SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2002

Commission File Number: 0-20307

AVALON CORRECTIONAL SERVICES, INC.

(Exact name of small business issuer as specified in its charter)

Nevada	**13-3592263**
(State of Incorporation)	**(I.R.S. Employer I.D. Number)**

13401 Railway Drive, Oklahoma City, Oklahoma 73114
(Address of principal executive offices)

(405) 752-8802
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or such shorter period as the registrant was required to file such reports), and (2) been subject to such filing requirements for the past 90 days:

Yes _X_ No ___

As of August 9, 2002, 4,895,002 shares of the issuer's Class A common stock, par value $.001, were issued and outstanding.

Transitional Small Business Disclosure Format: Yes ___; No_X_.

PART I - FINANCIAL INFORMATION
AVALON CORRECTIONAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,072,000	$ 2,389,000
Related party receivables	49,000	161,000
Accounts receivable, net	2,528,000	2,611,000
Prepaid expenses and other	361,000	239,000
Total current assets	$ 5,010,000	$ 5,400,000
Property and equipment, net	30,071,000	30,414,000
Other assets	4,052,000	4,273,000
Total assets	$ 39,133,000	$ 40,087,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued liabilities and other	$ 1,644,000	$ 2,170,000
Current maturities of long-term debt	2,329,000	2,545,000
Total current liabilities	$ 3,973,000	$ 4,715,000
Long-term debt, less current maturities	21,595,000	22,547,000
Convertible debentures	3,850,000	3,850,000
Redeemable common stock, $.001 par value 1,622,448 shares issued and outstanding	3,580,000	3,470,000
Stockholders' equity:		
Common stock: Par value $.001; 24,000,000 shares authorized; 4,892,961 and 4,847,624 shares issued and outstanding, less 1,622,448 shares subject to repurchase	3,000	3,000
Preferred stock; par value $.001; 1,000,000 shares authorized; none issued	---	---
Paid-in capital	7,500,000	7,536,000
Accumulated deficit	(1,368,000)	(2,034,000)
Total liabilities and stockholders' equity	$ 39,133,000	$ 40,087,000

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

AVALON CORRECTIONAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues	$ 6,744,000	$ 6,315,000	$13,369,000	$12,264,000
Costs and expenses				
Direct operating	$ 4,649,000	$ 4,482,000	$ 9,117,000	$ 8,525,000
General and administrative	565,000	308,000	1,077,000	750,000
Depreciation and amortization	494,000	464,000	989,000	859,000
Interest expense	641,000	756,000	1,295,000	1,580,000
Income from operations				
before income tax expense	$ 395,000	$ 306,000	$ 891,000	$ 550,000
Income tax expense	90,000	---	225,000	---
Net income	$ 305,000	$ 306,000	$ 666,000	$ 550,000
Basic income per share:				
Net income per share, basic	$ 0.06	$ 0.06	$ 0.14	$ 0.11
Weighted average number of common and				
common equivalent shares outstanding, basic	4,888,598	4,779,260	4,868,380	4,772,482
Diluted income per share:				
Net income per share, diluted	$ 0.06	$ 0.06	$ 0.12	$ 0.11
Weighted average number of common and				
common equivalent shares outstanding,	6,567,686	5,097,166	6,522,510	4,920,664

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

AVALON CORRECTIONAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	For the six months ended June 30, 2002		2001	
OPERATING ACTIVITIES:				
Net income	$	666,000	$	550,000
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation		989,000		577,000
Amortization of debt issue costs		163,000		124,000
Changes in operating assets and liabilities				
Decrease (increase) in -				
Accounts receivable		195,000		1,433,000
Prepaid expenses and other		(318,000)		(118,000)
Increase (decrease) in accounts payable, accrued liabilities and other		(526,000)		155,000
Net cash provided by operating activities	$	1,169,000	$	2,721,000
INVESTING ACTIVITIES:				
Capital expenditures	$	(393,000)	$	(214,000)
Net cash used in investing activities	$	(393,000)	$	(214,000)
FINANCING ACTIVITIES:				
Proceeds from borrowings		14,004,000		13,337,000
Repayment of borrowings		(15,171,000)		(15,231,000)
Proceeds from warrant and option exercise		74,000		87,000
Net cash used in financing activities	$	(1,093,000)	$	(1,807,000)
NET INCREASE (DECREASE) IN CASH	$	(317,000)	$	700,000
CASH, BEGINNING OF PERIOD		2,389,000		726,000
CASH, END OF PERIOD	$	2,072,000	$	1,426,000

