INDUSTRY
Air Delivery & Freight Services

AMERICAN ANTIQUITIES
dba
PET AIRWAYS
Company Report

RATING: SPECULATIVE BUY
AAQS ($2.40)-OTCBB

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Earnings Per Share* Fiscal Year Ending			P/E	P/E	Shares O/S	52-Week	6-12 Month
12/09	12/10E	12/11E	12/10E	12/11E	(Mil.)	Range	Price Target
$(0.03)	$(0.06)	$(0.03)	NM	NM	34.0	$3.00-$2.40	$3.50-$4.00

Priced as of the close, October 8, 2010.
- **Pro-Forma Earnings. DBA=Doing Business As.**

PET AIRWAYS IS POISED FOR FAST TAKEOFF

We are initiating coverage of American Antiquities (AAQS.PK)—dba Pet Airways (PET)—with a Speculative Buy rating for risk-tolerant investors. We believe the shares could be trading (actively) at $3.50-$4.00/share during the next 6-12 months, a close to 50% appreciation from current levels.

We believe the Company, based in Delray Beach, FL, has a decided head start at serving a substantial, but heretofore untapped and well-established market, and is within a year's timeline of achieving well-above-average success. Therefore, if you're looking for a stock that is flying well below most investors' radar screens and is poised for a rapid takeoff within the next 6-12 months, we suggest a more-than-cursory look at PET.

The Company's business plan may look simplistic—create an airline specifically designed for the safe, comfortable and efficient transportation of pets. However, putting all of these features together has taken considerable time (close to 10 years) and particularly careful analysis of the potential market to serve. Pet Airways, which went public through a reverse acquisition with American Antiquities in August 2010, began flying commercially in April 2009, serving nine cities in a coast-to-coast system. It currently is flying one round-trip per week (eastbound on Tuesday-Wednesday and westbound on Thursday-Friday).

Flight schedules were interrupted for more than four months earlier this year when Pet Airways revamped its reservation and date-processing systems and the Company raised additional working capital.

Of note, PET's ability to hit its stride is not encumbered by the business "Three R's" rudiments: *regulatory* (e.g., governmental approvals), *restrictive* (e.g., high barriers to entry), or *fixed-capital resourced* (e.g., building a vast infrastructure of plants, property and equipment that requires a large (and continuous) infusion of capital and a 36-month (or more) construction timetable—and perhaps a decade to achieve a positive rate of return).

Consequently, the Company's results should be seen—and rewarded—in a relatively short period.

Affixing a "fair value" to AAQS's share price is highly subjective. There are no benchmarks for comparison—PET IS THE FIRST OF ITS KIND—and only a limited company operating experience to examine and quantify. Consequently, the shares are not for the faint-of-heart type of investor.

Nonetheless, for risk-tolerant accounts, we believe there is a developing growth story unfolding at PET that should not take too long to be visible. The "upside" in stock appreciation could be considerable, while the "downside" might be more a case of opportunity cost, rather than loss.

We believe the shares could begin to reflect the positives that PET will experience during the next 6-12 months, resulting in a valuation that could be 40-50% higher than current levels. Obviously, it might be more prudent to simply say "Accumulate" the shares and wait for events to occur before recommending a more aggressive investment posture. But we are impressed with the relatively short (a little more than a year) "experience curve" execution by the Company. Therefore, we think that as investors get tuned in, the share price's valuation and movement could be sudden and significant.

Inflection Points

Following are some of the factors behind our valuation and positive investment case:

(1) **Pet Airways is now up and flying.** The Company currently serves nine cities and reservation requests far exceed seating capacity. We think it's literally the "only game in town," and would have a considerable lead-time advantage should competition materialize. Meanwhile, PET is building a strong brand-identity recognition.

(2) **The market opportunity is BIG and has scarcely been tapped.** Some 1.5-2.0 million pets fly in cargo holds each year in the U.S. And there are numerous restrictions airlines place on pet travel, making scheduling more difficult, and pet safety questionable. We think that as PET expands its weekly schedules and adds more cities, it could be in the position to fly 10,000-15,000 pets/year. That is still a very small penetration of the market, but a major growth potential for the Company to achieve. By comparison, Continental Airlines flew an estimated 140,000 pets as cargo in 2009.

(3) **PET's growth prospects are indeed bright.** Based on our estimates, the Company could grow its revenues by more than 50% per year during 2011-2015. And we see a 200%-plus/year earnings growth rate during the same period.

