. Laura on August 29, 1997.

On May 30, 1997, The D.A.R. Group, Inc., an affiliate of Michael J. Cirillo, a director of Aviation Holdings International, was issued 200,000 shares of Aviation Holdings International common stock, for \$200. On June 1, 1997, The D.A.R. Group, Inc., was issued warrants to purchase 950,000 shares of Aviation Holdings International common

stock for a fee in connection with advice concerning the formation, capitalization and structure of Schuylkill Acquisition Corp. See "Description of Securities -- Outstanding Warrants."

On February 12, 1998, Aviation Holdings International consummated a transaction whereby Aviation Holdings International acquired all or a majority of the outstanding capital stock of a number of companies controlled by Simon Chiang in return for 150,000 shares of Aviation Holdings International common stock. The entities acquired are as follows: 100% of the capital stock of PASCO International Aviation Corp., a Florida corporation; 90% of the capital stock of PASCO International Aviation Corp. Limited, a Hong Kong Corporation; 80% of the capital stock of PASCO Financial Services Limited, a Hong Kong corporation; and 100% of the capital stock of Aero-Link Flight Systems Limited, a Hong Kong Corporation. Simultaneously with the aforementioned transactions, Aviation Holdings International and Mr. Chiang entered into an employment agreement pursuant to which Mr. Chiang serves as Aviation Holdings International's Vice

President for Asia and the Pacific Rim Operations. See "Management - Employment Agreements."

On October 15, 1998, Nancy Plotkin and the John C. Jacobs Trust loaned an aggregate of \$250,000 to the Company. These loans were evidenced by promissory notes due March 15, 1999 (subject to extension by the Company to May 15, 1999), bear interest at 10% per annum and are secured by the pledge of 51% of the outstanding stock of Aviation Holdings International. As additional consideration for the loans, the Company issued 20,000 shares of its common stock to Nancy Plotkin and 5,000 shares to the John C. Jacobs Trust.

In May 1999 the Company extended the maturity date of these promissory notes to July 14, 1999 and issued a warrant to purchase 12,000 shares of common stock to Nancy Plotkin and a warrant to purchase 3,000 shares of common stock to the John G. Jacobs Trust as consideration for this extension. The warrants are exercisable for three years from the date of grant at an exercise price of \$4.00 per share. In August 1999, the note holders agreed to extend the maturity date of these promissory notes to September 17, 1999 upon issuance of 4,800 shares of common stock to Nancy Plotkin and 1,200 shares of common stock to the John G. Jacobs Trust.

On March 3, 1999, Aviation Holdings Group purchased 600,000 shares of Aviation Holdings International common stock from Argaman, Inc. ("Argaman") in exchange for 500,000 shares of the common stock and a warrant to purchase an additional 100,000 shares at an exercise price of \$3.75 per share.

On June 1, 1999, Aviation Holdings Group issued warrants to purchase 210,000 shares of common stock to the D.A.R. Group, Inc. and Dallas Investments, Ltd. in consideration for the cancellation of warrants to purchase 1,000,000 shares of common stock of Aviation Holdings International.

On August 31, 1999 Aviation Holdings Group sold to IP its interest in a promissory note from Environmental Waste Solutions, Inc. with a book value of \$900,000 which is secured by a mortgage on a 60 acre parcel of land in Colchester, Connecticut. The purchase price was \$900,000 plus 50% of any net proceeds received from the debtor or on foreclosure. The note and mortgage related to advances made by Aviation Holdings Group to the debtor in connection with a proposed transaction prior to the Company's acquisition of Aviation Holdings International and unrelated to the Company's current business.

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DESCRIPTION OF SECURITIES

General

We are authorized to issue 18,000,000 shares of common stock, \$.0001 par value per share, of which 4,208,315 shares are outstanding. An additional 750,000 shares of common stock are reserved for issuance pursuant to our Stock Option Plan.

Within the limits and restrictions contained in the Certificate of Incorporation, board of directors has the authority, without further action by the stockholders, to issue up to 2,000,000 shares of preferred stock, \$.0001 par value per share, in one or more series, and to fix, as to any such series, the dividend rate, redemption prices, preferences on liquidation or dissolution, sinking fund terms, if any, conversion rights, voting rights, and any other preferences or special rights and qualifications. As of the date hereof, we have no preferred stock issued and outstanding.

Shares of preferred stock issued by our board of directors could be utilized, under certain circumstances, to make an attempt to gain control of us more difficult or time consuming. For example, shares of preferred stock could be issued with certain rights which might have the effect of diluting the percentage of common stock owned by a significant stockholder or issued to purchasers who might side with management in opposing a takeover bid which the board of directors determines is not in our best interests of us and our stockholders. This provision may be viewed as having possible anti-takeover effects. A takeover transaction frequently affords stockholders the opportunity to sell their shares at a premium over current market prices. The board of directors has not authorized any series of preferred stock, and there are no agreements, understandings or plans for the issuance of any preferred stock.

Units

Each unit offered hereby consists of two shares of common stock and one Class A Warrant. The two shares of common stock and Class A Warrants that make up each unit may not be separated or sold separately until 45 days after the date of issuance.

Common Stock

Holders of common stock have equal rights to receive dividends when, and if declared by the board of directors, out of funds legally available

therefor. Holders of common stock have one vote for each share held of record and do not have cumulative voting rights.

Holders of common stock are entitled upon our liquidation to share ratably in the net assets available for distribution, subject to the rights, if any, of holders of any preferred stock then outstanding. Shares of common stock are not redeemable and have no preemptive or similar rights. All outstanding shares of common stock are fully paid and non-assessable.

Class A Warrants

Each Class A Warrant will entitle the registered holder to purchase one share of common stock at an exercise price of \$_____ per share during the three year period commencing on the issuance date. No fractional shares of common stock will be issued in connection with the exercise of Class A Warrants. Upon exercise, we will pay the holder the value of any such fractional shares in cash, based upon the market value of the common stock at such time.

Unless extended by us at our discretion, the Class A Warrants will expire at 5:00 p.m., New York time, on the third anniversary of the original issuance date. In the event a holder of Class A Warrants fails to exercise the Class A Warrants prior to their expiration, the Class A Warrants will expire and the holder thereof will have no further rights with respect to the Class A Warrants.

We may redeem the Class A Warrants at a price of \$.01 per Class A Warrant, at any time once they become exercisable upon not less than 30 days prior written notice if the average closing price or bid price of the common stock as reported by the principal exchange on which the common stock is traded, the Nasdaq National Market or SmallCap

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Market or the National Quotation Bureau, Incorporated, as the case may be, equals or exceeds \$____ per share for any twenty (20) consecutive trading days ending within five (5) days prior to the date on which notice of redemption is given.

No Class A Warrants will be exercisable unless at the time of exercise there is a current prospectus covering the shares of common stock issuable upon exercise of such Class A Warrants under an effective registration statement filed with the qualification under the securities laws of the state or residence of the holder of such Class A Warrants. Although we intend to have all shares so qualified for sale in those states where the units are being offered and to maintain a current prospectus relating thereto until the expiration of the Class A Warrants, subject to the terms of the Warrant Agreement, there can be no assurance that it will be able to do so.

A holder of Class A Warrants will not have any rights or privileges as a shareholder prior to the exercise of the Class A Warrants. We are required to keep available a sufficient number of authorized shares of common stock to permit exercise of the Class A Warrants.

The exercise price of the Class A Warrants and the number of shares issuable upon exercise of the Class A Warrants will be subject to adjustment to protect against dilution in the event of stock dividends, stock splits, combinations, subdivisions and reclassifications. No assurance can be given that the market price of our common stock will exceed the exercise price of the Class A Warrants at any time during the exercise period.

Outstanding Warrants

Warrants to purchase 1,000,000 shares of Aviation Holdings International common stock were issued in June 1, 1997 in connection with its organization. This included warrants to purchase 950,000 shares issued to D.A.R. Group, Inc., of which Michael J. Cirillo is the principal. On June 1, 1999, all of these warrants were exchanged for warrants to purchase 210,000 shares of Aviation Holdings Group common stock. Each warrant entitles the holder to purchase one share of Aviation Holdings Group common stock at an exercise price of \$4.50 until June 30, 2002. We may redeem the warrants at \$.05 upon the occurrence of both of the following events: (a) the listing of our common stock on a securities exchange and (b) our common stock trading in excess of \$5.25 per share for a ten day period.

On March 31, 1999, we issued to Argaman, Inc. a warrant to purchase up to 100,000 shares of common stock at an exercise price of \$3.75 per share until March 4, 2002.

On May 15, 1999, Aviation Holdings Group issued to Nancy Plotkin and

the John G. Jacobs Trust warrants to purchase 12,000 shares and 3,000 shares, respectively, of our common stock at an exercise price of \$4.00 per share until May 15, 2004.

The warrants described above provide for adjustment of the exercise price and for a change in the number of shares issuable upon exercise to protect holders against dilution in the event of a stock dividend, stock split, combination or reclassification of our common stock. A warrant may be exercised upon surrender of the warrant certificate on or prior to the expiration date (or earlier redemption date) of such warrant at the offices of our transfer agent, with the form of "Election to Purchase" completed and executed as indicated, accompanied by payment of the full exercise price (by certified or bank check) for the number of shares with respect to which the warrant is being exercised. Shares issued upon exercise of warrants and paid for in accordance with the terms of the warrants will be fully paid and nonassessable.

The warrants do not confer upon the holder thereof any voting or other rights of a stockholder.

Transfer Agent

StockTrans, Inc., 7 East Lancaster Avenue, Ardmore, Pennsylvania 19003, serves as transfer agent for the common stock of Aviation Holdings International and the Company.

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UNDERWRITING

Silver Capital Group, a division of LCP Capital has agreed, subject to the terms and conditions contained in an underwriting agreement to purchase the 750,000 units offered hereby at the offering price less the underwriting discount set forth on the cover page of the Prospectus. The underwriter is committed to purchase all of such units, if any are purchased.

The underwriter has advised us that it proposes to offer the units to the public at the public offering prices set forth on the cover page of this prospectus, and to certain securities dealers at such price less a concession of not more than \$_____ per unit, and that the underwriter and such dealers may reallocate to other dealers, including the underwriter, a discount not in excess of \$_____ per unit. After this offering, the public offering price and concessions and discounts may be changed by the underwriter. No reduction in such terms will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus.

We have granted an option to the underwriter, exercisable for a period of 30 days after the date of this prospectus, to purchase up to an additional 75,000 units from us at the public offering prices set forth on the cover page of this prospectus less the underwriting discounts and commissions. The underwriter may exercise this option only for the purpose of covering over-allotments, if any.

The underwriting agreement provides that we will indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, or will contribute to payments the underwriter may be required to make in respect thereof.

Aviation Holdings Group, its executive officers and directors have agreed not to, directly or indirectly, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any option to purchase or other sale or disposition) of any shares of common stock, units or other capital stock of Aviation Holdings Group, or any securities convertible into, or exercisable or exchangeable for, any shares of common stock or other capital stock of Aviation Holdings Group or any right to purchase or acquire common stock or other capital stock of Aviation Holdings Group for a period of 360 days after the date of this prospectus without the prior written consent of the underwriter, except for options granted pursuant to the Stock Option Plan. The underwriter may, in its sole discretion, at any time and without prior notice, release all shares or any portion thereof subject to such lock-up agreements.

The public offering prices for the common stock and the units have been determined through negotiations between Aviation Holdings Group and the underwriter. Among the factors considered in making such determination will be prevailing market conditions, Aviation Holdings Group's financial and operating history and condition, its prospects and the prospects of the industry in general, its management, of Aviation Holdings Group, and the market prices of securities for companies in businesses similar to that of Aviation Holdings Group. The offering prices of the units do not necessarily bear any relationship to the assets, book value, net worth or earnings history of Aviation Holdings Group. The offering price of the units should not necessarily be considered an

indication of the actual value of the units.

In connection with the offering of the units, the underwriter and its affiliates may engage in transactions that stabilize, maintain or otherwise affect the market price of the common stock or the units. Such transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M, pursuant to which such persons may bid for or purchase common stock for the purpose of stabilizing its market price. The underwriter also may create a short position for the account of the underwriter by selling more common stock in connection with the offering than they are committed to purchase from Aviation Holdings Group, and in such case may purchase common stock in the open market following completion of the offering to cover all or a portion of such short position. The underwriter may also cover all or a portion of such short position, up to 75,000 shares of common stock, by exercising the underwriter's over-allotment option referred to previously. Any of the transactions described in this paragraph may result in the maintenance of the price for the common stock or the units at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph are required and, if they are undertaken, then they may be discontinued at any time.

The underwriter and its predecessors have been actively engaged in the securities brokerage and investment banking business since 1984. However, they have engaged in only limited underwriting activities, and have been the

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lead or sole underwriter in only a few public offerings during the last five years. Accordingly, there can be no assurance that the underwriter's lack of public offering experience will not affect the proposed public offering of the units or the common stock or the subsequent development of a trading market for the common stock. Therefore, purchasers of the units or shares of common stock offered hereby may suffer a lack of liquidity in their investment or a material diminution of the value of their investments. The underwriter is a member of the National Association of Securities Dealers, Inc. and is registered as a Securities broker-dealer in 46 states. See "Risk Factors - The Underwriter has Limited Underwriting Experience."

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Klehr, Harrison, Harvey, Branzburg & Ellers LLP, Philadelphia, Pennsylvania, and for the underwriter by _____.

EXPERTS

The financial statements of the Company for the fiscal years ended December 31, 1998 and December 31, 1997 included in this prospectus have been audited by L J Soldinger Associates, certified public accountants, and are included herein in reliance upon the authority of said firm as experts on accounting and auditing.

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AVIATION HOLDINGS GROUP, INC.

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
 Aviation Holdings Group, Inc.
 Miami, FL

We have audited the accompanying consolidated balance sheets of Aviation Holdings Group, Inc. (the "Company") as of December 31, 1998, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 1997 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aviation Holdings Group, Inc. as of December 31, 1998, and the consolidated results of its operations, changes in stockholders' equity and cash flows for the years ended December 31, 1997 and 1998 in conformity with generally accepted accounting principles.

L J SOLDINGER ASSOCIATES

Arlington Heights, Illinois

June 22, 1999

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AVIATION HOLDINGS GROUP, INC.
Consolidated Balance Sheets

<TABLE>
<CAPTION>

| ASSETS | December 31, 1998 | June 30, 1999 |
|---|----------------------|------------------|
| | ----- | ----- |
| | | (Unaudited) |
| <S> | <C> | <C> |
| Current Assets | | |
| Cash | \$ 363,690 | \$ 581,991 |
| Trade receivables, net | 2,842,545 | 3,163,403 |
| Inventory | 3,220,062 | 3,240,960 |
| Employee advances | 4,040 | 2,956 |
| Advances to stockholder - related party | 75,181 | 133,707 |
| Prepaid expenses | 24,728 | 46,483 |
| Refundable income taxes | 16,200 | 16,200 |
| Note receivable, net | - | 900,000 |
| | ----- | ----- |
| Total Current Assets | 6,546,446 | 8,085,700 |
| | ----- | ----- |
| Property and Equipment, Net | 303,121 | 301,839 |
| | ----- | ----- |
| Other Assets | | |
| Investment in joint venture | 503,042 | 722,693 |
| Deposits | 17,382 | 16,713 |
| Note receivable, net | 900,000 | - |
| Interest receivable from stockholders - related party | 25,827 | 36,637 |
| Intangibles, net | 357,766 | 704,541 |
| Deferred offering costs | 109,782 | 438,144 |
| | ----- | ----- |
| Total Other Assets | 1,913,799 | 1,918,728 |
| | ----- | ----- |
| Total Assets | \$ 8,763,366 | \$ 10,306,267 |
| | ===== | ===== |

</TABLE>

The accompanying notes are an integral part of the financial statements.

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LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

| | December 31, 1998 | June 30, 1999 |
|--|----------------------|------------------|
| | ----- | ----- |
| | | (Unaudited) |
| <S> | <C> | <C> |
| Current Liabilities | | |
| Short-term borrowings - bank | \$ 1,500,000 | \$ 2,075,000 |
| Short-term borrowings - others | 148,685 | 265,481 |
| Current portion of long-term debt | 3,272 | 3,666 |
| Accounts payable | 2,130,906 | 1,720,672 |
| Accrued expenses | 404,498 | 828,621 |
| Advances from stockholders | 782,500 | 782,500 |
| Income taxes payable | 204,700 | 253,700 |
| | ----- | ----- |
| Total Current Liabilities | 5,174,561 | 5,929,640 |
| | ----- | ----- |
| Long-term debt, net of current portion | 13,124 | 11,264 |
| | ----- | ----- |
| Total Liabilities | 5,187,685 | 5,940,904 |
| | ----- | ----- |

| | | |
|---|--------------|---------------|
| Minority Interest | 1,186,964 | 345,391 |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Preferred stock; no par value; authorized - 2,000,000 shares; issued - none | - | - |
| Common stock; \$.0001 par value; At December 31, 1998 authorized - 18,000,000 shares; issued and outstanding - 3,474,815 At June 30, 1999 authorized - 18,000,000 shares; issued, issuable and outstanding - 4,208,315 | 347 | 420 |
| Additional paid-in capital | 4,148,457 | 5,940,507 |
| Less subsidiary stock subscription receivable - related parties | (280,000) | (280,000) |
| Accumulated deficit | (1,480,087) | (1,640,955) |
| Total Stockholders' Equity | 2,388,717 | 4,019,972 |
| Total Liabilities and Stockholders' Equity | \$ 8,763,366 | \$ 10,306,267 |

</TABLE>

The accompanying notes are an integral part of the financial statements.

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AVIATION HOLDINGS GROUP, INC.
Consolidated Statements of Operations

<TABLE>
<CAPTION>

| | Year Ended December 31, | | Six Months Ended June 30, | |
|---|-------------------------|--------------|------------------------------|--------------|
| | 1997 | 1998 | 1998 | 1999 |
| | | | (Unaudited) | (Unaudited) |
| <S> | <C> | <C> | <C> | <C> |
| Net Sales | \$ - | \$ 8,365,197 | \$ 2,067,356 | \$ 6,371,942 |
| Cost of Goods Sold | - | 5,839,049 | 1,593,776 | 4,253,559 |
| Gross Profit | - | 2,526,148 | 473,580 | 2,118,383 |
| Operating Expenses | | | | |
| Salaries and wages | - | 1,300,172 | 715,710 | 646,019 |
| General and administrative | 15,950 | 1,771,560 | 716,798 | 998,381 |
| Professional fees | 48,227 | 617,099 | 197,798 | 128,332 |
| Total Operating Expenses | 64,177 | 3,688,831 | 1,630,306 | 1,772,732 |
| Income (Loss) from Operations | (64,177) | (1,162,683) | (1,156,726) | 345,651 |
| Other Income (Expense) | | | | |
| Interest expense | - | (96,044) | (1,908) | (449,305) |
| Interest income | 6,740 | 72,825 | 64,670 | 15,492 |
| Income (loss) from joint venture | - | (8,313) | 2,486 | 19,651 |
| Total Other Income (Expense) | 6,740 | (31,532) | 65,248 | (414,162) |
| Loss Before Income Taxes and Minority Interest | (57,437) | (1,194,215) | (1,091,478) | (68,511) |
| Income Tax Expense | - | (186,863) | (13,022) | (49,000) |
| Loss Before Minority Interest | (57,437) | (1,381,078) | (1,104,500) | (117,511) |
| Minority Interest | - | (3,702) | (30,875) | (43,357) |

| | | | | |
|---|-------------|----------------|----------------|--------------|
| Net Loss | \$ (57,437) | \$ (1,384,780) | \$ (1,135,375) | \$ (160,868) |
| Basic and Diluted Loss Per Common Share | \$ (.06) | \$ (.46) | \$ (.43) | \$ (.04) |
| Average Common Shares - Basic and Diluted | 1,046,235 | 3,035,856 | 2,610,511 | 3,854,092 |

</TABLE>

The accompanying notes are an integral part of the financial statements.

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AVIATION HOLDINGS GROUP, INC.
Consolidated Statements of Changes in Stockholders' Equity

<TABLE>

<CAPTION>

| | Common Stock | | Additional Paid-In Capital | Stock Subscription Receivable | Accumulated Deficit |
|--|--------------|--------|----------------------------------|-------------------------------------|------------------------|
| | Shares | Amount | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Balances as of December 31, 1996 | 637,000 | \$ 64 | \$ 30,599 | \$ - | \$ (37,870) |
| Common stock issued for services - related party | 1,000,000 | 100 | 900 | - | - |
| Cancellation of common stock | (87,000) | (9) | 9 | - | - |
| Common stock issued for cash | 800,000 | 80 | 999,920 | - | - |
| Additional offering costs | - | - | (46,143) | - | - |
| Liabilities paid or forgiven by stockholder - related party | - | - | 24,332 | - | - |
| Net loss | - | - | - | - | (57,437) |
| Balances as of December 31, 1997 | 2,350,000 | 235 | 1,009,617 | - | (95,307) |
| Common stock issued in the Aviation Holdings International, Inc. acquisition | 1,095,815 | 110 | 2,619,626 | - | - |
| Stock subscription receivable from officers' subsidiary stock - related parties | - | - | - | (280,000) | - |
| Compensatory common stock options issued | - | - | 360,200 | - | - |
| Common stock issued to officer - related party | 4,000 | - | 20,128 | - | - |
| Common stock and warrants issued in connection with \$250,000 note | 25,000 | 2 | 138,886 | - | - |
| Net loss | - | - | - | - | (1,384,780) |
| Balances as of December 31, 1998 | 3,474,815 | 347 | 4,148,457 | (280,000) | (1,480,087) |
| Common stock and warrants issued in the Aviation Holdings International, Inc. acquisition | 500,000 | 50 | 1,041,498 | - | - |
| Common stock issued in connection with 506 offering | 118,000 | 12 | 294,988 | - | - |
| Common stock issued by major stockholder on behalf of Company in connection with \$250,000 notes payable | - | - | 176,015 | - | - |
| Common stock issued in the Aviation Holdings acquisition | 115,500 | 11 | 206,445 | - | - |
| Common stock issued by major stockholder on behalf of Company in connection with \$250,000 notes payable | - | - | 43,190 | - | - |
| Warrants issued by Company in connection with \$250,000 notes payable | - | - | 29,914 | - | - |
| Net loss | - | - | - | - | (160,868) |
| Balances as of June 30, 1999 (Unaudited) | 4,208,315 | \$ 420 | \$ 5,940,507 | \$ (280,000) | \$ (1,640,955) |

</TABLE>

The accompanying notes are an integral part of the financial statements.

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AVIATION HOLDINGS GROUP, INC.
Consolidated Statements of Cash Flows

| | Year Ended December 31, | | Six Months Ended June 30, | |
|--|-------------------------|----------------|------------------------------|--------------|
| | 1997 | 1998 | 1998 | 1999 |
| | | | (Unaudited) | (Unaudited) |
| <S> | <C> | <C> | <C> | <C> |
| Cash Flows from Operating Activities | | | | |
| Net loss | \$ (57,437) | \$ (1,384,780) | \$ (1,135,375) | \$ (160,868) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities | | | | |
| Compensatory common stock and options | - | 401,161 | 370,617 | - |
| Common stock issued for services - related parties | 1,000 | - | - | - |
| Minority interest | - | 3,702 | 30,875 | 43,357 |
| Loss (income) from joint venture | - | 3,976 | (2,486) | (19,651) |
| Depreciation and amortization | - | 54,979 | 10,284 | 60,754 |
| Amortization of financing fees | - | 37,573 | - | 343,453 |
| Provision for bad debts | - | 841,410 | 639,410 | 30,000 |
| Reserve for obsolete inventory | - | 66,579 | 9,000 | - |
| Liability paid on behalf of company by stockholder - related party | 10,000 | - | - | - |
| Liability forgiven by stockholder - related party | 14,332 | - | - | - |
| Expensed deferred acquisition costs | - | 10,673 | 10,673 | - |
| Change in assets and liabilities | | | | |
| (Increase) decrease in | | | | |
| Trade receivables | - | (1,059,241) | (480,096) | (350,858) |
| Inventory | - | (613,306) | (531,542) | (20,898) |
| Interest receivable | (6,740) | (64,351) | (59,836) | (10,810) |
| Prepaid expenses and deposits | (2,957) | 27,905 | 5,428 | 8,255 |
| Refundable income taxes | - | (16,200) | (20,000) | - |
| Increase (decrease) in | | | | |
| Due to stockholder - related party | (7,207) | - | - | - |
| Accounts payable | - | (169,081) | 569,644 | (410,234) |
| Accrued expenses | 8,000 | (173,823) | (13,359) | 155,505 |
| Income taxes payable | - | 204,700 | - | 49,000 |
| Total Adjustments | 16,428 | (443,344) | 538,612 | (122,127) |
| Net Cash Used in Operating Activities | (41,009) | (1,828,124) | (596,763) | (282,995) |
| Cash Flows from Investing Activities | | | | |
| Note receivable advances | (940,000) | (535,100) | (535,100) | - |
| Employee advances | - | (4,040) | - | 1,084 |
| Purchases of equipment | - | (88,198) | (142,933) | (36,192) |
| Cash acquired in Aviation Holdings International, Inc. acquisition | - | 830,331 | 830,331 | - |
| Investment in joint venture | - | (300,000) | - | (200,000) |
| Payments for deferred acquisition costs | (10,673) | - | - | - |
| Net Cash (Used in) Provided by Investing Activities | (950,673) | (97,007) | 152,298 | (235,108) |

</TABLE>

The accompanying notes are an integral part of the financial statements.

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AVIATION HOLDINGS GROUP, INC.
Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

| | Year Ended December 31, | | Six Months Ended June 30, | |
|--|-------------------------|-------------------|------------------------------|-------------------|
| | 1997 | 1998 | 1998 | 1999 |
| | | | (Unaudited) | (Unaudited) |
| <S> | <C> | <C> | <C> | <C> |
| Cash Flows From Financing Activities | | | | |
| Proceeds from bank line of credit | \$ - | \$ 1,500,000 | \$ - | \$ 575,000 |
| Proceeds from short-term borrowing | - | 250,000 | - | - |
| Repayments of short-term borrowings | - | - | - | (13,860) |
| Repayments on long-term debt | - | (2,270) | (279) | (1,466) |
| Payments of deferred offering costs | - | (11,368) | - | (59,744) |
| Advances from (to) stockholders, net of repayments | - | 550,284 | 807,952 | (58,526) |
| Proceeds from sale of stock, net of offering costs paid | 993,857 | - | - | 295,000 |
| Net Cash Provided by Financing Activities | 993,857 | 2,286,646 | 807,673 | 736,404 |
| Net Increase in Cash | 2,175 | 361,515 | 363,208 | 218,301 |
| Cash, Beginning of Period | - | 2,175 | 2,175 | 363,690 |
| Cash, End of Period | \$ 2,175 | \$ 363,690 | \$ 365,383 | \$ 581,991 |
| Supplemental Disclosure of Cash Flow Information | | | | |
| Cash Paid for Interest and Income Taxes | | | | |
| Interest | \$ - | \$ 21,202 | \$ - | \$ 71,601 |
| Income Taxes | \$ - | \$ 8,191 | \$ - | \$ - |

</TABLE>

The accompanying notes are an integral part of the financial statements.

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTE 1 - DESCRIPTION OF THE BUSINESS

Background

Aviation Holdings Group, Inc., together with its subsidiaries, is hereinafter referred to as the "Company." Aviation Holdings Group, Inc. (formerly EYEQ Networking, Inc.) was incorporated under the laws of the State of Colorado on May 19, 1988 and reincorporated in the State of Delaware in January 1998. The Company was initially intended to serve as a public shell company, defined as an inactive, publicly-quoted company with nominal assets and liabilities. It was intended that such a public shell would be attractive to privately-held companies interested in becoming publicly traded by means of a business combination with the Company rather than by offering their own securities to the public.

The Company entered into a letter agreement dated November 20, 1997, pursuant to which the Company intended to merge with Environmental Waste Solutions, Inc. ("EWS"), a Nevada corporation, whereby the Company would have remained as the surviving entity. EWS was formed for the purpose of serving as a holding company for operating subsidiaries which were to be acquired and which engage in waste recycling and disposal. EWS failed to acquire the operating subsidiaries, and on June 2, 1998 the Company exercised its option to terminate the letter agreement.

During the period May through July 1998, the Company acquired 74% of Aviation Holdings International, Inc. ("AHI") (formerly Jet Aviation Trading, Inc.) through common stock share exchanges and by a block purchase of common stock. In

the first six months of 1999, the Company increased its ownership interest in AHI to 96% through a series of common stock share exchanges. AHI has two wholly-owned subsidiaries, PASCO International Aviation Corp., a Florida corporation ("PASCO Florida"), and Aero-Link Flight Systems Limited, a Hong Kong corporation ("Aero HK"), and two majority-owned subsidiaries, PASCO International Aviation Corporation Limited, a Hong Kong corporation ("PASCO HK"), of which it owns 90%, and PASCO Financial Services Limited, a Hong Kong corporation ("PASCO Financial HK"), of which it owns 80%. AHI acquired its interests in these subsidiaries in February 1998. (PASCO Florida, PASCO HK, PASCO Financial HK and Aero HK are sometimes hereinafter referred to collectively as "PASCO"). Subsequent to its initial stock acquisition of AHI, the Company changed its name from EYEQ Networking, Inc. to Aviation Holdings Group, Inc.

On March 26, 1999 the Company filed a registration statement with the United States Securities and Exchange Commission to sell its securities to the public in an initial public offering of its common stock.

Nature of Operations

The nature of operations for each entity is as follows:

AHI is in the business of buying, selling, leasing and exchanging spare parts and engines for fixed-wing commercial jet transport aircraft.

PASCO HK operations consist of purchasing, selling and leasing of aircraft components and engines in Asia and the Pacific Rim.

PASCO Florida holds a 25% interest in Shenyang Northern Aircraft Maintenance & Engineering Co., Ltd. ("SYNOR-A"), a Sino-American joint venture. The Company has recognized minimal revenue from PASCO Florida as of June 30, 1999.

PASCO Financial HK's objective is to procure financing from banks on behalf of airlines for their aircraft and aviation-related purchases. PASCO Financial HK also intends to function on behalf of certain airlines and act as their agent in connection with the sale or lease of aircraft. The Company had not recognized any revenue from PASCO Financial HK as of June 30, 1999.

Aero HK and its wholly-owned subsidiary, Aero-Link Flight Systems, Inc., a Florida corporation, have entered into an agreement to act as the global marketing representative (except in the Taiwan region) for China Airlines, Taiwan.

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AVIATION HOLDINGS GROUP, INC.

Notes to Financial Statements

(Information as of June 30, 1999 and for the Six-Month Periods Ended June 30, 1998 and 1999 is Unaudited)

NOTE 1 - DESCRIPTION OF THE BUSINESS (Continued)

In this capacity they are responsible for promoting and marketing China Airlines' aircraft maintenance, turbine engine and component repair and overhaul business. This entity also functions as a purchasing agent in the United States on behalf of PASCO HK. The Company has recognized minimal revenue from Aero-Link as of June 30, 1999.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Development Stage Enterprise

The Company was a Development Stage Enterprise, as defined in Statement of Financial Accounting Standards No. 7, "Accounting and Reporting for Development Stage Enterprises." The Company started development stage activities in 1997 by raising capital through a private placement offering in order to actively pursue a merger with EWS as well as pursue other potential business combinations. The Company ceased being in the development stage in 1998 upon the acquisition of a majority interest in AHI.

Consolidated Financial Statements and Interim Information

The interim consolidated financial data as of June 30, 1999 and for the six

months ended June 30, 1999 and 1998 is unaudited. The information reflects all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary to fairly present the financial position and results of operations of the Company for the periods indicated. Results of operations for the interim periods are not necessarily indicative of the results of operations for a full fiscal year.

The accompanying consolidated interim financial statements include the accounts of the Company and its 96%-owned subsidiary, AHI. The operations of AHI have been included in these consolidated financial statements since the initial date of acquisition (May 1998), ratably based on the percentage of ownership of AHI. The accounts of AHI include all of its majority and wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. The outside investors' interests have been recorded as minority interest.

AHI formerly maintained its accounting records on a fiscal year basis ending on August 31. AHI's accounting records have been restated to a calendar year basis for consolidation purposes. AHI changed its reporting to a calendar year basis beginning on January 1, 1999.

For comparability purposes, the 1997 figures have been reclassified where appropriate to conform with the financial statement presentation used in 1998.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. Significant estimates included here in the financial statements and in the accompany notes include the allowance for doubtful accounts, loan valuation allowance, reserve for obsolete and slow-moving inventory, depreciable lives for property and equipment and income tax rates. It is at least reasonably possible that the estimates used will change within the next year.

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

Earnings per share is calculated in accordance with Statement of Financial Accounting Standard No. 128 "Earnings Per Share" ("SFAS 128"). Basic earnings per share is computed based upon the weighted average number of shares of common stock outstanding for the period and excludes any potential dilution. Diluted earnings per share reflect potential dilution from the exercise of, or the conversion of, securities into common stock.

Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly-liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company provides credit in the normal course of business and performs ongoing credit evaluations of its customers while maintaining a provision for potential credit losses which, when realized, have been within the range of management's expectations.

During the periods presented in these financial statements, AHI maintained cash balances in excess of the Federal Deposit Insurance Corporation ("FDIC") insured limits. At December 31, 1998 and June 30, 1999, the amount of funds that exceeded FDIC insurance was \$403,377 and \$607,359, respectively. AHI also maintained funds in banks that were not FDIC insured. At December 31, 1998 and June 30, 1999, AHI maintained a balance of \$22,536 and \$2,536, respectively, in the Israel Discount Bank Limited, an international bank that operates in the United States. Management does not believe that a significant risk existed by maintaining balances in excess of the FDIC insured limit.

During the period from February 12, 1998 through December 31, 1998 and for the six months ended June 30, 1999, PASCO HK maintained bank accounts in Hong Kong with the Kwong On Bank, Limited. The accounts were denominated in United States Dollars, Hong Kong Dollars and German Deutsche Marks. None of the accounts were

FDIC insured. During the period, the accounts denominated in foreign currencies and the effects of the translation of foreign currency accounts into United States Dollars were immaterial.

Revenue and Cost Recognition

Revenue and the associated cost of sales are recognized when parts are shipped to the customer. Amounts received or paid in advance are recorded either as deferred income or as prepaid, and are recognized in the period in which the parts are shipped to customers or received by the Company. Revenue and the related cost of consigned inventory are recognized when the parts are shipped to the customer.

