AVIATION GENERAL INC
Form 10QSB
March 26, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2003

OR

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

Commission File Number: 0-24795

AVIATION GENERAL, INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	73-1547645
(State of Incorporation)	(IRS Employer Identification No.)

7200 NW 63rd Street
Hangar 8, Wiley Post Airport
Bethany, Oklahoma 73008
(Address of principal executive offices) (Zip Code)

(405) 440-2255
(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 requirement for the past 90 days.

Yes X No
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There were 8,120,397 Shares of Common Stock Outstanding as of March 31, 2003

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

AVIATION GENERAL, INCORPORATED & SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET
(Unaudited)

ASSETS	March 31, 2003
CURRENT ASSETS:	
Cash and cash equivalents	$ 4,449
Accounts receivable	12,403
Inventories	2,924,868
Prepaid expenses and other assets	3,591
Total current assets	2,945,311
PROPERTY AND EQUIPMENT:	
Office equipment and furniture	365,373
Vehicles and aircraft	95,115
Manufacturing equipment	384,979
Tooling	676,747

Leasehold improvements	112,748
	1,634,962
Less accumulated depreciation	(1,171,785)
	463,177
	$ 3,408,488

See accompanying Summary of Accounting Policies
and Notes to Financial Statements.

AVIATION GENERAL, INCORPORATED & SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2003
CURRENT LIABILITIES:	
LIABILITIES NOT SUBJECT TO COMPROMISE -	
Accounts payable	$ 161,445
Notes payable	1,500,509
Total current liabilities not subject to compromise	1,661,954
LIABILITIES SUBJECT TO COMPROMISE -	
Accounts payable	1,986,684
Accrued expenses	1,333,942
Refundable deposits	166,500
Total liabilities subject to compromise	3,487,126
Total current liabilities	5,149,080
NONCURRENT LIABILITIES:	
Notes payable	1,034,795
REEDEEMABLE COMMON STOCK - $.50 par value; issued 150,000 shares in 2001; stated at redemption value	150,000

STOCKHOLDERS' EQUITY (DEFICIT):	
Preferred stock, $.01 par value, 5,000,000 shares authorized; no shares outstanding	-
Common stock, $.50 par value, 20,000,000 shares authorized; 8,120,397 shares issued at March 31, 2003	4,060,198
Additional paid-in capital	37,254,305
Less: Treasury stock at cost, 1,009,551 shares at March 31, 2003	(1,709,638)
Accumulated (deficit)	(42,530,252)
Accumulated other comprehensive income (loss)	-
Total stockholders' equity (deficit)	(2,925,387)
	$ 3,408,488

See accompanying Summary of Accounting Policies
and Notes to Financial Statements.

AVIATION GENERAL, INCORPORATED & SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2003	2002
NET SALES:		
Aircraft	$ 140,000	$ 1,378,250
Service	172,361	126,571
	312,361	1,504,821
COST OF SALES:		
Aircraft	128,534	1,165,886
Service	123,571	66,703
	252,105	1,232,589
Gross profit	60,256	272,232
OTHER OPERATING EXPENSES:		
Product development and engineering costs	896	31,955
Selling, general and administrative expenses	376,226	461,328
Total other operating expenses	377,122	493,283

Operating (loss)	(316,866)	(221,051)
OTHER INCOME (EXPENSES)		
Other income	54,910	1,636
Interest expense	(39,856)	(68,442)
Other expense	-	(2,328)
	15,054	(69,134)
(LOSS) BEFORE INCOME TAXES	(301,812)	(290,185)
PROVISION FOR INCOME TAXES	-	-
NET (LOSS)	$ (301,812)	$ (290,185)
NET (LOSS) PER SHARE		
Weighted average common shares outstanding; basic	7,110,846	6,859,330
Net (loss) per share; basic	$ (0.04)	$ (0.04)
Weighted average common shares outstanding; diluted	7,110,846	6,859,330
Net (loss) per share; diluted	$ (0.04)	$ (0.04)

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

AVIATION GENERAL, INCORPORATED & SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in	Treasury Stock		Accumulated
	Shares	Amount	Capital	Shares	Amount	Deficit
Balance at January 1, 2002	7,631,519	$3,815,759	$37,000,299	772,189	$(1,294,193)	$(37,943,3

