AVIATION GENERAL INC
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

OR

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

Commission File Number: 0-24795

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

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

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

(405) 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 6,529,330 Shares of Common Stock Outstanding as of October 31, 2001.

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2001
ASSETS	
Current Assets	
Cash and cash equivalents	$11,595
Accounts receivable	21,785
Current portion of note receivable	28,202
Inventories	8,272,684
Prepaid expenses and other assets	218,966
Total current assets	8,553,232
Property and equipment	
Office equipment and furniture	372,162
Vehicles and aircraft	95,115
Manufacturing equipment	385,179
Tooling	676,747
Leasehold improvements	315,051
	1,844,254
Less accumulated depreciation	(1,170,907)
	673,347
Other assets	
Notes receivable, less current maturities	73,694
Available-for-sale equity securities - related party	174,200
Note receivable from related party	1,529,889
	1,777,783
	$11,004,362

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

AVIATION GENERAL, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts payable	$1,872,371
Accrued expenses	305,105
Refundable deposits	141,873
Notes payable	3,520,810
Total current liabilities	5,840,159
DEFERRED TAX LIABILITY	-
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 September 30, 2001 and 7,051,519 issued at December 31, 2000	3,815,759
Additional paid-in capital	36,924,892
Less: Treasury stock at cost 772,189 shares at September 30, 2001 and December 31, 2000	(1,294,193)
Accumulated other comprehensive income (loss)	(244,757)
Accumulated deficit	(34,037,498)
Total stockholders' equity	5,164,203
	$11,004,362

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

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

	Three Months Ended September 30, 2001	2000
Net sales - aircraft	$1,277,118	$4
Net sales - service	275,278	
Total net sales	1,552,396	4
Cost of sales - aircraft	1,024,284	3
Cost of sales - service	237,559	
Total cost of sales	1,261,843	3
Gross margin	290,553	1
Other operating expenses		
Product development and engineering costs	61,995	
Selling, general and administrative expenses	690,641	
Total other operating expenses	752,636	
Operating income (loss)	(462,083)	
Other income (expenses)		
Other income	36,056	
Interest expense	(124,900)	
Other expense	(8,837)	
Total other income	(97,681)	
Net income (loss)	($559,764)	
Net income per share		
Weighted average common shares outstanding, basic	6,730,091	
Net income (loss) per share, basic	($0.08)	
Weighted average common shares Outstanding, diluted	6,730,091	
Net income (loss) per share, diluted	($0.08)	

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

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

	Nine Months Ended September 30, 2001	2000
Net sales - aircraft	$6,141,113	$11
Net sales - service	1,270,051	1
Total net sales	7,411,164	13
Cost of sales - aircraft	5,162,363	9
Cost of sales - service	1,042,790	1
Total cost of sales	6,205,153	10
Gross margin	1,206,011	2
Other operating expenses		
Product development and engineering costs	244,172	
Selling, general and administrative expenses	2,326,161	2
Total other operating expenses	2,570,333	2
Operating income (loss)	(1,364,322)	
Other income (expenses)		
Other income	136,359	
Interest expense	(370,860)	
Other expense	(14,936)	
Total other income	(249,437)	
Net income (loss)	($1,613,759)	
Net Income (loss) per share		
Weighted average common shares Outstanding, basic	6,431,235	
Net Income (loss) per share, basic	($0.25)	
Weighted average common shares outstanding, diluted	6,431,235	
Net Income (loss) per share, diluted	($0.25)	

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

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

	Nine Months Ended Sept
	2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	$(1,613,759)
Adjustments to reconcile net income (loss) to net cash used by operating activities	
Depreciation and amortization	85,927
Non-cash interest earnings	(92,230)
Receipts on notes receivable - related party	-
Changes in assets and liabilities	
(Increase) decrease in	
Accounts receivable	529,640
Notes receivable	19,653
Notes receivable - related party	-
Inventories	(280,513)
Prepaid expense and other assets	(65,476)
Increase (decrease) in	
Accounts payable	645,957
Accrued expenses	(256,293)
Refundable deposits	26,059
Net cash used by operating activities	(1,001,035)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of securities of related party	-
Capital expenditures	(37,244)
Net cash (used) provided by investing activities	(37,244)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings	4,116,943
Payments on borrowings	(3,202,085)
Exercise of stock options	-
Purchase of treasury stock	-
Net cash provided by financing activities	914,858
Net decrease in cash	(123,421)
Cash and cash equivalents at beginning of period	135,016

