



MARCH 15, 2010

INITIATING COVERAGE

MARC ROBINS, CFA
SCOTT BUTLER
877-276-2467

AVANTAIR, INC. (OTC BB: AAIR)

INDUSTRY: AIR SERVICES

DISCLOSURES: 1, 4A, 5, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 03/12/10	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET (Est)
\$2.30	NM	26.3	\$60.5	N/A	\$4.00

ANNUAL DATA – JUNE YEAR END			
	2009E	2010E	2011E
EPS	\$ (0.39)	\$ (0.14)	\$ 0.30
P/E	N/M	N/M	7.7
REVENUE (MIL.)	\$136.8	\$145.0	\$157.4
P/S	0.44	0.42	0.38

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2011E	N/A	N/A	N/A	N/A	\$ 0.30
2010E	\$ (0.11)	\$ (0.06)	\$ 0.00	\$ 0.01	\$ (0.14)
2009A	\$ (0.24)	\$ (0.15)	\$(0.10)	\$ 0.10	\$ (0.39)

INVESTMENT SYNOPSIS

We are initiating coverage of Avantair Inc. with a “BUY” recommendation for several reasons:

1. The Company has established a record of several cash positive operating quarters that shows investors it can not only operate these avant-garde, “At Your Service” Air Limousines but can do it well and in the worst of times.
2. Growth has come in the face of horrendous economic conditions and competition.
3. This last quarter was oh-so-close to profitable. If it were not for the requirement for charter equipment needs to fulfill demand, AAIR would have accomplished the task.

Near-term, we are targeting a \$4.00 share price and believe the shares suitable for those seeking capital appreciation and who can tolerate a modestly higher degree of “businessman’s” risk.

Our price target is based on our earnings estimate for Fiscal Year 2011 and our projection of an earnings multiple of 12-to-15 given current conditions; we would now give AAIR a valuation of \$4.00 based on our forward FY2011 EPS estimate of \$0.30 times a midpoint multiple equaling the \$4.00 target price for about this time 2011. If the Company were to gain a little more pace in new client signings—hence income, then the multiple could certainly expand to the 17-to-20X range and the target price should rise accordingly.

OPENING PREAMBLE: THE ONLY WAY TO FLY

In the first decade of my career (the late-1970s to early-1980s), I, like everyone else, was hit straight-on with an economic “Triple-WHAMMY!”: ‘Stagflation,’ a couple years of (pseudo) hyper-inflation, and finishing-out the mess with a true, double-bottom recession. Given the series of twists and turns the U.S. endured, it meant that anyone who understood what was happening was either a practicing economist or Olympic High Dive Competitor.

In reality, the times were truly tough for America. Like today, jobs were scarce and money... depending on the year... was whatever it was. At one time, you bought hard assets as fast as you could because inflation made specie worthless. Then next year, you buried cash in a can in the backyard because interest rates were 20% and gold was dropping like a stone. As I remember, back then, people weren’t scared like they are now (they were losing both their jobs and homes), they were *frantic!* And, S&Ls, not banks, weren’t closing by the handfuls, but by the *thousands.*

This report was prepared from data and information believed reliable but not guaranteed by us as to its accuracy and does not purport to be complete. It is not to be considered as an offer to sell or a solicitation of an offer to buy the securities of the companies covered by this report. Opinions expressed are subject to change without notice. Catalyst Financial Research LLC, its affiliates and other associates may have positions and may effect transactions in securities of companies mentioned herein. ©Catalyst Financial Research LLC, Suite 201, 3220 SW 1st Ave. Portland, Or. 97239; (503)-241-1880.

For me, it was the best thing that could have ever occurred. As a cub analyst/professional investor starting-off with a pretty secure financial foundation, it was a great experience and prepared me for many chapters to come later. The late 1970's and early 1980's made me a far better investor than if I had started my career in 1988 at the ebb of the 15-year rising tide. It was also a wondrous and prosperous time for legitimate stock-picking versus a rising market tide.

Moreover, I was also fortunate to live close enough to the 49th State to observe and understand the benefits of prosperity generated by that isolated and "separate economy" in 1979, '80 and '81. While the contiguous 48-states endured high oil and fuel prices, high inflation, high interest rates, high unemployment and high just-about-everything-else we didn't want, Alaska's economy was just beginning to roll-over from the pipeline boom. But, tension in the Middle East "boomed" oil prices and the trickle-down effect of prosperity from oil production and the Indian Nation wealth spurred the State onward, and it was the "gold rush" all over again.

Long before a lady named Palin came along to stir-up the 2008 political race, I became intimately familiar with the oil riches of the North Slope, the follow-on prosperity of the Alaska Oil Pipeline, the hopes for construction of the natural gas pipeline, the vast mineral resources to be found up North, the "military economy", the fishery resources, the State Permanent Fund Dividend (Alaska has no Income Tax, but an annual cash payout), the unbelievable lack of infrastructure, etc. These many elements spurred me to follow a handful of companies that were actually more closely aligned to that economy up North than tied to the contiguous-48 states.

It worked well in several ways. While the business activity in the lower-48 stunk, business activity up in the "49th State" was on a tear. The little public companies in or serving Alaska, I also followed as a group, performed abnormally well.

When the price of oil dropped and the economy of the mainland roared back to life, the activity up North dimmed and the business associated with the six Alaskan public operations slowed. The shares of my favorite Alaskan companies rolled-over together and performed "less well." But then there was real demand for someone, who could speak intelligently about the Alaskan economy—at least sound intelligent at a "rubber-chicken" presentation. So, one of the major banks and a brokerage house, and much later a private concern, would pay me to go visit Anchorage and many distant communities and present the "State of the State" pitches in the evening or at lunches.



To say the least, I learned a half-dozen or so truths, while working the speech circuit in that great State of Alaska. From the most simple to complicated, here are some of the most notable:

1. It's BIG: we "outlanders" in the lower-48 have no clue about the size of the land mass (It's one-fifth the size of the contiguous 48-states or if Alaska was placed on-top of the "48," it would stretch from coast-to-coast and blot-out most of the Mid-west.)
2. Moose is a far better game meat than venison or elk (Indeed, I'll take it over beefsteak!)
3. There are very few roads between cities, towns or villages...So, you're dependant on air transportation.
4. No matter what, don't leave food inside of something you value (see photo of plane!!!)... Bears will breach anything to attain a morsel to eat...especially after hibernation;



5. Make sure you have aircraft with good fuel economy and distance capability.

(NB. the bush pilot, who didn't follow rule #4. and left food provisions inside the formerly nice aircraft, "duct-taped" the plane back-up together and flew home out of the scrub and safely back to civilization.)

I had the good fortune of being ferried around the State—as well as a number of other trips and adventures throughout the West—on a variety of private aircraft...executive jets on the long hauls, and turbo-props for shorter trips...owned by banks, the money management firm for whom I worked, the original PacifiCorp and a few individuals.

Let me tell you, there is nothing like the advantages and conveniences of private, executive-aircraft service. It was often the transportation answer.

Today, there is the huge matter of time savings, convenience regarding the major airports and the discourse of security, as well as creature comforts long lost on commercial air service. As an example, the air flight from Portland to Seattle (I'm sure it's about the same between Boston and NYC) is not much more than 40 to 50 minutes, but to drive to the airport; to park, to go through security with sufficient time to "undress", to wait, to fly, to stand-in-line for a taxi, to taxi into the city....one might as well drive the three hours just as easily to

make a workday work. With a private air service, it's not much more than 55-minutes, airport-to-airport: The time-consuming security and boarding issues at both ends of the air-hop are far less problematic.

There is also the convenience of timing the airflight to best suit the passenger's needs, not those of the commercial airline's schedule. This is also a cost of time that few ever consider. With privately-owned air service, one can just about time the flight to suit one's own schedule.

Now I've flown in King Air's, Cessna's, Gulfstream's, Beechcraft, and Lear Jets and they all had their advantages and strong points. The worst fact was that none of them was mine! (When your hide-away is 750 miles round-trip away from your city home and your there just-about three weekends-out-of-four, it's a travesty not to own some sort of aircraft.)

The most notable jet was the Lear owned by PacifiCorp bought from the Saudi King's personal physician. As I remember, this craft had Royal (light) green interior, with red leather upholstery, but all the fixtures and accoutrements were made of high-carat gold. So were certain parts of the outer skin (particularly the underbelly of the jet) adorned with gold gilding. The utility company, in an effort to disguise the flashiness and exorbitance of the craft, painted the outer shell of the craft a stark white. But, the gilding would not let the new paint properly adhere to the surface like it should and would peel with any chance it could get. When the Lear Jet landed in Alaska and the underbelly was nicked by a rock, the wind would catch the rough edge of the paint and peel the white off in long strips. To prevent this problem, the first duty the co-pilot had after landing and securing passengers and craft was to touch-up the scratches and nicks in the paint to make sure the paint would adhere and the gold would remain hidden.

Now if you are just incredibly rich, like the Saudi Royal Family's physician who can afford the gilded Learjet, then owning an executive jet for those little nuisance trips and jaunts is just the best alternative to handling private air transportations problems. If one still wants to go in "luxurious style" but can't quite shell-out all that "green" for an entire jet, there are now other options such as chartering an aircraft and pilot, fractional ownership or the most recent option, flight hour cards—essentially reserved hourly usage (Think: Jetair with all the trimmings.)

For us spoiled schlubs who want to experience a bit more of the "Highlife," the availability of NetJets (a Berkshire Hathaway company) and now, Avantair's private rent-a-jet executive services, really makes living the life of the "rich and famous" attainable.

BACKGROUND: AVANTAIR— AT YOUR SERVICE

Avantair Inc. sells fractional ownership shares of executive air service or 'flight-hour cards' of professionally



piloted aircraft service for personal and business transportation. Further, the Company provides management services of its aircraft fleet. As the fifth largest executive air provider in North America serving the fractional aircraft industry, Avantair operates 55 aircraft within its fleet, comprised of 46 aircraft for fractional ownership, five Company-owned core aircraft and four leased and Company-managed aircraft.

