AVIALL INC
Form 10-Q
July 29, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2004

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 1-12380

AVIALL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**65-0433083**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2750 Regent Boulevard DFW Airport, Texas	**75261-9048**
(Address of principal executive offices)	**(Zip Code)**

(972) 586-1000

(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 x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

The number of shares of common stock, par value $0.01 per share, outstanding at July 26, 2004 was 32,398,306.

PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

AVIALL, INC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Share Data)

(Unaudited)

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2004	*2003*	*2004*	*2003*
Net sales	$ 314,048	250,848	597,580	502,338
Cost of sales	263,904	208,461	500,338	417,611
Gross profit	50,144	42,387	97,242	84,727
Selling and administrative expenses	29,653	24,115	57,252	49,358
Impairment loss		1,707		1,707
Operating income	20,491	16,565	39,990	33,662
Loss on extinguishment of debt		17,315		17,315
Interest expense	4,207	5,609	8,552	11,472
Earnings (loss) before income taxes	16,284	(6,359)	31,438	4,875
Provision (benefit) for income taxes	2,819	(2,395)	7,996	1,669
Net earnings (loss)	13,465	(3,964)	23,442	3,206
Less preferred stock dividends		(907)		(2,016)
Less noncash reduction for conversion of preferred stock		(24,335)		(24,335)
Net earnings (loss) applicable to common shares	$ 13,465	(29,206)	23,442	(23,145)
Basic net earnings (loss) per share	$ 0.42	(1.35)	0.74	(1.22)
Weighted average common shares	31,954,552	21,705,400	31,849,586	20,551,965
Diluted net earnings (loss) per share	$ 0.40	(1.35)	0.70	(1.22)
Weighted average common and potentially dilutive common shares	33,550,653	30,112,651	33,396,705	29,619,716

See accompanying notes to consolidated financial statements.

AVIALL, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

	June 30, 2004	*December 31, 2003*
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 41,381	23,424
Receivables	166,443	139,279
Inventories	295,386	327,860
Prepaid expenses and other current assets	3,701	2,501
Deferred income taxes	19,075	19,075
Total current assets	525,986	512,139
Property and equipment	32,207	32,029
Goodwill	46,843	46,843
Intangible assets	49,174	51,908
Deferred income taxes	29,289	35,749
Other assets	12,446	12,524
Total assets	$ 695,945	691,192
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 2,495	3,293
Revolving line of credit	367	509
Accounts payable	107,788	138,437
Accrued expenses	51,391	39,567
Total current liabilities	162,041	181,806
Long-term debt	201,459	203,411
Other liabilities	6,313	5,891
Commitments and contingencies		
Shareholders equity:		
Common stock ($0.01 par value per share, 80,000,000 shares authorized; 34,327,241 shares and 33,950,107 shares issued at June 30, 2004 and December 31, 2003, respectively)	343	339
Additional paid-in-capital	441,649	439,080
Accumulated deficit	(81,857)	(105,299)
Treasury stock, at cost (2,035,124 shares and 2,012,743 shares at June 30, 2004 and December 31, 2003, respectively)	(28,218)	(27,867)
Unearned compensation - restricted stock	(1,135)	(1,519)
Accumulated other comprehensive loss	(4,650)	(4,650)
Total shareholders equity	326,132	300,084
Total liabilities and shareholders equity	$ 695,945	691,192

See accompanying notes to consolidated financial statements.

