

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**  
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### FILER

#### **PEMCO AVIATION GROUP INC**

CIK: **771729** | IRS No.: **840985295** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-13829** | Film No.: **02645699**  
SIC: **3721** Aircraft

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2002, or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Transition Period From \_\_\_\_\_ To \_\_\_\_\_ .

Commission file number: 0-13829

PEMCO AVIATION GROUP, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

84-0985295  
(I.R.S. Employer  
Identification No.)

1943 North 50th Street, Birmingham, Alabama  
(Address of principal executive offices)

35212  
(Zip Code)

205-592-0011  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class -----	Outstanding at May 8, 2002 -----
Common Stock, \$.0001 par value	4,098,879

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PEMCO AVIATION GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

ASSETS  
(In Thousands)

March 31, 2002 Unaudited -----	December 31, 2001 -----
---	-------------------------------

Current assets:		
Cash	\$ 1,177	\$ 927
Accounts receivable, net	21,332	18,481
Inventories, net	16,178	18,669
Deferred income taxes	6,981	7,994
Prepaid expenses and other	260	923
	-----	-----
Total current assets	45,928	46,994
	-----	-----
Machinery, equipment, and improvements at cost:		
Machinery and equipment	26,933	26,547
Leasehold improvements	21,770	20,642
Construction in process	1,702	944
	-----	-----
	50,405	48,133
Less accumulated depreciation and amortization	(27,344)	(26,180)
	-----	-----
Net machinery, equipment, and improvements	23,061	21,953
	-----	-----
Other non-current assets:		
Deposits and other	348	347
Intangible assets, net	6,835	6,882
	-----	-----
	7,183	7,229
	-----	-----
Total assets	\$ 76,172	\$ 76,176
	=====	=====

The accompanying notes are an integral part of these consolidated balance sheets.

-1-

PEMCO AVIATION GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY  
(In Thousands, except common share information)

	March 31, 2002 Unaudited	December 31, 2001
	-----	-----
Current liabilities:		
Revolving credit facility	\$ 5,910	\$11,591
Current portion of long-term debt	2,207	2,244
Accounts payable	2,493	1,578
Accrued liabilities - payroll related	9,564	10,257
Accrued liabilities - other	14,135	11,596
	-----	-----
Total current liabilities	34,309	37,266
	-----	-----
Long-term debt	3,960	3,994
Long-term pension benefit liability	13,869	13,523
Other long-term liabilities	2,044	2,044

Total liabilities	54,182	56,827
Stockholders' equity:		
Preferred Stock, \$0.0001 par value, 5,000,000 shares authorized, none outstanding	0	0
Common stock, \$0.0001 par value, 12,000,000 shares authorized, 4,097,004 and 4,043,273 issued at March 31, 2002 and December 31, 2001, respectively	1	1
Additional paid-in capital	5,906	5,223
Retained earnings	21,637	19,679
Treasury stock, at cost - 7,500 shares at March 31, 2002 and December 31, 2001	(98)	(98)
Accumulated other comprehensive loss	(5,456)	(5,456)
Total stockholders' equity	21,990	19,349
Total liabilities and stockholders' equity	\$76,172	\$76,176

The accompanying notes are an integral part  
of these consolidated balance sheets.

-2-

PEMCO AVIATION GROUP, INC. AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In Thousands, Except Net Income per Common Share Information)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net sales	\$36,045	\$43,555
Cost of sales	27,687	34,591
Gross profit	8,358	8,964
Selling, general, and administrative expenses	4,895	5,411
Income from operations	3,463	3,553
Interest	305	538
Income before income taxes	3,158	3,015
Provision for income taxes	1,200	1,209
Net income	\$ 1,958	\$ 1,806
Net income per common share:		
Basic	\$ 0.48	\$ 0.45
Diluted	\$ 0.44	\$ 0.43

Weighted average common shares outstanding:		
Basic	4,068	4,028
Diluted	4,437	4,204

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

-3-

PEMCO AVIATION GROUP, INC. AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In Thousands)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 1,958	\$ 1,806
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,164	926
Provision for deferred income taxes	1,013	958
Pension cost in excess of funding	346	475
Amortization of intangible asset	47	47
Changes in assets and liabilities:		
Accounts receivable, net	(2,851)	(1,046)
Inventories	2,491	(2,884)
Prepaid expenses and other	663	10
Deposits and other	(1)	(47)
Accounts payable and accrued liabilities	2,949	2,038
	-----	-----
Total adjustments	5,821	477
	-----	-----
Net cash provided by operating activities	7,779	2,283
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(2,272)	(2,261)
	-----	-----
Net cash used in investing activities	(2,272)	(2,261)
	-----	-----
Cash flows from financing activities:		
Proceeds from exercise of stock options	495	0
Net change under revolving credit facility	(5,681)	952
Borrowings under long-term debt	613	788
Principal payments under subordinated debt	0	(1,230)
Principal payments under long-term debt	(684)	(291)
	-----	-----
Net cash used in financing activities	(5,257)	219
	-----	-----
Net increase in cash	250	241
Cash, beginning of period	927	1,441
	-----	-----

Cash, end of period	\$ 1,177	1,682
	=====	=====

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$ 263	\$ 531
Income taxes	\$ 0	\$ 0

The accompanying notes are an integral part  
of these consolidated statements

-4-

PEMCO AVIATION GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Quarters Ended  
March 31, 2002 and 2001

1. CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements have been prepared by Pemco Aviation Group, Inc. (the "company") following the requirements of the Securities and Exchange Commission for interim reporting, and are unaudited. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the period ended March 31, 2002 are not necessarily indicative of the operating results expected for the full year. The interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the company's 2001 Annual Report on Form 10-K.

2. INVENTORIES

Inventories as of March 31, 2002 and December 31, 2001 consist of the following:

(In Thousands)

	March 31, 2002	December 31, 2001
	-----	-----
Work in process	\$ 28,783	\$ 25,795
Finished goods	2,280	2,074
Raw materials and supplies	2,033	2,438
	-----	-----
Total	33,096	30,307
Less progress payments and customer deposits	(16,918)	(11,638)
	-----	-----
	\$ 16,178	\$ 18,669
	=====	=====

A substantial portion of the above inventory balances relate to U.S. Government contracts. The company receives progress payments on the majority of its government contracts. The title to all inventories on which the company receives these payments is vested in the government to the extent of the progress payment balance.

3. NET INCOME PER SHARE

Basic Net Income Per Share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the periods. Diluted Net Income Per Share was computed by dividing net income by the weighted average number of shares of common stock and the dilutive effects of the shares awarded under the company's Non-Qualified Stock Option Plan, based on the treasury stock method using an average fair market value of the stock during the respective periods.

The following table represents the net income per share calculations for the three month period ended March 31, 2002 and 2001:

(All numbers In Thousands, except Income Per Share)

	Three Months Ended March 31 2002 -----	Three Months Ended March 31 2001 -----
Net Income	\$1,958	\$1,806
Weighted Average Shares	4,068	4,028
Basic Net Income Per Share	\$ 0.48	\$ 0.45
Dilutive Securities: Options	369	176
Diluted Weighted Average Shares	4,437	4,204
Diluted Net Income Per Share	\$ 0.44	\$ 0.43

Options to purchase approximately 43,106 and 198,021 shares of common stock related to March 31, 2002 and 2001, respectively, were excluded from the computation of diluted net income per share because the option exercise price was greater than the average market price of the shares.

4. DEBT

Debt as of March 31, 2002 and December 31, 2001 consists of the following:

(In Thousands)

<TABLE>

<CAPTION>

	March 31, 2002 -----	December 31, 2001 -----
<S>	<C>	<C>
Revolving credit facility	\$5,910 =====	\$11,591 =====
Term Loan A; interest at Prime plus 0.50% (5.25% at March 31, 2002)	2,900	2,900
Term Loan B; interest at Prime plus 0.75% (5.50% at March 31, 2002)	613	875
Capital Equipment Acquisition Facility; interest at Prime plus 0.50%		

(5.25% at March 31, 2002)	1,322	749
Term Loan C; interest at Prime plus 0.75% (5.50% at March 31, 2002)	1,029	1,266
Other obligations: interest from 8.75% to 10.95%, collateralized by security interest in certain equipment	303	448
	-----	-----
Total long-term debt	6,167	6,238
Less portion reflected as current	2,207	2,244
	-----	-----
Long term-debt, net of current portion	\$3,960	\$ 3,994
	=====	=====

</TABLE>

The company maintains a \$20.0 million revolving credit facility, three term loans that were originated at \$6.9 million in the aggregate, and a capital equipment acquisition facility of \$3.1 million. Additional amounts available under the revolving credit facility at March 31, 2002, based upon the calculation that defines the borrowing base, totaled \$14.1 million. Under the capital equipment facility, borrowing availability is tied to a percentage of the value of certain capital assets acquired since January 1, 2001 and capital assets that are acquired in future periods. At March 31, 2002, the company had \$1.7 million of additional borrowing capacity under the capital equipment facility.

Due to the "Lockbox" provisions of the company's revolving credit facility with its lender, coupled with a subjective acceleration clause, all of the revolving credit facility has been classified as current per the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board, EITF Issue No. 95-22, notwithstanding the three-year term of the credit agreement. Management does not believe that the subjective acceleration clause will be invoked, although there can be no assurances in that regard.

-7-

The above loans are collateralized by substantially all of the assets of the company and have various covenants that limit or prohibit the company from incurring additional indebtedness, disposing of assets, merging with other entities, declaring dividends, or making capital expenditures in excess of certain amounts in any fiscal year. Additionally, the company is required to maintain various financial ratios and minimum net worth amounts. The company was in compliance with its debt covenants as of March 31, 2002.

Notwithstanding the covenants mentioned above which limit or prohibit the company from incurring additional indebtedness, the company does have certain assets that are not covered by these limitations or prohibitions that could be used to secure additional financing.

#### 5. STOCKHOLDERS' EQUITY

Holders of Stock Options under the company's Non-Qualified Stock Option Plan, exercised options for 55,606 shares of the company's common stock during the three months ended March 31, 2002. The company recorded both the \$0.5 million exercise price and a tax benefit of \$0.2 million to Additional Paid In Capital during the first quarter of 2002.

#### 6. CONTINGENCIES

United States Government Contracts - The company, as a U.S. Government



contractor and sub-contractor, is subject to audits, reviews, and investigations by the government related to its negotiation and performance of government contracts and its accounting for such contracts. Failure to comply with applicable U.S. Government standards by a contractor may result in suspension from eligibility for award of any new government contracts and a guilty plea or conviction may result in debarment from eligibility for awards. The government may, in certain cases, also terminate existing contracts, recover damages, and impose other sanctions and penalties. The company believes, based on all available information, that the outcome of any U.S. Government audits, reviews, and investigations would not have a materially adverse effect on the company's consolidated results of operations, financial position, or cash flows.

A Significant Portion of the Company's Revenue is Derived From a Few of its Customers- A small number of the company's customers account for a significant percentage of its revenues. The KC-135 program comprised 57.4% and 63.4% of the company's total revenues for the three-month period ended March 31, 2002 and 2001, respectively. The company's two largest customers generated approximately 84.8% of its revenues during this same period of 2002 and 74.8% in 2001. Termination or a disruption of any of its significant customer contracts, including by way of option years not being exercised, or the inability of the company to renew or replace any of these customer contracts when they expire, could materially harm the company's business and impair the value of its common stock.

-8-

## Litigation

### Hayes International Lawsuit

The company's Pemco Aeroplex subsidiary, successor to Hayes International, is a defendant in several suits seeking damages and indemnity for claims arising from an Airworthiness Directive issued by the Federal Aviation Administration ("FAA"). That Directive restricts the cargo capacity of Boeing 747 aircraft converted pursuant to a Supplemental Type Certificate ("STC") for such conversions. Hayes International had performed engineering for the development of the STC during the mid to late 1980s. Certain of the suits also allege fraud, misrepresentation and violations of the Racketeer Influenced and Corrupt Organization Act. Following several settlements, the only remaining claim was for indemnity on one aircraft operated by Tower Air. The court issued judgment on the pleadings in favor of the company on March 27, 2002. Management believes that any negative result of this judgment, if it were appealed, would not have a material impact on the business of the company.

### Breach of Contract Lawsuits

On October 6, 2000, the company's subsidiary, Pemco Aeroplex, filed suit against Certex of Alabama, an unincorporated division of Bridon American Corporation, for breach of contract and fraud with regard to the supply of deficient wire rope that was installed as aircraft flight control cables on KC-135 aircraft. The case, filed in the circuit court of Jefferson County, Alabama, was brought to trial on September 20, 2001 and a jury returned with a verdict in favor of the company in the amount of \$7.5 million. The Court, upon a post-judgment motion filed by Certex, reduced the judgment to \$2.5 million. Certex appealed that Order to the Supreme Court of Alabama and subsequently dismissed the appeal upon the company's agreement on April 11, 2002 to accept \$2.2 million in settlement. The company will record the settlement in the second quarter of 2002.

On October 12, 1995, Falcon Air AB filed a Complaint in the United States District Court, Northern District of Alabama, alleging that the modification of three 737 aircraft to Quick Change configuration by the company was defective, limiting the commercial use of the aircraft. The case was ordered to arbitration by the court and sent back to the District Court in 2001 when settlement was not reached. The District court denied the company's Motion for Reinstatement. The company has filed for a stay of proceedings to resolve certain matters filed before the 11th Circuit Court of Appeals on October 31, 2001, specifically, the issue of whether arbitration is required where the contract calls for "alternative dispute resolution." The STC Amendment, which is the subject of this case, has now been received from the FAA, which should substantially diminish the value of Falcon's claim. Management believes that the results of this lawsuit will not have a material impact on the business of the company.

