AVIATION GENERAL INC
Form 10-Q
November 25, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2002

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 (State of Incorporation)	73-1547645 (IRS Employer Identification No.)
7200 NW 63rd Street Hangar 8, Wiley Post Airport Bethany, Oklahoma (Address of principal executive offices)	73008 (Zip Code)

(405) 440-2255
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

Yes__X__ No_____

There were 6,859,330 Shares of Common Stock Outstanding as of September 30, 2002

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2002
ASSETS	
Current Assets	
Cash and cash equivalents	$258,489
Accounts receivable	-
Current portion of note receivable	-
Inventories	4,977,939
Prepaid expenses and other assets	64,334
Total current assets	5,300,762
Property and equipment	
Office equipment and furniture	372,162
Vehicles and aircraft	95,115
Manufacturing equipment	385,179
Tooling	676,747
Leasehold improvements	315,050
	1,844,253
Less accumulated depreciation	(1,305,459)
	538,794
Other assets	
Notes receivable, less current maturities	-
Available-for-sale equity securities - related party	-
	-
	$5,839,556

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

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2002
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
Current liabilities	
Accounts payable	$2,714,372
Accrued expenses	450,093
Refundable deposits	205,000
Notes payable	1,732,499
Total current liabilities	5,101,964
Long term liabilities	1,000,000
Note payable, convertible to common stock	
	150,000
REDEEMABLE COMMON STOCK - $.01 par value; Issued 150,000 shares in 2001; stated at redemption value	
Stockholders' Equity (Deficit)	
Preferred stock, $.01 par value, 5,000,000 shares authorized; no shares outstanding	-
Common stock, $.50 par value, 20,000,000 shares authorized; 7,631,519 shares issued at September 30, 2002 and December 31, 2001	3,815,759
Additional paid-in capital	37,000,299
Less: Treasury stock at cost, 772,189 shares at September 30, 2002 and December 31, 2001	(1,294,193)
Accumulated other comprehensive income (loss)	-
Accumulated deficit	(39,934,273)
Total stockholders' equity (deficit)	(412,408)
	$5,839,556

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

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2002	2001
Net sales - aircraft	$1,377,523	$1
Net sales - service	296,815	
Total net sales	1,674,338	1
Cost of sales - aircraft	1,352,609	1
Cost of sales - service	274,509	
Total cost of sales	1,627,118	1
Gross margin	47,220	
Other operating expenses		
Product development and engineering costs	45,193	
Selling, general and administrative expenses	853,246	
Total other operating expenses	898,439	
Operating loss	(851,219)	
Other income (expenses)		
Other income	24	
Interest expense	(39,986)	
Other expense	(1,650)	
Realized loss on available for sale equity securities	(395,973)	
Total other expenses	(437,585)	
Net loss	($1,288,804)	(
Net loss per share		
Weighted average common shares outstanding, basic and diluted	7,009,330	
Net loss per share, basic and diluted	($0.18)	

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

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Nine Months Ended September 30, 2002	2001
Net sales - aircraft	$7,189,719	$6
Net sales - service	718,749	1
Total net sales	7,908,468	7
Cost of sales - aircraft	6,957,217	5
Cost of sales - service	522,814	1
Total cost of sales	7,480,031	6
Gross margin	428,437	1
Other operating expenses		
Product development and engineering costs	118,366	
Selling, general and administrative expenses	1,757,664	2
Total other operating expenses	1,876,030	2
Operating loss	(1,447,593)	(1
Other income (expenses)		
Other income	16,724	
Interest expense	(163,820)	
Other expense	(282)	
Realized loss on available for sale equity securities	(395,973)	
Total other expenses	(543,351)	
Net loss	($1,990,944)	($1
Net loss per share		
Weighted average common shares outstanding, basic and diluted	7,009,330	
Net loss per share, basic and diluted	($0.28)	