AVIALL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Six Months Ended June 30,	
	2004	***2003***
Operating activities:		
Net earnings	$ 23,442	3,206
Loss on extinguishment of debt		17,315
Impairment loss		1,707
Depreciation and amortization	8,674	9,331
Deferred income taxes	6,436	1,596
Paid-in-kind interest		405
Compensation expense on restricted stock awards	331	316
Changes in:		
Receivables	(27,164)	(8,606)
Inventories	32,474	33,600
Accounts payable	5,902	(10,201)
Accrued expenses	11,824	(3,284)
Other, net	(1,862)	(2,809)
Net cash provided by operating activities	60,057	42,576
Investing activities:		
Capital expenditures	(4,390)	(3,600)
Purchase of distribution rights	(800)	
Sales of property, plant and equipment	5	
Net cash used for investing activities	(5,185)	(3,600)
Financing activities:		
Cash overdrafts	(36,551)	(9,314)
Issuance of common stock	2,627	110
Debt repaid	(1,762)	(82,894)
Debt issuance cost paid	(736)	(7,514)
Purchase of treasury stock	(351)	
Net change in revolving credit facility	(142)	(138,763)
Debt proceeds		200,000
Other		(1)
Net cash used for financing activities	(36,915)	(38,376)
Change in cash and cash equivalents	17,957	600
Cash and cash equivalents, beginning of period	23,424	4,997
Cash and cash equivalents, end of period	$ 41,381	5,597
Cash paid for interest and income taxes:		

Interest	$	775	9,367
Income taxes	$	665	625
Noncash investing and financing activities:			
Property and equipment acquired with debt	$	121	829
Conversion of redeemable preferred stock into common stock	$		46,385
Noncash reduction in retained earnings due to conversion of redeemable preferred stock	$		24,335
Dividends on redeemable preferred stock	$		2,015

See accompanying notes to consolidated financial statements.

AVIALL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three- and six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2003.

NOTE 2 - STOCK-BASED COMPENSATION

We account for our stock-based compensation plans in accordance with the recognition and measurement principles of Accounting Principles Board Opinion No. 25, or APB 25, Accounting for Stock Issued to Employees, and related interpretations. All options granted under our plans have an exercise price equal to the market value of the underlying common stock on the date of grant. Therefore, no compensation cost related to these plans is included in net earnings. We also make the appropriate disclosures as required by Statement of Financial Accounting Standards No. 123, or SFAS 123, Accounting for Stock-Based Compensation, and Statement of Financial Accounting Standards No. 148, or SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FAS 123. Awards of restricted stock are valued at the market price of our common stock on the date of grant and recorded as unearned compensation within shareholders equity. The unearned compensation is amortized to compensation expense over the vesting period of the restricted stock.

The following table illustrates the effect on net earnings and earnings per share, or EPS, if we had applied the fair-value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands, except share data):

	Three Months Ended June 30,		**Six *Months Ended June 30,***	
	2004	***2003***	***2004***	***2003***
Net earnings (loss), as reported	$ 13,465	(3,964)	23,442	3,206
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(450)	(285)	(901)	(595)
Pro forma net earnings (loss)	$ 13,015	(4,249)	22,541	2,611
Earnings (loss) per share:				
Basic - as reported	$ 0.42	(1.35)	0.74	(1.22)
Basic - pro forma	$ 0.41	(1.36)	0.71	(1.25)
Diluted - as reported	$ 0.40	(1.35)	0.70	(1.22)

Diluted - pro forma	$	0.39	(1.36)	0.67	(1.25)

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NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS

In May 2004, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. FAS 106-2, or FSP 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Beginning in 2006, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or Medicare Act, introduces a federal subsidy to sponsors of healthcare benefit plans in certain circumstances and a prescription drug benefit to eligible participants under Medicare. FSP 106-2 provides guidance on the accounting for the effects of the Medicare Act. We are currently evaluating the effects of the Medicare Act. The accumulated postretirement benefit obligation and net postretirement benefit cost for 2004 do not reflect the effects of the Medicare Act. We do not believe the adoption of this statement will have a material effect on our consolidated financial position and results of operations.

In December 2003, the FASB issued a revised Interpretation No. 46, or FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, replacing the original interpretation issued in January 2003. FIN 46R requires certain entities to be consolidated by enterprises that lack majority voting interest when equity investors of those entities have insignificant capital at risk or they lack voting rights, the obligation to absorb expected losses, or the right to receive expected returns. Entities identified with these characteristics are called variable interest entities and the interests that enterprises have in these entities are called variable interests. These interests can derive from certain guarantees, leases, loans or other arrangements that result in risks and rewards that are disproportionate to the voting interests in the entities. We adopted FIN 46R as of March 31, 2004. Because we have no variable interest entities, the adoption of this statement did not have an effect on our consolidated financial position and results of operations.