#### Employment Lawsuits

On December 9, 1999, the company and its Pemco Aeroplex subsidiary were served with a purported class action in the U.S. District Court, Northern District of Alabama seeking

-9-

declaratory, injunctive relief and other compensatory and punitive damages based upon alleged unlawful employment practices of race discrimination and racial harassment by the company's managers, supervisors, and other employees. The complaint seeks damages in the amount of \$75 million. On July 27, 2000 the U.S. District Court, Northern District of Alabama, determined that the group would not be certified as a class and the plaintiffs withdrew their request for class certification. The Equal Employment Opportunity Commission ("EEOC") subsequently entered the case purporting a parallel class action. The Court has denied consolidation of the cases. Nine of the 36 plaintiffs have accepted an Offer of Judgment propounded by the company. Trial is scheduled to begin in early June for the remainder of the plaintiffs. The company has taken effective remedial and corrective action, acted promptly in respect to any specific complaint by any employee, and will vigorously defend this case.

A purported class action, brought against the company and its Pemco Aeroplex subsidiary on behalf of those persons hired as replacement workers during the strike by Pemco's UAW union employees, and who were terminated upon settlement of such strike, was dismissed in the third quarter of 1999. Twenty-eight individuals filed a new action shortly thereafter, in the Circuit Court of Jefferson County, Alabama, which has since been joined by approximately 90 other individuals. The company filed for summary judgment on all claims on February 20, 2000. Summary judgment was granted with regard to 35 of those individuals. The Court required two individual cases to be tried prior to certification of any issues for appeal. These two cases were tried in June of 2001. The Court directed a verdict on the company's behalf in one case and a jury returned with a defense verdict in favor of the company in the other case. The company has now accepted an offer of settlement proposed by the remaining plaintiffs of approximately \$0.4 million and the court has approved that settlement. In April of 2002, the company paid this settlement amount.

Various claims alleging employment discrimination, including race, sex, age and disability, have been made against the company and its subsidiaries by current and former employees at its Birmingham and Dothan, Alabama facilities in proceedings before the EEOC and before state and federal courts in Alabama. Workers' compensation claims brought by employees of Pemco Aeroplex are also pending in Alabama state court. The company

believes that no one of these claims is material to the company as a whole and that such claims are more reflective of the general increase in employment-related litigation in the U.S., and Alabama in particular, than of any actual discriminatory employment practices by the company or any subsidiary. Except for workers' compensation benefits as provided by statute, the company intends to vigorously defend itself in all litigation arising from these types of claims.

The company and its subsidiaries are also parties to other non-employment related litigation, the results of which are not expected to be material to the company's financial condition and results of operations.

#### 7. INCOME TAXES

The company maintains a valuation allowance for its deferred income taxes unless

-10-

realization is considered more likely than not. At March 31, 2002 the company had a remaining deferred tax valuation allowance of \$1.2 million, related mostly to net operating loss carry-forwards attributable to a state where the company currently has no ongoing operations.

#### 8. RECLASSIFICATIONS

Certain amounts in the 2001 Statements of Operations and Segment Information have been reclassified to conform to the 2002 presentation. These reclassifications have no effect on Net Income or Shareholders' Equity.

#### 9. SEGMENT INFORMATION

The company has three reportable segments: Government Services Group, Commercial Services Group, and Manufacturing and Overhaul Group. The Government Services Group, located in Birmingham, Alabama, provides aircraft maintenance and modification services for government and military customers. The Commercial Services Group, located in Dothan, Alabama, provides commercial aircraft maintenance and modification services on a contract basis to the owners and operators of large commercial aircraft and also distributes aircraft parts. The Manufacturing and Overhaul Group, located in California, designs and manufactures a wide array of proprietary aerospace products including various space systems, such as guidance control systems and launch vehicles; and aircraft cargo-handling systems.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the company's 2001 Annual Report on Form 10-K. The company evaluates performance based on total (external and inter-segment) revenues, gross profits and operating income. The company accounts for inter-segment sales and transfers as if the sales or transfers were to third parties. The amount of intercompany profit is not material. The company does not allocate income taxes, interest income and interest expense to segments.

The company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different operating and marketing strategies. The Commercial Services and Manufacturing and Overhaul segments may generate revenues from governmental entities and the Government Services segment may generate revenues from commercial entities. Sales to Governmental entities in the first quarter of 2002 and 2001 were \$24.4 million, and \$28.6

million, respectively.

-11-

The following table presents information about segment profit or loss for the three months ended March 31, 2002 and 2001:

<TABLE>

<CAPTION>

Three Months Ended March 31, 2002	(In Thousands)			
	Government	Commercial	Manufacturing & Overhaul	Consolidated
<S>	<C>	<C>	<C>	<C>
Revenues from external domestic customers	\$22,220	\$ 10,278	\$3,277	\$35,775
Revenues from external foreign customers	0	85	185	270
Inter-segment revenues	0	0	0	0
Total segment revenues	\$22,220	\$ 10,363	\$3,462	\$36,045
Elimination				0
Total Revenue				\$36,045
Gross profit	7,062	598	698	8,358
Segment operating income (loss)	4,095	(995)	363	3,463
Interest expense				305
Income taxes				1,200
Net income				\$ 1,958
Assets	43,572	23,130	9,470	76,172
Depreciation/amortization	593	191	95	879
Capital Additions	1,108	1,164	0	2,272

</TABLE>

<TABLE>

<CAPTION>

Three Months Ended March 31, 2001	(In Thousands)			
	Government	Commercial	Manufacturing & Overhaul	Consolidated
<S>	<C>	<C>	<C>	<C>
Revenues from external domestic customers	\$27,826	\$10,208	\$2,733	\$40,767
Revenues from external foreign customers	0	2,228	560	2,788
Inter-segment revenues	70	0	0	70
Total segment revenues	\$27,896	\$12,436	\$3,293	\$43,625
Elimination				(70)
Total Revenue				\$43,555
Gross profit	6,418	1,730	816	8,964
Segment operating income (loss)	4,092	(478)	(61)	3,553
Interest expense				538
Income taxes				1,209
Net income				\$ 1,806

Assets	\$39,645	\$15,750	\$8,977	\$64,372
Depreciation/amortization	510	106	67	683
Capital Additions	1,872	372	17	2,261

</TABLE>

-12-

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Introduction

The following discussion should be read in conjunction with the company's consolidated financial statements and notes thereto included herein.

Three months ended March 31, 2002

Versus three months ended March 31, 2001

The table below presents major highlights from the quarters ended March 31, 2002 and 2001.

(In \$Millions)

	2001	2002	Change
	-----	-----	-----
Revenue	\$43.6	\$36.0	(17.4)
Gross Profit	9.0	8.4	(6.7)
Operating income	3.6	3.5	(2.8)
Income before taxes	3.0	3.2	6.7
Net income	1.8	2.0	11.1
EBITDA	4.2	4.3	2.4

Sales in the Government Services Group decreased \$5.7 million during the first quarter of 2002, or 20.4%, from \$27.9 million in 2001 to \$22.2 million in 2002. This decrease was essentially a timing issue due primarily to delivering fewer aircraft under the KC-135 Program Depot Maintenance ("PDM") contract. During the first quarter of 2001 the company delivered 11 PDM aircraft whereas in the first quarter of 2002 the company delivered 8 aircraft resulting in a \$5.6 million decrease in revenue.

Sales in the Commercial Services Group decreased by \$2.0 million or approximately 16.1%, during the first quarter of 2002, from \$12.4 million in 2001 to \$10.4 million in 2002. This decrease was due to the company delivering a 737-cargo conversion in the first quarter of 2001 without a corresponding delivery of a cargo conversion during the first quarter of 2002. This decrease in sales of the Commercial Services Group was partially offset by a slight increase in sales of aircraft serviced under Maintenance Repair and Overhaul contracts of \$0.3 million.

Revenues in the Manufacturing & Overhaul Group increased slightly, \$0.2 million, approximately 6.1%, during the first quarter of 2002, from \$3.3 million in 2001 to \$3.5 million in 2002. This increase was due to higher revenue, \$1.4 million, in the Space Vector subsidiary offset by lower revenue in the Pemco Engineers subsidiary of \$1.2 million. Space Vector's year-over-year increase in revenue was due to its return to a more normal level of operations. During the first quarter of 2001, the company was preparing to close the Space Vector subsidiary due to its lack of sales and sales prospects. The company reversed this decision in the second quarter of 2001, upon the award

to Space Vector of a substantial contract. The decrease in Pemco Engineers revenue is a result of a downturn in conversion of aircraft for which the unit produces cargo-handling systems combined with a decrease in sales of replacement parts for cargo-handling systems on aircraft in service.

Without regard to operating segments, the company's mix of business between government and commercial customers shifted from 34.4% commercial and 65.6% government during the first quarter of 2001 to 32.2% commercial and 67.8% government in 2002.

As noted in the "Backlog" section of this report, there has been an increase in both Government and Commercial backlog between the periods ended March 31, 2001 and March 31, 2002. Based upon this increased backlog, the company expects that the remaining quarters of 2002 will reflect higher revenues than the first quarter of 2002, although there can be no assurances in that regard.

Cost of sales decreased during the first quarter from \$34.6 million in 2001 to \$27.7 million in 2002, primarily as a result of decreased revenue coupled with higher production efficiencies during the quarter in the company's Commercial Services Group and Government Services Group. Overall, the gross profit percentage of the company increased from 20.6% in the first quarter of 2001 to 23.3% in the first quarter of 2002.

Selling, general, and administrative ("SG&A") expenses decreased from \$5.4 million during the first quarter of 2001 to \$4.9 million in the first quarter of 2002. The decrease in SG&A is related to lower revenues, coupled with cost reduction programs initiated in 2001 that had a full impact in 2002.

Interest expense was \$0.5 million during the first quarter of 2001 versus \$0.3 million during the same period in 2002. The effective average interest rate on the company's revolving credit facility was approximately 8.6% in 2001 and 5.25% in 2002. In addition to lower interest rates on the company's revolving credit facility year-over-year, the company also reduced its debt outstanding from \$18.3 million at March 31, 2001 to \$12.0 million at March 31, 2002.

#### Liquidity and Capital Resources

The table below presents some of the major indicators of financial condition and liquidity.

<TABLE>  
<CAPTION>

(In \$Thousands Except Long Term Debt to Equity)

	December 31, 2001	March 31, 2002	Change
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash	\$ 927	\$ 1,177	\$ 250
Working Capital	9,728	11,619	1,891
Revolving credit facility	11,591	5,910	(5,681)
Long term debt and capital lease obligations	3,994	3,960	(34)
Shareholders' equity	19,349	21,990	2,641
Long term debt to equity	20.6%	18.0%	2.6%

The company's revolving credit facility is included in current liabilities. See Note 4 to the Consolidated Financial Statements for detailed explanations of the company's debt and the classification of the revolving credit facility as

current. Management does not believe that the subjective acceleration clause, mentioned in Note 4 will be invoked, although there can be no assurances in that regard.

-14-

Operating activities provided \$7.8 million of cash for the three-months ended March 31, 2002. During this same period, the company borrowed \$0.6 million on its capital equipment acquisition facility. This loan carries a variable interest rate that was 5.25% at March 31, 2002. Cash was used during the three-months ended March 31, 2002 for \$2.3 million of capital expenditures.

At March 31, 2002 the company had additional borrowing capacity of \$1.7 million under its capital equipment acquisition facility and \$14.1 million under its revolving line of credit.

The company maintains a defined benefit pension plan (the "Plan") that covers substantially all employees at its Birmingham and Dothan, Alabama facilities. The Plan's assets consist primarily of stocks, bonds and cash equivalents. These assets are exposed to various risks, such as interest rate, credit, and overall market volatility. As a result of unfavorable investment returns related to the Plan in 2001, the company made a \$3.0 million contribution to the Plan during the fourth quarter of 2001. In addition to this contribution, the company accrued a long-term pension benefit obligation in the amount of \$15.3 million, accrued an intangible pension asset of \$6.5 million, increased its deferred tax asset \$3.3 million and recorded a \$5.5 million charge to comprehensive income. The company anticipates that it will be required to make further contributions to the Plan during 2002. Under ERISA rules, the company expects that the minimum required contribution in 2002 will be approximately \$1.6 million. It is possible that the company may elect, as it did during 2001, to contribute more than the minimum requirement. The company did not make a contribution to the Plan during the first quarters of 2001 or 2002. At December 31, 2001 the Plan was under-funded by approximately \$15.5 million.

Funding for the advancement of the company's strategic goals, including possible investments in targeted business areas and acquisitions, is expected to continue. The company plans to finance its capital expenditures, working capital and liquidity requirements through the most advantageous sources of capital available to the company at the time, which may include the sale of equity or debt securities through public offerings or private placements, the incurrence of additional indebtedness through secured or unsecured borrowings and the reinvestment of proceeds from the disposition of assets. The company believes that its internally generated liquidity, together with access to external capital resources, will be sufficient to satisfy existing commitments and plans for at least the next twelve months. The company could elect, or could be required, to raise additional funds during that period, and the company may need to raise additional capital in the future. Additional capital may not be available at all, or may not be available on terms favorable to the company. Any additional issuance of equity or equity-linked securities may result in substantial dilution to the company's stockholders. The company is continually monitoring and reevaluating its level of investment in all of its operations, as well as the financing sources available to achieve its goals in each business area.

