AVIATION GENERAL INC
Form 10-K
April 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2001

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) 495-8080
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common stock; $.50 par value

Indicate by check mark whether the registrant (1) has filed all reports 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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. (X)

Based on the closing sales price of March 31, 2002 the aggregate market value of the voting stock held by non-affiliates of the registrant was $1,400,000.

The number of shares outstanding of the registrant's common stock, $.50 par value, was 7,009,330 at March 31, 2002.

Total number of pages including cover page 46.

PART 1

Item 1. Business

Aviation General Incorporated (the "Company") is a publicly traded holding company (NASDAQ: AVGE) with two wholly owned subsidiaries, Commander Aircraft Company and Strategic Jet Services, Incorporated. 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 through its Aviation Services Division. Strategic Jet Services, Inc. (www.strategicjet.com) provides consulting, brokerage, sales and refurbishment services for jet aircraft.

Incorporated under the laws of the State of Delaware as a holding Company, Aviation General Incorporated succeeded Commander Aircraft Company effective August 4, 1998. The Company does business through its two wholly owned subsidiaries: Commander Aircraft Company and Strategic Jet Services, Inc., both located in Bethany, Oklahoma.

Commander aircraft are derived from a line of single engine, high performance aircraft designed, certified and produced by the General Aviation Division of Rockwell International in the 1970s. Rockwell later sold its General Aviation Division to Gulfstream Aerospace Corporation, from which Commander Aircraft Company acquired the rights to the single engine, high performance Commander line. Subsequently, the Company designed, engineered and implemented improvements to the Commander line. With an airframe design decades newer than the competition, Commander aircraft are certified to Federal Aviation Regulation (FAR) 23 through Amendment 7, meeting more stringent standards for single engine, high performance aircraft than aircraft certified under the older Civil Air Regulation (CAR) 3. The Commander line has the best safety record in its class, according to an independent study of FAA and National Transportation and Safety Board (NTSB) statistics conducted by R.E. Breiling Associates, the leading accident analysis firm in general aviation. The following chart depicts the results of this study.

TOTAL ACCIDENT RATE PER 100,000 FLIGHT HOURS (1977-1998)

Commander 112/114 Series	2.633
Beech Bonanza Series	5.908
Mooney M20 Series	6.342
Piper Saratoga Series	9.298

The Company's first production model, the Commander 114B, was certified by the FAA in 1992. The Commander 114B offers substantially improved performance, state-of-the-art instrumentation and avionics, and a luxuriously appointed, spacious cabin, while retaining the proven airframe and other features of the original Rockwell International design. The Commander 114B features an extensive range of standard equipment, retractable landing gear, 260 horsepower fuel injected engine, and a constant speed propeller. The aircraft has received favorable reviews in the aviation press worldwide and is recognized for its beautiful design, safety features, and its excellent flight, landing and handling characteristics.

The Commander 114B, with a standard range of 725 nautical miles (833 statute miles), 1,216 pound useful load, maximum cruise speed of 164 knots (188 miles per hour), large luxurious four place cabin and low operating and maintenance costs, offers an optimum combination of performance, comfort, style, luxury, utility and safety. The Commander 114B is an ideal airplane for pleasure, business and flight training.

In 1994, the Company added the Commander 114AT All-Purpose Trainer to its line of single engine, high performance aircraft. The Commander 114AT is a four-place high performance trainer designed for military, professional and civilian flight training. An all-in-one aircraft, the Commander 114AT All-Purpose Trainer is ideal for primary through instrument flight training. The Commander 114AT shares the same design heritage as the luxurious Commander 114B, with a modified instrument panel and utilitarian interior.

The Company received certification from the FAA in 1995 for the Commander 114TC, a turbocharged version of the Commander 114B. The Commander 114TC is equipped with the same beautiful, expansive interior and state-of-the-art systems as the Commander 114B, but utilizes a 270 horsepower turbocharged Lycoming engine which provides speeds up to 197 knots (227 miles per hour). The Commander 114TC is certified to an altitude of 25,000 feet, which makes it an excellent aircraft for mountainous regions, as well as high-density altitude environments. Like its predecessor, the 114B, the Commander 114TC has received extensive favorable reviews by the aviation press.

During the first quarter of 2000, the Company introduced the 115 series of high performance, single engine aircraft. The Commander 115 and 115TC represent the culmination of a multitude of improvements to the Commander line, and features numerous airframe, engine and systems refinements, as well as significantly increased range capability and an upgraded standard avionics package which includes dual Garmin 430 global navigation, communication and moving map displays. The Commander 115 series is the latest of a thoroughbred line of aircraft that offer the ultimate combination of performance, comfort, safety, and utility, and has become recognized as the Mercedes of the single engine fleet.

The capital investment required to build Aviation General, reflected in the Company's tax loss carry-forward (approximately $31 million) is behind us. To date, approximately $40 million has been invested to build Aviation General, Incorporated. In an industry where a $40 million investment is often insufficient to achieve the development and type certification of a prototype aircraft, our achievements are considerable and include: the acquisition of Rockwell's single engine high performance Commander aircraft line, modification and enhancement of the value of the existing fleet of Commander aircraft built from 1972 through 1979 by Rockwell International Corporation, extensively enhancing the aerodynamics, avionics, systems, interior and powerplant of the original Rockwell Commander design resulting in a new aircraft FAA type certification, introduction of derivative models and the establishment of manufacturing operations and marketing, aircraft brokerage, refurbishment and services and support capabilities. The Company also established Stragetic Jet Services, Incorporated, which is involved in acquisition, sales, brokerage and refurbishment of jet aircraft.

The statements in this report that relate to future plans, events or performance are forward-looking statements that involve risks and uncertainties. Actual results, events and performance may differ materially due to overall changes in the economy as well as other factors. For example, the Company may not achieve anticipated results if demand for its aircraft subsides or if its Aviation Services Division does not continue to grow. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Business Strategy

The Company's business strategy is to capture a significant share of the existing domestic and international market for the single engine, high performance aircraft by offering a premium updated version of an established aircraft design. Commander aircraft have an airframe design decades newer than the competition and are certified to more stringent standards. The Company believes the domestic and international market for its aircraft includes individuals and corporations that will purchase the Company's aircraft for business and personal travel, and governments, commercial and military organizations that will use the aircraft for training and other purposes.

The Company believes the market for its products will improve as a result of attrition of the existing fleet of aging single engine, high performance aircraft, development of new international markets for general aviation aircraft, increased use of single engine aircraft as a corporate tool for small and medium-sized businesses, and demand for advanced single engine trainers.

Recognizing that the size of the pre-owned aircraft market is significantly larger than new aircraft sales, the Company has structured a separate aviation services division within the Company to purchase, refurbish and sell pre-owned aircraft at reasonable profit margins. The Aviation Services Division also acts as broker for pre-owned aircraft and serves as advisor to potential aircraft buyers and sellers.

Marketing and Sales

The Company markets its aircraft through a factory direct sales and marketing organization comprised of regional sales personnel who are managed and supported from the Company's headquarters in Oklahoma. The marketing organization is augmented by a worldwide network of Commander Authorized Service Centers (ASCs). The Company's marketing program utilizes a highly focused domestic and international advertising and public relations program that includes product advertising in leading business and aviation publications, and ongoing direct mail programs to owners and pilots.

The Company's CFI Referral Program actively engages certified flight instructors (CFIs) in the evaluation and acquisition process with their students. These key influencers play an important role in advising potential owners. To date, more than 1,000 CFIs have enrolled in this program.

The Company has one of the most comprehensive worldwide service and support networks in its class. The Company grants domestic Commander Authorized Service Centers the non-exclusive right to sell Commander aircraft. Commander ASCs receive a referral fee for identifying purchasers, and provide a full complement of service and support services, including financing, insurance, service and support, hangar/storage, flight instruction, and professional pilot service. The Company selects ASCs from among experienced independent aviation sales and service organizations that it believes to have excellent facilities, service capabilities, reputation and financial strength. Through its ASCs, Commander Aircraft Company offers a turn-key aircraft ownership program designed to stimulate ownership of Commander aircraft by customers that have not previously owned or operated aircraft. This flexible program can be tailored to meet each customer's specific requirements.

One new aircraft was sold in 2001 to a foreign customer accounting for $505,225 or 6% of the revenues from aircraft sales. Information regarding the Company's export sales and major customers is disclosed in Note H - Sales Concentrations, of the Notes to Consolidated Financial Statements. The Company anticipates that domestic sales will continue to account for a significant portion of its market in the future, however it is anticipated that international markets will continue to improve and account for an increased portion of the Company's sales in the future.

The Company has been dependent upon its ability to sell a single product line for which a small market exists, and sales in sufficient quantities and at prices that will allow it to recover operating costs and earn a profit. Although the Company believes that the market for its new aircraft will grow and its share will increase, there can be no assurances that economic conditions will not have an adverse effect on future sales.

Parts and Materials Availability

Aviation General, Incorporated purchases parts and materials from over 100 different suppliers. Though some of these vendors are key to the manufacture of the Company's aircraft, there are no long term commitments or contracts with any suppliers. The Company considers its relationship with its suppliers to be satisfactory and does not anticipate any shortages or interruption to production due to lack of available components on a timely basis.