Comprehensive income						
Net earnings	-	-	-	-	-	(290,1
Other comprehensive income						
Change in unrealized investment gain, net	-	-	-	-	-	
Comprehensive income	-	-	-	-	-	
Balance at March 31, 2002	7,631,519	$3,815,759	$37,000,299	772,189	$(1,294,193)	$(38,233,5
Balance at January 1, 2003	8,120,397	$4,060,198	$37,254,305	1,009,551	$(1,709,638)	$(42,228,4
Comprehensive income						
Net earnings	-	-	-	-	-	(301,8
Other comprehensive income						
Change in unrealized investment gain, net	-	-	-	-	-	
Comprehensive income	-	-	-	-	-	(301,8
Balance at March 31, 2003	8,120,397	$4,060,198	$37,254,305	1,009,551	$(1,709,638)	$(42,530,2

See accompanying Summary of Accounting Policies
and Notes to Financial Statements.

AVIATION GENERAL, INCORPORATED & SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Unaudited)

Three Months Ended March 31,

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITES:		
Net (loss)	$ (301,812)	$ (290,185)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities -		
Depreciation and amortization	27,230	33,442
Receipts on aircraft notes receivable	-	31,975
Loss (gain) on retirement of property and equipment	(138)	-
Changes in assets and liabilities:		
(Increase) decrease in -		
Accounts receivable	(2,972)	(98,553)
Inventories	286,663	(207,752)
Prepaid expenses and other assets:	-	(708)
Increase (decrease) in -		
Accounts payable	1,908	196,959
Accrued expenses	34,825	(195,611)
Refundable deposits	20,000	633,669
Net cash provided by (used in) operating activities	65,704	103,236
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on sales of property and equipment	200	-
Net cash provided by (used in) investing activities	200	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	50,000	340,000
(Payments on) borrowings	(109,310)	(648,873)
Net cash (used in) financing activities	(59,310)	(308,873)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,594	(205,637)
CASH AND CASH EQUIVALENTS (OVERDRAFTS) AT BEGINNING OF PERIOD	(2,145)	211,356
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,449	$ 5,719
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 39,856	$ 68,442
Income taxes	$ -	$ -

See accompanying Summary of Accounting Policies
and Notes to Financial Statements.

AVIATION GENERAL, INCORPORATED & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003

These consolidated condensed financial statements have been prepared by Aviation General, Incorporated (the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the financial statements and information presented not misleading. These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in the Company's most recent annual report on Form 10-KSB.

1. INVENTORIES

Inventories consist primarily of finished goods, work in process, and parts for manufacturing and servicing of aircraft. Inventory costs include all direct manufacturing costs and applied overhead. These inventories, other than pre-owned aircraft, are stated at the lower of cost or market, and cost is determined by the average-cost method. Pre-owned aircraft are valued on a specific-identification basis at the lower of cost or current estimated realizable wholesale price. Inventory components were as follows at March 31, 2003:

Raw materials	$ 1,158,188
Work in process	510,848
New and pre-owned aircraft	1,236,582
Other	19,250
	$ 2,924,868

2. PETITION FOR RELIEF UNDER CHAPTER 11

On December 27, 2002 the Company's wholly owned subsidiary, Commander Aircraft Company (the "Debtor") filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Delaware. Under Chapter 11, certain claims against the Debtor in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Debtor continues business operations as Debtor-in-possession. These claims are reflected in the March 31, 2003 balance sheet as "liabilities subject to compromise." Claims secured against the Debtor's assets ("secured claims") also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on the Debtor's property, plant and equipment. Refer to the Company's most recent annual report on Form 10-KSB.

The Debtor received approval from the Bankruptcy Court to pay or otherwise honor certain of its pre-petition obligations, including employee wages and product warranties totaling $75,000.

The Company has obtained the approval of the Bankruptcy court for Debtor-in-Possession, (DIP), financing up to a limit of $150,000. The DIP financing bears interest at the rate of 10% (simple interest), which is payable at the effective date of the Chapter 11 Plan of Reorganization. The Company took a $50,000 draw on the DIP Financing on January 7, 2003.

3. GOING CONERN

During the years ended December 31, 2001 and 2002, the Company incurred net (losses) of ($5,519,592) and ($4,285,111), respectively. During the three months ended March 31, 2003, the Company lost an additional ($370,306). As of March 31, 2003, the Company had a negative working capital of ($2,003,769) and a deficit net worth of ($2,925,387). On December 27, 2002, the Company's wholly owned subsidiary, Commander Aircraft Company, filed petitions for relief under Chapter 11 of the federal bankruptcy code. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to successfully reorganize Commander Aircraft Company, to attain a satisfactory level of profitability, and to obtain suitable and adequate financing. There can be no assurance that these objectives can be achieved. The financial statements do not include any adjustments that might result from the outcome of this uncertainty nor do they take into effect any adjustments that might occur as a result of a successful plan to reorganize Commander Aircraft Company.

