
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For Quarterly Period Ended March 31, 2011

Commission file number 000-50368



(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

26-1631624
(I.R.S. Employer Identification No.)

145 Hunter Drive
Wilmington, OH 45177
(Address of principal executive offices)

937-382-5591
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

As of May 10, 2011, Air Transport Services Group, Inc. had outstanding 64,158,006 shares of common stock, par value \$0.01.

**AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
FORM 10-Q**

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FORWARD LOOKING STATEMENTS

Statements contained in this quarterly report on Form 10-Q that are not historical facts are considered forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995). Words such as “projects,” “believes,” “anticipates,” “will,” “estimates,” “plans,” “expects,” “intends” and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are based on expectations, estimates and projections as of the date of this filing, and involve risks and uncertainties that are inherently difficult to predict. Actual results may differ materially from those expressed in the forward-looking statements for any number of reasons, including those described in this report and in our 2010 Annual Report filed on Form 10-K with the Securities and Exchange Commission.

Filings with the Securities and Exchange Commission

The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements and other information regarding Air Transport Services Group, Inc. at www.sec.gov. Additionally, our filings with the Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, are available free of charge from our website at www.atsginc.com as soon as reasonably practicable after filing with the SEC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)

	Three Months Ended March 31	
	2011	2010
REVENUES	\$ 175,127	\$ 160,944
OPERATING EXPENSES		
Salaries, wages and benefits	46,348	47,250
Fuel	39,676	30,606
Depreciation and amortization	22,371	20,800
Maintenance, materials and repairs	21,306	17,769
Landing and ramp	6,405	6,948
Travel	6,310	5,192
Rent	5,640	3,735
Insurance	2,350	2,838
Other operating expenses	9,292	9,906
	<u>159,698</u>	<u>145,044</u>
OTHER INCOME (EXPENSE)		
Interest income	66	73
Interest expense	(4,103)	(5,189)
Charges related to termination of credit agreement	(6,802)	—
	<u>(10,839)</u>	<u>(5,116)</u>
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>4,590</u>	<u>10,784</u>
INCOME TAXES	(1,709)	(4,034)
EARNINGS FROM CONTINUING OPERATIONS	<u>2,881</u>	<u>6,750</u>
EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS, NET OF TAX	(117)	405
NET EARNINGS	<u>\$ 2,764</u>	<u>\$ 7,155</u>
BASIC EARNINGS PER SHARE		
Continuing operations	\$ 0.04	\$ 0.11
Discontinued operations	—	0.01
TOTAL NET EARNINGS PER SHARE - Basic	<u>\$ 0.04</u>	<u>\$ 0.12</u>
DILUTED EARNINGS PER SHARE		
Continuing operations	\$ 0.04	\$ 0.11
Discontinued operations	—	0.01
TOTAL NET EARNINGS PER SHARE - Diluted	<u>\$ 0.04</u>	<u>\$ 0.12</u>
WEIGHTED AVERAGE SHARES		
Basic	<u>63,131</u>	<u>62,792</u>
Diluted	<u>63,936</u>	<u>63,605</u>

See notes to unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31,	December 31,
	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 38,652	\$ 46,543
Accounts receivable, net of allowance of \$1,071 in 2011 and \$1,090 in 2010	40,248	40,876
Inventory	7,195	7,205
Prepaid supplies and other	11,412	10,132
Deferred income taxes	12,879	12,879
TOTAL CURRENT ASSETS	110,386	117,635
Property and equipment, net	686,017	658,756
Other assets	20,693	25,227
Intangibles	9,054	9,259
Goodwill	89,777	89,777
TOTAL ASSETS	\$ 915,927	\$ 900,654
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 53,733	\$ 40,558
Accrued salaries, wages and benefits	22,702	24,145
Accrued expenses	11,715	12,144
Current portion of debt obligations	12,741	36,591
Unearned revenue	10,726	10,794
TOTAL CURRENT LIABILITIES	111,617	124,232
Long-term debt obligations	278,924	265,937
Post-retirement liabilities	115,622	116,614
Other liabilities	60,304	52,048
Deferred income taxes	42,529	39,746
Commitments and contingencies (Note F)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 20,000,000 shares authorized, including 75,000 Series A Junior Participating Preferred Stock	—	—
Common stock, par value \$0.01 per share; 75,000,000 shares authorized; 64,165,906 and 63,652,228 shares issued and outstanding in 2011 and 2010, respectively	642	637
Additional paid-in capital	518,488	518,925
Accumulated deficit	(168,487)	(171,251)
Accumulated other comprehensive loss	(43,712)	(46,234)
TOTAL STOCKHOLDERS' EQUITY	306,931	302,077
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 915,927	\$ 900,654

See notes to unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended	
	March 31,	
	2011	2010
OPERATING ACTIVITIES:		
Net earnings from continuing operations	\$ 2,881	\$ 6,750
Net earnings (loss) from discontinued operations	(117)	405
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	22,371	20,800
Pension and post-retirement	(581)	137
Deferred income taxes	1,348	4,194
Amortization of stock-based compensation	499	83
Amortization of DHL promissory note	(1,550)	—
Write-off of unamortized debt issuance costs	2,870	—
Unrealized loss on derivative instruments	3,932	—
Changes in assets and liabilities:		
Accounts receivable	(47)	34,579
Inventory and prepaid supplies	(351)	36
Accounts payable	8,422	(1,380)
Unearned revenue	9,576	10,874
Accrued expenses, salaries, wages, benefits and other liabilities	(2,653)	(22,451)
Pension and post-retirement liabilities	(992)	(1,199)
Other	308	616
NET CASH PROVIDED BY OPERATING ACTIVITIES	45,916	53,444
INVESTING ACTIVITIES:		
Capital expenditures	(44,494)	(19,208)
Proceeds from the disposal of property and equipment	—	344
NET CASH USED IN INVESTING ACTIVITIES	(44,494)	(18,864)
FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(9,313)	(9,124)
NET CASH USED IN FINANCING ACTIVITIES	(9,313)	(9,124)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,891)	25,456
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	46,543	83,229
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 38,652	\$ 108,685
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of amount capitalized	\$ 3,242	\$ 3,913
Federal alternative minimum and state income taxes paid	\$ 2,322	\$ 117
SUPPLEMENTAL NON-CASH INFORMATION:		
Debt extinguished	\$ 1,550	\$ —
Accrued capital expenditures	\$ 6,157	\$ 6,227

See notes to unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011

NOTE A—SUMMARY OF FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Air Transport Services Group, Inc. is a holding company whose principal subsidiaries include an aircraft leasing company and three independently certificated airlines. The three airlines, ABX Air, Inc. (“ABX”), Capital Cargo International Airlines, Inc. (“CCIA”) and Air Transport International, LLC (“ATI”), each have the authority, through their separate U.S. Department of Transportation (“DOT”) and the Federal Aviation Administration (“FAA”) certificates, to transport cargo worldwide. The Company’s leasing subsidiary, Cargo Aircraft Management, Inc. (“CAM”), leases aircraft to each of the Company’s airlines as well as to non-affiliated airlines and other lessees.

Through its airline subsidiaries, the Company provides aircraft, flight crews and airline operations to its customers. Since August of 2003, the Company, through ABX, has had long term contracts with affiliates of DHL Worldwide Express, B.V., which are collectively referred to as “DHL.” DHL, an international, integrated delivery company, is the Company’s largest customer. In March 2010, the Company and DHL executed new follow-on agreements, effective March 31, 2010. Under the new agreements, DHL committed to lease 13 Boeing 767 freighter aircraft from CAM and ABX has been contracted to operate those aircraft for DHL under a separate crew, maintenance and insurance agreement (the “CMI agreement”). Prior to the new follow-on agreements, ABX provided aircraft, flight crews and maintenance to DHL under a cost-plus aircraft, crew, maintenance and insurance agreement (“the DHL ACMI agreement”).

CCIA and ATI each have contracts to provide airlift to BAX Global, Inc. (“BAX/Schenker”), the Company’s second largest customer. BAX/Schenker provides freight transportation and supply chain management services, specializing in the heavy freight market for business-to-business shipping. CCIA and ATI each provide ACMI services to DHL. ATI also provides passenger transportation, primarily to the U.S. Military, using its McDonnell Douglas DC-8 “combi” aircraft, which are certified to carry passengers as well as cargo on the main deck.

In addition to its airline operations and aircraft leasing services, the Company sells aircraft parts, provides aircraft and equipment maintenance services, operates mail sorting facilities for the U.S. Postal Service (“USPS”), and provides specialized services for aircraft fuel management.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Estimates and assumptions are used to record allowances for uncollectible amounts, self-insurance reserves, spare parts inventory, depreciation and impairments of property, equipment, goodwill and intangibles, post-retirement obligations, income taxes, contingencies and litigation. Changes in estimates and assumptions may have a material impact on the consolidated financial statements.

Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued and filed with the Securities and Exchange Commission. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

The Company classifies short-term, highly liquid investments with maturities of three months or less at the time

of purchase as cash and cash equivalents. These investments, consisting of money market funds, are recorded at cost, which approximates fair value. Substantially all deposits of the Company's cash are held in accounts that exceed federally insured limits. The Company deposits cash in common financial institutions which management believes are financially sound.

Accounts Receivable and Allowance for Uncollectible Accounts

The Company's accounts receivable is primarily due from its significant customers (see Note B), other airlines, the U.S. Postal Service and freight forwarders. The Company performs a quarterly evaluation of the accounts receivable and the allowance for uncollectible accounts by reviewing specific customers recent payment history, growth prospects, financial condition and other factors that may impact a customer's ability to pay. The Company establishes an allowance for uncollectible accounts for probable losses due to a customer's potential inability or unwillingness to make contractual payments. Account balances are written off against the allowance when the Company ceases collection efforts.

Inventory

The Company's inventory is comprised primarily of expendable spare parts and supplies used for its aircraft fleets. These items are generally charged to expense when issued for use. The Company values aircraft spare parts inventory at weighted-average cost and maintains a related obsolescence reserve. The Company records an obsolescence reserve on a base stock of inventory for each fleet type. The amortization of base stock for the obsolescence reserve corresponds to the expected life of each fleet type. Additionally, the Company monitors the usage rates of inventory parts and segregates parts that are technologically outdated or no longer used in its fleet types. Slow moving and segregated items are actively marketed and written down to their estimated net realizable values based on market conditions.

Management analyzes the inventory reserve for reasonableness at the end of each quarter. That analysis includes consideration of the expected fleet life, amounts expected to be on hand at the end of a fleet life, and recent events and conditions that may impact the usability or value of inventory. Events or conditions that may impact the expected life, usability or net realizable value of inventory include additional aircraft maintenance directives from the Federal Aviation Administration, changes in Department of Transportation regulations, new environmental laws and technological advances.

Goodwill and Intangible Assets

The Company assesses, during the fourth quarter of each year, the carrying value of goodwill and indefinite-lived intangible assets. Impairment assessments may be performed on an interim basis if the Company finds it necessary. Finite-lived intangible assets are amortized over their estimated useful economic lives and are periodically reviewed for impairment.

Property and Equipment

Property and equipment are stated at cost, net of any impairment recorded. The cost and accumulated depreciation of disposed property and equipment are removed from the accounts with any related gain or loss reflected in earnings from operations.

Depreciation of property and equipment is provided on a straight-line basis over the lesser of the asset's useful life or lease term. Depreciable lives are as follows:

Aircraft and flight equipment	3 to 20 years
Support equipment	5 to 10 years
Vehicles and other equipment	3 to 8 years

The Company periodically evaluates the useful lives, salvage values and fair values of property and equipment. Acceleration of depreciation expense or the recording of significant impairment losses could result from changes in the estimated useful lives of assets due to a number of reasons, such as an assessment done quarterly to determine if excess aircraft capacity exists or changes in regulations governing the use of aircraft.

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than the carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined considering quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or fair value less the cost to sell.