Inventories

Inventory is stated at the lower of cost or market. Cost of aircraft parts is determined on a specific identification basis, except at June 30, 1998, when cost was determined by using the gross profit method. When parts are purchased in lots, costs are assigned to individual parts or the individual parts are expensed at a predetermined percentage of the sales price until the cost of the lot is recovered. Costs to repair, inspect and/or modify the parts are charged to the specific part when incurred. Inventories held by the Company on consignment from others are not included in the inventory in the accompanying financial statements. Provisions have been made for the estimated effect of excess and obsolete inventories. Such allowance is based on management's best estimate, which is subject to change. Actual realizable results could significantly differ from this estimate.

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks Regarding Inventory

Inventory consists principally of overhauled, serviceable, repairable and new aircraft parts that are purchased from many sources. Before parts may be installed in aircraft, they must meet certain standards of condition established by the Federal Aviation Administration ("FAA") and/or the equivalent regulatory agencies in other countries. Specific regulations vary from country to country, although regulatory requirements in other countries generally coincide with FAA requirements. Parts owned or acquired by the Company may not meet applicable standards or standards may change in the future, causing parts which are already contained in the Company's inventory to be scrapped or modified.

Aircraft manufacturers may also develop new parts to be used in lieu of parts already contained in the inventory. In all such cases, to the extent that such parts are included in inventory, the value of such parts may be reduced.

Consignment Inventory

The Company currently maintains consignment inventories and its revenues from consignment arrangements accounted for approximately one percent of net sales for the periods ended December 31, 1998 and June 30, 1999. Consignment inventory is not included in inventory amounts.

Deferred Offering Costs

Deferred offering costs consist of amounts paid or accrued for professional fees, commissions, filing fees and other costs incurred by the Company in connection with the filing of its registration statement with the Securities and Exchange Commission for a public offering. These amounts will be recorded as a reduction of the proceeds when the offering is completed. If the offering is not completed, the costs will be expensed.

Property and Equipment

Property and equipment are recorded at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from five to seven years. Leasehold improvements are amortized over the shorter of their useful lives or the remaining periods of the related leases.

Intangibles

Intangibles consist of goodwill, unamortized note discounts and deferred offering costs. Goodwill, which originated from the PASCO acquisition and the

1999 share exchanges (Note 4), is being amortized over fifteen years using the straight-line method. The unamortized note discount, which originated from the warrants issued in connection with the maturity date extension of the \$250,000 notes, is being amortized using the effective interest rate method over the life of the extension period exercised.

Fair Value of Financial Instruments

The carrying value of accounts receivable, accounts payable, accrued expenses and accrued offering costs approximates the fair market value due to the relatively short maturity of these instruments.

Income Taxes

The Company accounts for its income taxes under Statement of Financial Accounting Standard No. 109 ("SFAS 109"), "Accounting for Income Taxes." Income taxes are recorded in the period in which the related transactions have been recognized in the financial statements, net of the valuation allowances which are recorded against deferred tax assets because future utilization of these assets and liabilities cannot be determined. Deferred tax assets and/or liabilities are

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recorded for the expected future tax consequences of temporary differences between the tax basis and the financial reporting of assets and liabilities.

Compensatory Stock-Based Arrangements

Management has elected to utilize the guidelines of Accounting Principles Board Opinion No. 25 to account for the value of stock-based compensation arrangements that will be entered into by the Company in exchange for services performed by employees.

Subsequent Accounting Pronouncements Implementation

In April 1998, the American Institute of Certified Public Accountants issued SOP 98-5, "Reporting on the Costs of Start-up Activities." SOP 98-5, which is effective for fiscal years beginning after December 15, 1998, provides guidance on the financial reporting of start-up costs and organizations costs. It requires costs of start-up activities and organization costs to be expensed as incurred. As the Company has expensed these costs historically, the adoption of this standard during the first quarter of 1999 did not have a significant impact on results of operations, financial position or cash flows.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivatives and Hedging Activities" ("SFAS 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company does not expect the adoption of this statement to have a significant impact on results of operations, financial position or cash flows.

NOTE 3 - REINCORPORATION/CHANGE OF CORPORATE NAME

In January 1998, the Company reincorporated in the State of Delaware, decreasing its authorized common and preferred stock shares to 18,000,000 and 2,000,000, respectively.

On August 31, 1998, both the Company and AHI amended their Articles of Incorporation to change their corporate names to Aviation Holdings Group, Inc. and Aviation Holdings International, Inc., respectively.

NOTE 4 - ACQUISITION

During the second and third quarters of 1998, the Company acquired 74.08% of AHI. The business combination was treated as a purchase in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations." The Company entered into share exchange agreements ("Exchange Agreements") with various AHI stockholders. Based upon the terms of the underlying agreements, the Company exchanged one share of common stock for between 1.667 to 2.5 shares of the AHI's

common stock. The Company also acquired 80,000 shares of AHI common stock from a stockholder of the Company in repayment of a loan from the Company for \$100,000. Through these exchanges and the acquisition from a stockholder, the Company issued 1,095,815 shares of its common stock in return for 2,468,080 shares (74.08%) of AHI's issued and outstanding common stock as of December 31, 1998. The original shareholders of the Company continued to maintain majority ownership after the AHI acquisition. The Company shares of common stock received by the former shareholders of AHI gave them the same rights as all other common shareholders of the Company. No special controlling or voting rights were accorded to any shares. The acquisitions have been accounted for as a purchase by the Company with a purchase price of \$2,719,736. The purchase price was derived from the underlying book value of the assets and liabilities of AHI. No fair value adjustments were deemed necessary as management believes that the values of the assets and liabilities approximated the fair values at the time of the acquisitions. The operations of AHI,

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTE 4 - ACQUISITION (Continued)

since the acquisition, have been included in the accompanying consolidated financial statements for the year ended December 31, 1998 and the six months ended June 30, 1998 and 1999.

In March 1999, the Company entered into a share exchange agreement with a stockholder of AHI, thereby increasing the Company's ownership percentage of AHI to 92%. In return for 600,000 shares of AHI stock, the Company exchanged 500,000 shares of its common stock and a warrant to purchase 100,000 shares of its common stock at an exercise price of \$3.75 per share and an exercise period of three years. The value of the Company's securities that were tendered in the exchange were valued at \$1,041,498, resulting in the Company recording goodwill of \$321,679.

In April 1999, the Company entered into a series of share exchange agreements with stockholders of AHI, thereby increasing its ownership percentage of AHI to 96%. In return for 137,500 shares of AHI stock, the Company exchanged 115,500 shares of its common stock. The value of the Company's securities that were tendered in the exchange were valued at \$206,445, resulting in the Company recording goodwill of \$41,396.

NOTE 5 - JOINT VENTURE

SYNOR-A is a Sino-American joint venture company that was established in November 1997 by PASCO Florida and China Northern Airlines ("CNA") under an agreement with a term of eleven years. PASCO Florida holds a 25% interest in SYNOR-A and CNA holds the remaining 75% interest. SYNOR-A primarily deals with inspection, repair and recertification of DC9, MD80, and A300-600 components, instruments and avionics. SYNOR-A has been approved by the Civil Aviation Administration of China in the avionics accessories repair field. SYNOR-A received licenses necessary to commence operations in November 1997. Operations commenced in March 1998. The Company reports this investment on the equity method of accounting.

PASCO Florida's total financial investment commitment to SYNOR-A is \$1,000,000. As of June 30, 1999, \$708,332 of this commitment had been funded. Under the terms of the joint venture, PASCO Florida is entitled to certain preferences in any distributions of net income of SYNOR-A. These preferences are intended to provide that PASCO Florida will recover its investment in SYNOR-A prior to any regular distributions made to CNA. PASCO Florida's role in SYNOR-A is to provide technological advice to SYNOR-A and to promote, market and sell the services of SYNOR-A. The Company has recognized minimal revenue from SYNOR-A as of June 30, 1999.

Condensed financial information for the Company's investment in the joint venture is as follows:

<TABLE>
<CAPTION>

| | December 31, 1998 | June 30, 1999 |
|----------------|----------------------|------------------|
| | ----- | ----- |
| | (Unaudited) | (Unaudited) |
| | <C> | <C> |
| <S> | | |
| Balance Sheet: | | |

| | | |
|--|--------------|--------------|
| Total Assets | \$ 3,706,753 | \$ 4,239,394 |
| | ===== | ===== |
| Total Liabilities | 223,515 | 370,003 |
| | ===== | ===== |
| Statement of Operations: | | |
| Revenues | 510,610 | 759,033 |
| Expenses | 526,516 | 680,428 |
| | ----- | ----- |
| Net Income (Loss) | (15,906) | 78,605 |
| | ===== | ===== |
| Aviation Holdings International's Share of (Loss) Income | \$ (3,976) | \$ 19,651 |
| | ===== | ===== |

</TABLE>

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NOTE 6 - DISCONTINUED MERGER

On November 20, 1997, the Company entered into a letter agreement (the "Letter Agreement") which sets forth the terms of a series of transactions that would have resulted in EWS merging into the Company (the "Merger") (see Note 1). Under the terms of the Letter Agreement, the Company would have been the surviving entity. As a prerequisite of its merger with the Company, EWS was required to complete a merger with three companies that had entered into agreements to be acquired by EWS (the "Acquisitions"). The companies were: J. M. Container, Inc., a New Hampshire corporation ("JMC"), which operates a waste transfer station and recycling center in New Hampshire; Waste Placement, Inc., a Connecticut corporation ("WPI"), which operates a waste brokerage business located in Massachusetts; and Municipal Enterprises, Inc., a Connecticut corporation ("MEI"), which owns a sixty-acre parcel of real estate in Colchester, Connecticut which contains an inactive sanitary landfill. In accordance with the Letter Agreement, the Company had the right to consummate the Merger as soon as practicable following the completion of the EWS Acquisitions, or, prior to the completion of the EWS Acquisitions, the Company had the option to terminate the Letter Agreement at its sole discretion. On June 2, 1998, as a result of EWS not consummating the Acquisitions, the Company exercised its option to terminate the Letter Agreement. As of December 31, 1997, the Company had incurred deferred acquisition costs in the amount of \$10,673. These costs were expensed during the year ending December 31, 1998.

NOTE 7 - TRADE RECEIVABLES

Trade receivables consisted of the following at:

<TABLE>

<CAPTION>

| | December 31, 1998 | June 30, 1999 |
|---------------------------------|----------------------|------------------|
| | ----- | ----- |
| | | (Unaudited) |
| <S> | <C> | <C> |
| Accounts receivable | \$ 3,162,545 | \$ 3,513,403 |
| Allowance for doubtful accounts | (320,000) | (350,000) |
| | ----- | ----- |
| Net Trade Receivables | \$ 2,842,545 | \$ 3,163,403 |
| | ===== | ===== |

NOTE 8 - INVENTORIES

Inventories are comprised of the following:

| | December 31, 1998 | June 30, 1999 |
|--|----------------------|------------------|
| | ----- | ----- |
| | | (Unaudited) |
| Inventory | \$ 3,440,062 | \$ 3,460,960 |
| Allowance for obsolete and slow-moving goods | (220,000) | (220,000) |
| | ----- | ----- |

| | | | | |
|-------|----|-----------|----|-----------|
| Total | \$ | 3,220,062 | \$ | 3,240,960 |
| | | ===== | | ===== |

</TABLE>

NOTE 9 - DC-10 FLIGHT SIMULATOR AND SUPPORT PACKAGE

On November 1, 1996, AHI entered into an agreement with a company domiciled in the Netherlands (the "Seller") to purchase a one-half ownership in a DC 10-30 flight simulator and all associated equipment required to operate the flight simulator. The agreement called for the Seller and AHI to equally participate in all revenues generated from the sale, lease or disassembly of the hardware of the flight simulator. AHI paid the Seller \$125,000 in cash and issued 40,000 shares of its common stock, which was valued at \$2.50 per share, for the flight simulator. AHI intended to sell the flight simulator as a complete package.

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NOTE 9 - DC-10 FLIGHT SIMULATOR AND SUPPORT PACKAGE (Continued)

On March 28, 1997, AHI entered into a second agreement with the Seller to purchase one Novoview 2000 Visual System ("Novoview 2000") to be used in conjunction with the DC 10-30 flight simulator. The purchase price was \$500,000, and AHI satisfied its obligation by issuing 200,000 shares of its common stock at an ascribed value of \$2.50 per share. AHI is to receive 100% of the revenues generated from the sale of these items. The interest in the simulator, Novoview 2000 and freight costs were recorded at AHI's cost of \$734,421. In 1998, AHI changed its sales strategy. Instead of selling the simulator and the Novoview 2000 as a complete unit, AHI decided to sell the components individually as spare parts. In conjunction with this change in strategy, AHI expensed \$335,000 in 1998, prior to its acquisition by the Company, in order to reflect the decrease in market value of the avionics and physical structure as spare parts. The remaining value is recorded in the Company's inventory.

This Seller is also a purchaser and supplier of spare parts from and to the Company.

NOTE 10 - NOTES RECEIVABLE AND CREDIT RISK

Credit Facility

In December 1997, the Company agreed, subject to the availability of its funding, to provide a \$2,000,000 credit facility (the "Credit Facility") to EWS, JMC and MEI. This Credit Facility was provided in anticipation of the contemplated merger between EWS and the Company. At December 31, 1997, the Company had advanced \$940,000 to EWS in connection with the Credit Facility. The loan was unsecured at December 31, 1997, and subsequently became evidenced by a promissory note dated February 17, 1998 and secured by a mortgage on real estate owned by MEI. Interest commenced on December 2, 1997 and accrues at the rate of 10% per annum on the principal balance and on any overdue interest. Principal and interest were due on the earlier of July 1, 1998 or the date of any event of default. At July 1, 1998, EWS had disbursed all of the funds received from the Company, had no business operations, and had not consummated the acquisitions of the three companies it was to acquire before merging with the Company. The Company may need to foreclose on the property to recover the principal and interest receivable and foreclosure costs. During 1998, the Company and EWS restructured the loan by extending the maturity date to February 1, 1999. Accrued interest as of July 1, 1998 of approximately \$58,000 was added to the existing principal balance at that date. The new principal balance, along with additional advances, accrued interest through the maturity date. During the first two quarters of 1998, the Company advanced an additional \$535,100 to EWS under this Credit Facility. A valuation allowance has been recorded in 1998 for these additional advances as well as for the accrued interest through July 1, 1998. The Company ceased recording interest on this receivable subsequent to July 1, 1998 since any interest recorded would be offset with a valuation allowance. The amount recorded for this loan receivable at December 31, 1998 and June 30, 1999 was \$900,000 (principal balance of \$1,475,100 plus interest receivable of \$58,310, less a valuation allowance of \$633,410). The loan is currently in default and management may be required to foreclose on the property. The Company has received no interest payments on the loan. An independent market value appraisal, dated October 16, 1998, that values the secured real estate at \$1,000,000, based on the assumptions and limiting conditions set forth in the report, has been furnished to the Company.

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NOTE 11 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<TABLE>

<CAPTION>

| | December 31, 1998 | June 30, 1999 |
|--------------------------------|----------------------|----------------------|
| | ----- | ----- |
| | | (Unaudited) |
| <S> | <C> | <C> |
| Leasehold improvements | \$ 143,321 | \$ 161,405 |
| Office furniture and equipment | 76,687 | 81,675 |
| Computer equipment | 81,372 | 90,550 |
| Software | 45,184 | 49,127 |
| Trucks | 28,676 | 28,676 |
| | ----- | ----- |
| Accumulated depreciation | 375,240 (72,119) | 411,433 (109,594) |
| | ----- | ----- |
| Total | \$ 303,121 | \$ 301,839 |
| | ===== | ===== |

</TABLE>

NOTE 12 - INTANGIBLES

Intangibles consisted of the following:

<TABLE>

<CAPTION>

| | December 31, 1998 | June 30, 1999 |
|-------------------------------|----------------------|---------------------|
| | ----- | ----- |
| | | (Unaudited) |
| <S> | <C> | <C> |
| Goodwill | \$ 375,000 | \$ 738,075 |
| Deferred financing costs | 7,500 | 29,914 |
| | ----- | ----- |
| Less accumulated amortization | 382,500 (24,734) | 767,989 (63,448) |
| | ----- | ----- |
| Total | \$ 357,766 | \$ 704,541 |
| | ===== | ===== |

</TABLE>

NOTE 13 - STOCK SUBSCRIPTION RECEIVABLE

On February 12, 1998, AHI issued 160,000 shares of common stock to PASCO's former majority stockholder (the "Vice President") in return for two promissory notes aggregating \$365,000 and the assignment from PASCO of inventory valued at \$35,000. AHI received a three-month non-interest bearing promissory note for \$165,000, which had recourse against the personal assets of the Vice President, and was paid in full in May 1998. The second note is a three-year promissory note for \$200,000 bearing interest at prime, secured solely by 80,000 shares of the Company's common stock ("Nonrecourse Note"). The shares of common stock have been pledged as security and are held in escrow in accordance with a stock pledge agreement dated February 12, 1998. The Nonrecourse Note remained outstanding at June 30, 1999.

In October 1996, AHI issued 192,000 shares of its common stock to its Chief Executive Officer in exchange for a demand promissory note of \$80,000 which remains outstanding as of June 30, 1999. The note bears interest at 6% per annum.

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NOTE 13 - STOCK SUBSCRIPTION RECEIVABLE (Continued)

AHI recorded interest income of approximately \$19,844 and \$10,810 for the year ended December 31, 1998 and the six-month period ended June 30, 1999, respectively, on the outstanding stock subscription receivables. As of December 31, 1998 and June 30, 1999, the accrued interest receivable on the stock subscription receivables was \$25,827 and \$36,637, respectively.

NOTE 14 - ADVANCES AND BORROWINGS - STOCKHOLDERS AND RELATED PARTIES

The Company advanced funds to and received advances from certain stockholders during 1998. At December 31, 1998 and June 30, 1999, the Company owed \$781,500 of such advances to IP Services, Inc. and \$1,000 to FAC Enterprises, Inc. At June 30, 1999, accrued interest on these advances amounted to \$60,674. The stockholder advances bear interest at 10% per annum. The amounts owed to IP Services, Inc. are due on demand; however, demand may not be made prior to repayment of funds due from EWS (see Notes 10 and 27).

AHI made non-interest bearing advances, net of repayments, to an officer amounting to \$75,181 and \$58,526 at December 31, 1998 and June 30, 1999, respectively. At June 30, 1999, the amount of advances outstanding was \$133,707.

NOTE 15 - SHORT-TERM BORROWINGS

On August 12, 1998, AHI obtained a revolving working capital line of credit from Comerica Bank. At December 31, 1998 and June 30, 1999, the amount outstanding on the credit line was \$1,500,000 and \$2,075,000, respectively. The loan agreement, provides for a maximum aggregate borrowing limit of \$3,500,000, subject to a limitation amount of eighty-five percent of eligible Company receivables and thirty-five percent of eligible Company inventory as defined in the loan agreement. This revolving line of credit is secured by substantially all of AHI's assets, and is due on demand. The line of credit bears interest at the Bank's prime rate plus 1%. The loan agreement contains certain covenants which require AHI to maintain minimum thresholds on specific financial ratios.

As of December 31, 1998 and June 30, 1999, AHI had not met the tangible net worth covenant required by the credit agreement. Under the terms of the loan agreement, the bank has the right to demand full and immediate repayment of its loan. As of the date of this report, the bank has not indicated to the Company that it intends to make such a demand.

Short term borrowings - other consisted of the following:

| | December 31, 1998 | June 30, 1999 |
|--------------------------------|----------------------|------------------|
| | ----- | ----- |
| | | (Unaudited) |
| Unrelated investor notes | \$ 250,000 | \$ 250,000 |
| Financed insurance premium | - | 15,481 |
| | ----- | ----- |
| | 250,000 | 265,481 |
| Less unamortized note discount | 101,315 | - |
| | ----- | ----- |
| | \$ 148,685 | \$ 265,481 |
| | ===== | ===== |

On October 15, 1998, the Company borrowed \$250,000 in the aggregate from two unrelated investors. The loans had an initial maturity date of March 15, 1999 with two one-month extension periods and bear interest at a rate of 10% per annum. As additional consideration for such borrowings, the Company issued 25,000 shares of the Company's common stock to the investors. As an additional inducement to the investors to loan money to the Company, a stockholder of the Company conveyed to the investors warrants to purchase 75,000 shares of the Company's common stock at an

NOTE 15 - SHORT-TERM BORROWINGS (Continued)

exercise price of \$4.00 per share, and agreed to transfer a maximum of 45,000 shares of the Company's common stock upon the occurrence of an event of default or an extension of the maturity date by the Company. The Company has pledged 51% of the issued and outstanding shares of common stock of AHI as security. On March 15, and April 15, 1999, the Company exercised its option to extend payment for one month.

The Company recorded a note discount of \$138,888 as a result of the stock issued as an inducement for making the loans of \$250,000. The discount is being amortized over the term of the notes using the effective interest method. The effective interest rate is 343%. As of December 31, 1998 and June 30, 1999, the unamortized discount totaled \$101,315 and \$0, respectively. In addition, the Company incurred financing fees of \$176,015 and \$43,190 on March 15, 1999 and April 15, 1999, respectively as a result of the stock transferred by a shareholder of the Company to the noteholders as consideration for the extension of the maturity date. On May 15, 1999, the Company and the noteholders entered into an agreement to further extend the maturity date of the \$250,000 notes to July 14, 1999. In consideration of the extension, the Company granted the noteholders warrants to purchase 15,000 shares of the Company's common stock. The warrants have an exercise price of \$4.00, a term of five years and have a one year restriction on their sale or transfer. This resulted in the Company recording a financing fee in the amount of \$29,914, of which \$22,934 had been amortized as of June 30, 1999. The financing fees are being amortized over the extension periods. The note discount and financing fees represented the fair market value of the securities at the date they were issuable.

In March 1999, AHI financed its insurance obligations through a nine-month note with Premium Assignment Corporation. The note bears interest at an annual rate of 8.5 % with monthly principal and interest payments of \$2,721. As of June 30, 1999, the outstanding balance of the note was \$15,481.

NOTE 16 - LONG-TERM DEBT

In February 1998, AHI purchased a vehicle and financed the purchase through a five-year note with General Motors Acceptance Corporation. The note bears interest at an annual rate of 5.9% with monthly payments, principal and interest of \$371. As of December 31, 1998 and June 30, 1999, the outstanding balance of the note was \$16,396 and \$14,930, respectively.

Maturities of long-term debt are as follows:

Year ended December 31:

| | | |
|------|----|--------|
| 1999 | \$ | 3,272 |
| 2000 | | 3,776 |
| 2001 | | 4,005 |
| 2002 | | 4,247 |
| 2003 | | 1,096 |
| | | ----- |
| | \$ | 16,396 |
| | | ===== |

NOTE 17 - INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary timing differences between the carrying amounts of assets and liabilities reflected on the financial statements and the amounts used for income tax purposes. The tax effects of temporary differences and net operating loss carryforwards that give rise to significant portions of the deferred tax assets recognized at December 31 are presented below:

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NOTE 17 - INCOME TAXES (Continued)

<TABLE>
<CAPTION>

| | December 31, | |
|--|--------------|------------|
| | 1997 | 1998 |
| <S> | <C> | <C> |
| Deferred tax assets : | | |
| Federal and state deferred tax benefit arising from net operating loss carryforwards | \$ 27,397 | \$ 162,000 |
| Accrued expenses | - | 30,000 |
| Reserves and allowances | - | 410,000 |
| Note discount amortization | - | 12,000 |
| Compensation for employee stock options | - | 144,000 |
| Undistributed loss from foreign subsidiaries | - | 93,000 |
| | 27,397 | 851,000 |
| Less valuation allowance | (27,397) | (842,000) |
| Total deferred tax assets | - | 9,000 |
| Deferred tax liability | | |
| Accelerated depreciation | - | (9,000) |
| Net deferred tax asset | \$ - | \$ - |

</TABLE>

Income tax (expense) benefit consists of the following:

<TABLE>
<CAPTION>

| | December 31, | |
|--|--------------|--------------|
| | 1997 | 1998 |
| <S> | <C> | <C> |
| Current | | |
| Federal | \$ - | \$ (152,970) |
| State | - | (33,893) |
| Deferred | | |
| Federal | - | 500,900 |
| State | - | 103,863 |
| Tax benefit of net operating loss carryforward | 27,397 | 139,400 |
| | 27,397 | 557,300 |
| Less valuation allowance | (27,397) | (744,163) |
| Income Tax (Expense) | \$ - | \$ (186,863) |

</TABLE>

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NOTE 17 - INCOME TAXES (Continued)

The Company has a loss carryforward of approximately \$487,000 as of December 31, 1998 that may be offset against future taxable income. The carryforward will expire between the years 2009 and 2014.

The following table presents the principal reasons for the difference between the Company's effective tax rates and the United States federal statutory income tax rate of 34%.

<TABLE>
<CAPTION>

| | December 31, | |
|---|--------------|--------------|
| | 1997 | 1998 |
| <S> | <C> | <C> |
| U.S. federal statutory income tax rate | 34% | 34% |
| Federal income tax benefit at statutory rate | \$ 9,359 | \$ 406,000 |
| State and local income tax benefits, net of effect of federal benefit | 5,165 | 65,700 |
| Non-deductible expenses | - | (11,100) |
| Tax benefit from NOL carryback and carryforward | - | 60,800 |
| Other differences | - | 11,070 |
| Valuation allowance for deferred income tax benefit | (14,524) | (719,333) |
| | ----- | ----- |
| Income Tax Expense | \$ - | \$ (186,863) |
| | ===== | ===== |
| Effective Income Tax Rate | 0% | (15.6)% |
| | ===== | ===== |

</TABLE>

NOTE 18 - OFFICE AND WAREHOUSE FACILITY

AHI leases its Miami, Florida office and warehouse facility from a company partially owned by one of its stockholders. The lease expires December 31, 2000 and has two one-year options to renew. The monthly rental is \$6,529 plus the pass through of certain expenses. Pasco HK leases office space in Hong Kong. The Hong Kong lease expires December 31, 1999 and contains monthly rental obligations of \$2,500 for 1998 and \$2,650 for 1999.

Rent expense for the periods ended December 31, 1998 and June 30, 1999 was \$56,586 and \$64,131, respectively. AHI's minimum obligation under existing leases is as follows:

| Year Ending: | December 31, 1998 | June 30, 1999 |
|--------------|----------------------|------------------|
| | ----- | ----- |
| | | (Unaudited) |
| 1999 | \$ 109,850 | \$ - |
| 2000 | 78,350 | 99,350 |
| 2001 | - | 39,176 |
| | ----- | ----- |
| | \$ 188,200 | \$ 138,526 |
| | ===== | ===== |

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NOTE 19 - CAPITAL STOCK ACTIVITY

Common Stock

On August 15, 1997, the Company issued 1,000,000 shares of common stock as partial payment for legal fees and costs advanced by a law firm owned by a stockholder and related party of the Company. The stockholder is the son of the former President and the sole Director of the Company at the time of the transaction.

On November 17, 1997, the stockholders of the Company entered into an agreement to sell 1,410,000 shares of common stock, representing approximately 86% of the outstanding shares of the Company, to unrelated parties. As a condition of the agreement, 87,000 shares of common stock were canceled and the then existing officers and directors of the Company were required to resign. On November 20, 1997, after the close of the transaction, there were 1,550,000 shares of common

stock outstanding. Certain shares are subject to lock-up agreements or restrictions which limit the holders' ability to sell them. The November 17, 1997 agreement also required all debts and liabilities of the Company to be paid out of the purchase price at the closing. Prior to the closing, the Company owed a stockholder and related party \$24,332. This liability was comprised of \$10,000 of costs advanced on behalf of the Company and \$14,332 for legal services provided to the Company. The amount owed was paid from the proceeds of the sale of stock and consequently the Company was released from its obligation. The Company recorded the satisfaction of this liability as additional paid-in capital.

In December 1997, the Company completed a private offering of 800,000 shares of common stock at a price of \$1.25 per share, amounting to total gross proceeds of \$1,000,000. Offering costs amounted to \$6,143 and have been reflected as a reduction of additional paid-in capital.

During the second and third quarters of 1998, the Company entered into share exchange agreements with various AHI stockholders. Based on the terms of the underlying agreements, the Company exchanged one share of common stock for between 1.667 to 2.5 shares of AHI's common stock. The Company issued 1,095,815 shares of common stock in connection with these share exchanges.

On June 11, 1998, AHI's Board of Directors granted its Chief Financial Officer ("CFO"), 25,000 shares of AHI's common stock valued at \$62,500. The shares of common stock were issued by AHI in consideration of services rendered by the CFO for the fiscal year ended August 31, 1998.

On August 1, 1998, the Company issued 4,000 shares to its Chief Executive Officer for services rendered, resulting in compensation expense of \$20,128.

On October 15, 1998, the Company borrowed \$250,000 from two unrelated investors. As an inducement to make the loans, the Company issued 25,000 shares of the Company's common stock and warrants to purchase shares of its common stock at an exercise price of \$4.00 per share to the investors.

In March 1999, the Company completed a private offering of 118,000 shares of common stock at a price of \$2.50 per share, amounting to gross proceeds of \$295,000.

In March 1999, the Company entered into a share exchange agreement with a stockholder of AHI to acquire additional shares of AHI stock. The Company issued 500,000 shares of its common stock and a warrant to purchase 100,000 shares of its common stock at an exercise price of \$3.75 per share in connection with this transaction.

In April and June 1999, the Company entered into share exchange agreements with various AHI stockholders. Based on the terms of the underlying agreements, the Company exchanged one share of common stock for between 1 to 1.667 shares of AHI's common stock. The Company issued 115,500 shares of common stock in connection with these share exchanges.

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AVIATION HOLDINGS GROUP, INC.
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NOTE 19 - CAPITAL STOCK ACTIVITY (Continued)

During 1997, the Company adopted the provisions of Statement Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"). As permitted under SFAS 123, the Company has continued to follow Accounting Principles Board No. 25 "Accounting for Stock-Based Compensation" ("APB 25") in accounting for its stock-based compensation. SFAS 123 recognizes compensation expense using the fair market value of stock options, warrants and common stock issuances as of the grant date. APB 25 recognizes the intrinsic value of the instruments issued by the Company as of the measurement date, which is generally the date at which both the number of shares that an individual is entitled to receive and the purchase price are known. Had compensation expense for the year ended December 31, 1998 been determined under the fair value provisions of SFAS 123, the Company's net loss and net loss per share would have differed as follows:

| December 31, 1998 | |
|----------------------|-----------|
| ----- | ----- |
| Net Loss | Per Share |

| | | |
|--------------------------|----------------|----------|
| As Reported Under APB 25 | \$ (1,384,780) | \$ (.46) |
| | ===== | ===== |
| | | (.26) |
| Pro Forma Under SFAS 123 | \$ (1,476,291) | \$ (.49) |
| | ===== | ===== |

No such differences between the application of APB 25 and SFAS 123 existed for 1997.

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be issued in future years. The weighted average fair values of options at their grant date during 1998, where exercise price equals the market price on the grant date, was \$0. The weighted average fair value of options at their grant date during 1998, where the exercise price exceeds the market price on the grant date, was \$0. No such options were granted during 1997. The estimated fair value of each option granted is calculated using the Black Scholes option pricing model. The following summarizes the weighted average of the assumptions used in the model.

| | 1997 | 1998 |
|-------------------------------|-------|--------|
| | ----- | ----- |
| Risk free rate | - | 5.09% |
| Expected years until exercise | - | 2.25% |
| Expected stock volatility | - | 33.08% |
| Dividend yield | - | 0% |

Preferred Stock

No shares of the Company's no par value preferred stock have been issued or are outstanding. Dividends, voting rights, and other terms, rights and preferences of the preferred shares have not yet been designated but may be so designated by the Board of Directors from time to time.

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 Ended June 30, 1998 and 1999 is Unaudited)

NOTE 20 - COMPENSATORY STOCK OPTION PLAN

In 1994 the Company adopted a Compensatory Stock Option Plan (the "CSO Plan") which provides for the granting of options to employees, officers, directors and consultants of the Company. The number of shares which can be purchased under this plan is limited to 1,000,000 shares. The CSO Plan is not intended to qualify as an "incentive stock option plan" under Section 422 of the Internal Revenue Code. The exercise prices of the options granted under the CSO Plan are to be determined by the Board of Directors or other CSO Plan administrators but shall not be lower than eighty-five percent of the fair market value of a share of common stock on the date the option is granted. The options under the CSO Plan vest immediately upon grant unless otherwise specified, and are valid for ten years. The Company will incur compensation expense to the extent that the market value of the stock at the date of grant exceeds the amount the grantee is required to pay for the options. There were no options granted under the CSO Plan as of December 31, 1997.

During 1998, the Company granted options to the CEO to purchase 200,000 shares of common stock at an exercise price of \$2.50 per share. All of these options vested upon the execution of the CEO's employment agreement and expire five years later. The Company recognized compensation expense of \$360,200 for services rendered.

Restatement of Stock Option Plan

On October 29, 1997, the Board of Directors of AHI adopted a stock option plan (the "Plan") which became effective September 1, 1997. This Plan provided for the grant of incentive stock options, non-qualified stock options and stock

appreciation rights not exceeding 750,000 shares, in the aggregate, to selected employees. The Plan also sets forth applicable rules and regulations for stock options granted to non-employee directors. The Board of Directors authorized the issuance of 250,750 stock options under the Plan, and of these options, 50,750 were subsequently canceled. No stock options had been exercised under this Plan.

AHI subsequently amended and restated the Plan, and all active participants of the Plan became included in the stock option plan of the Company. The options to acquire AHI stock outstanding at the time of the restatement were replaced by options to acquire Company stock on a share-for-share basis.

The following table summarizes information about fixed stock options outstanding:

<TABLE>
<CAPTION>

| | Options Outstanding | | | Options Exercisable | |
|---------------------------|------------------------------|---|---------------------------------|---------------------------|---------------------------------|
| | Number of Outstanding Shares | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Outstanding Shares | Weighted Average Exercise Price |
| <S> December 31, 1998 | <C> | <C> | <C> | <C> | <C> |
| \$2.50 | 200,000 | 4.42 | \$ 2.50 | 200,000 | \$ 2.50 |
| June 30, 1999 (Unaudited) | | | | | |
| \$2.50 | 400,000 | 3.79 | \$ 2.50 | 390,000 | \$ 2.50 |

</TABLE>

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTE 21 - EMPLOYEE STOCK COMPENSATION PLAN

In 1994 the Company adopted an employee stock compensation plan (the "ESC Plan") which provides for shares of the Company's common stock to be granted to employees, officers, directors and consultants of the Company. The number of shares of common stock which can be awarded under this plan is limited to 1,000,000 shares. The Company will incur compensation expense to the extent of the market value of the stock at the date of grant of the stock award to the employee. The ESC Plan will be administered by the Board of Directors or a committee of directors. There has been no stock awarded under the ESC Plan to date.