This Clearwater, Florida (Greenfield) operator generates revenue predominantly through the sale of fractional ownership shares, by providing maintenance and management services related to these aircraft, and from

the sale of flight hour cards providing as little as 25 hours flight-time per client card per year.

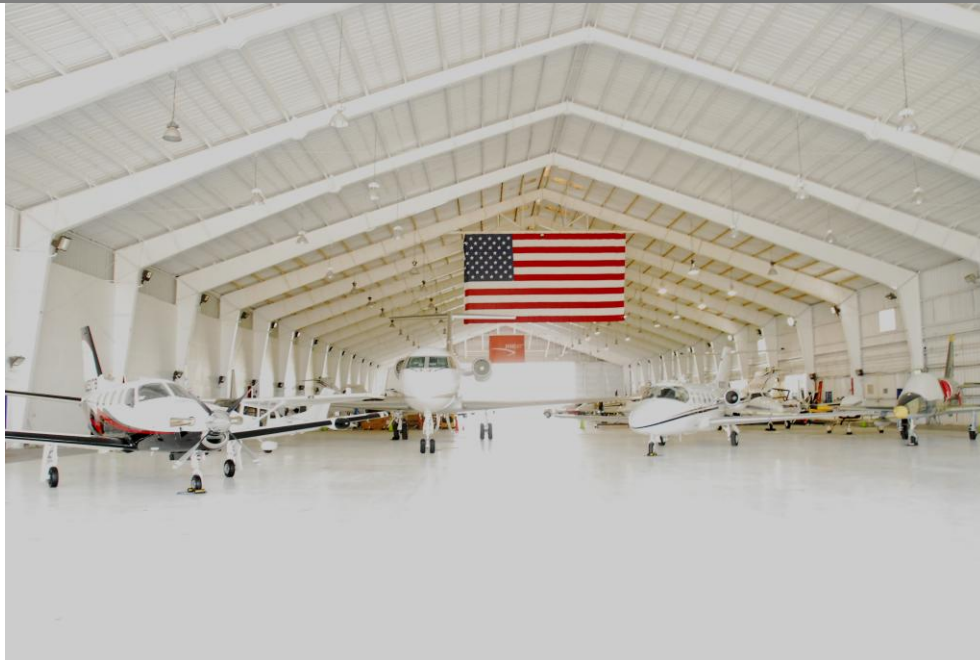
Avantair purchases planes wholesale and then markets and sells the fractional interests to businesses and individuals with a minimum share size of one-sixteenth share. Furthermore, Avantair offers innovative hourly card memberships to their clients that have been very effective in generating new customers in an executive air service market that has to have been one of the weakest environments in the history of the industry.

A big part of Avantair's successful formula traces to the Company's exclusive utilization of the Piaggio Avanti II turboprop aircraft, which utilizes the unique and innovative rear-pusher-prop design placing the main wing behind and above a canard-like horizontal stabilizer. The resulting aircraft provides the largest and most spacious cabin in that executive jet class. They are nearly a foot taller and wider and over a foot longer than the average light cabin jet. Also because of the engine placement and position, the Avanti passengers ride with lower noise levels and less vibration. Finally, the Avantair can offer world-class travel more economically to its clients -- always an attractive proposition no matter your tax-bracket. As part of the package, Avantair provides pilots, maintenance, fuel and hangar space for the aircraft through a "maintenance and management agreement" with each fractional share owners.

AAIR operates Fixed Flight Based Operations in Camarillo, California and Caldwell, New Jersey and headquarters/operations center in Clearwater, Florida through which the Company provides fleet maintenance, and customer concierge and other services. These three locations are placed to best service the nation's three largest populations where private jet service demand originates. Management understands that sites in Texas, the Ski Resort destinations (such as Salt Lake, Telluride or Aspen), San Francisco, etc. may hold some real operating allure for the Company and adding new flight operation centers to help reduce empty client pick-ups and other "one-way" client trips to improve operating yields.

At the Florida headquarters facility, there is the typical administration office that one would find at any normal business. In addition, this is where Avantair houses flight operations, their weather and route monitoring personnel, as well as client service and reservations. While visiting, I noted the start of a new flight ops and client reservation "war room" being assembled. This was as large and technically as exciting as any trading room at a major brokerage operation. Although it is a ways from being completed, it is the clear signal on AAIR's intention to have a multiple-fold increase in the Company's aircraft monitoring capability by 2012.

The Clearwater hanger is cavernous and appears it could easily garage 30 Avanti aircraft at any one time. Since AAIR's start-up, the Company's #1 priority has been to increase revenue while absorbing more operating costs in-house, specifically more of the FAA's required and key maintenance tasks necessary to continue their fleet operations. AAIR maintenance has grown to such an extent that just about all aircraft services, except major scheduled engine overhauls, are now performed by trained and certified Company employees. For instance, as to the degree of attention the "shared" planes are cared for, the Ferrari Leather interiors and seat upholsteries are now serviced and dyed by AAIR's own in-house staff every 5,000 hours so that the interiors don't appear tired and worn after being in service.



As we indicated above, top-notch quality execution will make or break the success of an Executive Jet Service. It is a little known fact that United Parcel Service is the only major “airline” that has a “Perfect” safety record among all the major air carriers. And, that safety caliber ranking is for its packages that serve as its “customers.” So, to “make it” for a group of clients that are paying top dollar, a provider of executive jet transportation services has to really perform. This is done via the little details, like the refurbished Ferrari leather upholstery which was mentioned above, the cleaned and freshened cabins, the catered food and so on. We will go on to discuss how the choice of aircraft genuinely helps Avantair please their clientele and produce very high referral rates.

Avantair sources all of its aircraft from Piaggio America, Inc. With the Company enjoying the “jet stream” at its tail, AAIR is about to use its recently fortified balance sheet to further expand the fleet.

AVANTAIR AND ITS RELATIONSHIP WITH PIAGGIO AIRCRAFT

A BRIEF HISTORY OF PIAGGIO: In 1884, twenty year old Rinaldo Piaggio founded Piaggio. Based in Genoa, Italy, the operations first manufactured wooden furniture and fittings for ships. Within 15 years of taking over the operation, he had a virtual monopoly over the northwest coast of Italy. All the shipyards turned to Piaggio for furniture. The business expanded into furniture for railroad carriages and eventually parts and accessories for trucks, trams, freight cars and autos. The need for metal fixtures, hardware and structure parts attracted Piaggio to expand beyond wood into metal fabrication. Soon the Company was producing power units, such as truck engines, locomotives, etc.

World War I found Piaggio developing and producing aircraft and seaplanes. During WWII, the Company produced bomber aircraft for the Axis powers. However, Allied bombing missions left its factories destroyed as the Allies advanced. Given the dismal state of roads and the economy in post-war Italy, Enrico Piaggio, son of founder Rinaldo, chose to re-focus on Italy's urgent need for affordable and efficient form of transportation. The result was the production of the iconic *Vespa* scooter (“*wasp*”). Within ten years, more than one million units were produced.

With the cash flow generated by the popular and successful Vespa scooter, the Company again began to focus on the development of aircraft. In 1948, Piaggio launched the P136, a twin-engine seaplane used by the Italian Air Force for liaison and transport missions. This was followed by a series of successful platforms developed and produced for military and civilian markets to meet needs around the world. Piaggio also began

manufacturing jet engines in 1960 with the licensed production of the Rolls Royce Viper.

In 1966, Piaggio separated into two independent companies: One focused on the Vespa motor scooter and the other on aeronautical activities. Today, the two companies are autonomous operations sharing only the Piaggio name.



PIAGGIO P180 AVANTI AND AVANTI II: Regarding the design and production of the Avanti, it had a somewhat long and tortured history. With the P180, Piaggio desired to offer the combination of jet-like performance and the low operating cost of a turboprop. Throughout 1979 – 1981, development began with thousands of hours of wind tunnel testing of their design prototypes in Italy. Learjet and Piaggio formed a U.S.A collaboration in 1983, but that venture soon ended and Piaggio continued development on its own, producing the first, flying prototype in September 1986. U.S.

and Italian certifications were obtained in March, 1990.

The first twelve Avanti fuselages were actually produced in Wichita, Kansas, and then flown to Italy for final assembly. Avanti Aviation Wichita ran out of money in 1994, and the project languished until a group of investors led by Piero Ferrari became involved in 1998. In November 1998, the assets of Rinaldo Piaggio S.p.A. were acquired by a group of entrepreneurs headed by the Di Mase and Ferrari families and renamed Piaggio Aero Industries. The 100th aircraft was delivered in October, 2005 and the 150th aircraft was christened in May of 2008.

In October, 2004, the upgraded Avanti II was launched at the NBAA conference in Las Vegas. While the fuselage is unchanged from the original Avanti, upgraded cockpit avionics provide pilots with the latest ‘glass cockpit’ displays and improved situational awareness and a step-up in safety for the clients. More powerful Pratt-Whitney PT6-66B engines provide increased power and another 16 knots at maximum speed. Range is now 1,750nm (2014 miles) at a speed of 395 knots (~455mph) at 41,000 feet. The new model P80 Avanti II delivers jet-like speed, very competitive range and the ability to take-off and land on 2,800-foot of runway, making it well-suited for business travel.

Inside the cabin, there is ample room for passengers to move with a ceiling height of five feet and nine inches. The six feet of cabin width is over a foot wider than other jets in the class. There are two pairs of fore- and aft-facing, fully-adjustable seats, with fold out tables, arranged in the conventional club four arrangements. Opposite the entrance door at the front of the plane is a sideways-facing double divan. Next to the door is a single, sideways-facing non-adjustable seat and a small cabinet which can be used to store refreshments.



All seven seats are certified for take-off and landing. Other cabin amenities include an in-flight entertainment system from a new, optional DVD/CD player with satellite radio and moving map. Further, the cabin has a fully enclosed lavatory. Piaggio recently redesigned the closet and lavatory to provide more room.