In December 2003, the FASB issued a revised Statement of Financial Accounting Standards No. 132, or SFAS 132R, Employers Disclosures about Pensions and Other Postretirement Benefits, an Amendment of FASB Statements No. 87, 88, and 106, and a Revision of FASB Statement No. 132. This statement revises employers disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by FASB Statements No. 87, Employers Accounting for Pensions, No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits and No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. The new fiscal disclosure requirements have been included in Note 13 - Pension Plans and Postretirement Benefits to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003. The new interim disclosure requirements have been included in Note 6 - Pension Plans and Postretirement Benefits.

NOTE 4 - SEGMENT INFORMATION

The following tables present information by operating segment (in thousands):

	Three Months Ended June 30,		***Six Months Ended June 30,***	
	2004	***2003***	***2004***	***2003***
Net Sales				
Aviall Services	$ 306,873	243,837	583,294	488,314
ILS	7,175	7,011	14,286	14,024
Total net sales	$ 314,048	250,848	597,580	502,338
Profit				

Aviall Services	$ 22,339	18,412	42,605	35,520
ILS	2,703	702	5,251	3,070
Reportable segment profit	25,042	19,114	47,856	38,590
Loss on extinguishment of debt		(17,315)		(17,315)
Corporate	(4,551)	(2,549)	(7,866)	(4,928)
Interest expense	(4,207)	(5,609)	(8,552)	(11,472)
Earnings (loss) before income taxes	$ 16,284	(6,359)	31,438	4,875

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NOTE 5 - EARNINGS PER SHARE

A reconciliation of the numerator and denominator of the basic and diluted net EPS calculations for net earnings follows:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Numerator (In Thousands)	***2004***	***2003***	***2004***	***2003***
Net earnings (loss)	$ 13,465	(3,964)	23,442	3,206
Preferred stock dividends		(907)		(2,016)
Noncash reduction for conversion of preferred stock		(24,335)		(24,335)
Net earnings (loss) available for distribution	13,465	(29,206)	23,442	(23,145)
Undistributed earnings allocated to participating preferred stockholders				(1,847)
Net earnings (loss) for purposes of computing basic net EPS	13,465	(29,206)	23,442	(24,992)
Preferred stock dividends		907		2,016
Noncash reduction for conversion of preferred stock		24,335		24,335
Undistributed earnings allocated to participating preferred stockholders				1,847
Net earnings (loss) for purposes of computing diluted net EPS	$ 13,465	(3,964)	23,442	3,206
Denominator				
Weighted average common shares outstanding for purposes of computing basic net EPS	31,954,552	21,705,400	31,849,586	20,551,965
Effect of dilutive securities:				
Stock options	1,010,469	346,957	970,904	218,854
Restricted stock rights	323,285	362,124	313,876	339,030
Warrants	262,347	821,611	262,339	821,501
Convertible redeemable preferred stock		6,876,559		7,688,366
Weighted average common shares outstanding for purposes of computing diluted net EPS	33,550,653	30,112,651	33,396,705	29,619,716

For the three- and six-month periods ended June 30, 2004, basic EPS is computed by dividing net earnings by the weighted average number of common shares outstanding during the period and diluted EPS is computed by dividing net earnings by the weighted average number of common and dilutive potential common shares outstanding during the period.

For the three- and six-month periods ended June 30, 2003, basic EPS is computed by allocating net earnings available for distribution to the common and participating preferred shareholders using the two-class method prescribed by Statement of Financial Accounting Standards No. 128, or SFAS 128, Earnings per Share. Net earnings are reduced by dividends to preferred stockholders to arrive at net earnings available for distribution. Net earnings available for distribution are then allocated between the common and participating preferred stockholders based on the weighted average common and preferred shares outstanding, on an as-converted basis. For the three- and six-month periods ended June 30, 2003, diluted EPS is computed using the if-converted method by dividing net earnings by the weighted average number of common and dilutive potential common shares outstanding during the period.