Competition

Purchasers of single engine, high performance aircraft choose among competitive models on the basis of numerous factors, including performance, reliability, price, appearance, quality of service and reputation of the aircraft and the manufacturer. Aviation General, Incorporated believes that it can favorably compete with its competitors on the basis of the safety, quality, comfort, and performance of its aircraft, and the quality and scope of the support services the Company provides to its customers. The Company further believes its aircraft are competitively priced and have a number of features, including certification to stricter standards, newer, more attractive design and larger cabin size, which make them competitive with or superior to the single engine, high performance aircraft produced by its four principal competitors. Raytheon

Aircraft Corporation suspended production of one of its single engine, high performance models, the F33A Bonanza, in 1994. Raytheon's other single engine, high performance model, the A36, remains in production. Mooney Aircraft Corporation produces single engine, high performance aircraft that are significantly smaller than the 115 and 115TC. New Piper Aircraft Corporation produces two single engine, high performance, six place aircraft with similar performance. Socata's marketing efforts are, for the most part, focused in Europe and Asia. Each of these competitors has been well established in the general aviation industry for years and may have access to greater resources than are available to the Company.

The Company's aircraft are decades newer in design than the Bonanza, Mooney and Piper competitive models and are certified to the newer, more stringent Federal Aviation Regulation (FAR) 23 through Amendment 7 standard rather than the older Civil Air Regulation (CAR) 3. The Commander line has the best safety record in its class, according to an independent study of FAA and National Transportation and Safety Board (NTSB) statistics conducted by R. E. Breiling Associates, the leading accident analysis firm in general aviation.

Insurance

The Company carries most types of insurance customary for a manufacturer of general aviation aircraft, including coverage for general liability, property damage, aircraft loss or damage and worker's compensation, but does not carry product liability insurance. There is no assurance that the amount of insurance carried by the Company would be sufficient to protect it fully in the event of a serious accident or liability claim, but the Company believes that the amounts and coverage of its insurance protection are reasonable and appropriate for the Company's business operations. Although highly probable, there is no assurance that such insurance will continue to be available on commercially reasonable terms.

In mid-1994, Congress enacted the General Aviation Revitalization Act, S. 1458, which established an 18-year statute of repose for general aviation aircraft and component manufacturers. This legislation prohibits product liability suits against aircraft manufacturers when the aircraft involved in an accident is more than 18 years old when the accident occurs. This action eliminated all Rockwell manufactured Commanders produced in the 1970's from the Company's liability tail. The only aircraft that the Company bears manufacturing responsibility for are the models 115, 115TC, 114B, 114AT and 114TC produced from 1992 through the present. At December 31, 2001 this totaled approximately 184 aircraft, which includes 74 aircraft exported from the United States.

Through March 1, 1995, the Company maintained product liability insurance with coverage of $10 million per occurrence and $10 million in the aggregate, with deductible of $200,000 for aircraft built through March 1, 1995. Management believes that the premiums for this type of insurance are rapacious, the policies are full of holes, the insurance companies end up controlling any litigation and are loathe to vigorously defend unwarranted claims, and prefer to settle and raise premiums rather than defend unwarranted claims. Thus, management believes that the interest of shareholders is better served by vigorously defending claims through the services of highly qualified specialists and attorneys rather than retaining product liability insurance to settle exorbitant claims. As such, the Company elected not to retain product liability insurance coverage commencing March 1, 1995. The Company could be exposed to significant financial risks if losses from product liability were to occur.

The Company does not carry business interruption or key man insurance.

Governmental Regulation

In order for an aircraft model to be manufactured for sale, the FAA must issue a Type Certificate for the aircraft model and, in order for a particular aircraft to be operated, an Airworthiness Certificate for that aircraft must be issued. The Company was issued a Type Certificate for the Commander 114B in 1992 and a Type Certificate for the Commander 114TC in 1995. The Company owns Type Certificates for all predecessor single engine Commander models. The Company received a Production Certificate from the FAA in 1993, which allows the Company to issue Airworthiness Certificates under authority delegated by the FAA. An Airworthiness Certificate is issued for a particular aircraft when it is certified to have been built in accordance with specifications approved under the Type Certificate for that particular model aircraft. Commander aircraft are certified to FAR 23, Amendment 7 meeting more stringent standards for single engine aircraft than aircraft certified under the older CAR 3 regulation.

The following table compares these standards:

Certification Requirements:	FAR 23 (through Amendment 7)	CAR 3
Increased gust loading	50 ft/sec	30 ft/sec
Fatigue evaluation - Wing and associated structures	Fail-safe Safe life	Static load margin
Fail-safe elevator control system	Yes	No
Gear and door substantiation under all conditions	Yes	No
Flap actuated aural warning	Yes	No
More stringent usable fuel testing	Yes	No
Non-siphoning fuel caps	Yes	No
Improved accessibility of fuel selector switch	Yes	No
More stringent lightning strike analysis	Yes	No

Employees

The Company has a total of 42 full-time employees as of March 31, 2002. Aviation General, Incorporated believes that its future success will depend, in part, upon its continued ability to recruit and retain highly skilled employees. Although competition for qualified personnel is strong, the Company has been successful in attracting and retaining skilled employees. None of the Company's employees are covered by a collective bargaining agreement, and Aviation General, Incorporated considers its employee relations to be good.

Item 2. Properties

The Company's 103,650 square foot facility, which consists of three buildings constructed in 1981, is located at the Wiley Post Airport in Bethany, Oklahoma. The facility is leased from the Oklahoma City Airport Trust Authority under a lease that expires in October 2003, with a five year renewal option. As of December 16, 2001 this lease was terminated and the Company obtained a revocable permit to lease the facility on December 17, 2001. The permit requires a monthly lease payment in the same amount as the as the original lease and payment of delinquent and outstanding amounts owed by December 31, 2002. The Company performs all of its operations and services from this facility. During the past ten years, the Company has improved its facility to assure safety and compliance with environmental laws and regulations.

A summary of lease payments is presented in Note G - Leases, of the Notes to Consolidated Financial Statements for 2001.

Item 3. Legal Proceedings

Commander Aircraft Company is a defendant in a lawsuit resulting from a crash of one of its manufactured aircraft. Management does not believe the Company bears any responsibility and will vigorously defend against this claim and currently believes that this action will not have a material impact on the Company's operations. The National Transportation and Safety Board accident investigation has found the probable cause of this crash was pilot error.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters

The common stock of Aviation General, Incorporated, $.50 par value, trades on the NASDAQ Small-Cap Market (symbol AVGE). This table presents its high and low market prices during the past two years. The Company has never paid dividends in the past, and does not intend to pay dividends in 2002.

Quarterly Common Stock Price Ranges

	2001		2000	
Quarter	High	Low	High	Low
1st	1.75	.81	3	1 3/16
2nd	1.00	.41	2 1/8	2 1/4
3rd	.70	.20	2	2 1/16
4th	.42	.20	3 1/32	1 1/8

During 2001, the Company issued 580,000 shares of its common stock as settlement of certain obligations. Included were 200,000 shares issued to a related party for a reduction of a note payable of $100,000 and $20,000 for interest, 130,000 shares issued for $78,000 for Board of Directors fees and 250,000 shares issued for legal services of $202,500. These transactions were exempt from the registration requirements of the federal securities laws because they did not involve public offerings.

During a third quarter 2001 meeting of the Board of Directors a Shareholder Rights Agreement was presented for consideration by the Board. After discussion of the matter the Board agreed to adopt the plan. The Shareholder Rights

Agreement is expected to deter hostile tender offers and creeping takeovers and should operate to preserve and maximize shareholder value in the event of a sale of the Company.

There were approximately 500 holders of record of the Company's common stock as of December 31, 2001.

During 2001 the Company received a NASDAQ Staff Determination notifying the Company that it fails to comply with the minimum bid price requirements for continued listing on the NASDAQ SmallCap Market, Rule 4310 (c)(4). The Company appealed the Staff Determination and had a hearing before the NASDAQ officials. However, due to the events of September 11, 2001, NASDAQ delayed ruling on such proceedings until after January 1, 2002. The Company's common shares have continued to trade on the NASDAQ Stock Market.

On February 14, 2002, the Company received a subsequent NASDAQ Staff Determination notifying the Company that it had not met the minimum bid requirements, for the previous 30 trading days, for continued listing on the NASDAQ SmallCap Market, in accordance with Rule 4310 (c)(4). The Company has been granted 180 calendar days, until August 13, 2002, to regain compliance with the minimum bid price requirements. If, at anytime before August 13, 2002, the bid price of the Company's common stock closes at $1.00 per share or more for a minimum of 10 consecutive trading days, NASDAQ staff will provide written notification that the Company complies with the Rule.

Item 6. Selected Financial Data

The selected financial data presented below for each year in the five year period ended December 31, 2001 have been derived from the Company's audited financial statements. This data should be read in conjunction with the Financial Statements and related notes thereto and other financial information appearing elsewhere in this Form 10-K.