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

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended Sept	
	2002	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	($1,990,944)	
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	100,324	
Realized loss on available for sale equity securities	395,973	
Non-cash interest earnings	-	
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	-	
Notes receivable	101,896	
Inventories	1,161,293	
Prepaid expense and other assets	5,821	
Increase (decrease) in		
Accounts payable	404,922	
Accrued expenses	(164,023)	
Refundable deposits	(540,549)	
Net cash used in operating activities	(525,287)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	-	
Net cash used by investing activities	-	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	5,053,483	
Payments on borrowings	(4,481,063)	
Net cash provided by financing activities	572,420	
Net increase in cash	47,133	
Cash and cash equivalents at beginning of period	211,356	
Cash and cash equivalents at end of period	$258,489	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW

INFORMATION	
Cash paid during the period for:	
Interest	$163,820

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

AVIATION GENERAL, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments necessary to present fairly the financial position of Aviation General, Incorporated as of September 30, 2002, and the results of operations and cash flows for the three and nine month periods ended September 30, 2002 and 2001 have been included and are of a normal, recurring nature. The results of operations for such interim periods are not necessarily indicative of the results for the full year. It is suggested that these condensed financial statements be read in conjunction with the Company's 2001 Annual Report on Form 10-K.

2. Basic income (loss) per share of common stock has been computed by using the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per share has been computed based on the assumption that all dilutive potential common shares are outstanding during the period.

	Nine months ending September 30, 2002	September 30,
Numerator		
Net loss	($1,990,944)	($1,613,75
Interest reduction on assumed note conversion	0	
Numerator for loss per share assuming dilution	($1,990,944)	($1,613,
Denominator		
Weighted average shares outstanding, basic	7,009,330	6,431,23
Effect of dilutive securities		
Stock options	0	
Redeemable common stock	0	
Note conversion	0	

Denominator for loss per share assuming dilution	7,009,330	6,431,23
Loss per share, basic	($ 0.28)	($ 0.25
Loss per share, assuming dilution	($ 0.28)	($ 0.25

	Three months ending September 30, 2002	September 30,
Numerator		
Net loss	($1,288,804)	($559,76
Interest reduction on assumed note conversion	0	
Numerator for loss per share assuming dilution	($1,288,804)	($559,76
Denominator		
Weighted average shares outstanding, basic	7,009,330	6,730,09
Effect of dilutive securities		
Stock options	0	
Redeemable common stock	0	
Note conversion	0	
Denominator for loss per share, assuming dilution	7,009,330	6,730,09
Loss per share, basic	($0.18)	($ 0.0
Loss per share, assuming dilution	($0.18)	($ 0.08

Incremental shares relating to outstanding options, convertible debt, and redeemable common stock for the periods ended September 30, 2002 and 2001 have been excluded from the calculations above as they would be antidilutive.

3. The Company has an investment consisting of 245,000 shares of Stratesec Inc. common stock which has historically been classified as an available-for-sale security and reported at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

However, during the third quarter of 2002, certain information has come to the Company's attention concerning the ability of Stratesec's stock to recover its fair value. Among these are deteriorating financial condition, the lack of development of merger or acquisition opportunities and notification from the American Stock Exchange on July 18, 2002 that Stratesec does not meet minimum equity requirements and is subject to being de-listed. Based on the above facts and in consultation with the appropriate authoritative literature, management believes that an impairment loss of approximately $396,000 has occurred and has been recorded in the third quarter of 2002 as a charge to earnings.

4. Inventories consist primarily of finished goods and parts for manufacturing and servicing aircraft. Inventory costs include all direct manufacturing costs and applied overhead. These inventories, other than used aircraft, are stated at the lower of cost or market, and cost is determined by the average-cost method. Used aircraft are valued on a specific-identification basis at the lower of cost or current estimated realizable wholesale price. Inventory components at the balance sheet dates were as follows:

	September 30, 2002	December 31, 2001
Raw materials	$1,842,548	$1,983,979
Work in process	1,045,653	1,402,252
New and pre-owned aircraft	2,070,488	2,733,751
Other	19,250	19,250
Total inventories	$4,977,939	$6,139,232