Below is a table that essentially depicts the various physical dimensions and aspects of three of the more popular executive fanjets compared to Avantair Piaggio. In almost every facet except cruising speed, the Avanti II measures-up equal to the far more expensive fanjets - particularly when you consider that the slight speed disadvantage equates to about 15

minutes of extra flight time on a typical leg. Saving 40% at these rates for 15 minutes extra time is a reasonable trade-off for many. When it comes to operating costs, the Piaggio beats the competitors hands down. In the words of one owner who is a personal friend of ours and owns two Avantis, "They're the greatest!"

Avantair Inc

Comparison of Aircraft in Light Cabin Class

Make	Piaggio	Cessna	Raytheon	Raytheon
Model	Avanti II	CJ3	Hawker 400XP	Encore
Cabin Height	5'8"	4'8"	4'8"	4'8"
Length	14'11"	15'7"	15'6"	17'4"
Width	6'1"	4'8"	4'9"	4'10"
Baggage Capacity (ft ³)	44	65	46	69
Typical Seating	6 to 8	6 to 8	5 to 7	7 to 9
Cabin Volume (ft ³)	375	283	278	313
Takeoff @ Sea Level, ft	2,850	3,180	3,950	3,490
Cruise Speed (Knots)	402	415	450	429
Range (loaded), nm	1,750	1,740	1,333	1,778
Fuel Consumpt., gal./hr	104	149	191	180
Ceiling, ft.	41,000	45,000	45,000	45,000

Sources: privatejets.com, aerospace-technology.com and aircraft company websites

FORMATION OF AVANTAIR, INC., THE INDUSTRY AND HOW IT WORKS

2004; SEPTEMBER 14: Company originally organized as *Ardent Acquisition Corporation*.

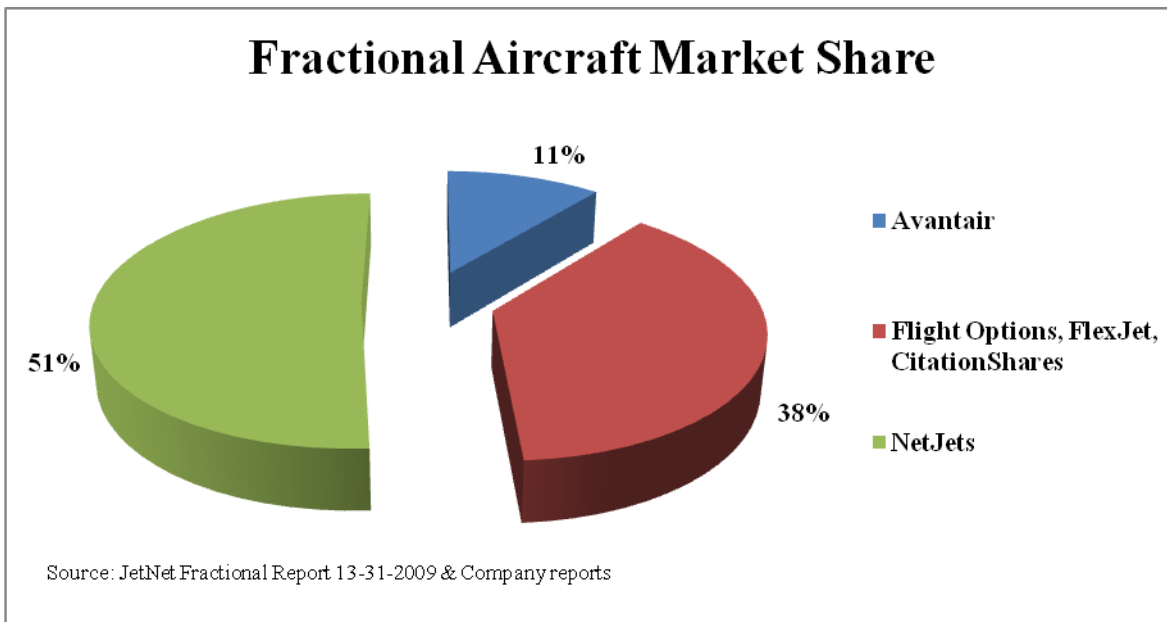
2006; OCTOBER 2: Signs a definitive stock purchase agreement with *Avantair Inc.* ("Old Avantair"), as amended on December 15, 2006, calling for Avantair to issue 6,684,822 shares of common stock to the stockholders of Old Avantair in exchange for all of the issued and outstanding shares of Old Avantair in a reverse merger transaction.

2007; FEBRUARY 22: The reverse merger acquisition of Ardent Acquisition Corp. closes and the Company receives roughly \$36.3 million in capital proceeds.

U.S. MARKET FOR FRACTIONAL SHARE AIRCRAFT: Businesses and individuals utilize private air service because of the convenience and flexibility afforded to travelers by avoiding crowded commercial hubs, scheduling snafus as well as travel and security-related delays. Through fractional ownership, travelers can enjoy many of the conveniences and benefits of a private jet, without having the entire expense of owning one—and sharing it among others without the difficulty and logistical challenges of trying to equitably divide use between owners.

With a fractional share fleet, each aircraft is available for a certain number of revenue flight hours per year; these hours are parsed out and sold in fractional interests to owners. For instance, purchasing a one-eighth share of an aircraft means the purchaser is paying one-eighth of the retail price of the plane for one-eighth of the flight hours for the initial contract term, usually five years. Additionally, the fractional share owner agrees to pay Avantair a predetermined monthly fee to cover various costs associated with the maintenance and operations of the aircraft.

Figure 1



The North American market for fractional share aircraft ownership has grown from eight aircraft in 1986 to roughly 1,054 as of October 2009 and over the same time frame from three fractional share owners to 5,593¹. Five companies dominate the market, each with greater than 11% share (See Figure 1).

The key competitive factor for Avantair in this market space is its ability to offer the amenities and benefits of a mid-range business jet at a turboprop price point. Additionally, the Company gains efficiencies and economic benefits from operating a homogeneous fleet of aircraft. The benefits include minimal spare parts inventories and standardized maintenance routines. Because all of its pilots are certified to fly the entire fleet, a major constraint that adversely impacts other fractional companies that fly a variety of platforms (the scarcity of qualified pilots) is eliminated. So, while several other companies within the fractional space have larger, more expensive fleets, Avantair's focus on exploiting the relative benefits of the Piaggio turboprop have proven exceptionally effective.

¹ AvData, October 2009

The Company offers a wide variety of price points in order to appeal to the broadest potential market. Further, management indicates the introductory programs have proven successful in luring new participants into the market for private air travel. Currently, AAIR offers its Fractional Ownership plan, the AXIS Club Membership, and the Edge Time Card. We have provided a table below that divides-out the differences between the three plans in detail but basically the major distinctions depend on term, total versus operating cost, other fees, conversion options, etc. We like to characterize the options as similar to the “Hertz Rent-a-Car,” the GMAC lease, and the BMW pay-to-own plans.

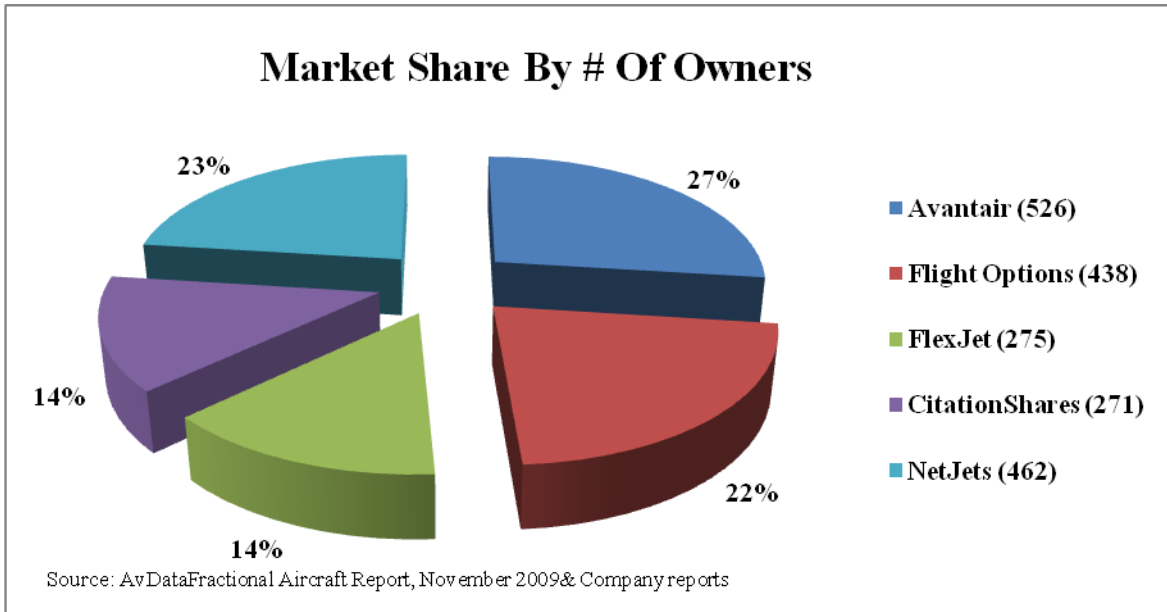
Avantair Fractional Ownership	AXIS Club Membership	Edge Time Card
Hourly Operating Cost*: \$2,610 (1/16th share)	Hourly Operating Cost*: \$3,725 - \$4,440	Hourly Operating Cost*: \$4,515 (25 hr. card)
One-time acquisition cost; no hourly cost	One-time membership fee	All inclusive, one-time cost
Customizable fractional share sizes	Tiered membership options to fit customer travel needs	15 or 25 hour cards available
5-year term	3-year term	12-month term
No restricted travel days	No restricted travel days	Only 10 restricted travel days per year
Expanded Primary Service Area	Expanded Primary Service Area	Expanded Primary Service Area
Lower operating cost per hour than other fractional programs	Fractional conversion and upgrade options available	Conversion options available
*Including Federal Excise Taxes		

On the other hand, the lower cost of the flight hour cards has helped broaden and lure new entrants into the private travel market, expanding beyond what has been a fairly defined arena. In 2Q 2010 (December period), 65% of flight hour card sales were to new customers; 20% of them were new to private air travel. Avantair’s tiered plans also enable new entrants to move into the higher strata of plans as they become more familiar with the Piaggio aircraft and the convenience of fractional jet ownership via conversion and upgrade options. Moreover, management believes they are also witnessing a distinct trend as Flight Hour card holders migrate up the food chain to “AXIS Club Memberships” and fractional share ownership status. Perhaps the best indication of the Company’s overall success in providing client satisfaction is that 80% of its new clients come from current customer referrals.