	Year Ended December 31 (Amounts in thousands, except per share data)				
	2001	2000	1999	1998	199
Operation Data:					
Net sales	$9,488	$16,831	$13,667	$10,712	$8,0
Net earnings (loss)	$(5,520)	$450	$(385)	$(1,849)	$(2,1
Earnings (loss) per share basic & diluted	$(.84)	$0.07	$(.05)	$(.25)	$(.
Balance Sheet Data:					
Total assets	$7,304	$11,809	$8,632	$10,148	$10,9
Long-term debt	-	-	-	-	2,4

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis together with our financial statements and accompanying notes appearing elsewhere in this Form 10-K. The following information contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those anticipated due to many factors, including those set forth under "Items 1 and 3, Business and Legal Proceedings."

Critical Accounting Policies

Aircraft Sales and Marketing

We recognize the sale of new aircraft when a purchase agreement is funded and title is transferred to the buyer, which occurs after the Company receives an airworthiness certificate from the Federal Aviation Administration. Sales of pre-owned aircraft are recognized upon execution and the funding of a purchase agreement. Service revenues are recognized when the services are performed.

Inventories

Our inventories, other than pre-owned aircraft, are stated at the lower of cost or market, and cost is determined by the average-cost method. The inventory costs include all direct manufacturing costs and overhead. The inventories consist of parts for manufacturing and servicing of aircraft, parts for resale and work in process, as well as new and pre-owned aircraft. Pre-owned aircraft are valued on a specific-identification basis at the lower of cost or current estimated realizable wholesale price.

Overhead and indirect costs are capitalized as incurred and allocated to aircraft produced based on the number of direct labor hours required to complete the aircraft.

Contractual Obligations

We finance our inventory of new and pre-owned aircraft to provide working capital for the Company. These loans require monthly interest payments during the term of the loan and partial principal repayments or renewal fees if the notes are renewed. The table below summarizes the Company's obligations.

		2002 Obligati
	Total	Interest
Revolving credit facilities	$1,995,810	$192,588
Note payable to a stockholder, interest at 9%, due on demand, uncollateralized	81,000	5,723
Note payable to an individual, payable in monthly installments of $8,699, including Interest at 8%	83,269	3,719

The Company plans to seek additional capital through the private placement of an ownership interest and/or merger with a strategic partner, as well as explore merger and acquisition opportunities that could broaden the Company's business base and create synergies. During 2001 the Company made significant reductions in its cost and overhead structure, and will continue to evaluate such changes if and when they are needed.

Results of Operations:

2001 vs. 2000

Revenues decreased 44% in 2001 to $9,487,795 from $16,831,034 in 2000, resulting in a net loss of $5,519,592 for 2001 compared to net earnings of $450,033 in 2000. The net loss per basic and diluted share was $0.84 in 2001 compared to net earnings of $0.07 per basic and diluted share in 2000.

Revenues from aircraft sales decreased 47% in 2001 to $8,027,663 from $15,051,496 in 2000. New aircraft deliveries were 8 units in 2001 compared to 20 units in 2000. Pre-owned and consigned aircraft sales decreased to 24 aircraft in 2001 from 31 in 2000. Revenues generated by the service, parts and refurbishment business was $1,460,132 in 2001 compared to $1,779,538 in 2000.

Aircraft cost of sales was $7,665,233 in 2001 as compared to $11,489,886 for 2000. The gross margin on aircraft sales decreased to 5% in 2001 from 24% in 2000 as a result of lower production volume, which resulted in excess capacity costs of approximately $991,000 and in some cases, increased the cost of some purchased components due to lower purchase quantities.

Service and parts cost of sales was $1,291,618 in 2001 compared to $1,387,653 in 2000. The decrease was due to a lower volume of service activity and spare parts shipments.

Engineering and product development costs decreased to $278,379 in 2001 from $406,898 in 2000. The decrease in these expenses is due to the downsizing in this area.

Sales and marketing expenses were $1,161,811 in 2001 compared to $1,655,330 in 2000. General and administrative expenses increased to $2,455,122 in 2001 compared to $1,399,721 in 2000. This increase was due to higher legal expenses of $831,582 and a reserve for unpaid health insurance claims of $150,283. Included in general and administrative expenses for 2001 is $321,571 for costs associated with the operations of Strategic Jet Services, Inc. compared to $159,891 in 2000. Also included in operating expenses for 2001 is a reserve of $1,529,889 for a note receivable from a related party that was deemed uncollectable during 2001.

Interest income totaled $15,350 in 2001, down from $207,152 in 2000. The decrease in interest income is due to the write-off of interest of $115,977 due to the uncollectability of a note receivable from the related party during 2001. Interest expense increased to $498,715 in 2001 from $264,297 in 2000 due to higher rates and increased short-term borrowings from the Company's lines of credit. Other expense for 2001 increased due to a $150,000 litigation settlement.

2000 vs. 1999

Revenues increased 23% in 2000 to $16,831,034 from $13,667,245 in 1999, and the net loss in 1999 of $385,018 improved by $835,051 to net earnings of $450,033 in 2000. The net loss of $0.05 per basic and diluted share in 1999 improved to net earnings of $0.07 per basic and diluted share in 2000.

Revenues from aircraft sales increased 26% in 2000 to $15,051,496 from $11,926,234 in 1999. New aircraft deliveries improved to 20 units in 2000 compared to 13 units in 1999, while pre-owned and consigned aircraft sales decreased to 31 aircraft in 2000 from 35 in 1999. Revenues generated by the service, parts and refurbishment business increased $38,527 in 2000 to $1,779,538 from $1,741,011 in 1999.

Aircraft cost of sales increased by 13% to $11,489,886 in 2000 from $10,198,033 in 1999. The increase was significantly smaller than the increase in revenue from aircraft sales, thereby resulting in substantially higher margins in 2000. The increased costs were due to higher volume of new units sold, partially offset by lower pre-owned volume and lower new per-unit costs.

Service and parts cost of sales increased to $1,387,653 in 2000 from $1,178,633 in 1999 due to higher parts cost and a change in mix with more volume derived from service repair and refurbishment work and less volume in spare parts sales that generally carry higher margins.

Engineering and product development costs increased 21% in 2000 to $406,898 from $336,855 in 1999. The increase was due primarily to compensation and professional service fees to support certification of new avionics and electrical equipment introduced as standard or optional equipment for new aircraft.

Sales and marketing expenses increased 16% to $1,655,330 in 2000 from $1,430,266 in 1999. Costs increased due to higher compensation and sales commissions of $151,000 and higher advertising of $50,000. General and administrative expenses increased to $1,399,721 in 2000 from $1,006,306 in 1999. This increase was due to higher compensation costs of $175,000, higher legal expenses of $145,000, higher director and professional fees of $71,000, partially offset by lower costs for SJS of $19,000. Included in general and administrative expenses for 2000 is $160,000 for costs associated with the operations of Strategic Jet Services, Inc. compared to $179,000 in 1999.

Interest income totaled $207,152 in 2000, up from $200,010 in 1999. Interest expense increased to $264,297 in 2000 from $115,405 in 1999 due to higher rates and increased short-term borrowings from the Company's lines of credit.

Liquidity and Capital Resources

Cash provided by operations totaled $868,244 for 2001 compared to cash used in operations of $1,872,480 in 2000. Notes and accounts receivable decreased by $551,425 due primarily to the sale of one new aircraft at the end of 2000 paid in full shortly after the beginning of 2001.

Inventories decreased by $1,852,939 primarily due to a decrease in new and pre-owned aircraft of $930,115 and a decrease in work-in process and raw materials of $847,062.

Accounts payable increased by $1,083,036 at December 31, 2001 compared to the prior year due to increased purchases on account to support the anticipated increased production levels. The Company had no long-term debt as of December 31, 2001 and 2000.

Capital expenditures totaled $37,243 in 2001, which included replacement of fabrication tooling and an upgrade to the Company's business software.

The Company established a line of credit with a bank in the amount of $2,500,000 for the purpose of funding pre-owned aircraft for inventory. The notes bear interest at prime plus 1% and are secured by individual aircraft and certain guarantees. In addition, the Company established a line of credit with a financial institution in the amount of $3,000,000 to provide funding for new aircraft as well as pre-owned piston and turbine aircraft. The notes contain variable interest rates up to 12.5%, mature in six-month intervals and are renewable at the option of the Company for an additional six months. Borrowings under these lines of credit totaled $1,995,810 at December 31, 2001.

On March 22, 2000, the Company announced a plan to repurchase up to 2,000,000 of its common stock. Prior to this announcement, the Company had completed the previously announced repurchase of 1,000,000 shares of its common stock. Pursuant to these plans, the Company has repurchased 772,189 shares of its common stock through December 31, 2001.

The Company anticipates that its primary cash requirement will relate to working capital associated with ongoing operations and an increase in sales activity for 2002. The Company anticipates funding these requirements by cash generated from operations, from borrowings under the Company's existing lines of credit or new funding sources.