In December 2001 the company began construction of an addition to one of the hangers at its Dothan, Alabama facility. The addition is projected to cost approximately \$2.5 million. As of the date of this report the company has spent approximately \$0.4 million on this project. This \$0.4 million has been temporarily funded by the company's revolving credit facility. The company anticipates that it will secure funding for the entire addition through the issuance of an Airport Bond. The company currently has no other material capital

COMMITMENTS AND CONTINGENCIES

FACILITY AND OPERATING LEASES

The company's manufacturing and service operations are performed principally on leased premises owned by municipal units or authorities. Remaining lease terms range from two months to thirty-one years and provide for basic rentals, plus contingent rentals based upon a graduated percentage of sales. The company also leases vehicles and equipment under various leasing arrangements.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of March 31, 2002 are as follows:

Year Ending	(In Thousands)		
	Facilities	Vehicles And Equipment	Total
2002	\$1,634	\$539	\$2,173
2003	2,024	204	2,228
2004	1,634	165	1,799
2005	1,430	131	1,561
2006	1,335	71	1,406
Thereafter	20,683	0	20,683
	-----	-----	-----
Total minimum future rental commitments	\$28,740 =====	\$1,110 =====	\$29,850 =====

REPAYMENT OF LONG TERM DEBT

Schedule of debt maturing over the next five years at March 31, 2002:

(In Thousands)	
2002	\$1,759
2003	4,408
2004	0
2005	0
2006	0
Thereafter	0
	-----
	\$6,167 =====

TRADING ACTIVITIES

The company has not engaged in trading activities or in trading non-exchange traded contracts. As of March 31, 2002 and 2001, the carrying amounts of the company's financial instruments are estimated to approximate their fair values, due to their short-term nature, and variable or market interest rates. The company has not hedged its interest rate or foreign exchange risks through the



use of derivative financial instruments. See "Quantitative and Qualitative Disclosures about Market Risk" included in Item 3 of this Report.

#### RELATED PARTY TRANSACTIONS

The company had accruals of approximately \$0.3 million and \$0.7 million at March 31, 2002 and 2001, respectively, related to a severance agreement with its former Chairman of the Board, Chief Executive Officer and major stockholder. In accordance with the agreement, the accrued amounts are being paid over a 36-month period that began January 2000.

On April 23, 2002 the company loaned its current President and Chief Executive Officer \$425,000 under the terms of a Promissory Note. The Promissory Note carries a fixed interest rate of 5% per annum and is payable within 60 days of the President and Chief Executive Officer's termination of employment with the company.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Reference should be made to Item 7 of the company's 2001 Annual Report on Form 10-K for a discussion of Critical Accounting Policies and Estimates.

#### BACKLOG

The following table presents the company's backlog (in thousands of dollars) at March 31, 2002 and March 31, 2001:

Customer Type	2002	2001
U.S. Government	\$133,791	\$125,267
Commercial	19,013	14,765
Total	\$152,804	\$140,032

The growth in government backlog was primarily related to the company's Space Vector subsidiary in the Manufacturing & Overhaul Group. Space Vector ended the first quarter of 2002 with backlog of \$4.8 million compared to \$0.0 in the first quarter of 2001. The remaining change in government related backlog is due to an increase of \$4.4 million in the Government Services Group coupled with a decrease of \$0.7 million in the Commercial Services Group. The Commercial Services Group first quarter 2001 backlog was composed of residual H-3 helicopter activities.

Total commercial backlog increased \$4.2 million. The Commercial Services Group increased \$5.9 million while backlog at Pemco Engineers, in the Manufacturing & Overhaul Group, decreased \$1.7 million.

Overall the mix of backlog shifted towards commercial during the two periods moving from 89.5% government and 10.5% commercial in the first quarter of 2001 to 87.6% government and

-17-

12.4% commercial in the first quarter of 2002.

Substantially all of the company's government backlog scheduled for delivery can be terminated at the convenience of the U.S. Government since orders are often placed well before delivery, and the company's contracts typically provide that orders may be terminated with limited or no penalties.

The company has historically derived an additional \$0.40 in sales for each dollar represented in its backlog. The backlog is based upon fixed prices for specific scopes of work. In performing these scopes of work the company frequently discovers necessary repairs that are out of scope. These additional repairs, which are approved by the customers before being performed, lead to "over and above" time and material sales. While it cannot be certain that this work will continue in the future, the company currently has no reason to believe that it will decrease.

#### Contingencies

See Note 6 to the Consolidated Financial Statements.

#### The Company's Forward-Looking Statements May Prove to be Wrong.

Some of the information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report contains forward-looking statements. These forward-looking statements include, but are not limited to, statements about the company's plans, objectives, expectations and intentions, award or loss of contracts, the outcome of pending or future litigation, estimates of backlog and other statements contained in this Quarterly Report that are not historical facts. When used in this Quarterly Report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors, including the factors discussed under the caption "Factors That May Affect Future Performance" in the company's 2001 Annual Report on Form 10-K, that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. The company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date on which they are made. The company does not undertake any obligation to update or revise any forward-looking statements.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The company is exposed to market risk from changes in interest rates as part of its normal operations. The company maintains various debt instruments to finance its business operations. The debt consists of fixed and variable rate debt. The variable rate debt is related to the company's revolving line of credit, term loans, and capital equipment acquisition facility as noted in Note 4 to the Consolidated Financial Statements and bears interest at prime plus 0.50% or 0.75%, depending upon the loan (5.25% and 5.50% at March 31, 2002). If the prime rate had increased 100 basis points, net income would have been reduced by approximately \$36,000 during the quarter. The actual fluctuation of interest rates is not determinable, accordingly, actual results of interest rate fluctuations could differ.

-18-

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

See Note 6 to the Consolidated Financial Statements.

### Item 6. Exhibits and Reports on Form 8-K.

#### a. Exhibits

- 10.1 Amended And Restated Employment Agreement between Pemco Aviation Group, Inc. and Ronald A. Aramini dated, May 3, 2002.
- 10.2 Executive Deferred Compensation Agreement between Pemco Aviation Group, Inc. and Ronald A. Aramini, dated May 3, 2002.
- 10.3 Promissory Note, dated April 23, 2002, between Pemco Aviation Group, Inc. and Ronald A. Aramini.

b. Reports on Form 8-K. No Reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended March 31, 2002.

-19-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEMCO AVIATION GROUP, INC.

Dated: May 13, 2002

By:/s/ Ronald A. Aramini

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Ronald A. Aramini, President  
and Chief Executive Officer  
(Principal Executive Officer)

Dated: May 13, 2002

By:/s/ John R. Lee

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John R. Lee, Sr. Vice President and  
Chief Financial Officer  
(Principal Finance & Accounting Officer)

-S1-

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT, dated as of January 1, 2000, is by and between Pemco Aviation Group, Inc., a Delaware corporation (the "Company"), and Ronald A. Aramini ("Executive").

RECITALS

WHEREAS, pursuant to that certain Employment Agreement dated January 1, 2000 (the "Original Agreement"), the Company has employed Executive as its President and Chief Executive Officer;

WHEREAS, the Company and Executive have agreed to amend the Original Agreement to reflect recent discussions between the parties and to more specifically address certain issues that have arisen since, or that may have been unclear in, the Original Agreement;

WHEREAS, the Company understands that a potential change of control or ownership of the Company will present significant concerns for Executive with respect to his financial and job security;

WHEREAS, the Company desires to assure itself of Executive's services during any period in which it is confronting such a situation and to provide Executive with certain financial assurances to enable Executive to perform the responsibilities of his position without undue distraction and to exercise his judgment without bias due to his personal circumstances; and

WHEREAS, to achieve these objectives, the Company and Executive desire to enter into this Amended and Restated Employment Agreement providing, among other things, the Company and Executive with certain rights and obligations upon the occurrence of a change of control.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants set forth below, the parties hereby agree as follows:

1. Employment. The Company hereby agrees to employ Executive as President  
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and Chief Executive Officer, and Executive hereby accepts such employment, on the terms and conditions hereinafter set forth.

2. Term. The period of employment of Executive by the Company hereunder  
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(the "Employment Period") shall commence on January 1, 2000 and shall terminate on December 31, 2005, unless extended in writing by the parties. The Employment

Period may be sooner terminated by either party in accordance with Section 6 of this Agreement.

3. Position and Duties. During the Employment Period, Executive shall serve

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as President and Chief Executive Officer of the Company. Executive shall have those powers and duties normally associated with the position of President and Chief Executive Officer and such other powers and duties as may be prescribed by the Board of Directors of the Company (the "Board").

4. Outside Business Activities Precluded. During the Employment Period,

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Executive shall devote his full energies, interest, abilities and productive time to the performance of this Agreement. Executive shall not, without the prior written consent of the Company, perform other competitive services of any kind or engage in any other business activity, with or without compensation. Executive shall not, without the prior written consent of the Company, engage in any activity adverse to the Company's interests. Nothing contained herein is intended to prohibit Executive from spending a reasonable amount of time managing his personal investments and discharging his civic responsibilities and other permitted activities as long as such activities do not interfere with his duties and obligations under this Agreement.

5. Compensation and Related Matters.

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(a) Salary. The Company shall pay Executive an annual base salary of \$250,000 ("Base Salary") during each calendar year of the Employment Period, prorated for any year in which this Agreement is in effect for only a portion of the calendar year. Executive's Base Salary shall be payable in approximately equal installments in accordance with the Company's customary payroll practices. Executive's Base Salary shall be reviewed by the Company from time to time at its discretion, and Executive shall receive such salary increases, if any, as the Company, in its sole discretion, shall determine. If Executive's Base Salary is increased by the Company, such increased Base Salary shall then constitute the Base Salary for all purposes of this Agreement.

(b) Bonus. The Board's compensation committee (the "Compensation Committee") shall maintain an executive bonus pool which will permit Executive to earn a cash bonus each year of his Employment Period, based on a target bonus equal to at least 100% of his Base Salary and based upon the operating profits of the Company and the performance of Executive. The amount of Executive's cash bonus shall be determined in the sole discretion of the Compensation Committee and shall be dependent upon, among other things, the achievement of performance targets established by the Compensation Committee from time to time. The Compensation Committee has established an executive bonus program for the fiscal year 2001, a copy of which is attached hereto as Exhibit A, which sets forth a

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target bonus for Executive and allows Executive to earn up to 175% of said target bonus (depending upon the financial performance of the Company).

(c) Stock Options. As of January 1, 2000, the Company granted to Executive stock options to purchase 100,000 shares of the Company's common stock at an exercise price equal to the fair market value per share of the common stock on the date of issuance. Such options have and will continue to vest on the following schedule: 20% vested immediately upon grant and the remainder shall vest at the rate of 20% per year over four years, beginning January 1, 2001 and

2

continuing until January 1, 2004. Such options are evidenced by a stock option agreement between the Company and Executive, a copy of which is attached hereto as Exhibit B. Further, on March 4, 2002, the Board of Directors of the Company

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granted to Executive an additional stock option to purchase 20,000 shares of the Company's common stock at an exercise price equal to the fair market value per share of the Company's common stock on that date (\$16.49), which options shall vest on January 1, 2005; said additional options shall be evidenced by a stock option agreement in a form that is substantially similar to Exhibit B attached

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hereto.

(d) Expenses. The Company shall promptly reimburse Executive for all reasonable business expenses upon the presentation of reasonably itemized statements of such expenses in accordance with the Company's policies and procedures now in force or as such policies and procedures may be modified with respect to all executive officers of the Company.

(e) Vacation. Executive shall be entitled to the number of weeks of vacation per year provided to the Company's executive officers under the Company's executive vacation policy; provided, however, that Executive's vacation shall not be less than three weeks per calendar year.

(f) Pension, Incentive Benefit Plans, and Medical Insurance. During the Employment Period, Executive (and his spouse and dependents to the extent provided therein) shall be entitled to participate in and be covered under all welfare benefit plans or programs maintained by the Company from time to time for the benefit of its executive officers including, without limitation, all medical, dental, vision, life insurance and long-term disability plans and programs. In addition, during the Employment Period, Executive shall be eligible to participate in all pension, retirement, 401(k) and other employee benefit plans and programs maintained from time to time by the Company for the benefit of its executive officers, including, but not limited to, the Executive Deferred Compensation Agreement (as defined below).

Notwithstanding any provision(s) of this Agreement to the contrary, (1) if

the Company terminates Executive's employment hereunder pursuant to Section 6(b) due to his Disability or terminates Executive's employment hereunder pursuant to Section 6(c) without Cause, (2) if Executive terminates his employment hereunder for Good Reason (as defined in Section 21), or (3) if Executive's employment hereunder continues until December 31, 2005, the Company shall be obligated, on and/or after the applicable Date of Termination under Section 7(b), to continuously provide (with no break(s) in coverage) medical, dental and vision coverage under the Company's medical, dental and vision insurance plans and programs as in effect from time to time with respect to group(s) of the Company's non-bargaining unit active employees (the "Salaried Group Insurance Coverage") for Executive and his spouse for the remainder of their respective lives; provided, however, that to the extent that Executive and his spouse on

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and/or after such Date of Termination are ineligible for such Salaried Group Insurance Coverage, the Company shall be obligated to continuously provide (with no break(s) in coverage) medical, dental and vision coverage under the Company's medical, dental and vision insurance plans and programs as in effect from time to time with respect to group(s) of the Company's bargaining unit active employees (the "Hourly Group Insurance Coverage") for Executive and his spouse for the remainder of their respective lives. Notwithstanding the foregoing provisions of this Section 5(f) and to the extent that Executive and his spouse, on and/or after the applicable Date of

Termination, are ineligible for Salaried Group Insurance Coverage and/or Hourly Group Insurance Coverage, the Company shall obtain and continuously maintain (with no break(s) in coverage) medical, dental and vision insurance coverage for Executive and his spouse for the remainder of their respective lives through policy(ies) issued by an insurance company (the "Individual Insurance Coverage") that will provide medical, dental and vision benefits to Executive and his spouse that are comparable to such benefits provided under the Salaried Group Insurance Coverage (or, in the absence of any such Salaried Group Insurance Coverage, such benefits provided under the Hourly Group Insurance Coverage). The Salaried Group Insurance Coverage, Hourly Group Insurance Coverage, and/or Individual Insurance Coverage shall be provided at no cost to Executive and/or his spouse, except to the extent that (x) the monthly costs of such Salaried Group Insurance Coverage, Hourly Group Insurance Coverage and/or Individual Insurance Coverage after the applicable Date of Termination exceed (y) the actual monthly costs to the Company of providing Salaried Group Insurance Coverage to Executive and his spouse immediately prior to Executive's applicable Date of Termination (the "Pre-Termination Salaried Group Insurance Coverage Costs") (such increases in monthly Group Insurance Coverage costs are hereinafter referred to as the "Difference"), in which case Executive shall pay fifty percent (50%) of the Difference, but in any event Executive's obligation to reimburse the Company for post-termination costs of Salaried Group Insurance Coverage, Hourly Group Insurance Coverage and/or Individual Insurance Coverage shall never exceed 50% of the Pre-Termination Salaried Group Insurance Coverage Costs.

