

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

AVIATION GENERAL INC
Form 10QSB
March 26, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2003

OR

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

Commission File Number: 0-24795

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

Delaware
(State of Incorporation)

73-1547645
(IRS Employer
Identification No.)

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

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

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

Yes X No
----- -----

There were 8,120,397 Shares of Common Stock Outstanding as of June 30, 2003

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

Consolidated Condensed Balance Sheet - June 30, 2003

Consolidated Condensed Statements of Operations -
For the Three Months Ended June 30, 2003 and 2002

Consolidated Condensed Statements of Operations -
For the Six Months Ended June 30, 2003 and 2002

Consolidated Condensed Statements of Shareholders'
Equity - For the Six Months Ended June 30, 2003
and 2002

Consolidated Condensed Statements of Cash Flows -
For the Six Months Ended June 30, 2003 and 2002

Notes to Consolidated Condensed Financial Statements

Item 2. Management's Discussion and Analysis

Item 3. Controls and Procedures

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Item 5. Other

Item 6. Exhibits and Reports on Form 8K

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

(Insert financial statements here)

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

	June 30, 2003
ASSETS	-----
CURRENT ASSETS:	
Cash and cash equivalents	\$ 35,993
Accounts receivable	22,008
Inventories	2,391,871
Prepaid expenses and other assets	3,591

Total current assets	2,453,463

PROPERTY AND EQUIPMENT:	

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

Office equipment and furniture	365,373
Vehicles and aircraft	95,115
Manufacturing equipment	384,979
Tooling	676,747
Leasehold improvements	112,748

	1,634,962
Less accumulated depreciation	(1,199,015)

	435,947

	\$ 2,889,410
	=====

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

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

	June 30,
LIABILITIES AND STOCKHOLDERS' EQUITY	2003

CURRENT LIABILITIES:	
LIABILITIES NOT SUBJECT TO COMPROMISE -	
Accounts payable	\$ 133,291
Accrued expenses	139,766
Notes payable	1,093,787

Total current liabilities not subject to compromise	1,366,844

LIABILITIES SUBJECT TO COMPROMISE -	
Accounts payable	2,043,489
Accrued expenses	1,373,125
Refundable deposits	185,700

Total liabilities subject to compromise	3,602,314

Total current liabilities	4,969,158

NONCURRENT LIABILITIES:	
Notes payable	1,034,795

REDEEMABLE COMMON STOCK - \$.50 par value;	
Issued 150,000 shares; stated at redemption value	150,000

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

STOCKHOLDERS' EQUITY (DEFICIT):	
Preferred stock, \$.01 par value, 5,000,000 shares authorized; no shares outstanding	-
Common stock, \$.50 par value, 20,000,000 shares authorized; 8,120,397 issued	4,060,198
Additional paid-in capital	37,254,305
Less: Treasury stock at cost, 1,009,551 shares	(1,709,638)
Accumulated (deficit)	(42,869,408)
<hr/>	
Total stockholders' equity (deficit)	(3,264,543)
<hr/>	
	\$ 2,889,410
	=====

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

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

	Three Months Ended June 30,	
	2003	2002
	-----	-----
NET SALES:		
Aircraft	\$ 532,553	\$ 4,433,946
Service	237,682	295,363
	-----	-----
	770,235	4,729,309
	-----	-----
COST OF SALES:		
Aircraft	461,887	4,438,723
Service	167,826	181,600
	-----	-----
	629,713	4,620,323
	-----	-----
Gross profit	140,522	108,986
	-----	-----
OTHER OPERATING EXPENSES		
Product development and engineering costs	434	41,218
Selling, general and administrative expenses	438,694	443,093
	-----	-----
Total other operating expenses	439,128	484,311
	-----	-----