The airlines' General Electric CF6 engines that power the Boeing 767-200 aircraft are maintained under "power by the hour" agreements with engine maintenance providers. Under the power by the hour agreements, the engines are maintained by the service providers for a fixed fee per flight hour; accordingly, the cost of engine maintenance is generally expensed as flight hours occur. Maintenance for the airlines' other aircraft engines are typically contracted to service providers on a time and material basis. The Company's accounting policy for major airframe and engine maintenance varies by subsidiary and aircraft type. ATI, CCIA and CAM capitalize the cost of major maintenance and amortize the costs over the useful life of the overhaul. ABX expenses the cost of Boeing 767-200 airframe maintenance and CF-6 engine maintenance as incurred.

Capitalized Interest

Interest costs incurred while aircraft are being modified are capitalized as an additional cost of the aircraft until the date the asset is placed in service. Capitalized interest was \$0.4 million and \$0.5 million for the three months ended March 31, 2011 and 2010.

Discontinued Operations

A business component whose operations are discontinued is reported as discontinued operations if the cash flows of the component have been eliminated from the ongoing operations of the Company, and the Company will no longer have any significant continuing involvement in the business component. The results of discontinued operations are aggregated and presented separately in the consolidated statements of operations. The Company reclassifies amounts presented in prior years that relate to discontinued business components to reflect the activities as discontinued operations.

The Company's results of discontinued operations consists primarily of pension expenses and other benefits for former employees previously associated with the Company's freight sorting and aircraft fueling services provided to DHL. ABX is self insured for medical coverage and workers' compensation, and may incur expenses and cash outlays in the future related to pension obligations, reserves for medical expenses and wage loss for former employees.

Self-Insurance

The Company is self-insured for workers' compensation, employee healthcare, automobile, aircraft, and general liability claims. The Company maintains excess claim coverage with common insurance carriers to mitigate its exposure to large claim losses. The Company records a liability for reported claims and an estimate for incurred claims that have not yet been reported. Accruals for these claims are estimated utilizing historical paid claims data, recent claims trends and, in the case of employee healthcare and workers' compensation, an independent actuarial evaluation. Other liabilities included \$38.3 million and \$39.2 million at March 31, 2011 and December 31, 2010, respectively, for self-insurance reserves. Changes in claim severity and frequency could result in actual claims being materially different than the costs reserved.

Income Taxes

Income taxes have been computed using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred taxes are measured using provisions of currently enacted tax laws. A valuation allowance against net deferred tax assets is recorded when it is more likely than not that such assets will not be fully realized. Tax credits are accounted for as a reduction of income taxes in the year in which the credit originates.

The Company recognizes the benefit of a tax position taken on a tax return, if that position is more likely than not

of being sustained on audit, based on the technical merits of the position. An uncertain income tax benefit is not recognized if it has a less than a 50% likelihood of being sustained. The Company recognizes interest and penalties accrued related to uncertain tax positions in operating expense.

Comprehensive Income

Comprehensive income includes net earnings and other comprehensive income or loss. Other comprehensive income or loss results from changes in the Company's pension liability and gains and losses associated with interest rate hedging instruments.

Fair Value Information

Assets or liabilities that are required to be measured at fair value are reported using the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820-10 *Fair Value Measurements and Disclosures* establishes three levels of input that may be used to measure fair value:

- **Level 1:** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level 2:** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include items where the determination of fair value requires significant management judgment or estimation.

Revenue Recognition

Revenues generated from airline service agreements are typically recognized based on hours flown or the amount of aircraft and crew resources provided during a reporting period. Certain agreements include provisions for incentive payments based upon on-time reliability. These incentives are typically measured on a monthly basis and recorded to revenue in the corresponding month earned. Revenues for operating expenses that are reimbursed through customer agreements, including consumption of aircraft fuel, are generally recognized as the costs are incurred. Revenues from charter service agreements are recognized on scheduled and non-scheduled flights when the specific flight has been completed. Revenues from the sale of aircraft parts are recognized when the parts are delivered. Revenues earned and expenses incurred in providing aircraft-related maintenance, repair or technical services are recognized in the period in which the services are completed and delivered to the customer. Revenues derived from transporting freight and sorting parcels are recognized upon delivery of shipments and completion of services. Aircraft lease revenues are recognized as operating lease revenues on a straight-line basis over the term of the applicable lease agreements.

Revenues from the former ACMI agreement with DHL were generally determined based on expenses incurred during a period plus mark-ups and were recognized when the related services were performed. ABX and DHL amended the ACMI agreement to set mark-ups to specific quarterly amounts for the first quarter of 2010. In 2008, ABX and DHL executed a severance and retention agreement ("S&R agreement") which specified employee severance, retention and other benefits that DHL reimbursed to ABX for payment to its employees that were affected in conjunction with DHL's U.S. restructuring plan. DHL was obligated to reimburse ABX for the cost of employee severance, retention, productivity bonuses and vacation benefits paid in accordance with the agreement. The Company's revenues for the first quarter of 2010 included reimbursement for expenses incurred under the DHL ACMI agreement, the incremental mark-up revenues set by the DHL ACMI amendments and reimbursement for employee severance, retention and vacation benefits.

NOTE B—SIGNIFICANT CUSTOMERS

DHL

The Company, through ABX, has had contracts with DHL since August of 2003. In March 2010, the Company and DHL terminated the former DHL ACMI agreement and executed new follow-on agreements, effective March 31, 2010. Under the new agreements, DHL will lease 13 Boeing 767 freighter aircraft from CAM while ABX operates those aircraft for DHL under a separate CMI agreement. The CMI agreement is not based on a cost-plus pricing arrangement, but instead pricing is based on a pre-defined fee, scaled for the number of aircraft operated and the number of crews provided to DHL for its U.S. network. The initial term of the CMI agreement is five years, while the term of the aircraft leases are seven years. Under the CMI agreement, ABX contracted with Airborne Maintenance and Engineering Services, Inc. (“AMES”), a wholly-owned subsidiary of the Company, to provide scheduled maintenance for the 13 Boeing 767 aircraft for at least the first three years of the CMI agreement.

As of March 31, 2011, CAM had leased 11 of the 13 Boeing 767-200 freighter aircraft to DHL. Until CAM completes the aircraft modification process for the remaining two aircraft committed to DHL, ABX will provide bridging aircraft to DHL under short term, month-to-month arrangements with economic terms similar to the leases for the 13 aircraft. CAM is projected to provide the twelfth and thirteenth Boeing 767-200 aircraft to DHL in the second quarter of 2011.

Continuing revenues from leases and contracted services for DHL were approximately 36% and 41% of the Company's consolidated revenues from continuing operations for the quarters ended March 31, 2011 and 2010, respectively. The Company's balance sheets include accounts receivable and other long-term receivables with DHL of \$14.2 million and \$19.0 million as of March 31, 2011 and December 31, 2010, respectively.

BAX/Schenker

A substantial portion of the Company's revenues, cash flows and liquidity are also dependent on BAX/Schenker. Revenues from the services performed for BAX/Schenker were approximately 32% and 27% of the Company's total revenues from continuing operations for the quarters ended March 31, 2011 and 2010, respectively. Under their agreements with BAX/Schenker, ATI and CCIA have the right to be the exclusive providers of main deck freighter lift in the BAX/Schenker U.S. network through December 31, 2011. The Company's balance sheets include accounts receivable with BAX/Schenker of \$4.1 million and \$5.5 million as of March 31, 2011 and December 31, 2010, respectively.

U.S. Military

A substantial portion of the Company's revenues are also derived from the U.S. military. The U.S. Military awards flights to U.S. certificated airlines through annual contracts and through temporary "expansion" routes. Revenues from services performed for the U.S. Military were approximately 11% and 14% of the Company's total revenues from continuing operations for the quarters ended March 31, 2011 and 2010, respectively. The Company's balance sheets included accounts receivable with the U.S. Military of \$13.6 million and \$8.4 million as of March 31, 2011 and December 31, 2010, respectively.

NOTE C—FAIR VALUE MEASUREMENTS

The Company's money market funds and derivative financial instruments are reported on the Company's consolidated balance sheet at fair values based on market values from identical or comparable transactions. The fair value of the Company's derivative financial instruments are based on observable inputs (Level 2) from comparable market transactions. The use of significant unobservable inputs (Level 3) was not necessary in determining the fair value of the Company's financial assets and liabilities.

The following table reflects assets and liabilities that are measured at fair value on a recurring basis (in thousands):

As of March 31, 2011	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents—money market	\$ —	\$ 23,264	\$ —	\$ 23,264
Total Assets	\$ —	\$ 23,264	\$ —	\$ 23,264
Liabilities				
Interest rate swap	\$ —	\$ (3,932)	\$ —	\$ (3,932)
Total Liabilities	\$ —	\$ (3,932)	\$ —	\$ (3,932)
As of December 31, 2010	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents—money market	\$ —	\$ 20,411	\$ —	\$ 20,411
Total Assets	\$ —	\$ 20,411	\$ —	\$ 20,411
Liabilities				
Interest rate swap	\$ —	\$ (4,563)	\$ —	\$ (4,563)
Total Liabilities	\$ —	\$ (4,563)	\$ —	\$ (4,563)

As a result of lower market interest rates compared to the stated interest rates of the Company's fixed and variable rate debt obligations, the fair value of the Company's debt obligations was approximately \$7.6 million more than the carrying value, which was \$291.7 million at March 31, 2011. The non-financial assets, including goodwill and intangible assets, are measured at fair value on a non-recurring basis.

NOTE D—PROPERTY AND EQUIPMENT

At March 31, 2011, the Company's subsidiaries owned or leased under capital leases 59 aircraft in serviceable condition, consisting of 17 Boeing 767-200 aircraft leased to external customers, two Boeing 757, 12 Boeing 727, 14 McDonnell Douglas DC-8 and 14 Boeing 767-200 aircraft operated by the Company's airlines. As of March 31, 2011, the Company had four Boeing 767-200 aircraft and two Boeing 767-300 aircraft undergoing modification to standard freighter configuration. Additionally, at March 31, 2011, the Company had two other Boeing 767-200 and one Boeing 767-300 aircraft which were scheduled to enter into the freighter modification process in 2011. The combined carrying value of aircraft in modification or scheduled to undergo modification was \$93.3 million at March 31, 2011. Property and equipment, to be held and used, consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Aircraft and flight equipment	\$ 971,611	\$ 928,784
Support equipment	50,736	50,424
Vehicles and other equipment	1,595	1,604
Leasehold improvements	714	714
	<u>1,024,656</u>	<u>981,526</u>
Accumulated depreciation	(338,639)	(322,770)
Property and equipment, net	\$ 686,017	\$ 658,756

Aircraft and flight equipment includes \$17.8 million of property held under capital leases as of March 31, 2011 and \$22.2 million as of December 31, 2010. Accumulated depreciation and amortization includes \$8.0 million as of March 31, 2011 and \$10.8 million as of December 31, 2010 for property held under capital leases. CAM owned aircraft

with a carrying value of \$269.2 million and \$263.2 million that were under leases to external customers as of March 31, 2011 and December 31, 2010, respectively.

At March 31, 2011, ACMI Services had four DC-8 airframes whose engines and rotables were being used for other aircraft in the Company's fleets. The spare airframes can be reactivated as needed. The combined carrying value of the idle DC-8 aircraft was \$0.7 million at March 31, 2011.