Diluted EPS was not dilutive, or lower than basic, for the three- and six-month periods ended June 30, 2003 and is therefore presented equal to basic EPS.

NOTE 6 - INCOME TAXES

Our income tax expense for the second quarter of 2004 was $2.8 million, and our effective tax rate was 17.3%. The provision for income taxes for the three month period ended June 30, 2004 includes a $2.8 million benefit from the release of a valuation allowance for certain state tax net operating loss, or NOL, carryforwards. Based on our recent earnings history, it appears more likely than not that a majority of the NOL carryforwards in certain states will be utilized prior to expiration. Without the release of these state tax NOL carryforwards, our provision for taxes would have been $5.6 million, and our effective rate would have been 34.7%.

NOTE 7 - PENSION PLANS AND POSTRETIREMENT BENEFITS

The following table sets forth the components of net pension expense for all our plans (in thousands):

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2004	*2003*	*2004*	*2003*
Service cost	$ 615	430	1,230	860
Interest cost	969	886	1,938	1,772
Expected return on plan assets	(963)	(910)	(1,926)	(1,820)
Transition obligation amortization	35		70	
Prior service cost amortization	1	1	2	2
Net loss recognition	117	16	234	32
Net pension expense	$ 774	423	1,548	846

The following table sets forth the components of net postretirement benefit income for all our plans (in thousands):

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2004	*2003*	*2004*	*2003*
Service cost	$			
Interest cost	23	25	45	49
Net amortization and deferral	(33)	(32)	(67)	(64)
Net postretirement benefit income	$ (10)	(7)	(22)	(15)

NOTE 8 - GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

Our senior unsecured notes, or the Senior Notes, are fully and unconditionally and jointly and severally guaranteed on a senior unsecured basis by each direct and indirect domestic subsidiary of Aviall, Inc., or Aviall, each a guarantor subsidiary. Each guarantor subsidiary is directly or indirectly 100% owned by Aviall. The Senior Notes are not guaranteed by any direct or indirect foreign subsidiary of Aviall, each a nonguarantor subsidiary.

The consolidating financial information presents the consolidating balance sheets as of June 30, 2004 and December 31, 2003, the related statements of operations for the three- and six-month periods ended June 30, 2004 and 2003 and the statements of cash flows for the six month periods ended June 30, 2004 and 2003 with separate columns for:

a) Aviall, the parent;

b) the guarantor subsidiaries on a combined basis;

c) the nonguarantor subsidiaries on a combined basis; and

d) total consolidated amounts.

The information includes elimination entries necessary to consolidate Aviall, the parent, with the guarantor and nonguarantor subsidiaries.

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor and nonguarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements for the guarantor and nonguarantor subsidiaries are not presented because management believes such financial statements would not be meaningful to investors.

Pursuant to the terms of our senior secured credit facility, or the Credit Facility, no subsidiary of Aviall other than Aviall Services may pay cash dividends to Aviall, other than to fund limited repurchases or redemptions of outstanding securities. In addition, Aviall Services may pay cash dividends to Aviall for the purpose of funding (i) ordinary operating expenses and scheduled debt service and (ii) payments by Aviall of taxes in respect of Aviall and its subsidiaries, up to the amount that would be payable by Aviall Services, on a consolidated basis, if it were the taxpayer. Additionally, the Credit Facility restricts intercompany loans made to Aviall from its direct and indirect subsidiaries, with the exception of intercompany loans made to fund limited repurchases or redemptions of outstanding securities and loans made by Aviall Services to fund required payments under the Senior Notes. The net assets of consolidating subsidiaries subject to these restrictions were $718.1 million and $707.4 million at June 30, 2004 and December 31, 2003, respectively.

CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended June 30, 2004				
(In Thousands)	*Parent*	*Guarantor Subsidiaries*	*Nonguarantor Subsidiaries*	*Eliminations*	*Consolidated Total*
Net sales	$	296,237	32,875	(15,064)	314,048
Cost of sales		252,273	26,695	(15,064)	263,904
Gross profit		43,964	6,180		50,144
Selling and administrative expenses		25,635	4,018		29,653
Operating income		18,329	2,162		20,491
Interest expense (income)	(4,246)	8,386	67		4,207
Equity in (earnings) loss of subsidiaries	(10,756)	(1,486)		12,242	
Earnings (loss) before income taxes	15,002	11,429	2,095	(12,242)	16,284
Provision for income taxes	1,537	673	609		2,819
Net earnings (loss)	$ 13,465	10,756	1,486	(12,242)	13,465

CONSOLIDATED STATEMENT OF OPERATIONS

	Six Months Ended June 30, 2004				
(In Thousands)	*Parent*	*Guarantor Subsidiaries*	*Nonguarantor Subsidiaries*	*Eliminations*	*Consolidated Total*
Net sales	$	564,422	64,429	(31,271)	597,580
Cost of sales		479,533	52,076	(31,271)	500,338
Gross profit		84,889	12,353		97,242
Selling and administrative expenses		49,927	7,325		57,252
Operating income		34,962	5,028		39,990
Interest expense (income)	(8,489)	16,883	158		8,552
Equity in (earnings) loss of subsidiaries	(18,026)	(3,523)		21,549	
Earnings (loss) before income taxes	26,515	21,602	4,870	(21,549)	31,438
Provision for income taxes	3,073	3,576	1,347		7,996
Net earnings (loss)	$ 23,442	18,026	3,523	(21,549)	23,442

CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended June 30, 2003				
(In Thousands)	*Parent*	*Guarantor Subsidiaries*	*Nonguarantor Subsidiaries*	*Eliminations*	*Consolidated Total*
Net sales	$	239,463	25,012	(13,627)	250,848
Cost of sales		202,010	20,078	(13,627)	208,461
Gross profit		37,453	4,934		42,387
Selling and administrative expenses	5	22,262	1,848		24,115
Impairment loss		1,707			1,707
Operating (expense) income	(5)	13,484	3,086		16,565
Loss on extinguishment of debt		17,315			17,315
Interest expense (income)	(5,785)	11,427	(33)		5,609
Equity in (earnings) loss of subsidiaries	7,652	(2,400)		(5,252)	
Earnings (loss) before income taxes	(1,872)	(12,858)	3,119	5,252	(6,359)
Provision (benefit) for income taxes	2,092	(5,206)	719		(2,395)
Net earnings (loss)	$ (3,964)	(7,652)	2,400	5,252	(3,964)

CONSOLIDATED STATEMENT OF OPERATIONS

	Six Months Ended June 30, 2003				
(In Thousands)	*Parent*	*Guarantor Subsidiaries*	*Nonguarantor Subsidiaries*	*Eliminations*	*Consolidated Total*
Net sales	$	476,650	51,694	(26,006)	502,338
Cost of sales		401,532	42,085	(26,006)	417,611
Gross profit		75,118	9,609		84,727
Selling and administrative expenses	5	43,975	5,378		49,358
Impairment loss		1,707			1,707
Operating (expense) income	(5)	29,436	4,231		33,662
Loss on extinguishment of debt		17,315			17,315
Interest expense (income)	(11,146)	22,359	259		11,472
Equity in (earnings) loss of subsidiaries	3,902	(3,009)		(893)	
Earnings (loss) before income taxes	7,239	(7,229)	3,972	893	4,875
Provision (benefit) for income taxes	4,033	(3,327)	963		1,669
Net earnings (loss)	$ 3,206	(3,902)	3,009	893	3,206