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

AVALON CORRECTIONAL SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

This document contains statements that are not historical but are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These include statements regarding the expectations, beliefs, intentions, or strategies for the future. The Company intends that all forward-looking statements be subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the Company's views as of the date they are made with respect to future events and financial performance, but are subject to many uncertainties and risks which could cause the actual results of the Company to differ materially from any future results expressed or implied by such forward-looking statements. Examples of such uncertainties and risks include, but are not limited to: fluctuations in occupancy levels and labor costs; the ability to secure both new contracts and the renewal of existing contracts; the availability and cost of financing to redeem common shares and to expand our business; and public resistance to privatization. Additional risk factors include those discussed in reports filed by the Company from time to time on Forms 10-KSB, 10-QSB, and 8-K. The company does not undertake any obligation to update any forward-looking statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business -

Avalon Correctional Services, Inc. ("Avalon" or the "Company") is an owner and operator of private community correctional facilities. Avalon specializes in privatized community correctional facilities and correctional programming. Avalon is currently operating in Oklahoma, Texas and Colorado with plans to significantly expand into additional states. Avalon's business strategy is designed to elevate the Company into a dominant provider of community correctional services by expanding its operations through new state and Federal contracts and selective acquisitions. Avalon owns a 300-bed community corrections facility in Oklahoma City, Oklahoma; a 320-bed community corrections facility in Tulsa, Oklahoma; a 150-bed community corrections facility in Tulsa, Oklahoma; a 150-bed medium security facility in El Paso, Texas; a 300-bed medium security facility in El Paso, Texas; a 180-bed community corrections facility on leased land in Del Valle, Texas; a 160-bed medium security juvenile facility in Union City, Oklahoma; a 139-bed community corrections facility in Henderson, Colorado; and a 307-bed multi-use community corrections facility in Greeley, Colorado. Avalon also operates three programs in leased facilities: a 352-bed intermediate sanction unit in Tulsa, Oklahoma; a 35-bed community corrections facility in Denver, Colorado; and a day reporting center in Northglen, Colorado. The Colorado community corrections programs also provide non-residential services to approximately 176 offenders in the State of Colorado.

Principles of Consolidation -

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of all material intercompany balances and transactions.

Use of Estimates -

The preparation of the consolidated financial statements requires the use of management's estimates and assumptions in determining the carrying values of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents -

The Company considers all highly liquid investments with original maturities of three months or less when purchased and money market funds to be cash equivalents.

Concentrations of Credit Risk -

Financial instruments potentially subjecting the Company to concentrations of credit risk consist principally of temporary cash investments, accounts receivable and notes receivable. The Company places its temporary cash investments with high credit quality financial institutions and money market funds and limits the amount of credit exposure to any one institution or fund. Concentrations of credit risk with respect to accounts receivable are limited due to the fact that a significant portion of the Company's receivables is from government agencies. The Company maintains an allowance for doubtful accounts for potential credit losses. The allowance for doubtful accounts at June 30, 2002 and December 31, 2001 was $21,000 and $27,000, respectively.

Property and Equipment -

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized, while minor replacements, maintenance and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in current operations. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 to 40 Years
Furniture and Equipment	5 to 7 Years
Transportation Equipment	2 to 15 Years

Impairment losses are recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Impairment losses are recognized based upon the estimated fair value of the asset when required.

Income Taxes -

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the period in which the differences are expected to affect taxable income. Valuation allowances are established by management when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities. The Company's effective rate differs from the statutory rate of thirty-four percent due to the utilization of net operating loss carryforwards.

Revenue Recognition -

The Company recognizes revenues as services are provided. Revenues are generally earned based upon the number of offenders on a per diem basis at the Company's correctional facilities. Correctional revenues are received monthly from various governmental agencies.

Development Costs -

The Company expenses development and new facility opening costs as incurred.

Net Income Per Common Share -

Basic net income per share has been computed on the basis of weighted average shares outstanding during each period. Diluted income per share has been computed based on the assumption that all dilutive options and warrants are exercised using the treasury stock method. The dilutive effect of convertible obligations is determined using the if-converted method.