Cash and cash equivalents at end of period	$11,595	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the period for:		
Interest	$347,486	
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 September 30, 2001 and December 31, 2000, and the results of operations and cash flows for the three and nine month periods ended September 30, 2001 and 2000 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 2000 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 options are exercised.

	Nine months ending	
	September 30, 2001	September 30
Numerator		
Net income (loss)	($1,613,759)	$403,58
Denominator		
Weighted average shares outstanding, Basic	6,431,235	6,401,06
Effect of dilutive securities		
Stock options	-	320,63
Denominator for income (loss) per share		

assuming dilution	6,431,235	6,721,70
Income (loss) per share, basic	($0.25)	$ 0.0
Income (loss) per share, assuming dilution	($0.25)	$ 0.0

	Three months ending September 30, 2001	September 30,
Numerator		
Net income (loss)	($559,764)	$252,35
Denominator		
Weighted average shares outstanding, Basic	6,730,091	6,376,33
Effect of dilutive securities Stock options	-	242,85
Denominator for income per share, assuming dilution	6,730,091	6,619,19
Income (loss) per share, basic	($0.08)	$ 0.0
Income (loss) per share, assuming dilution	($0.08)	$ 0.0

3. Total comprehensive income (loss) for the periods presented is as follows:

	For the nine months ending September 30, 2001	2000
Net income (loss)	($1,613,759)	$403,58
Other comprehensive income (loss)	(358,448)	222,50
Comprehensive income (loss)	($1,972,207)	$626,09

	For the three months ending September 30, 2001	2000

Net income (loss)	($559,764)	$252,35
Other comprehensive income (loss)	(108,816)	(117,25
Comprehensive income (loss)	($668,580)	$135,10

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, 2001	December 31, 2000
Raw materials	$1,816,629	$2,522,930
Work in process	2,388,421	1,710,363
New and pre-owned aircraft	4,010,163	3,663,866
Other	57,471	95,012
Total inventories	$8,272,684	$7,992,171

5. No income tax provision has been necessary due to the generation or utilization of net operating loss carryforwards and the related change in the valuation allowance for deferred income tax assets.

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 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 eighteen years old. 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 provisions 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. The Company's business strategy is to capture a significant share of the existing domestic and international market for the single engine, high performance aircraft by offering a premium updated version of an established aircraft design. Commander aircraft have an airframe design decades newer than the competition and are certified to more stringent standards. 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 new aircraft sales, the Company has structured a separate aviation services division within the Company to purchase, refurbish and sell pre-owned piston aircraft at reasonable profit margins. The Aviation Services Division also acts as broker for pre-owned piston aircraft and serves as advisor to potential aircraft buyers and sellers. The Company is also involved in the sale, brokerage and refurbishment of jet aircraft through its Strategic Jet Services subsidiary.

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.

PART I. FINANCIAL INFORMATION

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

RESULTS FROM OPERATIONS

Revenues from the sale of aircraft for the third quarter of 2001 totaled $1,277,118 compared to $4,307,203 for the comparable period of 2000. For the third quarter of 2001, seven new and pre-owned aircraft were sold, and one turbo-prop aircraft was brokered, compared with thirteen new and pre-owned aircraft sold in the same period for 2000.

For the nine months ended September 30, 2001, revenues were $6,141,113 compared to $11,529,604 for the nine months ended September 30, 2000. The company sold 23 new and pre-owned aircraft in the first nine months of 2001 compared to 41 in the comparable period in 2000. The uncertainty of the economy, causing customer cancellation or postponement of new and pre-owned aircraft purchases has adversely impacted the revenues for 2001. The Company has made and will continue to make adjustments in its cost and overhead structure.