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CONSOLIDATED BALANCE SHEET

(In Thousands)	*June 30, 2004* Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	$ 26	34,496	6,859		41,381
Receivables		144,008	22,435		166,443
Inventories		282,584	12,802		295,386
Prepaid expenses and other current assets		3,542	159		3,701
Deferred income taxes		19,036	39		19,075
Total current assets	26	483,666	42,294		525,986
Property and equipment		31,533	674		32,207
Investment in subsidiaries	763,078	34,316		(797,394)	
Intercompany receivables		245,195		(245,195)	
Goodwill		44,904	1,939		46,843
Intangible assets		49,174			49,174
Deferred income taxes		28,938	351		29,289
Other assets	6,998	5,447	1		12,446
Total assets	$ 770,102	923,173	45,259	(1,042,589)	695,945
Liabilities and Shareholders Equity					
Current liabilities:					
Current portion of long-term debt	$	2,484	11		2,495
Revolving line of credit			367		367
Accounts payable	1	106,606	1,181		107,788
Accrued expenses	11,192	34,937	5,262		51,391
Total current liabilities	11,193	144,027	6,821		162,041
Long-term debt	200,000	1,444	15		201,459
Intercompany payables	232,777		12,418	(245,195)	
Other liabilities		6,313			6,313
Commitments and contingencies					
Shareholders equity					
Common stock	343	33	7,542	(7,575)	343
Additional paid-in-capital	441,649	862,358	9,918	(872,276)	441,649
Retained earnings (accumulated deficit)	(81,857)	(86,352)	8,545	77,807	(81,857)
Treasury stock, at cost	(28,218)				(28,218)
Unearned compensation - restricted stock	(1,135)				(1,135)
Accumulated other comprehensive income	(4,650)	(4,650)		4,650	(4,650)
Total shareholders equity	326,132	771,389	26,005	(797,394)	326,132
Total liabilities and shareholders equity	$ 770,102	923,173	45,259	(1,042,589)	695,945

CONSOLIDATED BALANCE SHEET

	December 31, 2003				
(In Thousands)	*Parent*	*Guarantor Subsidiaries*	*Nonguarantor Subsidiaries*	*Eliminations*	*Consolidated Total*
Assets					
Current assets:					
Cash and cash equivalents	$	21,187	2,237		23,424
Receivables		118,972	20,307		139,279
Inventories		315,896	11,964		327,860
Prepaid expenses and other current assets		2,344	157		2,501
Deferred income taxes		19,036	39		19,075
Total current assets		477,435	34,704		512,139
Property and equipment		31,226	803		32,029
Investment in subsidiaries	748,125	30,793		(778,918)	
Intercompany receivables		262,513		(262,513)	
Goodwill		44,904	1,939		46,843
Intangible assets		51,908			51,908
Deferred income taxes		35,376	373		35,749
Other assets	7,376	5,147	1		12,524
Total assets	$ 755,501	939,302	37,820	(1,041,431)	691,192
Liabilities and Shareholders Equity					
Current liabilities:					
Current portion of long-term debt	$	3,282	11		3,293
Revolving line of credit			509		509
Accounts payable	34	137,548	855		138,437
Accrued expenses	3,567	32,756	3,244		39,567
Total current liabilities	3,601	173,586	4,619		181,806
Long-term debt	200,000	3,391	20		203,411
Intercompany payables	251,816		10,697	(262,513)	
Other liabilities		5,891			5,891
Commitments and contingencies					
Shareholders equity					
Common stock	339	33	7,542	(7,575)	339
Additional paid-in-capital	439,080	862,357	9,918	(872,275)	439,080
Retained earnings (accumulated deficit)	(105,299)	(101,306)	5,024	96,282	(105,299)
Treasury stock, at cost	(27,867)				(27,867)
Unearned compensation - restricted stock	(1,519)				(1,519)
Accumulated other comprehensive income	(4,650)	(4,650)		4,650	(4,650)
Total shareholders equity	300,084	756,434	22,484	(778,918)	300,084
Total liabilities and shareholders equity	$ 755,501	939,302	37,820	(1,041,431)	691,192