Management Plans

For 2001, the Company reported $9,487,795 in revenues and a net loss of $5,519,592, with eight new aircraft deliveries. For the year 2000, the Company reported $16.8 million in revenues and a profit of $450,000, with deliveries of 20 new aircraft versus 13 new aircraft deliveries in 1999. With demand for new aircraft increasing significantly throughout 2000, we increased our production schedule for 2001 to 32 aircraft. Unfortunately, we did not anticipate events during 2001, beyond our control, which had an adverse impact on the Company, including:

1) The dissipation of a significant portion of asset values and personal wealth resulting from the decline of United States securities markets.

2) A severe recession in the manufacturing and capital expenditures segments of the U. S. economy, as well as depressed economic conditions in virtually every other part of the world.

3) The September 11th terrorist attacks on the U. S. resulting in cancellation or postponement of aircraft purchases and disruption of business activities compounded by government restrictions on general aviation activities.

Management believes that there were a number of significant non-recurring charges incurred in 2001, comprising the majority of the $5,519,592 loss reported for the year. Specifically:

1)	Excess capacity costs resulting from the slow down in manufacturing activities in the fourth quarter following the September 11th terrorist attacks and government restrictions on general aviation..	
2)	Abnormally high legal expenses, including a settlement of a lawsuit..	
3)	The write-off of the uncollectable balance of an international dealer's credit facility..	
4)	The write-off of accrued, unpaid interest income recorded on the international dealer's note receivable due to uncollectability......................	
5)	A reserve for insurance claims arising from the Company discontinuing its partially self-insured plan in an effort to reduce future costs.....................	
	Total	

As we go forward in 2002, management believes that economic conditions and financial markets appear to have stabilized and that the Company could benefit from increased interest in general aviation, due to inconvenience and safety factors now attendant with commercial airline travel. The Company could also benefit from historically low interest rates, which lower significantly the financing cost of aircraft purchases. Management also believes it is eligible and will apply for federal grants and loans, pursuant to a general aviation relief bill currently pending in Congress.

Furthermore, management has effected a number of initiatives, which, it believes, will increase revenue and profitability and growth potential. They include:

1) Reduction of the Company's cost structure
2) Adjustment of the Company's production schedule
3) Increased prices of new aircraft, parts and services
4) Seeking additional financing for general working capital purposes
5) Increase in marketing and advertising activities
6) Enhancement of the Company's service and refurbishment capabilities and business
7) Increase of Strategic Jet Services, Inc. capabilities and business
8) Exploring merger and acquisition possibilities with other general aviation concerns

So far in the year 2002, the Company has experienced a significant increase in its business. As of April 9, 2002, the Company has booked orders for 6 new aircraft (versus a total of 8 for all of 2001) and 9 pre-owned aircraft (versus a total of 22 for all of 2001). The Company's parts, service, refurbishment and brokerage business has also increased. The Company expects to report a small loss for the quarter ending March 31, 2002 and a return to profitability during the second quarter of 2002.

The Company is structured to achieve break-even financial results at between 10 to 15 new aircraft deliveries annually, with the precise number dependent upon the contribution from the Company's parts, service, refurbishment and brokerage business activities.

During 2001 the Board discussed the advisability of having an Employment Agreement between the Company and Wirt D. Walker III, Chairman of the Board of Directors. The Board reviewed and approved such agreement. The Board also reviewed and approved a Consulting Agreement between the Company and Gene Criss, a member of the Board.

Market Risk

The Company's market risk is impacted by changes in interest rates, foreign currency exchange rates and certain equity security prices. The note receivable held by the Company includes a quarterly adjustment clause, which permits the Company to increase or decrease, the amount of interest charged based on bank prime rates. All transactions with international customers are made in U.S. dollars, thereby minimizing the risk associated with foreign currency exchange rates. The Company's investment in equity securities is classified as available-for-sale with unrealized gains or losses excluded from income and reported as other comprehensive income. The Company has no significant risk associated with commodity prices.

Inflation

Management believes that the overall effects of inflation on the Company's costs of materials and supplies have been minimal. For each of the past five years, cost of sales was virtually the same as it would have been on a current cost basis. The Company uses a moving average cost for inventory valuation and cost changes are not readily recognized in the short-term.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements and Supplementary Data:

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
Aviation General, Inc.

We have audited the accompanying consolidated balance sheets of Aviation General, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aviation General, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note Q to the consolidated financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note Q. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

GRANT THORNTON LLP

Oklahoma City, Oklahoma
March 8, 2002

Aviation General, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31,

ASSETS	2001
CURRENT ASSETS	
Cash and cash equivalents	$ 211,
Accounts receivable	
Current portion of note receivable	36,
Inventories	6,139,
Prepaid expenses and other assets	70,
Total current assets	6,457,
PROPERTY AND EQUIPMENT - AT COST	
Office equipment and furniture	372,
Vehicles and aircraft	95,
Manufacturing equipment	385,
Tooling 676,747	654,
Leasehold improvements	315,
	1,844,
Less accumulated depreciation	1,205,
	639,
OTHER ASSETS	
Note receivable, less current maturities	65,
Available-for-sale equity securities - related party	142,
Note receivable from related party, net	
	207,
	$ 7,303,

LIABILITIES AND STOCKHOLDERS' EQUITY	2001
CURRENT LIABILITIES	
Accounts payable	$ 2,309,
Accrued expenses	614,
Refundable deposits	745,
Notes payable	2,160,
Total current liabilities	5,829,
DEFERRED INCOME TAX LIABILITY	
COMMITMENTS AND CONTINGENCIES	
REDEEMABLE COMMON STOCK - $.01 par value; issued, 150,000 shares in 2001 and 0 shares in 2000; stated at redemption value	150,
STOCKHOLDERS' EQUITY	
Preferred stock - $.01 par value; authorized, 5,000,000 shares; none issued	
Common stock - $.50 par value; authorized, 20,000,000 shares; issued, 7,631,519 shares in 2001 and 7,051,519 shares in 2000	3,815,
Additional paid-in capital	37,000,
Treasury stock - at cost (772,189 shares)	(1,294,
Accumulated deficit	(37,943,
Accumulated other comprehensive income (loss)	(253,
	1,324,
	$ 7,303,

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31,

	2001	200
NET SALES		

Aircraft	$ 8,027,663	$15,051
Service	1,460,132	1,779
	9,487,795	16,831
COST OF SALES		
Aircraft (including excess capacity costs of $991,063 in 2001)	7,665,233	11,489
Service	1,291,618	1,387
	8,956,851	12,877
Gross margin	530,944	3,953
OTHER OPERATING EXPENSES		
Product development and engineering costs	278,379	406
Selling, general, and administrative expenses	3,616,933	3,055
Bad debt expense - related party	1,529,889	
	5,425,201	3,461
Operating income (loss)	(4,894,257)	491
OTHER INCOME (EXPENSES)		
Interest income	15,350	207
Other income 23,770	16,059	14
Interest expense	(498,715)	(264
Other expense (15,740)	(427)	(1
Litigation settlement	(150,000)	
	(625,335)	(41
NET EARNINGS (LOSS)	$(5,519,592)	$ 450
NET EARNINGS (LOSS) PER SHARE		
Weighted average common shares outstanding; basic	6,581,467	6,370
Net earnings (loss) per share; basic	$ (.84)	$
Weighted average common shares outstanding; diluted	6,581,467	6,666
Net earnings (loss) per share; diluted	$ (.84)	$

Aviation General, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 2001, 2000, and 1999

	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated deficit
Balance at January 1, 1999	7,280,548	$3,640,274	$37,178,230	$ -	$(32,488,7
Purchase of treasury stock	-	-	-	(1,108,904)	-
Retirement of treasury stock	(237,362)	(118,681)	(296,764)	415,445	-
Sale of treasury stock	-	-	-	34,844	-
Net loss	-	-	-	-	(385,0
Balance at December 31, 1999	7,043,186	3,521,593	36,881,466	(658,615)	(32,873,7
Common stock options exercised	8,333	4,166	8,333	-	-
Purchase of treasury stock	-	-	-	(670,000)	-
Sale of treasury stock	-	-	-	34,422	-
Comprehensive income					
Net earnings	-	-	-	-	450,0
Other comprehensive income					
Change in unrealized investment gain, net	-	-	-	-	
Comprehensive income	-	-	-	-	
Balance at December 31, 2000	7,051,519	3,525,759	36,889,799	(1,294,193)	(32,423,7
Issuance of common stock	580,000	290,000	110,500	-	-
Comprehensive loss					
Net loss	-	-	-	-	(5,519,5
Other comprehensive loss					
Change in unrealized investment loss, net	-	-	-	-	
Comprehensive loss	-	-	-	-	
Balance at December 31, 2001	7,631,519	$3,815,759	$37,000,299	$(1,294,193)	$(37,943,3

Aviation General, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	2001	
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Net earnings (loss)	$(5,519,592)	$
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	120,098	
Noncash interest earnings	-	
Common stock issued for litigation settlement, services, and interest charges	450,500	
Sale of aircraft and parts on notes receivable	-	
Receipts on aircraft notes receivable	19,653	
Bad debt expense - related party	1,529,889	
Loss (gain) on retirement of property and equipment	-	
Realized loss on sale of available-for-sale equity securities	14,508	
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	551,425	
Inventories	1,852,939	(2
Prepaid expenses and other assets	83,335	
Increase (decrease) in		
Accounts payable	1,083,036	
Accrued expenses	52,718	
Refundable deposits	629,735	
Net cash provided by (used in) operating activities	868,244	(1
Cash flows from investing activities		
Capital expenditures	(37,243)	
Proceeds on sales of property and equipment	-	
Proceeds from investment in debt securities	-	
Purchase of available-for-sale equity securities	-	
Proceeds from available-for-sale equity securities	20,260	
Net cash provided by (used in) investing activities	(16,983)	
Cash flows from financing activities		
Proceeds from borrowings	4,486,810	6
Payments on borrowings	(5,261,731)	(4
Proceeds from sale of stock	-	
Purchase of treasury stock	-	
Sale of treasury stock	-	
Net cash provided by (used in) financing activities	(774,921)	1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	76,340	
Cash and cash equivalents at beginning of year	135,016	
Cash and cash equivalents at end of year	$ 211,356	$
Cash paid during the year for:		

Interest	$	493,000	$
Income taxes -		-	

Noncash investing and financing activities:

2001

Exchange of common stock for a reduction in a note payable from a related party of $100,000 and interest of $20,000. Exchange of common stock of $78,000 for Board of Directors fees. Exchange of redeemable common stock upon legal settlement of $150,000.
Exchange of common stock for legal services of $202,500.