NOTE E—DEBT OBLIGATIONS

Long-term obligations consisted of the following (in thousands):

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Unsubordinated term loan	\$ 172,437	\$ 178,000
Revolving credit facility	—	—
Aircraft loans	90,070	92,075
Capital lease obligations-Boeing 727	4,230	5,910
Promissory note due to DHL, unsecured	24,800	26,350
Other capital leases	128	193
Total long-term obligations	<u>291,665</u>	<u>302,528</u>
Less: current portion	(12,741)	(36,591)
Total long-term obligations, net	<u>\$ 278,924</u>	<u>\$ 265,937</u>

In 2011, the Company began to solicit lender interest for refinancing its debt obligations with extended repayment terms beyond December 2012. By March 31, 2011, certain banks had committed to provide the Company enough funds to refinance its unsubordinated term loan. On May 9, 2011, the Company executed a new, syndicated credit facility with a larger borrowing capacity through April 2016 ("Credit Facility"). The new Credit Facility, with a consortium of banks, includes a term loan of \$150 million and a \$175 million revolving credit loan, of which the Company has drawn \$65 million. The former term loan, having a balance of \$172.4 million was completely paid-off on May 6, 2011, using the proceeds of the new term loan and revolving loan. Under the terms of the Credit Facility, interest rates will be adjusted quarterly based on the Company's earnings before interest, taxes, depreciation and amortization expenses ("EBITDA"), its outstanding debt level and prevailing LIBOR or prime rates. At the Company's current debt-to-EBITDA ratio, the LIBOR based financing for the unsubordinated term loan and revolving credit loan bear a variable interest rate of 2.27%. During the next twelve months, the Company expects to make further draws on the revolving credit loan to fund its fleet expansion plans. The new Credit Facility also has an accordion feature of \$50 million which the Company may draw subject to the lenders' consent. Repayments of the term loan are scheduled to begin in June 2012.

In conjunction with the execution of the new Credit Facility, the Company terminated its previous credit agreement, which resulted in the write-off of unamortized debt issuance costs associated with that credit agreement and losses for certain interest rate swaps which had previously been designated as cash flow hedges of interest payments required by the former debt. These charges, which totaled \$6.8 million before income taxes, were recorded in March 2011.

Through May 9, 2011, the Company had a credit agreement with its previous lenders to provide a revolving credit facility and an unsubordinated term loan through December 2012 ("Credit Agreement"). This unsubordinated term loan and the revolving credit facility were collateralized by substantially all the aircraft, property and equipment owned by the Company that are not collateralized under aircraft loans or capital leases. Under the former Credit Agreement, interest rates are adjusted quarterly based on the Company's earnings before interest, taxes, depreciation and amortization expenses, outstanding debt level and prevailing LIBOR or prime rates. At March 31, 2011, the unsubordinated term loan bore a variable interest rate of LIBOR (90-day) plus 2.25% (2.56% at March 31, 2011). The former Credit Agreement provided for a \$75 million revolving credit facility and the issuance of letters of credit on the Company's behalf. As of March 31, 2011, letters of credit totaling of \$16.7 million were outstanding under the former revolving credit facility.

The aircraft loans are collateralized by seven aircraft, and amortize monthly with a balloon payment of approximately 20% with maturities between 2016 and early 2018. Interest rates range from 6.74% to 7.36% per annum payable monthly. Capital lease obligations for five Boeing 727 aircraft carry a fixed implicit rate of 6.50% and expire in 2011.

The promissory note due to DHL becomes due in August 2028 as a balloon payment, unless it is extinguished sooner under the terms of the DHL CMI agreement. Beginning April 1, 2010 and extending through the term of the DHL CMI agreement, the balance of the note is amortized ratably without payment, in exchange for services provided and thus is expected to be completely amortized by April 2015. The promissory note bears interest at a rate of 5% per annum, and DHL reimburses ABX the interest expense from the note through the term of the DHL CMI agreement.

The new Credit Facility is collateralized by certain of the Company's Boeing 767 and 757 aircraft that are not collateralized under aircraft loans. Under the terms of the Credit Facility, the Company is required to maintain collateral coverage equal to 150% of the outstanding balance of the term loan and revolving credit loan. The Credit Facility contains covenants including, among other requirements, limitations on certain additional indebtedness and guarantees of indebtedness. The Credit Facility stipulates events of default, including unspecified events that may have material adverse effects on the Company. If an event of default occurs, the Company may be forced to repay, renegotiate or replace the Credit Facility. The Company is currently in compliance with the financial covenants specified in the Credit Facility. The Company is restricted from paying dividends on its common stock in excess of \$50.0 million during any calendar year under the provisions of the Credit Facility. Under the provisions of its promissory note due to DHL, the Company is required to prepay the DHL note \$0.20 for each dollar of dividend distributed to its stockholders. The same prepayment stipulation applies to stock repurchases.

NOTE F—COMMITMENTS AND CONTINGENCIES

Leases

The Company leases airport facilities and certain operating equipment under operating lease agreements. ABX leases portions of the air park in Wilmington, Ohio under a lease agreement with a regional port authority, the term of which expires in May of 2019.

Commitments

In September 2008, CAM entered into an agreement with Israel Aerospace Industries Ltd. ("IAI") for the conversion of up to fourteen Boeing 767-200 passenger door freighters to a standard freighter configuration. The conversion primarily consists of the installation of a standard cargo door and loading system. Through March 31, 2011, eight such aircraft have completed the modification process. As of March 31, 2011, four additional Boeing 767-200 aircraft were undergoing modification to standard freighter configuration. If CAM were to cancel the conversion program as of March 31, 2011, it would owe IAI, in addition to payments for aircraft currently undergoing modification, approximately \$4.0 million associated with additional conversion part kits which have been ordered.

In the third quarter of 2010, CAM purchased three passenger-configured Boeing 767-300 ER aircraft, each equipped with General Electric CF6-80C2-B6 engines. In August 2010, CAM entered into an agreement with M&B Conversions Limited and IAI for the conversion by IAI of the three Boeing 767-300 series passenger aircraft to a standard freighter configuration. The agreement includes an option to convert up to seven additional Boeing 767-300 series passenger aircraft during the 10-year term of the agreement. As of March 31, 2011, two Boeing 767-300 aircraft were undergoing modification to a standard freighter configuration. If CAM were to cancel the conversion program as of March 31, 2011, it would owe IAI approximately \$2.0 million associated with additional conversion part kits which have been ordered.

In October 2010, CAM entered an agreement with Precision Conversions, LLC ("Precision") for the design, engineering and certification of a Boeing 757 "combi" aircraft variant. The Boeing 757 "combi" variant to be developed by Precision will incorporate 10 full cargo pallet positions along with passenger seating for up to 58 occupants. In conjunction with the agreement, CAM made a deposit of \$1.3 million toward the project. CAM is committed to convert at a minimum two Boeing 757 aircraft with Precision. In April 2011, CAM purchased a Boeing 757 passenger aircraft with the intent of modifying the aircraft for combi service.

Guarantees and Indemnifications

Certain operating leases and agreements of the Company contain indemnification obligations to the lessor, or one or more other parties that are considered reasonable and customary (e.g. use, tax and environmental indemnifications), the terms of which range in duration and are often limited. Such indemnification obligations may continue after expiration of the respective lease or agreement.

Civil Action Alleging Violations of Immigration Laws

On December 31, 2008, a former ABX employee filed a complaint against ABX, a total of four current and former executives and managers of ABX, Garcia Labor Company of Ohio, and three former executives of the Garcia Labor companies, in the U.S. District Court for the Southern District of Ohio. The case was filed as a putative class action against the defendants, and asserts violations of the Racketeer Influenced and Corrupt Practices Act (RICO). The complaint, which was later amended to include a second former employee plaintiff, seeks damages in an unspecified amount and alleges that the defendants engaged in a scheme to hire illegal immigrant workers to depress the wages paid to hourly wage employees during the period from December 1999 to January 2005. On March 18, 2010, the Court issued a decision in response to a motion filed by ABX and the other ABX defendants, dismissing three of the five claims constituting the basis of Plaintiffs' complaint. Most recently, the Court issued a decision on October 7, 2010, permitting the plaintiffs to amend their complaint for the purpose of reinstating one of their dismissed claims. On October 26, 2010, ABX and the other ABX defendants filed an answer denying the allegations contained in plaintiffs' second amended complaint.

The complaint is similar to a prior complaint filed by another former employee in April 2007. The prior complaint was subsequently dismissed without prejudice at the plaintiff's request on November 3, 2008.

FAA Enforcement Actions

The Company's airline operations are subject to complex aviation and transportation laws and regulations that are continually enforced by the DOT and FAA. The Company's airlines receive letters of investigation ("LOIs") from the FAA from time to time in the ordinary course of business. The LOIs generally provide that some action of the airline may have been contrary to the FAA's regulations. If the airline's response to the LOI is not satisfactory to the FAA, it can seek to impose a civil penalty for the alleged violation. Airlines are entitled to a hearing before an Administrative Law Judge or a Federal District Court Judge, depending on the amount of the penalty being sought, before any penalty order is deemed final.

The FAA issued LOIs to CCIA arising from a focused inspection of that airline's operations during the fourth quarter of 2009 which could result in the FAA seeking monetary penalties against CCIA. ABX received an LOI from the FAA alleging that ABX failed to comply with an FAA Airworthiness Directive involving its Boeing 767 aircraft and proposing a monetary settlement. The Company believes it has adequately reserved for those monetary penalties being proposed by the FAA, although it's possible that the FAA may propose additional penalties exceeding the amounts currently reserved.

Other

In addition to the foregoing matters, the Company is also currently a party to legal proceedings in various federal and state jurisdictions arising out of the operation of their business. The amount of alleged liability, if any, from these proceedings cannot be determined with certainty; however, the Company believes that their ultimate liability, if any, arising from the pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are probable of assertion, taking into account established accruals for estimated liabilities, should not be material to the Company's financial condition or results of operations.

Employees Under Collective Bargaining Agreements

As of March 31, 2011, the flight crewmember employees of ABX, ATI and CCIA were represented by the labor unions listed below:

Airline	Labor Agreement Unit	Percentage of the Company's Employees
ABX	International Brotherhood of Teamsters	12.0%
ATI	Airline Pilots Association	10.8%
CCIA	Airline Pilots Association	5.9%

NOTE G—PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

ABX sponsors a qualified defined benefit pension plan for its flight crewmembers and a qualified defined benefit pension plan for a major portion of its other ABX employees that meet minimum eligibility requirements. ABX also sponsors non-qualified defined benefit pension plans for certain employees. These non-qualified plans are unfunded. ABX also sponsors a post-retirement healthcare plan for its ABX employees, which is unfunded. During 2009, the Company amended each of the defined benefit pension plans to freeze the accrual of additional benefits. During 2010, the Company modified the post-retirement health plans for ABX employees to terminate benefits when a covered individual reaches age 65.

The accounting and valuation for these post-retirement obligations are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long time period over which benefits will be accrued and paid. The long-term nature of these benefit payouts increases the sensitivity of certain estimates of our post-retirement costs. The Company's net periodic benefit costs for its qualified defined benefit pension and post retirement healthcare plans for both continuing and discontinued operations are as follows (in thousands):

	Three Months Ended March 31,			
	Pension Plans		Post-Retirement Healthcare Plan	
	2011	2010	2011	2010
Service cost	\$ —	\$ 2,286	\$ 62	\$ 162
Interest cost	9,291	9,169	97	362
Expected return on plan assets	(9,757)	(8,900)	—	—
Amortization of prior service cost	—	—	(1,388)	(417)
Amortization of net loss	675	517	132	51
Net periodic benefit cost	\$ 209	\$ 3,072	\$ (1,097)	\$ 158

During the quarter ended March 31, 2011, the Company contributed \$0.1 million to the pension plans. The Company estimates that its minimum pension contributions will be \$2.4 million more throughout the remainder of the 2011 year. The Company is considering additional contributions of \$15 million to \$17 million in 2011.

NOTE H—INCOME TAXES

The provision for income taxes for interim periods is based on management's best estimate of the effective income tax rate expected to be applicable for the current year, plus any adjustments arising from changes in the estimated amount of taxable income related to prior periods. Income taxes recorded through March 31, 2011 have been estimated utilizing a 37.3% rate based on year-to-date income and projected results for the full year, excluding discrete items. The final effective tax rate to be applied to 2011 will depend on the actual amount of pre-tax book income generated by the Company for the full year.