During the preparation of the third quarter 2002 financial statements, management identified certain excess capacity costs of approximately $662,000 which were capitalized as work in process inventories as of June 30, 2002. Management believes these costs were incurred primarily as a result of the reduced manufacturing environment and should have been expensed during the second quarter of 2002. The effect of this adjustment was as follows:

	3 months ended June 30, 2002	6 months June 30,
Net Income (Loss), as previously reported	$250,010	($40,174)
Effective restatement	(661,966)	(661,966)
Net loss, as restated	($411,956)	($702,140)
Net income (loss) per share, basic and diluted, as previously reported	$0.04	($0.01)
Effect of restatement	($0.10)	($0.10)
Net loss per share, basic and diluted, as restated	($0.06)	($0.11)

5. On July 22, 2002, the Company issued a $1million six percent secured convertible note due December 31, 2004 in a private placement. The note is collateralized by the assets of the Company and is convertible into common stock at $.85 a share at any time during the term of the note. Interest on the note is

payable semi-annually at the end of June and December until maturity.

6. 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 eighteen-year statute of repose for general aviation 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 as of December 31, 1997. 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. 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.

The Company is routinely involved in various legal matters arising in the normal course of business, including product liability claims. Management intends to vigorously defend against these claims and currently believes that legal matters 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 financial statements. Due to the uncertainty of these matters, it is at least reasonably possible that management's view of the outcome will change in the near term.

7. 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.

Adoption of SFAS No. 144 has not had and management believes that adoption of SFAS No. 143 will not have any significant effect on the Company's financial condition or results of operations.

8. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the company as a going concern. However, the Company sustained substantial losses from operations in 2001, and such losses have continued through the current year.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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

BUSINESS OVERVIEW

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

In 1999, the Company formed Strategic Jet Services, Inc. (SJS), a wholly owned subsidiary, to provide brokerage, sales, consulting and refurbishment work for jet aircraft.

The Company continues to certify new state-of-the-art avionics systems that offer the customer the latest technology in navigational and communication equipment. The Company introduced a new de-icing option and received certification from the Federal Aviation Administration, allowing equipped aircraft to operate in known icing conditions similar to larger, more expensive aircraft. Sales of this equipment not only provide additional revenues and earnings, but also increase the value of the aircraft relative to its competition.

During 2000, the Company introduced the 115 series of high performance, single engine aircraft. The Commander 115 represents 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 Company's business strategy is to capture a significant share of the existing domestic and international market for the single engine, high performance aircraft. Commander aircraft have an airframe design decades newer than the competition and are certified to more stringent standards. In addition, Commander aircraft have a significantly better safety record and higher resale value than all other aircraft in their class. 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 the market for new aircraft sales, the Company has also established capabilities to provide consulting, sales, brokerage, acquisition and refurbishment services for pre-owned piston and jet aircraft.

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, ongoing direct mail programs to owners and pilots, and internet marketing communications. However, due to the current economic conditions, expenditures for these activities have been reduced substantially.

The Company has one of the most comprehensive worldwide service and support networks in its class. The Company grants domestic Commander ASCs the non-exclusive right to refer prospects for new 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 companies that have not previously owned or operated aircraft. This flexible program can be tailored to meet each customer's specific requirements.

RESULTS FROM OPERATIONS

Revenues from the sale of aircraft for the third quarter of 2002 totaled $1,377,523 compared to $1,277,118 for the comparable period of 2001. In the third quarter of 2002, one new and two pre-owned aircraft were sold compared with two new and one pre-owned aircraft sold and two aircraft brokered in the same period for 2001.

For the nine-month period ended September 30, 2002, aircraft revenues were $7,189,719 compared to $6,141,113 for the nine-month period ending September 30, 2001. This increase is due in part to equipment, accessories and price increases for the planes sold during the first nine months of 2002 compared to 2001.