NOTE 22 - LOSS PER SHARE

The Company adopted SFAS 128 in 1997, and has followed the guidelines of SFAS 128 in the presentation of earnings and loss per share for all periods presented in the financial statements. Options and warrants to purchase common stock are not included in the computation of diluted loss per share because the effect of these instruments would be anti-dilutive for the loss periods presented. The common shares potentially issuable arising from these instruments, which were outstanding during the periods presented in the financial statements, are as follows:

<TABLE>
<CAPTION>

| | Exercise Price | December 31, | | June 30, 1999 (Unaudited) |
|----------|----------------|--------------|---------|------------------------------|
| | | 1997 | 1998 | |
| <S> | <C> | | <C> | <C> |
| Options | \$2.50 | - | 200,000 | 400,000 |
| Warrants | \$3.75 | - | - | 100,000 |

| | | | | |
|--|--------|-------|---------|---------|
| | \$4.00 | - | - | 15,000 |
| | \$4.50 | - | - | 210,000 |
| | | ----- | ----- | ----- |
| Total common shares potentially issuable | | - | 200,000 | 725,000 |
| | | ===== | ===== | ===== |

</TABLE>

The following table represents AHI's outstanding options and warrants:

| | | | |
|--|----------------|-------------------|---------------|
| <TABLE> | | | |
| <CAPTION> | | | |
| | Exercise Price | December 31, 1998 | June 30, 1999 |
| | ----- | ----- | ----- |
| | | | (Unaudited) |
| <S> | <C> | <C> | |
| Options | \$2.50 | 212,750 | - |
| Warrants | \$4.00 | 1,000,000 | - |
| | | ----- | ----- |
| Total common shares potentially issuable | | 1,212,750 | - |
| | | ===== | ===== |

</TABLE>

All AHI options and warrants that were outstanding at December 31, 1998 were amended and restated to those of the Company.

NOTE 23 - COMMITMENTS AND CONTINGENCIES

The Company supplies certain inventory parts to its customers through various consignment agreements, under which the Company takes possession of a vendor's inventory. These agreements are generally entered into on a long-term basis.

The Company neither manufactures nor repairs aircraft parts, and requires that all of the parts that it sells are properly documented and traceable to their original source. Although the Company has never been subject to product liability

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTE 23 - COMMITMENTS AND CONTINGENCIES (Continued)

claims, there is no guarantee that the Company could not be subject to liability from its potential exposure relating to faulty aircraft parts in the future. The Company maintains no product liability insurance to protect it from such claims. An uninsured loss could have a materially adverse affect upon the Company's financial condition.

Effective as of May 31, 1998, the President of AHI entered into an employment agreement with the Company to serve as President and Chief Executive Officer of the Company ("CEO"). In accordance with the employment agreement, the CEO also became a Director of the Company. The agreement reaffirms debt obligations connected to a stock purchase of AHI shares by the CEO which was initiated under a prior agreement. The term of the employment agreement is for a period of three years and may be extended on a month-to-month basis thereafter. The employment agreement calls for a base compensation and a bonus arrangement based upon a percentage of pre-tax income.

Effective February 14, 1998, in conjunction with the purchase of the PASCO entities by AHI, the majority stockholder of PASCO entered into an employment agreement with AHI to serve as Vice President (the "Vice President"). In accordance with the employment agreement, the Vice President also became a Director of AHI. His duties include the responsibility for, and the oversight of, AHI's operations in Asia and the Pacific Rim. The term of his employment agreement is for three years and may be extended on a month-to-month basis thereafter. The agreement calls for a base salary and bonus arrangement based upon a percentage of sales to China, whereby one-half of any bonus earned annually in excess of \$25,000 is to be applied against the outstanding balance of the Vice President's obligation under a three-year promissory note dated February 12, 1998. The Vice President was granted options to purchase 15,000 shares of AHI's common stock at an exercise price of \$2.50 per share. One-third of these options vest annually over a three-year period beginning February 14,

1999.

NOTE 24 - SEGMENT INFORMATION

The Company is in the business of acquiring companies and upon acquiring a majority interest in AHI in 1998, the Company became a supplier, distributor and broker of commercial aircraft technical spares for commercial airlines worldwide, which it considers to be an additional segment.

The information with respect to revenue, by geographic area, is presented in the table below for the period from May 1998, when the Company acquired a controlling interest in AHI, through December 31, 1998, and for the six months ended June 30, 1999.

| | May - Dec. 1998 | Jan. - June 1999 |
|------------------------|--------------------|---------------------|
| | ----- | ----- |
| | | (Unaudited) |
| United States | \$ 4,632,079 | \$ 3,388,144 |
| Africa and Middle East | 104,396 | 169,065 |
| Europe | 659,898 | 653,666 |
| Latin America | 59,694 | 425,872 |
| Asia | 2,909,130 | 1,735,195 |
| | ----- | ----- |
| Total | \$ 8,365,197 | \$ 6,371,942 |
| | ===== | ===== |

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTES 24 - SEGMENT INFORMATION (Continued)

<TABLE>
<CAPTION>

| Business Segments | December 31, 1998 | | June 30, 1998 | | June 30, 1999 | |
|-------------------------------|-------------------|--------------|--------------------|--------------------|--------------------|--------------------|
| | Acquisitions | Aviation | Acquisitions | Aviation | Acquisitions | Aviation |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | (Unaudited) <C> | (Unaudited) <C> | (Unaudited) <C> | (Unaudited) <C> |
| Revenues | \$ - | \$ 8,365,197 | \$ - | \$ 2,067,356 | \$ - | \$ 6,371,942 |
| Interest income | 54,472 | 18,353 | 54,472 | 10,198 | - | 15,492 |
| Interest expense | 65,392 | 30,652 | - | 1,908 | 372,024 | 77,281 |
| Depreciation and amortization | 2,679 | 52,300 | - | 54,096 | 7,567 | 53,187 |
| Segment profit (loss) | (1,397,449) | 12,669 | (1,213,930) | 78,555 | (451,990) | 291,122 |
| Segment assets | 1,367,548 | 7,395,818 | 999,290 | 7,085,341 | 1,345,125 | 8,961,142 |
| Capital expenditures | - | 88,198 | - | 142,933 | - | 36,192 |

</TABLE>

NOTE 25 - EMPLOYEE BENEFIT PLAN

On January 1, 1999 the Company adopted a 401(k) savings plan that covers substantially all employees. Under the terms of the 401(k) savings plan, employees are entitled to contribute a maximum of 15% of their total compensation, within limitations established by the Internal Revenue Code.

NOTE 26 - SUPPLEMENTAL CASH FLOW INFORMATION

In 1998, the Company advanced funds to one of its stockholders. The Company received 80,000 shares of AHI stock as repayment of \$100,000 of the stockholder's obligation.

In 1998, the Company issued 1,095,815 shares of its common stock in exchange for 2,368,880 shares of AHI common stock.

In October, 1998, the Company issued 25,000 shares of its common stock to two unrelated investors in connection with a loan to the Company of \$250,000.

The Company had \$40,000, \$105,915 and \$268,617 of deferred offering costs in accrued expenses at December 31, 1997 and 1998 and June 30, 1999, respectively.

In March, 1999, AHI financed a portion of its insurance premium amounting to \$29,341 with a note payable.

On March 15, 1999, the Company recorded \$176,015 in deferred financing costs when a major shareholder of the Company transferred 35,000 shares of the Company's common stock to the investors of the \$250,000 notes.

In March, 1999, the Company issued 500,000 shares of its common stock in exchange for 600,000 shares of AHI common stock, resulting in goodwill of \$321,679 and a reduction in minority interest of \$719,869.

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AVIATION HOLDINGS GROUP, INC.
Notes to Financial Statements
(Information as of June 30, 1999 and for the Six-Month Periods
Ended June 30, 1998 and 1999 is Unaudited)

NOTE 26 - SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

In April and June 1999, the Company issued 115,500 shares of its common stock in exchange for 133,000 shares of AHI common stock, resulting in goodwill of \$41,396 and a reduction in minority interest of \$165,061.

On April 15, 1999, the Company recorded \$43,190 in deferred financing costs when a major shareholder of the Company transferred 10,000 shares of the Company's common stock to the investors of the \$250,000 notes.

On May 15, 1999, the Company recorded \$29,914 in deferred financing costs for the issuance of 15,000 warrants to purchase the Company's common stock to the investors of the \$250,000 notes.

NOTE 27 - SUBSEQUENT EVENTS

In April and June 1999, the Company entered into a series of share exchanges with certain remaining AHI stockholders. The Company exchanged 115,500 shares of its common stock in return for 137,500 shares of AHI common stock, bringing the Company's ownership of AHI to 96%.

In June 1999 the Company issued warrants to purchase 210,000 shares of the Company's common stock at \$4.50 per share, with an exercise period through June 30, 2002 ("Warrants"). The Warrants were issued by the Company in order to replace warrants to purchase 1,000,000 shares of AHI common stock previously issued by AHI in June 1997. The terms of the Warrants are identical to the terms of the AHI warrants. The Warrants were issued to a related party, an entity whose president is a director of the Company, and to an unrelated investor. The related party received 200,000 Warrants and the unrelated investor received 10,000 Warrants. The Warrants include certain anti-dilutive provisions. The Company has the right to call the Warrants for \$.05 per Warrant, if the Company's common stock meets certain performance objectives and the Company offers its common stock for trading on a national exchange.

In June 1999, the Company and the holders of the \$250,000 note payable (see Note 15) agreed to extend the maturity date of the note to July 14, 1999. In consideration of the extension, the Company issued warrants to purchase 15,000 shares of the Company's common stock at \$4.00 per share, with an exercise period through May 15, 2004. These warrants include certain anti-dilutive provisions, and the shares of the Company's common stock covered by the warrants contain restrictions on transfer for one year.

NOTE 28 - EVENTS UNAUDITED SUBSEQUENT TO THE DATE OF THE AUDITORS' REPORT

On July 15, 1999, the maturity date of the \$250,000 notes was extended to September 17, 1999. In consideration for the extension, a shareholder of the Company delivered 6,000 shares of the Company's common stock to the noteholders.

On August 11, 1999, the Company granted 55,750 options to purchase the Company's common stock to certain employees under its stock option plan.

On August 31, 1999, the Company sold its note receivable from EWS (see Note 10) to a stockholder in exchange for the cancellation of \$855,000 of obligations payable to the stockholder for advances of cash to the Company and accrued interest thereon, plus \$45,000 in cash.

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INDEPENDENT AUDITORS' REPORT

Stockholders and Board of Directors
Jet Aviation Trading, Inc.

We have audited the accompanying balance sheet of Jet Aviation Trading, Inc. as of August 31, 1997, and the related statements of income, stockholders' equity, and cash flows for the period from October 3, 1996 (Date of Inception) through August 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 Jet Aviation Trading, Inc. as of August 31, 1997, and the results of its operations and cash flows for the period from October 3, 1996 (Date of Inception) through August 31, 1997, in conformity with generally accepted accounting principles.

Sweeney, Gates & Co.

Fort Lauderdale, Florida
October 9, 1997, except as to Note 12
which is as of October 29, 1997

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JET AVIATION TRADING, INC.

BALANCE SHEET
AUGUST 31, 1997

ASSETS

| | |
|---|-------------|
| Current assets: | |
| Cash..... | \$ 341,660 |
| Accounts receivable, less \$93,000 allowance for doubtful accounts..... | 1,764,119 |
| Inventory..... | 1,532,333 |
| DC-10 flight simulator held for resale (Note 3)..... | 734,421 |
| Deferred tax asset..... | 23,000 |
| Prepaid expenses and other current assets..... | 29,610 |
| | ----- |
| Total current assets..... | 4,425,143 |
| | ----- |
| Property and equipment, less accumulated depreciation of \$8,293..... | 88,437 |
| Deferred offering costs..... | 22,750 |
| Deposit-Boeing..... | 25,000 |
| | ----- |
| | \$4,561,330 |
| | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|---------------------------|------------|
| Current liabilities: | |
| Accounts payable..... | \$ 977,706 |
| Accrued expenses..... | 144,540 |
| Accrued interest..... | 19,611 |
| Income taxes payable..... | 37,200 |
| | ----- |

| | |
|--|-------------|
| Total current liabilities..... | 1,179,057 |
| Deferred tax liability..... | 2,000 |
| Stockholders' equity: | |
| Preferred stock, par value \$.10 per share, 3,000,000 shares authorized, and no shares issued and outstanding..... | -- |
| Common stock, par value \$.001 per share; 30,000,000 shares authorized, and 2,996,500 shares issued and outstanding..... | 2,997 |
| Additional paid-in capital..... | 4,840,917 |
| Accumulated Deficit..... | (1,383,641) |
| | 3,460,273 |
| Less: Stockholders' notes receivable (Note 8)..... | (80,000) |
| Total stockholder's equity..... | 3,380,273 |
| | \$4,561,330 |
| | ===== |

The accompanying notes are an integral part of these financial statements.

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JET AVIATION TRADING, INC.

STATEMENT OF OPERATIONS

OCTOBER 3, 1996 (DATE OF INCEPTION) TO AUGUST 31, 1997

<TABLE>

<CAPTION>

| | | |
|---|-----------|----------------|
| <S> | | <C> |
| Sales, net of returns and allowances..... | | \$ 6,215,553 |
| Cost of sales..... | | 4,684,864 |
| | | ----- |
| Gross profit..... | | 1,530,689 |
| | | ----- |
| Selling, general and administrative expenses..... | | 2,881,660 |
| | | ----- |
| Operating Loss..... | | (1,350,971) |
| | | ----- |
| Other income (expense): | | |
| Interest income..... | \$ 21,867 | |
| Interest expense..... | (38,337) | (16,470) |
| | | ----- |
| Loss before income taxes..... | | (1,367,441) |
| Income tax expense: | | |
| Current..... | 37,200 | |
| Deferred..... | (21,000) | 16,200 |
| | | ----- |
| Net Loss..... | | \$ (1,383,641) |
| | | ===== |
| Net Loss per share..... | | \$ (.83) |
| | | ===== |
| Weighted average number of common shares outstanding..... | | 1,672,968 |
| | | ===== |

</TABLE>

The accompanying notes are an integral part of these financial statements.

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JET AVIATION TRADING, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
OCTOBER 3, 1996 (DATE OF INCEPTION) TO AUGUST 31, 1997

<TABLE>

<CAPTION>

| | | |
|--------------|------------|---------------|
| COMMON STOCK | ADDITIONAL | STOCKHOLDER'S |
| ----- | PAID-IN | ACCUMULATED |
| | | NOTE |

| | SHARES | AMOUNT | CAPITAL | DEFICIT | RECEIVABLE | TOTAL |
|---|-----------|---------|-------------|---------------|--------------|-------------|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Issuance of common stock to founding stockholders..... | 1,200,000 | \$1,200 | \$ 778,800 | \$ -- | \$ (255,000) | \$ 525,000 |
| Issuance of common stock in connection with the purchase of equipment and aircraft parts..... | 10,000 | 10 | 24,990 | -- | -- | 25,000 |
| Issuance of common stock in connection with private placement..... | 312,000 | 312 | 745,997 | -- | -- | 746,309 |
| Issuance of common stock in connection with purchase of DC-10 Simulator held for resale..... | 240,000 | 240 | 599,760 | -- | -- | 600,000 |
| Issuance of common stock in connection with debt..... | 14,800 | 15 | 36,985 | -- | -- | 37,000 |
| Issuance of common stock to founders of Schuylkill Acquisition Corp..... | 400,000 | 400 | 999,600 | -- | -- | 1,000,000 |
| Issuance of common stock in a private offering by Schuylkill Acquisition Corp. | 47,200 | 47 | 95,856 | -- | -- | 95,903 |
| Issuance of 1,000,000 warrants..... | -- | -- | 50,000 | -- | -- | 50,000 |
| Accumulated deficit of Schuylkill Acquisition Corp. adjusted due to merger..... | -- | -- | (35,298) | -- | -- | (35,298) |
| Conversion of \$370,000 of notes payable to common stock..... | 185,000 | 185 | 369,815 | -- | -- | 370,000 |
| Conversion of \$200,000 stockholder loan to common stock and payment of \$15,000 advisory fee in common stock..... | 107,500 | 108 | 214,892 | -- | -- | 215,000 |
| Conversion of \$500,000 note payable to common stock.... | 250,000 | 250 | 499,750 | -- | -- | 500,000 |
| Issuance of common stock for the payment of amounts due to a stockholder and for the purchase of remaining consigned inventory..... | 230,000 | 230 | 459,770 | -- | 175,000 | 635,000 |
| Net Loss..... | -- | -- | -- | (1,383,641) | -- | (1,383,641) |
| Balance, August 31, 1997..... | 2,996,500 | \$2,997 | \$4,840,917 | \$(1,383,641) | \$ (80,000) | \$3,380,273 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

</TABLE>

The accompanying notes are an integral part of these financial statements.

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JET AVIATION TRADING, INC.

STATEMENT OF CASH FLOWS

OCTOBER 3, 1996 (DATE OF INCEPTION) TO AUGUST 31, 1997

| | |
|---|---------------|
| Cash flows from operating activities: | |
| Net (loss)..... | \$(1,383,641) |
| Adjustment to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization..... | 8,293 |
| Allowance for doubtful accounts..... | 93,000 |
| Noncash compensation expense related to sale of founders shares..... | 400,000 |
| Noncash compensation expense related to sale of Schuylkill Acquisition founders shares..... | 999,600 |
| Noncash compensation expense related to warrants..... | 50,000 |
| Noncash compensation relating to an advisory fee..... | 15,000 |
| Noncash compensation relating to loan origination fee..... | 37,000 |
| Deferred tax asset, net of deferred tax liability..... | (21,000) |
| Change in assets and liabilities: | |
| Decrease (increase) in: | |
| Accounts receivable..... | (1,857,119) |

| | |
|--|-------------|
| Inventory (Note 6)..... | (872,333) |
| Cash paid in connection with purchase of DC-10 flight simulator..... | (134,421) |
| Prepaid expenses and other current assets..... | (29,610) |
| Increase (decrease) in: | |
| Accounts payable..... | 977,706 |
| Accrued expenses..... | 144,541 |
| Accrued interest..... | 19,611 |
| Income tax payable..... | 37,200 |
| | ----- |
| Total adjustments..... | (132,532) |
| | ----- |
| Net cash used for operating activities..... | (1,516,173) |
| | ----- |
| Cash flows from investing activities: | |
| Deposit--Boeing..... | (25,000) |
| Purchase of property and equipment..... | (96,730) |
| | ----- |
| Net cash used for investing activities..... | (121,730) |
| | ----- |
| Cash flows from financing activities: | |
| Deferred offering costs..... | (22,750) |
| Proceeds from stockholder loans, subsequently converted to common stock..... | 1,195,000 |
| Payments on stockholder loans..... | (125,000) |
| Proceeds from issuance of securities..... | 932,313 |
| | ----- |
| Net cash provided by financing activities..... | 1,979,563 |
| | ----- |
| Cash, ending..... | \$ 341,660 |
| | ===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW: | |
| Interest paid..... | \$ 24,103 |
| | ----- |
| Income taxes paid..... | \$ -- |
| | ===== |

The accompanying notes are an integral part of these financial statements.

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JET AVIATION TRADING, INC.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES AND OTHER INFORMATION

Organization and History -- Schuylkill Acquisition Corp. ("the Company" or "SAC") was incorporated in Florida on May 28, 1997, for the purpose of acquiring by merger the business and operations of Jet Aviation Trading, Inc. ("Old Jet") upon the completion of a stock offering by the Company. On July 28, 1997, the Company acquired 100% of the outstanding common stock of Old Jet in exchange for 1,776,800 shares of common stock of the Company in a one for one stock exchange. Old Jet was incorporated in the state of Florida on October 3, 1996 for the purpose of buying, selling, leasing and exchanging spare parts for fixed-wing commercial jet transport aircraft. Effective July 28, 1997, the Company's name was changed from Schuylkill Acquisition Corp. to Jet Aviation Trading, Inc.

Merger and Recapitalization -- The merger was completed on July 28, 1997, whereby SAC acquired 100% of the outstanding common stock of Old Jet in exchange for 1,776,800 shares of common stock of SAC in a one for one stock exchange. The merger has been accounted for as a purchase.

The effect of the transaction was a reverse merger, whereas SAC changed its name to Jet Aviation Trading, Inc. and Old Jet became the acquiring entity and accounting survivor. Accordingly, the historical financial statements presented are those of the accounting survivor, Old Jet, and the stockholders' equity of the merged Company was recapitalized to reflect the capital structure of the surviving legal entity and the accumulated deficit of Old Jet at the time of merger.

Nature of Business and Credit Policies -- The Company buys, sells, leases and exchanges spare parts for fixed-wing commercial jet transport aircraft. The Company's customers are primarily commercial passenger and cargo operators, original equipment manufacturers and Federal Aviation Administration and Joint Aviation Authority repair stations throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and extends credit to its customers based upon its evaluations. If creditworthiness is questionable, parts are shipped COD. The allowance for doubtful accounts is based upon the expected collection of accounts receivable.

Cash Equivalents -- The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Revenue and Cost Recognition -- The Company recognizes revenue when parts are shipped to the customer. Amounts paid in advance are recorded as deferred income and recognized in the period in which the parts are shipped. The Company recognizes revenue and the related cost of consigned inventory when the parts are shipped to the customer.

Inventories -- Inventory is stated at the lower of cost or market. Cost of aircraft parts is determined on a specific identification basis. When parts are purchased in lots, the individual parts are expensed at a predetermined percentage of the sales price until the cost of the lot is recovered. Costs to repair, inspect and/or modify the parts are charged to the specific part when incurred. Inventories held by the Company on consignment from others are not included in the inventory in the accompanying financial statements.

Deferred Offering Costs -- Amounts paid or accrued for costs related to the anticipated public offering will be recorded as a reduction of the proceeds when the offering is completed. If the offering is not completed, the costs will be expensed.

Income Taxes -- The Company accounts for income taxes on an asset and liability approach for financial accounting. Deferred income tax assets and liabilities are computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

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JET AVIATION TRADING, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Net Income Per Share -- Net income per common share is computed by dividing net income by the weighted average number of shares outstanding during the period. Warrants issued during the period are not considered dilutive, and therefore, are not included in the computation of net income per share.

In February 1997, the Financial Accounting Standards Board issued SFAS 128, "Earnings Per Share". The adoption of SFAS 128 did not have an effect on the computation of earnings per share because the effective date is December 15, 1997, and earlier application is not permitted.

Recoverability of Long Lived Assets -- The Company has adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company is not aware of any events or circumstances which indicate the existence of an impairment which would be material to the Company's financial statements.

Financial Instruments -- The carrying amount of cash, accounts receivable, accounts payable and accrued expenses approximates fair value as of August 31, 1997. The carrying value of the stockholder's note receivable at August 31, 1997, approximates fair value.

Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates based on management's knowledge and experience. Accordingly, actual results could differ from those estimates.

2. RELATED PARTY TRANSACTIONS

CONSIGNMENT AGREEMENT WITH RELATED PARTY

The Company entered into a Consignment Agreement (the "Agreement") with a related party, Jet Avionics Systems, Inc. ("Avionics"), effective October 3, 1996, wherein the Company agreed to sell certain consignment inventory of technical spare parts belonging to Avionics and pay Avionics 75% of the sales price collected for the inventory sold. The sales price is the gross sales price less any costs involved if any item of inventory is required to be overhauled, certified or modified in order to be sold. Total consideration to be paid for the inventory under the Agreement was \$675,000. Pursuant to such Agreement, the Company sold approximately \$452,000 of parts during the year to third parties

and Avionics was due \$339,000 of this amount. During the year, the Company paid Avionics \$36,000 of the amount due. On August 29, 1997, the Company and Avionics entered into a Consignment Cancellation and Purchase Agreement whereby the Company purchased the remaining inventory not sold with a value of approximately \$336,000 from Avionics and thereafter paid the balance of \$639,000 in exchange for 230,000 shares of the Company's common stock valued at \$2.00 per share, the cancellation of \$175,000 of indebtedness of Avionics due the Company, and \$4,000 in cash.

The president and sole stockholder of Avionics was employed by the Company from October 3, 1996 through October 2, 1997. The president and sole stockholder is the daughter of an employee of the Company who served in a non-executive capacity as Vice President of Special Projects.

JET AVIATION TRADING, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

OFFICE AND WAREHOUSE FACILITY

The Company leases its office and warehouse facility from a company partially owned by a stockholder of the Company under a four year lease expiring December 31, 2000 with two one year options to renew. The monthly rental is \$4,609 plus applicable sales tax and pass through of expenses. Rent expense was \$29,435 for the period ended August 31, 1997. At August 31, 1997, the Company was obligated under this operating lease arrangement as follows:

| YEARS ENDING AUGUST 31, ----- | AMOUNT ----- |
|----------------------------------|-----------------|
| 1998..... | \$ 55,308 |
| 1999..... | 55,308 |
| 2000..... | 55,308 |
| 2001..... | 18,436 |
| | ----- |
| | \$184,360 |
| | ===== |

3. PURCHASE OF DC-10 FLIGHT SIMULATOR AND SUPPORT PACKAGE

On November 1, 1996, the Company entered into an agreement with a company domiciled in the Netherlands (the "seller" or the "Netherlands Company") to purchase one half (50%) ownership in a DC 10-30 six axis flight simulator and all associated equipment required to operate the flight simulator. The agreement calls for the seller and the Company to equally participate in all revenues generated from the sale, lease or disassembly of the hardware of the flight simulator. The Company paid the seller \$125,000 in cash and issued 40,000 shares of the Company's common stock valued at \$2.50 per share for the flight simulator. The Company intends to sell the flight simulator as a complete package.

On March 28, 1997, the Company entered into a second agreement with the seller to purchase one Novoview 2000 Visual System, one package of simulator parts, one maintenance training/procedure manual and one data support package used to support the DC 10-30 flight simulator. The price of the items purchased was \$500,000 and the Company paid for the items by issuing 200,000 shares of its common stock at \$2.50 per share. The Company will receive 100% of the revenues generated from the sale of these items. The interest in the simulator, related items and freight costs are reflected in the accompanying balance sheet as DC-10 flight simulator totaling \$734,421.

This Netherlands Company is also a purchaser and supplier of spare parts from and to the Company. During the year ended August 31, 1997, the Netherlands Company purchased spare parts totaling \$82,775 from the Company, and sold \$183,331 of spare parts to the Company in addition to the DC 10-30 flight simulator. At August 31, 1997, the Company was owed \$1,375 by the Netherlands Company and the Company owed the Netherlands Company \$47,750. Additionally, the Netherlands Company held \$22,400 of the Company's inventory in their warehouse at August 31, 1997.

4. RISKS REGARDING THE COMPANY'S INVENTORY

The Company's inventory consists principally of new, overhauled, serviceable and repairable aircraft parts that are purchased from many sources. Before parts may be installed in an aircraft, they must meet certain standards of condition established by the Federal Aviation Administration ("FAA") and/or the equivalent regulatory agencies in other countries. Specific regulations vary from country to country, although regulatory requirements in other countries generally coincide with FAA requirements. Parts owned or acquired by the Company may not meet applicable standards or standards may change in the future, causing

parts, which are already contained in the Company's inventory to be scrapped or modified. Aircraft manufacturers may also develop new parts to be used in lieu of parts already contained in the Company's inventory. In all such cases, to the extent that the Company has such parts in its inventory, their value may be reduced.

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JET AVIATION TRADING, INC.
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

5. CONSIGNMENT INVENTORY

By consigning inventories to a redistributor such as the Company, customers are able to distribute their aircraft spare parts to a large number of prospective inventory buyers, allowing the customer to maximize the value of its inventory. Consignment also enables the Company to offer for sale significant parts inventory at minimal capital cost. The Company currently maintains or manages or has consignment agreement in place and its revenues from consignment arrangement have accounted for approximately 5% of net sales for the period ended August 31, 1997.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31, 1997:

| | |
|-------------------------------------|----------|
| Furniture and fixtures..... | \$28,715 |
| Computer equipment..... | 27,068 |
| Leasehold improvements..... | 30,443 |
| Software..... | 10,504 |
| | ----- |
| | 96,730 |
| Less: Accumulated depreciation..... | (8,293) |
| | ----- |
| | \$88,437 |
| | ===== |

Property and equipment is depreciated on a straight-line basis with useful lives ranging from 5 to 7 years. Depreciation expense for the period was \$8,293.

7. CAPITAL STOCK

PREFERRED STOCK

Within the limits and restrictions contained in the Certificate of Incorporation, the Board of Directors has the authority, without further action by the stockholders, to issue up to 3,000,000 shares of Preferred Stock, \$.10 par value per share, in one or more series, and to fix, as to any such series, the dividend rate, redemption prices, preferences on liquidation or dissolution, sinking fund terms, if any, conversion rights, voting rights, and any other preferences or special rights and qualifications.

COMMON STOCK

Founders' shares totaling 400,000 common shares were issued on May 28, 1997, to four entities for par value of \$.001. Net proceeds from the issuance of founders' shares was \$400. Compensation expenses was charged for the difference between the fair market value per share of \$2.50 and \$.001 per share paid or a total charge of \$999,600.

During 1997, the Company sold 47,200 shares of common stock for \$2.50 per share resulting in total proceeds of \$118,000. Deferred offering costs of \$22,098 have been reflected as a reduction of the proceeds of the private placement offering.

On July 17, 1997, the Company issued 1,776,800 shares of common stock to acquire 100% of the outstanding common stock of Jet Aviation in a 1 for 1 stock exchange.

WARRANTS

On June 1, 1997, 1,000,000 warrants were issued in connection with the organization of Schuylkill Acquisition Corp. to related parties for an advisory fee. The Company has reserved 1,000,000 shares of its common stock for exercise of the warrants. Each warrant entitles the holder to purchase one share of common

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JET AVIATION TRADING, INC.

stock at an exercise price of \$4.50 until June 30, 2002. The warrants are redeemable by the Company at \$.05 upon the occurrence of both of the following events: (a) the listing of the Company's shares of common stock on a securities exchange, and (b) the Company's common stock is trading in excess of \$5.25 per share for a ten day period.

The Company has adopted SFAS No. 123, Accounting for Stock-Based Compensation, for non-employee stock compensation. Accordingly, the warrants referred to above have been valued at \$.05 per warrant and expensed.

CONVERSION OF DEBT

During October and November, 1996, an affiliate of a stockholder loaned the Company \$325,000. The loans were payable on demand and did not bear a stated interest rate. During the year \$125,000 was repaid. On August 29, 1997, the Company converted \$200,000 of the loan to 100,000 shares of common stock at \$2.00 per share.

On March 27 and May 12, 1997, the Company borrowed \$370,000 from a stockholder and entered into two short term notes payable, bearing interest at 6% per annum. One of the notes was extended on June 19, 1997, and interest was increased to 10% per annum. On August 29, 1997, the Company and stockholder converted the notes payable to 185,000 shares of common stock at \$2.00 per share and the Company paid the interest accrued on the short term notes payable through that date.

On May 23, 1997, prior to the merger, Schuylkill Acquisition Corp. borrowed \$500,000 from a stockholder, evidence by a promissory note bearing interest at 12%. On August 29, 1997, the promissory note was converted to 250,000 shares of common stock at \$2.00 per share, and the Company paid the accrued interest through that date.

COMMON STOCK TRANSACTIONS OF JET AVIATION TRADING, INC. (OLD JET) PRIOR TO MERGER

On October 3, 1996, Old Jet sold 408,000 founders' shares of common stock for total proceeds of \$125,000. Effective October 1, 1996, Old Jet issued 600,000 shares of the Old Jet's common stock for a \$175,000 note bearing interest of 6% to Avionics. Further, effective November 1, 1996, Old Jet issued 192,000 shares of common stock to its President for a \$80,000 note bearing interest of 6%. See Note 2 and Note 8. Compensation expenses was charged for the difference between the fair market value of \$2.50 per share and \$.417 per share or a total charge of \$400,000. See Note 2 and Note 8.

On October 22, 1996, Old Jet issued 10,000 shares valued at \$2.50 per share in partial payment of the purchase of equipment and aircraft parts totaling \$50,000.

On January 22, 1997, Old Jet issued 40,000 shares of Old Jet's common stock in partial payment for the purchase of a DC-10 flight simulator. See Note 3. Also, on January 22, 1997, and June 2, 1997, Old Jet issued 312,000 shares of common stock in private placement transactions. Net proceeds from the private placement totaled \$746,309, after giving effect to \$33,691 in offering costs.

On March 31, 1997, Old Jet issued 200,000 shares of common stock valued at \$2.50 per share in connection with the purchase of a DC-10 flight simulator support package. See Note 3.

On April 4, 1997, and May 12, 1997, Old Jet issued a total of 14,800 shares valued at \$2.50 per share, for a total of \$37,000, to a stockholder as additional incentive for providing stockholder loans. The expense has been recorded as debt issue costs.

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JET AVIATION TRADING, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

8. STOCKHOLDERS' NOTES RECEIVABLE

Stockholders' notes receivable relate to the issuance of Old Jet's common stock as follows:

- Effective October 1, 1996, Old Jet issued 600,000 shares of common stock to Avionics for a \$175,000 note bearing interest at 6%. The note was canceled in partial payment of the amounts due under the Consignment Cancellation and Purchase Agreement. See Note 2.

- On November 1, 1996, Old Jet issued 192,000 shares of common stock to its president for an \$80,000 note bearing interest at 6%. Should the president earn bonuses per his employment contract, one half of the bonuses in excess of \$25,000 earned annually, may be applied to the outstanding note balance. The note is due on demand and is unsecured.

9. INCOME TAXES

The income tax provision was comprised of the following at August 31, 1997:

| | |
|---------------------------|-----------|
| Current: | |
| Federal..... | \$ 30,500 |
| State..... | 6,700 |
| Deferred: | |
| Federal..... | (16,700) |
| State..... | (4,300) |
| | ----- |
| Income tax provision..... | \$ 16,200 |
| | ===== |

A reconciliation between the statutory rate and the effective rate is as follows for the year ended August 31, 1997:

| | |
|---|-------|
| Federal statutory tax rate..... | 34.0% |
| State statutory rate, net of federal benefit..... | 3.6 |
| Permanent difference and other..... | 12.8 |
| | ---- |
| Effective tax rate..... | 50.4% |
| | ===== |

Significant components of the Company's deferred tax assets and liabilities, computed using currently enacted tax rates, are as follows at August 31, 1997:

| | |
|---|-----------|
| Current items: | |
| Assets: | |
| Allowances for doubtful accounts which are currently nondeductible..... | \$23,000 |
| | ----- |
| Net current deferred tax assets..... | \$23,000 |
| | ===== |
| Long-term items: | |
| Property and equipment principally due to the use of accelerated depreciation for tax purposes..... | \$(2,000) |
| | ----- |
| Net long-term deferred tax liabilities..... | \$(2,000) |
| | ===== |

10. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENT

Effective November 1, 1996, Old Jet entered into an employment contract with its president for a three year period and the agreement automatically extends on a month to month basis thereafter. Base compensation

JET AVIATION TRADING, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

is \$160,000 per year, plus 3% of the pretax net income of the Company. The agreement also calls for one half of the bonus in excess of \$25,000 earned annually by the president to be applied to reduce the outstanding balance of the president's obligation under his promissory note given to Old Jet for his stock. See Note 6.