(4) **The capital required to meet our projections is not onerous.** While it is not easy to raise funds in the current environment, we think PET's needs during the next few years may be in the range of $5-10 million. Moreover, as PET's results and growth prospects are more acknowledged, we think the likelihood of "suitors" seeking "partnerships" could accelerate. The airline industry continues to consolidate (the latest example is Continental-United), so we think it unlikely that a "lone wolf" will remain independent for a long period of time.

(5) **The market is currently placing a high valuation on Air Delivery and Freight Services (ADFS) firms.** "Low-end" P/Es are at 20 times, while the leading ADFS companies—e.g., UPS, UTIW—trade at valuations of 30-35X. Admittedly, these firms have well-established track records that the market can measure. Nonetheless, we think that the "specialty" appeal of PET—and some actual performance readings to quantify—will be quickly reflected in the stock's value.

Risks

Surprisingly, we think the potential long list of "risks" associated with PET look more generic in nature than dire "doom and gloom" scenarios usually placed on emerging firms. Specifically, while there are great risks for any startup company (raising funds, limited marketing and operating experience, competition, etc.) we don't think they are the major concerns for PET's survival or success. Clearly, every firm must be wary of the general economic and stock market outlooks. And airline companies must keep close track of weather patterns. Here are our PET-specific concerns:

- PET has never generated a profit and will likely report losses in 2010 and 2011. While we see the Company turning the corner in 2012, the positive results may not show up until the second half of the year. Moreover, the Company's cash burn rate will likely accelerate before PET reaches positive cash flow in 2012.

- Trading volume in the shares is very low. Obviously, this is one of the perils for new companies, along with limited Street coverage. The "trade by appointment" classification could make the Company's task of raising capital more difficult. We believe this will change quickly as the PET story becomes more widely known and the Company begins to hit near-term business and financial targets.

- Rising fuel costs could penalize results. Clearly, a major cost component in air travel is the cost of oil/equivalents. We will not attempt to tackle the issues of oil supply/demand patterns or global geopolitical policies in this report, but note that sudden changes in fuel pricing (and policy) could adversely impact near-term results. We believe there's a several month lag in seeing higher costs and passing them along.

- Management depth. PET is still embryonic and is led by a small, but savvy group of executives. As the Company begins to grow it must develop a broader cadre of managers to implement strategies and expand operations. WE DO NOT CITE THIS AS A NEGATIVE ATTITUDE ABOUT PET'S MANAGEMENT. Rather, we would suggest this risk applies to any firm that's just getting off the ground. WE APPLAUD management's ability to move PET from an idea to an up-and-running public enterprise on the brink of achieving success.

Synthesis

After assessing the positives and negatives at PET, we believe the potential rewards clearly outweigh the risks. There is a large, untapped market for air travel for pets, and the airline companies and delivery and freight service firms do not appear to deem it as being critical to achieving their growth objectives, or seriously pursuing.

On the other hand, PET is dedicated solely to serving this market. Its penchant for care, safety and convenient travel for animals is admirable—and we think a golden opportunity to meet an unmet need.

The Company is now up and running, with service to nine cities that are geographically primary markets for pet air travel, and it is well positioned to expand its reach both in the continental U.S. and internationally. We think PET has a long lead-time should competition surface and has already received excellent brand identity

We believe the Company will be profitable in 2012, a timeline that is much shorter to the stock market than lunar calendars.

Admittedly, risk and certainty typically don't make for "overnight" success stories. But we maintain that for risk-tolerant investors, PET is an attractive, undervalued equity. Consequently, we rate the stock a Speculative Buy.

THE COMPANY

Pet Airways was founded in Florida in 2005, and began accepting reservations in April 2009. Its first flight was on April 16, 2009.

In August 2010, the Company completed a share-exchange agreement with American Antiquities (Ann Arbor, MI) –accounted for as a reverse acquisition—wherein PET is considered the acquirer or accounting and financial reporting purposes. As a result, PET became a wholly owned subsidiary of AAQS, but became controlling shareholders, and essentially took over managerial control. It was, in essence, a quick and less expensive route to become a public company. In September 2010, PET filed for a corporate name change with the SEC. Approval is expected by the end of October.

The Company, through a leasing contract with Suburban Air Freight (Omaha, NE), utilizes several Beech 1900C aircraft to service nine cities across the U.S. The aircraft have been specifically designed to transport (mainly, but not exclusively, dogs and cats) in the main cabin (not in cargo holds) that monitor the air at the correct temperature. A trained Pet Attendant is aboard watching over the pets at all times. We believe the aircraft rotation helps to reduce scheduled maintenance downtime.