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

Operating (loss)	(298,606)	(375,325)
	-----	-----
OTHER INCOME (EXPENSES):		
Other income	4,962	16,314
Interest expense	(44,949)	(55,332)
Other expense	(563)	2,387
	-----	-----
	(40,550)	(36,631)
	-----	-----
(LOSS) BEFORE INCOME TAXES	(339,156)	(411,956)
PROVISION FOR INCOME TAXES	-	-
	-----	-----
NET (LOSS)	\$ (339,156)	\$ (411,956)
	=====	=====
NET (LOSS) PER SHARE:		
Weighted average common shares outstanding; basic	7,110,846	6,859,330
	=====	=====
Net (loss) per share; basic	\$ (0.05)	\$ (0.06)
	=====	=====
Weighted average common shares outstanding; diluted	7,110,846	6,859,330
	=====	=====
Net (loss) per share; diluted	\$ (0.05)	\$ (0.06)
	=====	=====

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

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

	Six Months Ended June 30,	
	2003	2002
	-----	-----
NET SALES:		
Aircraft	\$ 672,553	\$ 5,812,196
Service	410,043	421,934
	-----	-----

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

	1,082,596	6,234,130
	-----	-----
COST OF SALES:		
Aircraft	590,421	5,604,608
Service	291,397	248,305
	-----	-----
	881,818	5,852,913
	-----	-----
Gross profit	200,778	381,217
	-----	-----
OTHER OPERATING EXPENSES:		
Product development and engineering costs	1,330	73,173
Selling, general and administrative expenses	814,920	904,418
	-----	-----
Total other operating expenses	816,250	977,591
	-----	-----
Operating (loss)	(615,472)	(596,374)
	-----	-----
OTHER INCOME (EXPENSES):		
Other income	59,872	17,950
Interest expense	(84,805)	(123,834)
Other expense	(563)	118
	-----	-----
	(25,496)	(105,766)
	-----	-----
(LOSS) BEFORE INCOME TAXES	(640,968)	(702,140)
PROVISION FOR INCOME TAXES	-	-
	-----	-----
NET (LOSS)	\$ (640,968)	\$ (702,140)
	=====	=====
NET (LOSS) PER SHARE		
Weighted average common shares outstanding; basic	7,110,846	6,859,330
	=====	=====
Net (loss) per share; basic	\$ (0.09)	\$ (0.10)
	=====	=====
Weighted average common shares outstanding; diluted	7,110,846	6,859,330
	=====	=====
Net (loss) per share; diluted	\$ (0.09)	\$ (0.10)
	=====	=====

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit
	-----	-----	-----	-----	-----	-----
Balance at						
January 1, 2002	7,631,519	\$3,815,759	\$37,000,299	772,189	\$(1,294,193)	\$(37,943,300)
Comprehensive income						
Net earnings	-	-	-	-	-	(702,100)
Other comprehensive income						
Change in unrealized investment gain, net	-	-	-	-	-	
Comprehensive income	-	-	-	-	-	(339,000)
Balance at						
June 30, 2002	7,631,519	\$3,815,759	\$37,000,299	772,189	\$(1,294,193)	\$(38,645,400)
Balance at						
January 1, 2003	8,120,397	\$4,060,198	\$37,254,305	1,009,551	\$(1,709,638)	\$(42,228,400)
Comprehensive income						
Net earnings	-	-	-	-	-	(640,900)
Other comprehensive income						
Change in unrealized investment gain, net	-	-	-	-	-	
Comprehensive income	-	-	-	-	-	(640,900)
Balance at						
June 30, 2003	8,120,397	\$4,060,198	\$37,254,305	1,009,551	\$(1,709,638)	\$(42,869,400)

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

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

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

	Six Months Ended June 31,	
	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACITIVITES:		
Net (loss)	\$ (640,968)	\$ (702,140)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities -		
Depreciation and amortization	54,460	66,883
Receipts on aircraft notes receivable	-	13,605
(Gain) on retirement of property and equipment	(138)	-
Changes in assets and liabilities:		
(Increase) decrease in -		
Accounts receivable	(12,577)	(174,744)
Inventories	819,660	1,096,465
Prepaid expenses and other assets	-	(923)
Increase (decrease) in -		
Accounts payable	30,559	135,442
Accrued expenses	213,774	277,157
Refundable deposits	39,200	(307,706)
	-----	-----
Net cash provided by (used in) operating activities	503,970	404,039
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on sales of property and equipment	200	-
	-----	-----
Net cash provided by investing activities	200	-
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	100,000	2,105,329
(Payments on) borrowings	(566,032)	(2,587,951)