Service revenues totaled $296,815 for the quarter ended September 30, 2002 compared to $275,278 for the comparable quarter in 2001. This increase is due to an increase in aircraft repair and refurbishment activity. Service revenues were $718,749 for the nine-month period ending September 30, 2002 compared to $1,270,051 for the nine month period ending September 30, 2001. The decrease was due to a decrease in parts shipments and aircraft repair and refurbishment activity.

Cost of aircraft sales for the three month period ended September 30, 2002 increased to $1,352,609 compared to $1,024,284 for the three month period ended September 30, 2001. The increase in cost is due in part to increases the company has experienced in component costs. Cost of aircraft sales for the nine month period ended September 30, 2002 increased to $6,957,217 compared to $5,162,363 for the nine month period ended September 30, 2001. The increase in cost was due to the increase in component costs of new aircraft sold as well as excess capacity costs of approximately $682,000 that were incurred during the first nine months of 2002.

During the preparation of the third quarter 2002 financial statements, management identified certain excess capacity costs of approximately $662,000 which were capitalized as work in process inventories as of June 30, 2002. Management believes these costs were incurred primarily as a result of the reduced manufacturing environment and should have been expensed during the second quarter of 2002. Management is currently amending the Form 10-QSB for the periods ended June 30, 2002 to properly reflect the effect of this adjustment as a charge to earnings in the second quarter of 2002.

Cost of sales for service and parts for the quarter ended September 30, 2002 increased to $274,509 compared to $237,559 for the quarter ended September 30, 2001. The increase was due primarily to the increase in part sales and repair and refurbishment activity and price increases. Cost of sales for service and parts for the nine month period ended September 30, 2002 were $522,814 compared to $1,042,790 for the nine month period ended September 30, 2001. The decrease was due to the decrease in part sales and repair and refurbishment activity.

Product development and engineering costs decreased to $45,193 for the third quarter of 2002, from $61,995 for the comparable period in 2001 due to the reduction in support staff and employee benefits. For the nine month period ended September 30, 2002 product development and engineering costs were $118,366 compared to $244,172 for the nine month period ended September 30, 2001 due to a reduction in support staff and employee benefits.

Sales, general and administrative expense increased for the three-month period ended September 30, 2002, to $853,246 from $690,641 for the comparable period ended September 30, 2001 due to legal expenses incurred during the period. Sales, general and administrative expense for the nine-month period ended September 30, 2002 were $1,876,030 compared to $2,326,161 for the nine-month period ended September 30, 2001 due to reduction in staff and employee benefits.

Interest expense decreased to $39,986 for the third quarter of 2002 from $124,900 for the comparable period in 2001 due to a reduction of bank lines of credit and lower daily average debt during the period and is partially offset by the issuance of convertible debt.

LIQUIDITY AND CAPITAL RESOURCES

Cash balances increased to $258,489 at September 30, 2002 from $211,356 at December 31, 2001.

A note receivable held by the Company for an aircraft sold to a customer was paid in the third quarter of 2002.

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 that are included in earnings. During the third quarter of 2002, this investment in the common stock of a related party was determined to be other than temporarily impaired, resulting in a charge to the period's operations of $395,973.

Inventories decreased to $4,977,939 at September 30, 2002 from $6,139,232 at December 31, 2001. Raw materials, parts and work in process decreased $498,030 as the company has recognized excess capacity charges during 2002 of approximately $682,000. New and pre-owned aircraft inventory decreased by $663,263 due to sales of aircraft and reduction of inventory.

Accounts payable increased to $2,714,372 at September 30, 2002 from $2,309,450 at December 31, 2002 . Accrued expenses decreased to $450,093 at September 30, 2002 from $614,116 at December 31, 2001. This is due to the receipt of related invoices which are now in accounts payable.

Refundable deposits decreased to $205,000 at September 30, 2002 from $745,549 at December 31, 2001. Short term notes payable decreased to $1,732,499 at September 30, 2002 from $2,160,079 at 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. The Company anticipates funding these requirements by cash generated from operations, borrowings under the Company's existing lines of credit and new funding sources. In July 2002 the Company obtained $1 million of financing through the issuance of a convertible note, which is described below under "Contractual Obligations."