NOTE I—DERIVATIVE INSTRUMENTS

In conjunction with the unsubordinated term loan under the former credit agreement, the Company entered into interest rate swaps in January 2008 to reduce the effects of fluctuating LIBOR-based interest rates on forecasted interest payments stemming from scheduled repayment of the debt. Under the interest rate swap agreements, the Company pays a fixed rate of 3.105% and receives a floating rate that resets quarterly based on LIBOR. The notional value of the interest rate swaps step downward through December 31, 2012. In accordance with FASB ASC Topic 815-30 *Derivatives and Hedging*, the Company accounted for the interest rate swaps as hedges of the forecasted cash flows. Accordingly, losses caused by lower floating interest rates had been recorded to accumulated other comprehensive income. Effective March 31, 2011, in conjunction with its decision to refinance the unsubordinated term loan, the Company ceased hedge accounting after determining that the forecasted interest payments will not occur near the time originally expected. As a result, the Company recorded a pre-tax charge of \$3.9 million in the first quarter of 2011 based the fair market value of the derivatives on March 31, 2011 to recognize the losses previously recorded in accumulated other comprehensive income.

The liability for outstanding derivatives is recorded in other liabilities and in accrued expenses. The table below provides information about the Company's interest rate swaps (in thousands):

<u>Expiration Date</u>	<u>Stated Interest Rate</u>	<u>March 31, 2011</u>		<u>December 31, 2010</u>	
		<u>Notional Amount</u>	<u>Market Value (Liability)</u>	<u>Notional Amount</u>	<u>Market Value (Liability)</u>
December 31, 2012	3.105%	\$ 65,875	\$ (2,476)	\$ 68,000	\$ (2,893)
December 31, 2012	3.105%	38,750	(1,456)	40,000	(1,670)

In addition to the interest rate swaps above, the Company's new Credit Facility requires the Company to maintain derivative instruments for protection from fluctuating interest rates, for at least fifty percent of the outstanding balance of the new subordinated term loan. As a result, the Company expects to enter into new derivative instruments in the second quarter of 2011. At this time, the Company does not expect to designate the derivative instruments as hedges. As a result, future fluctuations in LIBOR interest rates will result in the recording of unrealized gains and losses on interest rate derivatives held by the Company.

NOTE J—COMPREHENSIVE INCOME

Comprehensive income includes the following transactions for the three months ended March 31, 2011 and 2010 (in thousands):

	Three Months Ended March 31,		
	Before Tax	Income Tax (Expense) or Benefit	Net of Tax
2011			
Net Income			\$ 2,764
Other comprehensive income:			
Unrealized gain on derivative instruments	\$ 631	\$ (229)	402
Reclassifications to net income:			
Hedging gain realized	(25)	9	(16)
Unrealized loss on derivative instruments	3,932	(1,427)	2,505
Pension actuarial loss	675	(246)	429
Post-retirement actuarial loss	132	(48)	84
Post-retirement negative prior service cost	(1,388)	506	(882)
Total other comprehensive income	<u>\$ 3,957</u>	<u>\$ (1,435)</u>	<u>2,522</u>
Comprehensive income			<u>\$ 5,286</u>
2010			
Net Income			\$ 7,155
Other comprehensive income:			
Post-retirement liabilities negative prior service cost	\$ 22,014	\$ (7,991)	14,023
Unrealized loss on derivative instruments	(748)	272	(476)
Reclassifications to net income:			
Hedging gain realized	(27)	10	(17)
Pension actuarial loss	517	(188)	329
Post-retirement actuarial loss	37	(14)	23
Post-retirement negative prior service cost	(417)	151	(266)
Other comprehensive income	<u>\$ 21,376</u>	<u>\$ (7,760)</u>	<u>13,616</u>
			<u>\$ 20,771</u>

NOTE K—STOCK-BASED COMPENSATION

The Company's Board of Directors has granted stock incentive awards to certain employees and board members pursuant to a long-term incentive plan which was approved by the Company's stockholders in May 2005. Employees have been awarded non-vested stock units with performance conditions, non-vested stock units with market conditions and non-vested restricted stock. The restrictions on the non-vested restricted stock awards lapse at the end of a specified service period, which is typically approximately three years from the date of grant. Restrictions could lapse sooner upon a business combination, death, disability or after an employee qualifies for retirement. The non-vested stock units will be converted into a number of shares of Company stock depending on performance and market conditions at the end of a specified service period, lasting approximately three years. The performance condition awards will be converted into a number of shares of Company stock based on the Company's average return on equity or investment capital, depending on the form of award, during the service period. Similarly, the market condition awards will be converted into a number of shares depending on the appreciation of the Company's stock compared to the NASDAQ Transportation Index. Board members were granted time-based awards with approximately a six-month vesting period, which will settle when the board member ceases to be a director of the Company. The Company expects to settle all of the stock

unit awards by issuing new shares of stock. The table below summarizes award activity.

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Number of Awards	Weighted average grant-date fair value	Number of Awards	Weighted average grant-date fair value
Outstanding at beginning of period	1,514,300	\$ 3.55	1,505,550	\$ 3.07
Granted	555,237	8.72	—	—
Converted	(291,500)	3.14	(27,539)	9.20
Expired	—	—	(39,211)	9.20
Forfeited	(41,600)	4.97	(65,400)	3.00
Outstanding at end of period	<u>1,736,437</u>	\$ 5.22	<u>1,373,400</u>	\$ 2.78
Vested	326,400	\$ 3.71	256,400	\$ 3.64

The average grant-date fair value of each performance condition award, non-vested restricted stock award and time-based award granted by the Company in 2011 was \$8.25, the value of the Company's stock on the date of grant. The average grant-date fair value of each market condition award granted in 2011 was \$11.17. The market condition awards were valued using a Monte Carlo simulation technique, a risk-free interest rate of 1.27%, a term of 36 months, and a volatility of 125.0% based on historical volatility over three years using daily stock prices.

For the three month periods ended March 31, 2011 and 2010, the Company recorded expense of \$0.5 million and \$0.1 million, respectively, for stock incentive awards. At March 31, 2011, there was \$5.5 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.7 years. None of the awards were convertible, and none of the outstanding shares of restricted stock had vested as of March 31, 2011. These awards could result in a maximum number of 1,997,237 additional outstanding shares of the Company's common stock depending on service, performance and market results through December 31, 2013.

NOTE L—EARNINGS PER SHARE

The calculation of basic and diluted earnings per common share follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2011	2010
Earnings from continuing operations	\$ 2,881	\$ 6,750
Weighted-average shares outstanding for basic earnings per share	63,131	62,792
Common equivalent shares:		
Effect of stock-based compensation awards	805	813
Weighted-average shares outstanding assuming dilution	<u>63,936</u>	<u>63,605</u>
Basic earnings per share from continuing operations	\$ 0.04	\$ 0.11
Diluted earnings per share from continuing operations	\$ 0.04	\$ 0.11

The number of equivalent shares that were not included in weighted average shares outstanding assuming dilution, because their effect would have been anti-dilutive, was immaterial at March 31, 2011 and 2010.

NOTE M—SEGMENT INFORMATION

The Company operates in two reportable segments, as described below. The CAM segment consists of the Company's aircraft leasing operations and its segment earnings includes an allocation of interest expense. The ACMI Services segment consists of the Company's airline operations including the CMI with DHL, ACMI and charter service agreements that the Company provides to customers. The Company's other activities, which include contracts with the USPS, the sale of aircraft parts and maintenance services, management services for workers compensation, logistics services and fuel management, do not constitute reportable segments and are combined in "All other" with inter-segment profit eliminations. Inter-segment revenues are valued at arms-length, market rates. Cash, cash equivalents and deferred tax assets are reflected in Assets - All other below. The Company's segment information for continuing operations is presented below (in thousands):

	Three Months Ended March 31,	
	2011	2010
Total revenues:		
CAM	\$ 32,128	\$ 17,802
ACMI Services	146,705	146,713
All other	25,438	17,453
Eliminate inter-segment revenues	(29,144)	(21,024)
Total	<u>\$ 175,127</u>	<u>\$ 160,944</u>
Customer revenues:		
CAM	\$ 14,071	\$ 3,766
ACMI Services	146,435	146,713
All other	14,621	10,465
Total	<u>\$ 175,127</u>	<u>\$ 160,944</u>
Depreciation and amortization expense:		
CAM	\$ 12,263	\$ 6,740
ACMI Services	10,148	13,895
All other	(40)	165
Total	<u>\$ 22,371</u>	<u>\$ 20,800</u>
Segment earnings (loss):		
CAM	\$ 13,466	\$ 6,539
ACMI Services	(2,510)	7,383
All other	1,654	(1,336)
Net unallocated interest expense	(1,218)	(1,802)
Charges related to termination of credit facility	\$ (6,802)	—
Total from continuing operations	<u>\$ 4,590</u>	<u>\$ 10,784</u>

The Company's assets are presented below by segment:

	March 31,	December 31,
	2011	2010
Assets:		
CAM	\$ 628,055	\$ 600,245
ACMI Services	195,365	198,024
Discontinued operations	4,560	5,015
All other	87,947	97,370
Total	<u>\$ 915,927</u>	<u>\$ 900,654</u>

Interest expense of \$0.3 million and \$0.8 million for the three month periods ending March 31, 2011 and 2010, respectively, was reimbursed through the commercial agreements with DHL and included in the ACMI Services segment earnings above. Interest expense allocated to CAM was \$2.5 million for the three month periods ending March 31, 2011 and 2010.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis has been prepared with reference to the historical financial condition and results of operations of Air Transport Services Group, Inc., and its subsidiaries. Air Transport Services Group, Inc. and its subsidiaries may hereinafter individually and collectively be referred to as "the Company," "we," "our" or "us" from time to time. The following discussion and analysis describes the principal factors affecting the results of operations, financial condition, cash flows, liquidity and capital resources. It should be read in conjunction with the accompanying unaudited financial statements and the related notes contained in this report and our Annual Report on Form 10-K for the year ended December 31, 2010.

INTRODUCTION

Air Transport Services Group, Inc. (the "Company") is a holding company whose principal subsidiaries include three independently certificated airlines, ABX Air, Inc. ("ABX"), Capital Cargo International Airlines, Inc. ("CCIA") and Air Transport International, LLC ("ATI"), and an aircraft leasing company, Cargo Aircraft Management, Inc. ("CAM"). At March 31, 2011 the Company's in-service aircraft fleet consisted of the following cargo aircraft: 30 Company-owned Boeing 767-200 aircraft, four leased Boeing 767-200 aircraft, one leased Boeing 767-300 aircraft, two Company-owned Boeing 757 aircraft, 13 Boeing 727 aircraft, 14 Company-owned DC-8 aircraft, and one Company-owned Boeing 767-200 passenger aircraft. Additionally, the Company is in the process of adding more cargo aircraft to its fleet. The Company has two reportable segments: ACMI Services, which primarily includes the cargo transportation operations of its three airlines and CAM which includes the Company's aircraft leasing business. The Company's other business operations, including aircraft maintenance services, aircraft part sales, ground equipment leasing and maintenance, mail handling and fuel management, do not constitute reportable segments due to their size.

The Company has a concentrated base of leading customers which service international cargo traffic. The Company's three largest customers, which include affiliates of DHL Worldwide Express, B.V. ("DHL"), BAX Global, Inc. ("BAX Schenker") and the U.S. Military totaled 78% of the Company's consolidated revenue during the first quarter 2011.

The Company, through ABX, has had long-term contracts with DHL since August of 2003. Commencing March 31, 2010, the Company and DHL executed new follow-on agreements under which DHL committed to lease 13 Boeing 767 freighter aircraft from CAM and contracted with ABX to operate those aircraft under a separate crew, maintenance and insurance ("CMI") agreement. The CMI agreement pricing is based on pre-defined fees, scaled for the number of aircraft operated and the number of flight crews provided to DHL for its U.S. network. The initial term of the CMI agreement is five years and the term of the aircraft leases is seven years, with early termination provisions. Through March 31, 2011, CAM leased 11 Boeing 767 -200 aircraft to DHL. Until CAM completes the aircraft modification process for the two remaining aircraft committed to DHL, ABX is operating its own Boeing 767 aircraft as bridging aircraft for DHL under short term, month-to-month arrangements under economic terms similar to those under the lease agreements for the 13 aircraft.