PET also offers (and will expand) other "amenities" for its travelers—e.g., limo pick-up service, grooming (pre- and post-flight), boarding (if necessary). As noted in our financial model, these other revenue streams could begin to kick in materially within the next few years.

Pet Airways is not a Certified Air Carrier, but Suburban is: PET has the ability to conduct business under FAA Regulation part 135 as an independent Cargo Air Carrier, which require no licensing by FAA, DOT or TSA. Suburban Air Freight is fully licensed by FAA under part 135, and as such can conduct all the air operations for PET. Suburban has been in business for more than 25 years.

According to the U.S. Dept. of Transportation (DOT), more than 2 million pets travel by air each year, with some 1.65 million shipped in cargo holds. Existing airlines transport pets as cargo if they do not fit under the seat of a traveler and have various policies that further restrict travel, particularly when outside temperatures are 45 degrees or lower or 85 degrees or warmer. Consequently, pet air travel is limited (or discouraged) during most of the peak vacation periods.

Strategically, PET prices its tickets competitively with various alternatives (including boarding). Table 1 offers typical pricing:

Table 1. Pet Travel Pricing Alternatives

* As accompanied baggage	$ 150-250
* Air cargo fares	250-1,000
* Average ground transportation	450
* Pet boarding (1-week stays)	350-525
* Pet Airways	150-800*

*Depending on pet size and distance flown.
Sources: Industry data, Pet Airways.

We believe the average price one-way ticket at PET is close to $500. This is about 10% higher than a year ago, in part reflecting higher costs of flights and a strong supply/demand imbalance. PET can currently seat 40 pet passengers per flight, or 300-325 per month. Reservation requests are about 1,300/month.

The pet passenger potential is enormous. There are more than 84 million pets in the U.S. And only 2 million currently travel by air. Admittedly, the bulk of pet passengers may only be one-time fares—e.g., owners relocating, breeders, vacationers, rescue organizations. Nonetheless, we believe the potential pet passenger opportunity for Pet Airways may be at least 100,000/year. And our current "blue sky" estimate is that PET can reach 50,000 before the end of the decade. (PET has flown more than 5,000 passengers since its maiden flight.)

Following is a quick "back of the envelope" analysis of PET's financial dynamics:

1 Roundtrip Flight/wk=80 passengers
Avg one-way ticket=$500
Flight Revenue/wk= $40,000
Flight Revenue/yr= $2.0 MM

Cost of Aircraft/hr=$2,000
Avg hours/wk= 20
Avg. Cost/wk= $40,000
Flight Cost/yr= $2.0 MM

As PET expands its cities and flight frequency schedules, we believe it will also reduce its operating costs. It is also likely that average fare prices will continue to climb. And we see PET adding seats to the aircraft, thereby increasing revenue without adding much cost.

We do not think there is so-called "price elasticity" in pet air travel—i.e., owners shying away from air travel if ticket prices exceed other modes of transportation by say, 25-35%. This is very prevalent in the airline industry. Moreover, with a current lack of competition, we don't see any fare wars/discounting developing in the immediate future.

Earnings Model/Liquidity

We see Pet Airways reporting a pro-forma loss of $1.9 million $(0.06/share) in 2010, compared with a loss of $1.2 million $(0.03/share) in 2009. The Company interrupted its flight schedule for more than four months earlier this year. Consequently, flight revenues are expected to $0.5-$0.6 million in 2010 vs. $0.6 million a year ago. However, we think the current annualized flight revenue run rate is $1.7-1.8 million and generating close to a neutral gross profit.

Our projection is based on PET flying one roundtrip per week, with an average 40 passengers/flight each way. Hourly cost of flight is estimated at $2,000.

Our earnings model (Table 2) projects an operating loss of $1.2 million $(0.03/share) in 2011 on total revenues of $3.75 million. This assumes a full-year flight schedule. We believe the Company could add a second weekly roundtrip flight next year as well as adding 3-4 cities to its system.

We project PET to generate a modest profit in 2012--$0.50-0.75 million, or $0.02/share--and show positive cash flow.

This forecast assumes the Company will be operating at least two roundtrip flights/week and servicing 13-15 cities. The leverage we envisage at PET for achieving positive results would include:

--Higher passenger volumes—e.g., adding seating capacity
--Higher average per-trip selling prices
--Lower operating costs via increased aircraft usage.