(g) Life Insurance. During the Employment Period and thereafter as provided herein, the Company shall maintain a policy of insurance on Executive's life in the face amount of Four Hundred Thousand Dollars (\$400,000) comparable at all times in term and scope with the policy described in Schedule 5(g) attached -----

hereto, of which policy the Executive will be the owner. All of the premiums on such policy shall be paid by the Company during the Executive's employment hereunder.

(h) Automobile Allowance. During the Employment Period, Executive shall be entitled to an automobile allowance not to exceed \$1,000 per month. The amount of the allowance shall cover all expenses related to the maintenance of a business use automobile, including maintenance, depreciation, insurance and business-related mileage.

4

(i) Housing Allowance. During the Employment Period, Executive shall be -----  
entitled to a housing allowance equal to a minimum of \$8,000 per calendar quarter (the "Housing Allowance"), which amount shall be reviewed annually by the Company's Board of Directors to determine the adequacy of such amount for the next calendar year of Executive's Employment Period. For purposes of determining Executive's compensation upon termination as provided in Section 8 hereof, Executive's "Base Salary" shall mean and include the annual base salary as determined pursuant to Section 5(a) hereof, plus the amount of Executive's Housing Allowance for the 12-month period ending on the Date of Termination under Section 7(b).

6. Termination. Executive's employment hereunder may be terminated during -----  
the Employment Period under the following circumstances:

- (a) Death. Executive's employment hereunder shall terminate upon his death.
- (b) Disability. The Company shall have the right to terminate Executive's employment hereunder upon his Disability.
- (c) With or Without Cause. The Company shall have the right to terminate Executive's employment hereunder at any time with or without Cause. For purposes of this Agreement, the Company shall have "Cause" to terminate Executive's employment if, in the good faith judgment of the Company, it is determined that Executive:

- (i) has engaged in willful misconduct, or breach of fiduciary duty involving personal profit;
- (ii) has engaged in willful or repeated failure to substantially



perform his duties or obligations hereunder (other than due to physical or mental impairment);

(iii) has been convicted of, or has plead guilty or nolo contendere to, a felony; or

(iv) has engaged in a material breach of any of the covenants set forth in Sections 9(a) or (c).

(d) Voluntary. Executive shall have the right to terminate his employment hereunder at any time by providing the Company with a Notice of Termination.

#### 7. Termination Procedure.

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(a) Notice of Termination. Any termination of Executive's employment by the Company or by Executive during the Employment Period (other than termination pursuant to Section 6(a)) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 11. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

5

(b) Date of Termination. "Date of Termination" shall mean (i) if Executive's employment is terminated by his death, the date of his death, (ii) if Executive's employment is terminated pursuant to Section 6(b) or 6(c), immediately upon delivery of a Notice of Termination to Executive (unless a later date is set forth in the Notice of Termination), and (iii) if Executive's employment is terminated pursuant to Section 6(d), ninety (90) days following the delivery of a Notice of Termination to the Company; provided that, in the case of this clause (iii), the Company may determine upon receipt of the Notice of Termination that Executive's Date of Termination shall be immediate or some time prior to the expiration of the ninety-day notice period.

#### 8. Compensation Upon Termination.

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In the event Executive's employment terminates during the Employment Period, the Company shall provide Executive with the payments and benefits set forth below. Executive acknowledges and agrees that the payments set forth in this Section 8 constitute liquidated damages for termination of his employment during the Employment Period.

(a) Death. If Executive's employment is terminated by his death:

(i) the Company shall pay to Executive's beneficiary, legal representative or estate, as the case may be, the aggregate of (1) a Pro

Rata share of the Bonus Opportunity, (2) Executive's Base Salary through the Date of Termination, and (3) accrued vacation through the Date of Termination, which amount shall be payable as soon as practicable following the Date of Termination, but in any event not later than sixty (60) days thereafter;

(ii) the Company shall reimburse Executive's beneficiary, legal representative or estate, as the case may be, pursuant to Section 5(d) for reasonable expenses incurred, but not paid prior to such termination of employment; and

(iii) Executive's beneficiary, legal representative or estate, as the case may be, shall be entitled to any other rights, compensation and/or benefits as may be due to any such persons or estate in accordance with the terms and provisions of any agreements, plans or programs of the Company, including, but not limited to, the Executive Deferred Compensation Agreement (as defined below).

(b) Disability. If Executive's employment is terminated for Disability pursuant to Section 6(b):

(i) the Company shall pay to Executive the aggregate of (1) a Pro Rata share of the Bonus Opportunity, (2) Executive's Base Salary through the Date of Termination, and (3) accrued vacation through the Date of Termination, which amount shall be payable as soon as practicable following the Date of Termination, but in any event not later than sixty (60) days thereafter;

6

(ii) the Company shall reimburse Executive pursuant to Section 5(d) for reasonable expenses incurred, but not paid prior to such termination of employment; and

(iii) Executive shall be entitled to any other rights, compensation and/or benefits as may be due to Executive in accordance with the terms and provisions of any agreements, plans or programs of the Company, including, but not limited to, the Executive Deferred Compensation Agreement (as defined below).

(c) Without Cause. If Executive's employment is terminated by the Company without Cause:

(i) the Company shall:

(1) continue paying Executive his Base Salary in accordance with the Company's customary payroll practices through the earlier of (A) twenty-four (24) months following the Date of Termination or (B) December 31, 2005; provided, however, in no event shall the Company

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continue paying Executive his Base Salary for less than twelve (12) months following the Date of Termination; provided, further, that the

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Company's obligation to continue such payments shall cease on the earlier of (I) the date, if any, on which Executive becomes employed by a subsequent employer and is eligible to receive substantially similar compensation from such subsequent employer (but Executive shall not be required to seek other employment), or (II) the date Executive materially breaches the covenants set forth in Section 9(a) or (c); and

(2) pay to Executive the aggregate of (Y) a Pro Rata share of the Bonus Opportunity, and (Z) accrued vacation through the Date of Termination, which aggregate amount shall be payable as soon as practicable following the Date of Termination, but in any event not later than sixty (60) days thereafter;

(ii) to the extent permitted by applicable law, the Company shall maintain in full force and effect, for the continued benefit of Executive, his spouse and his dependents (as applicable) through the earlier of (A) twenty-four (24) months following the Date of Termination or (B) December 31, 2005, the life insurance plans and programs in which Executive, his spouse and his dependents (as applicable) were participating immediately prior to the Date of Termination at the level in effect and upon substantially the same terms and conditions (including without limitation contributions required by Executive for such benefits) as existed immediately prior to the Date of Termination; provided, however, in no

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event shall the Company continue such benefits on behalf of Executive for less than twelve (12) months following the Date of Termination; provided,

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further, that the Company's obligations to continue such benefits shall

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cease upon the earlier of (I) the date the date Executive materially breaches the covenants set forth in Section 9(a) or (c), or (II) the date or dates on which Executive becomes employed by a

7

subsequent employer and is eligible to receive coverage and benefits from such subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis); provided, further,

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that Executive shall not be required to seek other employment or benefits;

(iii) the Company shall reimburse Executive pursuant to Section 5(d) for reasonable expenses incurred, but not paid, prior to such termination of employment;

(iv) Executive shall be entitled to any other rights, compensation and/or benefits as may be due to Executive in accordance with the terms and provisions of any agreements, plans or programs of the Company, including, but not limited to, the Executive Deferred Compensation Agreement (as defined below); and

(v) any unvested stock options held by Executive shall immediately vest and Executive shall be entitled to exercise the stock options pursuant to the terms and conditions of any Company agreement or plan then in effect; provided that Executive has not materially breached any of the covenants set forth in Sections 9(a) or (c), Executive shall be entitled to exercise such options for at least one (1) year following the Date of Termination.

(vi) This Section 8(c) shall not apply if the Company terminates Executive's employment without Cause during the Window Period (as defined below). In the event that such termination is during the Window Period, the terms of Section 8(e) shall govern the parties' rights and obligations hereunder.

(d) Cause; Voluntary. If Executive's employment is terminated by the Company for Cause pursuant to Section 6(c) or by Executive for any reason:

(i) the Company shall pay Executive his Base Salary and, to the extent required by applicable law, his accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination;

(ii) the Company shall reimburse Executive pursuant to Section 5(d) for reasonable expenses incurred, but not paid prior to such termination of employment, unless such termination resulted from a misappropriation of Company funds; and

(iii) Executive shall be entitled to any other rights, compensation and/or benefits as may be due to Executive in accordance with the terms and provisions of any agreements, plans or programs of the Company, including, but not limited to, the Executive Deferred Compensation Agreement (as defined below).

(iv) This Section 8(d) shall not apply if Executive terminates his employment for Good Reason during the Window Period (as defined below). In such an event, the terms of Section 8(e) shall govern the parties' rights and obligations hereunder.

(e) Window Period after a Change of Control. If, during the Window Period, (1) the Company initiates the procedure to terminate Executive's employment without Cause, or (2) if Executive initiates the procedure to terminate his

employment for Good Reason (as defined below):

(i) the Company shall pay to Executive the aggregate of: (1) Executive's Base Salary through the Date of Termination, (2) accrued vacation through the Date of Termination and (3) a Pro Rata Share of the Bonus Opportunity;

(ii) in addition, the Company shall make a cash payment equal to two (2) times the sum of: (1) Executive's annual Base Salary; and (2) the greater of (A) the bonus amount paid or payable (including any amounts payable under the bonus plan referenced in Section 5(b) hereof) to Executive for the fiscal year of the Company immediately preceding the Change of Control Date (provided, however, that the average of such bonus amounts for the two (2) fiscal years of the Company immediately preceding the Change of Control Date shall be used if available) or (B) the bonus amount paid or payable to the Executive for the fiscal year of the Company ending immediately prior to the Date of Termination (provided, however, that the average of such bonus amounts for the two (2) fiscal years of the Company ending immediately prior to the Date of Termination shall be used if available);

(iii) to the extent permitted by applicable law, the Company shall maintain in full force and effect, for the continued benefit of Executive, his spouse and his dependents (as applicable) through the earlier of (A) twenty-four (24) months following the Date of Termination or (B) December 31, 2005, the life insurance plans and programs in which Executive, his spouse and his dependents (as applicable) were participating immediately prior to the Date of Termination at the level in effect and upon substantially the same terms and conditions (including without limitation contributions required by Executive for such benefits) as existed immediately prior to the Date of Termination; provided, however, in no

event shall the Company continue such benefits on behalf of Executive for less than twelve (12) months following the Date of Termination; provided,

further, that the Company's obligations to continue such benefits shall

cease upon the date or dates on which Executive becomes employed by a subsequent employer and is eligible to receive coverage and benefits from such subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis); provided, further,

that Executive shall not be required to seek other employment or benefits;

(iv) the Company shall reimburse Executive pursuant to Section 5(d) for reasonable expenses incurred, but not paid, prior to such termination of employment;

(v) Executive shall be entitled to any other rights, compensation, and/or benefits as may be due to Executive in accordance with the terms and provisions of any agreements, plans or programs of the Company, including,

but not limited to, the Executive Deferred Compensation Agreement (as defined below);

(vi) any unvested stock options held by Executive shall immediately vest and Executive shall be entitled to exercise the stock options pursuant to the terms and conditions of any Company agreement or plan then in effect; provided, however, that Executive in all cases shall be entitled to exercise such options for at least one (1) year following the Date of Termination;

(vii) all amounts payable to Executive by the Company pursuant to this Section 8(e) shall be paid in cash in a single lump sum as soon as practicable, but in no event more than ten (10) business days (or at such earlier or later date required by law), following the Date of Termination; and

(viii) The foregoing notwithstanding, the total of the severance payments payable under this Section 8(c) shall be reduced to the extent (but only to the extent) that the payment of such total severance payments (as determined in good faith by the Company's certified public accountants) would constitute an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended. For the purpose of determining whether such total severance payments would constitute an "excess parachute payment" under Code Section 280G, the "base amount" computed under Code Section 280G shall be allocated to the total severance payments (the portion of the base amount so allocated shall be an amount which bears the same ratio to the base amount as the present value of such total severance payments bears to the aggregate present value of all "parachute payments" under Code Section 280G).

9. Confidential Information; Ownership of Documents; Non-Competition.  
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(a) Confidential Information. Executive shall hold in a fiduciary capacity for the benefit of the Company all trade secrets and confidential information, knowledge or data relating to the Company and its businesses and investments, which shall have been obtained by Executive during Executive's employment by the Company and which is not generally available public knowledge (other than by acts of Executive in violation of this Agreement). Except as may be required or appropriate in connection with carrying out his duties under this Agreement, Executive shall not, without the prior written consent of the Company or as may otherwise be required by law, or as is necessary in connection with any adversarial proceeding against the Company (in which case Executive shall use his reasonable best efforts in cooperating with the Company in obtaining a protective order against disclosure by a court of competent jurisdiction), communicate or divulge any such trade secrets, information, knowledge or data to anyone other than the Company and those designated by the Company or on behalf

of the Company in the furtherance of its business or to perform duties hereunder. The obligations in this Section 9(a) shall only apply during the Employment Period and until the second (2nd) anniversary of the Executive's Date of Termination.