Service revenues totaled $275,278 for the quarter ended September 30, 2001 compared to $497,595 for the comparable quarter in 2000. The decrease was due to decreased spare parts shipments and decreased aircraft repair and refurbishment activity.

Service revenues were $1,270,051 for the nine months ended September 30, 2001 compared to $1,473,856 for the nine months ended September 30, 2000. The decrease was due to decreased service work and parts sales in the current year.

Cost of aircraft sales for the three months ended September 30, 2001 decreased to $1,024,284 compared to $3,361,773 for the three months ended September 30, 2000. The decrease in cost was due to a decrease in new and pre-owned aircraft sales during the period.

Cost of aircraft sales for the nine months ended September 30, 2001 decreased to $5,162,363 compared to $9,028,129 for the nine months ended September 30, 2000. The decrease in cost was due to a decrease in new and pre-owned aircraft sales during the period.

Cost of sales for service and parts for the quarter ended September 30, 2001 decreased to $237,559 compared to $359,996 for the quarter ended September 30, 2000. The decrease was due to a decrease in service activity and parts shipments.

Cost of sales for service and parts for the nine months ended September 30, 2001 were $1,042,790 compared to $1,098,131 for the nine months ended September 30, 2000. The decrease was due to a decrease in service activity and parts shipments.

Aircraft sales margins were lower for the three and nine months ended September 30, 2001 compared to the prior periods due to lower production volume, which reduced production efficiencies and caused, in some cases, higher cost of purchased items. Service margins were down for the three months ended September 30, 2001 compared to the prior period due to a lower volume of work. For the nine months ended September 30, 2001 service margins were lower than the prior period because of a lower volume of work.

Product development and engineering costs decreased to $61,995 for the third quarter of 2001, from $102,261 for the comparable period in 2000. The reduction in these expenses is due to the downsizing in this area. For the nine months ended September 30, 2001 product development and engineering costs were $244,172 compared to $295,747 for the nine months ended September 30, 2000.

Sales, general and administrative expense decreased for the three-month period ended September 30, 2001, to $690,641 from $725,181 for the comparable period ended September 30, 2000. Sales, general and administrative expense for the nine months ended September 30, 2001 were $2,326,161 compared to $2,201,271 for the nine months ended September 30, 2000. The increase is due to increased legal costs relating to litigation resulting from the crash of one of the Company's manufactured aircraft.

Interest expense increased to $124,900 for the third quarter of 2001 from $59,073 for the comparable period in 2000 due to higher borrowings to finance aircraft held for resale. For the nine months ended September 30, 2001, interest expense was $370,860 compared to $144,644 due to higher borrowings to finance aircraft held for sale.

LIQUIDITY AND CAPITAL RESOURCES

Cash balances decreased to $11,595 at September 30, 2001 from $135,016 at December 31, 2000. Accounts receivable decreased by $529,640 at September 30, 2001 due to a payment received in the first quarter for an aircraft in accounts receivable at December 31,2000.

Notes receivable decreased to $101,896 at September 30, 2001 from $121,549 at December 31, 2000 due to regular quarterly payments from the debtor. Notes receivable from related parties remained unchanged from December 31, 2000 to September 30, 2001. Accrued interest due on the note receivable from the related party at September 30, 2001 was $92,230. The note is secured by Aviation General, Incorporated stock pledged, as well as a personal guarantee from the principal shareholder of the debtor. The note is classified as non-current due to the probability that payment in full will not occur within the next year.

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 or loss. 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 increased to $8,272,684 at September 30, 2001 from $7,992,171 at December 31, 2000. Raw materials, parts and work in process decreased approximately $28,243 while new and pre-owned aircraft inventory increased by $346,297.

During the first nine months of 2001, expenditures for fixed assets totaled $37,244, which included replacement of fabrication tooling and an upgrade to the Company's business software.

Accounts payable increased to $1,872,371 at September 30, 2001 from $1,226,414 at December 31, 2000, as the anticipated increase in production of new aircraft in 2001 resulted in higher material and parts inventory purchased on open account. Accrued expenses decreased to $435,105 at September 30, 2001 from $561,398 at December 31, 2000.