Interim Financial Statements -

The consolidated balance sheet as of June 30, 2002, the statements of operations for the three months and six months ended June 30, 2002 and 2001, and the statement of cash flows for the six months ended June 30, 2002 and 2001 are unaudited and, in the opinion of management, reflect all adjustments that are necessary for a fair presentation of the financial position as of such date and the results of operations and cash flows for the period then ended. All such adjustments are of a normal and recurring nature.

The financial statements included herein have been prepared in conformity with accounting principles generally accepted in the United States and should be read in conjunction with the December 31, 2001 Form 10-KSB filing. Footnote disclosures which would substantially duplicate the disclosure contained in the most recent annual report on Form 10-KSB have been condensed or omitted. The results of operations for the three months and six months ended June 30, 2002, are not necessarily indicative of the results that may be expected for the entire year ended December 31, 2002.

NOTE 2. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2002	December 31, 2001
Revolving line of credit with finance company, collateralized by accounts receivable, with interest at 0.25% over prime (effective rate of 5.0% at June 30, 2002); due Feb 2005.	$ 321,000	$ 495,000
Notes payable to banks, collateralized by transportation equipment, due in installments through October 2019 with interest ranging from 0.00% to 10.85%.	650,000	699,000
Notes payable to banks and finance companies, collateralized by land, buildings, and improvements due in installments through February 2005 with interest ranging from 3.84% to 11.00%.	12,724,000	13,644,000
Note payable to an investment company, uncollateralized with interest at 12.5%, due in four installments beginning in 2005, including original issue premium	10,229,000	10,254,000
	$23,924,000	$25,092,000
Less - current maturities	$(2,329,000)	$(2,545,000)
	$21,595,000	$22,547,000

The Company completed a $15,000,000 private placement of debt and equity with an investment company on September 16, 1998. Pursuant to the terms of the agreement, the Company tendered an unsecured subordinated note with a face value of $10,000,000 bearing interest of 12.5% with interest payable in quarterly installments until December 31, 2005, when the first of four quarterly principal installments is due. The Company also tendered 1,622,448 shares of redeemable common stock to the investment company. These shares are subject to repurchase by the Company under certain circumstances, or beginning September 16, 2003 at the holders option, at the then current average traded price of the stock. The Company is accreting the difference between the carrying value and the estimated redemption price of the stock by periodic charges / credits to additional paid-in capital.

The Company obtained an independent fair value appraisal of the debt and equity instruments reflecting a fair value allocation of the debt of $10,365,000 and the fair value allocation of the redeemable common stock of $4,635,000. The original issue premium of $365,000 is being accreted as a reduction of interest expense over the term of the debt instrument. Debt issue costs of $1,654,000 (including $266,000 representing the fair value of warrants issued to financial advisors) have been allocated to the debt and redeemable common stock based upon their fair values. Costs of $511,000 allocated to the redeemable common stock reduced its original book value to $4,124,000. Costs of $1,143,000 allocated to the debt instrument are included in other assets and are being amortized to interest expense over the life of the debt instrument using the effective interest method.

Certain notes payable to finance and investment companies contain covenants that require the Company, among other things, to maintain certain earnings and debt coverage ratios and receive approval for certain capital expenditures as defined in the agreements.

NOTE 3. CONVERTIBLE DEBENTURES

The Company completed a private placement of $4,150,000 of convertible debentures on September 12, 1997. The convertible debentures bear interest at 7.5% and mature on September 12, 2007. The Company may redeem the convertible debentures at any time after May, 2000 at 106.5% of principal, declining to 100% at maturity. The convertible debentures are convertible into common stock at $3.00 per share at any time until their maturity. The convertible debenture holders signed agreements to subordinate the debentures to the $10,000,000 face value note issued on September 16, 1998.

NOTE 4. STOCKHOLDERS' EQUITY

The Company issued Class E Warrants to purchase 79,000 shares of Common Stock in September 1997, in connection with the private placement of Convertible Debentures. The Company recognized $148,000 of cost based upon the difference in the exercise price of the Class E warrants and the current market price of the common stock on the date of issuance. This cost was recorded as debenture issue costs and is classified in other assets on the balance sheet. The debenture issue cost is amortized to expense over the term of the convertible debentures. The Class E stock purchase warrants provide for the purchase of the Company's common stock at a price of $3.00 per share at any time until September 12, 2002. The Company may redeem the warrants upon certain events for $.01 per share.