(b) Removal of Documents; Rights to Products. All records, filings, drawings, documents, models, equipment, and the like relating to the Company's business which Executive has control over shall not be removed from the Company's premises without its written consent,

10

unless such removal is in the furtherance of the Company's business or is in connection with Executive's carrying out his duties under this Agreement and, if so removed, shall be returned to the Company promptly after termination of Executive's employment hereunder, or otherwise promptly after removal if such removal occurs following termination of employment. Executive shall assign to the Company all rights to trade secrets and other products relating to the Company's business developed by him alone or in conjunction with others at any time while employed by the Company.

(c) Protection of Business. During the Employment Period and until the second anniversary of Executive's Date of Termination (but only in the event Executive is terminated by the Company for Cause or Executive terminates his employment without Good Reason), Executive shall not (i) engage, anywhere within the geographical areas in which the Company or any of its affiliates (the "Designated Entities") are conducting their business operations or providing services as of the Date of Termination, in any business which is being engaged in by the Designated Entities as of the Date of Termination, directly or indirectly, alone, in association with or as a shareholder, principal, agent, partner, officer, director, employee or consultant of any other organization, (ii) divert to any entity which is engaged in any business conducted by the Designated Entities in the same geographic area as the Designated Entities, any customer of any of the Designated Entities, or (iii) solicit any officer, employee or consultant of any of the Designated Entities to leave the employ of any of the Designated Entities. If, at any time, the provisions of this Section 9(c) shall be determined to be invalid or unenforceable, by reason of being vague or unreasonable as to area, duration or scope of activity, this Section 9(c) shall be considered divisible and shall become and be immediately amended to only such area, duration and scope of activity as shall be determined to be reasonable and enforceable by the court or other body having jurisdiction over the matter; and Executive agrees that this Section 9(c) as so amended shall be valid and binding as though any invalid or unenforceable provision had not been included herein.

(d) Injunctive Relief. In the event of a breach or threatened breach of this Section 9, Executive agrees that the Company shall be entitled to seek injunctive relief in a court of appropriate jurisdiction to remedy any such breach or threatened breach, Executive acknowledging that damages would be

inadequate and insufficient. If the Company's attempt to secure such an injunction is not successful, the Company shall pay or reimburse all reasonable attorneys' fees and other expenses and other costs incurred by Executive in connection with such attempt.

(e) Continuing Operation. Except as specifically provided in this Section 9, the termination of Executive's employment or of this Agreement shall have no effect on the continuing operation of this Section 9.

10. Successors; Binding Agreement.

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(a) This Agreement may and shall be assigned or transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes of the "Company" under the terms of this

Agreement. As used in this Agreement, the term "successor" shall mean any person, firm, corporation or business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets or the business of the Company. Notwithstanding such assignment, the Company shall remain, with such successor, jointly and severally liable for all its obligations hereunder. Failure of the Company to obtain the agreement of any successor to be bound, directly or indirectly, by the terms of this Agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall immediately entitle Executive, at his sole option and election, to compensation from the Company in the same amount and on the same terms as Executive would be entitled in the event of a termination of employment without Cause. Except as herein provided, this Agreement may not otherwise be assigned by the Company (other than to a subsidiary or affiliate) without the prior written consent of Executive.

(b) The services to be provided by Executive to the Company hereunder are personal to Executive, and Executive's duties may not be assigned by Executive; provided, however that this Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, and administrators, successors, heirs, distributees, devisees and legatees. If Executive dies while any amounts payable to Executive hereunder remain outstanding, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, in the absence of such designee, to Executive's estate.

11. Notice. All notices or other communications which are required or

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permitted hereunder shall be in writing and sufficient if delivered personally, or sent by nationally-recognized, overnight courier or by registered or certified mail, return receipt requested and postage prepaid, addressed as



follows:

If to Executive: Ronald A. Aramini  
3014 River Brook Lane  
Birmingham, Alabama 35242  
Facsimile: (205) 408-4375

If to the Company: Pemco Aviation Group, Inc.  
1943 North 50th Street  
Birmingham, Alabama 35212  
Attn: Chairman of the Board  
Facsimile: (205) 595-6631

or to such other address as any party may have furnished to the other in writing in accordance herewith. All such notices and other communications shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of a telecopy, when the party receiving such telecopy shall have confirmed receipt of the communication, (c) in the case of delivery by nationally-recognized, overnight courier, on the business day following dispatch and (d) in the case of mailing, on the third business day following such mailing.

12

12. Miscellaneous. No provisions of this Agreement may be amended, modified  
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or waived unless such amendment or modification is agreed to in writing signed by Executive and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by either party hereto at any time of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The respective rights and obligations of the parties hereunder of this Agreement shall survive Executive's termination of employment and the termination of this Agreement to the extent necessary for the intended preservation of such rights and obligations.

13. Validity. The invalidity or unenforceability of any provision or  
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provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Counterparts. This Agreement may be executed in one or more  
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counterparts, each of which shall be deemed to be an original but all of which

together will constitute one and the same instrument.

15. Entire Agreement. This Agreement sets forth the entire agreement of the  
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parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of such subject matter. Any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and canceled.

16. Withholding. All payments hereunder shall be subject to any required  
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withholding of federal, state and local taxes pursuant to any applicable law or regulation.

17. Section Headings. The section headings in this Agreement are for  
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convenience of reference only, and they form no part of this Agreement and shall not affect its interpretation.

18. Public Disclosure. No press release or other public disclosure, either  
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written or oral, of this Agreement or its terms shall be made by Executive without the prior written consent of the Company.

19. Indemnification. From and after the date of this Agreement, the Company  
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hereby covenants and agrees to indemnify and hold harmless Executive in a manner at least consistent with the provisions of the Company's Certificate of Incorporation and By-laws, as in effect on the date of this Agreement.

20. Governing Law. The provisions of this Agreement shall be construed and  
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enforced in accordance with the laws of the State of Delaware.

A-1

21. Definitions. Certain capitalized terms not otherwise defined in the  
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body of this Agreement shall have the meanings set forth below:

"Bonus Opportunity" means the bonus that Executive would have earned for the fiscal year in which employment termination occurs under any and all bonus plans in effect during such year, including but not limited to the bonus plan referenced in Section 5(b) of this Agreement. This amount shall be determined in good faith at the sole discretion of the Company's Board of Directors. Wherever this Agreement provides for a payment based on the Bonus Opportunity, the Board, in setting the amount of the payment

pursuant to any applicable bonus plan(s), shall presume that the Company's minimum performance for such fiscal year will be comparable to the Company's performance through the Date of Termination for such fiscal year if such performance were extrapolated for the entire fiscal year, but the Company's Board of Directors shall not be bound by this minimum performance extrapolation if the Company's Board of Directors expects the Company's actual results for such fiscal year to exceed the minimum performance extrapolation.

"Change of Control" shall have the meaning accorded thereto in Exhibit C hereto.

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"Change of Control Date" means the date on which a Change of Control occurs.

"Executive Deferred Compensation Agreement" means that certain deferred compensation agreement between the Company and Executive, a true and correct copy of which is attached hereto as Exhibit D.

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"Good Reason" means the occurrence of any of the following, without the express written consent of Executive, after the occurrence of a Change of Control:

(i) the assignment to Executive of any duties inconsistent in any material adverse respect with Executive's position, authority or responsibilities as contemplated by Section 3 of this Agreement, or any other material adverse change in such position, including titles, authority or responsibilities;

(ii) any failure by the Company to comply with any of the provisions of Section 5 of this Agreement, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by Executive; or

(iii) the Company's requiring Executive to be based, or to perform a substantial portion of his duties with the Company, at any office or location more than 20 miles from that location at which he performed his services specified under the provisions of Section 3 immediately prior to the Change of Control Date, except for travel reasonably required in the performance of Executive's responsibilities.

A-2

"Pro Rata" means the number of days elapsed prior to Executive's Date of Termination as a percentage of the number of days in the fiscal year.

"Window Period" means the nine (9) month period immediately following a Change of Control Date.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first above written.

Company:

Pemco Aviation Group, Inc.,  
a Delaware corporation

By: /s/ H.T. Bowling

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Name: H.T."Skip" Bowling  
Title: Vice Chairman, Director

Executive:

/s/ Ronald A. Aramini

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Name: Ronald A. Aramini

A-3

EXHIBIT A

(2001 Incentive Compensation Plan)

[See attached.]

A-4

EXHIBIT B

(Stock Option Agreement)

[See attached.]

B-1

EXHIBIT C

Change of Control

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A "Change of Control" shall occur if:

(a) the individuals who, as of December 1, 1999, constitute the Board (the "Incumbent Board"), cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to December 1, 1999 whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such an individual were a member of the Incumbent Board; or

(b) any individual, entity or group (within the meaning of Section 13(d) (3) or 14(d) (2) of the Securities Exchange Act of 1934, as amended), other than any such individual, entity or group which includes a member of the Incumbent Board, acquires (directly or indirectly) the beneficial ownership (within the meaning of Rule 13d-3 promulgated under such Act) of more than 50% of the voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors ("Voting Power"); or

(c) consummation of a merger or consolidation involving the Company, or a sale or disposition of all or substantially all of the Company's assets, or a plan of liquidation or dissolution of the Company, other than (i) a merger or consolidation in which the holders of the voting securities of the Company outstanding immediately prior to the merger or consolidation hold at least a majority of the Voting Power of the surviving corporation immediately after such merger or consolidation, (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) by which no person, other than any individual, entity or group which includes a member of the Incumbent Board, acquires more than 50% of the Voting Power of the Company, or (iii) a merger or consolidation in which the Company is the surviving corporation and such transaction was determined not to be a Change of Control, which transaction and determination was approved by a majority of the Board in actions taken prior to, and with respect to, such transaction.

C-1

EXHIBIT D

Executive Deferred Compensation Agreement  
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(See attached)

D-1

SCHEDULE 5 (g)

(Life Insurance Policy)

[See attached Certificate of Insurance]

EXECUTIVE DEFERRED COMPENSATION AGREEMENT BETWEEN  
PEMCO AVIATION GROUP, INC. AND RONALD A. ARAMINI

THIS AGREEMENT, hereby made and entered into this the 3rd day of May, 2002, is between Pemco Aviation Group, Inc., a Delaware corporation (hereinafter referred to as the "Company"), and Ronald A. Aramini ("Executive"). For tax purposes and for purposes of Title I of ERISA, this Agreement is an unfunded arrangement maintained for the purpose of providing deferred compensation to Executive, who is a member of a select group of management or highly compensated employees of the Company.

ARTICLE I: DEFINITIONS

The following terms, when used anywhere in this Agreement, shall have the respective meanings prescribed below in this Article I, unless the context clearly indicates otherwise:

Section 1.01. Beneficiary. "Beneficiary" means the person designated by  
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Executive in accordance with and for the purposes of Section 3.02.

Section 1.02. Board. "Board" means the Company's board of directors.  
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Section 1.03. Cause. "Cause" means that the Company has cause to terminate  
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Executive's Employment because the Company has determined in its good faith judgment that Executive (i) has engaged in willful misconduct or breach of fiduciary duty involving personal profit, (ii) has engaged in willful or repeated failure to substantially perform the duties or obligations of his Employment (other than due to physical or mental impairment), (iii) has been convicted of, or has plead guilty or nolo contendere to, a felony, or (iv) has engaged in a material breach of any of the covenants set forth in Sections 9(a) or (c) of the Employment Agreement. The Company shall have the right to terminate Executive's Employment at any time with or without Cause.

Section 1.04. Change of Control. "Change of Control" means a change of control  
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that occurs if:

(a) the individuals who, as of December 1, 1999, constitute the Board (hereinafter referred to as the "Incumbent Board"), cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to December 1, 1999 whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such an individual were a member of the Incumbent Board; or

(b) any individual, entity or group (within the meaning of Section 13(d) (3) or 14(d) (2) of the Securities Exchange Act of 1934, as amended), other than any such individual, entity or group which includes a member of the Incumbent Board,

acquires (directly or indirectly) the beneficial ownership (within the meaning of Rule 13d-3 promulgated under such Act) of more than 50% of the voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (hereinafter referred to as "Voting Power"); or

(c) consummation of a merger or consolidation involving the Company, or a sale or disposition of all or substantially all of the Company's assets, or a plan of liquidation or dissolution of the Company, other than (i) a merger or consolidation in which the holders of the

voting securities of the Company outstanding immediately prior to the merger or consolidation hold at least a majority of the Voting Power of the surviving corporation immediately after such merger or consolidation, (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) by which no person, other than any individual, entity or group which includes a member of the Incumbent Board, acquires more than 50% of the Voting Power of the Company, or (iii) a merger or consolidation in which the Company is the surviving corporation and such transaction was determined not to be a Change of Control, which transaction and determination was approved by a majority of the Board in actions taken prior to, and with respect to, such transaction.

Section 1.05. Claimant. "Claimant" means any person who applies for any payment  
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under this Agreement.

Section 1.06. Claims Reviewer. "Claims Reviewer" means the Company.  
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Section 1.07. Code. "Code" means the Internal Revenue Code of 1986, as amended  
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or replaced from time to time.

Section 1.08. Company. "Company" means Pemco Aviation Group, Inc.  
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Section 1.09. Employment. "Employment" means Executive's employment with the  
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Company in accordance with the terms and provisions of the Employment Agreement.

Section 1.10. Employment Agreement. "Employment Agreement" means the Amended and  
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Restated Employment Agreement by and between the Company and the Executive dated as of January 1, 2000, as it may be amended from time to time and any successor agreement thereto.

Section 1.11. ERISA. "ERISA" means the Employee Retirement Income Security Act  
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of 1974, as amended or replaced from time to time.