Effective October 3, 1996, Old Jet entered into an employment contract with an individual who is an affiliate of Avionics as an employee for a three year period. Base compensation is \$120,000 per year, plus a bonus determined by the Board of Directors. On October 2, 1997, the Company and the employee mutually agreed to the termination of said employment agreement dated October 3, 1996. The Company and individual have entered into a Consulting Agreement on October 3, 1997, for a twelve month period ending October 2, 1998. Base compensation is \$4,000 per month, plus a commission of 15% of the collected purchase price of sales, and 15% of the purchase price of material for resale which the individual introduces to the Company.

11. SALES TO MAJOR CUSTOMERS

The Company sells, leases and exchanges spare parts for fixed-wing commercial jet transport aircraft to foreign and domestic customers.

The information with respect to revenue, by geographic area, is presented in the table below for the period from October 3, 1997 (inception) through August 31, 1997.

| | |
|-----------------------------|-------------|
| United States..... | \$3,559,585 |
| Africa and Middle East..... | 36,119 |
| Europe..... | 938,896 |
| Latin America..... | 25,140 |
| Asia..... | 1,655,813 |
| | ----- |
| Total..... | \$6,215,553 |
| | ===== |

One Asian customer accounted for 20% of the Company's sales in fiscal 1997.

12. SUPPLEMENTAL NON-CASH FLOW INFORMATION

Effective October 3, 1996, Old Jet issued 192,000 shares of common stock to its President for a \$80,000 note bearing interest of 6%. Compensation expenses was charged for the difference between the fair market value of \$2.50 per share and \$.417 per share or a total charge of \$400,000.

During the year the Company purchased equipment and aircraft parts with a value of \$50,000 by issuing 10,000 shares of common stock at \$2.50 per share and paying the remainder in cash.

As part of the purchase of the DC-10 flight simulator and support package for \$734,421, the Company issued 240,000 shares of common stock at \$2.50 per share and paid the remainder in cash.

As part of its cost of borrowing money during the year the Company issued 14,800 shares of common stock valued at \$2.50 per share to a stockholder of the Company.

On August 29, 1997, the Company issued 230,000 shares of common stock valued at \$2.00 per share, canceled a \$175,000 note due to the Company by Avionics and paid \$4,000 in cash in satisfaction of a \$303,000 debt due Avionics and the purchase of the remaining consigned inventory valued at \$336,000.

Schuylkill Acquisition Corp. (prior to merging with Old Jet) issued founders' shares totaling 400,000 on May 28, 1997 to four entities for par value of \$.001. Net proceeds from the issuance of founders' shares was \$400. Compensation expenses was charged for the difference between the fair market value of \$2.50 per share and \$.001 per share paid or a total charge of \$999,600.

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JET AVIATION TRADING, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

On August 29, 1997, the Company converted four notes payable totaling \$1,070,000 by issuing 535,000 shares of common stock at a value of \$2.00 per share.

On August 29, 1997, the Company paid \$15,000 as an advisory fee to a related party by issuing 7,500 shares of common stock at a value of \$2.00 per share.

13. CONCENTRATION OF CREDIT RISK INVOLVING CASH

During the year, the Company maintained cash balances in excess of the Federally insured limits. The Company maintained the balances in four banks, one of which is a major money center bank. Three of the banks are Federally insured. A fourth bank, Israel Discount Bank Limited is a major international bank and operates in the United States under the Edge Act, but is not Federally insured. At August 31, 1997, the Company had balances under \$100,000 in the three Federally insured banks, but maintained a balance of \$264,550 in Israel Discount Bank Limited. However, the Company does not believe a significant risk existed in having the balance with Israel Discount Bank Limited.

14. SUBSEQUENT EVENTS

On October 29, 1997, the Board of Directors adopted a Stock Option Plan (the "Plan") effective September 1, 1997. This Plan provides for the grant to

employees selected by the Board of Directors, or Compensation Committee, of incentive stock options, non-qualified stock options and stock appreciation rights in the aggregate not exceeding 750,000 shares. The Plan also sets forth applicable rules and regulations for stock options granted to non-employee directors. The Board of Directors authorized the issuance of 74,500 stock options. The Plan is subject to stockholder approval and will be submitted to the stockholders at the Company's annual meeting in 1998.

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AVIATION HOLDINGS INTERNATIONAL, INC
Condensed Consolidated Balance Sheet

ASSETS

<TABLE>
<CAPTION>

| | May 31, 1998 |
|--|----------------------|
| | ----- (Unaudited) |
| <S> | <C> |
| Current Assets | |
| Cash | \$ 555,742 |
| Trade receivables (Net of allowance for doubtful accounts of \$112,000) | 1,991,302 |
| Inventory | 2,544,335 |
| Interest receivable from stockholder - related party | 13,046 |
| Prepaid expenses | 49,676 |
| Deferred tax benefit | 135,000 |
| | ----- |
| Total Current Assets | 5,289,101 |
| | ----- |
| Property and Equipment, Net | 381,428 |
| | ----- |
| Other Assets | |
| Investment in joint venture | 212,564 |
| Deposits | 17,385 |
| Intangibles - goodwill | 367,740 |
| | ----- |
| Total Other Assets | 597,689 |
| | ----- |
| Total Assets | \$ 6,268,218 |
| | ===== |

</TABLE>

See notes to financial statements.

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AVIATION HOLDINGS INTERNATIONAL, INC
Condensed Consolidated Balance Sheet

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

| | May 31, 1998 |
|---|----------------------|
| | ----- (Unaudited) |
| <S> | <C> |
| Current Liabilities | |
| Accounts payable | \$ 2,139,672 |
| Current portion of long-term debt | 14,334 |
| Advances from stockholder - related party | 57,035 |
| Accrued expenses | 424,407 |
| | ----- |
| Total Current Liabilities | 2,635,448 |

| | |
|---|--------------|
| Noncurrent Liabilities | |
| Long-term debt, net of current portion | 4,332 |
| Deferred income taxes | 1,000 |
| | ----- |
| Total Noncurrent Liabilities | 5,332 |
| | ----- |
| Total Liabilities | 2,640,780 |
| | ----- |
| Commitments and Contingencies | |
| Stockholders' Equity | |
| Preferred stock, par value \$.10 per share; 3,000,000 shares authorized, and no shares issued and outstanding | - |
| Common stock, par value \$.001 per share; 30,000,000 shares authorized, and authorized and 3,306,500 shares issued and outstanding | 3,307 |
| Additional Paid-In Capital | 5,615,608 |
| Less stock subscriptions receivable | (280,000) |
| Accumulated deficit | (1,711,477) |
| | ----- |
| Total Stockholders' Equity | 3,627,438 |
| | ----- |
| Total Liabilities and Stockholders' Equity | \$ 6,268,218 |
| | ===== |

</TABLE>

See notes to financial statements.

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AVIATION HOLDINGS INTERNATIONAL, INC
Condensed Consolidated Statements of Operations and Accumulated Deficit
<TABLE>
<CAPTION>

| | October 3, 1996 Through May 31, 1997 | Nine Months Ended May 31, 1998 |
|---------------------------------------|--|---|
| | (Unaudited) | (Unaudited) |
| <S> | <C> | <C> |
| Net Sales | \$ 3,644,071 | \$ 9,841,005 |
| Cost of Goods Sold | 2,644,623 | 8,591,981 |
| | ----- | ----- |
| Gross Profit | 999,448 | 1,249,024 |
| | ----- | ----- |
| Operating Expenses | | |
| Salaries and wages | 371,107 | 845,245 |
| General and administrative | 511,216 | 849,090 |
| Non-compensation stock expense | 1,399,601 | - |
| | ----- | ----- |
| Total Operating Expenses | 2,281,924 | 1,694,335 |
| | ----- | ----- |
| Loss from Operations | (1,282,476) | (445,311) |
| | ----- | ----- |
| Other Income (Expense) | | |
| Interest income | 10,806 | 18,583 |
| Interest expense | (23,060) | (16,340) |
| Interest in earnings of joint venture | - | 4,232 |
| | ----- | ----- |
| Total Other Income (Expense) | (12,254) | 6,475 |
| | ----- | ----- |

| | | |
|--|----------------|----------------|
| Loss Before Income Taxes | (1,294,730) | (438,836) |
| | ----- | ----- |
| Income Tax Benefit (Expense) | | |
| Current | (34,000) | - |
| Deferred | 19,000 | 111,000 |
| | ----- | ----- |
| Total Income Tax Benefit (Expense) | (15,000) | 111,000 |
| | ----- | ----- |
| Net Loss | (1,309,730) | (327,836) |
| Accumulated Deficit, Beginning of Period | - | (1,383,641) |
| | ----- | ----- |
| Accumulated Deficit, End of Period | \$ (1,309,730) | \$ (1,711,477) |
| | ===== | ===== |
| Basic and Diluted Loss Per Common Share | (.91) | (.11) |
| | ===== | ===== |
| Weighted Average Number of Common Shares Outstanding: | 1,439,742 | 3,119,137 |
| | ===== | ===== |

</TABLE>

See notes to financial statements

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AVIATION HOLDINGS INTERNATIONAL, INC
Condensed Consolidated Statements of Cash Flows

<TABLE>

<CAPTION>

| | October 3, 1996 Through May 31, 1997 | Nine Months Ended May 31, 1998 |
|---|--|--------------------------------------|
| | ----- | ----- |
| | (Unaudited) | (Unaudited) |
| <S> | <C> | <C> |
| Cash Flows from Operating Activities | | |
| Net Loss | \$ (1,309,730) | \$ (327,836) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 4,374 | 33,583 |
| Provision for doubtful accounts | 93,000 | 19,000 |
| Earnings of joint venture | - | (4,232) |
| Reserve for obsolete inventory | - | 488,421 |
| Noncash compensation expenses related to sale of founders shares | 1,399,601 | - |
| Withdrawn offering costs | - | 22,750 |
| Deferred income taxes | (19,000) | (111,000) |
| Change in assets and liabilities | | |
| Increase in | | |
| Accounts receivable | (1,934,179) | (248,183) |
| Inventory | (1,554,418) | (860,002) |
| Prepaid expenses and other current assets | (43,804) | (8,112) |
| Deposits | - | (17,385) |
| Increase (decrease) in | | |
| Accounts payable | 1,770,308 | 1,161,966 |
| Income taxes payable | 34,000 | (37,200) |
| Accrued expenses | 97,372 | 260,256 |
| | ----- | ----- |
| Total Adjustments | (152,746) | 699,862 |
| | ----- | ----- |
| Net Cash (Used in) Provided by Operating Activities | (1,462,476) | 372,026 |
| | ----- | ----- |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (79,914) | (168,637) |
| Investment in joint venture | - | (100,000) |
| | ----- | ----- |
| Net Cash Used in Investing Activities | (79,914) | (268,637) |
| | ----- | ----- |
| Cash Flows From Financing Activities | | |

| | | |
|---|-----------|------------|
| Principal payments on long-term debt | - | (3,010) |
| Deferred offering costs | (21,285) | - |
| Advances from stockholders - related party | 121,727 | - |
| Payments on acquired stockholder obligation - related party | - | (51,297) |
| Loans from stockholders, net of repayments | 640,000 | - |
| Proceeds from sales of securities | 871,309 | 165,000 |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | 1,611,751 | 110,693 |
| | ----- | ----- |
| Net increase in cash | 69,361 | 214,082 |
| Cash, Beginning of Period | - | 341,660 |
| | ----- | ----- |
| Cash, End of Period | \$ 69,361 | \$ 555,742 |
| | ===== | ===== |

</TABLE>

See notes to financial statements

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AVIATION HOLDINGS INTERNATIONAL, INC
Notes to Interim Financial Statements

NOTE 1- BASIS OF PRESENTATION

Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements include the accounts of Aviation Holdings International, Inc. (formerly Jet Aviation Trading, Inc.) and its majority-owned subsidiaries (collectively "AHI" or the "Company") after elimination of significant intercompany accounts and transactions.

The interim consolidated financial data as of May 31, 1998 and for the nine months then ended and the period October 3, 1996 (date of inception) through May 31, 1997 is unaudited. The information reflects all adjustments, consisting only of normal recurring adjustments, that in the opinion of management, are necessary to present fairly the financial position and results of operations of the Company for the periods indicated. Results of operations for the interim periods are not necessarily indicative of the results of operations for a full fiscal year.

The interim consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto contained elsewhere in the Prospectus for the year ended August 31, 1997.

Change of Majority Ownership

Effective May 31, 1998, various Company shareholders entered into share exchange agreements ("Exchange Agreements") with Aviation Holdings Group, Inc. (formerly EYEQ Networking, Inc.) ("AHGI"). Under the Exchange Agreements, one share of AHGI's common stock was exchanged for between 1.667 to 2.5 shares of the Company's common stock depending on the terms of the underlying agreement. AHGI also purchased a block of 80,000 shares of the Company's common stock from a stockholder for \$100,000. Through these exchanges and the purchase, AHGI acquired 2,016,280 shares (60.98%) of the Company's issued and outstanding common stock as of May 31, 1998.

Additional Exchange Agreements were executed in June and July 1998. As of September 30, 1998, AHGI had acquired an aggregate of 2,468,080 shares (74.08%) of the Company's issued and outstanding common stock.

This interim consolidated financial data is presented as of the most recent fiscal quarter of the Company coinciding with the change of ownership. Subsequent operations are consolidated in the AHGI financial statements. The acquisition has been accounted for as a purchase by AHGI.

NOTE 2 -ACQUISITIONS AND MERGERS

Effective February 12, 1998, the Company entered into a stock purchase agreement (the "Purchase Agreement") with PASCO International Aviation Corp., a Florida corporation ("PASCO Florida"), PASCO International Aviation Corporation Limited, a Hong Kong corporation ("PASCO HK"), PASCO Financial Services Limited, a Hong

Kong corporation ("PASCO Financial HK"), and Aero-Link Flight Systems Limited, a Hong Kong corporation ("Aero HK"), and their major stockholder ("Seller"). (PASCO Florida, PASCO HK, PASCO Financial HK and Aero HK are hereinafter referred to collectively as "PASCO").

The Seller received 150,000 shares of the Company's common stock, entered into a three-year employment contract with the Company (see Note 4), and retained primarily all of the operating tangible assets and liabilities of the acquired companies. An interest in a joint venture owned by PASCO and a corresponding liability that were approximately equivalent in value were transferred to the Company under the terms of the Purchase Agreement.

The acquisition was apportioned as follows:

The Company acquired 90% of the outstanding common stock of PASCO HK in exchange for 40,000 shares of the Company's common stock. PASCO HK operations consist of purchasing, selling and leasing of aircraft components and engines in Asia and the Pacific Rim.

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AVIATION HOLDINGS INTERNATIONAL, INC.
Notes to Interim Financial Statements

NOTE 2 -ACQUISITIONS AND MERGERS (Continued)

The Company acquired 100% of the outstanding common stock of PASCO Florida in exchange for 100,000 shares of the Company's common stock. PASCO Florida holds a 25% interest in Shenyang Northern Aircraft Maintenance & Engineering Co., Ltd., a Sino-American joint venture (SYNOR-A) (see Note 3). The Seller retained a 22% interest in future distributions to be received by PASCO Florida after its capital investment is recovered. The Company recognized minimal revenue from PASCO Florida as of May 31, 1998.

The Company acquired 80% of the outstanding common stock of PASCO Financial HK in exchange for 1,000 shares of the Company's common stock. The objective of PASCO Financial HK is to procure financing from banks on behalf of airlines for their aircraft and aviation-related purchases. PASCO Financial HK also intends to function on behalf of certain airlines and act as their agent in connection with the sale or lease of aircraft. The Company has not recognized any revenue from PASCO Financial HK as of May 31, 1998.

The Company acquired 100% of the outstanding common stock of Aero HK in exchange for 9,000 shares of the Company's common stock. Aero HK and its wholly owned subsidiary Aero-Link Flight Systems, Inc., a Florida Corporation ("AERO Florida"), (collectively, "Aero-Link") have entered into an agreement to act as the global marketing representative (except the Taiwan region) for China Airlines, Taiwan. In this capacity they are responsible for promoting and marketing China Airlines' aircraft maintenance, turbine engine and component repair and overhaul business. AERO Florida also functions as a purchasing agent in the United States on behalf of PASCO HK.

All of the aforementioned acquisitions have been accounted for as purchases, and all operations have been included in the accompanying consolidated financial statements since the date of the acquisitions.

The Seller assigned inventory to the Company as partial payment for common stock purchased by the Seller (see Note 6). The Company was responsible for collecting the pre-purchase receivables of PASCO and applying those proceeds against the pre-purchase payables of PASCO, a stock subscription payable to the Company on behalf of the Seller (see Note 6) and the balance to an assumed Seller obligation.

NOTE 3 - JOINT VENTURE

SYNOR-A is a Sino-American Joint venture company which was established in November 1997 by PASCO Florida and China Northern Airlines ("CNA") under the terms of an eleven-year agreement. PASCO Florida holds a twenty-five percent interest in SYNOR-A and CNA holds the remaining 75% interest. SYNOR-A primarily deals with inspection, repair and recertification of DC9, MD80, and A300-600 components, instruments and avionics. SYNOR-A has been approved by the Civil Aviation Administration of China in the avionics accessories repair field. In November 1997, SYNOR-A received the licenses necessary to commence operations. Operations commenced in March 1998. The term of the joint venture arrangement is eleven years. The Company reflects this investment on its financial statements using the equity method of accounting.

PASCO Florida's total financial investment commitment to SYNOR-A is \$1,000,000. As of May 31, 1998, the Company had funded \$208,332 of this commitment. Under the terms of the joint venture, PASCO Florida is entitled to certain preferences in any distributions of the net income of SYNOR-A. This distribution preference is effectively intended to provide that PASCO Florida recovers its investment in SYNOR-A prior to any regular distributions being made to CNA. PASCO Florida's role in SYNOR-A is to provide technological advice to SYNOR-A and promote, market and sell the services of SYNOR-A. The Company has recognized minimal revenue from SYNOR-A as of May 31, 1998.

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AVIATION HOLDINGS INTERNATIONAL, INC.
Notes to Interim Financial Statements

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Effective May 31, 1998, the President of the Company entered into an employment agreement with AHGI to serve as President and Chief Executive Officer of AHGI ("CEO"). In accordance with the employment agreement the CEO also became a director of AHGI. The agreement reaffirms debt obligations of the CEO to the Company which were initiated under a prior agreement in connection with the purchase of common stock. The term of the employment agreement is three years and may be extended on a month-to-month basis thereafter. In addition to base compensation, the CEO is entitled to a bonus arrangement based upon a percentage of pretax income. In addition, the CEO was granted options to purchase 200,000 shares of AHGI's common stock at an exercise price of \$2.50 per share. All of these options are vested and expire five years from the effective date of the new employment agreement.

Effective February 14, 1998, in conjunction with the Purchase Agreement, the Seller, PASCO's majority shareholder, entered into an employment agreement with the Company to serve as Vice President. In accordance with the employment agreement, the Seller also became a director of the Company. Duties include responsibility for and oversight of the Company's operations in Asia and the Pacific Rim. The term of the employment agreement, which includes base compensation and a bonus as defined in the agreement, is three years and may be extended on a month-to-month basis thereafter. The agreement requires one-half of the bonus in excess of \$25,000 earned annually to be applied as a reduction of the outstanding balance of the Seller's obligation under a three-year promissory note dated February 12, 1998 (see Note 6). The Seller was granted options to purchase 15,000 shares of the Company's common stock at an exercise price of \$2.50 per share. One-third of these options vest annually over a three-year period beginning February 14, 1999 and expire five years from the date of grant.

NOTE 5 - SALES TO MAJOR CUSTOMERS

The Company sells, leases and exchanges spare parts for fixed-wing commercial jet transport aircraft to foreign and domestic customers.

The information with respect to revenue, by geographic area, is presented in the table below for the period from October 3, 1996 (inception) through May 31, 1997 and for the nine months ended May 31, 1998.

| | May 31, | |
|------------------------|--------------|--------------|
| | 1997 | 1998 |
| United States | \$ 2,185,179 | \$ 6,317,145 |
| Africa and Middle East | 33,869 | 47,595 |
| Europe | 421,104 | 1,332,712 |
| Latin America | 9,520 | 73,925 |
| Asia | 994,399 | 2,069,628 |
| Total | \$ 3,644,071 | \$ 9,841,005 |

For the period October 3, 1996 (inception) through May 31, 1997, AHI had sales to three customers of \$840,850, \$618,530 and \$377,201, respectively, of more than ten percent of total revenues. For the nine months ended May 31, 1998, AHI had sales to one customer in the amount of \$2,195,000 that accounted for more than twenty percent of total revenues.

AVIATION HOLDINGS INTERNATIONAL, INC.
Notes to Interim Financial Statements

NOTE 6 - STOCK SUBSCRIPTIONS RECEIVABLE

On February 12, 1998, the Company issued 160,000 shares of common stock to the Seller in exchange for two promissory notes aggregating \$365,000 and the assignment from PASCO of inventory valued at \$35,000. One of the notes received by the Company was a three-month non-interest bearing promissory note for \$165,000 which had recourse against the personal assets of the Seller ("Recourse Note"). The Recourse Note was paid in full prior to May 31, 1998. The other note is a three-year promissory note for \$200,000 which bears interest at 8.5% and is secured solely by 80,000 shares of the Company's common stock ("Nonrecourse Note"). The shares of common stock which have been pledged as security are held in escrow in accordance with a stock pledge agreement dated February 12, 1998. The Nonrecourse Note remained outstanding at September 30, 1998.

The Company was responsible to collect all of the pre-purchase accounts receivable of PASCO on behalf of the Seller. A portion of these funds, amounting to \$165,000, was used to pay the principal due on the Recourse Note prior to May 31, 1998.

The Company recorded interest income on outstanding stock subscription receivables of approximately \$8,700 for the nine months ended May 31, 1998 and \$3,156 for the period October 3, 1996 through May 31, 1997. As of May 31, 1998 and 1997, accrued interest receivable on subscription receivables was \$13,045 and \$3,156, respectively.

NOTE 7 - CONCENTRATIONS OF CREDIT RISK INVOLVING CASH

During the periods presented in these financial statements, the Company maintained cash balances in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits. At May 31, 1998, the amount of funds that exceeded FDIC insurance was \$297,745. The Company also maintained funds in banks that were not FDIC insured. At May 31, 1998 and 1997 the Company maintained balances of \$367,067 and \$176,389, respectively in Israel Discount Bank Limited, an international bank that operates in the United States under the Edge Act. The Company does not believe a significant risk existed in having the balances in excess of the FDIC-insured limit.

During the period from February 12, 1998 through May 31, 1998, PASCO HK maintained bank accounts in Hong Kong with the Kwong On Bank, Limited. The accounts were denominated in US Dollars, Hong Kong Dollars and German Deutsche Marks. None of the accounts were FDIC insured. During the period, the accounts denominated in foreign currencies and the effects of translation of foreign currency accounts into US dollars were immaterial.

NOTE 8 - FLIGHT SIMULATOR AND SUPPORT PACKAGE

In 1998, the Company changed its sales strategy regarding a flight simulator maintained in inventory. Instead of selling the simulator as a complete unit, the Company decided to sell the individual components of the unit. In conjunction with this change in strategy, the Company has taken a charge against income of \$335,000 during the nine-month period ended May 31, 1998 in order to reflect the decrease in market value of the avionics and the structure as spare parts.

NOTE 9 - LONG TERM DEBT

In February 1998, the Company purchased a delivery van. The Company financed the purchase through a five-year note with General Motors Acceptance Corporation having an interest rate of 5.9% and monthly payments of \$371. As of May 31, 1998 the balance of the note was \$18,666.

AVIATION HOLDINGS INTERNATIONAL, INC.
Notes to Interim Financial Statements

NOTE 10 - LEASED EQUIPMENT

Commencing on May 20, 1998, the Company leased a flight computer with a cost of \$129,000 to a customer. The lease term was for four months. Payments on the lease amounted to \$9,000 per month and the equipment was returned by the

customer on September 20, 1998. The Company temporarily reclassified the leased item from inventory to property and equipment and depreciated the computer using the straight-line method over a five-year life during the term of the lease.

NOTE 11 - STOCK OPTION PLAN

Effective September 1, 1997 the Company adopted a qualified incentive stock option and stock appreciation rights plan that has a term of ten years. A maximum of 750,000 shares of common stock may be issued under the plan to any employee or consultant of the Company or any of its subsidiaries. The option price, the number of shares, the grant date and the vesting are determined at the discretion of the Company's Board of Directors. Options granted under the plan are generally exercisable for a period not to exceed ten years. Upon termination, an employee has three months to exercise any vested options. If any individual or entity acquires an eighty percent interest in the voting classes of stock of the Company, the plan automatically terminates.

The Company has elected to account for the stock option plan under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Accordingly, no compensation expense has been recognized for the stock options issued.

Following is a summary of option transactions during the nine months ended May 31, 1998:

<TABLE>
<CAPTION>

| | Number of Shares | Weighted Average Exercise Price |
|----------------------------------|------------------------|--|
| | ----- <C> | ----- <C> |
| Outstanding at September 1, 1997 | 0 | |
| Granted | 234,750 | \$ 2.50 |
| Exercised | 0 | |
| Canceled | (40,000) | \$ 2.50 |
| | ----- | ----- |
| Outstanding at May 31, 1998 | 194,750 | \$ 2.50 |
| | ===== | ===== |
| Shares Available for Grant | 555,250 | |
| | ===== | |

</TABLE>

The following table summarizes information about fixed stock options outstanding at May 31, 1998:

<TABLE>
<CAPTION>

| Exercise Price | Options Outstanding | | | Options Exercisable | |
|----------------|-------------------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number of Outstanding Options | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| ----- <S> | ----- <C> | ----- <C> | ----- <C> | ----- <C> | ----- <C> |
| \$ 2.50 | 194,750 | 9.67 | \$ 2.50 | 166,500 | \$ 2.50 |
| | ===== | | | ===== | |

</TABLE>

NOTE 11 - STOCK OPTION PLAN (Continued)

The Company subsequently amended and restated this plan, and all active participants became included in the stock option plan of AHGI. The options to acquire the Company's stock, outstanding at the time of the restatement, were replaced by options to acquire AHGI Company stock on a share-for-share basis.

NOTE 12 - INTANGIBLES

The resulting goodwill from the purchase of the PASCO entities is being amortized on a straight-line basis over 15 years.

NOTE 13 - SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash was paid for the following items as follows:

| | Period Ended May 31, | |
|----------|----------------------|-----------|
| | 1997 | 1998 |
| Interest | \$ 12,285 | \$ 27,115 |
| Taxes | \$ 0 | \$ 16,200 |

The Company had the following non-cash transactions:

In October 1996, the Company issued stock in the amount of \$625,000 as consideration for the purchase of inventory.

In October 1996, the Company issued stock in exchange for promissory notes aggregating \$255,000.

In connection with the acquisition of PASCO in February 1998, the Company issued stock with a value of \$375,000 to the Seller. The company issued additional stock to the Seller in exchange for a promissory note in the amount of \$200,000 and inventory valued at \$35,000.

In February 1998, the Company financed the purchase of a delivery van in the amount of \$21,676.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated combined financial statements are based on the historical financial statements of Aviation Holdings Group, Inc. ("AHGI") and the historical financial statements of Aviation Holdings International, Inc. ("AHI"), an entity in which AHGI acquired a majority interest during May 1998 and additional interests in June and July 1998 and March, April and June 1999 (both entities collectively referred to as the "Company"). Specifically, the following unaudited pro forma condensed consolidated combined financial statements present, as if the acquisition of AHI had been consummated as of January 1, 1998, the pro forma results of operations of the Company for the six months ended June 30, 1999 and for the year ended December 31, 1998. The information presented is derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the separate historical financial statements and the notes thereto appearing elsewhere in this Prospectus/SB2 or incorporated elsewhere in this Prospectus/SB2 by reference. The unaudited pro forma condensed combined financial data has been included for comparative purposes only and does not purport to be indicative (i) of the results of operations or financial position which actually would have been obtained if the AHI acquisition had been effected at January 1, 1998 or (ii) of the financial position or results of operations which may be obtained in the future.

The post-acquisition results of operations of AHI have been included in the historical operations of the Company. Pro forma adjustments to record the preacquisition results of operations of AHI are included in the accompanying pro forma financial information.

P-1

AVIATION HOLDINGS GROUP, INC
 Pro Forma Condensed Consolidated Combined Statement of Operations
 For the Year Ended December 31, 1998

<TABLE>
 <CAPTION>

Aviation Holdings International
 Aviation Holdings International

As

| | Group, Inc. | Inc. | Adjustments | Restated |
|--|----------------|---------------|-------------|----------------|
| <S> | <C> | <C> | | <C> |
| Net Sales | \$ 0 | \$ 14,201,107 | - | \$ 14,201,107 |
| Cost of Goods Sold | - | 10,972,724 | - | 10,972,724 |
| Gross Profit | 0 | 3,228,383 | - | 3,228,383 |
| Operating Expenses | | | | |
| Salaries and wages | 380,328 | 1,340,879 | - | 1,721,207 |
| General and administrative | 709,872 | 1,602,965 | - | 2,312,837 |
| Professional fees | 283,734 | 315,010 | - | 598,744 |
| Total Operating Expenses | 1,373,934 | 3,258,854 | - | 4,632,788 |
| Loss from Operations | (1,373,934) | (30,471) | - | (1,404,405) |
| Other (Expense) Income | | | | |
| Interest expense | (65,391) | (29,067) | - | (94,458) |
| Interest income | 54,472 | 28,888 | - | 83,360 |
| Loss from joint venture | - | (5,290) | - | (5,290) |
| Total Other Expense | (10,919) | (5,469) | - | (16,388) |
| Loss Before Income Taxes and Minority Interest | (1,384,853) | (35,940) | - | (1,420,793) |
| Income Tax Expense | (8,893) | (115,615) | - | (124,508) |
| Loss Before Minority Interest | (1,393,746) | (151,555) | - | (1,545,301) |
| Minority Interest | - | - | 5,759 | 5,759 |
| Net Loss | \$ (1,393,746) | \$ (151,555) | \$ 5,759 | \$ (1,539,542) |
| Basic and Diluted Loss Per Common Share | | | | \$ (0.38) |
| Weighted Average Number of Common Shares Outstanding | | | | 4,068,047 |

</TABLE>

The accompanying notes are an integral part of this unaudited pro forma condensed consolidated combined statement of operations.

P-2

AVIATION HOLDINGS GROUP, INC
Pro Forma Condensed Consolidated Combined Statement of Operations
For the Six Months Ended June 30, 1999

| | Aviation Holdings Group, Inc. | Aviation Holdings International Inc. | Adjustments | As Restated |
|--------------------|-------------------------------|--------------------------------------|-------------|--------------|
| <S> | <C> | <C> | | <C> |
| Net Sales | \$ - | \$ 6,371,942 | - | \$ 6,371,942 |
| Cost of Goods Sold | - | 4,253,559 | - | 4,253,559 |
| Gross Profit | - | 2,118,383 | - | 2,118,383 |

| | | | | |
|--|--------------|------------|-------------|--------------|
| Operating Expenses | | | | |
| Salaries and wages | - | 646,019 | - | 646,019 |
| General and administrative | 33,715 | 964,666 | - | 998,381 |
| Professional fees | 2,894 | 125,438 | - | 128,332 |
| | ----- | ----- | ----- | ----- |
| Total Operating Expenses | 36,609 | 1,736,123 | - | 1,772,732 |
| | ----- | ----- | ----- | ----- |
| Income (Loss) from Operations | (36,609) | 382,260 | - | 345,651 |
| Other (Expense) Income | | | | |
| Interest expense | (372,024) | (77,281) | - | (449,305) |
| Interest income | - | 15,492 | - | 15,492 |
| Income from joint venture | - | 19,651 | - | 19,651 |
| | ----- | ----- | ----- | ----- |
| Total Other Expense | (372,024) | (42,138) | - | (414,162) |
| | ----- | ----- | ----- | ----- |
| Income (Loss) Before Income Taxes and Minority Interest | (408,633) | 340,122 | - | (68,511) |
| Income Tax Expense | - | (49,000) | - | (49,000) |
| | ----- | ----- | ----- | ----- |
| Income (Loss) Before Minority Interest | (408,633) | 291,122 | - | (117,511) |
| Minority Interest | - | - | (11,063) | (11,063) |
| | ----- | ----- | ----- | ----- |
| Net Income (Loss) | \$ (408,633) | \$ 291,122 | \$ (11,063) | \$ (128,574) |
| | ===== | ===== | ===== | ===== |
| Earnings Per Common Share | | | | \$ (0.03) |
| | | | | ===== |
| Weighted Average Number of Common Shares Outstanding | | | | 4,165,884 |
| | | | | ===== |

</TABLE>

The accompanying notes are an integral part of this unaudited pro forma condensed consolidated combined statement of operations.

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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED
COMBINED FINANCIAL STATEMENTS (UNAUDITED)

- (1) The unaudited pro forma information for the year ended December 31, 1998 and for the six months ended June 30, 1999 has been prepared using the hypothetical assumption that the acquisition of 96% of the outstanding stock of AHI occurred as of January 1, 1998. A 61% majority interest in AHI was acquired through various share exchange agreements and a block purchase of common stock in May 1998. Additional exchange agreements were executed in June and July 1998 and March, April and June 1999 which increased the ownership percentage of AHI to 96%. These transactions have been accounted for as a purchase.
- (2) This presentation assumes that the issuance of approximately 1,711,315 shares of AHGI's common stock, exchanged in the acquisition, were exchanged at January 1, 1998 instead of at the time of the acquisitions in 1998 and 1999.
- (3) There were no intercompany sales during the periods presented. All intercompany transactions have been eliminated.
- (4) Outside interests have been recorded as minority interest.

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=====
No dealer, salesman or any other person has been authorized in connection with this offering to give any information or to make representations other than those contained in this Prospectus. This Prospectus does not constitute an offer or a solicitation in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the circumstances, create an implication that there has been no change in the circumstances of the Company or the facts herein set forth since the date hereof.

Until _____, 1999 (90 days after the date of the Prospectus), all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the dealers' obligation to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.
=====

=====
750,000 Units, each Unit Consisting of
Two Shares of Common Stock
and One Class A Warrant

AVIATION HOLDINGS
GROUP, INC.

PROSPECTUS

_____, 1999
=====

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 24. Indemnification of Officers and Directors.

Section 145 of the Delaware General Corporation Law permits a corporation to include in its charter documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law.

Our bylaws provide for the indemnification of officers, directors and third parties acting on behalf of the Company if such person acted in good faith and in a manner reasonably believed to be in and not opposed to our best interest and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his conduct was unlawful.

