AVIATION GENERAL INC
Form 10-Q/A
January 10, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM
10-QSB/A

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

For the quarterly period ended June 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	73-1547645
(State of Incorporation)	(IRS Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports 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 July 31, 2002

PART I. FINANCIAL INFORMATION

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 acompanying financial statements and management's discussion and anaysis of results of operations and financial condition have been revised to include these changes.

ITEM I. FINANCIAL STATEMENTS

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2002
ASSETS	(Revised)
Current Assets	
Cash and cash equivalents	$132,773
Accounts receivable	174,744
Current portion of note receivable	28,878
Inventories	5,042,767
Prepaid expenses and other assets	71,078
Total current assets	5,450,240
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	(1,272,018)
	572,235
Other assets	
Notes receivable, less current maturities	59,413
Available-for-sale equity securities - related party	56,350
Note receivable from related party	-
	115,763

	$6,138,238

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

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) June 30, 2002 (Revised)
Current liabilities	
Accounts payable	$2,444,892
Accrued expenses	891,274
Refundable deposits	437,843
Notes payable	1,677,457
Total current liabilities	5,451,466
REDEEMABLE COMMON STOCK - $.01 par value; Issued 150,000 shares in 2001; stated at redemption value	150,000
Stockholders' Equity	
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 June 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 June 30, 2002 and December 31, 2001	(1,294,193)
Accumulated other comprehensive income (loss)	(339,623)
Accumulated deficit	(38,645,470)
Total stockholders' equity	536,772
	$6,138,238

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 June 30, 2002	2001
	(Revised)	
Net sales - aircraft	$4,433,946	$2
Net sales - service	295,363	
Total net sales	4,729,309	3
Cost of sales - aircraft	4,438,723	2
Cost of sales - service	181,600	
Total cost of sales	4,620,323	2
Gross margin	108,986	
Other operating expenses		
Product development and engineering costs	41,218	
Selling, general and administrative expenses	443,093	
Total other operating expenses	484,311	
Operating loss	(375,325)	
Other income (expenses)		
Other income	16,314	
Interest expense	(55,332)	
Other expense	2,387	
Total other expenses	(36,631)	
Net loss	($411,956)	(
Net loss per share		
Weighted average common shares Outstanding, basic and diluted	6,859,330	
Net loss per share, basic and diluted	($0.06)	

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

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

	Six Months Ended June 30, 2002	2001
	(Revised)	
Net sales - aircraft	$5,812,196	$4
Net sales - service	421,934	
Total net sales	6,234,130	5
Cost of sales - aircraft	5,604,608	4
Cost of sales - service	248,305	
Total cost of sales	5,852,913	4
Gross margin	381,217	
Other operating expenses		
Product development and engineering costs	73,173	
Selling, general and administrative expenses	904,418	1
Total other operating expenses	977,591	1
Operating loss	(596,374)	
Other income (expenses)		
Other income	17,950	
Interest expense	(123,834)	
Other expense	59	
Total other expenses	(105,766)	
Net loss	($702,140)	($1
Net loss per share		
Weighted average common shares Outstanding, basic and diluted	6,859,330	

Net loss per share, basic and diluted	($0.10)	

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

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

	Six Months Ended Ju	
	2002	
	(Revised)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	($702,140)	
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Depreciation and amortization	66,883	
Non-cash interest earnings	-	
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	(174,744)	
Notes receivable	13,605	
Inventories	1,096,465	
Prepaid expense and other assets	(923)	
Increase (decrease) in		
Accounts payable	135,442	
Accrued expenses	277,157	
Refundable deposits	(307,706)	
Net cash provided (used) by operating activities	404,039	
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	-	
Net cash used by investing activities	-	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	2,105,329	
Payments on borrowings	(2,587,951)	
Net cash provided (used) by financing activities	(482,622)	
Net decrease in cash	(78,583)	
Cash and cash equivalents at beginning of period	211,356	
Cash and cash equivalents at end of period	$132,773	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the period for:	
Interest	$123,596
Income taxes	-

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 generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of the Company, all adjustments necessary to present fairly the financial position of Aviation General, Incorporated as of June 30, 2002, and the results of operations and cash flows for the three and six month periods ended June 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. 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)
Effect of 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)	($0.09)
Net loss per share, basic and diluted, as restated	($0.06)	($0.10)

3. 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.