These programs and Avantair's relatively low cost-of-entry have contributed to the Company's ability to maintain top-line revenue growth in an exceedingly challenging business environment. This “freshness” of its client list as well as its recent ability to poach clients from other competitors has allowed Avantair to build the

This report was prepared from data and information believed reliable but not guaranteed by us as to its accuracy and does not purport to be complete. It is not to be considered as an offer to sell or a solicitation of an offer to buy the securities of the companies covered by this report. Opinions expressed are subject to change without notice. Catalyst Financial Resources LLC, its affiliates and other associates may have positions and may effect transactions in securities of companies mentioned herein. ©Catalyst Financial Resources LLC, Suite 201, 3220 SW 1st Ave. Portland, Or. 97239; (503) 241-1880.

most granular among the light-cabin fractional aircraft companies, with 526 owners for a 27% market share in the November 2009:



ECONOMIC RECESSION ALTERS BUSINESS AIRCRAFT LANDSCAPE: The general aviation market began to slide in the fall of 2008 as corporations began to dramatically cut-back the size of their private fleets and reduce overall corporate travel budgets as a way to economize. As a result, leading producers of business aircraft such as Cessna, Gulfstream and Learjet experienced unprecedented declines in aircraft order rates going from multiple-year backlogs to “empty-level” backlogs in short order. Moreover, prices for most used business aircraft models fell like a rock last year as many smaller carriers and charter operators scaled back fleets or ceased operations altogether, creating a glut of supply facing virtually no real demand.

This retrenchment process led aircraft manufacturers to shed nearly 20,000 jobs from 2008 levels through fall of 2009, according to the General Aviation Manufacturer's Association (GAMA). The good news is that inventories for used business jets for sale declined for December 2009 to 12.8% of the total fleet, from a peak of 20% earlier in the year (GAMA).

History suggests that more meaningful declines need to be registered here before a recovery in new aircraft orders can occur. Third quarter 2009 industry aircraft sales declined 47% to 1,587 from 2,982 one year ago; the corporate profit picture and outlook will continue to play key role in determining the timing and magnitude of a major recovery in this sector.

FAT CAT BANKERS?! Most of us probably think of executives and business owners when we envision the typical business class flyer, however, according to a Harris Interactive, Inc. survey¹ produced in October 2009, only 22% of passengers on business aircraft are top management. Most are managers (50%) and or technical, sales or service staff (20%) going out to make client calls or on-site calls that have some element of urgency to the timing. Companies with less than 500 employees are the dominant business aircraft owners (59%); seven out of ten have fewer than 1,000 employees...but, find it necessary to make the personal, face-to-face presentation or service update that improves the standing of the client/server relationship.

This report was prepared from data and information believed reliable but not guaranteed by us as to its accuracy and does not purport to be complete. It is not to be considered as an offer to sell or a solicitation of an offer to buy the securities of the companies covered by this report. Opinions expressed are subject to change without notice. Catalyst Financial Resources LLC, its affiliates and other associates may have positions and may effect transactions in securities of companies mentioned herein. ©Catalyst Financial Resources LLC. Suite 201, 3220 SW 1st Ave. Portland, Or. 97239; (503) 241-1880.

The same survey found that the typical flyer believed they were about 20% more productive on the company jet than normal commercial flight - as opposed to those who believed they were 40% *less* productive on commercial flights. For instance, nearly half (47%) of all flights made with private air service are made into an airport with infrequent or no scheduled service; another 33% into secondary airports. So, the flexibility of private jet service really benefits the flyer's ability to reach otherwise difficult destinations in a much more time-efficient means.

Aside from companies and business travelers, Avantair appeals to individuals who prefer the convenience and amenities of private travel. More than 2.5 million high net worth individuals in the U.S. possess between \$1 million and \$30 million in investible assets². Many of them believe that recapturing some of their most scarce asset, time, and skipping the security checkpoints, long lines and unpredictable delays and cancellations, is worth the extra cost of private air travel.

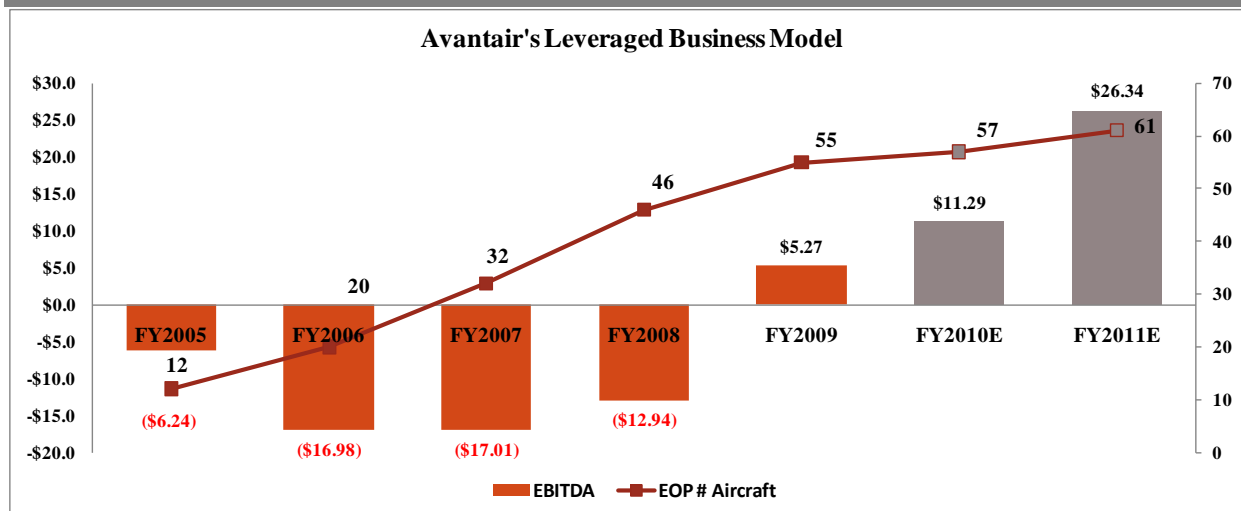
LEVERAGED BUSINESS MODEL: Currently, Avantair essentially purchases the Piaggio aircraft at wholesale (at roughly \$5.9 million per model), splits the ownership into shares, sells them to the public at retail price (around \$6.9 million for 100% of the aircraft) and then makes the aircraft available for use when the customer is in need of travel arrangements. The management and maintenance fee associated with each ownership share sold includes 5-year annual CPI increases. All flight operations—including scheduling, pilots and pilot training, maintenance, flight tracking and flight repositioning—are included with each share.

At the end of the five year period, the fractional owners may wish to continue in the Avantair fractional program and are offered a new management contract. Management indicates renewals have re-upped at a 90+% clip to date.

Revenue that is generated from each fractional sale is recognized ratably over the terms of the contract, generally over a term of five years. Revenues for the AXIS Memberships are also recognized ratably over the three year contract term. Edge flight cards are recognized as hours are utilized by the customer during the contract term.

Below is a graph that shows both the historical trend of Piaggio turboprop jets in service by Avantair as well as the “Earnings before Interest, Taxes, Depreciation and Amortization.” There are several points to make about this chart that need to be emphasized in a discussion about the Company: 1) There has been a “significant investment” made in AAIR to date in assembling the business to not only establish the physical operation but to also institute and confirm the certain quality patina that Avantair now conveys...more on this item below; 2) the transition from 2008’s 46 aircraft to 2009’s 55 turboprops was momentous in that it proved that the model worked and just as importantly the Company started to generate positive EBITDA; 3) that the stellar results of 2009 was accomplished in an industry crushing economic period when far more established competitors were struggling for survival; and lastly 4) the addition of an incrementally few more aircraft from this point onward brings significantly greater EBITDA contribution to the “bottom line.”

² Capgemini Consulting Technology Outsourcing/Merrill Lynch Wealth Management, World Wealth Report, June 2009



ECONOMIES OF SCALE: As pointed out both by our discussion and the Chart above, Avantair has substantial operating leverage whereby any growth in revenue, from this point onward, shows up in a meaningful increase in EBITDA. This expanding contribution of cash flow is associated with the fixed costs of Fixed Flight Based Operations (FBOs) versus the increasing number of revenue flights. Furthermore, operating scale benefits exist which include the ability to reduce aircraft maintenance and repositioning costs, the minimization of the cost of pilot training, and inventories for spare parts. Essentially, the increased size of the Firm allows AAIR to just plain better optimize the operations. A comment on repositioning costs might be helpful at this point.

This concept refers to the act of moving an aircraft from one location to another in order to better service the next customer who is scheduled to use the aircraft. Right now, AAIR must fly to the ‘origination city’ to begin the next flight, incurring what is known as a “deadhead”, or non-revenue flight, to locate the aircraft to the city where the customer needs to be picked-up. (In the world of trucking logistics, think of it this way. It can be a very costly expense...running a very heavy, Class 8 truck from Chicago to Portland and then back to Chicago empty—the “deadhead,” just to make the same run again. It makes a lot more sense to send Nike shoes back to Chicago or drive up to Seattle to carry a load of salmon from Seattle to Chicago.)