Section 1.12. Good Reason. "Good Reason" means the occurrence of any of the  
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following, without the express written consent of Executive, after the occurrence of a Change of Control:



(a) the assignment to Executive of any duties inconsistent in any material adverse respect with Executive's position, authority or responsibilities as set forth in Section 3 of the Employment Agreement, or any other material adverse change in such position, including titles, authority or responsibilities;

(b) any failure by the Company to comply with any of the provisions of Section 5 of the Employment Agreement, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by Executive; or

(c) the Company's requiring Executive to be based, or to perform a substantial portion of his duties with the Company, at any office or location more than 20 miles from that location at which he performed his services specified under the provisions of Section 3 of the Employment Agreement immediately prior to the date of the Change of Control, except for travel reasonably required in the performance of Executive's responsibilities.

Section 1.13. Trust. "Trust" means the trust agreement which is attached hereto  
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as ATTACHMENT ONE, the terms and provisions of which are incorporated herein by reference. The Trust shall be

established in the form commonly known as a "rabbi trust" and shall conform to the terms of a model trust as described by the Internal Revenue Service in Revenue Procedure 92-64. The Trust shall be irrevocable and shall be established by the Company in order to provide itself with a source of funds to assist it in meeting its payment obligations hereunder.

Section 1.14. Trust Balance. "Trust Balance" means the total cash amount and/or  
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property held by the Trustee in the Trust on any date as of which the Trust asset(s) is/are required to be determined under this Agreement.

Section 1.15. Trustee. "Trustee" means the person or entity named as trustee of  
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the Trust pursuant to the provisions thereof.

Section 1.16. Window Period. "Window Period" means the 9-month period commencing  
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upon the date of a Change of Control.

## ARTICLE II: TRUST CONTRIBUTIONS AND INVESTMENT THEREOF

Section 2.01. Initial Contribution. Within the 5-day period that immediately  
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follows the date first above written, the Company shall remit the lump sum amount of \$562,140.00 in cash to the Trustee to be held in the Trust by the Trustee and to be invested by the Trustee under the terms of the Trust; however, the payment required under this Section 2.01 shall be subject to the provisions of Section 2.03(a).

Section 2.02. Calendar Year Contributions. In accordance with the immediately  
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following schedule (but subject to the applicable provisions of Section 2.03),

the Company shall remit calendar year lump sum contributions in cash to the Trustee to be held in the Trust by the Trustee and to be invested by the Trustee under the terms of the Trust:

Calendar Year	Lump Sum Contribution	Lump Sum Contribution Remittance Period
2002	\$287,820.00	January 1, 2003 through January 5, 2003
2003	\$308,560.00	January 1, 2004 through January 5, 2004
2004	\$296,000.00	January 1, 2005 through January 5, 2005
2005	\$324,240.00	January 1, 2006 through January 5, 2006

The foregoing schedule was derived by the parties on the basis of the assumptions and the objective summarized in ATTACHMENT TWO, which is attached hereto; however, the terms and provisions of this Agreement (not ATTACHMENT TWO) shall govern all matters related to the Trust and/or to this Agreement, including, but not limited to, contributions to the Trust.

Section 2.03. Contributions Upon Termination Of Employment. Upon the termination

of Executive's Employment on or after the date first above written and prior to the close of business on December 31, 2005, the Company's Trust contribution obligations under Sections 2.01 and 2.02 also shall be subject to the provisions of the immediately following Paragraphs (a)-(d).

(a) Initial Contribution. If the Company lump sum contribution in cash

required under Section 2.01 has not been remitted to the Trustee on or before Executive's Employment termination date, such contribution shall nevertheless be made within the 5-day period prescribed by Section 2.01.

(b) Calendar Year Contributions. If Executive's Employment continues until

the close of business on the December 31 that precedes a lump sum contribution remittance period under Section 2.02, then the Company shall make its lump sum cash contribution under Section 2.02 during such contribution remittance period. If Executive's Employment does not continue until the close of business on the December 31 that precedes a lump sum contribution remittance period under Section 2.02, then the Company, within the 5-day period immediately following Executive's Employment termination date, shall remit to the Trustee a lump sum Trust contribution in cash equal to (i) the amount of the Trust contribution specified by Section 2.02 for the calendar year in which falls said Employment termination date, multiplied by (ii) a fraction, the numerator of which shall equal the number of days of Employment during such calendar year and the denominator of which shall equal 365.

(c) Termination Without Cause. If Executive's Employment is terminated by

the Company without Cause, the Company shall, within the 5-day period immediately following Executive's Employment termination date, remit to the Trustee a lump sum Trust contribution amount in cash equal to the lesser of (i) the total amount of all Trust contributions that would have been made under

Article II had Employment continued on and after the Employment termination date through December 31, 2005, or (ii) the total amount of all Trust contributions that would have been made under Article II had Employment continued on and after the Employment termination date for a 730-day period. To the extent that contribution(s) are remitted to the Trustee in accordance with this Paragraph (c), such contribution(s) shall satisfy the Company's Trust contribution obligations under this Agreement and effectuate a release of the Company from such Trust contribution obligations. Notwithstanding any provision(s) of this Agreement to the contrary and upon the termination of Executive's Employment with Cause, the Company shall be released and discharged from its Trust contribution obligations hereunder.

(d) Change Of Control. If Executive voluntarily terminates his Employment

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for Good Reason within the Window Period, the Company shall, within the 5-day period immediately following Executive's Employment termination date, remit to the Trustee a lump sum Trust contribution amount in cash equal to the lesser of (i) the total amount of all Trust contributions that would have been made under Article II had Employment continued on and after the Employment termination date through December 31, 2005, or (ii) the total amount of all Trust contributions that would have been made under Article II had Employment continued on and after the Employment termination date for a 730-day period. To the extent that contribution(s) are remitted to the Trustee in accordance with this Paragraph (d), such contribution(s) shall satisfy the Company's Trust contribution obligations under this Agreement and effectuate a release of the Company from such Trust contribution obligations.

Section 2.04. Forfeiture Upon Termination For Cause. If Executive's Employment

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is terminated by the Company for Cause, (i) neither Executive nor his designated Beneficiary shall be entitled to any payment of the Trust Balance under Article III of this Agreement, (ii) the Trust shall terminate, and (iii) the entire Trust Balance shall revert to the Company upon the termination of the Trust.

Section 2.05. Tax Payments And Contributions. To the extent permitted and/or

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required by applicable laws or regulations, the Company (not the Trustee) shall timely and directly pay any and all tax(es) upon the Trust, including, but not limited to, any tax(es) upon the assets held in the Trust and/or upon any income received by the Trust. To the extent that any such tax, under applicable laws or regulations, must be paid from the Trust, the Company shall, within the 5-day period immediately following such a tax payment from the Trust, remit a lump sum Trust contribution in cash to the Trustee that is equal to the total amount of such tax payment.

Section 2.06. Trust Asset Report. In accordance with the reasonable request(s)

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of Executive made on or after the date first above written and prior to the close of business on December 31, 2005, the Company (or the Trustee at the Company's direction) shall provide one or more written report(s) to

Executive that provide an itemization and valuation of the assets held in the Trust as of the date on which such report is provided to Executive.

#### ARTICLE III: DISTRIBUTION OF TRUST BALANCE

Section 3.01. Distribution To Executive. Following the Company's payment of any  
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remaining Trust contributions that are due to be made under Article II, the entire Trust Balance shall be distributed to Executive as soon as is administratively practicable following the termination of his Employment (but no earlier than the 31st day immediately following such Employment termination and no later than the 45th day immediately following such Employment termination).

(a) Property Distribution. With respect to each type or class of non-cash  
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property held in the Trust on or after Executive's date of Employment termination, Executive shall have the right to elect in writing to receive the distribution of all or part of such property. To the extent that Executive has not so elected to receive distribution of all or part of such property by the 30th day immediately following his date of Employment termination, all such property shall be liquidated by the Trustee and the cash liquidation amount thereof shall be distributed in accordance with this Section 3.01.

(b) Trust Asset Report. In accordance with the reasonable request(s) of  
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Executive made after his date of Employment termination, the Company (or the Trustee at the Company's direction) shall provide one or more written report(s) to Executive that provide an itemization and valuation of the assets held in the Trust as of the date on which such report is provided to Executive.

Section 3.02. Distribution To Beneficiary. If Executive dies prior to receiving  
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payment of the entire Trust Balance in accordance with Section 3.01, then such Trust Balance shall be paid to Executive's designated Beneficiary (or such Beneficiary's estate or Executive's estate, if applicable) in accordance with the immediately following Paragraphs (a)-(c).

(a) Beneficiary Designation And Payment. Executive may designate in writing  
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one (1) Beneficiary. Executive may revoke and/or change his written Beneficiary designation at any time; provided, however, that a Beneficiary designation automatically shall be revoked when the designated Beneficiary predeceases Executive. If there is an effective Beneficiary designation and payment is due to be made to the Beneficiary hereunder, then any non-cash assets held in the Trust shall be liquidated by the Trustee and the entire Trust Balance shall be paid in cash to the Beneficiary as soon as is administratively practicable following the Company's payment of any remaining Trust contributions that are due to be made under Article II (but no later than the 60th day immediately following Executive's date of death).

(b) Payment To Estate. If there is no effective Beneficiary designation  
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upon Executive's death prior to receiving payment of the entire Trust Balance under Section 3.01, then any non-cash assets held in the Trust shall be liquidated by the Trustee and the entire Trust Balance shall be paid to Executive's estate as soon as is administratively practicable following the Company's payment of any remaining Trust contributions that are due to be made under Article II (but no later than the 60th day immediately following Executive's date of death). If both Executive and his Beneficiary die and it is not possible through the exercise of reasonable diligence to determine whether the Beneficiary predeceased Executive, then any non-cash assets held in the

Trust shall be liquidated by the Trustee and the entire Trust Balance shall be paid to the Beneficiary's estate in cash as soon as is administratively practicable following the Company's payment of any remaining Trust contributions that are due to be made under Article II (but no later than the 60th day immediately following the Beneficiary's date of death).

(c) Minor Beneficiary. In the event a payment is to be made hereunder to a  
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minor

Beneficiary, then the Claims Reviewer may direct that such distribution be paid to a custodian for such minor's benefit under the applicable Uniform Transfer to Minors Act, said custodian being the person so designated in Executive's will or, if none, designated by the personal representative of Executive's estate.

Section 3.03. Application For Payment. A Claimant shall apply in writing to the  
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Claims Reviewer for the payment of any amount under this Agreement.

(a) Submission Of Additional Information. The Claims Reviewer may require  
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any Claimant to furnish such information as may reasonably be needed by the Claims Reviewer to process the Claimant's application and reach a decision upon such application.

(b) Written Notice. Within 10 days of receipt of the Claimant's application  
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for a payment under this Agreement, if the Claims Reviewer renders an adverse determination with respect to all or part of the application, the Claims Reviewer shall furnish a written notice to the Claimant setting forth (i) the specific reason(s) for such adverse determination with specific reference to pertinent provisions of this Agreement and/or Trust provisions on which the denial is based, (ii) an explanation of the procedures for review of such adverse determination under Section 3.04 and the time limits applicable to such procedures (including a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination upon review under Section 3.04), and (iii) a description of any additional material or information necessary for the Claimant to perfect the application for the payment and an explanation of why such material or information is necessary.

Section 3.04. Review Of Adverse Determination. Within 60 days of the Claimant's  
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receipt of an adverse determination under Section 3.03 as to the Claimant's application for payment hereunder, the Claimant may request that the Claims Reviewer review such adverse determination under this Section 3.04.

(a) Document Inspection And Scope Of Review. In conducting a review  
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requested under this Section 3.04, the Claims Reviewer shall allow the Claimant the opportunity to submit written comments, documents, records, and other information relating to the application for payment hereunder, and the Claims Reviewer shall take into account all comments, documents, records, and other information submitted by the Claimant relating to such application, regardless of whether such information was submitted or considered in making the initial

determination on such application under Section 3.03. Upon request and free of charge, the Claimant shall be provided reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's application for payment hereunder, provided that a document, record, or other information shall be considered "relevant" to such application if such document, record, or other information (i) was relied upon in making the adverse determination, (ii) was submitted, considered, or generated in the course of making the adverse determination, without regard to whether such document, record, or other information was relied upon in making such determination, or (iii) demonstrates compliance with the third sentence of Section 4.01 in making the adverse determination.

(b) Written Decision. To the extent the Claims Reviewer makes an adverse  
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determination under this Section 3.04 with respect to the Claimant's application for payment hereunder, the Claims Reviewer, not later than 10 days after the request for review is received, shall render a written decision and furnish a copy of the decision to the Claimant. The Claims Reviewer's decision shall be written in a manner calculated to be understood by the Claimant, include specific reason(s) for such adverse determination and specific references to the pertinent provisions of this Agreement and/or the Trust upon which such adverse determination is based, and contain a statement of the Claimant's right to bring a civil action under ERISA Section 502(a). Such decision also shall contain a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents,

records, and other information relevant to the Claimant's application for payment hereunder, provided that a document, record, or other information shall be considered "relevant" to such application if such document, record, or other information (i) was relied upon in making the adverse determination, (ii) was submitted, considered, or generated in the course of making the adverse determination, without regard to whether such document, record, or other information was relied upon in making such determination, or (iii) demonstrates compliance with the third sentence of Section 4.01 in making the adverse determination.

Section 3.05. Interest. If payment of all or part of the Trust Balance is not  
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made on or before the latest date on which payment thereof is due to be made under Article III, then such unpaid amount shall bear interest from the latest date by which it was due to be paid under Article III through the date payment actually is made. The interest rate for the purposes of this Section 3.05 shall be two percent (2%) above the rate of interest designated by AmSouth Bank (or its successor) from time to time as its "prime rate."

Section 3.06. Receipt And Release For Payments. Any payment to the Executive,  
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his Beneficiary, or a legal representative, guardian, or committee appointed for Executive or his Beneficiary in accordance with the provisions of this Agreement, shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Trustee, the Company, and the Claims Reviewer. A payee, as a condition precedent to such payment, may be required to execute a receipt and release of the Trustee, the Company, and the Claims Reviewer in such form as shall be determined by the Trustee, the Company, and the Claims Reviewer in their reasonable discretion.