We intend to enter into indemnification agreements with our directors and executive officers in addition to the indemnification provided for in our bylaws, and intend to enter into indemnification agreements with any new directors and executive officers in the future.

The form of Underwriting Agreement filed as an Exhibit hereto provides for the indemnification of our directors and officers in certain circumstances as provided therein.

We intend to procure insurance, which would afford officers and directors insurance coverage for losses arising from claims based on breaches of duty, negligence, error and other wrongful acts, including liabilities under the Securities Act.

Pursuant to Section 607.0850 of the Florida Business Corporation Act, Aviation Holdings International has the power to indemnify directors, officers, employees or agents. Aviation Holdings International's Articles of Incorporation and Bylaws provide for indemnification of directors and officers. In addition, Aviation Holdings International's executive officers and directors have entered into agreements with the Aviation Holdings International which also indemnifies them for certain acts and omissions.

Item 25. Other Expenses of Issuance and Distribution.

The estimated expenses in connection with the issuance of the securities being registered are as follows:

| | |
|--|-----------|
| SEC Registration Fee..... | \$ 1,950 |
| Printing Expenses..... | 50,000 |
| Accounting Fees and Expenses..... | 225,000 |
| Legal Fees and Expenses..... | 175,000 |
| Blue Sky Fees and Expenses..... | 10,000 |
| Transfer Agent and Registrar Fees and Expenses.... | 5,000 |
| Miscellaneous..... | 15,000 |
| Total..... | \$481,950 |
| | ===== |

All amounts, except the SEC registration fee, are estimated.

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Item 26. Recent Sales of Unregistered Securities.

The Company

The following sets forth all sales of unregistered securities during the past three years by Aviation Holdings Group, Aviation Holdings International and its predecessors:

In August 1997, EyeQ Networking, Inc. issued 1,000,000 shares of its common stock to John D. Basher, Jr., pursuant to Rule 701 promulgated under the Securities Act as payment of professional services rendered to the Company by Mr. Basher.

In December 1997, EyeQ Networking, Inc. issued 800,000 shares of its common stock to nine accredited investors pursuant to Rule 504 promulgated under the Securities Act in return for \$1,000,000 less \$40,000 in investment banking fees.

In May, June and July 1998, EyeQ Networking, Inc. issued 1,095,815 shares of its common stock to 25 shareholders of Jet Aviation Trading, Inc. pursuant to Rule 506 promulgated under the Securities Act in consideration of the receipt of 2,468,080 shares of common stock of Jet Aviation Trading, Inc. Each of the shareholders of Jet Aviation Trading, Inc. who participated in the transaction made representations stating that he or she was an "accredited investor" (as defined in Rule 501(a) of Regulation D promulgated under the Securities Act).

On August 1, 1998, we issued 4,000 shares of its common stock to Joseph J. Nelson pursuant to Section 4(2) of the Securities Act as consideration for services rendered.

In October, 1998, we issued a \$200,000 promissory note and 20,000 shares of its common stock to Nancy Plotkin, and a \$50,000 promissory note and 5,000 shares of its common stock to the John G. Jacobs Trust, in consideration of loans totaling \$250,000, pursuant to Rule 506 promulgated under the Securities Act. In May 1999 we extended the maturity date of these promissory notes to July 14, 1999 and issued a warrant to purchase 12,000 shares of common stock to Nancy Plotkin and a warrant to purchase 3,000 shares of common stock to the John G. Jacobs Trust as consideration for this extension. The warrants are exercisable for three years from the date of grant at an exercise price of \$4.00

per share. In July 1999, we extended the maturity date of these promissory notes to September 17, 1999 and issued 4,800 shares of common stock to Nancy Plotkin and 1,200 shares of common stock to the John G. Jacobs Trust.

On March 3, 1999, we issued 500,000 shares of its common stock and a warrant to purchase an additional 100,000 shares of the common stock at an exercise price of \$3.75 per share, to Argaman, Inc. under Section 4(2) of the Securities Act in exchange for 600,000 shares of Aviation Holdings International common stock.

In March 1999, we issued 118,000 shares of common stock to five accredited investors pursuant to Rule 506 promulgated under the Securities Act in exchange for \$295,000.

In April and June, 1999 we issued 115,500 shares of common stock to thirteen shareholders of Aviation Holdings International pursuant to Rule 506 under the Securities Act in consideration of the receipt of 137,500 shares of Aviation Holdings International common stock. Each Aviation Holdings International shareholder participating in the transaction represented, and we determined, that he or she was an "accredited investor."

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Aviation Holdings International

The following sets forth all sales of unregistered securities during the past three years by Aviation Holdings International or its predecessors:

In connection with the initial capitalization of Jet Aviation Trading, Inc. in October and November of 1996, Jet Aviation Trading, Inc. issued a total of 1,200,000 shares of its common stock for a total consideration of \$780,000 consisting of \$125,000 in cash, \$255,000 in promissory notes and \$400,000 in non-cash compensation expense. The seven investors consisted of six business entities and one individual, and all of the seven investors made representations regarding their status as accredited investors.

On December 31, 1996, Jet Aviation Trading, Inc. issued 10,000 shares of its common stock to William Seidel pursuant to Section 4(2) of the Securities Act in return for spare parts that became part of the inventory of Jet Aviation Trading, Inc.

In February and March 1997, Jet Aviation Trading, Inc. issued an aggregate of 292,000 shares of its common stock to eleven accredited investors pursuant to Rule 506 promulgated under the Securities Act for an aggregate consideration of \$730,000 in cash, less \$33,691 paid as broker-dealer costs in connection with the offering.

On March 14, 1997, Jet Aviation Trading, Inc. issued 40,000 shares of its common stock to Fersam International Ltd. ("Fersam") in return for inventory consisting of a one-half interest in certain flight-simulation equipment. On March 28, 1997, Jet Aviation Trading, Inc. issued 200,000 shares of its common stock to Fersam in return for computer software and training materials to be used in connection with aforementioned flight-simulation equipment. On June 2, 1997, Jet Aviation Trading, Inc. issued 20,000 shares of common stock to Fersam in return for \$50,000 in cash. All of the issuances to Fersam were made pursuant to Section 4(2) of the Securities Act.

On June 2, 1997, Jet Aviation Trading, Inc. issued 14,800 shares of its common stock to Silvertown International Corp. ("Silvertown") pursuant to Section 4(2) of the Securities Act as an inducement for loans made by Silvertown to Jet Aviation Trading, Inc.

In June and July 1997, Jet Aviation Trading, Inc. (i) issued an aggregate of 47,200 shares of its common stock to 99 investors pursuant to Rule 504 promulgated under the Securities Act for an aggregate consideration of \$118,000 in cash and payment of certain professional fees, (ii) issued 100,000 shares of its common stock to FAC Enterprises pursuant to Section 4(2) of the Securities Act in repayment of a \$250,000 loan and 7,500 shares to FAC Enterprises as consulting fees, and (iii) issued 150,000 shares of its common stock to Fersam International, Ltd. pursuant to Section 4(2) of the Securities Act as payment for inventory previously held on consignment for Fersam International, Ltd.

On August 29, 1997, Jet Aviation Trading, Inc. issued (i) 80,000 shares of its common stock to Jet Avionics Systems, Inc. in return for spare parts inventory, (ii) 250,000 shares of its common stock to Joseph Laura in repayment of a \$500,000 loan and (iii) 185,000 shares of its common stock to Silvertown in repayment of \$370,000 of outstanding notes. Each of the issuances was made pursuant to Section 4(2) of the Securities Act.

On June 1, 1997, Jet Aviation Trading, Inc. issued warrants to purchase 950,000 shares of common stock to the D.A.R. Group and warrants to purchase 50,000 shares of its common stock to Dallas Investment Group in return for

certain services. These issuances were made pursuant to Section 4(2) of the Securities Act.

On February 12, 1998, Aviation Holdings International issued 150,000 shares of its common stock to Simon Chiang pursuant to Section 4(2) of the Securities Act in exchange for the outstanding capital stock in various companies owned by Simon Chiang, and issued 160,000 shares to Mr. Chiang in exchange for inventory valued at \$35,000 and two promissory notes totaling \$365,000.

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On June 11, 1998, Aviation Holdings International issued 25,000 shares of its common stock to Joseph F. Janusz pursuant to Section 4(2) of the Securities Act as consideration for services rendered.

In connection with the initial capitalization of Schuylkill Acquisition Corp. (which later merged with Jet Aviation Trading, Inc. and changed its name to "Jet Aviation Trading, Inc.") in May 1997, Schuylkill Acquisition Corp. issued an aggregate of 400,000 shares of its common stock to four accredited investors for an aggregate consideration of \$400 in cash and \$999,600 in non-cash compensation expense.

No Commissions or other remuneration was paid in connection with the above described sales of common stock.

Item 27. Exhibits.

| <TABLE> | |
|-----------|---|
| <CAPTION> | |
| <S> | <C> |
| 1.1 | Form of Underwriting Agreement |
| 3.1 | (a) Certificate of Incorporation, as amended* |
| | (b) Articles of Merger or Share Exchange* |
| | (c) Certificate of Ownership and Merger* |
| | (d) Certificate of Amendment* |
| 3.2 | Bylaws of the Company, as amended to date* |
| 4.1 | Form of Common Stock Certificate* |
| 4.2 | Form of Class A Warrant |
| 4.3 | Warrant Agreement |
| 4.4 | Deposit Agreement |
| 4.5 | Plotkin Warrant* |
| 4.6 | Jacobs Warrant* |
| 4.7 | D.A.R. Group Warrant* |
| 4.8 | Dallas Investments Warrant* |
| 5.1 | Opinion of Klehr, Harrison, Branzburg & Ellers LLP* |
| 10.1 | 1999 Stock Option Plan* |
| 10.2 | Employment Agreement of Joseph J. Nelson* |
| 10.3 | Employment Agreement of Simon Chiang* |
| 10.4 | Lease for Company Headquarters* |
| 10.5 | Share Exchange Agreements |
| | (a) Share Exchange Agreement between The D.A.R. Group and EYEQ Networking, Inc.* |
| | (b) Share Exchange Agreement between The Eastwind Group, Inc. and EYEQ Networking, Inc.* |
| | (c) Share Exchange Agreement between KAB Investments, Inc. and EYEQ Networking, Inc.* |
| | (d) Share Exchange Agreement between Godwin Finance Ltd. and EYEQ Networking, Inc.* |
| | (e) Share Exchange Agreement between Clifton Capital Ltd. and EYEQ Networking, Inc.* |
| | (f) Share Exchange Agreement between Elanken Family Trust and EYEQ Networking, Inc.* |
| | (g) Share Exchange Agreement between Joseph Laura and EYEQ Networking, Inc.* |
| | (h) Share Exchange Agreement between Dallas Investments, Ltd. and EYEQ Networking, Inc.* |
| | (i) Share Exchange Agreement between Joseph Nelson and EYEQ Networking, Inc.* |
| | (j) Share Exchange Agreement between Fersam International Ltd. and EYEQ Networking, Inc.* |
| | (k) Share Exchange Agreement between I.P. Services Inc. and EYEQ Networking, Inc.* |
| | (l) Share Exchange Agreement between Discretionary Investment Trust dated 7/7/93 and EYEQ Networking, Inc.* |
| | (m) Share Exchange Agreement between Brian Due and EYEQ Networking, Inc.* |
| | (n) Share Exchange Agreement between Bill Seidle and EYEQ Networking, Inc.* |
| | (o) Share Exchange Agreement between Leonard Bloom and EYEQ Networking, Inc.* |
| | (p) Share Exchange Agreement between Sheng Kuang Chiang and EYEQ Networking, Inc.* |
| | (q) Share Exchange Agreement between Bing Ju Chiang and EYEQ Networking, Inc.* |

</TABLE>

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| <TABLE> | |
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| <CAPTION> | |
| <S> | <C> |
| (r) | Share Exchange Agreement between Impact Investment Company, Ltd. and EYEQ Networking, Inc.* |
| (s) | Share Exchange Agreement between Silvertown International Corp. and EYEQ Networking, Inc.* |
| (t) | Share Exchange Agreement between Janet and Robert Weinstein and EYEQ Networking, Inc.* |
| (u) | Share Exchange Agreement between Amaury Borges and EYEQ Networking, Inc.* |

| | |
|-------|--|
| (v) | Share Exchange Agreement between SPH Equities, Inc. and EYEQ Networking, Inc.* |
| (w) | Share Exchange Agreement between Bella Shrem and EYEQ Networking, Inc.* |
| (x) | Share Exchange Agreement between Mustang Electronics Inc. Affiliated Defined Benefits Pension Plan and EYEQ Networking, Inc.* |
| (y) | Share Exchange Agreement between Gary Cunningham and EYEQ Networking, Inc.* |
| (z) | Share Exchange Agreement between Ron Halper and EYEQ Networking, Inc.* |
| (aa) | Share Exchange Agreement between John Hunter and EYEQ Networking, Inc.* |
| (bb) | Share Exchange Agreement between Eugene Savonen and EYEQ Networking, Inc.* |
| (cc) | Share Exchange Agreement between William Voohees and EYEQ Networking, Inc.* |
| (dd) | Share Exchange Agreement between Arthur Lucchesi and EYEQ Networking, Inc.* |
| (ee) | Share Exchange Agreement between Gerard Bartolomeo and EYEQ Networking, Inc.* |
| (ff) | Share Exchange Agreement between Neal Erps and EYEQ Networking, Inc.* |
| (gg) | Share Exchange Agreement between Tor Osmundsen and EYEQ Networking, Inc.* |
| (hh) | Share Exchange Agreement between James Catania and EYEQ Networking, Inc.* |
| (ii) | Share Exchange Agreement between Legal America of Virginia, Ltd. and EYEQ Networking, Inc.* |
| (jj) | Share Exchange Agreement between Joseph Janusz and EYEQ Networking, Inc.* |
| (kk) | Share Exchange Agreement between Rozel International Holdings, Ltd. and EYEQ Networking, Inc.* |
| 10.6 | (a) Share Purchase Agreement with Argaman, Inc.* |
| | (b) Argaman, Inc. Stock Purchase Warrant* |
| 10.7 | (a) Plotkin Promissory Note* |
| | (b) Collateral Pledge Agreement* |
| | (c) Plotkin Securities Transfer Agreement* |
| | (d) Plotkin Stock Purchase Agreement* |
| 10.8 | (a) Jacobs Promissory Note* |
| | (b) Jacobs Securities Transfer Agreement* |
| | (c) Jacobs Stock Pledge Agreement* |
| 10.9 | (a) Comerica Bank Credit Agreement dated August 12, 1998* |
| | (b) Comerica Bank Master Revolving Note dated August 12, 1998* |
| | (c) Comerica Bank Security Agreement dated August 12, 1998* |
| | (d) Advance Formula Agreement dated August 12, 1998* |
| 10.10 | (a) Consignment Agreement* |
| | (b) Consignment, Cancellation and Purchase Agreement* |
| 10.11 | Indemnity Agreement with Directors and Officers* |
| 10.12 | Consulting Agreement* |
| 10.13 | Simulator Purchase Agreement* |
| 10.14 | Purchase Agreement* |
| 10.15 | Stock Purchase Agreement among Jet Aviation Trading, Inc., PASCO International Aviation Corp., et al.* |
| 10.16 | Form of Lock-up Agreement** |
| 10.17 | Employment Agreement with Joseph J. Janusz |
| 10.18 | Cooperative Agreement between PASCO International Aviation Corporation, Inc. and China Northern Airlines* |
| 10.19 | Consignment Contract between Jet Aviation Trading, Inc. and Fersam International, Ltd. dated December 1, 1996* |
| 10.20 | Manufacturers Representative Agreement with Mirandy Products, Ltd. dated January 27, 1997* |
| 10.21 | Sales Representation Agreement between Aviation Holdings International, Inc. and Accessory Technologies Corporation dated January 1, 1995* |
| 10.22 | Sales Representation Agreement between Aviation Holdings International at Aero Kool Corporation dated January 1, 1999* |

</TABLE>

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<TABLE>

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|-------|---|
| 10.23 | Sales Representation Agreement between Aviation Holdings International and AAS Landing Gear Services, inc. dated April 1, 1999* |
| 10.24 | Agreement between Aero-Link Flight Systems Corp. Ltd. and China Airlines* |
| 10.25 | Modification of Employment Agreement for Simon Chiang |
| 11 | Computation of Net Loss Per Share |
| 21.1 | Subsidiaries of the Company* |
| 23.1 | Consent of Klehr, Harrison, Harvey, Branzburg & Ellers LLP (included in Exhibit 5.1) |
| 23.2 | Consent of LJ Soldinger Associates |
| 27 | Financial Data Schedule |

</TABLE>

* Previously Filed

**To be filed by amendment

Item 28. Undertakings.

The undersigned registrant hereby undertakes that it will:

(1) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(2) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(3) Provide to the underwriter at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each

purchaser.

(4) Treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the undersigned under Rule 424(b)(1), or (4), or 497(h) under the Securities Act as part of this registration statement as of the time the Commission declared it effective.

(5) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the undersigned of expenses incurred or paid by a director, officer or controlling persons of the undersigned 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, the undersigned 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.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Miami, State of Florida on this 9th day of September, 1999.

AVIATION HOLDINGS GROUP, INC.

By: JOSEPH J. NELSON

Joseph J. Nelson
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities indicated on this 9th day of September, 1999.

| <TABLE> | | | |
|-----------|-----------------------------|---|-------------------|
| <CAPTION> | | | |
| <S> | Signature | Title | Date |
| | | <C> | <C> |
| | JOSEPH J. NELSON | President and Chief Executive Officer, Director | September 9, 1999 |
| | ----- Joseph J. Nelson | (Principal Executive Officer) | |
| | JOSEPH F. JANUSZ | Vice President and Chief Financial Officer | September 9, 1999 |
| | ----- Joseph F. Janusz | (Principal Accounting and Financial Officer) | |
| | SIMON CHIANG* | Vice President and Director | September 9, 1999 |
| | ----- Simon Chiang | | |
| | MICHAEL J. CIRILLO* | Director | September 9, 1999 |
| | ----- Michael J. Cirillo | | |

THEODORE H. GREGOR*

Director

September 9, 1999

Theodore H. Gregor

*By JOSEPH J. NELSON

September 9, 1999

Joseph J. Nelson
Attorney-in-fact

</TABLE>

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AVIATION HOLDINGS GROUP, INC.

750,000 Units(1)

Each Unit consists of Two Shares of
Common Stock and One Redeemable
Common Stock Purchase Warrant to Purchase
One Share of Common Stock

UNDERWRITING AGREEMENT

_____, 1999

Silver Capital Group

Dear Sirs:

The undersigned, AVIATION HOLDINGS GROUP, INC., a Delaware corporation (the "Company"), hereby confirms its agreement with you (the "Underwriter"):

1. Description of Units. Subject to the terms and conditions herein contained, the Company proposes to issue and sell to the Underwriter (the "Offering"), pursuant to the Preliminary Prospectus and the Prospectus (both, as hereinafter defined) 750,000 Units (the "Firm Offered Units"), at a price of [\$____] per Unit (less a ten (10%) percent discount thereon). In addition, the Company hereby proposes to grant to the Underwriter an option (the "Over-Allotment Option") to acquire on or before 5:00 p.m. Eastern Standard Time on the ___ day of _____, 1999 to purchase up to an additional 75, 000 Units to cover any over-allotment in the Offering, at a price of [\$____] per Unit (less a ten (10%) percent discount thereon). Any and all Units to be purchased by the Underwriter pursuant to the Over-Allotment Option are referred to herein as the "Optional Offered Units." The Firm Offered Units, and the Optional Offered Units are sometimes collectively referred to herein as the "Units." Each Unit consists of two (2) shares of the Company's common stock, \$.0001 par value per share ("Common Stock") and one (1) redeemable common stock purchase

(1) Plus an option to purchase from the Company up to 75,000 additional Units

to cover over-allotments.

warrant ("Warrant") to purchase one (1) share of the Company's Common Stock. The Common Stock and Warrants are sometimes referred to herein as the "Securities".

Each Warrant entitles the holder to purchase one (1) share of Common Stock at the price of \$_____ per share of Common Stock for three (3) years following the date of the Prospectus until 5:00 p.m. Eastern Daylight Time on the ____ day of _____, 2002, when the Warrants expire (the "Expiration Date"). Each Warrant is detachable and separately transferable from the Common Stock issued with such Warrant as part of a Unit commencing thirty (30) days following the date of the Prospectus or earlier in the event that the Underwriter shall so elect in its sole discretion.

2. Representations and Warranties of the Company and the Underwriter.

(a) The Company represents and warrants to, and agrees with the Underwriter, and the Company acknowledges that the Underwriter is relying upon such representations, warranties and agreements, that:

(i) A registration statement on Form SB-2 (File No. 333-75169) with respect to the Units, including a prospectus subject to completion, has been filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), and the rules and regulations (the "Rules of Regulations") of the Commission thereunder, and one or more amendments to such registration statement may have been so filed. After the execution of the Underwriting Agreement, the Company will file with the Commission either: (A) if such registration statement, as it may have been amended, has been declared by the Commission to be effective under the Act, a prospectus in the form most recently included in an amendment to such registration statement (or, if no such amendment shall have been filed, in such registration statement), with such changes or insertions as are required by Rule 430A under the Act or permitted by Rule 424 (b) under the Act and as have been provided to and approved by the Underwriter; or (B) if such registration statement, as it may have been amended, has not been declared by the Commission to be effective under the Act, an amendment to such registration statement, including a form of prospectus, a copy of which amendment has been furnished to and approved by the Underwriter prior to the execution of the Underwriting Agreement. As used in this Agreement, the term "Registration Statement" means such registration statement, as amended at the time when it was or is declared effective (the "Effective Time"), including all financial schedules and exhibits thereto and including any information omitted therefrom pursuant to Rule 430A under the Act and included in the Prospectuses (as hereinafter defined); the term "Preliminary Prospectus" means each prospectus subject to completion relating to the offering of Units filed with such

registration statement or any amendment thereto (including the prospectus subject to completion, if any, included in the Registration Statement or any amendment thereto at the Effective Time); the term "Prospectus" means the prospectus relating to the offering of Units first filed with the Commission pursuant to Rule 424 (b) under the Act or, if no prospectus is required to be filed pursuant to said Rule 424(b), such term means the prospectus relating to the offering of Units included in the Registration Statement.

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(ii) No securities commission or regulatory authority (referred to herein, singly, as "Regulatory Authority" and collectively, as "Regulatory Authorities") has issued any order preventing or suspending the use of any Preliminary Prospectus. When each Preliminary Prospectus was filed with the appropriate Regulatory Authorities such document did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. At the Effective Time, each of the Registration Statement and the Prospectus: (A) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of, the applicable securities legislation and the rules and regulations of the appropriate Regulatory Authority thereunder; and (B) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing provisions of this Subsection (ii) do not apply to statements or omissions made in any Preliminary Prospectus, the Registration Statement or any amendment thereto or any Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein or to statements contained in such document relating to the Underwriter.

(iii) The Company has been duly incorporated and is validly existing as a corporation and in good standing under the laws of the State of Delaware and is duly qualified to transact business under the laws of such other jurisdictions where the ownership or leasing of its property or the conduct of its business requires such qualification.

(iv) The Company has full corporate power and corporate authority to own or lease its property and conduct its businesses as described in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(v) The Company has corporate power and corporate authority to enter into the Underwriting Agreement; to issue, sell and deliver the Units and the shares of Common Stock and the Warrants comprising such Units to be sold to

the Underwriter and/or publicly offered pursuant to the Underwriting Agreement; and to carry out all the terms and provisions hereof and thereof to be carried out by it, except to the extent that rights to indemnity and contribution under the Underwriting Agreement may be limited by federal or state securities laws or the public policy underlying such laws.

(vi) The authorized issued and outstanding capital stock of the Company is as set forth in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus). All of the issued shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; the Common Stock conforms in all respects to statements in the Prospectus (or if the Prospectus is not in existence, the most recent Preliminary Prospectus) relating to such securities. No holders of outstanding shares of capital stock of the Company are entitled to any preemptive or any similar rights to subscribe for any of the Units; there are no outstanding rights, warrants, or options to acquire, or instruments convertible into or exchangeable for, any shares of capital stock of the Company which are not fully disclosed in the

Prospectus; and, except as disclosed in the Prospectus, no holders of securities of the Company are entitled to have such Units registered under the Registration Statement.

(vii) The financial statements and schedules, if applicable, of the Company, included in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present the financial condition of the Company and the results of operations as of the dates and for the periods therein specified. Such financial statements and schedules, if applicable, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved. The selected financial data and capitalization set forth under the headings "Selected Financial Data," "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present, on the basis stated therein, the information included therein. In addition the "Use of Proceeds" as set forth in the Registration Statement and the Prospectus sets forth the Company's intentions for the use of the proceeds of this Offering in all material respects.

(viii) L J Soldinger Associates, the auditors who have certified the most recent financial statements of the Company, and have delivered their report with respect to the audited financial statements and

schedules, if applicable, included in the Registration Statements and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), are independent public accountants as required by the Act.

(ix) No legal or governmental proceedings are pending to which the Company is a party or to which the property of the Company is subject that are required to be described in the Registration Statement or the Prospectus and are not described therein (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), and, to the knowledge of the Company, no such proceedings have been threatened against the Company or with respect to any of its property; and no contract or other document is required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) or filed as required.

(x) The execution and delivery of the Underwriting Agreement by the Company, the issuance, offering and sale of the Units, the shares of the Common Stock and the Warrants comprising such Units to the Underwriter and/or the public offering thereof by the Company pursuant to the Underwriting Agreement, the compliance by the Company with the other provisions of the Underwriting Agreement, and the consummation of the other transactions herein and therein contemplated do not: (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, stock exchange, securities association or other third party, except: (1) such as have been obtained, (2) such as may be required under state securities or blue sky laws, (3) if the registration statement filed with respect to the Units (as amended) is not effective under the Act as of the time of execution hereof, such as may be required (and shall be obtained as provided in this Agreement) under the Act and the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), (4) such as may be required (and shall be obtained as provided in this Agreement) under applicable securities and other laws or (5) such as may be required (and shall be

obtained as provided in this Agreement) under the rules of the American Stock Exchange and/or NASDAQ, or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other agreement or instrument to which, the Company is a party or by which the Company or any of its property is bound, or the charter documents or by-laws of the Company or any statute or any judgment, decree, order or regulation of any court or other governmental authority or any arbitrator applicable to the Company, which breach or violation would have a material adverse effect on the Company, or stock exchange or securities association applicable to the Company.

(xi) Except in each case as described in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus): (A) the Company has not, outside the ordinary course of its business, incurred any material liability or obligation, direct or contingent, nor entered into any material transaction; (B) the Company has not purchased or entered into any agreement to purchase any of its outstanding capital stock, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock; (C) there has not been any material change in the capital stock, short-term debt or long-term debt of the Company; (D) there has been no material charge in the proposed use of the proceeds of this Offering as described in the Prospectus.

(xii) Since December 31, 1998, there has not been any material adverse change in the management, business, properties, prospects, results of operations, condition (financial or otherwise) or general affairs of the Company and its subsidiaries, taken as a whole (a "Material Adverse Effect"), whether or not arising from transactions in the ordinary course of business.

(xiii) The Company is not in violation of any applicable federal, state, local or foreign law, rule or regulation, the breach or violation of which would have a material adverse effect on the Company, including, without limitation, any laws, rules or regulations relating to discharge of materials into the environment, and the Company is in compliance with all terms and conditions of any required permit, license approval, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), the breach or violation of which would have a material adverse effect on the Company.

(xiv) The Company possesses all certificates, authorizations, permits and licenses issued by the appropriate federal, state, local or foregoing regulatory authorities necessary to conduct its business as currently conducted in all material respects and as described in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificates, authorizations, permits and licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the Company, except as described in or contemplated by the Registration Statement and Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xv) Except as disclosed in the Prospectus, the Company has not received any notice (written or oral) by any person or entity alleging potential liability (including, without limitation, potential liability for discharge of materials into the environment and any clean up costs, governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from: (A) the business and/or operations of the Company, including, without limitation, the presence or release into the environment of any chemicals, pollutants, contaminants, wastes, toxic substance, petroleum or petroleum products, at any location, whether or not owned by the Company; or (B) circumstances forming the basis or any violation or alleged violation of any environmental laws.

(xvi) Except as disclosed in the Prospectus, there are no past or present actions, activities, event or incidents, that could reasonably be expected to form the basis of any claim against the Company or, to the Company's knowledge, against any person or entity whose liability for any claim the Company may have retained or assumed either contractually or by operation of law.

(xvii) The Company has not at any time since the date of its incorporation: (A) made any unlawful contributions to any candidate for political office, or failed to disclose fully any contribution in violation of law, or (B) made any payment to any state, federal or foreign government office or official, or other person charged for similar public or quasi-public duties (other than payments required or permitted by applicable laws).

(xviii) No default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of, or would conflict with or result in, breach or violation of any term, covenant or condition of any indenture, mortgage, deed of trust, lease or other agreement (including, without limitation, each agreement listed in Item 10 of Part II of the Registration Statement) or instrument to which the Company is a party or by which the Company or any of its property is bound, which default, breach or violation would individually, or in the aggregate, materially adversely affect the Company.

(xix) To the extent described in the Prospectus, the Company owns or possesses the rights to use trademarks, trade names and licenses and proprietary or other confidential information currently used by it in connection with its business, and the Company has received no notice of infringement of or conflict with rights asserted against the Company by any third party with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the Company, except as described in or contemplated by the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xx) All health, medical, welfare and other employee benefit plans, and all deferred compensation plans, stock option plans, or other contracts, agreements, plans or arrangements for the benefit or compensation of

employees maintained by the Company or to which the Company is obligated to contribute, comply in all material respects with and are administered in accordance with all applicable federal and state laws, rules, and regulations.

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(xxi) The Company has good and marketable title to all property owned by it, in each case free and clear of all security interests, liens, encumbrances, equities, claims and other defects except such as do not materially adversely affect the value of such property and do not interfere with the use made or proposed to be made of such property by the Company (and except for property leased by the Company, as to which the Company has a valid leasehold interest).

(xxii) No labor dispute with the employees of the Company exist or is threatened or imminent that could, singly or in the aggregate, have a material adverse effect on the Company, except as described in or contemplated by the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxiii) The Company does not, and does not intend to conduct its operations in a manner that will subject it to registration as, "investment company" under the Investment Company Act of 1940, as amended.

(xxiv) The Company has filed all federal, state and local tax returns that are required to be filed or have requested extensions thereof (except in any case in which the failure so to file would not, singly or in the aggregate, have a material adverse effect on the Company) and have paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or as described in or contemplated by the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxv) Except as noted in the Company's financial statements contained in the Prospectus, the Company neither owns any shares of stock or any other equity securities of any corporation nor has any equity interest in any firm, partnership, association or other entity.

(xxvi) Within the period commencing on incorporation of the Company and ending on the date hereof, the Company has not paid any dividend under circumstances such that, immediately before or after giving effect thereto, the Company: (A) was insolvent; (B) had unreasonably small capital with

which to conduct its business; or (C) intended to incur debts beyond its ability to pay such debts as they mature. As used in this Agreement, the term "insolvent" means, with respect to the Company, that: (A) the fair value of its property is less than the total amount of its liabilities; or (B) the present fair saleable value of its assets is less than the amount required to pay its probable liabilities and debts as they become absolute and matured.

(xxvii) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, and except as may otherwise be indicated or contemplated herein or therein, the Company has not entered into any material transaction with any of its affiliates.

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(xxviii) The principal shareholders of the Company are as set forth in the Prospectus under the heading "Principal Stockholders" and the officers, directors and principal stockholders are the beneficial owners of the shares of Common Stock of the Company as set forth therein.

(xxix) The Company, with the assistance of its external auditor makes and keeps accurate books and records reflecting its assets and maintains internal accounting controls which provide reasonable assurance that: (A) transactions are executed in accordance with management's authorization; (B) transactions are recorded as necessary to permit preparation of the Company's financial statements and to maintain accountability for the assets of the Company; (C) access to the assets of the Company is permitted only in accordance with management's authorization; and (D) the recorded accounts and accountability of the assets of the Company is compared with existing assets at reasonable intervals.

(xxx) The Units and the shares of Common Stock comprising part of the Units have been duly authorized, and reserved and set aside and when certificates therefor are countersigned by the Company's transfer agent and issued and delivered to and paid for by the Underwriter pursuant to the Underwriting Agreement, will be validly issued, fully paid and non-assessable.

(xxxi) The Warrants have been duly authorized and when issued and delivered to and paid for by the Underwriter pursuant to the Underwriting Agreement, will have been duly executed, issued and delivered and will constitute valid and legally binding obligations of the Company, and the holders thereof shall be entitled to the benefits of the Warrant Agreement pursuant to which the Warrants are to be issued (the "Warrant Agreement") which shall be substantially in the form filed as an exhibit to the Registration Statement. The shares of Common Stock issuable upon exercise of the Warrants have been reserved for issuance and when issued in accordance with the terms of the Warrant

Agreement, will be duly and validly authorized, validly issued, fully paid and non-assessable.

(xxxii) The Units, and the shares of Common Stock and the Warrants comprising the Units, conform in all respects to statements relating thereto in the Prospectus.

(xxxiii) The Underwriting Agreement, the Warrant Agreement and the Underwriter's Option are valid and binding agreements and instruments, enforceable against the Company in accordance with their respective terms, assuming due execution and delivery by other parties thereto and subject to bankruptcy and insolvency laws and other laws generally affecting the enforceability of creditors' rights, the availability of equitable remedies of injunction and specific performance and enforceability of rights to indemnity; and except to the extent that rights to indemnity and contribution under the Underwriting Agreement may be limited by applicable federal or state securities laws or the public policy underlying such laws.

(xxxiv) Neither the Company nor any of its officers, directors or affiliates (within the meaning of the Rules under the Act and the securities laws) has or will take, directly or indirectly, any action designed to stabilize or manipulate the price of any security of the Company, or which has constituted or which might reasonably be expected to cause or result in its stabilization

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or manipulation of the price of any security of the Company, to facilitate the sale or resale of the Units or the shares of Common Stock or the Warrants comprising such Units or otherwise.

(xxxv) To the Company's knowledge, no stamp or other issuance taxes, transfer taxes, fees or duties are payable by or on behalf of the Underwriter in connection with the sale of the Units or the consummation of any other transaction contemplated pursuant to the Underwriting Agreement.

(xxxvi) To the Company's knowledge, after investigation, at the Effective Time, the statements in the Registration Statement and the Prospectus did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading.

Each Certificate expressly provided for by Section 12 hereof signed by any officer of the Company and delivered to the Underwriter or counsel for the Underwriter shall be deemed to be a representation and warranty by the Company to the Underwriter as to the matters covered thereby.