After seeming to rebound in the first half of 2002, orders for new and pre-owned aircraft softened significantly, management believes, as a result of the continued weakness in the economy, renewed anxiety over possible terrorists activities and an impending war with Iraq. The Company plans to limit production activities through the holidays until year end and further reduce its operating costs while continuing revenue-generating activities in aircraft maintenance and service, refurbishing services, parts sales and brokerage services.

CRITICAL ACCOUNTING POLICIES

Aircraft Sale and Marketing

The Company recognizes 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 services are performed.

Inventories

Inventories, other than pre-owned aircraft, are stated at 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

Inventory of new and pre-owned aircraft is financed 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 at September 30, 2002.

	2002 Obligation	
	Total	Interest
Revolving credit facilities	$1,707,153	$33,360
Note payable to an individual, payable in monthly installments of $8,699, including interest at 8%	25,346	2,027

Note payable to an individual, payable December 31, 2004. Convertible to common stock at $.85 a share. Interest due semi annually at the end of June and December until maturity.	$1,000,000	$20,000

The Company leases its facilities with a revocable permit to lease obtained on December 17, 2001. The permit requires a monthly lease payment in the same amount as the original five-year lease scheduled to expire in October 2003 and was terminated December 16, 2001. The permit requires payment of any delinquent and outstanding amounts owed by 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 minimum lease payments under these leases at September 30, 2002 are as follows:

2002	159,318
2003	250,536
2004	21,504

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 tradable within 13 months of issuance the Company is obligated to buy back the shares for $150,000.

The Company plans to seek capital through additional private placements of an ownership interest and/or mergers 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 and 2002 the Company made significant reductions in its cost and overhead structure, and will continue to evaluate such changes if and when they are needed. However, the Company does not currently have sufficient resources to continue operations for the next 12 months without additional capital.

Forward Looking Statements

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

PART I. FINANCIAL INFORMATION
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's market risk is impacted by changes in interest rates and certain equity security prices. 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. However, during the third quarter of 2002 certain reductions in the fair value of available for sale equity securities were determined to be other than temporary resulting in a charge to earnings. The Company has no significant risk associated with commodity prices.

PART I. FINANCIAL INFORMATION
ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer acting also in capacity as principal financial officer, evaluated the Company's disclosure controls and procedures within 90 days of the filing of this report. As previously discussed, during the preparation of the third quarter 2002 financial statements, management identified certain excess capacity costs which were capitalized as work in process inventory as of June 30, 2002; however, such costs should have been expensed. This internal evaluation of the current processes has included the potential issues with regard to identifying excess capacity costs and excluding such costs from work in process inventory. As a result of this evaluation, management has implemented additional controls to provide reasonable assurance that excess capacity costs are expensed and not capitalized as work in process inventory. Aside from this, management concluded that the Company's disclosure controls and procedures were effective. Except for the aforementioned, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses subsequent to their evaluation.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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

ITEM 5. OTHER

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

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1	Securities Purchase Agreement
10.2	Secured Convertible Note
10.3	Investor Rights Agreement
10.4	Security Agreement
10.5	Guarantee*
99.1	Certification

*Incorporated by reference to the registrant's report on Form 10-QSB for the period ended June 30, 2002

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

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

99.1 Certification of Filing by Officers Pursuant to U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

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

AVIATION GENERAL INCORPORATED
(Registrant)

By: /s/ Wirt D. Walker
Wirt D. Walker
Chairman of the Board of Directors
(Certifying on behalf of Registrant and in capacity as Principal Executive Officer and Principal Financial Officer)

CERTIFICATION

I, Wirt D. Walker, III certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Aviation General, Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 25, 2002

/s/ WIRT D. WALKER III
Wirt D. Walker III
Chief Executive Officer

Chairman of the Board of Directors
(certifying in capacity as Principal Executive Officer
and Principal Financial Officer)