Section 3.07. Code Sections 280G And 4999. To the extent that Executive or his

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Beneficiary (or Executive's estate or the Beneficiary's estate, as applicable) with respect to any payment of the Trust Balance under Article III will be obligated to pay any tax(es) under Code Sections 280G and 4999 and/or under any other federal, state, or local laws or regulations (other than such laws or regulations pertaining to income taxes, estate taxes, and/or gift taxes), then the Company, at the time of such payment of the Trust Balance, shall pay to the Trust Balance recipient a lump sum contribution in cash sufficient to satisfy all such tax(es) and to satisfy any income taxes due from such recipient solely with respect to the lump sum payment made under this Section 3.07. For the purposes of this Section 3.07, tax liability under Code Sections 280G and 4999 shall be determined by allocating the "base amount" computed under Code Section 280G to the total payment(s) of the Trust Balance under Article III (the portion of the base amount so allocated shall be an amount which bears the same ratio to the base amount as the present value of such total Trust Balance payment(s) bears to the aggregate present value of all "parachute payments" under Code Section 280G). A lump sum payment due to be made to Executive or his Beneficiary (or Executive's estate or the Beneficiary's estate, as applicable) under this Section 3.07 shall be computed in accordance with the Code, applicable regulations issued under the Code, any applicable guidelines issued by the Internal Revenue Service, and any other applicable laws or regulations.

#### ARTICLE IV: ADMINISTRATION

Section 4.01. Powers And Duties Of The Company. The Company shall administer and

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manage the operation of this Agreement in accordance with its terms and shall take such action as is necessary or appropriate to accomplish the Company's duties under this Agreement, including, but not limited to, the powers (i) to appoint attorneys, accountants, investment managers, agents, advisers, and other specialists and their agents incident to the exercise of its duties under the Agreement and (ii) to maintain all necessary records for the administration of the Agreement. Notwithstanding the foregoing provisions of this Section 4.01, the Company's exercise of its powers and fulfillment of its duties and responsibilities hereunder shall be subject to the terms and provisions of the Trust and to the duties and responsibilities assigned hereunder to the Claims Reviewer. The Company shall establish administrative processes and

safeguards designed to ensure and to verify that determinations on Claimant applications for payment hereunder are made in accordance with this Agreement, and Sections 3.03 and 3.04 shall not be administered in a way that unduly inhibits or hampers the initiation or processing of Claimant applications for payment hereunder. The Company shall be responsible for preparing and distributing all benefit payment application forms, election forms, election change forms, Beneficiary designation forms, and all other administrative forms and materials necessary for the administration and operation of the terms and provisions of this Agreement.

Section 4.02. Payment Of Expenses And Fees. Notwithstanding any provision(s) of

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this Agreement and/or the Trust to the contrary, (i) all expenses of administration of this Agreement, (ii) all expenses of administration of the Trust, and (iii) all Trustee fees and expenses and other expenses related to the

Trust shall be solely and directly paid by the Company. Such expenses and fees shall include any expenses and fees incident to the Company's and/or Trustee's performance of its duties and responsibilities under this Agreement and/or the Trust, or any person or persons retained or appointed by the Company or the Trustee incident to the exercise of duties under this Agreement and/or the Trust, including, but not limited to, fees of accountants, counsel, investment managers, agents, advisers, and other specialists and their agents and other costs of administering this Agreement and/or the Trust.

Section 4.03. Amendment. This Agreement may be amended as provided by the  
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immediately following Paragraphs (a)-(d).

(a) By Agreement Of The Parties. This Agreement may be amended by the  
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Company at any time, provided that such an amendment shall be void and without effect unless Executive specifically has consented in writing to such amendment in advance of the effective date thereof.

(b) Unilateral Amendment. This Agreement unilaterally may be amended by the  
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Company, either retroactively or prospectively, solely for the purpose of ensuring this Agreement's compliance with applicable laws and regulations (including, but not limited to the Code, ERISA, and applicable regulations issued under the Code or ERISA) that govern the Agreement's status as an unfunded arrangement maintained for the purpose of providing deferred compensation to a member of a select group of management or highly compensated employees of the Company. If the Agreement is amended pursuant to this Paragraph (b), Company shall provide notice to Executive of such amendment prior to the effective date thereof.

(c) Amendment Procedure. The Board shall by resolution approve each  
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amendment to this Agreement made pursuant to either Section 4.03(a) or Section 4.03(b), and, on or after the date of such approval, direct that an approved amendment be executed by the appropriate officer of the Company. An amendment to this Agreement shall become effective as provided therein upon its execution. Unless otherwise provided by the terms of the Trust, no amendment to this Agreement shall be effective if it (i) authorizes or permits any part of the Trust to be used for or diverted to any purpose other than for the exclusive benefit of Executive or his Beneficiary, and/or (ii) causes any retroactive reduction in the amount of the Trust Balance. Any amendment which affects the rights, duties or responsibilities of the Trustee may only be made with the Trustee's written consent.

(d) Trustee. The Company shall be responsible for providing to the Trustee  
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a copy of any amendment to or restatement of this Agreement within ten (10) days after the adoption and execution of the same.

Section 4.04. Termination. This Agreement shall terminate as of the date the  
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Trust is terminated in accordance with its terms and provisions. The Company shall be responsible for notifying the Trustee of



its intent to terminate this Agreement (and the Trust established hereunder) at least forty-five (45) days in advance of the effective date of such termination.

ARTICLE V: MISCELLANEOUS

Section 5.01. Alienation. Except as otherwise provided by the terms of the

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Trust, no amount payable hereunder by the Trustee from the Trust and/or by the Company to any person shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge the same shall be void.

Section 5.02. Applicable Law. This Agreement shall be construed and enforced

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according to the laws of the State of Delaware (other than laws respecting choice of law), except to the extent such laws are preempted by ERISA.

Section 5.03. Singular And Plural Forms. Whenever any words are used herein in

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the singular or plural form, they shall be construed as though they were also used in the other form in all cases where they would so apply.

Section 5.04. Headings. The headings and subheadings of this Agreement have been

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inserted for convenience of reference and are to be ignored in any construction of the provisions hereof.

Section 5.05. Severability. In case that any provision(s) of this Agreement

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shall be held illegal or invalid for any reason, including, without limitation, that it should be against public policy, such illegality or invalidity shall not affect the remaining parts of the Agreement, and the Agreement shall be construed and enforced as if such illegal and invalid provisions had never been inserted herein.

Section 5.06. Successors. This Agreement may and shall be assigned or

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transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes of the "Company" under the terms of this Agreement. As used in this Section 5.06, the term "successor" shall mean any person, firm, corporation or business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets or the business of the Company. Notwithstanding such assignment, the Company shall remain, with such successor, jointly and severally liable for all its obligations under this Agreement. Failure of the Company to obtain the agreement of any successor to be bound, directly or indirectly, by the terms of this Agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall require (i) the distribution of the Trust Balance under Article III as if Employment were terminated without Cause and (ii) payment by the Company of a lump sum amount equal to the total Trust contributions that would have been due under Article II had Employment continued until the close of business on December 31, 2005 (such lump sum shall be paid by the Company in accordance with the provisions of Article III, including but not limited to Sections 3.05 and 3.07, as if it were part of the Trust Balance and as if the Company were the

Trustee). Except as herein provided, this Agreement may not otherwise be assigned by the Company (other than to a subsidiary or affiliate) without the prior written consent of Executive.

Section 5.07. Notices. All notices or other communications that are required or  
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permitted hereunder shall be given in writing in accordance with those Employment Agreement provisions that govern the giving of notices or other communications under the Employment Agreement.

Section 5.08. Waiver. No waiver by either party hereto at any time of any breach  
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by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or

subsequent time.

Section 5.09. Entire Agreement. No agreements or representations, oral or  
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otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of such subject matter. Any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and canceled.

Section 5.10. Survival Of Rights And Obligations. The respective rights and  
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obligations of the parties hereunder of this Agreement shall survive Executive's termination of Employment and the termination of this Agreement to the extent necessary for the intended preservation of such rights and obligations.

Section 5.11. Validity. The invalidity or unenforceability of any provision or  
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provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above on Page 1 hereof.

COMPANY:  
PEMCO AVIATION GROUP, INC.

EXECUTIVE:

By: /s/ H.T. Bowling  
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/s/ Ronald A. Aramini  
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Name: H.T. "Skip" Bowling  
Title: Vice Chairman, Director

Name: RONALD A. ARAMINI

ATTACHMENT ONE

TRUST UNDER THE EXECUTIVE DEFERRED COMPENSATION AGREEMENT  
BETWEEN PEMCO AVIATION GROUP, INC. AND RONALD A. ARAMINI

(a) This Agreement made this 3rd day of May, 2002 by and between Pemco Aviation Group, Inc. ("Company") and AmSouth Bank ("Trustee");

(b) WHEREAS, Company has adopted and executed the Executive Deferred Compensation Agreement Between Pemco Aviation Group, Inc. and Ronald A. Aramini ("Deferred Compensation Agreement") as of the \_\_\_\_\_ day of May, 2002;

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(c) WHEREAS, Company has incurred or expects to incur liability under the terms of the Deferred Compensation Agreement with respect to the individual participating in the Deferred Compensation Agreement;

(d) WHEREAS, Company wishes to establish a trust (hereinafter called "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of Company's creditors in the event of Company's Insolvency, as herein defined, until paid to the Deferred Compensation Agreement participant and his beneficiary in such manner and at such times as specified in the Deferred Compensation Agreement;

(e) WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Deferred Compensation Agreement as an unfunded arrangement maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974;

(f) WHEREAS, it is the intention of Company to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Deferred Compensation Agreement;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment Of Trust

(a) Company shall deposit with Trustee in trust, at the time(s) required by the Deferred Compensation Agreement, such amounts as are required to be so deposited under the Deferred Compensation Agreement, which amounts shall become part of the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as

amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of the Deferred Compensation Agreement participant and general creditors as herein set forth. The Deferred Compensation Agreement participant and his beneficiary shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Deferred Compensation Agreement and this Trust Agreement shall be mere unsecured contractual rights of the Deferred Compensation Agreement participant and his beneficiary against Company. Any assets held by the Trust will be subject to the claims of Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor any Deferred Compensation Agreement participant or beneficiary shall have any right to compel such additional deposits.

(f) Company shall be responsible for complying with all applicable federal, state and local laws applicable to the Agreement, including, but not limited to, all applicable ordinances and regulations. Company also shall be responsible for the filing of necessary returns, registrations, reports and other filings with all governmental agencies, for preparing and filing any required "top-hat" filing with the Department of Labor, and for complying with any applicable securities law registration requirements and filings.

## Section 2. Payments to Deferred Compensation Agreement Participant and His Beneficiary.

(a) Company shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of the Deferred Compensation Agreement participant (and his or her beneficiary), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Deferred Compensation Agreement), and the time of commencement of payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the Deferred Compensation Agreement participant and his beneficiary in accordance with such Payment Schedule. The Company shall be responsible for withholding and transmitting to the appropriate taxing authorities all required or elected taxes and for furnishing to the Deferred Compensation Agreement participant and/or his beneficiary evidence of the payment of such taxes and the amounts thereof.

(b) The entitlement of the Deferred Compensation Agreement participant or his or her beneficiary to benefits under the Deferred Compensation Agreement shall be determined by Company or such party as it shall designate under the Deferred Compensation Agreement, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Deferred Compensation Agreement.

(c) Company may make payment of benefits directly to the Deferred Compensation Agreement participant or his beneficiary as they become due under the terms of the Deferred Compensation Agreement. Company shall notify Trustee

directly prior to the time amounts are payable to the participant or his beneficiary. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Deferred Compensation Agreement, Company shall make the balance of each such payment as it falls due. Trustee shall notify Company where principal and earnings are not sufficient.

Section 3. Trustee Responsibility Regarding Payments to Trust Beneficiary When Company Is Insolvent.

(a) Trustee shall cease payment of benefits to the Deferred Compensation Agreement participant and his beneficiary if the Company is Insolvent. Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Company is unable to pay its debts as they become due, or (ii) Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of Company under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer of Company shall have the duty to inform Trustee in writing of Company's Insolvency.

(2) Unless Trustee has actual knowledge of Company's Insolvency, or has received notice from Company or a person claiming to be a creditor alleging that Company is Insolvent, Trustee shall have no duty to inquire whether Company is Insolvent. Trustee may in all events rely on such evidence concerning Company's solvency as may be furnished to Trustee.

(3) Upon receiving notification of the Company's Insolvency, Trustee shall discontinue payments to the Deferred Compensation Agreement participant or his beneficiary and shall hold the assets of the Trust for the benefit of Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of the Deferred Compensation Agreement participant or his beneficiary to pursue their rights as general creditors of Company with respect to benefits due under the Deferred Compensation Agreement or otherwise.

(4) Trustee shall resume the payment of benefits to the Deferred Compensation Agreement participant or his beneficiary in accordance with Section 2 of this Trust Agreement only after Trustee has been notified in writing that the Company is no longer Insolvent.

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to the Deferred Compensation Agreement participant or his beneficiary under the terms of the Deferred Compensation Agreement for the period of such discontinuance, less the aggregate amount of any payments made to the Deferred Compensation

Agreement participant or his beneficiary by Company in lieu of the payments provided for hereunder during any such period of discontinuance.

#### Section 4. Payments to Company.

Page A1 -- 3

Company shall have no right or power to direct Trustee to return to Company or to divert to others any of the Trust assets before all payment of benefits have been made to the Deferred Compensation Agreement participant and his beneficiary pursuant to the terms of the Deferred Compensation Agreement.

#### Section 5. Investment Authority.

Subject to the funding policy established by the Company and/or to direction by the Company, the Trustee is expressly granted the right to manage (including the power to acquire and dispose of), invest and reinvest Trust assets and may from time to time invest and reinvest any cash principal and any income received or held by it in such securities and other property, real or personal, it may deem advisable, whether or not productive of income.

