

First Aviation Releases December 31, 2010 Financials

WESTPORT, CT, March 30, 2011 – First Aviation Services Inc. (FAVS.PK) today released audited financial statements for the year ended December 31, 2010. In a letter to shareholders, Aaron Hollander, Chairman and CEO, said:

The year 2010 concluded with a number of important successes at First Aviation and unfortunately, one significant disappointment the details of which I need to share with you.

The Company completed two strategic acquisitions in December 2009 to expand our repair and overhaul capabilities. The first was of Kelly Aerospace's maintenance, repair and overhaul business located in Wichita, KS which was renamed Aerospace Turbine Rotables, Inc. ("AeTR"). The second was of Limco-Piedmont's propeller overhaul division located in Winston-Salem, NC, now operating under the name Piedmont Propulsion Systems, LLC ("PPS").

During 2010 we successfully integrated these two new businesses into the First Aviation family from an operational and marketing standpoint. Each of our companies has deep roots in their market segments with strong leadership teams committed to being part of the larger First Aviation team.

As a result of these acquisitions and organic growth annual sales increased 18% to \$128.5 million from \$108.9 million in 2009. (The fiscal year end was changed in 2009 from January 31st to December 31st, thus the audited financials for 2009 are on an eleven month basis.) Net income for the year to common shareholders was a loss of \$1.4 million. The loss was the result in large part to issues surrounding PPS described below as well as economic weakness in Aerospace Products International Inc's ("API") core markets.

Operationally some of the more significant accomplishments during the year included the following:

- Through a Teaming Agreement between API and L-3 Communications, API was selected by the United States Army to operate a Central Distribution Center serving all worldwide spares logistics for approximately 200 Army C-12 and UC-35 aircraft. This award is API's largest and most significant contract to date with the United States military. API also signed numerous Teaming Agreements with other Prime



Contractors serving the U.S. Department of Defense so that API, AeTR and PPS will be well-positioned to win further supply chain management and component MRO business on programs such as the U.S. Navy T-34/-44/-6, C-26, and UC-35 and USAF C-21A.

- API Tech was awarded an initial Basic Ordering Agreement by Defense Support Services LLC (DS2, a Day-Zimmerman – Lockheed Martin Company) to provide aircraft brake overhaul services for the U.S. Customs & Border Protection fleet of over 250 aircraft.
- Honeywell Aerospace signed an agreement naming API as the exclusive distributor of Honeywell's CTS800 spare parts as a further follow on to our successful LHTEC program.
- CAE, Inc. awarded API China a 3rd Party Logistics program in which API will provide warehousing and logistics services to CAE via API facilities in Shanghai and Beijing, China.
- API expanded its global footprint through an alliance with Transworld Aviation FZE, providing API with a state-of-the-art distribution center in the Jebel Ali Free Zone in Dubai, UAE.
- API continued to expand its supply chain management service agreements with leading flight training organizations by signing a long-term contract with Purdue University and implementing our Company's proprietary Electronic Supply Program ("ESP") at the Royal Jordanian Air Academy, the MidEast Aviation Academy, and the National Flight Training Institute (India).
- AeTR developed the capability to overhaul Pilatus PC-12 landing gear, diversifying the Company's product offerings and becoming the only non-OEM landing gear MRO source for the highly successful PC-12.
- AeTR signed a long term exclusive agreement to provide all flexible hose assemblies for the Vertex division of L-3 Communications. AeTR also expanded its product offerings including the repair and overhaul of hermetically sealed fire bottles as well as received approval for a number of new parts manufacturing authorizations.



- Both AeTR and PPS have been upgrading their facilities, modernizing their IT systems and investing in capital equipment to expand capability.
- PPS was awarded the McCauley Service Center Authorization, had its T34/44 program with the Navy extended through the end of the year and undertook a major engineering effort to find ways to improve life cycle costs and safety that have been well received by its customers.