4. LEASES

The Company leases office space, hangar space, its manufacturing and service facility, and certain office equipment under agreements classified as operating leases that expire at various dates through 2004. Rental expense under these leases was approximately $287,000 and $287,000 for the years ended December 31, 2002, and 2001, respectively.

The Company's lease for office space, hangar space, and its manufacturing and service facility was a revocable permit to lease the facility. The permit required monthly rentals in the same amounts as the original lease. The permit further required the Company to pay outstanding delinquent amounts plus penalties as defined in the permit. On April 23, 2003, the Company transferred its lease to a third party. The Company negotiated a 3.5 year sub-lease with this third party for 50,011 square feet of manufacturing, service and office space, guaranteed renewable at six month intervals. The Company also agreed to pay $94,359 in past due rent to this third party.

The future annual minimum lease payments under the April 23, 2003 operating lease are as follows:

Year ending December 31,	
2003	$ 75,600
2004	113,400
2005	113,400
2006	94,500
Total future minimum lease payments	$ 396,900

5. COMMITMENTS AND CONTINGENCIES

The Company is subject to regulation by the FAA. The Company is subject to inspections by the FAA and may be subjected to fines and other penalties (including orders to cease production) for noncompliance with FAA regulations. The Company has a Production Certificate from the FAA which delegates to the Company the inspection of each aircraft. The sale of the Company's product internationally is subject to regulation by comparable agencies in foreign countries.

The Company faces the inherent business risk of exposure to product liability claims. In 1988, the Company agreed to indemnify a former manufacturer of the Commander single engine aircraft against claims asserted against the manufacturer with respect to aircraft built from 1972 to 1979. In 1994, Congress enacted the General Aviation Revitalization Act, which established an 18-year statute of repose for general aviation aircraft manufacturers. This legislation prohibits product liability suits against manufacturers when the aircraft involved in an accident is more than 18 years old. This action effectively eliminated all potential liability for the Company with respect to aircraft produced in the 1970s. The Company's product liability insurance policy with coverage of $10 million per occurrence and $10 million annually in the aggregate with a deductible of $200,000 per occurrence and annually in the aggregate expired March 1, 1995. Subsequent to March 1, 1995, the Company is not insured for product liability claims.

The Company is routinely involved in various legal matters arising in the normal course of business. Management believes that losses, if any, arising from such actions will not have a material adverse effect on the financial position or operations of the Company.

On September 24, 2002, the Company's common stock was delisted from the NASDAQ Small Cap Market and began trading on the Over-the-Counter Bulletin Board, or OTCBB, under the symbol AVGE.OB due to the Company's noncompliance with the applicable minimum asset and equity requirements and the minimum bid price requirement

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Forward Looking Statements

This Form 10-QSB includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act. All statements, other than statements of historical fact, included in this Form 10-QSB that addresses activities, events or developments that the Company expects, projects, believes, or anticipates will or may occur in the future, including matters having to do with expected and future aircraft sales and service revenues, the Company's ability to fund its operations and repay debt, business strategies, expansion and growth of operations and other such matters, are forward-looking statements. These statements are based on certain assumptions and analyses made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. These statements are subject to a number of assumptions, risks and uncertainties, including general economic and business conditions, the business opportunities (or lack thereof) that may be presented to and pursued by the Company, the Company's performance on its current contracts and its success in obtaining new contracts, the Company's ability to attract and retain qualified employees, and other factors, many of which are beyond the Company's control. You are cautioned that these forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in such statements.

BUSINESS OVERVIEW

Aviation General, Incorporated (the "Company" or "AGI") is a publicly traded holding company (Pink Sheets: AVGE.PK) incorporated under the laws of the State of Delaware. The Company has two wholly owned subsidiaries: Commander Aircraft Company ("CAC") and Strategic Jet Services, Inc. ("SJS"). Commander Aircraft Company (www.commanderair.com) manufactures, markets, and provides support services for its line of single engine, high performance Commander aircraft, and consulting, brokerage, and refurbishment services for all types of piston-powered aircraft. Strategic Jet Services, Inc. provides consulting, brokerage, sales, and refurbishment services for jet aircraft.