Prior to the follow-on agreements, ABX provided flight crews, maintenance and aircraft to DHL under an aircraft, crew, maintenance and insurance agreement ("DHL ACMI agreement") which compensated ABX on a cost-plus mark-up basis. The follow-on agreements separate CAM's lease of freighter aircraft to DHL from the maintenance and operation of those aircraft by ABX on behalf of DHL.

RESULTS OF OPERATIONS

Summary

During 2011, the Company began to solicit lender interest for refinancing its debt obligations with extended repayment terms beyond December 2012. By March 31, 2011, significant lender commitments had been provided to allow the Company to refinance the Company's \$172.4 million unsubordinated term loan. On May 9, 2011, the Company executed a new credit facility with a consortium of banks ("Credit Facility"). The new Credit Facility refinances the Company's previous term loan and provides liquidity to expand the Company's aircraft fleet through April 2016. The new Credit Facility includes a term loan of \$150 million and a \$175 million revolving credit loan, of which the Company has drawn \$65 million. In conjunction with the execution of a new Credit Facility, the Company terminated its previous credit agreement, which resulted in the write-off of unamortized debt issuance costs associated with that credit agreement and the recognition of losses for certain interest rate swaps which had previously been designated as cash flow hedges of interest payments stemming from the former term loan. These charges, which totaled \$6.8 million before income tax effects, were recorded in March 2011.

Customer revenues from continuing operations increased by \$14.2 million for the first quarter of 2011 compared to the corresponding quarter of 2010. This increase was driven by CAM, whose revenues with external customers increased by \$10.3 million primarily due to aircraft leases to DHL which began on or after April 1, 2010. Additionally, revenues from aircraft maintenance services increased by \$4.9 million for the first quarter of 2011, compared to the first quarter of 2010, as a result of completing additional maintenance projects during the 2011 quarter. Total revenues from ACMI Services were unchanged, totaling \$146.7 million during the first quarters of 2011 and 2010. Revenue growth in 2011 was partially offset by the completion of the severance and retention agreement ("S&R agreement") with DHL in March 2010. Under the S&R agreement, DHL compensated and reimbursed ABX for its management and costs associated with DHL's network restructuring starting in May 2008 and continuing through March 2010. Revenues from the S&R agreement were \$4.0 million in the first quarter of 2010.

Consolidated net earnings from continuing operations for the quarter ended March 31, 2011 were \$2.9 million, decreasing \$3.9 million compared to the first quarter of 2010, while pre-tax earnings from continuing operations were \$4.6 million for the first quarter of 2011, decreasing \$6.2 million compared to the corresponding quarter of 2010. The decline in net earnings and pre-tax earnings from continuing operations as compared to the first quarter of 2010 primarily resulted from the recognition of \$6.8 million of expenses related to the refinancing of the Company debt in 2011. Pre-tax earnings from continuing operations, adjusted to remove the charges related to the termination of the former credit agreement and the earnings from the S&R agreement, were \$11.4 million and \$7.2 million for the first quarters of 2011 and 2010, respectively. The \$4.2 million increase in adjusted pre-tax earnings from continuing operations for the first quarter of 2011 compared to the first quarter of 2010, included improved CAM results of \$6.9 million, increased earnings from the Company's maintenance and other activities of \$3.0 million and lower interest expense, offset by losses from airline services. Pre-tax earnings from the airline services declined by \$6.3 million in the first quarter of 2011 compared to the corresponding quarter of 2010 due primarily to unscheduled downtime within the ACMI Services' fleet.

A summary of our revenues and pre-tax earnings from continuing operations is shown below (in thousands):

	Three Months Ended March 31,	
	2011	2010
Revenues from Continuing Operations:		
CAM	\$ 32,128	\$ 17,802
ACMI Services		
Airline services	102,450	117,389
Other Reimbursable	44,255	25,324
S&R activities	—	4,000
Total ACMI Services	146,705	146,713
Other Activities	25,438	17,453
Total Revenues	204,271	181,968
Eliminate internal revenues	(29,144)	(21,024)
Customer Revenues	\$ 175,127	\$ 160,944
Pre-Tax Earnings from Continuing Operations:		
CAM, inclusive of interest expense	\$ 13,466	\$ 6,539
ACMI Services		
Airline services	(2,510)	3,834
S&R activities	—	3,549
Total ACMI Services	(2,510)	7,383
Other Activities	1,654	(1,336)
Net unallocated interest expense	(1,218)	(1,802)
Charges from the termination of credit agreement	(6,802)	—
Pre-Tax Earnings from Continuing Operations	4,590	10,784
Pre-Tax earnings, adjusted for significant infrequent transactions:		
Add charges for termination of credit agreement	6,802	—
Less S&R activities	—	(3,549)
Adjusted Pre-tax Earnings from Continuing Operations	\$ 11,392	\$ 7,235

Other Reimbursable revenues include certain operating costs that are reimbursed to the airlines by their customers. Such costs include fuel used, landing fees and certain aircraft maintenance expenses. The type of costs that are reimbursed varies by customer operating agreement. Management uses Adjusted Pre-tax Earnings from Continuing Operations, a non GAAP measure, to assess the performance of its core operating results among periods. Adjusted Pre-tax Earnings should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

CAM

As of March 31, 2011, CAM had 61 aircraft that were under lease, 44 of them to ABX, ATI and CCIA. CAM's pre-tax earnings, inclusive of an allocation of interest expense, increased by \$6.9 million during the first quarter of 2011 compared to the corresponding quarter in 2010, reflecting the 16 more aircraft under lease since March 31, 2010. During the first quarter of 2011, CAM placed a Boeing 767-200 freighter aircraft under lease to a Florida based operator, bringing the total number of aircraft leased to external customers to 17 aircraft.

CAM's revenues for the first quarter of 2011 grew by \$14.3 million to \$32.1 million compared to \$17.8 million during the first quarter of 2010. Revenues from external customers, particularly DHL, accounted for \$10.3 million of the increase. Since March 31, 2010, CAM has leased 11 Boeing 767-200 aircraft to DHL. CAM's revenues from the

Company's airlines totaled \$18.0 million and \$14.0 million during the first quarter of 2011 and 2010, respectively.

In April 2011, CAM leased its twelfth Boeing 767-200 aircraft to DHL and expects to lease the thirteenth Boeing 767 freighter aircraft to DHL during the second quarter of 2011. ABX is operating an aircraft for DHL under short term, month-to-month bridging arrangements with economic terms similar to the leases for the 13 aircraft until CAM completes the aircraft modification process for the remaining Boeing 767-200 aircraft committed to DHL.

ACMI Services Segment

At March 31, 2011, ACMI Services included 48 in-service aircraft which the Company's airlines owned or leased and eleven CAM-owned freighter aircraft which were under lease to DHL and operated by ABX under the CMI agreement. During the first quarter of 2011, ABX began to lease and operate two DHL-owned aircraft, bringing to four the number of DHL-owned aircraft that ABX leases from DHL and operates under the CMI agreement. During the first quarter of 2011, ABX returned one of its leased Boeing 767-200 aircraft to CAM, which then leased the aircraft to an external customer under a seven year agreement. Also during the first quarter of 2011, ATI leased a Boeing 767-200 passenger aircraft from CAM and began to fly the aircraft for a tourist operator beginning in April 2011.

ACMI Services revenues were \$146.7 million during the first quarters of 2011 and 2010. Revenues from airline services decreased \$14.9 million in the first quarter of 2011 compared to the first quarter of 2010 while reimbursable revenues increased \$18.9 million in the first quarter of 2011 compared to the first quarter of 2010. The decrease in airline service revenues compared to the first quarter of 2010 reflects the contractual changes of the DHL follow-on agreements which became effective in April 2010. Airline services revenues for the first quarter of 2010 include compensation based on aircraft depreciation and certain maintenance expense under the former cost-plus ACMI agreement with DHL. Since April 2011, revenues for the DHL network aircraft have been reflected in CAM's lease revenues, while compensation for certain aircraft related maintenance costs have been reflected as reimbursable revenues. Revenues from S&R activities declined by \$4.0 million during the first quarter of 2011 compared to the first quarter of 2010 due to the completion of the S&R agreement in March 2010.

ACMI Services had a pre-tax loss of \$2.5 million from airline services for the first quarter of 2011, compared to pre-tax earnings of \$3.8 million from airline services during first quarter of 2010. During the first quarter of 2011, ACMI Services experienced significant unscheduled aircraft maintenance related downtime. As a result, revenue flights were missed and higher operating expenses were incurred during the aircraft downtime. Some of the downtime affected DC-8 combi aircraft and a Boeing 767 freighter operating in remote regions that were difficult to service. The Company has developed contingency plans for quicker response times into these regions in the event that similar downtime events occur in the future. Revenues from the U.S. Military declined \$3.6 million during the first quarter of 2011 due to maintenance related cancellations and contractual rate reductions. Additionally, the pre-tax loss in 2011 included approximately \$0.8 million of expenses incurred by ATI for FAA proving runs and other start-up costs for a passenger authority. ATI began to fly under an ACMI agreement for a tourist operator on April 1, 2011. This agreement allows ATI to build passenger operating experience which is necessary for 12 months prior to flying passengers of the U. S. Military on the Boeing 767 aircraft.

DHL, BAX/Schenker and the U.S. Military accounted for 36%, 38% and 13% of ACMI services revenues for the quarter ended March 31, 2011, respectively. CCIA and ATI have the exclusive right to supply all main deck freighter airlift in BAX/Schenker's U.S. domestic network through December 31, 2011. In conjunction with the discussions regarding contract renewals, the Company is assisting BAX/Schenker as it develops a long-term fleet plan for its U.S. domestic network.

Other Activities

The Company sells aircraft parts and provides aircraft maintenance and modification services to other airlines. The Company also operates three U.S. Postal Service ("USPS") sorting facilities. The Company provides ground equipment leasing and facility maintenance, as well as specialized services for aircraft fuel management. Other activities also include the management of workers' compensation claims under an agreement with DHL and gains from the reduction in employee post-retirement obligations. Prior to April 1, 2010, other activities included an allocation of ABX's overhead expenses that could not be charged to DHL under the former cost-plus agreements.

External customer revenues from all other activities increased by \$4.2 million, to \$14.6 million during the first quarter of 2011 compared the corresponding quarter of 2010. The pre-tax earnings from all other activities were \$1.7

million for the first quarter of 2011 compared to a pre-tax loss of \$1.3 million for the first quarter of 2010. The increase in pre-tax earnings of \$3.0 million for 2011 reflects \$1.4 million for the reduction in employee post-retirement obligations resulting from benefit plan changes, services fees for managing workers compensation claims for DHL, and increased revenues from aircraft maintenance services in 2011. Additionally, other activities included an unallocated overhead charge of \$1.0 million during the first quarter of 2010 that ABX could not charge to DHL under the former DHL ACMI agreement.

Fleet Summary

The Company's aircraft fleet is summarized below as of March 31, 2011 (\$'s in thousands):

	ACMI Services	CAM	Total
In-service aircraft			
Aircraft owned or under capital lease			
Boeing 767-200	14	17	31
Boeing 757	2	—	2
Boeing 727	12	—	12
DC-8	14	—	14
Total	42	17	59
Carrying value			\$ 539,801
Operating lease			
Boeing 767-200	4	—	4
Boeing 767-300	1	—	1
Boeing 727	1	—	1
Total	6	—	6
Carrying value			\$ 1,671
Aircraft in freighter modification or awaiting modification			
Boeing 767-200	—	6	6
Boeing 767-300	—	3	3
Total	—	9	9
Carrying value			\$ 93,344
Idle aircraft (not scheduled for revenue)			
Aircraft owned or under capital lease			
DC-8	4	—	4
Carrying value			\$ 678

As of March 31, 2011, ACMI Services was leasing 40 of its 48 in-service aircraft internally from CAM. ACMI Services operated 11 of the 17 aircraft that CAM leases to external customers. ACMI Services had idle airframes with a carrying value of \$0.7 million for which the engines and rotables were being used to support other aircraft in the Company's fleets. Aircraft fleet changes during the first quarter of 2011 were as follows:

- ABX began to lease two additional Boeing 767-200 aircraft from DHL for service under the CMI agreement.
- ABX returned a Boeing 767-200 aircraft to CAM which in turn leased the aircraft to an external customer under a seven year lease.
- ATI leased a Boeing 767 passenger aircraft from CAM for an ACMI service that began in April 2011.
- ATI retired a DC-8 freighter aircraft from service when its airframe maintenance cycle ended.