The Company issued 200,539 stock purchase warrants to financial advisors in September 1998, in connection with the $15,000,000 private placement. The stock purchase warrants provide for the purchase of the Company's common stock at any time until their expiration at September 2002. The exercise price of the warrants is $3.75 per share as of the end of the quarter. The Company may redeem the warrants upon certain events for $.01 per share. The fair value of the warrants was allocated between the proceeds the debt and equity issues as debt issue cost and a reduction in redeemable common stock, respectively.

A 1994 agreement provided for the issuance of an option to issue 750,000 common stock purchase warrants to purchase common stock at $1.50 per share for each dollar of Company debt guaranteed by the Company's CEO. The warrants have a five year term from the date of issuance, March 9, 2001.

NOTE 5. STOCK OPTION PLAN

The Company adopted a stock option plan (the "Plan") providing for the issuance of 250,000 shares of Class A common stock pursuant to both incentive stock options, intended to qualify under Section 422 of the Internal Revenue Code, and options that do not qualify as incentive stock options ("non-statutory"). The Option Plan was registered with the Securities and Exchange Commission in November 1995. The purpose of the Plan is to provide continuing incentives to the Company's officers, key employees, and members of the Board of Directors.

The options generally vest within five years and have a ten year expiration period. The Company amended its Plan on December 1, 1996, increasing the number of shares available under the Plan to 600,000. Non-statutory options have been granted providing for the issuance of 512,398 shares of Class A common stock at exercise prices ranging from $1.50 to $4.25 per share. Options providing for the issuance of 422,428 shares were exercisable at June 30, 2002.

NOTE 6. LITIGATION

The Company is a party to litigation arising in the normal course of business. Management believes that the ultimate outcome of these matters will not have a material effect on the Company's financial condition or results of operations.

NOTE 7. EARNINGS PER SHARE

The following table sets forth the computation of income per share and income per share assuming dilution.

	Three months ended June 30, 2002	Three months ended June 30, 2001	Six months ended June 30, 2002	Six months ended June 30, 2001
Numerator:				
Net income - basic	$ 305,000	$ 306,000	$ 666,000	$ 550,000
Effect of dilutive securities:				
- interest reduction on assumed debenture conversions	72,000	---	144,000	---
Numerator for earnings per share, diluted	$ 377,000	$ 306,000	$ 810,000	$ 550,000
Denominator for earnings per share:				
Weighted average shares outstanding - basic	4,888,598	4,779,260	4,868,380	4,772,482
Effect of dilutive securities:				
- debenture conversions	1,283,333	---	1,283,333	---
- stock options	118,445	98,254	107,810	26,573
- stock warrants	277,311	219,652	262,987	121,609
Denominator for earnings per share, diluted	6,567,686	5,097,166	6,522,510	4,920,664
Income per share, basic	$ 0.06	$ 0.06	$ 0.14	$ 0.11
Income per share, diluted	$ 0.06	$ 0.06	$ 0.12	$ 0.11

Outstanding options and warrants of 243,539 and 508,539 for the periods ended June 30, 2002 and 2001, respectively, have been excluded from the above calculations as they would be anti-dilutive.

8. INTANGIBLE ASSETS - ADOPTION OF STATEMENT 142

The following table presents the effects of Statement of Financial Accounting Standards (SFAS) Number 142 as if the statement had been adopted for all prior periods presented. The amortization expense and net income of Avalon Correctional Services for the presented periods follow:

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Reported net income	$ 305,000	$ 306,000	$ 666,000	$ 550,000
Add back: Intangible assets amortization	---	57,000	---	113,000
Adjusted net income	$ 305,000	$ 363,000	$ 666,000	$ 663,000
Basic earnings per share:				
Reported net income	$ .06	$ .06	$ .14	$ .11
Intangible assets amortization	---	.01	---	.02
Adjusted net income	$ .06	$ .07	$ .14	$ .13
Diluted earnings per share:				
Reported net income	$ .06	$ .06	$ .12	$ .11
Intangible assets amortization	---	.01	---	.02
Adjusted net income	$ .06	$ .07	$ .12	$ .13

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources -

The Company's business strategy is to focus on the private corrections industry, expanding its operations into additional states through new Federal and state contracts and selective acquisitions. The successful implementation of the Company's growth plan has created the need for additional capital and financing. The Company has been successful in securing $37 million of new capital and credit facilities since September 1997.