The year was unfortunately marked by a significant disappointment. During 2010 the Company discovered that the previous owner of PPS misrepresented significant cost issues related to a specific power-by-the-hour client contract as well as misrepresented certain inventory. The Company determined that the financial statements for PPS were not in accordance with accounting principles generally accepted in the United States of America (GAAP), as specified in the Stock Purchase Agreement. More specifically there was a material departure as relates to *Accounting Standards Codification 605-20-25-6* which requires that a loss be recognized on extended warranty or product maintenance contracts if the sum of expected costs of providing services under the contracts and unamortized acquisition costs exceeds related unearned revenue.

The Company has restated its acquisition accounting to correct for the effects of the accounting improprieties (please refer to the 2010 audited financial statements for a more detailed description). This has resulted in recognition of a \$2,780 thousand accrued loss on the power-by-the-hour contract. Also, the restated acquisition accounting includes management's correction of errors for data inputs that were used in the original independent appraisal of the Company's stock value (purchase price) for PPS which has decreased previously reported goodwill by \$3,715 thousand.

The above losses do not fully reflect the impact to First Aviation. Since PPS was represented as a very profitable business and not one subject to future losses, the financial impact unfortunately extended to our other subsidiaries. We believe that we will soon have negotiated a new profitable contract with the customer.

We are highly disappointed that a definitive resolution with the seller of PPS has not been reached at this date. While we can make no prediction on the outcome of ongoing discussions or the likelihood of litigation please be assured that your management and the Board are all committed to resolving the situation in the best interest of First Aviation shareholders. I am confident that the significant investment we have made in improving the facilities, equipment and



engineering capability of PPS as well as the dedication of the PPS team will ensure its successful future.

Despite this serious and unforeseen setback, the Company is well positioned for the future. We have built a Company with global reach, the best supply chain technology in the industry and strong complementary MRO capabilities. We believe the Company is returning to profitability due to the hard work and dedication of the entire First Aviation team.



FIRST AVIATION SERVICES INC.
Audited Consolidated Statements of Operations
(In thousands, except share and per share amounts)

	<u>12 mos. Ended Dec 31, 2010</u>	<u>11 mos. Ended Dec 31, 2009</u>
Net Sales	\$ 128,463	\$ 100,332
Cost of Sales	<u>(103,392)</u>	<u>(83,068)</u>
Gross Profit	25,071	17,264
Selling, general & administrative expenses	22,419	13,955
Corporate expenses	1,577	2,037
Acquisition expenses	<u>-</u>	<u>683</u>
	23,996	16,675
Income from operations	1,075	589
Non-operating income (expense)		
Interest income	2	2
Interest expense and other, net	<u>(2,252)</u>	<u>(1,126)</u>
Loss before income taxes	(1,175)	(535)
Income tax provision	<u>(16)</u>	<u>-</u>
Net loss	(1,191)	(535)
Dividends on preferred stock	<u>(219)</u>	<u>(15)</u>
Loss attributable to common stockholders	<u>\$ (1,410)</u>	<u>\$ (550)</u>
Basic net loss per share	<u>\$ (0.09)</u>	<u>\$ (0.07)</u>
Net loss per share - assuming dilution	<u>\$ (0.09)</u>	<u>\$ (0.07)</u>
Weighted average shares outstanding - basic	<u>15,674,202</u>	<u>8,250,906</u>
Weighted average shares outstanding - assuming dilution	<u>15,674,202</u>	<u>8,250,906</u>

Please see our forward looking statements at www.firstaviation.com/forward



FIRST AVIATION SERVICES INC.
Audited Consolidated Balance Sheets

(In thousands, except share amounts)