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

	-----	-----
Net cash (used in) financing activities	(466,032)	(482,622)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,138	(78,583)
CASH AND CASH EQUIVALENTS (OVERDRAFTS) AT BEGINNING OF PERIOD	(2,145)	211,356
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	35,993	132,773
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 82,495	\$ 123,596
Income taxes	\$ -	\$ -

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

AVIATION GENERAL, INCORPORATED & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2003

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

1. INVENTORIES

Inventories consist primarily of finished goods, work in process, and parts

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

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 June 30, 2003:

Raw materials	\$ 1,098,726
Work in process	508,737
New and pre-owned aircraft	775,158
Other	9,250

	\$ 2,391,871
	=====

2. PETITION FOR RELIEF UNDER CHAPTER 11

On December 27, 2002 the Company's wholly owned subsidiary, Commander Aircraft Company (the "Debtor") filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Delaware. Under Chapter 11, certain claims against the Debtor in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Debtor continues business operations as Debtor-in-possession. These claims are reflected in the June 30, 2003 balance sheet as "liabilities subject to compromise." Claims secured against the Debtor's assets ("secured claims") also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on the Debtor's property, plant and equipment. Refer to the Company's most recent annual report on Form 10-KSB.

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

The Company has obtained the approval of the Bankruptcy court for Debtor-in-Possession, (DIP), financing of \$100,000. The DIP financing bears interest at the rate of 10% (simple interest), which is payable at the effective date of the Chapter 11 Plan of Reorganization. The Company took a \$50,000 draw on the DIP Financing on January 7, 2003 and a \$50,000 draw on June 5, 2003.

3. GOING CONCERN

During the years ended December 31, 2001 and 2002, the Company incurred net (losses) of (\$5,519,592) and (\$4,285,111), respectively. During the six months ended June 30, 2003, the Company lost an additional (\$640,968). As of June 30, 2003, the Company had a negative working capital of (\$2,515,695) and a deficit net worth of (\$3,264,543). On December 27, 2002, the Company's wholly owned subsidiary, Commander Aircraft Company, filed petitions for relief under Chapter 11 of the federal bankruptcy code. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to successfully reorganize Commander Aircraft

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

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

4. LEASES

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

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

Year ending December 31,	
2003	\$ 75,600
2004	113,400
2005	113,400
2006	94,500

Total future minimum lease payments	\$ 396,900
	=====

5. COMMITMENTS AND CONTINGENCIES

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

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

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

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

On September 24, 2002 the Company's common stock was delisted from the Nasdaq 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

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

Forward Looking Statements

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

BUSINESS OVERVIEW

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

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

On December 27, 2002, Commander Aircraft Company filed a voluntary petition

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

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

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

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

Critical Accounting Estimates and Accounting Policies

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

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

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

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

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

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

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

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

RESULTS FROM OPERATIONS - COMPARISON OF THREE ENDED JUNE 30, 2003 AND 2002

Revenues from the sale of aircraft for the second quarter of 2003 decreased by \$3,901,393 or 88% from \$4,443,946 to \$532,553 during the quarters ended June 30, 2002 and 2003, respectively. In the second quarter of 2003, three pre-owned aircraft were sold compared with twelve new and pre-owned aircraft sold in the same period for 2002.

Service and parts revenues decreased by \$57,681 or 20% from \$295,363 to \$237,682 during the quarters ended June 30, 2002 and 2003, respectively. The second quarter service revenue includes two consignment aircraft sales that are considered broker's fees generated for the Company.

Cost of aircraft sales decreased by \$3,976,836 or 90% from \$4,438,723 to \$461,887 during the quarters ended June 30, 2002 and 2003, respectively. The decrease in cost is due to the decrease in number of aircraft sold. This was due to an 88% decrease in aircraft sales revenues during the comparable periods.

Cost of sales for service and parts decreased by \$13,774 or 8% from \$181,600 to \$167,826 during the quarters ended June 30, 2002 and 2003, respectively. This is due in part to a 20% reduction in service and sales revenues.

Product development and engineering costs decreased by \$40,784 or 99% to \$434 for the second quarter of 2003, from \$41,218 for the comparable period in 2002. This decrease was due to the significant reduction in support staff.