2000

Exchange of note receivable from related party of $165,617 and $134,383 of accrued interest thereon for acquisition of treasury stock.

1999

Exchange of debt securities - related party with a carrying value of $200,000 and accrued interest of $17,151 for available-for-sale equity securities - related party.

Aviation General, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001, 2000, and 1999

NOTE A - ORGANIZATION AND OPERATIONS

Aviation General, Inc. (AGI) was incorporated August 4, 1998 under the laws of the State of Delaware, and is the successor to the operations of Commander Aircraft Company (CAC). AGI is a holding company which, through its wholly owned subsidiaries, CAC and Strategic Jet Services, Inc. (SJS) (collectively referred to as the Company), manufactures, markets, and provides support services for single engine, high performance Commander aircraft and to a lesser extent provides sales and service of other pre-owned aircraft. The Company also provides consulting, sales, brokerage, and refurbishment services for jet aircraft through SJS.

The Board of Directors of AGI is authorized to issue preferred stock in one or more series. The Board of Directors is further authorized to fix the number of shares constituting such series and to fix the relative rights and preferences of the shares of the series.

NOTE B - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

1. Principles of Consolidation

The Company consolidates the accounts of its subsidiaries, CAC and SJS. All intercompany balances and transactions are eliminated in consolidation.

2. Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less and money market funds to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents. As of December 31, 2001 and 2000, the Company has approximately $212,000 and $122,000, respectively, on deposit at one financial institution.

3. Investments

The Company's investment in equity securities is classified as available-for-sale with unrealized gains or losses excluded from income and reported as other comprehensive income. Declines in the fair value of securities that are other than temporary result in write-downs included in earnings. At December 31, 2001 and 2000, unrealized losses and gains, net of income tax effects, of $(253,873) and $113,691, respectively, have been recorded in accumulated other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE B - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

3. Investments - Continued

The components of other comprehensive income (loss) are as follows for the years ended December 31:

	200
Unrealized holding gains (losses) arising during the period	$(440
Less reclassification adjustment for net realized losses included in net income	14
Income tax benefit (expense)	58
Other comprehensive income (loss)	$(367

4. Revenue Recognition

Sales of aircraft are recognized upon execution and funding of the purchase agreement and transfer of title to the buyer which occurs after the Company receives the airworthiness certificate from the Federal Aviation Administration (FAA). Additionally, for aircraft financed by the Company it must also be determined that the buyer's initial and continuing investments in the aircraft are adequate to demonstrate a commitment to pay. Sales of pre-owned aircraft are recognized upon execution and funding of the purchase agreement. Service revenue is recognized when the services are performed and billable.

5. Inventories

Inventories consist primarily of finished goods 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 December 31:

	2001	2000
Raw materials	$1,983,979	$2,522,930
Work in process	1,402,252	1,710,363
New and pre-owned aircraft	2,733,751	3,663,866
Other	19,250	95,012
	$6,139,232	$7,992,171

During 2001, certain indirect costs of manufacturing, primarily excess capacity costs, were considered abnormal and treated as current period charges rather than as a portion of inventory costs. Such costs, totaling approximately $991,000, are included in cost of sales - aircraft.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE B - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

6. Property and Equipment

Depreciation is computed using the straight-line method for financial reporting purposes and accelerated methods for tax purposes over estimated useful lives ranging from three to 15 years.

7. Income Taxes

Deferred income taxes are provided on carryforwards and on temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years. Deferred income tax assets and liabilities are determined by applying the presently enacted tax rates and laws.

The Company provides for a valuation allowance on deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

AGI files a consolidated income tax return with its wholly owned subsidiaries.

8. Refundable Deposits

Refundable deposits consist of payments made by customers prior to having repairs performed on their aircraft and deposits on aircraft being produced. These deposits are recognized as revenue in the period the services are completed or the aircraft sale is recognized.

9. Prepaid Advertising and Advertising Costs

The Company expenses the cost of advertising as incurred, except for prepaid advertising. Prepaid advertising largely consists of costs for future magazine advertisements. These costs are expensed when the advertisements are published. Advertising expense for the years ended December 31, 2001, 2000, and 1999 was approximately $198,000, $320,000, and $270,000, respectively.

10. Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are calculated based on the weighted average number of common shares outstanding during the year, including redeemable common shares. Diluted earnings (loss) per common share has been computed based on the assumption that all dilutive options and warrants are exercised using the treasury stock method.

11. Use of Estimates

The preparation of the consolidated financial statements requires the use of management's estimates and assumptions in determining the carrying values of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE B - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

12. New Accounting Pronouncements

In 2001, the Financial Accounting Standards Board issued new pronouncements: Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations; SFAS No. 142, Goodwill and Other Intangible Assets; SFAS No. 143, Accounting for Asset Retirement Obligations; and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

SFAS No. 141, which requires the purchase method of accounting for all business combinations, applies to all business combinations initiated after June 30, 2001 and to all business combinations accounted for by the purchase method that are completed after June 30, 2001. SFAS No. 141 will not apply to the Company unless it enters into a future business combination.

SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives be tested annually for impairment. SFAS No. 142 also requires that intangible assets with finite useful lives be amortized and be evaluated for impairment in accordance with SFAS No. 144. In addition, the Statement eliminates the current requirement to amortize goodwill or intangible assets with indefinite useful lives, and is effective for fiscal years beginning after December 15, 2001.

SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002.

SFAS No. 144 is effective for the Company for the fiscal year beginning January 1, 2002 and addresses accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 and expands the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction.

Management believes adoption of these new statements will not have any significant effect on the Company's financial condition or results of operations.

NOTE C - NOTE RECEIVABLE

From time to time, the Company finances the sale of new aircraft with notes receivable from customers which are collateralized by the aircraft. At December 31, 2001, the Company had one note receivable which matures February 1, 2005 and bears interest at prime plus 1.5%. A summary of the note receivable is as follows as of December 31:

	2001	2000
Amounts due within one year	$ 36,673	$ 25,628
Amounts due after one year	65,223	95,921
Total note receivable	$101,896	$121,549

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE D - NOTES PAYABLE

Notes payable consist of the following at December 31:

	200
Revolving credit facilities (a)	$1,995

Note payable to a stockholder, interest at 9%, due on demand; uncollateralized 81,000	
Note payable to individual, payable in monthly installments of $8,699, including interest at 8%, through September 30, 2002; uncollateralized	83
	$2,160

(a) The revolving credit facilities may be drawn down to manufacture new and purchase pre-owned aircraft. Interest is payable monthly at fixed rates of 10.5% to 12.5% with specific draws and accrued unpaid interest thereon generally due within six months. The facilities are collateralized by specific new and pre-owned aircraft. The revolving credit facilities are subject to certain covenants and the Company was not in compliance with covenants on one of the facilities at December 31, 2001. As such, $1,341,810 is callable at December 31, 2001. Management believes the violation to be a minor technical violation and, as of March 8, 2002, the debt had not been called.

NOTE E - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of December 31, 2001 and 2000. Such information does not purport to represent the aggregate net fair value of the Company:

Cash and Cash Equivalents. The balance sheet carrying amounts of cash and cash equivalents approximate fair values of such assets.

Note Receivable. The carrying amount approximates fair value because of the fluctuating interest rate associated with the note receivable.

Note Receivable From Related Party (see Note I). The carrying amount approximates fair value because of the fluctuating interest rate associated with the line of credit.

Available-For-Sale Equity Securities - Related Party. The estimated fair value is based on quotes from independent pricing sources.

Notes Payable. The carrying value of notes payable approximates fair value because of variable interest rates and the short-term nature of the instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE E - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

All of the Company's financial instruments are for purposes other than trading.