The Company had approximately $4.1 million of cash and revolving credit available for new projects at June 30, 2002. The Company believes it has adequate cash reserves and cash flow from operations to meet its current cash requirements. The Company expects current contracts to generate sufficient income to increase cash reserves, while minimizing income taxes through the utilization of tax loss carryforwards.

The Company secured an $18 million senior credit facility with Fleet Capital Corporation in February 1999. The credit facility with Fleet Capital Corporation was amended in December 1999 to provide for a credit facility consisting of a $13.5 million term loan and a revolving line of credit equal to the lesser of $3 million or 80% of eligible accounts receivable for working capital. While this amount is adequate for the foreseeable future, additional Company growth or a slowdown in revenue collections may require additional working capital. The Fleet loan facility contains financial covenants that require the Company to maintain certain earnings levels, limit capital expenditures, and maintain ratios relating to fixed charges, liabilities to tangible net worth, and total indebtedness. The total amount due to Fleet at the end of the quarter was $12,055,000. The credit facility matures in February 2005.

Results of Operations -

Three Months Ended June 30, 2002 Compared to the Three Months Ended June 30, 2001.

The Company's revenues increased by 7% to $6.74 million for the three months ended June 30, 2002 from $6.32 million for the three months ended June 30, 2001. The increased revenues were a result of increased offender census, the acquisition of the Austin Treatment Center in December 2001, and the expansion of the Phoenix Center in Colorado in February 2002. Earnings before interest, taxes, depreciation, and amortization for the three months ended June 30, 2002 were $1,530,000 compared to $1,526,000 for the three months ended June 30, 2001. The new Riverside Intermediate Sanction Unit, which is still ramping up to operating capacity, recognized losses of approximately $115,000 during the three months ended June 30,2002.

The Company's net income was $305,000 for the three months ended June 30, 2002 and $306,000 for the three months ended June 30, 2001. The Company began recording a provision for income taxes in 2002 and recorded a provision of $90,000 for the three months ended June 30, 2002. A provision for income taxes was not recorded for the three months ended June 30, 2001, due to the utilization of a tax loss carryforward. The earnings per share were $.06 basic and diluted for the three months ended June 30, 2002 and 2001.

Corporate. General and administrative expenses increased to $565,000 for the three months ended June 30, 2002, from $308,000 for the three months ended June 30, 2001. The increase in general and administrative costs is a result of increased travel, legal, and staffing costs for the Company's new operations and acquisitions. Interest expense decreased $115,000 for the three months ended June 30, 2002 over the second quarter of 2001 as a result of lower interest rates and a reduction in long term debt. Depreciation and amortization expenses have increased commensurate with the growth of the correctional operations.

Six Months Ended June 30, 2002 Compared to the Six Months Ended June 30, 2001.

The Company's revenues increased $1.11 million to $13.37 million for the six months ended June 30, 2002 compared to $12.26 million for the six months ended June 30, 2001. The increased revenues were a result of overall increased offender census, the acquisition of the Austin Transitional Center in December 2001, and the expansion of the Phoenix Center in Colorado in February 2002. Earnings before interest, taxes, depreciation, and amortization increased 6% for the six months ended June 30, 2002 to $3,175,000 compared to $2,989,000 for the six months ended June 30, 2001. The Company recognized losses of $190,000 on the new Riverside Intermediate Sanction Unit during the six months ended June 30, 2002, because the facility had not yet filled to capacity.

The Company began recording a provision for income taxes in 2002 with a provision of $225,000 for the six months ended June 30, 2002. A provision for income taxes was not recorded for the six months ended June 30, 2001, due to the utilization of a tax loss carryforward.

The Company's net income increased 21% to $666,000 for the six months ended June 30, 2002 compared to $550,000 for the six months ended June 30, 2001. The Company's earnings per share were $.14 basic and $.12 diluted for the six months ended June 30, 2002 compared to $.11 basic and diluted for the six months ended June 30, 2001.