	Six months ending June 30, 2002	June 30, 20
Numerator		
Net loss	($702,140)	($1,053,99
Denominator		
Weighted average shares outstanding, basic	6,859,330	6,279,33
Effect of dilutive securities		
Stock options	0	
Redeemable common stock	0	
Denominator for loss per share assuming dilution	6,859,330	6,279,33
Loss per share, basic	($ 0.10)	($ 0.17
Loss per share, assuming dilution	($ 0.10)	($ 0.17

	Three months ending June 30, 2002	June 30, 20
Numerator		
Net income (loss)	($411,956)	($455,40
Denominator		
Weighted average shares outstanding, basic	6,859,330	6,279,33
Effect of dilutive securities		
Stock options	0	
Redeemable common stock	0	
Denominator for income (loss) per share, assuming dilution	6,859,330	6,279,33
Loss per share, basic	($ 0.06)	($ 0.07

Loss per share, assuming dilution	($ 0.06)	($ 0.07

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

4. Total comprehensive loss for the periods presented is as follows:

	For the six months ending June 30 2002	2001
Net loss	($702,140)	($1,053,99
Other comprehensive loss	(85,750)	(135,94
Comprehensive loss	($787,890)	($1,189,93

	For the three months ending June 30 2002	2001
Net income (loss)	($411,956)	($455,408
Other comprehensive loss	(53,900)	(107,200
Comprehensive income (loss)	($465,856)	($562,60

5. 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:

	June 30, 2002	December 31, 2001
Raw materials	$1,709,431	$1,983,979
Work in process	1,371,246	1,402,252
New and pre-owned aircraft	1,942,840	2,733,751
Other	19,250	19,250
Total inventories	$5,042,767	$6,139,232

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. While losses have continued for the unaudited period ended June 30, 2002, the second quarter was profitable.

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.

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 the inconvenience and safety factors attendant with commercial airline travel. The Company could also benefit from low interest rates, which significantly lower 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 pending in Congress.

Furthermore, management has effected a number of initiatives, which, it believes, will increase revenue and profitability. 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 acquisitions possibilities with other general aviation concerns

So far in the year 2002, the Company has experienced a significant increase in its business. Through June of this year, the company has recorded sales of 6 new aircraft (versus a total of 8 for all of 2001) and 11 pre-owned aircraft (versus a total of 22 for all of 2001). The company is currently 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.

9. 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 the end of June and December until maturity.

PART I. FINANCIAL INFORMATION

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

RESULTS FROM OPERATIONS

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 accompanying financial statements and the following discussions have been revised to reflect the effect of this adjustment as a charge to earnings in the second quarter of 2002.

Revenues from the sale of aircraft for the second quarter of 2002 totaled $4,433,946 compared to $2,729,783 for the comparable period of 2001. For the second quarter of 2002, twelve new and pre-owned aircraft were sold compared with eight new and pre-owned aircraft sold and one jet aircraft brokered in the same period for 2001.

For the six month period ended June 30, 2002, aircraft revenues were

$5,812,196 compared to $4,863,995 for the six month period ending June 30, 2001. The increase was due to an increase in the number of new aircraft sold during the first six months of 2002.

Service revenues totaled $295,363 for the quarter ended June 30, 2002 compared to $489,225 for the comparable quarter in 2001. The decrease was due to a decrease in parts shipments and aircraft repair and refurbishment activity. Service revenues were $421,934 for the six month period ending June 30, 2002 compared to $994,773 for the six month period ending June 30, 2001. The decrease was due to a decrease in spare shipments and aircraft repair and refurbishment activity.

Cost of aircraft sales for the three month period ended June 30, 2002 increased to $4,438,723 compared to $2,324,580 for the three month period ended June 30, 2001. The increase in cost was due to the increase in the number of aircraft sold and the excess capacity costs mentioned above. Cost of aircraft sales for the six month period ended June 30, 2002 increased to $5,604,608 compared to $4,138,079 for the six month period ended June 30, 2001. The increase in cost was due to the increase in the number of new aircraft sold during the first six months of 2002 and the excess capacity costs mentioned above.