Avantair utilizes sophisticated optimization software to manage utilization of the fleet and minimize deadhead legs. The alternative to deadhead runs is charter plane use and that is expensive. By using their own fleet more efficiently it reduces the number of charter planes necessary to backfill internal capacity which, in turn, substantially works to reduce costs. Repositioning costs tend to decline as the fleet expands and the Company is able identify strategic locations based on travel patterns from which to base and reposition, reducing non-revenue generating travel and the attendant costs. Lower repositioning costs also mean fewer overall miles flown and savings on costs associated with aircraft maintenance and parts.

The FAA requires pilot’s certification for each aircraft they wish to commercially operate. Since all Avantair pilots are certified to fly all Avantair aircraft, no need exists for additional training for cross-certification. Further, each pilot and flight crew is fungible, enabling more efficient utilization than a fleet operator with multiple platforms.

Standardization on the Piaggio also benefits working capital in that less is tied up in spare parts inventories than many other larger fractional carriers, some of whom operate as many as 24 separate models of aircraft. Further, standardization enables efficiencies among maintenance procedures and permits more efficient use of technicians and diagnostics equipment.

CONTRACTUAL COMMITMENTS TO PIAGGIO: To date, Avantair has exclusively operated Piaggio aircraft within its fleet due to its relatively low operating cost combined with excellent performance and comfort. During 2009, the Company entered into a purchase agreement with Piaggio that calls for the delivery of 52 additional Avanti II aircraft through 2013, roughly one aircraft each 1.5 months. The nominal value of the remainder of the contract is roughly \$330 million including recently proposed price escalations, and includes some degree of flexibility to permit Avantair to match deliveries with expected future sales.

Management indicates they plan to take delivery of three additional aircraft by the June 30 FYE, and six through the CYE.

The greatest hurdle AAIR has faced since its start-up has been finding sufficient capital to finance the acquisition of new aircraft. In the following paragraphs, we outline a rough history of the Company organization and operating existence.

With the Company's private placement that occurred this past fall, as well as some clearing of other debt issue items, AAIR is not only upon the point of operating profitability, it has built-up a balance sheet that can start supporting the regular addition of more aircraft. Hence, it can operate a working and profitable business model that supports the accumulation of more Avantis.

One question remains: How are they financed?!

That is relative simple: there are a few (two are variations on the same theme) answers.

1. There are those tax payers that are looking for legitimate equipment investments for taxable deductions. This avenue has been used by the Company successfully and works.
2. The Italian government is working to help make the financing and export of the Avanti aircraft far easier and less expensive by guaranteeing loans against the jets. Yes, that leaves 30% of the craft to be financed by other means, but we understand the Company has found another banker to help in the process. Lastly, I would think that the Italian financing might make solution #1 more advantageous if a loan package came with the tax advantaged opportunity. (That's what we did back in the early 1980's.)

FINANCIAL REVIEW AND OUTLOOK

RECENT QUARTERLY RESULTS: AAIR reported 2Q 2010 (ended Dec 31, 2009) financial results on February 8, 2010 with revenues of \$35.8 million (+1% YTY) compared with \$35.4 million in 2Q 2009 and



\$35.2 million in the sequentially prior period. Highlights of the period:

- Sold 100 new flight hour cards (+89% YTY) compared to 53 in 2Q 2009 and 89 sequentially.
- Company sold five new fractional aircraft shares in the period, down from 19.5 in 2Q 2008, but up from 2 in the sequentially prior period. Management reported a 91% renewal rate for fractional shares in the period.
- Recorded the highest number of flight hours in the Company's history during the period: 9,770 - representing a 17.3% YTY increase from 8,328 hours in 2Q 2009 and 4.4% sequentially from 9,356 in 1Q 2010.
- Increased fleet size by three aircraft (net; added four new Avanti IIs and sold older fleet craft), however the aircraft were not certified during 2Q, hence unable to operate.
- As a result of the late aircraft deliveries, the Company experienced higher than normal charter service utilization in the period, which we believe caused \$1 million in excess cost, mostly flight operations and repositioning costs.
- The Company typically anticipates deliveries, matching new sales with prospective incremental delivery capacity. In this case, the capacity was late and approximately 1.9% of flight hours were delivered externally, a costly proposition.
- Recorded a one-time gain of \$850,000 (\$0.035/ share) on the sale of an older (>10 year old) P180 that was rotated out of the core fleet during the quarter. The aircraft, purchased second-hand in the Company's salad days, had reached the Company's service life limit.
- Simple EBITDA increased to \$1.95 million (excluding extra items of \$850k), the fifth consecutive quarter in positive territory and on upward trajectory.
- On the balance sheet, in October 2009, the Company completed the final tranche of a \$9.9 million PIPE, receiving net proceeds of \$8.4 million. The Company sold approximately 8.8 million shares of Common Stock to investors at a price per share of \$0.95. Further, the Company also exchanged 817,000 outstanding warrants that had been issued to investors in the two prior financings for 0.61 shares of Common Stock per warrant.
- Proceeds were used to reduce short and long term debt by \$9.9 million since June 30th of 2009 further enabling the Company to finance the purchase of four additional Avanti IIs during the period.
- Current ratio improved to 0.58x from 0.48x in the prior period. "Days" in AR increased to 20.7 from 15.9 sequentially. Interest coverage increased to 1.23x from 1.05x in the prior period. LT debt decreased to \$17.39 million from \$18.40 million in the sequentially prior period.

The Company added two new salespeople during the period, benefitting from the softness in the fractional aircraft market by picking up talented, experienced salespeople from competitors still in retrenchment mode. Further, management indicated a fairly robust pipeline of sales prospects for all three programs, with fractional ownership program perhaps the wild card.

OUTLOOK: Avantair emerged from 2009 as one of the bright spots in the fractional share aircraft market, growing share in a weak demand environment with effective sales promotions and marketing programs like Axis Club memberships and Edge Cards. Meanwhile, the business aircraft market in general shows some evidence of recovery including lower pre-owned inventories and firming prices in December 2009/January 2010. Nonetheless, a buyer's market remains and sales levels are well off the 2007-08 peak, with recovery likely to be modest by comparison. Recent headlines tell of continued retrenchment among market participants:

Hawker Beechcraft Rocked by Turbulent 2009, [AINonline](#); February 11, 2010. "Hawker Beechcraft on Tuesday reported an operating loss of \$712 million on sales of \$3.2 billion last year, compared with an operating profit of \$140.3 million on \$3.5 billion in sales in 2008."

Bombardier's Bizjet Orders in the Red for 2009, AINonline; February 9, 2010. "Bombardier on Friday announced that it logged 85 negative net orders for its Learjet, Challenger and Global business jets in the fiscal year ending January 31. The Canadian aircraft manufacturer also delivered 176 business jets last year, compared with 235 for the same period in 2008."

NetJets Cancels \$2.6B in Hawker Beechcraft Orders, AINonline; December 15, 2009. "Hawker Beechcraft revealed that fractional provider NetJets has cancelled orders for a "significant number" of aircraft from the Wichita-based manufacturer. The aircraft were previously scheduled to be delivered in 2011."

Further, in a tangentially-related market segment, recent financial reports by lodging timeshare companies indicate signs of stabilization if not recovery. Wyndham Worldwide (NYSE: WYN - \$25.17) indicated that, while vacation ownership revenue for 2009 declined by 15% YTY, resulting in reduction in overhead and closing of sales offices, some signs of stabilization have occurred. Bookings have firmed in recent months, and unit demand and pricing seem to have stabilized. Marriott signaled a similar dynamic in a recent conference call with analysts.

Avantair, by tweaking its ownership/ pricing model, has emerged from the downturn in a growth mode, aggressively capturing share while the larger, higher cost fractional companies remain in retrenchment mode. The feat is a testimony to the Company's not-so-secret weapon against high cost of private air travel, the Piaggio Avanti II. The resulting value proposition allows the Company to attract new entries to the world of private travel with lower-cost, reduced-commitment flight cards and Axis Club memberships, while providing a more economical alternative to those already wed to the concept of private travel.

We believe this approach will continue to bear fruit for Avantair, even in a slow recovery market. Flight hour cards and memberships provide more financial reward to the Company while bolstering productivity rates. The trade-off is a shorter time-commitment from the customer, hence increased risk to Avantair; at term's end they must resell that commitment to stay level. The good news is they have experienced strong loyalty and high retention rates among customers and are a low cost producer, so the move should pay off significantly when the recovery eventually shows and the Company can lock in more favorable economics longer term.

RISK FACTORS

- Avantair has above average businessman's risk due to the inherent risks associated with air travel, the aviation industry and the Company's indebtedness.
- The Company may require additional capital to fund its operations and/or expand the aircraft fleet, which it may not be able to obtain on satisfactory terms, if at all.
- Avantair's dependence on Piaggio aircraft could pose a substantial risk to the business if the Company were to experience delays or disruptions in delivery of aircraft.
- The commercial aircraft industry is highly regulated, and the Company is subject to various federal and state statutes pertaining to many aspects of its business. Failure to comply with these laws and regulations could have a material adverse impact on the business.
- Avantair operations require adequate supplies of aircraft fuel to conduct business; disruptions in supply or substantial increases in fuel price could have material adverse effect on the Company's operations.
- The Company has more than 26 million shares issued and outstanding, excluding warrants, options and convertible notes that could materially increase the number of shares outstanding, causing considerable dilution to existing shareholders.