	2001		
	Carrying amount	Fair value	Ca a
Cash and cash equivalents	$ 211,356	$ 211,356	$
Note receivable	101,896	101,896	
Available-for-sale equity securities - related party	142,100	142,100	
Note receivable from related party	-	-	1
Notes payable	(2,160,079)	(2,160,079)	(3

NOTE F - STOCK OPTION PLAN

In December 1993, the Company approved a stock option plan for issuance of options to purchase up to 300,000 shares of common stock to employees at the discretion of the committee appointed by the Board of Directors. The number of shares authorized for issuance has subsequently been increased to 3,300,000 shares. The stock option plan also provides for automatic grants of options to purchase 20,000 shares of common stock to each director on an annual basis. At December 31, 2001, approximately 644,000 shares remain to be granted under the plan. The stock options generally vest ratably over a three-year period and the exercise price of all options equaled or exceeded market price of the stock at the date of grant.

The Company uses the intrinsic value method to account for its stock option plan in which compensation is recognized only when the fair value of each option exceeds its exercise price at the date of grant. Accordingly, no compensation cost has been recognized for the options issued. Had compensation cost been determined based on the fair value of the options at the grant dates, the Company's net earnings (loss) and earnings (loss) per share would have been decreased/increased to the pro forma amounts for the years ended as indicated below.

	2001	2000
Net earnings (loss)		
As reported	$(5,519,592)	$450
Pro forma	(5,932,547)	17
Earnings (loss) per share, basic and diluted		
As reported	$ (.84)	$
Pro forma	$ (.90)	$

The fair value of each grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions used for grants in 2001, 2000, and 1999, respectively: No expected dividends; expected volatility of 75%, 75%, and 66%, risk-free interest rate of 4.3%, 5.9%, and 5.5%, and expected lives of three years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE F - STOCK OPTION PLAN - CONTINUED

The Black-Scholes options pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

A summary of the status of the Company's stock option plan as of December 31, 2001, 2000, and 1999 and changes during the years ending on those dates is presented below.

	2001		2000	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	2,394,667	$2.15	1,460,880	$2.27
Granted	1,123,383	$0.48	1,258,700	$2.17
Exercised	-	-	(8,333)	$1.50
Expired	(117,500)	$2.57	(177,080)	$2.52
Forfeited	(745,000)	$1.85	(139,500)	$1.81
Outstanding at end of year	2,655,550	$1.49	2,394,667	$2.15
Options exercisable at year end	993,076	$2.17	592,937	$2.26
Weighted average fair value of options granted during the year		$0.23		$1.04

The following table summarizes information about fixed-price stock options outstanding at December 31, 2001:

Options outstanding
Weighted

	Number outstanding at 12/31/01	Weighted average remaining contractual life	Weighted average exercise price	ex at
Range of exercise prices				
$0.50 to $1.38	992,383	2.77	$0.48	
$1.39 to $1.75	703,301	1.03	$1.52	
$1.76 to $2.75	959,866	1.53	$2.49	
$0.50 to $2.75	2,655,550			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE G - 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, $274,000, and $271,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

Effective December 16, 2001, the Company's lease for office space, hangar space, and its manufacturing and service facility was terminated for the nonpayment of rentals. Effective December 17, 2001, the Company obtained a revocable permit to lease the facility. The permit requires monthly rentals in the same amounts as the original lease. The permit further requires the Company to pay outstanding delinquent amounts plus penalties as defined in the permit (totaling $66,390 at December 31, 2001) prior to December 31, 2002. The following table presents future annual minimum lease payments assuming the Company fulfills its obligations under the original lease agreement and the revocable permit.

The future annual minimum lease payments under these leases at December 31, 2001 are as follows:

Year ending December 31	
2002	$356,091
2003	250,536
2004	21,504
Total future minimum lease payments	$628,131

NOTE H - SALES CONCENTRATIONS

The geographic sales of the Company's new aircraft are as follows:

	2001		2000		
	Number	Amount	Number	Amount	Nu
United States	7	$3,883,801	18	$9,632,353	
Europe	1	505,225	2	1,096,988	
South America	-	-	-	-	

Pre-owned aircraft sold during 2001 in the United States was 15, totaling $3,413,533. Brokerage commissions of $225,104 were received in 2001 as a selling agent for pre-owned aircraft.

Pre-owned aircraft sold during 2000 in the United States was 28, totaling $4,192,481. Brokerage commissions of $129,674 were received in 2000 as a selling agent for pre-owned aircraft.

Pre-owned aircraft sold during 1999 in the United States and Europe was 29 and 2, respectively, totaling $4,853,789 and $733,400, respectively. Brokerage commissions of $156,484 were received in 1999 as a selling agent for pre-owned aircraft.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE I - RELATED PARTY TRANSACTIONS

On May 9, 2001, the Company entered into a $200,000 unsecured note payable bearing interest at 9% and due on demand with a Company controlled by the Chairman of the Board of Directors. On August 3, 2001, the Company issued 200,000 shares of common stock having a fair value at the date of issue of $120,000 in exchange for a $100,000 reduction in the note payable and interest expense of $20,000. On October 18, 2001, the affiliate assigned the note payable with an outstanding balance of $85,000 to a stockholder.

During 2001, 130,000 shares of common stock having a fair value at the date of issue of $78,000 were issued to members of the Board of Directors in exchange for services provided.

At December 31, 2001, amounts payable for brochures and publications to a company controlled by the Chairman of the Board of Directors were approximately $33,000. Purchases from this entity were approximately $38,000, $15,000 and $200,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

In prior years, the Company extended financing for aircraft and spare parts sold either directly to a director of the corporate general partner of the Company's majority stockholder or to an Authorized Sales and Service Representative (ASSR) owned by the director under a line of credit of $5,000,000. The Company has made efforts to collect amounts owed under this line, including repeated requests for payment, attempts to obtain or cancel approximately 800,000 shares of common stock of the Company collateralizing the line and attempts to block ownership transfers of said shares. However, during 2001, the ASSR went out of business and the individual suffered other business reversals. In addition, the individual resigned from the Company's Board of Directors in 2001 and all of his stock options were cancelled. Due to the uncertainties relating to ultimate collectibility, during the fourth quarter of 2001, the Company recorded bad debt expense relating to this line of credit for the outstanding balance of $1,529,889. In addition, the Company wrote off accrued, unpaid interest of $115,977. Bad debt expense of $1,529,889 is recorded in other operating expenses and the write-off of interest of $115,977 is recorded as an offset to interest income in the 2001 statement of operations. Management intends to continue to attempt to collect on amounts owed and continue to attempt to take possession of the common stock collateralizing the line.

Following is a summary of transactions under this line of credit for 2001, 2000, and 1999 (rounded to the nearest thousand):

	2001	200
Balance at beginning of year	$ 1,530,000	$1,736
Sale of pre-owned aircraft	-	
Sale of spare parts	-	1
Cash payments received	-	(41
Exchange of common stock	-	(166
Bad debt expense	(1,530,000)	
Balance at end of year	$ -	$1,530

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE I - RELATED PARTY TRANSACTIONS - CONTINUED

Accrued interest receivable under this line of credit agreement totaled $0 as of December 31, 2000. Interest income under this line of credit was approximately $169,000, and $144,000 for 2000 and 1999, respectively.

The line of credit is collateralized by approximately 800,000 shares of the Company's stock owned directly by the majority stockholder, and the personal guarantee of the majority stockholder.

During 1998, the Company purchased debt securities with detachable stock purchase warrants for $1,000,000 from an entity under common control. During 1999, $800,000 of the debt securities were paid off and the balance of the securities plus accrued interest was converted into 133,333 shares of common stock of the affiliate in exchange for shortening the expiration date of the accompanying warrants. The Company purchased an additional 66,667 shares of the entity for $100,000 during 1999 and an additional 68,000 shares for $113,590 during 2000. The Company sold 23,000 shares of the entity during 2001, resulting in proceeds of $20,260 and gross realized losses of $14,508.

The Chairman of the Board of Directors of the Company is also a stockholder, director, and the Managing Director of the corporate general partner of the Company's majority stockholder.

NOTE J - INCOME TAXES

No current or deferred tax provision (benefit) has been recognized in the accompanying statements of operations given the historical operating losses incurred.

Components of the net deferred tax assets (liabilities) rounded to the nearest thousand are as follows at December 31:

	2001	2000
deferred tax assets (liabilities)		
Note receivable from related party	$ 613,000	$ -
Inventories	369,000	371,000
Depreciation and amortization	(145,000)	(159,000)
Unrealized losses (gains) on investments	86,000	(59,000)
Accrued liabilities	339,000	88,000
Net operating loss carryforwards	12,401,000	10,945,000
	13,663,000	11,186,000
Valuation allowance	(13,663,000)	(11,245,000)
Total deferred tax liabilities	$ -	$ (59,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE J - INCOME TAXES - CONTINUED

The valuation allowance on tax assets increased $2,418,000 in 2001, decreased $229,000 in 2000, and increased $146,000 in 1999, primarily due to the generation of net operating loss carryforwards in 2001 and 1999 and the utilization of net operating loss carryforwards in 2000.

The Company's net operating loss carryforwards will expire as follows:

Year ending December 31	
2005	$ 2,998,231
2006	17,434
2007	6,466,819
2008	3,982,473
2009	4,523,401
2010	2,279,486
2011	3,445,366
2012	1,869,674
2018	1,681,538

2019	438,829
2021	3,298,986
Total net operating loss carryforwards	$31,002,237

NOTE K - 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.