(b) The Underwriter hereby represents and warrants to the Company that it is a corporation duly incorporated, organized and subsisting under the laws of the State of _____, with good and sufficient power, authority and right to enter into and deliver this Agreement and to complete the transactions to be completed by it as an Underwriter contemplated hereby, that it is registered as a broker-dealer with the Commission and is a member of the National Association of Securities Dealers, Inc. ("NASD"), and that it is not a "new underwriter" as defined in Item 508(b) of S.E.C. Regulation S-K.

3. Issue. Sales and Delivery of the Firm Offered Units and Optional Offered Units.

(a) The Company hereby agrees to sell to the Underwriter and the Underwriter, in reliance upon the representations and warranties contained herein, and subject to the terms and conditions hereof, agrees to purchase from the Company 750,000 Firm Offered Units, each Firm Offered Unit consisting of two (2) (or 1,500,000 in the aggregate) shares of Common Stock and one (1) (or 750,000 in the aggregate) Warrant at a purchase price of [\$_____] per Firm Offered Unit (after giving effect to the Underwriter' 10% discount). You agree to offer the Firm Offered Units to the public initially at the purchase price of [\$_____] per Firm Offered Unit. At the Firm Closing Date the Company shall issue the Offered Units and the shares of Common Stock and the Warrants comprising such Units to, or to the order of, the Underwriter and deliver to the Underwriter one or more certificates in definitive form representing the shares of Common Stock and the Warrants comprising such Firm Offered Units, such Common Stock and Warrant certificates to be in such denominations and registered in such name or names as the Underwriter shall notify the Company in writing, not less than two (2) business days prior to the Firm Closing Date, against payment by the Underwriter to the Company of an aggregate purchase price for the Firm Offered Units in lawful money of the United States by certified check or banker's draft drawn upon a _____ Clearing House bank and payable at par or in immediately available funds together with the Underwriter's receipt for such Common Stock and Warrant certificates against delivery of the

Company's receipt for such monies. Such delivery of and payment for the Firm Offered Units shall be made at the offices of _____, at 10:00 a.m., _____ time (the "Closing"), on _____, 1999, or at such other place, time or date as the Underwriter and the Company may agree upon or as the Underwriter may determine pursuant to Section 9 hereof, such time and date of delivery against payment being herein referred to as the "Firm Closing Date". The Company shall contemporaneously pay to the Underwriter fees with respect to the Offered Units as described in Section 3 hereof, by certified check or banker's draft, or offset from amounts payable by the

Underwriter against delivery of the Underwriter's receipt therefor. For the purpose of expediting the checking and packaging of the Firm Offered Units, the Company agrees to make the stock certificates for shares of the Common Stock and the Warrants comprising such Firm Offered Units, as the Underwriter may designate, available for inspection at least 24 hours prior to the Firm Closing Date. The shares of the Common Stock and the Warrants comprising the Firm Offered Units will be separately transferrable thirty (30) days after the date of the Prospectus, or earlier in the event the Underwriter so elects in its sole discretion.

(b) For the purpose of covering any over-allotments in connection with the distribution and sale of the Firm Offered Units as contemplated by the Prospectus, the Company hereby grants to the Underwriter an option to purchase up to 75,000 Units (the "Optional Offered Units"). The purchase price to be paid for the Optional Offered Units shall be the same price per Unit as set forth above in Subsection (a) of this Section 3. The Over-Allotment Option may be exercised as to all or any part thereof from time to time within 30 days after the date of the Prospectus. The Over-Allotment Option shall be exercised, from time to time, in whole or in part, by notice in writing specifying the number of Units with respect to which the Over-Allotment Option is exercised and the date and time (the "Over-Allotment Option Closing Date") and place for delivery of and payment for such Optional Offered Units, given by the Underwriter to the Company at any time prior to 5:00 p.m. (New York time) on the last day for the exercise of the Over-Allotment Option. The Over-Allotment Option Closing Date shall not be earlier than two business days or later than seven (7) business days after such exercise of the Over-Allotment Option and, in any event, shall not be earlier than the Firm Closing Date. The purchase and sale of the Optional Offered Units which are specified in the notice of exercise of all or part of the Over-Allotment Option shall be held on the Over-Allotment Option Closing Date or such other date or place as may be agreed in writing by the Underwriter and the Company. The Underwriter shall not be under any obligation to purchase any of the Optional Offered Units prior to the exercise of the Over-Allotment Option. Upon exercise of the Over-Allotment Option as provided herein, the Company shall become obligated to sell to the Underwriter, and, subject to the terms and conditions herein set forth, the Underwriter shall become obligated to purchase from the Company, the Optional Offered Units as to which the Underwriter are then exercising the Over-Allotment Option. If the Over-Allotment Option is exercised as to all or any portion of the Optional Offered Units, one or more certificates in definitive (or, if not available, temporary) form for such Optional Offered Units, and payment therefor, shall be delivered on the Over-Allotment Option Closing Date in the manner, and upon the terms and conditions, set forth in Subsection (a) of this Section 3, except that reference therein to the Firm Offered Units and the Firm Closing Date, shall be construed to mean Optional Offered Units and Over-Allotment Option Closing Date, respectively.

4. Offering by the Underwriter. Upon the authorization of the release of the Firm Offered Units, the Underwriter proposes to offer the Firm Offered Units for sale upon the terms set forth in the Prospectus.

5. Covenants of the Company and the Underwriter.

(a) The Company covenants and agrees with the Underwriter that:

(i) The Company will use its best efforts to cause the Registration Statement, if not effective at the time of execution of this Agreement, and any amendments thereto, to become effective as promptly as possible. If required, the Company will file the Prospectus and any amendment or supplement thereto with the Commission in the manner and within the time period required by Rule 424(b) under the Act. During any time when a prospectus relating to the Units is required to be delivered under the Act, the Company: (i) will comply with all requirements imposed upon it by the Act and the rules and regulations of the Commission thereunder to the extent necessary to permit the continuance of sales of or dealings in the Units in accordance with the provisions hereof and of the Prospectus, as then amended or supplemented; and (ii) will not file with the Commission the Prospectus or the amendment referred to in the second sentence of Section 2 (a) M hereof, any amendment to the Registration Statement of which the Underwriter shall not previously have been advised and furnished with a copy for a reasonable period of time prior to the proposed filing and as to which filing the Underwriter shall have reasonably objected. The Company will prepare and file with the Commission, in accordance with the rules and regulations of the Commission, promptly upon the reasonable request by the Underwriter or counsel for the Underwriter, any amendments to the Registration Statement or amendments or supplements to the Prospectus that may be necessary or advisable in connection with the distribution of the Units by the Underwriter, and will use its best efforts to cause any such amendment to the Registration Statement to be declared effective by the Commission as promptly as possible. The Company will advise the Underwriter, promptly after receiving notice thereof, of the time when the Registration Statement, or any amendment thereto, has been filed or declared effective or the Prospectus or any amendment or supplement thereto has been filed and will provide evidence satisfactory to the Underwriter of each such filing or effectiveness.

(ii) The Company will advise the Underwriter, promptly after receiving notice or obtaining knowledge thereof, of: (i) the issuance by any Regulatory Authority of any stop order suspending the effectiveness of the Registration Statement or any amendment thereto or any order preventing or suspending the use of any Preliminary Prospectus, any Prospectus or any amendment or supplement thereto; (ii) the suspension of the qualification of the Units for offering or sale in any jurisdiction; (iii) the institution, threatening or contemplation of any proceeding for any such purpose; or (iv) any request made by any entity, governmental or otherwise, having jurisdiction over this offering, is made or is proposed to be made for amending the Registration

Statement, for amending or supplementing any Prospectus or for additional information. The Company will use its best efforts to prevent the issuance of any such stop order and, if any such stop order is issued, to obtain the withdrawal thereof as promptly as possible.

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(iii) The Company will use its best efforts to arrange for the qualification of the Units and the shares of Common Stock and the Warrants comprising the Units for offering and sale under the securities or blue sky laws of such jurisdictions as the Underwriter may designate, and will continue such qualification in effect for as long as may be necessary to complete the distribution of the Units and the shares of Common Stock and the Warrants comprising the Units, provided however, that in connection with such qualification the Company shall not be required to qualify as a foreign corporation in any such jurisdiction.

(iv) The Company will not take, directly or indirectly, any action designed to cause or result in, or which was constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

(v) If, at any time when a prospectus relating to the Units is required to be delivered under applicable securities legislation and the rules and regulations of the appropriate Regulatory Authority thereunder, any event occurs as a result of which any Prospectus, as then amended or supplemented, would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, or if for any other reason it is necessary at any time to amend or supplement any Prospectus to comply with applicable securities legislation and the rules and regulations of the appropriate Regulatory Authority thereunder, the Company will promptly notify the Underwriter thereof and, subject to Subsection 10(a) hereof, will prepare and file with the Commission, and file with or deliver to each other appropriate Regulatory Authority, at the Company's expense, an amendment to the Registration Statement or an amendment or supplement to such Prospectus that corrects such statement or omission or effects such compliance.

(vi) The Company will, without charge, provide: (i) to the Underwriter and to counsel for the Underwriter, two signed copies of the registration statement originally filed with respect to the Units and each amendment thereto (in each case including exhibits thereto); and (ii) so long as a prospectus relating to the Units is required to be delivered under the Act, as many copies of each Preliminary Prospectus or the Prospectus or any amendment or supplement thereto as the Underwriter may reasonably request. The Company will

provide or cause to be provided to the Underwriter and to each other Underwriter or broker-dealer in a selling group for this Offering that so requests in writing, a copy of the report on Form SCIRE filed by the Company as required by Rule 463 under the Act.

(vii) The Company at its own expense, will give and continue to give such financial statements and other information to and as may be required by the Commission and by any Regulatory Authority in any jurisdiction in which the Offering is to occur, or the public bodies of the jurisdictions in which the Units may be qualified. Without limiting the generality of the foregoing, the Company at its own expense, as soon as practicable, will make generally available to its security holders and to the Underwriter an earnings statement of the Company that satisfies the provisions of Section 11(a) of the Act and Rule 158 thereunder.

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(viii) The Company will apply the net proceeds from the sale of the Units as set forth under the "Use of Proceeds" heading in the Prospectus.

(ix) During a period of five (5) years from the Effective Time the Company will furnish to the Underwriter: (A) as soon as practicable after it is (x) filed with the Commission, any Regulatory Authority or any securities exchange on which any class of securities of the Company may be listed or (y) distributed to security holders of the Company, a copy of each annual, interim and other report or communication so filed or distributed; and (B) as soon as available, a copy of each report or definitive proxy statement of the Company filed with the Commission under the Exchange Act, or mailed to security holders (including, upon written request, all related exhibits thereto).

(x) The Company will use its best efforts to cause the Units and the shares of Common Stock and the Warrants comprising the Units to be duly authorized for inclusion in the NASDAQ System, and the American Stock Exchange, respectively, subject to notice of issuance prior to the Firm Closing Date. It is understood that the NASD's present rules preclude exercise of any options or the shares underlying such options acquired in connection with an underwriting for a period of 12 months from the effective date of the Registration Statement.

(xi) Subsequent to the date of this Agreement and through the Firm Closing Date, except as otherwise disclosed in the Prospectus, the Company will not take any action or refrain from taking any action that will result in the Company incurring any material liability or obligation, direct or contingent, or enter into any material transaction not in the ordinary course of its business, and there will not be any material change in capital stock, short-term debt or long-term debt, obligations under capital leases of the Company or any issuance of options, warrants, or rights to purchase shares of

any class or series of capital stock of the Company or any agreement to purchase any of its outstanding capital stock or any declaration or payment of any dividend on any class or series of capital stock of the Company.

(xii) The Company will provide the Underwriter and its counsel with copies of all comment letters and all other correspondence and with contents of any oral comments received from any Regulatory Authority, as soon as practicable after receipt thereof, and will supply the Underwriter and its counsel with copies of all filings with the Commission and any other Regulatory Authority relating to the offering.

(xiii) The Underwriter shall have the right to request the Company to nominate one (1) nominee of the Underwriter for election to the Board of Directors for three (3) years following the Effective Date, and the Company will use its best efforts to cause such nominees to be elected to the Board of Directors. Until such time as the Underwriter exercises its right to cause a nominee of the Underwriter to be elected to the Board of Directors and until such time as such nominee begins to serve on the Board of Directors, the Company agrees to allow a representative designated by the Underwriter from time to time to receive timely, written notice of all Board of Directors meetings and notice of all telephonic Board meetings and the right to attend all Board meetings and participate in all telephonic Board meetings. The Underwriter shall also have the right to obtain

copies of the minutes from all Board of Directors meetings for five (5) years following the Effective Date of the Registration Statement, whether or not a representative of the Underwriter attends or participates in any such Board meeting. The Company agrees to reimburse the Underwriter immediately upon request therefor of any reasonable travel and lodging expenses directly incurred in connection with its representative's (whether or not its designated nominee) attending Company Board meetings on the same basis as the Board members.

(xiv) The Underwriter covenants with the Company that it shall conduct its business relating to the offering of the Units contemplated herein reasonably in accordance with all applicable laws.

6. Expenses. The Company agrees to pay all of its costs, fees, taxes and expenses incident to the performance of its obligations under the Underwriting Agreement, whether or not the transactions contemplated herein or therein are consummated or this Agreement is terminated pursuant to Section 12 hereof, including all costs and expenses incident to: (i) the printing or other production of documents with respect to the transactions, including all costs of printing the registration statement originally filed with respect to the Units

and each amendment thereto, each Preliminary Prospectus, each Prospectus and each amendment or supplement thereto and similar material; (ii) all reasonable arrangements relating to the delivery to the Underwriter of copies of the foregoing documents; (iii) the fees and disbursements of the counsel, the accountants and any other experts or advisors retained by the Company; (iv) preparation, issuance and delivery to the Underwriter of any certificates evidencing the shares of Common Stock and the Warrants comprising the Units, including all transfer agent's, sub-transfer agent's, registrar's and sub-registrar's fees; (v) the qualification of the Units and the shares of Common Stock and the Warrants comprising the Units under state securities and blue sky laws and all Securities Laws of the United States and its political subdivisions, including filing fees and reasonable fees and disbursements of counsel for the Underwriter relating thereto; (vi) the filing fees of the Commission and the NASD and all other Regulatory Authorities relating to the Units; and (vii) the inclusion of the Units and the shares of Common Stock and the Warrants comprising the Units in the NASDAQ System and on the American Stock Exchange. In addition to the foregoing, in connection with meetings with prospective investors in the Units, the Company agrees to pay (x) all costs and expenses incurred by or on behalf of it or its officers or employees, and (y) to the Underwriter at the closing, costs and expenses up to an amount equal to three percent (3%) of the gross dollar amount of the offering to the public, incurred by the Underwriter in connection with such offering, it being understood that except for the foregoing and the Underwriter's fees described in Section 3 hereof or other amounts payable in accordance with the terms of this Agreement, no further expenses or fees shall be payable by the

Company to the Underwriter. If the sale of the Offered Units provided for herein is not consummated because any condition to the obligations of the Underwriter set forth in Section 7 hereof is not satisfied or because of any failure, refusal or inability on the part of the Company to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder other than by reason of a default by the Underwriter, then the Company agrees to reimburse the Underwriter upon demand for all out-of-pocket expenses (including reasonable counsel fees and disbursements) that shall have been incurred by them in connection with the proposed purchase and sale of the Offered Units; provided, however, that except if the sale of the offered units is not consummated because of said failure, refusal or inability on the part of the Company, the Underwriter shall refund to the Company the amount, if any, by which said out-of-pocket expenses of the Underwriter are less than the advance payment of expense allowances theretofore made by the Company.

7. Conditions of the Underwriter's Obligations. The obligations of the Underwriter to purchase and pay for the Firm Offered Units shall be subject, in

the Underwriter's reasonable discretion, to the accuracy of the representations and warranties of the Company contained herein as of the date hereof and as of the Firm Closing Date as if made on and as of the Firm Closing Date, to the accuracy of the statements of the officers of the Company and others made pursuant to the provisions of this Section 7, to the performance in all material respects by the Company of its covenants and agreements hereunder and to the following additional conditions:

(a) If the Registration Statement or any amendment thereto filed prior to the Firm Closing Date has not been declared effective as of the time of execution hereof, the Registration Statement or such amendment shall have been declared effective not later than 10:00 a.m., New Jersey time, on the date on which the amendment to the registration statement originally filed with respect to the Units or the Registration Statement, as the case may be, containing information regarding the initial public offering price of the Units has been filed with the Commission, or such later time and date as shall have been consented to by the Underwriter; if required, the Prospectus and any amendments or supplements thereto shall have been filed with the Commission in the manner and within the time period required by Rule 424(b) under the Act; no stop order suspending the effectiveness of the Registration Statement or any amendment thereto shall have been issued, and no proceedings for that purpose shall have been instituted or, to the knowledge of the Company or the Underwriter, shall be threatened by the Commission; and the Company shall have complied with any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise).

(b) The Underwriter shall not have advised the Company that the Registration Statement or any Prospectus, or any amendment or any supplement thereto, contains an untrue statement of fact which, in their reasonable judgment, is material, or omits to state a fact which, in its reasonable judgment, is material and is required to be stated therein or necessary to make the statements therein not misleading.

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(c) At the Firm Closing Date, you shall have received the opinion, dated as of the Firm Closing Date, of Klehr, Harrison, Harvey, Branzburg & Ellers LLP, counsel for the Company, in form and substance satisfactory to counsel for the Underwriter, to the effect that:

(i) the Company and its subsidiaries have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of organization, with all requisite corporate power and authority to own their properties and conduct their business as described in the Registration Statement and Prospectus and are duly qualified

or licensed to do business as foreign corporations and are in good standing in each other jurisdiction in which the ownership or leasing of their properties or conduct of their business requires such qualification except where the failure to qualify or be licensed will not have a Material Adverse Effect;

(ii) the authorized capitalization of the Company as of June 30, 1999 is as set forth in the Registration Statement; the Securities as set forth in the Registration Statement have been duly authorized and upon payment of consideration therefor, will be validly issued, fully paid and non-assessable and conform in all material respects to the description thereof contained in the Prospectus; to such counsel's knowledge the outstanding shares of capital stock of the Company and its subsidiaries have not been issued in violation of the preemptive rights of any shareholder and to such counsel's knowledge the shareholders of the Company do not have any preemptive rights or other rights to subscribe for or to purchase, nor are there any restrictions upon the voting or transfer of any of the capital stock except as provided in the Prospectus or as required by law. The Securities conform in all material respects to the respective descriptions thereof contained in the Prospectus; the shares of Common Stock and the Warrants will have been duly authorized and, when issued and delivered in accordance with their respective terms, will be duly and validly issued, fully paid, non-assessable, free of preemptive rights to the best of their knowledge; to the best of their knowledge, all prior sales by the Company of the Company's securities, have been made in compliance with or under an exemption from registration under the Act and applicable state securities laws; and to the best of such counsel's knowledge, neither the filing of the Registration Statement nor the offering or sale of the Securities as contemplated by this Agreement gives rise to any registration rights other than those which have been waived or satisfied for or relating to the registration of any shares of Common Stock;

(iii) this Agreement has been duly and validly authorized, executed and delivered by the Company;

(iv) the certificates evidencing the Securities as described in the Registration Statement comply in all material respects with the descriptions set forth therein, and comply with the Delaware General Corporation Law, as in effect on the date hereof;

(v) except as otherwise disclosed in the Registration Statement, such counsel knows of no pending or threatened legal or governmental proceedings to which the Company or its subsidiaries are a party which would materially adversely affect the business, property, financial condition or operations of the Company or its subsidiaries; or which question the validity of the

Securities or this Agreement, or of any action taken or to be taken by the Company pursuant to this Agreement; to such counsel's knowledge there are no governmental proceedings or regulations required to be described or referred to in the Registration Statement which are not so described or referred to;

(vi) the execution and delivery of this Agreement and the incurrence of the obligations herein set forth and the consummation of the transactions herein contemplated, will not result in a breach or violation of, or constitute a default under the certificate of incorporation or by-laws of the Company or its subsidiaries, or to the best knowledge of counsel after due inquiry, in the performance or observance of any material obligations, agreement, covenant or condition contained in any bond, debenture, note or other evidence of indebtedness or in any material contract, indenture, mortgage, loan agreement, lease, joint venture or other agreement or instrument to which the Company or its subsidiaries is a party or by which they or any of their properties is bound or in violation of any order, rule, regulation, writ, injunction, or decree of any government, governmental instrumentality or court, domestic or foreign the result of which would have a Material Adverse Effect;

(vii) the Registration Statement has become effective under the Act, and to the best of such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for that purpose have been instituted or are pending before, or threatened by, the Commission; the Registration Statement and the Prospectus (except for the financial statements and other financial data contained therein, or omitted therefrom, as to which such counsel need express no opinion) as of the Effective Date comply as to form in all material respects with the applicable requirements of the Act and the Rules and Regulations;

(viii) in the course of preparation of the Registration Statement and the Prospectus such counsel has participated in conferences with the President of the Company with respect to the Registration Statement and Prospectus and such discussions did not disclose to such counsel any information which gives such counsel reason to believe that the Registration Statement or any amendment thereto at the time it became effective contained any untrue statement of a material fact required to be stated therein or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus or any supplement thereto contains any untrue statement of a material fact or omits to state a material fact necessary in order to make statements therein, in light of the circumstances under which they were made, not misleading (except, in the case of both the Registration Statement and any amendment thereto and the Prospectus and any supplement thereto, for the financial statements, notes thereto and other financial information (including without limitation, the pro forma financial information) and schedules contained therein, as to which such counsel need express no opinion);

(ix) all descriptions in the Registration Statement and the Prospectus, and any amendment or supplement thereto, of contracts and other agreements to which the Company or its Subsidiaries is a party are accurate and fairly present in all material respects the information required to be shown, and such counsel is familiar with all contracts and other agreements referred to in the Registration Statement and the Prospectus and any such amendment or supplement or filed as

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exhibits to the Registration Statement, and such counsel does not know of any contracts or agreements to which the Company or its subsidiaries is a party of a character required to be summarized or described therein or to be filed as exhibits thereto which are not so summarized, described or filed; and

(x) no authorization, approval, consent, or license of any governmental or regulatory authority or agency is necessary in connection with the authorization, issuance, transfer, sale or delivery of the Common Stock or Warrants by the Company, in connection with the execution, delivery and performance of this Agreement by the Company or in connection with the taking of any action contemplated herein, other than registrations or qualifications of the Shares under applicable state or foreign securities or Blue Sky laws and registration under the Act.

Such opinion shall also cover such matters incident to the transactions contemplated hereby as the Underwriter or counsel for the Underwriter shall reasonably request. In rendering such opinion, such counsel may rely upon certificates of any officer of the Company or public officials as to matters of fact; and may rely as to all matters of law other than the law of the United States or of the State of New York or Delaware upon opinions of counsel satisfactory to you, in which case the opinion shall state that they have no reason to believe that you and they are not entitled to so rely.

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deems proper, on certificates of public officials and, as to matters involving the application of laws of any jurisdiction as to which such counsel is not an expert to the extent satisfactory in form and scope to counsel for the Underwriter, upon the opinion of other counsel acceptable to the Underwriter. Copies of such opinions shall be delivered to the Underwriter and counsel and shall expressly state that all such counsel may rely on such opinion.

References to the Registration Statement and the Prospectus in this Subsection (c) shall include any amendment or supplement thereto at the date of

such opinion.

(d) The Underwriter shall have received from L J Soldinger Associates, letters dated the date hereof and the Firm Closing Date, in form and substance reasonably satisfactory to the Underwriter, providing you with such "cold comfort" as you may reasonably require.

(e) The Underwriter shall have received a certificate, dated the Firm Closing Date, of the Chief Executive Officer and Chief Financial Officer of the Company to the effect that:

(i) the representations and warranties of the Company in this Agreement are true and correct as if made on and as of the Firm Closing Date; the Registration Statement, as amended as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading; the Prospectus, as amended or supplemented as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; and the Company has

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performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Firm Closing Date;

(ii) The Registration Statement has become effective and no order suspending or preventing the use of any Prospectus, or the effectiveness of the Registration Statement or any amendment thereto has been issued, and to the best of their knowledge after inquiry, no proceedings for that purpose have been instituted or threatened, or are contemplated, by any Regulatory Authority;

(iii) the charter documents and by-laws of the Company attached to the certificate are full, true and correct copies and in effect on the date thereof;

(iv) the minutes or other records of various proceedings and actions of the Board of Directors of the Company relating to this offering are full, true and correct copies thereof and have not been modified or rescinded as of the date thereof;

(v) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, the Company has not sustained any material loss or interference with its businesses or properties

from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding, and there has not been any material adverse change, or any development involving a prospective material adverse change, in the condition (financial or otherwise), business prospects, net worth or results of operations of the Company;

(vi) the Company has complied in all material respects with all terms and conditions and covenants of this Agreement on its part to be complied with prior to the Firm Closing Date;

(vii) except as described in the Prospectus, the Company is not party to or bound by any material contract or other material document;

(viii) the only jurisdictions in which the Company owns or leases material property or conducts material operations are the jurisdictions described in the Prospectus; and

(ix) such additional matters as the Underwriter may reasonably request.

(f) The Units and the shares of Common Stock and the Warrants comprising the Units shall have been approved for inclusion in the NASDAQ System, [and for trading on the American Stock Exchange, respectively,] subject to official notice of issuance.

(g) On or before the Firm Closing Date, the Underwriter and counsel for the Underwriter shall have received such further certificates, documents or other information as they may have reasonably requested from the Company.

All opinions, certificates, letters and documents delivered pursuant to this Agreement shall comply with the provisions hereof only if they are reasonably satisfactory in all material respects to the Underwriter and counsel for the Underwriter. The Company shall furnish to the Underwriter such conformed copies of such opinions, certificates, letters and documents required hereunder in such quantities as the Underwriter and counsel for the Underwriter shall reasonably request.

The obligation of the Underwriter to purchase and pay for any Optional Offered Units shall be subject, in their discretion, to each of the foregoing conditions to purchase the Firm Offered Units as of the Over-Allotment Option Closing Date. All opinions, certificates, letters and documents delivered pursuant to this Agreement shall be re-affirmed as the Over-Allotment Option Closing Date.

8. Conditions of the Obligations of the Company. The obligation of the Company to sell and deliver the Shares is subject to the following conditions:

(a) The Registration Statement shall have become effective not later than 10:00 a.m. New York time, on the day following the date of this Agreement, or on such later date as the Company and the Underwriter may agree in writing.

(b) At the Closing Dates, no stop orders suspending the effectiveness of the Registration Statement shall have been issued under the Act or any proceedings therefor initiated or threatened by the Commission.

If the conditions to the obligations of the Company provided for in this Section have been fulfilled on the Firm Closing Date but are not fulfilled after the Firm Closing Date and prior to the Over-Allotment Option Closing Date, then only the obligation of the Company to sell and deliver the Shares on exercise of the Over-Allotment Option shall be affected.

9. Indemnification.

(a) The Company agrees (i) to indemnify and hold harmless the Underwriter and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act against any losses, claims, damages or liabilities, joint or several (which shall, for all purposes of this Agreement, include, but not be limited to, all reasonable costs of defense and investigation and all reasonable attorneys' fees), to which such Underwriter or such controlling person may become subject, under the Act or otherwise, and (ii) to reimburse, as incurred, the Underwriter and such controlling persons for any legal or other expenses reasonably incurred in connection with investigating, defending against or appearing as a third party witness in connection with any losses, claims, damages or liabilities; insofar as such losses, claims, damages or liabilities (or actions in respect thereof) relating to (i) and (ii) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in (A) the Registration Statement, any Preliminary Prospectus, the Prospectus, or any amendment or supplement thereto, (B) any blue sky application or other document executed by the Company specifically for that purpose containing written information specifically furnished by the Company and filed in any state

or other jurisdiction in order to qualify any or all of the Securities under the securities laws thereof (any such application, document or information being hereinafter called a "Blue Sky Application"), or arise out of or are based upon the omission or alleged omission to state in the Registration Statement, any Preliminary Prospectus, Prospectus, or any amendment or supplement thereto, or in any Blue Sky Application, a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the Company will not be required to indemnify the Underwriter and any controlling person or be liable in any such case to the extent, but only to the

extent, that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Underwriter specifically for use in the preparation of the Registration Statement or any such amendment or supplement thereof or any such Blue Sky Application or any such preliminary Prospectus or the Prospectus or any such amendment or supplement thereto, provided, further that the indemnity with respect to any Preliminary Prospectus shall not be applicable on account of any losses, claims, damages, liabilities or litigation arising from the sale of Securities to any person if a copy of the Prospectus was not delivered to such person at or prior to the written confirmation of the sale to such person. This indemnity will be in addition to any liability which the Company may otherwise have.

(b) The Underwriter will indemnify and hold harmless the Company, each of its directors, each nominee (if any) for director named in the Prospectus, each of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Act, against any losses, claims, damages or liabilities (which shall, for all purposes of this Agreement, include, but not be limited to, all costs of defense and investigation and reasonable attorneys' fees) to which the Company or any such director, nominee, officer or controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any Preliminary Prospectus, the Prospectus, or any amendment or supplement thereto, or any Blue Sky Application in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use in the preparation thereof and for any violation by the Underwriter in the sale of such Securities of any applicable state or federal law or any rule, regulation or instruction thereunder relating to violations based on unauthorized statements by Underwriter or its representative; provided that such violation is not based upon any violation of such law, rule or regulation or instruction by the party claiming indemnification or inaccurate or misleading information furnished by the Company or its representatives, including information furnished to the Underwriter as contemplated herein. This indemnity agreement will be in addition to any liability which the Underwriter may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a

claim in respect thereof is to be made against the indemnifying party under this Section, notify in writing the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, subject to the provisions herein stated, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. The indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall not be at the expense of the indemnifying party if the indemnifying party has assumed the defense of the action with counsel reasonably satisfactory to the indemnified party; provided that the reasonable fees and expenses of such counsel shall be at the expense of the indemnifying party if (i) the employment of such counsel has been specifically authorized in writing by the indemnifying party or (ii) the named parties to any such action (including any impleaded parties) include both the indemnified party and the indemnifying party and in the reasonable judgment of the counsel to the indemnified party, it is advisable for the indemnified party to be represented by separate counsel (in which case the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party, it being understood, however, that the indemnifying party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the indemnified party, which firm shall be designated in writing by the indemnified party). No settlement of any action against an indemnified party shall be made without the consent of the indemnified party, which shall not be unreasonably withheld in light of all factors of importance to such indemnified party. If it is ultimately determined that indemnification is not permitted, then an indemnified party will return all monies advanced to the indemnifying party.

10. Contribution.

In order to provide for just and equitable contribution under the Act in any case in which the indemnification provided in Section 9 hereof is requested but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case, notwithstanding the fact that the express provisions of Section 9 provide for indemnification in such case, then the Company and each person who controls the Company, in the aggregate, and the Underwriter shall contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (which shall, for all purposes of this Agreement, include, but

not be limited to, all reasonable costs of defense and investigation and all reasonable attorneys' fees) (after

contribution from others) in such proportions that the Underwriter is responsible in the aggregate for that portion of such losses, claims, damages or liabilities represented by the percentage that the underwriting discount for each of the Shares appearing on the cover page of the Prospectus bears to the public offering price appearing thereon and the Company shall be responsible for the remaining portion; provided, however, that if such allocation is not permitted by applicable law then allocated in such proportion as is appropriate to reflect relative benefits but also the relative fault of the Company and the Underwriter and controlling persons, in the aggregate, in connection with the statements or omissions which resulted in such damages and other relevant equitable considerations shall also be considered. The relative fault shall be determined by reference to, among other things, whether in the case of an untrue statement of a material fact or the omission to state a material fact, such statement or omission relates to information supplied by the Company or the Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company and the Underwriter agree that it would not be just and equitable if the respective obligations of the Company and the Underwriter to contribute pursuant to this Section 10 were to be determined by pro rata or per capita allocation of the aggregate damages or by any other method of allocation that does not take account of the equitable considerations referred to in this Section 10. No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. As used in this paragraph, the word "Company" includes any officer, director, or person who controls the Company within the meaning of Section 15 of the Act. If the full amount of the contribution specified in this paragraph is not permitted by law, then the Underwriter and each person who controls the Underwriter shall be entitled to contribution from the Company, its officers, directors and controlling persons, and the Company, its officers, directors and controlling persons shall be entitled to contribution from the Underwriter to the full extent permitted by law. The foregoing contribution agreement shall in no way affect the contribution liabilities of any persons having liability under Section 11 of the Act other than the Company and the Underwriter. No contribution shall be requested with regard to the settlement of any matter from any party who did not consent to the settlement; provided, however, that such consent shall not be unreasonably withheld in light of all factors of importance to such party.

11. Survival. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Company, its officers and the Underwriter set forth in this Agreement, shall remain in full force and effect until three years from the Effective Time, regardless of: (i) any investigation made by or on behalf of the Company, any of their officers or directors, the Underwriter or any controlling person referred to in Section 9 hereof; and (ii)

delivery of and payment for the Offered Units. Notwithstanding the foregoing sentence, the respective agreements, covenants, indemnities and other statements set forth in Sections 6 and 10 hereof shall remain in full force and effect regardless of any termination or cancellation of this Agreement and shall remain in full force and effect after Closing.

12. Termination.

(a) This Agreement, other than Sections 9 and 10 hereof, may be terminated with respect to the Firm Offered Units or any Optional Offered Units in the sole discretion of the Underwriter by notice to the Company given prior to the Firm Closing Date or the Over-Allotment Option Closing Date, respectively, in the event that the Company shall have failed, refused or been unable to perform any or all obligations and satisfy any or all conditions on its part to be performed or satisfied hereunder at or prior thereto or, if at or prior to the Firm Closing Date or such Over-Allotment Option Closing Date, respectively:

(i) the Company shall have sustained any material loss or interference with its business or property from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding or there shall have been any material adverse change in the condition (financial or otherwise), business prospects, net worth or results of operations of the Company, or any development involving a prospective material adverse change including, without limitation, the event that any cessation of employment by the Company of any of the persons described under the caption "Management" as directors or executive officers of the Company and/or a change in management or control of the Company shall have occurred;

(ii) trading in the Units shall have been suspended or halted by any applicable securities commission or regulator in the United States or by NASDAQ [or the American Stock Exchange,] or trading in securities in general on NASDAQ shall have been suspended, or minimum or maximum prices shall have been established on such exchange, or trading in any securities of the Company shall have been suspended or halted by any national securities exchange upon which such securities are listed or the appropriate Regulatory Authorities;

(iii) a banking moratorium shall have been declared by authorities of the City of New York, the States of _____ or New York, or the United States of America; or

(iv) there shall have been: (A) an outbreak of hostilities between the United States and any foreign power; (B) an outbreak of any other insurrection or armed conflict involving the United States or the United Kingdom; or (C) any other calamity or crisis; which in any such case has a

material adverse effect on the financial markets such that in the reasonable judgment of the Underwriter it is impracticable or inadvisable to proceed with the public offering or the delivery of the Units, as contemplated by the Registration Statement, as amended as of the date hereof.