VALUATION THOUGHTS

Avantair Inc

Comparable Valuation Parameters

Company	Symbol	Recent Price	Rev Chg % MRQ YTY	EV/EBITDA	EV/SALES	TTM PE	FWD PE
Wyndham Worldwide Corp.	WYN	\$ 22.79	0.2%	8.93	1.99	14.2	12.62
Marriott International, Inc.	MAR	\$ 27.19	-16.6%	157.46	1.07	NM	23.62
Choice Hotels International Inc.	CHH	\$ 32.33	-13.2%	12.93	3.75	21.0	17.72
Starwood Hotels & Resorts World	HOT	\$ 37.16		13.53	2.06	92.0	36.67
			Average	48.21	2.22	42.37	22.66
			Median	13.23	2.03	20.96	20.67
UAL Corporation	UAUA	\$ 15.56	-7.8%	6.99	0.49	NM	10.06
AMR Corporation	AMR	\$ 8.98	-7.4%	38.67	0.05	NM	13.37
Delta Air Lines Inc (new)	DAL	\$ 12.51	1.4%	13.46	0.78	NM	9.4
			Average	19.70	0.44	NM	10.94
			Median	13.46	0.49	NM	10.06
Avantair Inc	AAIR.OB	\$ 2.05	1.0%	8.83	0.57	NM	5.3

Sources: Edgar, Thomson, Morningstar

Discussion:

Although not directly comparable to either air carrier or time-share/lodging valuation companies, WYN may compare closest with real properties timeshare revenues totaling \$1.3 billion of Trailing Twelve Month revenues with flat year-over-year comparisons and in addition, WYN has the largest 34% of time-share as percent of revenue. Other lodging comparables straddle WYN on most parameters; most are experiencing improved bookings.

Lodging/Timeshare Group: EV/EBIDTA TTM: median 13.2x; EV/SALES TTM: median 2.0x; TTM PE median 21x.

Carriers are all coming off rough years/quarters, and reporting better bookings late in 2009 into 2010. Carriers carry greater financial risk due to financial leverage and more limited booking visibility.

Carrier Group: EV/EBIDTA TTM: median 13.5x; EV/SALES TTM: median 0.49x; TTM PE not meaningful.

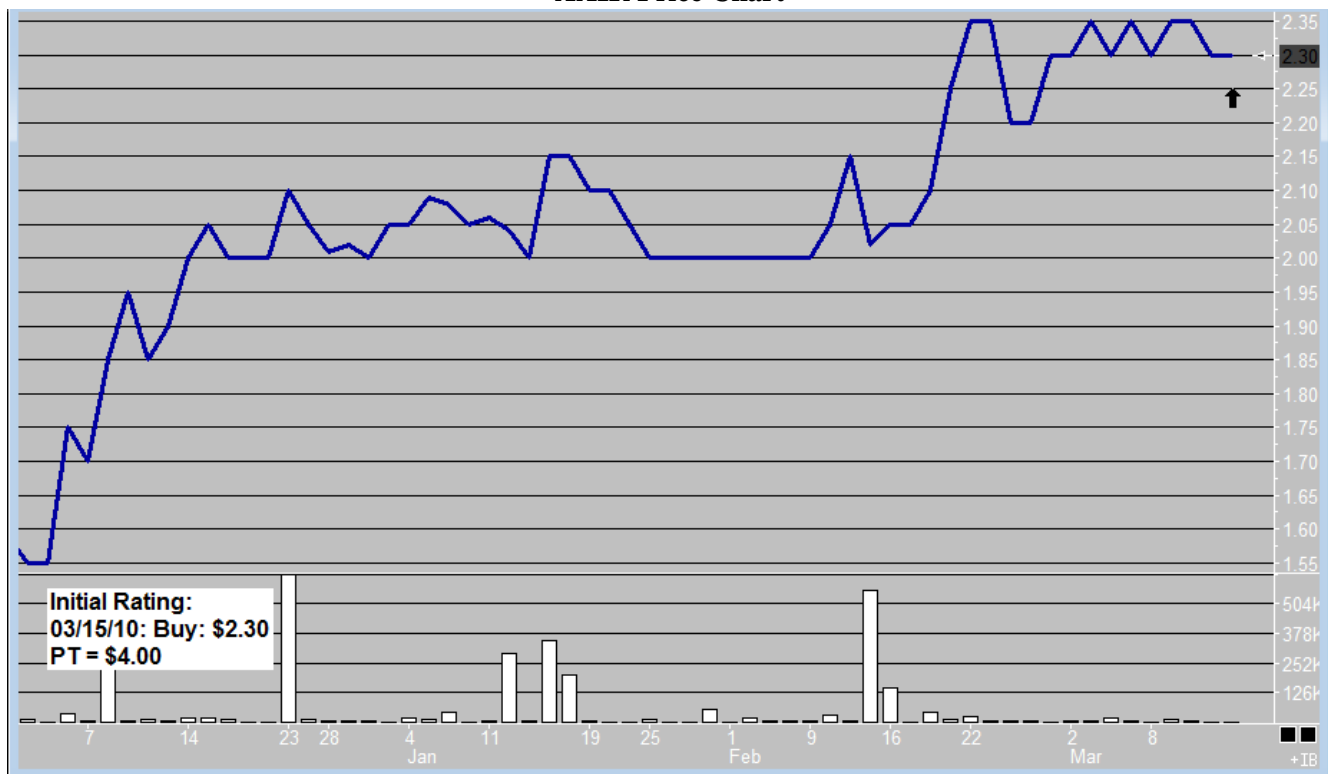
When comparing the two industries to Avantair, AAIR should fall along the valuation range in that there are many similarities to the businesses. Like the air carriers, Avantair provides transport from point A to point B, however, the air carriers typically supply a single trip and obtain a much shorter commitment from the traveler. Further, carriers carry more debt than Avantair and cater to a much different clientele, who may or may not view each mode of travel as a reasonable substitute.

Regarding the timeshare/lodging industry compared to Avantair, while both types of purchase commitments contain similar elements, the underlying assets being shared are quite different. Comparing aircraft to a condominium, for instance, the useful life is shorter for the aircraft, creating a new purchase decision at the end of the useful "life" of the asset. Further, history tells us that aircraft depreciate in value (generally), while real property values have tended to outpace monetary inflation.

People who are wedded to private travel but are trying to save costs or those that have finally come to sufficient wealth who desire private travel, now can arrive at this “middle ground” of travel. Further, with the Company's Edge Card and Axis Membership programs it is easier than ever for the latter group to preview this mode of travel, without having to make the full timeshare commitment. This is quite similar to the timeshare vacation home concept. Based on expected growth and the factors mentioned above, we believe AAIR deserves a premium to carrier group and a discount to lodging group

Given our estimate for Fiscal year 2011 and our projection of an earnings multiple given current conditions of 12-to-15, we would now give AAIR a valuation of \$4.00 based on our forward FY2011 EPS of \$0.30 times a midpoint multiple equaling the \$4.00 target price for about this time 2011. If the Company were to gain a little more pace in new client signings, then the multiple could certainly expand to the 17-to-20X range and the target price should rise accordingly.

AAIR Price Chart



Avantair, Inc. and Subsidiaries

Annual Income Statement Model

(\$ in millions except for per share amounts)