Sales, general and administrative expense decreased by \$4,399 or 1% for the three-month period ended June 30, 2003, to \$438,694 from \$443,093 for the comparable period ended June 30, 2002. This decrease was primarily due to staff reductions, offset in part by legal fees associated with the bankruptcy proceedings of Commander Aircraft Company.

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

Interest expense decreased by \$10,383 or 19% to \$44,949 for the second quarter of 2003 from \$55,332 for the comparable period in 2002. This decrease was due to a reduction of bank lines of credit and lower daily average debt during the period.

RESULTS FROM OPERATIONS - COMPARISON OF SIX MONTHS ENDED JUNE 30, 2003 AND 2002

Revenues from the sale of aircraft during the six month period ended June 30, 2003, decreased by \$5,139,643 or 88% from \$5,812,196 to \$672,553 during the six months ended June 30, 2002 and 2003, respectively. In the six month period ended June 30, 2003, four pre-owned aircraft were sold compared with sixteen new and pre-owned aircraft sold in the same period for 2002.

Service and parts revenues decreased by \$11,891 or 3% from \$421,934 to \$410,043 during the six month periods ending June 30, 2002 and 2003, respectively.

Cost of aircraft sales decreased by \$5,014,187 or 89% from \$5,604,608 to \$590,421 for the six month periods ended June 30, 2002 and 2003, respectively. This was due to an 88% decrease in aircraft sales revenues during the comparable periods.

Cost of sales for service and parts increased by \$43,092 or 17% from \$248,305 to \$291,397 for the six month periods ended June 30, 2002 and 2003, respectively. This is due in part to a 3% reduction in service and parts revenues and in part due to commissions included in service and parts revenues for which the Company had no offsetting costs.

Production development and engineering costs for the six month period ended June 30, 2003, decreased by \$71,843 or 98% to \$1,330 for the six month period ended June 30, 2003 from \$73,173 for the comparable period in 2003. This decrease was due to the significant reduction in support staff.

Sales, general and administrative expense decreased by \$89,498 or 10% for the six month period ended June 30, 2003, to \$814,920 from \$904,418 for the comparable period in 2002. This decrease was primarily due to staff reductions, offset in part by legal fees associated with the bankruptcy proceeds for Commander Aviation.

Interest expense decreased by \$39,029 or 32% for the six month period ending June 30, 2003 to \$84,805 from \$123,834 for the comparable period in 2002. This decrease was due to a reduction of bank lines of credit and lower daily average debt during the period.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations increase by \$99,931 or 25% to \$503,970 for the six month period ending June 30, 2003 from \$404,039 during the comparable period in 2002.

Cash flows from operations were positive for the six months ended June 30, 2003 due primarily to a \$819,660 reduction in inventories and a \$283,533 increase in current liabilities which more that offset the loss for the quarter of (\$640,968).

Cash balances increased to \$35,993 at June 30, 2003 from a deficit balance of \$2,145 at December 31, 2002.

The Company has entered into debtor in possession financing arrangements that management anticipates will provide the Company with sufficient working capital

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

to continue until the plan or reorganization is funded.

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

CONTRACTUAL OBLIGATIONS

The following table is a summary of the Company's contractual obligations as of June 30, 2003.

	Payment Due by Period			
	Total	Less than One	1-3 Years	Thereafter
Long-Term Debt	\$1,034,795	\$ -	\$1,034,795	\$ -
Current Note Payable	1,093,787	1,093,787	-	-
Operating Leases	396,900	75,600	226,800	94,500
Total	\$2,525,482	\$1,169,387	\$1,261,595	\$ 94,500

ITEM 3. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

ITEM 5. OTHER

On September 24, 2002 the Company's common stock was delisted from the Nasdaq 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*

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

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

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

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

SIGNATURE

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

AVIATION GENERAL INCORPORATED

(Registrant)

By: /s/ Wirt D. Walker III

Edgar Filing: AVIATION GENERAL INC - Form 10QSB

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

By: /s/ Glenn A. Jackson

Glenn A. Jackson
(Chief Financial Officer)