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30, 2004				
(In Thousands)	*Parent*	*Guarantor Subsidiaries*	*Nonguarantor Subsidiaries*	*Eliminations*	*Consolidated Total*
Operating activities:					
Net earnings (loss)	$ 23,442	18,026	3,523	(21,549)	23,442
Depreciation and amortization	508	8,025	141		8,674
Deferred income taxes		6,439	(3)		6,436
Compensation expense on restricted stock awards	331				331
Changes in:					
Receivables		(25,036)	(2,128)		(27,164)
Inventories		33,312	(838)		32,474
Intercompany receivables and payables	(19,039)	17,318	1,721		
Accounts payable	(34)	5,568	368		5,902
Accrued expenses	7,625	2,181	2,018		11,824
Other, net	3,072	(4,956)	22		(1,862)
Net cash provided by (used for) operating activities	15,905	60,877	4,824	(21,549)	60,057
Investing activities:					
Capital expenditures		(4,378)	(12)		(4,390)
Purchase of distribution rights		(800)			(800)
Investment in subsidiaries	(18,026)	(3,523)		21,549	
Sales of property, plant and equipment		5			5
Net cash provided by (used for) investing activities	(18,026)	(8,696)	(12)	21,549	(5,185)
Financing activities:					
Debt issue costs paid	(130)	(606)			(736)
Issuance of common stock	2,627				2,627
Purchase of treasury stock	(351)				(351)
Net change in revolving credit facility			(142)		(142)
Cash overdrafts	1	(36,510)	(42)		(36,551)
Debt repaid		(1,756)	(6)		(1,762)
Net cash provided by (used for) financing activities	2,147	(38,872)	(190)		(36,915)
Change in cash and cash equivalents	26	13,309	4,622		17,957
Cash and cash equivalents, beginning of period		21,187	2,237		23,424
Cash and cash equivalents, end of period	$ 26	34,496	6,859		41,381

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30, 2003				
(In Thousands)	*Parent*	*Guarantor Subsidiaries*	*Nonguarantor Subsidiaries*	*Eliminations*	*Consolidated Total*
Operating activities:					
Net earnings (loss)	$ 3,206	(3,902)	3,009	893	3,206
Loss on extinguishment of debt		17,315			17,315
Impairment loss		1,707			1,707
Depreciation and amortization		9,252	79		9,331
Deferred income taxes		1,611	(15)		1,596
Paid-in-kind interest		405			405
Compensation expense on restricted stock awards	316				316
Changes in:					
Receivables		(9,001)	395		(8,606)
Inventories		34,352	(752)		33,600
Intercompany receivables and payables	(204,039)	205,110	(1,071)		
Accounts payable		(9,971)	(230)		(10,201)
Accrued expenses	4,020	(7,679)	375		(3,284)
Other, net		(2,670)	(139)		(2,809)
Net cash provided by (used for) operating activities	(196,497)	236,529	1,651	893	42,576
Investing activities:					
Capital expenditures		(3,126)	(474)		(3,600)
Investment in subsidiaries	3,902	(3,029)	20	(893)	
Net cash provided by (used for) investing activities	3,902	(6,155)	(454)	(893)	(3,600)
Financing activities:					
Debt proceeds	200,000				200,000
Debt issue costs paid	(7,514)				(7,514)
Issuance of common stock	110				110
Net change in revolving credit facility		(138,673)	(90)		(138,763)
Cash overdrafts		(9,346)	32		(9,314

Not applicable.

ITEM 6. **EXHIBITS**

(a) **Exhibits**

The exhibits listed on

page 43 are
incorporated
by reference
or filed
herewith in
response to
this item.

PART II OTHER INFORMATION, CONTINUED

SIGNATURES

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

RIGGS NATIONAL CORPORATION

Date:	May 10, 2005	/s/ LAWRENCE I. HEBERT
		Lawrence I. Hebert Director and Principal Executive Officer
Date:	May 10, 2005	/s/ STEVEN T. TAMBURO
		Steven T. Tamburo Treasurer (Chief Financial Officer)

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGES
(31.1)	Chief Executive Officer Section 302 Certification of Quarterly Report on Form 10-Q	
(31.2)	Chief Financial Officer Section 302 Certification of Quarterly Report on Form 10-Q	
(32.1)	Chief Executive Officer Section 906 Certification of Quarterly Report on Form 10-Q	
(32.2)	Chief Financial Officer Section 906 Certification of Quarterly Report on Form 10-Q	

(Exhibits omitted are not required or not applicable.)