	FY2005	FY2006	FY2007	FY2008	FY2009 ¹	FY2010E ²	FY2011E
	% revs	% revs	% revs	% revs	% revs	% revs	% revs
Revenue:							
Fractional aircraft sold	\$ 10.58 45.2%	\$ 23.76 49.1%	\$ 29.70 38.9%	\$ 43.43 37.6%	\$ 51.86 37.9%	\$ 45.11 31.1%	\$ 38.70 24.6%
Maintenance and management fees	11.65 49.8%	22.82 47.2%	38.79 50.8%	58.21 50.3%	70.69 51.7%	73.76 50.9%	78.56 49.9%
Flight hour card and Axis Club Membership	- 0.0%	0.21 0.4%	3.61 4.7%	7.24 6.3%	9.38 6.9%	20.59 14.2%	34.38 21.8%
Other revenue	1.17 5.0%	1.60 3.3%	4.30 5.6%	6.74 5.8%	4.89 3.6%	5.51 3.8%	5.79 3.7%
Total revenue	23.39 100.0%	48.40 100.0%	76.39 100.0%	115.62 100.0%	136.83 100.0%	144.97 100.0%	157.43 100.0%
Oper. Exps.:							
Cost of fractional aircraft shares sold	9.32 39.8%	19.17 39.6%	24.37 31.9%	36.64 31.7%	44.12 32.2%	38.18 26.3%	32.51 20.6%
Cost of flight operations	10.16 43.4%	25.36 52.4%	35.67 46.7%	50.06 43.3%	46.72 34.1%	51.84 35.8%	56.65 36.0%
Vendor Service reimbursement	- 0.0%	- 0.0%	0.30 0.4%	- 0.0%	- 0.0%	- 0.0%	- 0.0%
Write-off of aircraft deposit	- 0.0%	- 0.0%	- 0.0%	- 0.0%	- 0.0%	- 0.0%	- 0.0%
Cost of fuel	4.23 18.1%	6.42 13.3%	10.19 13.3%	16.49 14.3%	13.35 9.8%	14.45 10.0%	15.56 9.9%
General and administrative expenses	4.95 21.2%	10.76 22.2%	18.54 24.3%	20.70 17.9%	23.63 17.3%	25.04 17.3%	25.79 16.4%
Selling expenses	0.98 4.2%	3.67 7.6%	4.33 5.7%	4.67 4.0%	3.74 2.7%	5.47 3.8%	5.90 3.8%
Depreciation and amortization	1.93 8.3%	2.65 5.5%	2.01 2.6%	3.62 3.1%	5.23 3.8%	5.70 3.9%	7.58 4.8%
Total operating expenses	31.56 134.9%	68.03 140.6%	95.42 124.9%	132.18 114.3%	136.79 100.0%	140.67 97.0%	143.99 91.5%
Income (loss) from operations	(8.17) -34.9%	(19.63) -40.6%	(19.02) -24.9%	(16.57) -14.3%	0.04 0.0%	4.30 3.0%	13.44 8.5%
EBITDA Non-GAAP (excludes xtra items)	(6.24)	(16.98)	(17.01)	(12.94)	5.27	10.00	21.02
Other income (expenses)							
Other income	0.49 2.1%	0.56 1.2%	0.44 0.6%	0.48 0.4%	0.05 0.0%	0.01 0.0%	- 0.0%
Interest income	0.17 0.7%	0.44 0.9%	0.28 0.4%	0.86 0.7%	1.40 1.0%	0.04 0.0%	0.05 0.0%
Interest expense	(1.19) -5.1%	(2.11) -4.4%	(3.41) -4.5%	(3.66) -3.2%	(5.94) -4.3%	(6.21) -4.3%	(4.04) -2.6%
Gain on sale of assets	- 0.0%	- 0.0%	- 0.0%	- 0.0%	- 0.0%	- 0.0%	- 0.0%
Total other expenses	(0.54) -2.3%	(1.11) -2.3%	(2.68) -3.5%	(2.32) -2.0%	(4.50) -3.3%	(6.17) -4.3%	(3.99) -2.5%
Net Income (Loss)	(8.71) -37.2%	(20.75) -42.9%	(21.70) -28.4%	(18.88) -16.3%	(4.46) -3.3%	(1.86) -1.3%	9.45 6.0%
Pref'd stock div'd and accr'n of expense	- 0.0%	- 0.0%	- 0.0%	(0.90) -0.8%	(1.49) -1.1%	(1.52) -1.0%	(1.52) -1.0%
Net loss attributable to common stockholders	(8.71) -37.2%	(20.75) -42.9%	(21.70) -28.4%	(19.79) -17.1%	(5.95) -4.3%	(3.38) -2.3%	7.93 5.0%
Basic and diluted EPS	\$ (2.65)	\$ (6.31)	\$ (2.47)	(1.30)	(0.39)	\$ (0.14)	\$ 0.30
Wtd- avg common shares outst.:							
Basic and diluted (mms)	3.29	3.29	8.78	15.23	15.31	23.42	26.88
Fract. Aircraft Sold % Chg YTY	NA	124.52%	25.00%	46.24%	19.43%	-13.03%	-14.20%
Maint. and Mgmt. Fees % Chg YTY	NA	95.99%	69.94%	50.08%	21.44%	4.34%	6.50%
FH Card and Axis Club Mbshp % Chg YTY	NA	NM	1610.68%	100.57%	29.68%	119.36%	67.00%
Other revenue % Chg YTY	NA	37.34%	168.33%	56.76%	-27.56%	12.86%	5.00%
Total Revs % Chg YTY	NA	106.87%	57.85%	51.35%	18.34%	5.95%	8.59%
EBITDA Non GAAP % Chg YTY	NA	106.87%	57.85%	51.35%	18.34%	NM	8.59%
EPS % Chg YTY	NA	NM	NM	NM	NM	NM	NM
New Fractional shares	NA	NA	NA	NA	39	11	12
Flight hour cards	NA	NA	NA	NA	158	406	678
Axis Club Memberships	NA	NA	NA	NA	4	30	44
Revenue generating flight hours	NA	NA	NA	NA	8,277	39,526	41,500
# of Aircraft EOP	12	20	32	46	55	57	61
Avg # Aircraft for period	NA	16	26	39	50.5	56	59
Rev Hours potential/aircraft	NA	14,400	23,400	35,100	45,450	50,400	53,100
Actual % of Potential	NA	NA	NA	NA	18.2%	78.4%	78.2%
# of Fractional Aircraft Eop	NA	NA	NA	NA	46	46	47
Company Owned Core Aircraft	NA	NA	NA	NA	4	7	10
Leased & Company Managed	NA	NA	NA	NA	2	4	4
Cost of flight operations/rev. gener. Flt. Hr.	NA	NA	NA	NA	5,644.94	1,311.61	1,365.00
Cost of fuel/rev. gener. Flt. Hr.	NA	NA	NA	NA	1612.79	\$ 365.47	375.00

¹ Excludes \$2.95 million vendor service reimbursement

² Excludes \$895,584 gain on aircraft sale

Avantair, Inc. and Subsidiaries

Income Statement Model

(\$ in millions except for per share amounts)

	1Q 2009		2Q 2009		3Q 2009		4Q 2009		1Q 2010		2Q 2010		3Q 2010E		4Q 2010E		FY2011E	
	09/30/08	% Revs	12/31/08	% Revs	3/31/09 ¹	% Revs	06/30/09	% Revs	09/30/09	% Revs	12/31/09 ²	% Revs	3/31/10 ²	% Revs	6/30/10 ²	% Revs	% revs	
Revenue:																		
Fractional aircraft sold	\$ 12.49	38.2%	\$ 14.37	40.6%	\$ 12.61	36.4%	12.39	36.3%	\$ 11.98	34.0%	\$ 11.23	31.4%	\$ 11.20	30.5%	\$ 10.70	28.7%	\$ 38.70	24.6%
Maintenance and management fees	17.08	52.3%	17.70	50.0%	18.03	52.0%	17.89	52.5%	17.97	51.1%	18.29	51.1%	18.60	50.6%	18.90	50.7%	78.56	49.9%
Flight hour card and Axis Club Membership	2.37	7.2%	2.13	6.0%	2.90	8.4%	1.99	5.8%	3.86	11.0%	4.98	13.9%	5.50	15.0%	6.25	16.8%	34.38	21.8%
Other revenue	0.74	2.3%	1.21	3.4%	1.11	3.2%	1.82	5.3%	1.39	4.0%	1.27	3.6%	1.45	3.9%	1.40	3.8%	5.79	3.7%
Total revenue	32.68	100.0%	35.41	100.0%	34.65	100.0%	34.08	100.0%	35.20	100.0%	35.76	100.0%	36.75	100.0%	37.25	100.0%	157.43	100.0%
Oper. Exps.:																		
Cost of fractional aircraft shares sold	10.61	32.5%	12.32	34.8%	10.69	30.9%	10.50	30.8%	10.20	29.0%	9.48	26.5%	9.25	25.2%	9.25	24.8%	32.51	20.6%
Cost of flight operations	11.81	36.1%	12.40	35.0%	12.79	36.9%	9.72	28.5%	12.42	35.3%	13.30	37.2%	12.66	34.5%	13.46	36.1%	56.65	36.0%
Cost of fuel	4.51	13.8%	3.06	8.6%	2.96	8.5%	2.82	8.3%	3.64	10.3%	3.41	9.5%	3.72	10.1%	3.67	9.9%	15.56	9.9%
General and administrative expenses	5.66	17.3%	5.83	16.5%	5.96	17.2%	6.18	18.1%	6.25	17.8%	6.23	17.4%	6.26	17.0%	6.29	16.9%	25.79	16.4%
Selling expenses	0.91	2.8%	1.11	3.1%	0.71	2.1%	1.01	3.0%	0.99	2.8%	1.38	3.9%	1.45	3.9%	1.65	4.4%	5.90	3.8%
Depreciation and amortization	1.08	3.3%	1.32	3.7%	1.24	3.6%	1.59	4.7%	1.46	4.1%	1.41	3.9%	1.40	3.8%	1.43	3.8%	7.58	4.8%
Total operating expenses	34.58	105.8%	36.04	101.8%	34.36	99.1%	31.81	93.3%	34.96	99.3%	35.22	98.5%	34.74	94.5%	35.75	96.0%	143.99	91.5%
Income (loss) from operations	(1.90)	-5.8%	(0.63)	-1.8%	0.30	0.9%	2.27	6.7%	0.25	0.7%	0.55	1.5%	2.01	5.5%	1.50	4.0%	13.44	8.5%
EBITDA Non-GAAP (excludes xtra items)	(0.82)		0.69		1.54		3.86		1.71		1.95	5.5%	3.41	9.3%	2.93	7.9%	21.02	13.3%
Other income (expenses)																		
Other income	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.04	0.1%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	-	0.0%
Interest income	0.02	0.1%	0.04	0.1%	0.01	0.0%	1.32	3.9%	0.01	0.0%	0.01	0.0%	0.01	0.0%	0.01	0.0%	0.05	0.0%
Interest expense	(1.46)	-4.5%	(1.29)	-3.7%	(1.44)	-4.2%	(1.75)	-5.1%	(1.62)	-4.6%	(1.59)	-4.4%	(1.55)	-4.2%	(1.45)	-3.9%	(4.04)	-2.6%
Gain on sale of assets	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Total other expenses	(1.43)	-4.4%	(1.26)	-3.5%	(1.43)	-4.1%	(0.38)	-1.1%	(1.62)	-4.6%	(1.57)	-4.4%	(1.54)	-4.2%	(1.44)	-3.9%	(3.99)	-2.5%
Net Income (Loss)	(3.34)	-10.2%	(1.88)	-5.3%	(1.13)	-3.3%	1.89	5.5%	(1.37)	-3.9%	(1.03)	-2.9%	0.47	1.3%	0.06	0.2%	9.45	6.0%
Pref'd stock div'd and acc'n of expense	(0.39)	-1.2%	(0.37)	-1.1%	(0.36)	-1.1%	(0.36)	-1.1%	(0.40)	-1.1%	(0.37)	-1.0%	(0.37)	-1.0%	(0.37)	-1.0%	(1.52)	-1.0%
Net loss attr'able to common stockholders	\$ (3.73)	-11.4%	\$ (2.26)	-6.4%	\$ (1.49)	-4.3%	\$ 1.53	4.5%	\$ (1.77)	-5.0%	\$ (1.40)	-3.9%	\$ 0.10	0.3%	\$ (0.31)	-0.8%	\$ 7.93	5.0%
Basic and diluted EPS	\$ (0.24)		\$ (0.15)		\$ (0.10)		\$ 0.10		\$ (0.11)		\$ (0.06)		\$ 0.00		\$ (0.01)		\$ 0.30	
Wtd- avg common shares outst.:																		
Basic and diluted (mms)	15.29		15.29		15.29		15.29		16.47		24.58		26.32		26.32		26.88	
Fract. Aircraft Sold % Chg YTY	27.44%		35.00%		12.77%		5.03%		-4.12%		-21.88%		-11.19%		-13.61%		-14.20%	
Maint. and Mgmt. Fees % Chg YTY	31.62%		25.12%		20.20%		11.16%		5.26%		3.32%		3.17%		5.67%		6.50%	
FH Card and Axis Club Mshp % Chg YTY	12.50%		-25.12%		49.67%		462.04%		63.06%		134.11%		89.39%		214.38%		67.00%	
Other revenue % Chg YTY	-4.32%		21.74%		-39.14%		-42.16%		88.40%		4.73%		30.68%		-23.21%		5.00%	
Total Revs % Chg YTY	27.37%		23.70%		15.72%		8.58%		7.74%		0.99%		6.05%		9.29%		8.59%	
EBITDA Non GAAP % Chg YTY	-78.07%		-118.14%		-138.16%		-382.20%		-308.20%		183.06%		121.82%		-24.16%		8.59%	
EPS % Chg YTY	-22.57%		-59.01%		-74.40%		NM		-55.94%		-61.36%		NM		-111.74%		NM	
New Fractional shares	19.5		19.5		0		0		2		5		2		2		12	
Flight hour cards	27		53		29		49		86		100		95		125		678.02	
Axis Club Memberships	0		0		2		2		3		21		3		3		44	
Revenue generating flight hours	8,393		8,328		8,626		8,277		9,356		9,770		10,050		10,350		41,500	
# of Aircraft EOP	49		51		52		52		52		55		55		57		61	
Avg # Aircraft for period	NA		50		51.5		52		52		53.5		55		56		59	
Rev Hours potential/aircraft	NA		11,250		11,588		11,700		11,700		12,038		12,375		12,600		53,100	
Actual % of Potential	NA		74.0%		74.4%		70.7%		80.0%		81.2%		81.2%		82.1%		78.2%	
# of Fractional Aircraft Eop	44		46		46		46		46		46		46		46		47	
Company Owned Core Aircraft	5		5		4		4		5		5		5		7		10	
Leased & Company Managed	0		0		2		2		1		4		4		4		4	
Cost of flight operations/rev. gener. Flt. Hr.	\$1,407		\$1,489		\$1,483		\$1,174		\$1,328		\$1,362		\$1,260		\$1,300		\$1,365	
Cost of fuel/rev. gener. Flt. Hr.	\$ 537.64		\$ 367.56		\$ 342.73		\$ 340.62		\$ 388.94		\$ 349.41		\$ 370.00		\$ 355.00		\$ 375.00	