Refundable deposits increased to $141,873 at September 30, 2001 from $115,814 at December 31, 2000. Borrowings from bank lines increased to $3,620,810 at September 30, 2001 from $3,035,000 at December 31, 2000.

COMPANY 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.

The Company formed Strategic Jet Services, Inc. (SJS), a wholly owned subsidiary, to provide brokerage, sale, consulting and refurbishment work for jet aircraft. This line of business generated first activity in 1999, contributed revenues in 2000 and during the first nine months of 2001 and is expected to contribute additional revenue in the fourth quarter of 2001.

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.

In addition to the above actions by the Company to increase revenue, management has made efforts to reduce costs and cash requirements by optimizing its production schedule using just-in-time scheduling. Management has reduced the costs incurred to advertise new aircraft by focusing marketing efforts at a specific customer profile.

The Company continues to advertise in industry and trade publications at a significantly reduced level, while directly contacting potential customers whose demographic characteristics closely match the typical customer, especially in the areas of income, pilot experience, and types of businesses with demonstrated regional travel requirements. Further reducing selling expenses, the Company has organized its service center, paint, interior and avionics shops into a completion center to focus on the growing after-market refurbishment business.

The Company has expanded its operations to include SJS, enhanced the Commander brand with the introduction of the Commander 115, and more effectively targeted sales and marketing expenditures. With continued activity in the parts, service and pre-owned aircraft sales, the Company has lowered its break even sales to only 14 new aircraft per year. With the large investment complete, management believes it has made significant progress towards the building of a world class aviation company. Due to numerous factors beyond the control of the Company, there can be no assurances that these results will be achieved.

Forward Looking Statements

This Form 10-Q 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-Q 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 services 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.

ITEM 2. CHANGES IN SECURITEIS AND USE OF PROCEEDS

During the third quarter, the Company issued an aggregate of 580,000 shares of its common stock in satisfaction of obligations in the amount of approximately $260,000. The issuance of these securities was exempt from the registration requirements of the Securities Act of 1933 because it did not involve a public offering.

ITEM 3. QUANITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The registrant has no material market risk associated with interest rates, foreign currency exchange rates or commodity prices. The Company is subject to market risk in connection with its ownership of 260,000 shares of common stock of a related party.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 5. OTHER DISCLOSURES

The Company has received a NASDAQ Staff Determination the Company fails to comply with the minimum bid price requirements for continued listing on the NASDAQ SmallCap Market, Rule 4310 (c)(4). The Company appealed the Staff Determination and had a hearing before the NASDAQ officials. However, due to the events of September 11, 2001, NASDAQ has delayed ruling on all such proceedings until after January 1, 2002. The Company's common shares will continue to trade on the NASDAQ Stock Market, pending the outcome of the appeal the Company has filed in accordance with NASDAQ procedures, although there can be no assurance NASDAQ will grant the Company's appeal for continued listing.

This has been a difficult and challenging year for the Company. Financial results have been adversely impacted by the overall decline in our country's economic activity and financial markets. As reported previously in the year, the Company has made adjustments in its cost and overhead structure to take into account conditions. However, just as demand for the Company's aircraft appeared to be improving, the September 11th attack on our country occurred, the effect of which, on the economy and the general aviation industry in particular, has been substantial. In particular aircraft purchase activities froze, were postponed or cancelled, and many pending transactions could not be consummated because the planes could not be delivered, due to general aviation flight restrictions.

On the positive side, general aviation restrictions have begun to be loosened, and aircraft purchase activities have begun to increase somewhat, as interest rates, which have a profound effect on aircraft purchase finance cost, continue to decline. There is also increasing interest in general aviation aircraft, due to safety and convenience concerns with commercial air travel.

The Company plans to seek additional capital through a private placement and/or merger with a strategic partner, as well as explore merger and acquisition opportunities that could broaden the Company's business base and create synergies.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - None

(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
(Chief Executive Officer and
Authorized Signatory)

Date: November 14, 2001