During the fourth quarter of 2002, SJS discontinued its operations, and CAC suspended indefinitely production of new aircraft. Other cost-cutting and overhead reductions were implemented due to the weakness in the Company's business. Management believes this weakness is primarily the result of depressed economic conditions and anxiety over terrorism and war in Iraq, which have had a pronounced, adverse effect on big-ticket, discretionary capital expenditures by businesses and individuals.

On December 27, 2002, Commander Aircraft Company filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code for the District of Delaware. Commander Aircraft Company filed a final reorganization plan on July 5, 2003, following the execution of a letter agreement on that date with Tiger Aircraft, LLC. ("Tiger") to fund the plan. A stock purchase agreement was entered into with Tiger on November 1, 2003, pursuant to which an amended plan was filed on December 10, 2003. The U. S. bankruptcy court confirmed this plan on December 10, 2003, with the effective date scheduled for on or before March 31, 2004, unless extended by the consent of CAC, AGI, Tiger, the official committee of unsecured creditors, the U. S. Department of Labor, and Nyltiak Investments, LLC.

The agreement with Tiger resulted from months of negotiations, contact with other potential investors, and legal proceedings pursuant to the bankruptcy process. Since the bankruptcy filing, Tiger has provided CAC with Debtor in Possession financing, which has allowed CAC to continue its operations and provide service and support to the fleet of Commander aircraft owners, refurbishment services, parts, and pre-owned aircraft brokerage. CAC expects to resume the production of new aircraft following the consummation of the transaction with Tiger.

Pursuant to the confirmed bankruptcy plan and agreement with Tiger, Tiger will invest approximately $2.8 million in Aviation General, Incorporated in return for an 80% ownership interest in AGI. Approximately $2 million will be used to settle with creditors in accordance with CAC's bankruptcy plan, and the remainder will be used for working capital. Pursuant to the agreement with Tiger, AGI must secure the approval of the agreement from its shareholders as well as their authorization to amend the Company's Certificate of Incorporation to increase the Company's authorized common shares from 20,000,000 shares to 100,000,000 shares. The Company currently has 20,000,000 common shares authorized and approximately 7,000,000 common shares (excluding Treasury stock which will be retired) issued and outstanding. The agreement with Tiger will necessitate the issuance of approximately 28,000,000 new shares of common stock to Tiger, resulting in a total of approximately 35,000,000 shares to be issued and outstanding.

Critical Accounting Estimates and Accounting Policies

We must make estimates of the collectability of accounts receivable. We analyze historical write-offs, changes in our internal credit policies and customer concentrations when evaluating the adequacy of our allowance for doubtful accounts. Differences may result in the amount and timing of expenses for any period if we make different judgments or use difference estimates.

Inventories are valued at the lower of cost or market. We must periodically evaluate the carrying value of our inventories to determine whether market conditions have impaired the carrying value of our inventories.

Property and equipment are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, the Company must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result form the asset, undiscounted and without interest charges. If the carrying amount is less than the recoverable amount, an impairment charge must be recognized, based on the fair value of the asset. Management assumed the Company was a going concern for purposes of evaluating the possible impairment of its property and equipment. Should the Company not be able to continue as a going concern, there may be significant impairment in the value of the Company's property and equipment.

We must estimate the future liability related to warranty work on new aircraft sold.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent that we establish a valuation allowance or increase this allowance in a period, we must include a tax provision or reduce our tax benefit in the statements of operations. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We believe, based on a number of factors including historical operating losses, that we will not realize the future benefits of a significant portion of our net deferred tax assets and we have accordingly provided a full valuation allowance against our deferred tax assets. However, various factors may cause those assumptions to change in the near term.

We cannot predict what future laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes in laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statements when we deem it necessary.

We have determined the significant principles by considering accounting policies that involve the most complex or subjective decisions or assessments. Our most significant accounting policies are those related to revenue recognition and accounting for stock-based compensation.

RESULTS FROM OPERATIONS - COMPARISION OF THREE MONTHS ENDED MARCH 31, 2003 AND 2002.

Revenues from the sale of aircraft decreased by $1,238,250 or 90% from $1,378,250 to $140,000 during the quarters ended March 31, 2002 and 2003, respectively. In the first quarter of 2003, one pre-owned aircraft was sold compared with four new and pre-owned aircraft sold in the same period for 2002.