During 2001, the Company executed an employment contract with its President and Chief Executive Officer through August 2006 which provides for a specified annual salary, subject to periodic adjustments and incentives. Should the Company terminate this executive without cause (as defined), the Company will be obligated to pay the executive an amount equal to his salary in effect at termination

NOTE K - COMMITMENTS AND CONTINGENCIES - CONTINUED

through the expiration of the term of the agreement. Further, should a termination without cause occur within two years following a change in control (as defined), the Company will pay the executive an additional amount equal to 2.99 times the executives salary in effect at the time of such change in control. The contract also includes a noncompete clause effective throughout the term of the employment contract and for a period of one year thereafter.

During 2001, the Company executed a consulting agreement with a member of the Board of Directors. The agreement provides for a consulting fee of $60,000 over an initial one-year term. The agreement renews automatically for successive one-year periods unless terminated by either party upon 90 days prior written notice. Upon termination of the agreement without cause (as defined), the Company would be obligated through the remainder of the then-current term of the agreement. The agreement also includes a noncompete clause effective throughout the term of the agreement and for a period of six months thereafter.

The Company has been named in a lawsuit filed by the estates and survivors of four decedents concerning the crash of a Commander 114B. Although it is too early for any factual development to take place concerning this claim, the ultimate outcome of this matter cannot be determined; however, management intends to vigorously defend against this claim and currently believes that this will not result in any material adverse effect on the Company's financial position or results of operations. Accordingly, no provision for any liabilities that may result have been recorded in the consolidated financial statements. Due to the uncertainties of this matter, it is at least reasonably possible that management's view of the outcome will change in the near term.

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.

Additionally, during 2001, the Company received a NASDAQ Staff Determination notifying the Company that it fails to comply with the minimum bid price requirements for continued listing on the NASDAQ SmallCap Market in accordance with Rule 4310 (c)(4). The Company appealed the Staff Determination and had a hearing before NASDAQ officials. However, due to the events of September 11, 2001, NASDAQ delayed ruling on such proceedings until after January 1, 2002. The Company's common shares have continued to trade on the NASDAQ Stock Market.

On February 14, 2002, the Company received a subsequent NASDAQ Staff Determination notifying the Company that it had not met the minimum bid requirements, for the previous 30 trading days, for continued listing on the NASDAQ SmallCap Market. The Company has been granted 180 calendar days, until August 13, 2002, to regain compliance with the minimum bid price requirements. If, at anytime before August 13, 2002, the bid price of the Company's common stock closes at $1 per share or more for a minimum of ten consecutive trading days, NASDAQ staff will provide written notification that the Company complies with the Rule.

NOTE L - REDEEMABLE COMMON STOCK

On October 3, 2001, the Company, pursuant to an agreement, issued 150,000 shares of common stock. Under the agreement, the Company will be obligated for the difference between the net proceeds to the holder and $150,000 should the holder elect to sell the shares within 12 months of such shares becoming fully tradable or if such shares cannot be sold or are not fully tradeable within 13 months of issuance the Company is obligated to buy back the shares for $150,000. As such, during 2001, the Company recorded redeemable common stock of $150,000 for the estimated fair market value of the redeemable securities issued.

NOTE M - STOCKHOLDERS' EQUITY

In connection with the following Shareholder Rights Agreement, the Company created a series of 100,000 shares of preferred stock, par value $.01 per share, designated as Series A Junior Participating Preferred Stock (Series A Preferred Stock).

During 2001, the Company adopted a Shareholder Rights Agreement providing each outstanding share of common stock with a Series A preferred share purchase right (right) that expires in July of 2011. Each right entitles the holder to purchase one one-thousandth of a share of Series A preferred stock at a price of $10 per one one-thousandth of a share of Series A preferred stock. The rights will generally become exercisable only if a person or group (acquiring group), excluding the Company's largest stockholder, acquires, without approval of the Company's Board of Directors, 15% or more of the Company's common stock or announces a tender offer with the intention to do the same. Upon exercise, each holder, excluding the acquiring group, will receive the number of shares of common stock having a value equal to two times the exercise price of the right or one one-thousandth of a share of Series A preferred stock. The number of shares issuable upon exercise of rights is subject to certain antidilution adjustments. Generally, the rights may be redeemed by the Company at $.01 per right. The rights are non-participating and non-voting until exercised.

Series A preferred stock issued, if any, upon exercise of the rights will be entitled to the greater of a cumulative quarterly dividend payment of $10 per share when, and if, declared or 1,000 times the dividend declared per common share. In the event of liquidation, the Series A preferred share holders will be entitled to the greater of $1,000 per share or an aggregate payment of 1,000 times the aggregate payment per common share. Each share of Series A preferred stock will be entitled to 1,000 votes on all matters submitted to the stockholders. The Series A preferred stock will not be redeemable or convertible into common stock or any other security of the Company.

NOTE N - EMPLOYEE BENEFIT PLANS

The Company has a profit sharing 401(k) plan covering substantially all employees. Eligible employees may contribute up to 15% of their compensation. The Company contributes an amount equal to at least 25% of each employee's contributions not in excess of 10% of compensation. However, addi-tional contributions may be made at the Company's discretion. Expense under the plan was approxi-mately $20,000, $48,000, and $45,000 for 2001, 2000, and 1999, respectively.

NOTE N - EMPLOYEE BENEFIT PLANS - CONTINUED

Through December 31, 2001, the Company had a contributory health care benefit plan covering substantially all employees and eligible dependents. The plan provided for covered major medical expense benefits subject to certain deductibles, coinsurance provisions, and lifetime maximums. Through October 31, 2001, the plan had certain stop-loss coverage under an insurance policy that provided for payments of covered benefits in excess of $25,000 per year per covered person. The policy also provided an aggregate monthly stop-loss for the plan based on number of covered persons. Effective October 31, 2001, due to a lapse in insurance coverage, the Company became uninsured on this plan for benefit claims occurring through December 31, 2001. As of January 1, 2002, the Company terminated its employee health care benefits. Management has accrued amounts which it believes are sufficient to cover claims for incidents occurring from October 31, 2001 through December 31, 2001. Expense under the plan was approximately $338,000, $240,000, and $110,000 for 2001, 2000, and 1999, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE O - SEGMENT INFORMATION

The Company operates in the segments of piston engine aircraft manufacturing sales and service and jet aircraft brokerage and refurbishment. Information concerning the Company's reportable segments are as follows for the years ended December 31:

	2001	2000
Revenues		
Jet aircraft brokerage and refurbishment	$ 95,000	$ 83
Aircraft sales and service	9,392,795	16,747
Total	$ 9,487,795	$16,831
Operating income (loss)		
Jet aircraft brokerage and refurbishment	$ (223,486)	$ (76
Aircraft sales and service	(4,670,771)	568
Total	$(4,894,257)	$ 491
Assets		
Jet aircraft brokerage and refurbishment	$ 3,871	$ 43
Aircraft sales and service	7,299,986	11,764
Total	$ 7,303,857	$11,808

	Jet aircraft brokerage and	Aircraft

	refurbishment	and serv
Other significant items - 2001		
Interest income	$ 566	$ 14,
Interest expense	-	498,
Depreciation and amortization	1,487	118,
Expenditures for long-lived assets	-	37,
Other significant items - 2000		
Interest income	$ -	$207,
Interest expense	-	264,
Depreciation and amortization	1,291	139,
Expenditures for long-lived assets	-	140,
Other significant items - 1999		
Interest income	$ -	$200,
Interest expense	-	115,
Depreciation and amortization	5,295	105,
Expenditures for long-lived assets	782	60,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE P - EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of earnings (loss) per share and earnings (loss) per share assuming dilution at December 31:

	2001	200
Numerator		
Net earnings (loss)	$(5,519,592)	$ 450
Denominator for earnings (loss) per share		
Weighted average shares outstanding, basic	6,581,467	6,370
Effect of dilutive securities - stock options	-	296
Denominator for earnings (loss) per share assuming dilution	6,581,467	6,666
Earnings (loss) per share, basic	$ (.84)	$
Earnings (loss) per share, assuming dilution	$ (.84)	$

Outstanding options of 2,655,550, 1,278,366, and 1,460,880 for the years ended December 31, 2001, 2000, and 1999, respectively, have been excluded from the above calculations as they would be antidilutive.

NOTE Q - MANAGEMENT PLANS

For the year 2001, the Company reported $9,487,795 in revenues and a net loss of $5,519,592, with eight new aircraft deliveries. For the year 2000, the Company reported revenues of $16,831,034 and net earnings of $450,033, with 20 new aircraft deliveries. With demand for new aircraft increasing significantly throughout 2000, the Company increased the production schedule for 2001 to 32 aircraft. Unfortunately, management did not anticipate events during 2001, beyond the Company's control, which had an adverse impact on the Company, including:

- The dissipation of a significant portion of asset values and personal wealth, resulting from the decline of United States securities markets.

- A severe recession in the manufacturing and capital expenditures segments of the United States economy, as well as depressed economic conditions in virtually every other part of the world.