As of March 31, 2011, we expect to complete the modification of six Boeing 767-200 aircraft and three Boeing 767-300 aircraft into standard cargo freighters by the end of 2011. The customer demand and interest remains high for placing the Boeing 767 aircraft into service as their modification is completed. In February 2011, CAM executed a long term lease agreement with a Brazilian airline for a Boeing 767-200 aircraft to begin in the second quarter of 2011, and recently agreed to terms for a second 767-200 aircraft lease to begin in the third quarter of 2011 with the same airline. In April 2011, CAM leased its twelfth Boeing 767-200 aircraft to DHL and is scheduled to lease the thirteenth Boeing 767 freighter aircraft to DHL during the second quarter of 2011. Recently, ATI began to operate a Boeing 767-200 aircraft for a European airline under an ACMI arrangement. During the second quarter of 2011, we expect to complete the freighter modification of a 767-300 aircraft and begin an ACMI agreement with a customer serving markets between North and South America. In May 2011, ATI executed a three year ACMI agreement to operate two 767-300 freighters for a different customer serving markets in the Americas and Europe, with one aircraft to begin service during each of the last two quarters of 2011.

Expenses from Continuing Operations

Salaries, wages and benefits expense decreased by \$0.9 million, or 2% during the quarter ended March 31, 2011, compared to the corresponding period of 2010. The decrease is due primarily to lower pension and retiree benefit expenses in conjunction with changes to those benefits plans in 2010.

Fuel expense increased by \$9.1 million during the quarter ended March 31, 2011, compared to the corresponding quarter of 2010. The increase reflects the higher cost of aviation fuel which increased compared to 2010. The average price of a gallon of aviation fuel increased 27% during the three months ended March 31, 2011 compared to 2010. The cost of fuel is generally reimbursed to our airlines under our operating agreements and reflected as revenues.

Depreciation and amortization expense increased by \$1.6 million during the quarter ended March 31, 2011, compared to the corresponding period of 2010. Depreciation expense increased due to the deployment of four modified aircraft since March 2010.

Maintenance, materials and repairs increased by \$3.5 million during the quarter ended March 31, 2011 compared to the corresponding quarter of 2010. The increase in maintenance expense was primarily a result of increased flight hours on the Company's Boeing 767-200 aircraft engines. The Company maintains the General Electric CF6 engines that power its Boeing 767-200 aircraft through a "power by the hour" agreement ("PBH agreement") with a major service provider. The Company incurs a fee under the PBH agreement for each flight hour operated. The Company also has arranged for CAM's external leasing customers to participate under its PBH agreement. Engine maintenance expense increased due to the increase in hours flown by aircraft operated by the Company and an increase in hours by CAM's externally leased aircraft.

Landing and ramp expense, which includes the cost of deicing chemicals, decreased by \$0.5 million in the quarter ended March 31, 2011 compared to the corresponding period of 2010, due to fewer weather events in 2011 requiring deicing services.

Travel expenses increased by \$1.1 million during the quarter ended March 31, 2011 compared to the corresponding period of 2010. The increase is a result of additional flying, particularly in the Europe and Asia-Pacific regions.

Rent expenses increased by \$1.9 million during the quarter ended March 31, 2011 compared to the corresponding period of 2010. The increase reflects five additional Boeing 767 freighter aircraft the Company is leasing since March 2010 and an increase in the rental rates for the Company's facilities in Wilmington, Ohio in conjunction with a new lease agreement executed with a regional port authority in May 2010. Four of the five aircraft leased by the Company are owned by DHL and operated by ABX under the CMI agreement.

Insurance expenses decreased by \$0.5 million during the quarter ended March 31, 2011 compared to the corresponding period of 2010 due to reductions in certain employee insurance costs.

Other operating expenses include professional fees, navigational services, employee training, utilities, the cost of parts sold to customers and gains and losses from the disposition of aircraft. Other operating expenses decreased by \$0.6 million during the quarter ended March 31, 2011 compared to the corresponding quarter of 2010 when the Company was incurring professional and legal expenses associated with the follow-on and settlement agreements with DHL.

Interest expense decreased by \$1.1 million during the quarter ended March 31, 2011 compared to the corresponding period of 2010. The decline in interest expense reflects the reduction in the Company's debt since March 2010 and

lower interest rates. Interest rates on the Company's variable interest, unsubordinated term loan decreased from 2.9% in the first quarter of 2010 to 2.6% for the first quarter of 2011, while interest bearing debt decreased \$76.6 million since March 31, 2010.

The effective tax rate for continuing operations was 37% both for the first quarter of 2011 and 2010. Income taxes recorded through March 31, 2011 have been estimated based on year-to-date income and projected results for the full year, excluding discrete items. The effective tax rate for the full year 2011 is projected to be approximately 37.3%.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash generated from operating activities totaled \$45.9 million for the first three months of 2011 compared to \$53.4 million in the first three months of 2010. The reduced operating cash flows in 2011 compared to 2010 reflect the receipt of significant cash payments from DHL in March 2010 to pay ABX for receivables in conjunction with the termination and settlement of the former contracts with DHL.

Capital spending levels were primarily the result of aircraft modification costs for Boeing 767 aircraft. Cash payments for capital expenditures were \$44.5 million in the first three months of 2011 compared to \$19.2 million in the first three months in 2010. Capital expenditures in the first quarter of 2011 included cargo modification costs related to eight aircraft compared to three aircraft during the first quarter of 2010. Capital expenditures in 2011 included \$35.0 million for the acquisition and modification of aircraft, \$9.1 million for required heavy maintenance and \$0.4 million for other equipment costs.

During the first three months of 2011, the Company made debt principal payments of \$9.3 million while \$1.6 million of principal balance for the DHL promissory note was extinguished, pursuant to the CMI agreement with DHL.

Commitments

Through CAM, the Company continues to make investments in Boeing 767 and 757 aircraft. As these aircraft are modified, we will place them into service under dry leasing arrangements to external customers or ACMI operations using our airlines, depending on which alternative provides the best long term return and considering other factors, including geographical placement and customer diversification.

In September 2008, CAM entered into an agreement with Israel Aerospace Industries Ltd. ("IAI") for the conversion of up to fourteen Boeing 767-200 passenger door freighters to a standard freighter configuration. The conversion primarily consists of the installation of a standard cargo door and loading system. Through March 31, 2011, eight such aircraft have completed the modification process. As of March 31, 2011, four additional Boeing 767-200 aircraft were undergoing modification to standard freighter configuration. If CAM were to cancel the conversion program as of March 31, 2011, it would owe IAI, in addition to payments for aircraft currently undergoing modification, approximately \$4.0 million associated with additional conversion part kits which have been ordered.

In the third quarter of 2010, CAM purchased three passenger-configured Boeing 767-300ER aircraft, each equipped with General Electric CF6-80C2-B6 engines. In August 2010, CAM entered into an agreement with M&B Conversions Limited and IAI for the conversion by IAI of the three Boeing 767-300 series passenger aircraft to a standard freighter configuration. The agreement includes an option to convert up to seven additional Boeing 767-300 series passenger aircraft during the 10-year term of the agreement. As of March 31, 2011, two Boeing 767-300 aircraft were undergoing modification to standard freighter configuration pursuant to the agreement. If CAM were to cancel the conversion program as of March 31, 2011, it would owe IAI approximately \$2.0 million associated with additional conversion part kits which have been ordered.

In October 2010, CAM entered an agreement with Precision Conversions, LLC ("Precision") for the design, engineering and certification of a Boeing 757 "combi" aircraft variant. The Boeing 757 "combi" variant to be developed by Precision will incorporate 10 full cargo pallet positions along with passenger seating for up to 58 occupants. In conjunction with the agreement, CAM made a deposit of \$1.3 million toward the project. CAM is committed to convert at a minimum two Boeing 757 aircraft with Precision. In April 2011, CAM purchased a Boeing passenger 757 aircraft with the intent of modifying it for combi service.

We estimate that total capital expenditures for 2011 could total \$170 million to \$200 million and would include

the completion of modifications for six Boeing 767-200 aircraft, three Boeing 767-300 aircraft and two or three Boeing 757 aircraft. Actual capital spending for any future period will be impacted by the number of aircraft we decide to modify and the progress in the aircraft modification process. We expect to finance the aircraft purchases and modifications from current cash balances, future operating cash flow and our bank credit facility.

Liquidity

On May 9, 2011, the Company executed a new credit facility with a consortium of banks ("Credit Facility") to refinance the term loan of \$172.4 million and extend debt repayment terms. The new Credit Facility includes a term loan of \$150 million and a \$175 million revolving credit loan, of which the Company has drawn \$65 million. The new Credit Facility has an additional accordion feature of \$50 million which the Company may draw subject to the lenders' consent. Under the Credit Facility, interest rates will be adjusted quarterly based on the Company's earnings before interest, taxes, depreciation and amortization expenses, outstanding debt level plus the prevailing LIBOR or prime rates. At the Company's current debt-to-earnings ratio, the unsubordinated term loan and revolving loan bear a variable interest rate of 2.27%. Repayments of the term loan are scheduled to begin in June 2012 and the Company expects to make further draws on the revolving loan to fund its fleet expansion plans. In conjunction with the execution of the new Credit Facility, the Company terminated its previous credit agreement.

The new Credit Facility is collateralized by certain Company's Boeing 767 and 757 aircraft that are not collateralized under aircraft loans. Under the terms of the Credit Facility, the Company is required to maintain collateral coverage equal to 150% of the outstanding balance of the term loan and revolving credit loan. Under the Credit Facility, the Company is subject to expenses, covenants and warranties that are usual and customary. The Credit Facility contains covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, and the level of annual capital expenditures. The Credit Facility stipulates events of default including unspecified events that may have a material adverse effect on the Company. If an event of default occurs, the Company may be forced to repay, renegotiate or replace the Credit Facility.

At March 31, 2011, the Company had approximately \$38.7 million of cash balances. The Company had \$58.3 million of unused credit facility, net of outstanding letters of credit of \$16.7 million, through its former credit agreement. As specified under terms of ABX's CMI agreement with DHL, the \$24.8 million balance at March 31, 2011 of the unsecured note payable to DHL will be extinguished ratably without payment through March 31, 2015. We believe that the Company's current cash balances and forecasted cash flows provided from its operating agreements, combined with its new credit facility, will be sufficient to fund operations, scheduled debt payments, required pension funding and planned capital expenditures for at least the next 12 months.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

"Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as certain disclosures included elsewhere in this report, are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to select appropriate accounting policies and make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingencies. In certain cases, there are alternative policies or estimation techniques which could be selected. On an ongoing basis, we evaluate our selection of policies and the estimation techniques we use, including those related to revenue recognition, post-retirement liabilities, bad debts, self-insurance reserves, valuation of spare parts inventory, useful lives, salvage values and impairment of property and equipment, income taxes, contingencies and litigation. We base our estimates on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources, as well as for identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates under different assumptions or conditions. We believe the following significant and critical accounting policies involve the more significant judgments and estimates used in preparing the consolidated financial statements.

Revenue Recognition

Revenues generated from airline service agreements are typically recognized based on hours flown or the amount of aircraft and crew resources provided during a reporting period. Certain agreements include provisions for incentive payments based upon on-time reliability. These incentives are typically measured on a monthly basis and recorded to revenue in the corresponding month earned. Revenues for operating expenses that are reimbursed through customer agreements, including consumption of aircraft fuel, are generally recognized as the costs are incurred. Revenues from charter service agreements are recognized on scheduled and non-scheduled flights when the specific flight has been completed. Revenue for the sale of aircraft parts are recognized when the parts are delivered. Revenues earned and expenses incurred in providing aircraft-related maintenance, repair or technical services are recognized in the period in which the services are completed and delivered to the customer. Revenues derived from transporting freight and sorting parcels are recognized upon delivery of shipments and completion of services. Aircraft lease revenues are recognized as operating lease revenue on a straight-line basis over the term of the applicable lease agreements.

