AVIATION GENERAL INC
Form 10QSB
April 30, 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 March 31, 2004

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 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 requirements for the past 90 days. [X] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

There were 7,110,846 Shares of Common Stock Outstanding as of March 31, 2004

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

Aviation General, Incorporated & Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 2004
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 43,229
Accounts receivable	8,269
Inventories	1,653,808
Total current assets	1,705,306
PROPERTY AND EQUIPMENT	
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	(1,277,540)
	357,422
	$ 2,062,728

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

Aviation General, Incorporated & Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 2004
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
LIABILITIES NOT SUBJECT TO COMPROMISE	
Accounts payable	$ 130,355
Accrued expenses	1,041,761
Notes payable	768,471
Total current liabilities not subject to compromise	1,940,587
LIABILITIES SUBJECT TO COMPROMISE	
Accounts payable	1,986,559
Accrued expenses	721,478
Refundable deposits	155,145
Total liabilities subject to compromise	2,863,182
Total current liabilities	4,803,769

NONCURRENT LIABILITIES	
Notes payable	1,300,795
	1,300,795
REEDEEMABLE COMMON STOCK - $.50 par value; 150,000 shares issued and outstanding; stated at redemption value	150,000
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 shares issued at March 31, 2004	4,060,198
Additional paid-in capital	37,254,305
Less: Treasury stock at cost, 1,009,551 shares at March 31, 2004	(1,709,638)
Accumulated (deficit)	(43,796,701)
Total stockholders' equity (deficit)	(4,191,836)
	$ 2,062,728

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

Aviation General, Incorporated & Subsidiaries

CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
NET SALES		
Aircraft	$ 406,800	$ 140,000
Service	211,437	172,361
Total net sales	618,237	312,361
COST OF SALES		
Aircraft	326,785	128,534
Service	158,213	123,571
Total cost of sales	484,998	252,105

Gross profit	133,239	60,256
OTHER OPERATING EXPENSES		
Product development and engineering costs	-	896
Selling, general and administrative expenses	370,937	376,226
Total other operating expenses	370,937	377,122
Operating income (loss)	(237,698)	(316,866)
OTHER INCOME (EXPENSES)		
Other income	16,664	54,910
Interest (expense)	(38,955)	(39,856)
Total other income (expenses)	(22,291)	15,054
NET (LOSS) BEFORE TAXES	(259,989)	(301,812)
PROVISION FOR INCOME TAXES	-	-
NET (LOSS)	$ (259,989)	$ (301,812)
NET (LOSS) PER SHARE		
Weighted average common shares outstanding; basic	7,110,846	7,110,846
Net (loss) per share; basic	$ (0.04)	$ (0.04)
Weighted average common shares outstanding; diluted	7,110,846	7,110,846
Net (loss) per share; diluted	$ (0.04)	$ (0.04)

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

Aviation General, Incorporated & Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit
Balance at January 1, 2003	8,120,397	$4,060,198	$37,254,305	1,009,551	$ (1,709,638)	$(42,228,4
Comprehensive income						
Net earnings						(301,8
Other comprehensive income Change in unrealized investment gain, net						
Comprehensive income						
Balance at March 31, 2003	8,120,397	$4,060,198	$37,254,305	1,009,551	$(1,709,638)	$(42,530,2
Balance at January 1, 2004	8,120,397	$4,060,198	$37,254,305	1,009,551	$ (1,709,638)	$(43,536,7
Comprehensive income						
Net earnings						(259,9
Other comprehensive income Change in unrealized investment gain, net						
Comprehensive income						
Balance at March 31, 2004	8,120,397	$4,060,198	$37,254,305	1,009,551	$(1,709,638)	$(43,796,7

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

Aviation General, Incorporated & Subsidiaries

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS

	Three Months Ended March 31, 2004	2003
Increase (decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Net earnings (loss)	$ (259,989)	$ (301,812)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	24,066	27,230
Loss (gain) on retirement of property and equipment	-	(138)
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	6,571	(2,972)
Inventories	367,907	286,663
Prepaid expenses and other assets	700	-
Increase (decrease) in		
Accounts payable	2,130	1,908
Accrued expenses	7,294	34,825
Refundable deposits	(65,039)	20,000
Net cash provided by (used in) operating activities	83,640	65,704
Cash flows from investing activities		
Proceeds on sales of property and equipment	-	200
Net cash provided by (used in) investing activities	-	200
Cash flows from financing activities		
Proceeds from borrowings	189,000	50,000
(Payments on) borrowings	(235,006)	(109,310)
Net cash provided by (used in) financing activities	(46,006)	(59,310)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,634	6,594
Cash and cash equivalents at beginning of period	5,595	(2,145)

Cash and cash equivalents at end of period	43,229	4,449
Cash paid during the period for:		
Interest	29,284	39,856

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

Aviation General, Incorporated & Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004

1. 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.