The September 11th terrorist attacks on the United States resulting in cancellation or postponement of aircraft purchases and disruption of business activities compounded by government restrictions on general aviation activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001, 2000, and 1999

NOTE Q - MANAGEMENT PLANS - CONTINUED

Management believes that there were a number of significant non-recurring charges incurred in 2001, comprising the majority of the $5,519,592 loss reported for the year. Specifically:

Excess capacity costs resulting from the slowdown in manufacturing activities in the fourth quarter following the September 11th terrorist attacks and government restrictions on general aviation

Abnormally high legal expenses, including a settlement of a lawsuit

The write-off of the uncollectable balance of an international dealer's credit facility, also a related party

The write-off of accrued, unpaid interest income on the international dealer's note receivable due to uncollectability

A reserve for insurance claims arising from the Company's partially uninsured employee health plan

Total

As the Company goes forward in 2002, management believes that economic conditions and financial markets appear to have stabilized and that the Company could benefit from increased interest in general aviation, due to inconvenience and safety factors now attendant with commercial airline travel. The Company could also benefit from historically low interest rates, which lower significantly the financing cost of aircraft purchases. Management also believes it is eligible and will apply for federal grants and loans, pursuant to a general aviation relief bill currently pending in Congress.

Furthermore, management has effected a number of initiatives, which, it believes, will increase revenue and profitability and growth potential. They include:

- Reduction of the Company's cost structure
- Adjustment of the Company's production schedule
- Increased prices of new aircraft, parts, and services
- Seeking additional financing for general working capital purposes
- Increase in marketing and advertising activities
- Enhancement of the Company's service and refurbishment capabilities and business
- Increase of SJS's capabilities and business
- Exploring merger and acquisition possibilities with other general aviation concerns

NOTE R - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended December 31:

	2001 Three months en		
	March 31	June 30	September 30
Total net sales	$2,639,760	$3,219,008	$1,552,3
Gross margin	381,674	523,783	290,5
Net loss	(598,587)	(455,408)	(559,7
Net loss per share, basic and diluted	(0.10)	(0.07)	(0.

2000

	Three months en		
	March 31	June 30	September 30
Total net sales	$3,942,575	$4,256,087	$4,804,7
Gross margin	844,616	949,555	1,083,0
Net loss	38,183	113,049	252,3
Net income per share, basic and diluted	0.01	0.02	0.

During the fourth quarter of 2001, the Company recorded bad debt expense relating to a note receivable from related party of $1,529,889, or $.23 per share, and wrote off related accrued interest receivable of $115,977, or $.02 per share. In addition, during the fourth quarter of 2001, the Company recorded certain indirect manufacturing costs of $991,063, or $0.15 per share, as current period charges rather than as a portion of inventory costs.

The sum of per-share amounts for the four quarters may differ from the annual per share amounts due to rounding and the required method of computing weighted average number of shares in the respective periods.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial

Disclosure

There were no Form 8-K filings in fiscal year ended December 31, 2001 and there were no changes in or disagreements with accountants on accounting and financial disclosure in 2001.

PART III

Certain information required by Part III is omitted from this report in that registrant will file a definitive proxy statement pursuant to Regulation 14A for its 2001 Annual Meeting of Shareholders, and the information included therein is incorporated by reference.

Item 10. Directors and Executive Officers of the Registrant

Information regarding directors of the Registrant required by this item is incorporated herein by reference to the Company's 2002 Proxy Statement under the caption "Election of Directors - Nominees".

The information regarding executive officers of the Company required by this item appearing in the Company's 2002 Proxy Statement under the caption "Election of Directors - Other Officers" is hereby incorporated by reference.

Item 11. Executive Compensation

The information required by this item appearing in the Company's 2002 Proxy

Statement under the captions "Election of Directors - Director Compensation" and "Executive Compensation" is hereby incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item appearing in the Company's 2002 Proxy Statement under the caption "Information Concerning Solicitation and Voting - Security Ownership of Certain Beneficial Owners and Management" is hereby incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Related-party transactions are disclosed in Note I - Related Party Transactions, of the Notes to Consolidated Financial Statements. In addition, the information required by this item appearing in the Company's 2002 Proxy Statement under the caption "Compensation Committee Interlocks and Certain Transactions" is hereby incorporated by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports of Form 8-K:

(a) (1) The following financial statements are included in Part II Item 8:

(2)

All schedules are omitted because they are not applicable or the required information has been presented in the financial statements or notes thereto.

(3) Exhibits included are hereby incorporated by reference to the Exhibit Index, page 44 of this report.

INDEX OF EXHIBITS

Exhibit No	Description
3.1	Certificate of Incorporation of Aviation General, Incorporated. This exhibit is incorporated by reference to Exhibit 3.1 of the Registrant's Form S-4 filed June 12, 1998 (Reg. No. 333-56731).
3.2	Bylaws of Aviation General, Incorporated. This exhibit is incorporated by reference to Exhibit 3.2 of the Registrant's Form S-4 filed June 12, 1998 (Reg. No. 333-56731).
4.1(a)	Certificate of Incorporation, describing the Common Stock (included in Exhibit 3.1). This exhibit is incorporated by reference to Exhibit 4.1(a) of the Registrant's Form S-4 filed June 12, 1998 (Reg. No. 333-56731).
10.1	Federal Aviation Administration ("FAA") Type Certificates issued to Commander Aircraft Company (the "Company") for models 112, 114, 112TC, 112B, 112TCA, 114A, and 114B. This exhibit is incorporated by reference to Exhibit 10.1 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.2	FAA Repair Station Air Agency Certificate issued to the Company. This exhibit is incorporated by reference to Exhibit 10.2 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.3	Lease and operations Agreement between the Company and the Trustees of the Oklahoma City Airport Trust dated August 9, 1988, as amended by the Supplemental Agreement No. 1 dated December 18, 1991, and the Supplemental Agreement No. 2 dated April 2, 1992. This exhibit is incorporated by reference to Exhibit 10.19 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.4	Textron Lycoming Finance Plan No. 1 between Textron Financial Corporation and the Company dated June 26, 1991, as amended to the Finance Plan No. 1 dated as of May 28, 1992, the Second Amendment dated as of September 29, 1992, and the Third Amendment dated as of December 10, 1992. This exhibit is incorporated by reference to Exhibit 10.29 of the Registrant's Form S-1 filed March 4, 1993 (Reg.No. 33-59128).
10.5	International Distributorship Agreement between the Company and Com-Air Flugzeughandel Gmbh. This exhibit is incorporated by reference to Exhibit 10.31 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.6	International Distributorship Agreement between the Company and Aero Service b.v. This exhibit is incorporated by reference to Exhibit 10.32 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.7	International Dealership Agreement between the Company and Commander Khaleej Trading Establishment. This exhibit is incorporated by reference to Exhibit10.28 of the Registrant's Form 10-K filed March 30, 1994.

INDEX OF EXHIBITS

Exhibit No	Description
10.8	Form of the Company's Authorized Sales and Service Representative Policy and Procedures Manual. This exhibit is incorporated by reference to Exhibit 10.37 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.9	Form of the Company's Authorized Sales and Service Representative Agreement. This exhibit is incorporated by reference to Exhibit 10.38 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.10	Form of the Company's Service Center Agreement. This exhibit is incorporated by reference to Exhibit 10.39 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.11	The Commander Aircraft Company Profit Sharing Plan. This exhibit is incorporated by reference to Exhibit 10.40 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.12	Nonstatutory Stock Option Agreement between the Company and Wirt D. Walker, III dated January 31, 1994. This exhibit is incorporated by reference to Exhibit 10.48 of the Registrant's Form 10-K filed March 30, 1994.
10.13	Nonstatutory Stock Option Agreement between the Company and Mishal Y.S. Al Sabah dated January 31, 1994. This exhibit is incorporated by reference to Exhibit 10.49 of the Registrant's Form 10-K filed March 30, 1994.
10.14	Form of Company's Aircraft Delivery and Acceptance Agreement. This exhibit is incorporated by reference to Exhibit 10.63 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.15	Form of the Company's Aircraft Retail Warranty. This exhibit is incorporated by reference to Exhibit 10.64 of the Registrant's Form S-1 filed March 4, 1993 (Reg. No. 33-59128).
10.16	Commander Aircraft Company 1993 Stock Option Plan. This exhibit is incorporated by reference to Exhibit 10.53 of the Registrant's Form 10-K filed March 28, 1996.
21	List of subsidiaries

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto authorized on the 28th day of March 2001.

AVIATION GENERAL INCORPORATED

/s/ WIRT D. WALKER, III

By: Wirt D. Walker, III
Chairman of the Board

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Principal Executive Officers:

Wirt D. Walker, III	Chairman	April 15, 20
	Chief Executive Officer President	

Principal Financial Officer and Accounting Officer:

Jeff Henderson	Chief Financial Officer	April 15, 20

Directors:

Wirt D. Walker, III	Director	April 15, 20
N. Gene Criss	Director	April 15, 20
Stephen R. Buren	Director	April 15, 20
John H. DeHavilland	Director	April 15, 20