(b) Termination of this Agreement pursuant to this Section 12 shall be without liability of any party to any other party except as provided in Section 11 hereof.

13. Information Supplied by the Underwriter. The information under the heading "Underwriting" and the statements set forth on the front and back cover page in any Preliminary Prospectus and Prospectus (to the extent such statements relate to the Underwriter) constitute the only information furnished by the Underwriter to the Company for the purposes hereof. The Underwriter confirms that such statements (to such extent) are correct.

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14. Notices. All communications hereunder shall be in writing and shall be mailed, delivered or telegraphed and confirmed in writing, and shall, in the case of notice to the Company, be addressed and sent to the Company at its address on the cover of the Registration Statement, Attn: Chief Executive Officer; and, in the case of notice to the Underwriter, be addressed and sent to: _____, with a copy to its counsel: _____, Attn: _____.

The Company and the Underwriter may change their respective addresses for notice, by notice given in the manner aforesaid. Any such notification shall take effect at the time of receipt.

15. Successors. This Agreement shall enure to the benefit of, and shall be binding upon, the Underwriter, the Company and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person of this Agreement, or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person except that: (i) the indemnities of the Company contained in Section 9 of this Agreement shall also be for the benefit of all officers, directors, employees and agents of the Underwriter and any person or persons who control the Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act; and (ii) the indemnities of the Underwriter contained in Section 9 of this Agreement shall also be for the benefit of the directors of the Company, the officers of the Company who have signed the Registration Statement and any person or persons who control the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act. No purchaser of Units from the Underwriter shall be deemed a

successor because of such purchase.

16. Applicable Law. The validity and interpretation of this Agreement, and the terms and conditions' set forth herein, shall be governed by and construed in accordance with the laws of the State of _____, United States of America without giving effect to any provisions relating to conflicts of laws.

17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

18. Time of Essence. Time shall be of the essence of this Agreement between the Company and the Underwriter.

19. Conditions for the Benefit of the Company. The obligation of the Company to issue the Units is subject to the following terms and conditions which are for the exclusive benefit of the Company to be performed or complied with at or prior to the Closing:

- (1) the representations and warranties of the Underwriter set forth in Section 2 (c) shall be true and correct at the Closing with the same force and effect as if made at and as of such time; and

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- (2) the Underwriter shall have--performed or complied with all of the terms, covenants and conditions of this Agreement to be performed or complied with by the Underwriter prior to the Closing.

If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter shall constitute a binding the Underwriter.

AVIATION HOLDINGS GROUP, INC.

By: _____
President

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

SILVER CAPITAL GROUP, a division of LCP
CAPITAL

By: _____
President

No W- _____ Warrants

WARRANT

VOID AFTER _____, 2002

STOCK PURCHASE WARRANT CERTIFICATE
FOR PURCHASE OF COMMON STOCK

AVIATION HOLDINGS GROUP, INC.

THIS CERTIFIES THAT FOR VALUE RECEIVED, _____ or registered assigns (the "Registered Holder") is the owner of the number of Class A Redeemable Common Stock Purchase Warrants ("Warrants") specified above. Each Warrant initially entitles the Registered Holder to purchase, subject to the terms and conditions set forth in this Certificate and the Warrant agreement (as hereinafter defined), one fully paid and nonassessable share of Common Stock, par value \$.0001 per share ("Common Stock"), of AVIATION HOLDINGS GROUP, INC. a Florida corporation (the "Company"), at any time between the Initial Warrant Exercise Date and the Expiration Date (as hereinafter defined), upon the presentation and surrender of this Warrant Certificate with the Subscription Form on the reverse hereof duly executed, at the corporate office of STOCKTRANS, INC. as Warrant Agent, or its successor (the "Warrant Agent"), accompanied by payment of \$_____ (the "Purchase Price") in lawful money of the United States of America in cash or by official bank or certified check made payable to the Company.

This Warrant Certificate and each Warrant represented hereby are issued pursuant to and are subject to all respects to the terms and conditions set forth in the Warrant Agreement (the "Warrant Agreement") dated _____, 1996, by and between the Company and the Warrant Agent.

In the event of certain contingencies provided for the Warrant Agreement, the Purchase Price or the number of shares of Common Stock subject to purchase upon the exercise of each Warrant represented hereby are subject to modifications or adjustment.

Each Warrant represented hereby is exercisable at the option of the Registered Holder, but no fractional shares of Common Stock will be issued. In the case of the exercise of less than all the Warrants represented hereby, the Company shall cancel this Warrant Certificate upon the surrender hereof and shall execute and deliver a new Warrant Certificate or Warrant Certificates of

like tenor, which the Warrant Agent shall countersign, for the balance of such Warrants.

The term "Initial Warrant Exercise Date" shall mean _____, 1999.

The term "Expiration Date" shall mean 5:00 p.m. (New York time) on _____, 2002, or such earlier date as the Warrants shall be redeemed. If such date shall in the State of New York be a holiday or a day on which the banks are authorized to close, then the Expiration Date shall mean 5:00 p.m. (New York time) the next following day which in the State of New York is not a holiday or a day on which banks are authorized to close.

The Company shall not be obligated to deliver any securities pursuant to the exercise of this Warrant unless a registration statement under the Securities Act of 1933, as amended, with respect to such securities is effective. This Warrant shall not be exercisable by a Registered Holder in any state where such exercise would be unlawful.

This Warrant Certificate is exchangeable, upon the surrender hereof by the Registered Holder at the corporate office of the Warrant Agent, for a new Warrant Certificate or Warrant Certificates of like tenor representing an equal aggregate number of Warrants, each of such new Warrant Certificates to represent such number of Warrants as shall be designated by such Registered Holder at the time of such surrender. Upon due presentment with any transfer fee in addition to any tax or other governmental charge imposed in connection there with, for registration of transfer of this Warrant Certificate at such office, a new Warrant Certificate or Warrant Certificates representing an equal aggregate number of Warrants will be issued to the transferee in exchange therefor, subject to the limitations provided in the Warrant Agreement.

Prior to the exercise of any Warrant represented hereby, the Registered Holder shall not be entitled to any rights of a stockholder of the Company, including, without limitations, the right to vote or to receive dividends or other distributions, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided in the Warrant Agreement.

This Warrant may be redeemed at the option of the Company, at a redemption price of \$.01 per Warrant at any time after _____, 1999, provided the Market Price (as defined in the Warrant Agreement) for the securities issuable upon exercise of such Warrant shall exceed \$_____ [two times Purchase Price] per share. Notice of redemption shall be given not later than the thirtieth day before the date fixed for redemption, all as provided in the Warrant Agreement. On and after the date fixed for redemption, the Registered Holder shall have no rights with respect to this Warrant except to receive the \$.01 per Warrant upon surrender of this Certificate.

Prior to due presentment for registration of transfer hereof, the

Company and the Warrant Agent may deem and treat the Registered Holder as the absolute owner hereof and of each Warrant represented hereby (notwithstanding any notations of ownership or writing hereon made by anyone other than a duly authorized officer of the Company or the Warrant Agent) for all purposes and shall not be affected by any notice to the contrary.

This Warrant Certificate shall be governed by and construed in accordance with the laws of the State of Florida.

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This Warrant Certificate is not valid unless countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed, manually or in facsimile by two of its officers thereunto duly authorized and a facsimile of its corporate seal to be imprinted hereon.

AVIATION HOLDINGS GROUP, INC.

By: _____
Joseph J. Nelson
President

[Seal]

STOCKTRANS, INC., as Warrant Agent

By: _____
Its: Authorized Officer

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[Form of Reverse of Warrant Certificate]

SUBSCRIPTION FORM

To Be Executed by the Registered Holder in Order to Exercise Warrants

THE UNDERSIGNED REGISTERED HOLDER hereby irrevocably elects to exercise _____ Warrants represented by this Warrant Certificate, and to purchase the securities issuable upon the exercise of such Warrants, and requests that certificates for such securities shall be issued in the name of

_____ (please insert social security or other identifying number)

and be delivered to:

(please print or type name and address)

and if such number of Warrants shall not be all the Warrants evidenced by this Warrant Certificate, that a new Warrant Certificate for the balance of such Warrants be registered in the name of, and delivered to, the Registered Holder at the address stated below:

(Address)

(Date)

(Taxpayer Identification Number)

If this Warrant has been solicited by a member of the National Association of Securities Dealers, Inc., the name of such firm is:

_____.

Dated: _____

Signature of Holder

Signature guaranteed:

SIGNATURE GUARANTEED

ASSIGNMENT

To Be Executed by the Registered Holder in Order to Assign Warrants

FOR VALUE RECEIVED, hereby sells, assigns, and transfers unto

(please insert social security or other identifying number)

(please print or type name and address)

of the Warrants represented by this Warrant Certificate, and hereby irrevocably constitutes and appoints _____ Attorney to transfer this Warrant Certificate on the books of the Company, with full power of substitution in the premises.

Dated: _____

Signature of Holder

Signature guaranteed:

SIGNATURE GUARANTEED

THE SIGNATURE TO THE ASSIGNMENT OR THE SUBSCRIPTION FORM MUST CORRESPOND TO THE NAME AS WRITTEN UPON THE FACE OF THIS WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER, AND MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 17Ad-15 (AS PROMULGATED UNDER THE SECURITIES AND EXCHANGE ACT OF 1934) .

WARRANT AGREEMENT

AGREEMENT, dated as of this ____ day of 1999, by and between AVIATION HOLDINGS GROUP, INC., a New Jersey corporation ("Company"), and STOCKTRANS, INC., as Warrant Agent (the "Warrant Agent").

WITNESSETH:

WHEREAS, in connection with a public offering of up to _____ Units (the "Units"), each consisting of two (2) shares of Common Stock, par value \$.001 per share, and one (1) Class A Redeemable Common Stock Purchase Warrant (the "Warrant") pursuant to an underwriting agreement (the "Underwriting Agreement") dated _____, 1999 between the Company and _____ ("Silver"), the Company will issue up to _____ Warrants;

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing to so act, in connection with the issuance, registration, transfer, exchange and redemption of the Warrants, the issuance of certificates representing the Warrants, the exercise of the Warrants, and the rights of the holders thereof;

NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter set forth and for the purpose of defining the terms and provisions of the Warrants and the certificates representing the Warrants and the respective rights and obligations thereunder of the Company, the holders of certificates representing the Warrants and the Warrant Agent, the parties hereto agree as follows:

1. Definitions. As used herein, the following terms shall have the following meanings, unless the context shall otherwise require:

(a) "Common Stock" shall mean the common stock of the Company of which at the date hereof consists of _____ authorized shares, par value \$.001 per share, and shall also include any capital stock of any class of the Company thereafter authorized which shall not be limited to a fixed sum or percentage in respect to the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary liquidation, dissolution, or winding up of the Company; provided, however, that the shares issuable upon exercise of the Warrants shall include (1) only shares of such class designated in the Company's Certificate of Incorporation as Common Stock on the date of the original issue of the Warrants or (ii), in the case of any reclassification, change, consolidation, merger, sale, or conveyance of the character referred to in Section 9(c) hereof, the stock, securities, or property provided for in such section or (iii), in the case of any reclassification or change in the outstanding shares of Common Stock issuable upon exercise of the

Warrants as a result of a subdivision or combination or consisting of a change in par value, or from par value to no par value, or from no par value to par value, such shares of Common Stock as so reclassified or changed.

(b) "Corporate Office" shall mean the office of the Warrant Agent (or its successor) at which at any particular time its principal business shall be administered, which office is located at the date hereof at _____.

(c) "Exercise Date" shall mean, as to any Warrant, the date on which the Warrant Agent shall have received both (a) the Warrant Certificate representing such Warrant, with the exercise form thereon duly executed by the Registered Holder thereof or his attorney duly authorized in writing, and (b) payment in cash, or by official bank or certified check made payable to the Company, of an amount in lawful money of the United States of America equal to the applicable Purchase Price.

(d) "Initial Warrant Exercise Date" shall mean _____ 1999.

(e) "Purchase Price" shall mean the purchase price per share to be paid upon exercise of each Warrant in accordance with the terms hereof, which price shall be \$_____ per share, subject to adjustment from time to time pursuant to the provisions of Section 9 hereof, and subject to the Company's right, in its sole discretion, to reduce the Purchase Price upon notice to all warrant holders.

(f) "Redemption Price" shall mean the price at which the Company may, at its option, redeem the Warrants, in accordance with the terms hereof, which price shall be \$0.01 per Warrant.

(g) "Registered Holder" shall mean as to any Warrant and as of any particular date, the person in whose name the certificate representing the Warrant shall be registered on that date on the books maintained by the Warrant Agent pursuant to Section 6.

(h) "Transfer Agent" shall mean StockTrans, Inc., as the Company's transfer agent, or its authorized successor, as such.

(i) "Warrant Expiration Date" shall mean 5:00 P.M. (New York time) on _____, 2001 or the Redemption Date as defined in Section 8, whichever is earlier; provided that if such date shall in the State of New York be a holiday or a day on which banks are authorized or required to close, then 5:00 P.M. (New York time) on the next following day which in the State of New York is not a holiday or a day on which banks are authorized or required to close. Upon notice to all warrant holders the Company shall have the right to extend the warrant expiration date.

2. Warrants and Issuance of Warrant Certificates.

(a) A Warrant initially shall entitle the Registered Holder of the Warrant representing such Warrant to purchase one share of Common Stock upon the exercise thereof, in accordance with the terms hereof, subject to modification and adjustment as provided in Section 9.

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(b) Upon execution of this Agreement, Warrant Certificates representing the number of Warrants sold pursuant to the Underwriting Agreement shall be executed by the Company and delivered to the Warrant Agent. Upon written order of the Company signed by its President or Chairman or a Vice President and by its Secretary or an Assistant Secretary, the Warrant Certificates shall be countersigned, issued, and delivered by the Warrant Agent.

(c) From time to time, up to the Warrant Expiration Date, the Transfer Agent shall countersign and deliver stock certificates in required whole number denominations representing up to an aggregate of _____ shares of Common Stock, subject to adjustment as described herein, upon the exercise of Warrants in accordance with this Agreement.

(d) From time to time, up to the Warrant Expiration Date, the Warrant Agent shall countersign and deliver Warrant Certificates in required whole number denominations to the persons entitled thereto in connection with any transfer or exchange permitted under this Agreement; provided that no Warrant Certificates shall be issued except (i) those initially issued hereunder, (ii) those issued on or after the Initial Warrant Exercise Date, upon the exercise of fewer than all Warrants represented by any Warrant Certificate, to evidence any unexercised warrants held by the exercising Registered Holder, (iii) those issued upon any transfer or exchange pursuant to Section 6; (iv) those issued in replacement of lost, stolen, destroyed, or mutilated Warrant Certificates pursuant to Section 7; (v) those issued pursuant to the Purchase Option; and (vi) those issued at the option of the Company, in such form as may be approved by the its Board of Directors to reflect any adjustment or change in the Purchase Price, the number of shares of Common Stock purchasable upon exercise of the Warrants or the Redemption Price therefor made pursuant to Section 9 hereof.

3. Form and Execution of Warrant Certificates.

(a) The Warrant Certificates shall be substantially in the form annexed hereto as Exhibit A (the provisions of which are hereby incorporated herein) and may have such letters, numbers, or other marks of identification or designation and such legends, summaries, or endorsements printed, lithographed, or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Warrants may be listed, or to conform to usage or to the requirements of Section 2(b). The Warrant Certificates shall be dated the date of issuance thereof (whether upon

initial issuance, transfer, exchange, or in lieu of mutilated, lost, stolen, or destroyed Warrant Certificates) and issued in registered form. Warrant Certificates shall be numbered serially with the letter W.

(b) Warrant Certificates shall be executed on behalf of the Company by its Chairman of the Board, President, or any Vice President and by its Secretary or an Assistant Secretary, by manual signatures or by facsimile signatures printed thereon, and shall have imprinted

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thereon a facsimile of the Company's seal. Warrant Certificates shall be manually countersigned by the Warrant Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Warrant Certificates shall cease to be an officer of the Company or to hold the particular office referenced in the Warrant Certificate before the date of issuance of the Warrant Certificates or before countersignature by the Warrant Agent and issue and delivery thereof, such Warrant Certificates may nevertheless be countersigned by the Warrant Agent, issued and delivered with the same force and effect as though the person who signed such Warrant Certificates had not ceased to be an officer of the Company or to hold such office. After countersignature by the Warrant Agent, Warrant Certificates shall be delivered by the Warrant Agent to the Registered Holder without further action by the Company, except as otherwise provided by Section 4 hereof.

4. Exercise. Each Class A Warrant may be exercised by the Registered Holder thereof at any time on or after the Initial Exercise Date, but not after the Warrant Expiration Date, upon the terms and subject to the conditions set forth herein and in the applicable Warrant Certificate. A Warrant shall be deemed to have been exercised immediately prior to the close of business on the Exercise Date and the person entitled to receive the securities deliverable upon such exercise shall be treated for all purposes as the holder of those securities upon the exercise of the Warrant as of the close of business on the Exercise Date. As soon as practicable on or after the Exercise Date the Warrant Agent shall deposit the proceeds received from the exercise of a Warrant and shall notify the Company in writing of the exercise of the Warrants. Promptly following, and in any event within five days after the date of such notice from the Warrant Agent, the Warrant Agent, on behalf of the Company, shall cause to be issued and delivered by the Transfer Agent, to the person or persons entitled to receive the same, a certificate or certificates for the securities deliverable upon such exercise (plus a certificate for any remaining unexercised Warrants of the Registered Holder), unless prior to the date of issuance of such certificates the Company shall instruct the Warrant Agent to refrain from causing such issuance of certificates pending clearance of checks received in payment of the Purchase Price pursuant to such Warrants. Upon the exercise of any Warrant and clearance of the funds received, the Warrant Agent shall promptly remit the payment received for the Warrant (the "Warrant Proceeds") to the Company or as the Company may direct in writing.

5. Reservation of Shares; Listing; Payment of Taxes, etc.

(a) The Company covenants that it will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issue upon exercise of Warrants, such number of shares of Common Stock as shall then be issuable upon the exercise of all outstanding Warrants. The Company covenants that all shares of Common Stock which shall be issuable upon exercise of the Warrants shall, at the time of delivery, be duly and validly issued, fully paid, nonassessable, and free from all taxes, liens, and charges with respect to the issue thereof, (other than those which the Company shall promptly pay or discharge) and that upon issuance such shares shall be listed on each national securities exchange or eligible for inclusion in each automated quotation system, if any, on which the other shares of outstanding Common Stock of the Company are then listed or eligible for inclusion.

(b) The Company covenants that if any securities to be reserved for the purpose of exercise of Warrants hereunder require registration with, or approval of, any governmental authority under any federal securities law before such

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securities may be validly issued or delivered upon such exercise, then the Company will, to the extent the Purchase Price is less than the Market Price (as hereinafter defined), in good faith and as expeditiously as reasonably possible, endeavor to secure such registration or approval and will use its reasonable efforts to obtain appropriate approvals or registrations under state "blue sky" securities laws. With respect to any such securities, however, Warrants may not be exercised by, or shares of Common Stock issued to, any Registered Holder in any state in which such exercise would be unlawful.

(c) The Company shall pay all documentary, stamp, or similar taxes and other governmental charges that may be imposed with respect to the issuance of Warrants, or the issuance, or delivery of any shares upon exercise of the Warrants; provided, however, that if the shares of Common Stock are to be delivered in a name other than the name of the Registered Holder of the Warrant Certificate representing any Warrant being exercised, then no such delivery shall be made unless the person requesting the same has paid to the Warrant Agent the amount of transfer taxes or charges incident thereto, if any.

(d) The Warrant Agent is hereby irrevocably authorized to requisition the Company's Transfer Agent from time to time for certificates representing shares of Common Stock issuable upon exercise of the Warrants, and the Company will authorize the Transfer Agent to comply with all such proper requisitions. The Company will file with the Warrant Agent a statement setting forth the name and address of the Transfer Agent of the Company for shares of Common Stock issuable upon exercise of the Warrants.

6. Exchange and Registration of Transfer.

(a) Warrant Certificates may be exchanged for other Warrant Certificates representing an equal aggregate number of Warrants of the same class or may be transferred in whole or in part. Warrant Certificates to be exchanged shall be surrendered to the Warrant Agent at its Corporate Office, and upon satisfaction of the terms and provisions hereof, the Company shall execute and the Warrant Agent shall countersign, issue, and deliver in exchange therefor the Warrant Certificate or Certificates which the Registered Holder making the exchange shall be entitled to receive.

(b) The Warrant Agent shall keep at its office books in which, subject to such reasonable regulations as it may prescribe, it shall register Warrant Certificates and the transfer thereof in accordance with its regular practice. Upon due presentment for registration of transfer of any Warrant Certificate at such office, the Company shall execute and the Warrant Agent shall issue and deliver to the transferee or transferees a new Warrant Certificate or Certificates representing an equal aggregate number of Warrants.

(c) With respect to all Warrant Certificates presented for registration or transfer, or for exchange or exercise, the subscription form on the reverse thereof shall be duly endorsed, or be accompanied by a written instrument or instruments of transfer and subscription, in form satisfactory to the Company and the Warrant Agent, duly executed by the Registered Holder or his attorney-in-fact duly authorized in writing.

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(d) A service charge may be imposed by the Warrant Agent for any exchange or registration of transfer of Warrant Certificates. In addition, the Company may require payment by such holder of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

(e) All Warrant Certificates surrendered for exercise or for exchange in case of mutilated Warrant Certificates shall be promptly cancelled by the Warrant Agent and thereafter retained by the Warrant Agent until termination of this Agreement or resignation as Warrant Agent, or disposed of or destroyed, at the direction of the Company.

(f) Prior to due presentment for registration of transfer thereof, the Company and the Warrant Agent may deem and treat the Registered Holder of any Warrant Certificate as the absolute owner thereof and of each Warrant represented thereby (notwithstanding any notations of ownership or writing thereon made by anyone other than a duly authorized officer of the Company or the Warrant Agent) for all purposes and shall not be affected by any notice to the contrary. The Warrants which are being publicly offered with shares of Common Stock pursuant to the Underwriting Agreement will be detachable from the Common Stock on and after _____, 1999 [45 days after closing] and thereafter will be transferable separately therefrom.

7. Loss or Mutilation. Upon receipt by the Company and the Warrant Agent of evidence satisfactory to them of the ownership of and loss, theft, destruction, or mutilation of any Warrant Certificate and (in case of loss, theft, or destruction) of indemnity satisfactory to them, and (in the case of mutilation) upon surrender and cancellation thereof, the Company shall execute and the Warrant Agent shall (in the absence of notice to the Company and/or Warrant Agent that the Warrant Certificate has been acquired by a bona fide purchaser) countersign and deliver to the Registered Holder in lieu thereof a new Warrant Certificate of like tenor representing an equal aggregate number of Warrants. Applicants for a substitute Warrant Certificate shall comply with such other reasonable regulations and pay such other reasonable charges as the Warrant Agent may prescribe.

8. Redemption.

(a) Subject to the provisions of paragraph 2(e) hereof, on not less than thirty (30) days notice given at any time after the Initial Warrant Exercise Date, the Warrants may be redeemed, at the option of the Company, at a redemption price of \$0.01 per Warrant, provided the Market Price of the Common Stock receivable upon exercise of the Warrant shall equal or exceed \$_____ per share (the "Target Price"), subject to adjustment as set forth in Section 8(f) below. "Market Price" shall mean (i) the average closing bid price for any twenty (20) consecutive trading days within a period of thirty (30) consecutive trading days ending within five (5) days prior to the date in question of the Common Stock as reported by the National Association of Securities Dealers, Inc. Automatic Quotation System or (ii) the last reported sale price, for twenty (20) consecutive business days, ending within five (5) days of the date of the notice of redemption, which notice shall be mailed no later than five days thereafter, on the primary exchange on which the Common Stock is traded, if the Common Stock is traded on a national securities exchange.

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(b) If the conditions set forth in Section 8(a) are met, and the Company desires to exercise its right to redeem the Warrants, it shall mail a notice of redemption to each of the Registered Holders of the Warrants to be redeemed, first class, postage prepaid, not later than the thirtieth day before the date fixed for redemption, at their last address as shall appear on the records maintained pursuant to Section 6(b). Any notice mailed in the manner provided herein shall be conclusively presumed to have been duly given whether or not the Registered Holder receives such notice.

(c) The notice of redemption shall specify (i) the redemption price, (ii) the date fixed for redemption, (iii) the place where the Warrant Certificates shall be delivered and the redemption price paid, and (iv) that the right to exercise the Warrant shall terminate at 5:00 P.M. (New York time) on the business day immediately preceding the date fixed for redemption. The date fixed for the redemption of the Warrant shall be the Redemption Date. No failure

to mail such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceedings for such redemption except as to a Registered Holder (a) to whom notice was not mailed or (b) whose notice was defective. An affidavit of the Warrant Agent or of the Secretary or an Assistant Secretary of the Company that notice of redemption has been mailed shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

(d) Any right to exercise a Warrant shall terminate at 5:00 P.M. (New York time) on the business day immediately preceding the Redemption Date. On and after the Redemption Date, Holders of the Warrants shall have no further rights except to receive, upon surrender of the Warrant, the Redemption Price.

(e) From and after the Redemption Date specified for, the Company shall, at the place specified in the notice of redemption, upon presentation and surrender to the Company by or on behalf of the Registered Holder thereof of one or more Warrant Certificates evidencing Warrants to be redeemed, deliver or cause to be delivered to or upon the written order of such Holder a sum in cash equal to the redemption price of each such Warrant. From and after the Redemption Date and upon the deposit or setting aside by the Company of a sum sufficient to redeem all the Warrants called for redemption, such Warrants shall expire and become void and all rights hereunder and under the Warrant Certificates, except the right to receive payment of the redemption price, shall cease.

(f) If the shares of the Company's Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, the Target Price shall be proportionally adjusted by the ratio which the total number of shares of Common Stock outstanding immediately prior to such event bears to the total number of shares of Common Stock to be outstanding immediately after such event.

9. Adjustment of Exercise Price and Number of Shares of Common Stock or Warrants.

(a) Subject to the exceptions referred to in Section 9(g) below, in the event the Company shall, at any time or from time to time after the date hereof,

sell any shares of Common Stock for a consideration per share less than the Market Price of the Common Stock (as defined in Section 8) on the date of the sale or issue any shares of Common Stock as a stock dividend to the holders of Common Stock, or subdivide or combine the outstanding shares of Common Stock into a greater or lesser number of shares (any such sale, issuance, subdivision, or combination being herein called a "Change of Shares"), then, and thereafter upon each further Change of Shares, the Purchase Price in effect immediately prior to such Change of Shares shall be changed to a price (including any applicable fraction of a cent) determined by multiplying the Purchase Price in

effect immediately prior thereto by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding immediately prior to the issuance of such additional shares and the number of shares of Common Stock which the aggregate consideration received (determined as provided in subsection 9(f) (G) below) for the issuance of such additional shares would purchase at such current Market Price per share of Common Stock, and the denominator of which shall be the sum of the number of shares of Common Stock outstanding immediately after the issuance of such additional shares. Such adjustment shall be made successively whenever such an issuance is made.

Upon each adjustment of the Purchase Price pursuant this Section 9, the total number of shares of Common Stock purchasable upon the exercise of each Warrant shall (subject to the provisions contained in Section 9(b) hereof) be such number of shares (calculated to the nearest tenth) purchasable at the Purchase Price in effect immediately prior to such adjustment multiplied by a fraction, the numerator of which shall be the Purchase Price in effect immediately prior to such adjustment and the denominator of which shall be the Purchase Price in effect immediately after such adjustment.

(b) The Company may elect, upon any adjustment of the Purchase Price hereunder, to adjust the number of Warrants outstanding, in lieu of the adjustment in the number of shares of Common Stock purchasable upon the exercise of each Warrant as hereinabove provided, so that each Warrant outstanding after such adjustment shall represent the right to purchase one share of Common Stock. Each Warrant held of record prior to such adjustment of the number of Warrants shall become that number of Warrants (calculated to the nearest tenth) determined by multiplying the number one by a fraction, the numerator of which shall be the Purchase Price in effect immediately prior to such adjustment and the denominator of which shall be the Purchase Price in effect immediately after such adjustment. Upon each adjustment of the number of Warrants pursuant to this Section 9, the Company shall, as promptly as practicable, cause to be distributed to each Registered Holder of Warrant Certificates on the date of such adjustment Warrant Certificates evidencing, subject to Section 10 hereof, the number of additional Warrants to which such Holder shall be entitled as a result of such adjustment or, at the option of the Company, cause to be distributed to such Holder in substitution and replacement for the Warrant Certificates held by him prior to the date of adjustment (and upon surrender thereof, if required by the Company) new Warrant Certificates evidencing the number of Warrants to which such Holder shall be entitled after such adjustment.

(c) In case of any reclassification, capital reorganization, or other change of outstanding shares of Common Stock, or in case of any consolidation or merger of the Company with or into another corporation (other than a

consolidation or merger in which the Company is the continuing corporation and which does not result in any reclassification, capital reorganization, or other

change of outstanding shares of Common Stock), or in case of any sale or conveyance to another corporation of the property of the Company as, or substantially as, an entirety (other than a sale/leaseback, mortgage, or other financing transaction), the Company shall cause effective provision to be made so that each holder of a warrant then outstanding shall have the right thereafter, by exercising such Warrant, to purchase the kind and number of shares of stock or other securities or property (including cash) receivable upon such reclassification, capital reorganization, or other change, consolidation, merger, sale, or conveyance by a holder of the number of shares of Common Stock that might have been purchased upon exercise of such Warrant immediately prior to such reclassification, capital reorganization, or other change, consolidation, merger, sale, or conveyance. Any such provision shall include provision for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 9. The Company shall not effect any such consolidation, merger, or sale unless prior to or simultaneously with the consummation thereof the successor (if other than the Company) resulting from such consolidation or merger or the corporation purchasing assets or other appropriate corporation or entity shall assume, by written instrument executed and delivered to the Warrant Agent, the obligation to deliver to the holder of each Warrant such shares of stock, securities, or assets as, in accordance with the foregoing provisions, such holders may be entitled to purchase and the other obligations under this Agreement. The foregoing provisions shall similarly apply to successive reclassification, capital reorganizations, and other changes of outstanding shares of Common Stock and to successive consolidations, mergers, sales, or conveyances.

(d) Irrespective of any adjustments or changes in the Purchase Price or the number of shares of Common Stock purchasable upon exercise of the Warrants, the Warrant Certificates theretofore and thereafter issued shall, unless the Company shall exercise its option to issue new Warrant Certificates pursuant to Section 2(d) hereof, continue to express the Purchase Price per share, the number of shares purchasable thereunder, and the Redemption Price therefor as the Purchase Price per share, and the number of shares purchasable and the Redemption Price therefore were expressed in the Warrant Certificates when the same were originally issued.

(e) After each adjustment of the Purchase Price pursuant to this Section 9, the Company will promptly prepare a certificate signed by the Chairman or President, and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary, of the Company setting forth: (i) the Purchase Price as so adjusted, (ii) the number of shares of Common Stock purchasable upon exercise of each Warrant after such adjustment, and, if the Company shall have elected to adjust the number of Warrants, the number of Warrants to which the registered holder of each Warrant shall then be entitled, and the adjustment in Redemption Price resulting therefrom, and (iii) a brief statement of the facts accounting for such adjustment. The Company will promptly file such certificate with the Warrant Agent and cause a brief summary thereof to be sent by ordinary first class mail to each registered holder of Warrants at his last address as it shall appear on the registry books of the Warrant Agent. No failure to mail such notice nor any defect therein or in the mailing thereof shall affect the validity thereof except as to the holder to whom the Company

failed to mail such notice, or except as to the holder whose notice was defective. The affidavit of an officer of the Warrant Agent or the Secretary or an Assistant Secretary of

the Company that such notice has been mailed shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

(f) For purposes of Section 9(a) and 9(b) hereof, the following provisions (i) to (vii) shall also be applicable:

(i) The number of shares of Common Stock outstanding at any given time shall include shares of Common Stock owned or held by or for the account of the Company and the sale or issuance of such treasury shares or the distribution of any such treasury shares shall not be considered a Change of Shares for purposes of said sections.

(ii) No adjustment of the Purchase Price shall be made unless such adjustment would require an increase or decrease of at least \$.10 in such price; provided that any adjustments which by reason of this subsection (ii) are not required to be made shall be carried forward and shall be made at the time of and together with the next subsequent adjustment which, together with any adjustment(s) so carried forward, shall require an increase or decrease of at least \$.10 in the Purchase Price then in effect hereunder.

(iii) In case of (1) the sale by the Company for cash of any rights or warrants to subscribe for or purchase, or any options for the purchase of, Common Stock or any securities convertible into or exchangeable for Common Stock without the payment of any further consideration other than cash, if any (such convertible or exchangeable securities being herein called "Convertible Securities"), or (2) the issuance by the Company, without the receipt by the Company of any consideration therefor, of any rights or warrants to subscribe for or purchase, or any options for the purchase of, Common Stock or Convertible Securities, in each case, if (and only if) the consideration payable to the Company upon the exercise of such rights, warrants, or options shall consist of cash, whether or not such rights, warrants, or options, or the right to convert or exchange such Convertible Securities, are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such rights, warrants, or options or upon the conversion or exchange of such Convertible Securities (determined by dividing (x) the minimum aggregate consideration payable to the Company upon the exercise of such rights, warrants, or options, plus the consideration received by the Company for the issuance or sale of such rights, warrants, or options, plus, in the case of such Convertible Securities, the minimum aggregate amount of additional consideration, if any, other than such Convertible Securities, payable upon the conversion or exchange thereof, by (y) the total maximum number of shares of Common Stock issuable upon the exercise of such rights, warrants, or options or upon the conversion or exchange of such Convertible Securities issuable upon the exercise of such

rights, warrants, or options) is less than the Market Price of the Common Stock on the date of the issuance or sale of such rights, warrants, or options, then the total maximum number of shares of Common Stock issuable upon the exercise of such rights, warrants, or options or upon the conversion or exchange of such Convertible Securities (as of the date of the issuance or sale of such rights, warrants, or options) shall be deemed to be outstanding shares of Common Stock for purposes of Sections 9(a) and 9(b) hereof and shall be deemed to have been sold for cash in an amount equal to such price per share.