	<u>December 31,</u>	
	<u>2010</u>	<u>Restated 2009</u>
Assets		
Current assets:		
Cash	\$ 1,302	\$ 1,033
Trade receivables, net	20,051	17,878
Miscellaneous receivables	159	691
Inventories, net	34,778	37,117
Prepaid expenses and other	<u>2,258</u>	<u>2,251</u>
Total current assets	58,548	58,970
Plant and equipment, net	2,467	2,663
Deferred financing costs and other	538	350
Goodwill	7,773	7,773
Total Assets	<u>\$ 69,326</u>	<u>\$ 69,756</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 19,838	\$ 17,091
Accrued compensation & related expenses	555	407
Other accrued liabilities	3,387	5,697
Revolving line of credit	22,257	21,326
Term loan payable	6,400	7,000
Other	<u>282</u>	<u>432</u>
Total current liabilities	52,719	51,953
Long term liabilities	402	649
Total Liabilities	<u>53,121</u>	<u>52,602</u>
Stockholders' Equity		
Common Stock		
Class A Common Stock	91	91
\$0.01 par value, 20,000,000 shares authorized, 11,320,628 and 11,320,628 shares issued, respectively, 9,956,858 and 9,838,234 shares outstanding, respectively		
Class B Common Stock	58	58
\$0.01 par value, 6,000,000 shares authorized, 5,766,667 shares issued and outstanding		
Preferred Stock	1,584	1,350
\$0.01 par value, \$100 redemption value, 30,000 shares authorized, 15,841 and 13,500 shares issued and outstanding		
Additional paid in capital	39,669	40,233
Deficit	(18,721)	(17,296)
Accumulated other comprehensive income	<u>500</u>	<u>390</u>
	23,181	24,826
Less: Treasury Stock, at cost, 1,363,770 and 1,482,394 shares, respectively	<u>(6,976)</u>	<u>(7,672)</u>
Total Stockholders' Equity	<u>16,205</u>	<u>17,154</u>
Total Liabilities & Stockholders' Equity	<u>\$ 69,326</u>	<u>\$ 69,756</u>

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FIRST AVIATION SERVICES INC.
Audited Consolidated Statements of Cash Flows

(In thousands)

	<u>12 mos. Ended Dec 31, 2010</u>	<u>11 mos. Ended Dec 31, 2009</u>
Cash flows from operating activities:		
Net loss	\$ (1,191)	\$ (535)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,146	945
Equity based compensation	132	106
Provision for bad debts	328	(75)
Provision for excess & obsolete inventories	270	26
(Increase) decrease in working capital assets:		
Receivables	(1,930)	(2,256)
Inventories	2,109	(4,445)
Prepaid expenses and other assets	(7)	(1,051)
Increase (decrease) in working capital liabilities:		
Accounts payable	2,787	3,937
Accrued expenses and other	(2,162)	2,633
Net cash provided by (used in) provided by operating activities	1,482	(715)
Cash flows from investing activities:		
Purchases of plant and equipment and other assets	(791)	(79)
Net cash used in investing activities	(791)	(79)
Cash flows from financing activities:		
Borrowings (repayments), on revolving line of credit, net	931	696
Loan costs	(347)	-
Repayments on term loan	(600)	-
Borrowings (repayments), on notes payable and other	(397)	(105)
Net cash (used in) provided by financing activities	(413)	591
Effect of exchange rate changes on cash	(9)	(68)
Net change in cash	269	(271)
Cash at beginning of the period	1,033	1,304
Cash at end of the period	<u>\$ 1,302</u>	<u>\$ 1,033</u>
Supplemental Cash Flow Disclosures		
Cash paid for interest	<u>\$ 1,828</u>	<u>\$ 998</u>
Income taxes paid, net	<u>\$ 28</u>	<u>-</u>

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First Aviation Services Inc., (“FAvS”) located in Westport, Connecticut, through its principal operating subsidiaries Aerospace Products International, Inc., (“API”), based in Memphis, TN, Aerospace Turbine Rotables, Inc. (“AeTR”) in Wichita, KS and Piedmont Propulsion Systems, LLC (“PPS”) in Winston-Salem, NC is a leading provider of services to the aviation industry worldwide. With locations in the U.S., Canada, Asia Pacific and China plus partners throughout the world, FAvS is a leading provider of aviation products, supply chain management services, repair and overhaul and technology solutions in the industry.

More information about FAvS and its subsidiaries may be found on the company’s website, www.firstaviation.com. Please see our forward looking statements at www.firstaviation.com/forward.

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