(a) The Trustee may invest in securities, including common and preferred stocks and bonds, other evidences of indebtedness, covered call options, and real property. Further, the Trustee shall not purchase stock or securities of the Trustee or its affiliates.

(b) The Trustee may invest in certificates of deposit, in variable demand notes, and in demand or time deposits (including any such notes and deposits of AmSouth Bank bearing a reasonable rate of interest).

(c) The Trustee may invest in shares of open-end management type investment companies as defined in the Investment Company Act of 1940 (i.e., mutual funds), and is specifically authorized to invest in the AmSouth Bank Mutual Funds for which the Trustee serves as investment advisor.

(d) The Trustee may, pursuant to the terms of the Deferred Compensation Agreement, invest in and dispose of individual life insurance and annuity contracts issued on the life of the Deferred Compensation Agreement participant. The Trustee may, as general investments of the Trust, invest in and dispose of group annuity and group investment contracts.

(e) The Trustee may invest in obligations issued or guaranteed by banks, insurance companies, or other corporations. Such obligations shall include, but not be limited to, guaranteed investment contracts and bank investment contracts.

(f) In no event may Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by Company, other than a de minimis amount held in common investment vehicles in which Trustee invests. All rights associated with assets of the Trust shall be exercised by Trustee or a person designated by Trustee, and shall in no event be exercisable by or rest with the Deferred Compensation Agreement participant.

#### Section 6. Disposition of Income.

During the term of this Trust, all income received by the Trust shall be accumulated and reinvested. Company shall be responsible for the direct payment of expenses and taxes in accordance with the terms and provisions of the Deferred Compensation Agreement.

Page A1 -- 4

#### Section 7. Accounting by Trustee.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between Company and Trustee. Within 60 days following the close of each calendar year and within 30 days after the removal or resignation of Trustee, Trustee shall deliver to Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

#### Section 8. Responsibility of Trustee.

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by Company which is contemplated by, and in conformity with, the terms of the Deferred Compensation Agreement or this Trust and is given in writing by Company.

(b) Trustee may consult with legal counsel (who may also be counsel for Company generally) with respect to any of its duties or obligations hereunder.

(c) Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(d) Trustee shall have, without exclusion, all powers conferred on Trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(e) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

(f) The Trustee shall have no responsibility to the Company or any other person or entity for any loss and/or tax consequence that may result from acting in accordance with the Deferred Compensation Agreement and shall be indemnified by the Company for any and all losses, expenses, penalties or taxes, including but not limited to, those arising from reliance on the Company's interpretations and clarifications of Deferred Compensation Agreement provisions and from failing to act in the absence of directions for matters not specifically undertaken hereunder. Without limiting the generality of the foregoing, said indemnity to Trustee shall include all costs and expenses of defending, investigating and pursuing any claim, demand, suit, litigation, administrative proceeding or investigation

Page A1 -- 5

arising out of such action or failure to act, including without limitation reasonable attorney's fees. This Section 8(f) shall survive the termination or amendment of the Deferred Compensation Agreement and/or this Trust.

#### Section 9. Compensation and Expenses of Trustee.

Company shall pay all administrative expenses and Trustee's fees and expenses in accordance with the terms and provisions of the Deferred Compensation Agreement.

#### Section 10. Resignation and Removal of Trustee.

(a) Trustee may resign at any time by written notice to Company, which shall be effective 30 days after receipt of such notice unless Company and Trustee agree otherwise.

(b) Trustee may be removed by Company on 30 days notice or upon shorter notice accepted by Trustee.

(c) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 30 days after receipt of notice of resignation, removal or transfer, unless Company extends the time limit.

(d) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraph(s) (a) or (b) of this section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

#### Section 11. Appointment of Successor.

If Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the



Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by Company or the successor Trustee to evidence the transfer.

Section 12. Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by Trustee and Company. Notwithstanding the foregoing, no such amendment (or the adoption thereof) shall conflict with the terms of the Deferred Compensation Agreement or shall make the Trust revocable after it has become irrevocable in accordance with Section 1(b) hereof.

(b) The Trust shall not terminate until the date on which the Deferred Compensation Agreement participant and his beneficiary are no longer entitled to benefits pursuant to the terms of the Deferred Compensation Agreement.

(c) Upon written approval of the participant or beneficiary entitled to payment of benefits pursuant to the terms of the Deferred Compensation Agreement, Company may terminate this Trust prior to the time all benefit payments under the Deferred Compensation Agreement have been made. All assets in the Trust at termination shall be returned to Company.

Section 13. Miscellaneous.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to the Deferred Compensation Agreement participant and his beneficiary under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the state of Delaware to the extent not preempted by the Employee Retirement Income Security Act of 1974, as amended or replaced from time to time.

Section 14. Effective Date.

The effective date of this Trust Agreement shall be the date first above written in this Trust Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Trust Agreement, each by a duly authorized officer thereof, as of the date first above written in this Trust Agreement.

PEMCO AVIATION GROUP, INC.

AMSOUTH BANK

By: \_\_\_\_\_

By: \_\_\_\_\_

Name:

Name:

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Title: -----  
-----

-----  
Title: -----  
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ATTACHMENT TWO

§ ASSUMPTIONS

Executive's Annual Salary Increase: 10%

Executive's Applicable Tax Rate For  
Lump Sum Trust Balance Distribution: 40%

Annual Investment Return On Trust Contributions: 8%

§ OBJECTIVE

Based on the foregoing Assumptions and the following Table, the liquidation and distribution of the Trust Balance as of January 6, 2005 would produce, after payment of applicable taxes from such distributed Trust Balance, a lump sum sufficient to thereafter yield an annual investment return of at least \$85,000.

<TABLE>

<CAPTION>

Date	Monthly Monthly	Aggregate	Annual	Required	Interest Income	Annual Contr.	Total Contr.
-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
12/31/00	\$1,075	\$1,075	\$ 12,900	\$ 160,000	--	\$267,000	\$ 267,000
12/31/01	\$1,238	\$2,313	\$ 27,756	\$ 350,000	\$ 21,360	\$295,140	\$ 583,500
12/31/02*	\$1,353	\$3,666	\$ 43,992	\$ 550,000	\$ 46,680	\$287,820	\$ 918,000
12/31/03*	\$1,538	\$5,204	\$ 62,448	\$ 780,000	\$ 73,440	\$308,560	\$1,300,000
12/31/04*	\$1,876	\$7,074	\$ 84,888	\$1,060,000	\$104,000	\$296,000	\$1,700,000
12/31/05*	\$1,981	\$9,001	\$108,012	\$1,350,150	\$136,000	\$324,240	\$2,160,240

</TABLE>

\*Estimated

\$425,000

Birmingham, Alabama  
April 23, 2002

PROMISSORY NOTE  
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FOR VALUE RECEIVED, without grace, Ronald A. Aramini, an individual (the "Borrower"), promises to pay to the order of Pemco Aviation Group, Inc., a Delaware corporation (the "Lender"), in the manner set forth below, the principal sum of Four Hundred Twenty-Five Thousand Dollars (\$425,000), plus interest at the rate set forth below.

This Note shall bear interest (computed on an Actual/365 Day Basis) on the unpaid principal balance hereof, from the date hereof until payment in full, at a fixed interest rate equal to five percent (5.0%) per annum.

Principal and interest shall be payable under this Note within sixty (60) days of the date of the Borrower's termination of employment with the Lender.

The Borrower further agrees with the Lender as follows:

SECTION 1. Definitions. As used in this Note, the following terms are  
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defined as follows:

A. Actual/365 Day Basis means a method of computing interest and other  
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charges on the basis of an assumed year of 365 days for the actual number of days elapsed, meaning that the interest accrued for each day will be computed by multiplying the interest rate applicable on that day by the unpaid principal balance on that day and dividing the result by 365.

B. Business Day means any day, excluding Saturday and Sunday, on which the  
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Lender's main office in Birmingham, Alabama, is open to the public for carrying on substantially all of its banking business.

C. Default Rate means a rate of interest equal to two percentage points  
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(200 basis points) in excess of the highest interest rate that would otherwise be payable on the principal indebtedness evidenced by this Note from time to time in the absence of the existence of a default, or the maximum rate permitted by law, whichever is less.

D. Event of Default is defined in Section 5. An Event of Default "exists"  
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if an Event of Default has occurred and is continuing.

E. Obligors means the Borrower and any other maker, endorser, surety,

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guarantor or other person now or hereafter liable for the payment or performance, in whole or in part, of any of the obligations evidenced by this Note.

SECTION 2. Place and Time of Payments.  
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A. All payments by the Borrower to the Lender under this Note shall be made in lawful

Page 1

currency of the United States and in immediately available funds to the Lender at its Main Office in Birmingham, Alabama or at such other address within the continental United States as shall be specified by the Lender by notice to the Borrower. Any payment received by the Lender after 2:00 p.m. (Birmingham, Alabama time) on a Business Day (or at any time on a day that is not a Business Day) shall be deemed made by the Borrower and received by the Lender on the following Business Day.

B. All amounts payable by the Borrower to the Lender under this Note for which a payment date is expressly set forth herein or therein shall be payable on the specified due date without notice or demand by the Lender. All amounts payable by the Borrower to the Lender under this Note for which no payment date is expressly set forth herein or therein shall be payable ten days after written demand by the Lender to the Borrower. The Lender may, at its option, send written notice or demand to the Borrower of amounts payable on a specified due date pursuant to this Note, but the failure to send such notice shall not affect or excuse the Borrower's obligation to make payment of the amounts due on the specified due date.

C. Payments that are due on a day that is not a Business Day shall be payable on the next succeeding Business Day, and any interest payable thereon shall be payable for such extended time at the specified rate.

SECTION 3. Prepayments. The Borrower may at any time prepay all or any part  
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of the principal indebtedness evidenced by this Note, without premium or penalty. Any prepayment shall be accompanied by the payment of accrued interest to the date of prepayment on the principal amount prepaid.

SECTION 4. Default Rate. If an Event of Default exists, this Note shall  
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bear interest at the Default Rate, until the earlier of (a) such time as all amounts due hereunder are paid in full or (b) no such Event of Default exists.

SECTION 5. Events of Default. The occurrence of any of the following events

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shall constitute an event of default ("Event of Default") under this Note (whatever the reason for such event and whether or not it shall be voluntary or involuntary or be effected by operation of law or pursuant to any governmental requirement): (a) default shall be made in the payment when due of any of the obligations evidenced by this Note or any part thereof, and such default shall continue unremedied for 10 days.

SECTION 6. Certain Waivers and Agreements by Obligors.

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A. As to the obligations evidenced by this Note, each Obligor severally (i) waives demand, presentment, protest, notice of protest, suit and all other requirements necessary to hold liable such Obligor or any of the other Obligors; (ii) waives all exemptions of personal property secured to any Obligor under the Constitution and laws of the State of Alabama or any other state; and (iii) agrees to pay all costs of collection, including a reasonable attorney's fee, in the event default should be made in the payment of any of the obligations evidenced by this Note.

B. Each Obligor severally (i) acknowledges that the Lender has not made any representations or entered into any agreements with such Obligor to induce such Obligor to enter into the transactions contemplated by this Note; (ii) agrees that any obligations of any Obligor may, from time to time, in whole or in part, be renewed, extended, modified, accelerated, compromised, discharged or released by the Lender, and any collateral, lien, right of set-off or other security for the obligations

evidenced by this Note or any other obligations of any Obligor to the Lender may, from time to time, in whole or in part, be exchanged, sold, released, satisfied, or terminated, all without notice to, or in any way affecting or releasing any of the obligations of any other Obligor; and (iii) agrees that the Lender will not be required first to resort to any security document, any guaranty or any other security pledged or granted to the Lender, but upon a default under this Note, the Lender may forthwith look to any Obligor for payment hereunder or may look to and realize upon any other security held by the Lender, in any order the Lender chooses, until the entire debt evidenced by this Note is paid.

SECTION 7. Independent Obligations. The Borrower agrees that each of the

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obligations of the Borrower to the Lender under this Note may be enforced against the Borrower without the necessity of joining any other Obligor, any other holders of Liens in any Property or any other person, as a party.

SECTION 8. Heirs, Successors and Assigns. Whenever in this Note any party

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hereto is referred to, such reference shall be deemed to include the heirs, successors and assigns of such party, except that the Borrower may not assign or transfer its obligations under this Note without the prior written consent of the Lender; and all obligations of the Borrower under this Note shall bind the Borrower's heirs, successors and assigns and shall inure to the benefit of the successors and assigns of the Lender.

SECTION 9. Governing Law. This Note shall be construed in accordance with

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and governed by the internal laws of the State of Alabama except as required by mandatory provisions of law (without regard to conflict of law principles).

SECTION 10. Separability Clause. If any provision of the this Note shall be

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invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 11. No Oral Agreements. This Note is the final expression of the

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agreement between the parties hereto, and this Note may not be contradicted by evidence of any prior oral agreement between such parties. All previous oral agreements between the parties hereto have been incorporated into this Note, and there is no unwritten oral agreement between the parties hereto in existence.

SECTION 12. Waiver and Election. The exercise by the Lender of any option

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given under this Note shall not constitute a waiver of the right to exercise any other option. No failure or delay on the part of the Lender in exercising any right, power or remedy under this Note shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any further exercise thereof or the exercise of any other right, power or remedy. No modification, termination or waiver of any provisions of this Note, nor consent to any departure by the Borrower therefrom, shall be effective unless in writing and signed by an authorized officer of the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

SECTION 13. Time of Essence. Time is of the essence of this Note.

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IN WITNESS WHEREOF, the undersigned Borrower has executed and delivered this Note dated April 23, 2002 under seal.

/s/Ronald A. Aramini

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Ronald A. Aramini

Send Correspondence and Billings to:

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Page 4