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(iv) In case of the sale by the Company for cash of any Convertible Securities, whether or not the right of conversion or exchange thereunder is immediately exercisable, if the price per share for which Common Stock is issuable upon the conversion or exchange of such Convertible Securities (determined by dividing (x) the total amount of consideration received by the Company for the sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, other than such Convertible Securities, payable upon the conversion or exchange thereof, by (y) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of such Convertible Securities) is less than the fair market value of the Common Stock on the date of the sale of such Convertible Securities, then the total maximum number of shares of Common Stock issuable upon the conversion or exchange of such Convertible Securities (as of the date of the sale of such Convertible Securities) shall be deemed to be outstanding shares of Common Stock for purposes of Sections 9(a) and 9(b) hereof and shall be deemed to have been sold for cash in an amount equal to such price per share.

(v) In case the Company shall modify the rights of conversion, exchange, or exercise of any of the securities referred to in subsection (iii) above or any other securities of the Company convertible, exchangeable, or exercisable for shares of Common Stock, for any reason other than an event that would require adjustment to prevent dilution, so that the consideration per share received by the Company after such modification is less than the Market Price on the date prior to such modification, the Purchase Price to be in effect after such modification shall be determined by multiplying the Purchase Price in effect immediately prior to such event by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding multiplied by the market price on the date prior to the modification plus the number of shares of Common Stock which the aggregate consideration receivable by the Company for the securities affected by the modification would purchase at the Market Price and of which the denominator shall be the number of shares of Common Stock outstanding on such date plus the number of shares of Common Stock to be issued upon conversion, exchange, or exercise of the modified securities at the modified rate. Such adjustment shall become effective as of the date upon which such modification shall take effect.

(vi) On the expiration of any such right, warrant, or option or the termination of any such right to convert or exchange any such Convertible

Securities, the Purchase Price then in effect hereunder shall forthwith be readjusted to such Purchase Price as would have obtained (a) had the adjustments made upon the issuance or sale of such rights, warrants, options, or Convertible Securities been made upon the basis of the issuance of only the number of shares of Common Stock theretofore actually delivered (and the total consideration received therefor) upon the exercise of such rights, warrants, or options or upon the conversion or exchange of such Convertible Securities and (b) had adjustments been made on the basis of the Purchase Price as adjusted under clause (a) for all transactions (which would have affected such adjusted Purchase Price) made after the issuance or sale of such rights, warrants, options, or Convertible Securities.

(vii) In case of the sale for cash of any shares of Common Stock, any Convertible Securities, any rights or warrants to subscribe for or purchase, or any options for the purchase of, Common Stock or Convertible Securities, the consideration received by the Company therefore shall be deemed to be the gross sales price therefor without deducting therefrom any expense paid or incurred by

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the Company or any underwriting discounts or commissions or concessions paid or allowed by the Company in connection therewith.

(g) No adjustment to the Purchase Price of the Warrants or to the number of shares of Common Stock purchasable upon the exercise of each Warrant will be made, however,

(i) upon the sale or exercise of the Warrants, including without limitation the sale or exercise of any of the Warrants comprising the Purchase Option; or

(ii) upon the sale of any shares of Common Stock in the Company's initial public offering, including, without limitation, shares sold upon the exercise of any over-allotment option granted to the Underwriters in connection with such offering; or

(iii) upon the issuance or sale of Common Stock or Convertible Securities upon the exercise of any rights or warrants to subscribe for or purchase, or any options for the purchase of, Common Stock or Convertible Securities, whether or not such rights, warrants, or options were outstanding on the date of the original sale of the Warrants or were thereafter issued or sold; or

(iv) upon the issuance or sale of Common Stock upon conversion or exchange of any Convertible Securities, whether or not any adjustment in the Purchase Price was made or required to be made upon the issuance or sale of such Convertible Securities and whether or not such Convertible Securities were outstanding on the date of the original sale of the Warrants or were thereafter issued or sold; or

(v) upon the issuance or sale of Common Stock or Convertible Securities in a private placement unless the issuance or sale price is less than 85% of the Market Price of the Common Stock on the date of issuance, in which case the adjustment shall only be for the difference between 85% of the Market Price and the issue or sale price; or

(vi) upon the issuance or sale of Common Stock or Convertible Securities to shareholders of any corporation which merges into the Company or from which the Company acquires assets and some or all of the consideration consists of equity securities of the Company, in proportion to their stock holdings of such corporation immediately prior to the acquisition but only if no adjustment is required pursuant to any other provision of this Section 9.

(h) Any determination as to whether an adjustment in the Purchase Price in effect hereunder is required pursuant to this Section 9, or as to the amount of any such adjustment, if required, shall be binding upon the holders of the Warrants and the Company if made in good faith by the Board of Directors of the Company.

(i) If and whenever the Company shall grant to the holders of Common Stock, as such, rights or warrants to subscribe for or to purchase, or any options for the purchase of, Common Stock or securities convertible into or

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exchangeable for or carrying a right, warrant, or option to purchase Common Stock, the Company shall concurrently therewith grant to each Registered Holder as of the record date for such transaction of the Warrants then outstanding, the rights, warrants, or options to which each Registered Holder would have been entitled if, on the record date used to determine the stockholders entitled to the rights, warrants, or options being granted by the Company, the Registered Holder were the holder of record of the number of whole shares of Common Stock then issuable upon exercise (assuming, for purposes of this section 9(i), that exercise of warrants is permissible during periods prior to the Initial Warrant Exercise Date) of his Warrants. Such grant by the Company to the holders of the Warrants shall be in lieu of any adjustment which otherwise might be called for pursuant to this Section 9.

10. Fractional Warrants and Fractional Shares.

(a) If the number of shares of Common Stock purchasable upon the exercise of each Warrant is adjusted pursuant to Section 9 hereof, the Company nevertheless shall not be required to issue fractions of shares, upon exercise of the Warrants or otherwise, or to distribute certificates that evidence fractional shares. With respect to any fraction of a share called for upon any exercise hereof, the Company shall pay to the Holder an amount in cash equal to such fraction multiplied by the current market value of such fractional share, determined as follows:

(i) If the Common Stock is listed on a National Securities Exchange or admitted to unlisted trading privileges on such exchange or listed for trading on the NASDAQ Quotation System, the current value shall be the last reported sale price of the Common Stock on such exchange on the last business day prior to the date of exercise of this Warrant or if no such sale is made on such day, the average of the closing bid and asked prices for such day on such exchange; or

(ii) If the Common Stock is not listed or admitted to unlisted trading privileges, the current value shall be the mean of the last reported bid and asked prices reported by the National Quotation Bureau, Inc. on the last business day prior to the date of the exercise of this Warrant; or

(iii) If the Common Stock is not so listed or admitted to unlisted trading privileges and bid and asked prices are not so reported, the current value shall be an amount determined in such reasonable manner as may be prescribed by the Board of Directors of the Company.

11. Warrant Holders Not Deemed Stockholders. No holder of Warrants shall, as such, be entitled to vote or to receive dividends or be deemed the holder of Common Stock that may at any time be issuable upon exercise of such Warrants for any purpose whatsoever, nor shall anything contained herein be construed to confer upon the holder of Warrants, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issue or reclassification of stock, change of par value or change of stock to no par value, consolidation, merger, or conveyance or otherwise), or to receive notice

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of meetings, or to receive dividends or subscription rights, until such Holder shall have exercised such Warrants and been issued shares of Common Stock in accordance with the provisions hereof.

12. Rights of Action. All rights of action with respect to this Agreement are vested in the respective Registered Holders of the Warrants, and any Registered Holder of a Warrant, without consent of the Warrant Agent or of the holder of any other Warrant, may, in his own behalf and for his own benefit, enforce against the Company his right to exercise his Warrants for the purchase of shares of Common Stock in the manner provided in the Warrant Certificate and this Agreement.

13. Agreement of Warrant Holders. Every holder of a Warrant, by his acceptance thereof, consents and agrees with the Company, the Warrant Agent and every other holder of a warrant that:

(a) The warrants are transferable only on the registry books of the Warrant Agent by the Registered Holder thereof in person or by his attorney duly authorized in writing and only if the Warrant Certificates representing such Warrants are surrendered at the office instrument of transfer satisfactory to the Warrant Agent and the Company in their sole discretion, together with payment of any applicable transfer taxes; and

(b) The Company and the Warrant Agent may deem and treat the person in whose name the Warrant Certificate is registered as the holder and as the absolute, true, and lawful owner of the Warrants represented thereby for all purposes, and neither the Company nor the Warrant Agent shall be affected by any notice or knowledge to the contrary, except as otherwise expressly provided in Section 7 hereof.

14. Cancellation of Warrant Certificates. If the Company shall purchase or acquire any Warrant or Warrants, the Warrant Certificate or Warrant Certificates evidencing the same shall thereupon be delivered to the Warrant Agent and cancelled by it and retired. The Warrant Agent shall also cancel Common Stock following exercise of any or all of the Warrants represented thereby or delivered to it for transfer, splitup, combination, or exchange.

15. Concerning the Warrant Agent. (a) The Warrant Agent acts hereunder as agent and in a ministerial capacity for the Company, and its duties shall be determined solely by the provisions hereof. The Warrant Agent shall not, by issuing and delivering Warrant Certificates or by any other act hereunder be deemed to make any representations as to the validity, value, or authorization of the Warrant Certificates or the Warrants represented thereby or of any securities or other property delivered upon exercise of any Warrant or whether any stock issued upon exercise of any Warrant is fully paid and nonassessable.

(b) The Warrant Agent shall not at any time be under any duty or responsibility to any holder of Warrant Certificates to make or cause to be made any adjustment of the Purchase Price or the Redemption Price provided in this Agreement, or to determine whether any fact exists which may require any such adjustments, or with respect to the nature or extent of any such adjustment,

when made, or with respect to the method employed in making the same. It shall not (i) be liable for any recital or statement of facts contained herein or for any action taken, suffered, or omitted by it in reliance on any warrant Certificate or other document or instrument believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties, (ii) be responsible for any failure on the part of the Company to comply with any of its covenants and obligations contained in this Agreement or in any Warrant Certificate, or (iii) be liable for any act or omission in connection with this Agreement except for its own gross negligence or wilful misconduct.

(c) The Warrant Agent may at any time consult with counsel satisfactory to it (who may be counsel for the Company) and shall incur no liability or responsibility for any action taken, suffered or omitted by it in good faith in accordance with the opinion or advice of such counsel.

(d) Any notice, statement, instruction, request, direction, order, or demand of the Company shall be sufficiently evidenced by an instrument signed by the Chairman of the Board, President, any Vice President, its Secretary, or Assistant Secretary, (unless other evidence in respect thereof is herein specifically prescribed). The Warrant Agent shall not be liable for any action taken, suffered or omitted by it in accordance with such notice, statement, instruction, request, direction, order, or demand believed by it to be genuine.

(e) The Company agrees to pay the Warrant Agent reasonable compensation for its services hereunder and to reimburse it for its reasonable expenses hereunder; it further agrees to indemnify the Warrant Agent and save it harmless against any and all losses, expenses, and liabilities, including judgments, costs, and counsel fees, for anything done or omitted by the Warrant Agent in the execution of its duties and powers hereunder except losses, expenses, and liabilities arising as a result of the Warrant Agent's gross negligence or wilful misconduct.

(f) The Warrant Agent may resign its duties and be discharged from all further duties and liabilities hereunder (except liabilities arising as a result of the Warrant Agent's own negligence or wilful misconduct), after giving 60 days' prior written notice to the Company. At least 15 days prior to the date such resignation is to become effective, the Warrant Agent shall cause a copy of such notice of resignation to be mailed to the Registered Holder of each Warrant Certificate at the Company's expense. Upon such resignation, or any inability of the Warrant Agent to act as such hereunder, the Company shall appoint a new warrant agent in writing. If the Company shall fail to make such appointment within a period of 30 days after it has been notified in writing of such resignation by the resigning Warrant Agent, then the Registered Holder of any Warrant Certificate may apply to any court of competent jurisdiction for the appointment of a new warrant agent. Any new warrant agent, whether appointed by the Company or by such a court, shall be a bank or trust company having a capital and surplus, as shown by its last published report to its stockholders, of not less than \$10,000,000 or a stock transfer company. After acceptance in writing of such appointment by the new warrant agent is received by the Company, such new warrant agent shall be vested with the same powers, rights, duties, and responsibilities as if it had been originally named herein as the Warrant Agent, without any further assurance, conveyance, act, or deed; but if for any reason it shall be necessary or expedient to execute and deliver any further assurance, conveyance, act, or deed, the same shall be done at the expense of the Company and shall be legally and validly executed and delivered by the resigning Warrant Agent. Not later than the effective date of any such appointment the Company

shall file notice thereof with the resigning warrant Agent and shall forthwith cause a copy of such notice to be mailed to the Registered Holder of each Warrant Certificate.

(g) Any corporation into which the Warrant Agent or any new warrant agent may be converted or merged or any corporation resulting from any consolidation to which the Warrant Agent or any new warrant agent shall be a party or any corporation succeeding to the trust business of the Warrant Agent shall be a successor warrant agent under this Agreement without any further act, provided that such corporation is eligible for appointment as successor to the Warrant Agent under the provisions of the preceding paragraph. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed to the Company and to the Registered Holder of each Warrant Certificate.

(h) The Warrant Agent, its subsidiaries and affiliates, and any of its or their officers or directors, may buy and hold or sell Warrants or other securities of the Company and otherwise deal with the Company in the same manner and to the same extent and with like effects as though it were not Warrant Agent. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

16. Modification of Agreement. The Warrant Agent and the Company may by supplemental agreement make any changes or corrections in this Agreement (i) that they shall deem appropriate to cure any ambiguity or to correct any defective or inconsistent provision or manifest mistake or error herein contained; or (ii) that they may deem necessary or desirable and which shall not adversely affect the interests of the holders of Warrant Certificates; provided, however, that this Agreement shall not otherwise be modified, supplemented, or altered in any respect except with the consent in writing of the Registered Holders of Warrant Certificates representing not less than 50% of the Warrants then outstanding; and provided, further, that no change in the number or nature of the securities purchasable upon the exercise of any Warrant, or the Purchase Price therefor, or the acceleration of the Warrant Expiration Date, shall be made without the consent in writing of the Registered Holder of the Warrant Certificate representing such Warrant, other than such changes as are specifically prescribed by this Agreement as originally executed or are made in compliance with applicable law.

17. Notices. All notices, requests, consents, and other communications hereunder shall be in writing and shall be deemed to have been made when delivered or mailed first class registered or certified mail, postage prepaid as follows: if to the Registered Holder of a Warrant Certificate, at the address of such holder as shown on the registry books maintained by the Warrant Agent; if to the Company, _____, Attention: President, with a copy sent to Klehr, Harrison, Harvey, Branzburg & Ellers LLP, 1401 Walnut Street, Philadelphia, Pennsylvania 19102, Attention: Michael C. Forman, Esq. or at such other address as may have been furnished to the Warrant Agent in writing by the Company; and if to the Warrant Agent, at its Corporate office.

18. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida, without reference to principles of conflict of laws.

19. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company and, the Warrant Agent and their respective successors and assigns, and the holders from time to time of Warrant Certificates. Nothing in this Agreement is intended or shall be construed to confer upon any other person any right, remedy, or claim, in equity or at law, or to impose upon any other person any duty, liability, or obligation.

20. Termination. This Agreement shall terminate at the close of business on the Warrant Expiration Date of all the Warrants or such earlier date upon which all Warrants have been exercised, except that the Warrant Agent shall account to the Company for cash held by it and the provisions of Section 15 hereof shall survive such termination.

21. Counterparts. This Agreement may be executed in several counterparts, which taken together shall constitute a single document.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

AVIATION HOLDINGS GROUP, INC.

By: _____
Joseph Nelson, President

STOCKTRANS, INC.

By: _____
Authorized Officer

EXHIBIT A

[Form of Warrant]

DEPOSIT AGREEMENT

DEPOSIT AGREEMENT, dated as of _____, 1999, between AVIATION HOLDINGS GROUP, INC., a Florida corporation (the "Company"), and _____, a national banking association, as Depositary (the "Depositary").

WHEREAS, the Company proposes to issue up to _____ units (the "Units"), each Unit consisting of two shares of the Company's Common Stock, \$.0001 par value (the "Stock"), and one warrant (a "Warrant"), each such Warrant entitling the holder thereof to purchase one share of such Common Stock, to be issued pursuant to the Warrant Agreement (the "Warrant Agreement") dated as of _____, 1999, between the Company and _____, as Warrant Agent (the "Warrant Agent"), all in accordance with the Underwriting Agreement, dated _____, 1999, between the Company and the Underwriter named therein;

WHEREAS, in furtherance of said Underwriting Agreement, the Company proposes to deposit with the Depositary concurrently with the sale of the Units a temporary global certificate or certificates evidencing the Warrants (each a "Global Warrant Certificate");

WHEREAS, the Stock and the Warrants constituting each Unit will not be separately transferable prior to the close of business on _____, 1999 (the "Distribution Date"), and thereafter such Stock and Warrants may be transferred separately; and

WHEREAS, prior to the close of business on the Distribution Date, the beneficial ownership of the Stock and the Warrants will be evidenced by the certificates for the Stock and transfer of the Stock and the Warrants may be effected only by and in connection with transfers of the Stock.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, and in order to set forth the terms under which the Global Warrant Certificate will be held and dealt with by the Depositary and its successors, it is hereby mutually agreed that:

SECTION 1. The Company, simultaneously with the issuance, sale and delivery of the Units, shall deliver to the Depositary the Global Warrant Certificate or Certificates evidencing the Warrants included in the Units so issued, sold and delivered. Each Global Warrant certificate shall be substantially in the form of the definitive Warrant Certificates set forth in the Warrant Agreement, but with such omissions, insertions and variations as may be appropriate for a temporary global warrant certificate, all as may be determined by the Company and _____ (the

"Representative"). In addition, each Global Warrant Certificate shall contain substantially the following provision:

"Subject to the terms of a Deposit Agreement, dated as of _____, 1999, between the Company and _____, as Depositary (the "Depositary"), and upon the termination thereof, the Company hereby undertakes to the

holder hereof to exchange this Global Warrant Certificate for definitive Warrant Certificates registered in the names of persons or entities on the Holder List (as defined in the Deposit Agreement), all in accordance with the terms of the Deposit Agreement."

Each Global Warrant Certificate so delivered by the Company to the Depositary will be held by the Depositary upon and subject to the terms of this Agreement, for the ratable and proportionate benefit of the holders of the Stock (the "Holders"), as beneficial owners thereof. Each Holder during the term of this Agreement whose Stock carries the endorsements set forth in Section 2 hereof will be the beneficial owner of one Warrant, each such Warrant entitling the holder thereof to purchase one share of Common Stock, \$.0001 par value, of the Company, subject to the provisions of the Warrant Agreement, for every two shares of Stock held by such Holder. Each Global Warrant Certificate may be held either in the name of the Depositary or in the name of the nominee thereof as the Depositary shall request.

SECTION 2. There shall be printed on the Stock to be originally issued and upon all Stock issued on transfers, exchanges or substitutions thereof prior to the date of the termination of this Agreement endorsements in substantially the following form:

[ENDORSEMENT TO APPEAR ON FACE OF STOCK CERTIFICATE]

"Prior to _____, 1999, (the "Distribution Date"), this certificate shall evidence unit(s) consisting of common share(s) and warrant(s) which share(s) and warrant(s) may not be transferred separately prior to the Distribution Date. See reverse for additional terms relating to such unit(s)."

[ENDORSEMENT TO APPEAR ON REVERSE OF STOCK CERTIFICATE]

"ENDORSEMENT WITH RESPECT TO DEPOSIT OF CERTIFICATES FOR WARRANTS"

Under the terms of a Deposit Agreement, dated as of _____, 1999, between the Company and

_____, as Depositary (the "Depositary"), and until the termination thereof (which termination shall occur on the Distribution Date as defined on the face hereof), the registered holder of shares of Common Stock on which this legend is endorsed is the beneficial owner of one Warrant for every two such shares of common stock held, a certificate for which Warrant has been deposited with and is held by the Depositary. Prior to the termination of the Deposit Agreement such beneficial ownership is transferable only by the transfer of two such shares of

Stock on the Common Stock Register of the Company. The certificates for the Warrants deposited under the Deposit Agreement will be mailed by insured first-class mail to the registered holders of Stock at the close of business on the Distribution Date, at his address as shown on the Common Stock Register of the Company. No holder of these shares of Stock who is not the registered holder thereof at the close of business on such date will be entitled to receive any Warrants by virtue of this endorsement.

By accepting Stock bearing this endorsement, each holder of these shares of Stock shall be bound by all the terms and provisions of the Deposit Agreement (a copy of which is available upon request to the Company or the Depositary) as fully and effectively as if he had signed the same."

Until termination of this Agreement, the beneficial interest of each such Holder in the Global Warrant Certificate held by the Depositary hereunder shall not be transferable separately, but only by and in connection with the transfer of the Stock evidencing such interest; and every sale or transfer by any present or future Holder of a share of Stock bearing the endorsement set forth shall include the proportionate beneficial interest of such Holder in the Global Warrant Certificate then held by the Depositary hereunder. By accepting shares of Stock bearing said endorsement, each Holder, present or future, and his assigns shall be bound by all of the terms and provisions of this Agreement as fully and effectually as if he had signed the same.

SECTION 3. This Agreement shall terminate on _____, 1999 (the "Distribution Date"). As promptly as practicable after the Distribution Date, the Company shall notify the Holders of such Distribution Date and shall cause notice of such Distribution Date to be published in a leading newspaper of general circulation in the financial community in New York City. As promptly as practicable after the Distribution Date, the Company shall cause the registrar and transfer agent of the Company's Common Stock to deliver to the Warrant Agent with a copy to the Depositary a list (the "Holder List") as of the close of business on the Distribution Date containing the names and addresses of, and number of shares of Stock held by, each of the Holders of the Stock. Promptly after it has received notice of such delivery, the Depositary shall deliver the

Global Warrant Certificate, duly endorsed by the Depository, to the Warrant Agent with a direction that such certificate be exchanged for warrant certificates registered in the names of persons or entities on the Holder List (the "Warrant Certificates") in the amounts required by Section I hereof and the Depository will mail or cause to be mailed the Warrant Certificates to such persons and entities. The Global Warrant, when mailed or delivered to the Warrant Agent, shall be fully covered by the blanket insurance carried by the Depository, in connection with the delivery of securities.

SECTION 4. The recitals and statements contained herein shall be taken as the statements of the Company, and the Depository assumes no responsibility for the correctness of the same. The Company shall pay to the Depository from time to time such reasonable compensation for its

services as may be agreed on between it and the Depository and shall reimburse the Depository for all reasonable costs and expenses incurred by it hereunder. The Depository may consult with legal counsel (who may be counsel to the Company) and shall not be liable for any action taken, omitted or suffered by it in good faith in accordance with the written advice or opinion of such counsel. The Depository may rely and shall be protected in acting upon any request, certificate, opinion of counsel, statement, instrument, report, notice or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Company shall and does, insofar as may be permitted by law, hereby also indemnify and hold the Depository harmless from all liability hereunder, except as a result of the Depository's bad faith or negligence. The Holders shall not be liable for any expenses or compensation of the Depository and no charge shall be made for such compensation against the Global Warrant Certificate or the Warrant Certificates. The Depository shall only be responsible for the duties and obligations specifically set forth herein and shall have no responsibility for the accuracy or completeness of the Holder List. The provisions of this Section 4 and of Sections 3 and 8 hereof shall survive the termination of this Agreement.

SECTION 5. The Company will pay or cause to be paid the stamp taxes or other governmental charges, if any, payable upon the transfer and deposit hereunder of the Global Warrant Certificate and also the stamp taxes or other governmental charges, if any, payable on termination of this Agreement on the delivery of the Warrant Certificates to the registered Holders of Stock bearing the endorsement referred to above. Any stamp taxes or other governmental charges arising by reason of the transfer by a Holder of the beneficial ownership of the Warrant Certificates shall be borne by such Holder.

SECTION 6. Any notice pursuant to this Agreement to be given by the Depository to the Company shall be sufficiently given if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing by the Company with the Depository) to the Company as follows:

[To Be Provided.]

Attn: _____

Any notice pursuant to this Agreement to be given by the Company to the Depository shall be sufficiently given if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing by the Depository with the Company) to the Depository as follows:

[To Be Provided.]
Attn: _____

Any notice pursuant to this Agreement to be given by the Company or the Depository to any Holder shall be sufficiently given if sent by first-class mail, postage prepaid, to the address specified for such Holder in the Warrant Register.

SECTION 7. This Agreement shall be governed by, and construed in accordance with, the laws of the State of _____.

SECTION 8. Nothing in this Agreement shall be construed to give to any person or corporation, other than the Company, the Depository and the Holders who are the beneficial owners of the Global Warrant Certificate deposited hereunder, any legal or equitable right, remedy or claim under this Agreement, but this Agreement shall be for the sole and exclusive benefit of the Company, the Depository and such Holders.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

AVIATION HOLDINGS GROUP, INC.

By: _____
Name:
Title:

[SEAL]

ATTEST:

By: _____
Secretary

By: _____

Name :
Title :

[SEAL]

ATTEST :

By: _____
Secretary

EMPLOYMENT AGREEMENT

This Employment Agreement is entered into and effective this 11th day of June, 1999, by and between Aviation Holdings International, Inc., a Florida corporation (the "Company") and Joseph Janusz ("Employee").

W I T N E S S E T H

WHEREAS, the Company desires to enter into an agreement providing for the Employee's employment as Chief Financial Officer;

WHEREAS, the Employee is willing to be employed by the Company for two (2) years;

NOW, THEREFORE, in consideration of the premises and covenants set forth herein, the parties agree as follows:

- 1.) The Company will employ Employee and Employee will serve the Company as Chief Financial Officer for a period of two (2) years (the "Employment Period").
- 2.) Employee will devote his best efforts and attention to the affairs of the Company with emphasis in the following areas:
 - (a) more accurate and timely reporting of the Company's financial condition and results of operations;
 - (b) improvement in employee relations within those departments which report to him and throughout the corporation and its affiliates;
 - (c) improving efficiencies as regards the various accounting functions (inventory reporting, accounts receivable and accounts payable management).
- 3.) (a) As Compensation hereunder, the Company will pay, and Employee will accept:
 - (i) Base Compensation of \$89,500.00 per annum for the period of employment from the date hereof through the second anniversary hereof, payable biweekly, with such upward adjustments as may from time to time is granted/ At the end of each Employment Year, Employee and Employer shall negotiate in good faith any increase in Basic Compensation as may be appropriate for the next Employment Year.

(ii) Such bonus, supplemental or incentive compensation and health, disability or other payment or benefits as are consistent with the Company's then current policies.

(iii) Such discretionary expenses as are necessary for his performance of this agreement and for the benefit of the Company, subject to the submission and approval of written statements in accordance with the Company's standard policies as in effect from time to time.

(b) Employee will be entitled to two (2) weeks of paid vacation per year.

(c) Employee will participate in Aviation Holdings Group, Inc. Stock Option Plan. All 55,000 stock options granted to the Employee by Aviation Holdings Group, Inc., which replaced the same number of options granted under the predecessor plan of Aviation Holdings International, Inc., shall expire five (5) years from the date hereof.

4.) The Company hereunder may terminate employee's employment at any time for "cause" or "disability" as defined herein. "Cause" shall mean conviction of a felony relating to the business of the Company, or act of dishonesty either involving Employee's employment or harmful to Employer or other employees, including fraud, misappropriation, embezzlement or the like or the misfeasance, malfeasance or non-feasance of Employee in carrying out the duties of Employee's employment with Employer, not cured within thirty (30) days prior notice. "Disability" shall mean a physical condition of employee which renders him unable to perform his duties for the Company for a period of six months or longer, as confirmed in writing by Employee's independent physician, Employee's employment hereunder will terminate upon Employee's attainment of age 65 or upon the death of Employee. Upon any such termination of employment for cause, disability, attainment of age 65 or because of death, the Company will have no further obligations hereunder.

(a) Upon termination of employee's employment hereunder at the end of the Term or because of the death or permanent disability of Employee, Employee or in the event of his death or his mental incapacity his personal representative, shall be paid his Basic Compensation hereunder, prorated through the date of termination. In addition, if termination of this Agreement is due to the death of the Employee, his estate shall be entitled to the payment of the Employee's Basic Compensation for six (6) months after the date of Employee's death.

(b) In the event that employee incurs a disability of either a physical or mental character which, in the opinion of a

physician selected by the employer, which physician shall be approved by Employee (which approval shall not be unreasonably withheld), renders him disabled from performing the usual and

customary duties to be rendered hereunder or heretofore rendered by Employee, he shall receive his full Basic Compensation for the first six (6) months or any part thereof of continuous disability.

(c) Upon termination of Employee's employment hereunder, for reasons not for cause, death, permanent disability, his voluntary leaving or the expiration of the Term hereof, such reasons to include, without limitation, the dismissal of the Employee by Employer for reasons not for cause, or the dissolution of the Employer, Employee shall be entitled to receive his Basic Compensation for twelve (12) months payable no less often than semi-monthly following Termination of Employee's employment under this Employment Agreement immediately above ("Severance"), prorated, annualized and calculated through the date of termination.

- 5.) Any dispute or controversy arising under or in connection with this agreement will be settled by arbitration, conducted before a panel of three arbitrators in Miami, Florida, in accordance with the rules of the American Arbitration Association then in effect. The arbitrators must be approved by both the Company and the Employee and their decision will be binding on the parties and conclusive for all purposes. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The expense of such arbitration will be borne by the Company.
- 6.) The Company will defend any action in which Employee is named defendant and to which Employee certified to the Company that the claim resulted from his acting either as directed by the Company or in the interest of the Company or any corporation, person or other entity affiliated with the Company.
- 7.) the Company will promptly require any successor (whether direct or indirect, to purchase, merger, consolidation, change of control or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to Employee expressly, absolutely, and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform in no such succession had taken place.

As used herein, "the Company" includes any successor to all or substantially all of the Company's business or assets which executes and delivers an agreement provided for in this Section 7

or which otherwise becomes bound by all the terms and provisions of this Agreement by law.

- 8.) Any termination of Employee's employment by the Company will be communicated to Employee at the address set forth below (or such other address as Employee shall have notified the Company of in writing for purposes of this Agreement) in a written notice and, will specify a termination date no sooner than 30 days after giving such notice.
- 9.) Employee represents and warrants to the Company that he is under no contractual or other restrictions which is inconsistent with his execution of this Agreement, the performance by him of his duties hereunder, or with the rights of the Company hereunder.
- 10.) Employee further agrees that he is being employed by the Company in a position of trust and responsibility and as a member of senior management and in consideration thereof, not to take advantage of or disclose any trade secrets, proprietary, or confidential information not generally known to the public until June 11, 2003.
- 11.) It is the desire and the intent of the parties that the terms and conditions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular term or condition of this Agreement is adjudicated or becomes by operation of law invalid or unenforceable, the Agreement will be deemed amended to delete therefrom such term or condition to the extent necessary to preserve its validity and enforceability, and the remainder of this Agreement will remain in full force and effect. A deletion resulting from adjudication will apply only with respect to the operation of that term or condition in the particular jurisdiction in which such adjudication is made.
- 12.) Except as otherwise specifically provided herein, Employee's entitlement to benefits hereunder will not be governed by any duty to mitigate his damages by seeking further employment nor offset by any compensation which he may receive from future employment.
- 13.) No right, benefit, or interest hereunder will be subject to assignment, anticipation, alienation, sale, encumbrances, charge, pledge hypothecation or set-off in respect to any claim, debt or obligation, or to execution, attachment, levy or similar process; provided, however, that Employee may assign any right, benefit or interest hereunder if such assignment is permitted under the terms of any plan or policy of insurance or annuity contract governing

such right, benefit or interest.

- 14.) This Agreement constitutes the full and complete understanding and agreement of the parties with respect to the subject matter hereof and may not be changed or terminated orally.
- 15.) This Agreement will be governed by and construed in accordance with the laws of the State of Florida, without giving effect to the Florida conflict of law principles.
- 16.) Each notice or communication required or permitted to be given hereunder will be in writing and will be delivered or mailed by air or express mail to the address of the Company, or of Employee, as the case may be, set forth below (or such other address as any of them may specify as its address by written notice to the other):

If to the Company:

Aviation Holdings International, Inc.
15675 N.W. 15th Avenue
Miami, Florida 33169

If to the Employee:

Joseph Janusz
P.O. Box 4652
Miami Lakes, Florida 33014

- 17.) This Agreement may be executed in one or more counterpart copies, each of which will be deemed an original and will become effective when one or more counterparts shall have been signed by each of the parties hereto and delivered to the other party.

IN WITNESS WHEREOF, the parties have duly executed this Agreement on the date first above written.

AVIATION HOLDINGS INTERNATIONAL, INC.

By: /s/ Joseph J. Nelson

Joseph J. Nelson
President & C.E.O.

Date: 6/11/99

EMPLOYEE

By: /s/ Joseph Janusz

Joseph Janusz

Date: 6/11/99

MODIFICATION OF EMPLOYMENT AGREEMENT
FOR SIMON CHIANG

This modification of employment agreement referring to employment agreement dated 12th day of February 1998 is made and entered into this 6th day of August 199 and effective August 1, 1999 by and between Simon Chiang ("employee"), and Aviation Holdings International, Inc. fka (Jet Aviation Trading, Inc.) a Florida Corporation.

WITNESSETH:

The parties agree as follows:

- 1. Basic Compensation shall be adjusted to \$131,000 per annum as basic compensation for all services rendered by the employee, but in no event less frequently than semi-monthly.
- 2. Employee will hold the title of Executive Vice President of both Aviation Holdings Group, Inc. and Aviation Holdings International, Inc.

Employer

Attest:

Aviation Holdings, International, Inc.
Fka (Jet Aviation Trading, Inc.)

By: /s/ Joseph Janusz

By: /s/ Joseph J. Nelson

Joseph J. Nelson
President & C.E.O.

Witnesses:

/s/ Simon Chiang

Simon Chiang

Exhibit 11

Computation of Net Loss Per Share

| | Year Ended December 31, | | Six Months Ended June 30, | |
|--|-------------------------|----------------|------------------------------|---------------------|
| | 1997 | 1998 | 1998 (Unaudited) | 1999 (Unaudited) |
| Net Loss | \$ (57,437) | \$ (1,384,780) | \$ (1,135,175) | \$ (160,868) |
| Basic and Diluted weighted average common shares outstanding | 1,046,235 | 3,035,856 | 2,610,511 | 3,854,092 |
| Basic and Diluted Loss Per Share | \$ (0.06) | \$ (0.46) | \$ (0.43) | \$ (0.04) |

This table has been prepared using Statement of Financial Accounting Standards No. 128 "Earnings Per Share" for all applicable periods presented.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the reference to our firm under the caption "Experts" and the use of our report dated June 22, 1999, in the Registration Statement and related Prospectus of Aviation Holdings Group, Inc. for the registration of 750,000 units, each unit consisting of two shares of Common Stock and one Class A Warrant.

LJ SOLDINGER ASSOCIATES

Arlington Heights, Illinois
July 12, 1999

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