Service and parts revenues increased by $45,790 or 36% from $126,571 to $172,361 during the quarters ended March 31, 2002 and 2003, respectively.

Cost of aircraft sales decreased by $1,037,352 or 89% from $1,165,866 to $128,534 during the quarters ended March 31, 2003 and 2002, respectively. This decrease was due primarily to the sale of only one aircraft during the first three months of 2003 compared to the sale of four aircraft during the comparable period in 2002. Gross profit margins from the sale of used aircraft decreased from 15% in 2002 to 8% in 2003 due to decreases in the market value of used aircraft.

Cost of sales for service and parts increased by $56,868 or 85% from $66,703 to $123,571 during the quarters ended March 31, 2003 and 2002 respectively. The increase was in part to a 36% increase in service and parts revenues and in part to idle service capacity during 2003.

Product development and engineering costs decreased by $31,059 or 97% to $896 for the first quarter of 2003, from $31,955 for the comparable period in 2002 due to the significant reduction in support staff.

Sales, general and administrative expense decreased by $85,102 or 18% for the three-month period ended March 31, 2003, to $376,226 from $461,328 for the comparable period ended March 31, 2002. This decrease was due primarily to staff reductions.

Other income increase by $53,274 for the three month period ended March 31, 2003 to $54,910 from $1,636 for the comparable period in 2002. This increase was due primarily to various refunds received during the first quarter of 2003.

Interest expense decreased by $28,586 or 42% to $39,856 for the first quarter of 2003 from $68,442 for the comparable period in 2002. This decrease was due to a reduction of bank lines of credit on used aircraft and lower daily average debt during the period.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations decreased by $37,532 or 32% from $103,236 during the three months ended March 31, 2002 to $65,704 during the three months ended March 31, 2003.

Cash flow from operations were positive for the three months ended March 31, 2003 due primarily to a $286,663 reduction in inventories and a $56,733 increase in current liabilities which more than offset the loss for the quarter of ($370,306).

Cash balances increased to $4,449 at March 31, 2003 from a deficit balance of $2,145 at December 31, 2002.

The Company has entered into debtor in possession financing arrangements that management anticipates will provide the Company with sufficient working capital to continue until the plan or reorganization is funded.

We anticipate that the confirmed plan of reorganization will provide the Company with sufficient working capital to commence production activities.

CONTRACTUAL OBLIGATIONS

The following table is a summary of the Company's contractual obligations as of March 31, 2003.

	Payment Due by Period			
	Total	Less than One	1-3 Years	Thereafter
Long-Term Debt	$1,034,795	$ -	$1,034,795	$ -
Current Note Payable	1,500,509	1,500,509	-	-
Operating Leases	396,900	75,600	226,800	94,500
Total	$2,932,204	$1,576,109	$1,261,595	$ 94,500

Item 3. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the filing date of this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our principal executive officer and our principal financial officer, who concluded that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In July 2002, the Company issued a $1 million secured convertible note to a private investor, the proceeds of which are being used for working capital purposes. The transaction was exempt from registration under the Securities Act of 1933 under section 4(2) of the Act because it did not involve a public offering.

ITEM 5. OTHER

On September 24, 2002 the Company's common stock was delisted from the NASDAQ Small Cap Market and began trading on the Over-the-Counter Bulletin Board, or OTCBB, under the symbol AVGE.OB due to the Company's noncompliance with the applicable minimum asset and equity requirements and the minimum bid price requirement

The Company believes that the exchange on which the Company's shares are traded does not affect the market value or intrinsic value of the Company's business nor the trading liquidity of its shares.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Securities Purchase Agreement
10.2 Secured Convertible Note
10.3 Investor Rights Agreement
10.4 Security Agreement
10.5 Guarantee*
*Incorporated by reference to the registrant's report on Form 10-QSB for the period ended June 30, 2002

(b) Reports on Form 8-K - None.

The following exhibits are filed as a part of this quarterly report on form 10-QSB

31.2 Certification of Wirt D. Walker III

31.2 Certification of Glenn A. Jackson

32 Certification of Wirt D Walker III and Glenn A. Jackson

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVIATION GENERAL INCORPORATED

(Registrant)

By: /s/ Wirt D. Walker III

Wirt D. Walker III
Chairman of the Board of Directors
(Chief Executive Officer and
Authorized Signatory)

By: /s/ Glenn A. Jackson

Glenn A. Jackson
(Chief Financial Officer)