We think it unlikely that PET will add international flights before 2013, but are convinced the Company has projected global transportation in its business model. Logical sites: Hawaii, certain European cities, Latin and South America.

Flight revenues could hit $10 million in 2013, with earnings in the range of $0.05-$0.10/share (closer to the lower end). By then, we see PET flying to close to 20 cities domestically and one international site. We would expect gross profit margins to be close to 40%.

Our model projects a mid-decade revenue stream of $20-million-plus, with earnings in the range of $0.20-$0.25/share. Obviously, the raw numbers are small, compared with the leading air delivery and freight service companies like Federal Express, UPS, and UTI Worldwide.

Nonetheless, we think PET's valuation could rank with those of the leading firms—e.g., P/Es of 30-35X. Applying our $0.20/share estimate for 2015 to a 35X valuation suggests a "target price" for PET of $7.00/share. Using a 15%/year discount rate, the present value of these future earnings is $3.65/share—a more than 50% premium to the current price.

We think the stock could be trading at a 2013 valuation by next March-April, implying an 18-24-month price target of $.475-$5.00/share. Moreover, we believe that as PET's performance begins to reflect our numbers there's a good chance that:

- With greater financial flexibility the Company could accelerate its growth goals and plans to capture more of the pet air travel market opportunity. Theoretically, if PET could fly 50,000 pets per year at an average one-way ticket price of $1,000 (including international travel) revenues could approach $50 million. Applying a 50% gross profit margin (or $25.0 MM) earnings could be $0.35-$0.40/share. Using a 35X valuation, the stock would be trading at more than $13.00/share.

- The stock will trade much more actively. We think the current free float is about 17 million shares—small enough for the stock to move more dramatically as events unfold, but big enough to attract major fund attention.

- Major airline companies and air delivery and freight service firms who currently fly pets mainly as a convenience for customers, might begin to consider the possibility of acquiring PET, and using it as a conduit to capturing an even larger share of the potential pet passenger market.

Pet Airways' current cash burn rate is $100,000/month. Obviously, it will grow throughout 2010-2011. We think the Company's cash needs will be $3-5 million during the next 12-18 months. While we see the Company turning cash-flow positive in 2012, the "positive" might not materialize until the second half of the year.

Limited trading volumes (and operating losses) won't make management's task easy. We think it has the wherewithal to weather the bumpy seas (pardon the pun) and keep afloat as the business grows.

As the song goes, we think Pet Airways is ready to fly "Up, Up and Away."

Table 2. Pro-Forma PET Airways Earnings Model
(Dollars in millions, except per-share)

	2009	2010E	2011E	2012E	2013E	2015E	CAGR (2011-2015)
REVENUE							
Flight	$ 0.629	$ 0.550	$ 3.750	$ 7.250	$10.000	$20.500	53.5%
Other	--	--	0.125	0.250	0.500	1.000	NM
SALES	$ 0.629	$0.550	$3.875	$ 7.500	$10.500	$ 21.500	53.5%
COST OF GOODS							
Flight	$0.890	$ 1.200	$ 3.500	$ 4.750	$ 5.500	$ 11.150	33.0%
Other	--	--	0.100	0.150	0.250	0.350	NM
SUBTOTAL	$ 0.890	$ 1.200	$ 3.600	$4.900	$ 5.750	$ 11.500	33.0%
GROSS PROFIT	**$(0.261)**	**$(0.650)**	**$ 0.275**	**$ 2.600**	**$ 4.750**	**$10.500**	**NM**
EXPENSE							
SGA, Other-net	$ 0.900	$ 1.250	$ 1.500	$ 2.000	$ 2.500	$ 3.500	20.0%
OPERATING PROFIT/(LOSS)	**$(1.221)**	**$(1.900)**	**$(1.225)**	**$ 0.600**	**$ 2.225**	**$ 7.000**	**NM**
EPS	**$ (0.03)**	**$ (0.06)**	**$ (0.03)**	**$ 0.02**	**$ 0.06**	**$ 0.20**	**NM**
Shares O/S (mil)	34.0	34.0	36.0	37.0	38.0	38.0	

Figures are rounded. *Reflects only seven months of actual flights.
NM=Not Meaningful. CAGR=Compounded Annual Growth Rate.
Sources: Company reports; Bogner Business Associates LLC estimates.