Cost of sales for service and parts for the quarter ended June 30, 2002 decreased to $181,600 compared to $370,645 for the quarter ended June 30, 2001. The decrease was due primarily to the decrease in part sales and repair and refurbishment activity. Cost of sales for service and parts for the six month period ended June 30, 2002 were $248,305 compared to $805,231 for the six month period ended June 30, 2001. The decrease was due to the decrease in part sales and repair and refurbishment activity.

Product development and engineering costs decreased to $41,218 for the second quarter of 2002, from $86,870 for the comparable period in 2001 due to the reduction in support staff and employee benefits. For the six month period ended June 30, 2002 product development and engineering costs were $73,173 compared to $182,177 for the six month period ended June 30, 2001 due to a reduction in support staff and employee benefits.

Sales, general and administrative expense decreased for the three-month period ended June 30, 2002, to $443,093 from $817,161 for the comparable period ended June 30, 2001 due to the reduction in staff and employee benefits. Sales, general and administrative expense for the six-month period ended June 30, 2002 were $904,420 compared to $1,635,520 for the six month period ended June 30, 2001 due to reduction in staff and employee benefits.

Interest expense decreased to $55,332 for the second quarter of 2002 from $125,315 for the comparable period in 2001 due to a reduction of bank lines of credit.

LIQUIDITY AND CAPITAL RESOURCES

Cash balances decreased to $132,773 at June 30, 2002 from $211,356 at December 31, 2001. Accounts receivable increased by $174,744 at June 30, 2002 due to the increase in aircraft sales.

Notes receivable decreased to $88,291 at June 30, 2002 from $101,896 at December 31, 2001 due to regular quarterly payments from the debtor.

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 are included in earnings. This investment is in the common stock of a related party.

Inventories decreased to $5,042,767 at June 30, 2002 from $6,139,232 at December 31, 2001. Raw materials, parts and work in process decreased approximately $305,554 primarily due to transfers to new aircraft inventory. New and pre-owned aircraft inventory decreased by $791,000 due to sales of aircraft.

Accounts payable increased to $2,444,892 at June 30, 2002 from $2,309,450 at December 31, 2002 . Accrued expenses increased to $891,274 at June 30, 2002 from $614,116 at December 31, 2002. The increase reflects the acquisition of a pre-owned aircraft paid for in the first week of July.

Refundable deposits decreased to $437,843 at June 30, 2002 from $745,549 at December 31, 2001. Short term notes payable decreased to $1,677,457 at June 30, 2002 from $2,160,079 at December 31, 2001.

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 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 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.

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.

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 $1million of Financing through the issuance of a convertible note, which is described below under "Contractual Obligations."

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. Excess capacity costs are expensed as incurred.

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 at June 30, 2002.

	Total	2002 Obligation Interest
Revolving credit facilities	$1,626,461	$68,706
Note payable to an individual, payable in monthly installments of $8,699, including interest at 8%	50,996	1,590

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 the end of June and December until maturity.

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 that expired 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 June 30, 2002 are as follows:

2002	216,699
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 share 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 additional 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 the Company made significant reductions in its cost and overhead structure, and will continue to evaluate such changes if and when they are needed.

Forward Looking Statements

This Form 10-QSB/A 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/A 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, 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.

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 July 22, 2002 the Company appealed a determination by the Nasdaq Staff that the Company was not in compliance with Rule 4310(c)(2) regarding minimum asset and equity requirements and Rule 4310(c)(4) regarding minimum bid price requirements for continued listing on the Nasdaq SmallCap Market. The Company's common stock will continue to trade on the Nasdaq Stock Market pending the outcome of the appeal.

The Company believes it is eligible to trade on the BBX, OTC Bulletin Board (OTCBB). The company believes that the exchange on which the Company 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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

SIGNATURE

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

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/A 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.

Date: January 3, 2003

/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)