¹ Excludes \$2.95 million vendor service reimbursement

² Excludes \$895,584 gain on aircraft sale

Avantair and Subsidiaries

Consolidated Balance Sheet

(\$ in millions except per share amounts)

Estimated->

	4Q 2009	1Q 2010	2Q 2010	FY2010E	FY2011E
	06/30/09	09/30/09	12/31/09	06/30/10	06/30/11
CURRENT ASSETS					
Cash & cash equivs.	\$ 3.77	\$ 5.06	\$ 6.85	\$ 21.68	\$ 15.55
Accts. Rec., net	5.71	6.24	8.25	9.50	10.00
Inventory	0.14	0.12	0.15	0.16	0.18
Curr. portion aircraft costs from FA shr. sales	36.91	34.83	33.17	32.00	30.00
Notes receivable	0.27	0.16	0.01	0.01	-
Prep'd expenses and other curr. assets	1.28	1.23	3.48	3.60	3.00
Total current assets	48.09	47.63	51.90	66.95	58.73
Aircraft costs from FA shr. sales, net of curr. ptn.	70.20	62.17	54.43	50.00	46.00
PPE, net	29.84	28.62	24.96		
OTHER ASSETS					
Cash - restricted	2.35	2.35	2.36	2.71	3.79
Deposits on aircraft	9.26	10.47	8.07	8.00	8.50
Def'd mainten. aircraft engines	1.54	1.04	1.32	1.50	1.65
Goodwill	1.14	1.14	1.14	1.14	1.14
Other assets	1.64	1.78	2.59	3.00	3.50
Total other assets	15.94	16.79	15.47	16.35	18.58
Total assets	164.07	155.20	146.77	133.30	123.31
CURRENT LIABILITIES					
Accounts payable	7.31	5.64	4.74	5.12	5.64
Accrued liabilities	5.01	5.67	4.18	4.25	4.50
Customer deposits	1.28	1.82	1.09	1.00	1.00
Short-term debt	11.50	11.50	11.00	10.00	6.00
Current portion of LT debt	11.02	10.27	4.36	11.00	3.70
Curr. Ptn. of def'd rev from FA shr. sales	43.39	40.61	38.48	35.50	32.00
Unearned mgnt. fees and FH card revs	17.81	24.04	26.32	27.58	29.37
Total current liabilities	97.32	99.54	90.19	94.45	82.20
Long-term debt, net of current portion	20.11	18.40	17.39	6.40	2.70
Def'd revs from FA shr. sales, net of curr. ptn.	65.07	56.70	49.73	45.00	41.00
Other liabilities	3.05	3.20	2.75	2.87	3.00
Def'd revs from Axis CM sales, net of curr. ptn.			1.11	2.34	3.93
Total long-term liabilities	88.23	78.30	70.98	56.61	50.63
Total liabilities	185.54	177.85	161.17	151.06	132.83
Series A conv. Pref'd stk	14.53	14.55	14.57	14.58	14.63
STOCKHOLDERS' DEFICIT					
Pref'd stock	-	-	-	-	-
Common stock	0.00	0.00	0.00	0.00	0.00
Additional paid-in capital	47.67	48.22	56.98	57.00	57.25
Accumulated deficit	(83.68)	(85.42)	(85.96)	(89.34)	(81.41)
Total stockholders' deficit	(36.01)	(37.20)	(28.97)	(32.33)	(24.15)
Total liabilities and stockholders' deficit	\$164.07	\$155.20	\$ 146.77	\$ 133.30	\$ 123.31
Metrics					
Quick ratio	9.76	11.45	15.10	31.19	25.55
Current Ratio	0.49	0.48	0.58	0.71	0.71
Days Sales in AR	15.08	15.94	20.76	22.95	22.87
Operating cash flow/sales	11.3%	4.8%	5.5%	6.9%	13.3%
Interest coverage	2.21	1.05	1.23	1.61	5.21

Source: Company reports and CFR estimates

DISCLOSURES:

This report has been commissioned by Avantair, Inc. (the Company) as part of an on-going research and awareness program contracted between Catalyst Financial Resources, LLC (CFR), and the Company. CFR has been paid or promised payment for the production and editorial content of this report. The Company is paying CFR \$5,000 per month for 6 months, followed by \$7,500 for the subsequent 6 month period, for services rendered. In addition, CFR has been promised 50,000 warrants at the end of the annual contract. However, the opinions, forecasts and price targets are based on our examination of company fundamentals, conversations with management, independent analysis of markets, economic conditions, and other publicly available information.

This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Association of Investment Management & Research (AIMR). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

Key to disclosures:

- (1) Catalyst Financial Resources LLC (CFR) does not make markets in any securities and has not managed or co-managed a public offering of securities for the subject company within the past 12 months.
- (2) CFR received compensation for investment banking services from the Subject Company within the past 12 months.
- (3) CFR expects to receive or intends to seek compensation for investment banking services from the Subject Company within the next 3 months.
- (4) The research analyst or a member of the research analyst's household has a financial interest in the securities of the Subject Company in the form of a (a) long position (b) short position (c) right (d) warrant (e) future or (f) call option in such securities.
- (5) CFR and/or its officers or affiliates may either hold a position in this company's share or own options, rights or warrants to purchase any of the securities of the subject company.
- (6) The research analyst principally responsible for preparing this research report received compensation based upon various factors, including CFR total revenue, a portion of which was generated by CFR's investment banking services.
- (7) The research analyst or a member of the analyst's household serves as an officer, director, or advisory board member of the subject company;
- (8) An affiliate of CFR may have a different view from the views expressed herein.
- (9) CFR and/or its affiliates beneficially own 1% or more of the subject company.
- (10) The Subject Company is a client of CFR or one of its affiliates.
- (11) CFR is a client of the Subject Company or one of its affiliates.

The analyst hereby certifies that the research conclusions and recommendation contained herein accurately reflects his/her personal views about the industry, company and shares and also hereby certifies that no part of his/her research compensation was or will be directly or indirectly related to the earnings estimates, target price or recommendation about the security.

The research provided herein should not be considered a complete analysis of every material fact regarding the companies, industries or securities named above. The opinions expressed herein reflect the analysis and judgment of the author on the date of publication and are subject to change without notice. Facts have been obtained from sources considered reliable but should not be construed as complete and are not guaranteed to be accurate. Catalyst Financial Research LLC; its members; employees and their families may have positions in the securities covered within the research material above and may make purchases or sales while this report is in circulation. Additional information on the subject companies is available upon request.

EQUITY RECOMMENDATION SYSTEM:

- | | |
|-------------------|---|
| Buy | Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months. |
| Accumulate | Purchase of the stock is recommended for above average appreciation over the next 12 to 18 months, but the buyer may have an opportunity to acquire the stock within a 10% trading range. |
| Hold | Holding the stock is recommended because the share price has moved above the specific "Buy" range and, therefore, appreciation potential is less than or equal to the market. |
| Sell | The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock. |

EQUITY RISK SYSTEM:

- | | |
|-----------------|--|
| High | The security is more volatile than the market and/or the company is more leveraged than its peer group. |
| Moderate | The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group. |
| Low | The security is less volatile than the market and/or the company is less leveraged than its peer group. |

DISTRIBUTION OF RECOMMENDATIONS:

At this time, there are an insufficient number of companies under coverage to generate usable distribution information or draw any conclusions regarding bias about the research methodology. Prospective companies are screened and evaluated by sales personnel and research analysts with the investment thesis and overall research recommendation developed before the commission is established.

ⁱ *The Real World of Business Aviation: A Survey of Companies Using General Aviation Aircraft*, The National Business Aviation Association And The General Aviation Manufacturers Association, October 15, 2009