2. Inventories consist primarily of finished goods, work in process, and parts for manufacturing and servicing of aircraft. Inventory costs include all direct manufacturing costs and applied overhead. These inventories, other than pre-owned aircraft, are stated at the lower of cost or market, and cost is determined by the average-cost method. Pre-owned aircraft are valued on a specific-identification basis at the lower of cost or current estimated realizable wholesale price. Inventory components were as follows at March 31, 2004:

Raw materials	$ 1,021,807
Work in process	508,579
New and pre-owned aircraft	122,173
Other	1,250
	$ 1,653,808

3. 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 March 31, 2004 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 prepetition 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 $250,000. 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 has taken draws on the DIP Financing as follows:

2003 Total	$ 427,000
January 8, 2004	$ 25,000
January 16, 2004	$ 25,000
February 13, 2004	$ 35,000
March 15, 2004	$ 50,000
March 22, 2004	$ 54,000
Total DIP Financing Draws through March 31, 2004:	$ 616,000

4. During the years ended December 31, 2001, 2002 and 2003, the Company incurred net (losses) of $(5,519,592), $(4,285,111) and $(1,308,272) respectively. During the three months ended March 31, 2004, the Company lost an additional $(259,989). As of March 31, 2004, the Company had a negative working capital of $(3,098,463) and a deficit net worth of $(4,191,836). 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 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.

As stated in this and previous filings and announcements, on December 27, 2002, Commander Aircraft Company filed a Chapter 11 reorganization petition in the United States bankruptcy court 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 same date with Tiger Aircraft, LLC, or affiliate, ("Tiger") to fund the plan. A final 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 Nyltiak Investments, LLC. This date has been extended to June 30, 2004.

5. 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	
2004	$113,400
2005	113,400
2006	66,150
Total future minimum lease payments	$292,950

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 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.

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.

7. 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 4th 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.

As stated in this and previous filings and announcements, on December 27, 2002, Commander Aircraft Company filed a Chapter 11 reorganization petition in the United States bankruptcy court 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 same date with Tiger Aircraft, LLC, or affiliate, ("Tiger") to fund the plan. A final 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 Nyltiak Investments, LLC. This date has been extended to June 30, 2004.

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 form 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.

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 MONTHS ENDED MARCH 31, 2004 AND 2003

Revenues from the sale of aircraft for the first quarter of 2004 increased by $266,800 or 191% from $140,000 to $406,800 during the quarters ended March 31, 2003 and 2004 respectively. In the first quarter of 2004, one pre-owned aircraft was sold compared with one pre-owned aircraft sold in the same period for 2003.

Service and parts revenues increased by $39,076 or 23% from $172,361 to $211,437 during the quarters ended March 31, 2003 and 2004 respectively.

Cost of aircraft sales increased by $198,251 or 154% from $128,534 to $326,785 during the quarters ended March 31, 2003 and 2004 respectively. This increase was due primarily to the value of the one aircraft during the first three months of 2004 compared to the value of the one aircraft sold during the comparable period in 2003. Gross profit margins from the sale of aircraft increased from 8% in 2003 to 20% in 2004 due to improved market conditions in 2004.

Cost of sales for service and parts increased by $34,642 or 28% from $123,571 to $158,213 during the quarters ended March 31, 2003 and 2004 respectively. This increase was due primarily to a 23% increase in associated parts and service income.

Product development and engineering costs decreased by $896 or 100% to $0 for the first quarter of 2004, from $896 for the comparable period in 2003. This decrease was due to the discontinuance of production-related engineering activities.

Sales, general and administrative expense decreased by $5,289 or 1% for the three-month period ended March 31, 2004, to $370,937 from $376,226 for the comparable period ended March 31, 2003.

Interest expense decreased by $901 or 2% to $38,955 for the first quarter of 2004 from $39,856 for the comparable period in 2003. This decrease was due to a reduction of bank lines of credit, offset in part by increased debtor-in-possession financing.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations increased by $17,936 or 27% from $65,704 during the three month period ending March 31, 2003 to $83,640 during the comparable period in 2004.

Cash flow from operations were positive for the three months ended March 31, 2004 due primarily to a $367,907 reduction in inventories partially offset by a $65,039 decrease in refundable deposits which more than offset the loss for the quarter of ($259,989).

Cash balances increased to $43,229 at March 31, 2004 from a balance of $5,595 at December 31, 2003.

The Company has entered into debtor in possession financing arrangements that management anticipates will provide the Company with sufficient working capital 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 March 31, 2004.

		Payment Due by Period		
	Total	Less than One Year	1-3 Years	Thereafter
Long-Term Debt	$1,300,795	$ -	$1,300,795	$ -
Current Note Payable	$ 768,471	$ 768,471	$ -	$ -
Operating Leases	$ 292,950	$ 113,400	$ 179,550	$ -
Total	$2,362,216	$ 881,871	$1,480,345	$ -

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 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 (symbol AVGE.OB) and has been recently trading on the Pink Sheets (symbol AVGE.PK) 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 September 30, 2002

(b) Reports on Form 8-K

3-11-04 8-K filed appointing Murrell, Hall, McIntosh & Co., PLLP as its new principal accountant
3-31-04 8-K filed announcing confirmation of the Company's Chapter 11 reorganization plan

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

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)