The Company's revenues for the first quarter of 2010 included reimbursement for expenses incurred under the former DHL ACMI agreement, the incremental mark-up revenues set by amendments to the DHL ACMI agreement, and reimbursement for employee severance, retention, vacation and other benefit costs incurred during the period. Revenues from the former DHL ACMI agreement were generally determined based on expenses incurred during a period plus mark-ups and were recognized when the related services were performed. ABX and DHL amended the DHL ACMI agreement to set mark-ups to specific quarterly amounts for the first quarter of 2010. In 2008, ABX and DHL executed a severance and retention agreement ("S&R agreement") which specified employee severance, retention and other benefits that DHL reimbursed to ABX for payment to its employees that were affected in conjunction with DHL's U.S. restructuring plan. DHL was obligated to reimburse ABX for the cost of employee severance, retention, productivity bonuses and vacation benefits paid in accordance with the agreement.

Goodwill and Intangible Assets

In accordance with the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 350-20 *Intangibles—Goodwill and Other*, we assess in the fourth quarter of each year whether the Company's goodwill acquired in acquisitions is impaired. Additional assessments may be performed on an interim basis whenever events or changes in circumstances indicate an impairment may have occurred. Indefinite-lived intangible assets are not amortized but are assessed for impairment annually, or more frequently if impairment indicators occur. Finite-lived intangible assets are amortized over their estimated useful economic lives and are periodically reviewed for impairment.

Depreciation

Depreciation of property and equipment is provided on a straight-line basis over the lesser of the asset's useful life or lease term. We periodically evaluate the estimated service lives and residual values used to depreciate our property and equipment. The acceleration of depreciation expense or the recording of significant impairment losses could result from changes in the estimated useful lives of our assets. We may change the estimated useful lives due to a number of reasons, such as the existence of excess capacity in our air system or ground networks, or changes in regulations grounding or limiting the use of aircraft.

Self-Insurance

We self-insure certain claims related to workers' compensation, aircraft, automobile, general liability and employee healthcare. We record a liability for reported claims and an estimate for incurred claims that have not yet been reported. Accruals for these claims are estimated utilizing historical paid claims data, recent claims trends and, in the case of employee healthcare and workers' compensation, an independent actuarial evaluation. Changes in claim severity and frequency could result in actual claims being materially different than the costs provided for in our results of operations. We maintain excess claim coverage with common insurance carriers to mitigate our exposure to large claim losses.

Contingencies

We are involved in legal matters that have a degree of uncertainty associated with them. We continually assess the likely outcomes of these matters and the adequacy of amounts, if any, provided for these matters. There can be no assurance that the ultimate outcome of these matters will not differ materially from our assessment of them. There also

can be no assurance that we know all matters that may be brought against us at any point in time.

Income Taxes

We account for income taxes under the provisions of FASB ASC Topic 740-10 *Income Taxes*. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Fluctuations in the actual outcome of expected future tax consequences could materially impact the Company's financial position or its results of operations.

The Company has significant deferred tax assets including net operating loss carryforwards ("NOL CFs") for federal income tax purposes which begin to expire in 2025. Based upon projections of taxable income, we determined that it was more likely than not that the NOL CF's will be realized prior to their expiration. Accordingly, we do not have an allowance against these deferred tax assets at this time.

We recognize the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Post-retirement Obligations

The Company sponsors qualified defined benefit pension plans for ABX's flight crewmembers and other eligible employees. The Company also sponsors non-qualified, unfunded excess plans that provide benefits to executive management and crewmembers that are in addition to amounts permitted to be paid through our qualified plans under provisions of the tax laws. In 2009, we amended each defined benefit plan to freeze the accrual of additional benefits and we provided notification to the affected employees. The Company also sponsors unfunded post-retirement healthcare plans for ABX's flight crewmembers and non-flight crewmember employees.

The accounting and valuation for these post-retirement obligations are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long time period over which benefits will be accrued and paid. The long-term nature of these benefit payouts increases the sensitivity of certain estimates on our post-retirement costs. In actuarially valuing our pension obligations and determining related expense amounts, assumptions we consider most sensitive are discount rates and expected long-term investment returns on plan assets. Other assumptions concerning retirement ages, mortality and employee turnover also affect the valuations. For our post-retirement healthcare plans, consideration of future medical cost trend rates is an important assumption in valuing these obligations. Actual results and future changes in these assumptions could result in future costs that are materially different than those recorded in our annual results of operations.

Discontinued Operations

In accordance with the guidance of FASB ASC Topic 205-20 *Presentation of Financial Statements*, a business component whose operations are discontinued is reported as discontinued operations if the cash flows of the component have been eliminated from the ongoing operations of the Company and the Company will no longer have any significant continuing involvement in the business component. The results of discontinued operations are aggregated and presented separately in the consolidated statement of operations. FASB ASC Topic 205-20 requires the reclassification of amounts presented for prior years to reflect their classification as discontinued operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk for changes in interest rates and changes in the price of jet fuel. The risk associated with jet fuel, however, is largely mitigated by reimbursement through the agreements with our customers.

On May 9, 2011, the Company executed a new credit facility with a consortium of banks ("Credit Facility"). The new Credit Facility includes a term loan of \$150 million. Under the Credit Facility, interest rates will be adjusted quarterly based on the Company's earnings before interest, taxes, depreciation and amortization expenses ("EBITDA"), its outstanding debt level and prevailing LIBOR or prime rates (see note E to the notes to the unaudited condensed consolidated financial statements). The Company's new Credit Facility requires the Company to maintain derivative instruments for fluctuating interest rates, for at least fifty percent of the outstanding balance of the new unsubordinated

term loan. Accordingly, the Company expects to enter into new derivative instruments in the second quarter of 2011. The Company continues to hold certain interest rate swaps that were required for the former term loan (see note I to the Notes to the Unaudited Condensed Consolidated Financial Statements). As a result, future fluctuations in LIBOR interest rates will result in the recording of unrealized gains and losses on interest rate derivatives held by the Company.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of March 31, 2011, the Company carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission rules and forms.

(b) Changes in Internal Controls

There were no changes in internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Civil Action Alleging Violations of Immigration Laws

On December 31, 2008, a former ABX employee filed a complaint against ABX, a total of four current and former executives and managers of ABX, Garcia Labor Company of Ohio, and three former executives of the Garcia Labor companies, in the U.S. District Court for the Southern District of Ohio. The case was filed as a putative class action against the defendants, and asserts violations of the Racketeer Influenced and Corrupt Practices Act (RICO). The complaint, which was later amended to include a second former employee plaintiff, seeks damages in an unspecified amount and alleges that the defendants engaged in a scheme to hire illegal immigrant workers to depress the wages paid to hourly wage employees during the period from December 1999 to January 2005. On March 18, 2010, the Court issued a decision in response to a motion filed by ABX and the other ABX defendants, dismissing three of the five claims constituting the basis of Plaintiffs' complaint. Most recently, the Court issued a decision on October 7, 2010, permitting the plaintiffs to amend their complaint for the purpose of reinstating one of their dismissed claims. On October 26, 2010, ABX and the other ABX defendants filed an answer denying the allegations contained in plaintiffs' second amended complaint.

The complaint is similar to a prior complaint filed by another former employee in April 2007. The prior complaint was subsequently dismissed without prejudice at the plaintiff's request on November 3, 2008.

FAA Enforcement Actions

The Company's airline operations are subject to complex aviation and transportation laws and regulations that are continually enforced by the U.S. Department of Transportation and the Federal Aviation Administration ("FAA"). The Company's airlines receive letters of investigation ("LOIs") from the FAA from time to time in the ordinary course of business. The LOIs generally provide that some action of the airline may have been contrary to the FAA's regulations. The airlines respond to the LOIs and if the response is not satisfactory to the FAA, it can seek to impose a civil penalty for the alleged violations. Airlines are entitled to a hearing before an Administrative Law Judge or a Federal District Court Judge, depending on the amount of the penalty being sought, before any penalty order is deemed final.

The FAA issued LOIs to CCIA arising from a focused inspection of that airline's operations during the fourth quarter of 2009 which could result in the FAA seeking monetary penalties against CCIA. ABX received an LOI from the FAA alleging that ABX failed to comply with an FAA Airworthiness Directive involving its Boeing 767 aircraft and proposing a monetary settlement. The Company believes it has adequately reserved for those monetary penalties being proposed by the FAA, although it's possible that the FAA may propose additional penalties exceeding the amounts currently reserved.

Other

In addition to the foregoing matters, we are also currently a party to legal proceedings in various federal and state jurisdictions arising out of the operation of our business. The amount of alleged liability, if any, from these proceedings cannot be determined with certainty; however, we believe that our ultimate liability, if any, arising from the pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are probable of assertion, taking into account established accruals for estimated liabilities, should not be material to our financial condition or results of operations.

ITEM 1A. RISK FACTORS

The Company faces risks that could adversely affect its financial condition or results of operations. Many of these risks are disclosed in Item 1A of the Company's 2010 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 8, 2011. Additional significant risks have been identified below. Other risks that are currently unknown to management or are currently considered immaterial or unlikely, could also adversely affect the Company.

Operating results may be affected by fluctuations in interest rates.

Effective March 31, 2011, in conjunction with its decision to refinance the unsubordinated term loan, the Company ceased hedge accounting for certain interest rates swaps. The interest rate swaps were related to the former, unsubordinated term loan which was refinanced in May 2011. In addition to these interest rate swaps, the Company's new Credit Facility requires the Company to maintain derivative instruments for fluctuating interest rates, for at least fifty percent of the outstanding balance of the new unsubordinated term loan. Accordingly, the Company expects to enter into new derivative instruments in the second quarter of 2011. At this time, the Company does not expect to designate the derivatives instruments as hedges. Future fluctuations in LIBOR interest rates will result in the recording of gains and losses on interest rate derivatives that the Company holds.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as part of, or are incorporated in, the Quarterly Report on Form 10-Q:

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|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1 | Agreement to purchase one Boeing 757-200ER passenger aircraft between Cargo Aircraft Management, Inc. and Aircraft Lease Finance Corporation, filed herewith. Those portions of the agreement marked with [*] have been omitted pursuant to a request for confidential treatment and have been separately filed with the SEC. |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

AIR TRANSPORT SERVICES GROUP, INC.,
a Delaware Corporation
Registrant

/S/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

Date: May 10, 2011

/S/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Date: May 10, 2011

Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

AIRCRAFT SALE AGREEMENT

Dated as of February 11, 2011

BETWEEN

CARGO AIRCRAFT MANAGEMENT, INC.

as **BUYER**

and

INTERNATIONAL LEASE FINANCE CORPORATION

as **SELLER**

Aircraft Make and Model:	Used Boeing 757-2Q8ER
Aircraft Manufacturer's Serial Number:	26273
Make and Model of Engines:	Pratt & Whitney PW2037
Serial Numbers of Engines:	P726735 and P726736

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Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

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AIRCRAFT SALE AGREEMENT

THIS AIRCRAFT SALE AGREEMENT is made and entered into as of February 11, 2011.

BETWEEN:

CARGO AIRCRAFT MANAGEMENT, INC., a Florida corporation whose address and principal place of business is at 7100 TPC Drive, Suite 100, Orlando, Florida, 32822, United States of America ("**BUYER**") and

INTERNATIONAL LEASE FINANCE CORPORATION, a California corporation whose address and principal place of business is at 10250 Constellation Blvd., 34th Floor, Los Angeles, California 90067, United States of America ("**SELLER**").

The subject matter of this Sale Agreement is one (1) used Boeing 757-2Q8ER aircraft and two (2) Pratt & Whitney PW2037 engines which are attached thereto, which SELLER desires to sell to BUYER and BUYER is willing to purchase from SELLER.