Corporate. General and administrative expenses increased to $1,077,000 for the six months ended June 30, 2001 compared to $750,000 for the six months ended June 30, 2001. General and administrative expenses increased primarily due to increased legal, travel, and staffing costs for the Company's new operations and acquisitions. Interest expense decreased $285,0000 for the six month ended June 30, 2002 over the six months ended June 30, 2001, as a result of lower interest rates and a reduction in long term debt. Depreciation and amortization have increased commensurate with the growth of the correctional operations.

Critical Accounting Policies -

Revenues. Many states and other governmental agencies are experiencing budgetary pressures that could affect future revenues of the Company as a result of the current economic downturn. Governmental agencies may look first at reducing payments to outside contracting companies to maintain the level of expenditures at the government agency, rather than looking for the most cost-effective services available. The Company could experience reductions in revenues as a consequence of contracting agencies reducing the bed utilization in the Company's facilities. A reserve cannot be established to estimate future downturns.

Intangible assets. Three of Avalon's facilities - the Avalon Correctional Center, The Villa at Greeley, and the Phoenix Center - have intangible assets on their books representing the value allocated to the operating contracts at the time of their acquisition. Through December 31, 2001, these intangible assets were being amortized over a twenty-year period. Financial Accounting Standards Board SFAS 142 requires that intangible assets, whose useful lives are estimated to be indefinite, can no longer be amortized. Avalon's intangible assets have indefinite lives inasmuch as they relate to contracts that are renewable at minimal costs, are routinely renewed, and are expected to be renewed. If the intangible assets are shown to be impaired in some future period, they are required to be written down to their fair value in the period when the impairment is ascertained. The Company's intangible assets with indefinite lives total $2,856,000 at June 30, 2002. Any impairments recorded would have an adverse effect on earnings, possibly materially, in the period the impairment is determined. During 2002, independent appraisals have been obtained on the related properties and the value on each was higher than the carrying value of the underlying intangible and tangible assets, so no impairment has been found to exist. Annually, intangible assets with indefinite lives will be tested for impairment.

Equity valuation. 1,622,448 shares of the Company's stock (approximately one-third) have a put attached which can be exercised in 2003. This put is redeemable under certain circumstances at the holder's option and requires the Company to purchase the stock at the market value. The stock is recorded on the Company's books at an estimated redemption value and is updated quarterly. The stock was recorded at its estimated fair value and is being accreted to the estimated value at the redemption date. This accretion will become more volatile as the redemption date draws nearer, and will ultimately track the price of the stock. This change in stock value is offset by an equal change to Paid-in Capital, and could possibly hinder the Company's ability to market its stock.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings - None.

Item 2. Changes in Securities - None.

Item 3. Defaults Upon Senior Securities - None.

Item 4. Submission of Matters to a Vote of Security Holders -

May 22, 2002 Annual Meeting
Directors Elected –– Donald E. Smith and James P. Wilson
Votes for Donald E. Smith -- 4,677,017 Votes withheld -- 20,900
Votes for James P. Wilson -- 4,673,767 Votes withheld -- 24,150
Directors Continued –– Robert O. McDonald
Charles W. Thomas
Mark S. Cooley
Proposal: To ratify the selection of Grant Thornton, LLP as the Company's independent public accountants and auditors for the fiscal year ending December 31, 2002
Votes for -- 4,691,917 Votes against -- 1,600 Abstain -- 4,400

Item 5. Other Information - None.

Item 6. Exhibits and reports on Form 8-K - None.

The following exhibits are filed as a part of this Quarterly Report on Form 10-QSB:

99.1 Certification of Donald E. Smith, Chief Executive Officer, pursuant to 18.U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Lloyd Lovely, Vice President of Finance, pursuant to 18.U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

AVALON CORRECTIONAL SERVICES, INC. AND SUBSIDIARIES

SIGNATURES

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

Date: August 13, 2002

AVALON CORRECTIONAL SERVICES, INC.

By: s/ Donald E. Smith
Donald E. Smith, Chief Executive Officer

By: s/ Lloyd Lovely
Lloyd Lovely, Vice President of Finance

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Avalon Correctional Services, Inc. (the “Company”) on Form 10-QSB for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Donald E. Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Donald E. Smith

Donald E. Smith
Chief Executive Officer
August 13, 2002

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Avalon Correctional Services, Inc. (the "Company") on Form 10-QSB for the period ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lloyd Lovely, Vice President of Finance of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Lloyd Lovely

Lloyd Lovely
Vice President of Finance
August 13, 2002