In consideration of and subject to the mutual covenants, terms and conditions contained in this Sale Agreement, SELLER hereby agrees to sell to BUYER and BUYER hereby agrees to purchase from SELLER the aircraft and the parties further agree as follows:

ARTICLE 1 **SUMMARY OF TRANSACTION**

1. ARTICLE Field result goes here **SUMMARY OF TRANSACTION**

The following is a summary of the sale transaction between BUYER and SELLER. It is set forth for the convenience of the parties only and will not be deemed in any way to amend, detract from or simplify the other provisions of this Sale Agreement.

1.1) Description of Aircraft

One (1) used Boeing 757-2Q8ER bearing manufacturer's serial number 26273 and two (2) Pratt & Whitney PW2037 engines bearing manufacturer's serial numbers P726735 and P726736

1.2 Scheduled Closing Date and Location

On or about February 28, 2011 in Tel Aviv, Israel, unless such location creates a tax liability in connection with the purchase and/or sale of the aircraft, in which case SELLER will deliver the Aircraft for sale to BUYER at an alternate location mutually agreed by SELLER and BUYER.

1.3 Sale Price

[*]

1.4 Deposit

[*]

Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

1.5 **Country of Aircraft Registration**

Turkey

1.6 **SELLER's Bank Account**

International Lease Finance Corporation
[*]

ARTICLE 2 **DEFINITIONS**

Except where the context otherwise requires, the following words have the following meanings for all purposes of this Sale Agreement. The definitions are equally applicable to the singular and plural forms of the words. Any agreement defined below includes each amendment, modification, supplement and waiver thereto in effect from time to time.

2.1 **General Definitions.**

"**Acceptance Certificate**" means the Acceptance Certificate in form and substance as provided in Exhibit C.

"**Aircraft**" means the Airframe, the two (2) Engines, the Parts and the Aircraft Documentation, collectively.

"**Aircraft Documentation**" means all log books, Aircraft records, manuals and other documents provided by SELLER related to the Aircraft and attached to the Acceptance Certificate.

"**Airframe**" means the airframe described in Exhibit A together with all Parts relating thereto (except Engines or engines).

"**APU**" means the auxiliary power unit installed on the Aircraft at the Closing Time.

"**Aviation Authority**" means the Civil Aviation Administration of Turkey or any Government Entity which under the Laws of Turkey from time to time has control over civil aviation or the registration, airworthiness or operation of aircraft in Turkey.

"**Bill of Sale**" means a bill of sale in form and substance as provided in Exhibit D.

"**Business Day**" means a day other than a Saturday or Sunday on which the banks in the city where SELLER's Bank is located and the city where Buyer's Bank is located are open for the transaction of business of the type required by this Sale Agreement.

"**Buyer's Bank**" means SunTrust Bank of Central Florida, N.A., Orlando, Florida.

"**Cape Town Convention**" means both the Convention and the Protocol.

"Closing Date" means the date on which the Sale occurs.

"Closing Time" means the moment at which the Sale occurs.

"Convention" means the Convention on International Interests in Mobile Equipment which was adopted on November 16, 2001, at a diplomatic conference held in Cape Town, South Africa, as it may be amended from time to time.

"Dollars" and **"\$"** means the lawful currency of the United States of America.

"EASA" means the European Aviation Safety Agency or any successor thereto. Where it is stated in this Sale Agreement that a repair station or a repair, overhaul or maintenance facility will be an "EASA - approved" station or facility, such station or facility must be approved by EASA to perform maintenance and repair work on the Aircraft, an Engine or Part submitted to it for maintenance or repair, as applicable.

"Engine" means (a) each of the engines listed on the Acceptance Certificate which shall be the engines described in Exhibit A or any other engines which SELLER and BUYER agree in writing will be substituted therefor and (b) all Parts installed in or on any of such engines at Sale (or substituted, renewed or replacement Parts in accordance with this Sale Agreement).

"Engine Manufacturer" means Pratt & Whitney.

"FAA" means the Federal Aviation Administration of the Department of Transportation or any successor thereto under the Laws of the U.S.

"FAA Counsel" means Daugherty, Fowler, Peregrin, Hought & Jenson, whose address is 204 North Robinson, Suite 900, Oklahoma City, OK 73102.

"Government Entity" means any (a) national, state or local government, (b) board, commission, department, division, instrumentality, court, agency or political subdivision thereof and (c) association, organization or institution of which any of the entities listed in (a) or (b) is a member or to whose jurisdiction any such entity is subject.

"International Registry" means the international registration facilities established for the purposes of the Cape Town Convention.

"Landing Gear" means the installed main and nose landing gear, components and their associated actuators, side braces and parts.

"**Law**" means any (a) statute, decree, constitution, regulation, order or any directive of any Government Entity, (b) treaty, pact, compact or other agreement to which any Government Entity is a signatory or party and (c) judicial or administrative interpretation or application of any of the foregoing.

"**Manufacturer**" means The Boeing Company.

"**Part**" means any part, component, appliance, system module, engine module, accessory, material, instrument, communications equipment, furnishing, module, SELLER - furnished equipment or other item of equipment (other than complete Engines or engines) installed in or attached to the Airframe or any Engine to which SELLER has title.

"**Person**" means any individual, firm, partnership, joint venture, trust, corporation, Government Entity, committee, department, authority or any body, incorporated or unincorporated, whether having distinct legal personality or not.

"**Protocol**" means the Protocol to the Convention on International Interests in Mobile Equipment on Matters specific to Aircraft Equipment which was adopted on November 16, 2001, at a diplomatic conference held in Cape Town, South Africa, as it may be amended from time to time.

"**Sale**" means the tender for sale of the Aircraft by SELLER to BUYER and BUYER's purchase of the Aircraft from SELLER in accordance with this Sale Agreement.

"**Sale Agreement**" means this Aircraft Sale Agreement, together with all Exhibits hereto.

"**Security Interest**" means any encumbrance or security interest, however and wherever created or arising including (without prejudice to the generality of the foregoing) any right of ownership, security, mortgage, pledge, charge, encumbrance, lease, lien, statutory or other right in rem, hypothecation, title retention, attachment, levy, claim or right of possession or detention.

"**State of Registration**" means Turkey.

"**SunExpress**" means SunExpress A.S., a company organized under the Laws of Turkey.

"SunExpress Lease" means the aircraft lease agreement between SunExpress and SELLER pursuant to which SunExpress leased the Aircraft from SELLER.

"Total Loss of the Aircraft" means the destruction, damage beyond repair, or permanent rendering unfit for normal use for any reason whatsoever of the Aircraft, or the constructive total loss of the Aircraft.

"U.S." means the United States of America.

"Warranties Assignments" means the assignments of warranties in the form and substance set forth in Exhibits E and F.

2.2 Specific Definitions. The following terms are defined in the Articles or Exhibits referenced below:

Terms	Article
Buyer Indemnitee	9.1
BUYER's Assignee	13.1
Delivery Conditions	5.1
Delivery Inspection	5.2
Delivery Location	3.1
Deposit	4.2.1
Deregistration Notice	6.1.7
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Sale Price Balance	4.3
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Scheduled Closing Date	3.2
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Seller Indemnitee	9.2
SELLER's Bank	4.4

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CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

Terms
Taxes

Article
8.2.2

ARTICLE 2
DEFINITIONS

ARTICLE 3 **PLACE AND DATE OF SALE**

3.1 **Place of Sale.** SELLER will deliver the Aircraft for sale to BUYER in Tel Aviv, Israel (the "**Delivery Location**"), unless such location creates a tax liability in connection with the purchase and/or sale of the Aircraft, in which case SELLER will deliver the Aircraft for sale to BUYER at an alternate location mutually agreed by SELLER and BUYER (the "**Sale Location**").

3.2 **Scheduled Closing Date.** As of the date of this Sale Agreement, the Sale of the Aircraft by SELLER to BUYER is scheduled on or about February 28, 2011 (the "**Scheduled Closing Date**").

3.3 **Delivery and Sale subject to SunExpress Return.** SELLER and BUYER expressly acknowledge that delivery and the Sale of the Aircraft to BUYER is subject to and conditioned upon redelivery of the Aircraft by SunExpress to SELLER in accordance with the terms of the SunExpress Lease.

3.4 **No SELLER Liability.** SELLER will not be liable for any loss or expense, or any loss of profit, arising from any delay or failure in delivery of the Aircraft to BUYER unless such delay or failure arises as a direct consequence of the willful misconduct of SELLER, and in no event will SELLER be liable for any delay or failure which is caused by any breach or delay on the part of SunExpress.

3.5 **Total Loss of Aircraft prior to Sale.** If a Total Loss of the Aircraft occurs prior to Sale, neither party will have any further liability to the other except that SELLER will return to BUYER the Deposit in accordance with Article 4.2.3.

3.6 **Cancellation for Delay.** If a delay, not caused by BUYER's or SELLER's breach of this Sale Agreement, causes Delivery to be delayed beyond May 1, 2011, or if Delivery is delayed beyond a date which is five (5) days after the date BUYER prepositions an irrevocable acceptance certificate with FAA Counsel in accordance with Article 6.1.7 due to a delay in receiving the Notice of Deregistration, either party may terminate this Sale Agreement at any time after the earlier of May 1, 2011 or such date five days after BUYER prepositions that certificate by written notice to the other, and this Sale Agreement will terminate upon receipt of such notice. However, so long as no notice of termination has then been given by either party, the party subject to the delay may give written notice to the other of a date on which Delivery will occur, which date must be reasonable, must be a Business Day, must be not less than five (5) Business Days

following the other party's receipt of that notice of Delivery (unless otherwise agreed by the other party) and may not be greater than twenty (20) Business Days following receipt of that notice of Delivery, and neither party shall thereafter have a right to terminate under this Article 3.6 so long as Delivery occurs on that date (or on another date mutually agreed by the parties). If Delivery does not occur on such date, then either party may thereafter terminate this Agreement as provided in this Section 3.6. In the event of termination under this Article 3.6, neither party will have any further liability to the other except that SELLER will return to BUYER the Deposit in accordance with Article 4.2.3.

3.7 Cancellation for Anticipatory Delay. Promptly after SELLER becomes aware that in SELLER's opinion a delay will cause the Sale to be delayed beyond May 1, 2011, SELLER will notify BUYER. By written notice to the other delivered at any time following BUYER's receipt of such notice from SELLER, either party may terminate this Sale Agreement effective upon receipt of such notice of termination. However, so long as no notice of termination has then been given by either party, the party subject to the delay may give written notice to the other of a date on which Delivery will occur, which date must be reasonable, must be a Business Day, must be not less than five (5) Business Days following the other party's receipt of that notice of Delivery (unless otherwise agreed by the other party) and may not be greater than twenty (20) Business Days following receipt of that notice of Delivery, and neither party shall thereafter have a right to terminate under this Article 3.7 so long as Delivery occurs on that date (or on another date mutually agreed by the parties). If Delivery does not occur on such date, then either party may thereafter terminate this Agreement as provided in this Article 3.7. In the event of such termination, neither party will have any further liability to the other except that SELLER will return to BUYER the Security Deposit in accordance with Article 4.2.3.

3.8 Damage to Aircraft. If prior to the Closing Date, but after the inspection of the Aircraft by BUYER which occurred immediately prior to the execution of this Sale Agreement by BUYER, the Aircraft incurs damage which is reasonably determined to materially diminish the value of the Aircraft, SELLER and BUYER will meet to establish a revised value for the Aircraft (the "**Adjusted Sale Price**"). If SELLER and BUYER are unable to agree upon the Adjusted Sale Price, the parties will select a neutral third party to make such determination and the cost of such neutral third party will be shared equally by both parties. If it is determined that the Adjusted Sale Price is not less than five percent (5%) below the Sale Price, SELLER will sell the Aircraft and BUYER will purchase the Aircraft for the Adjusted Sale Price. If it is determined that the Adjusted Sale Price for the Aircraft is five percent (5%) or more below the Sale Price, either SELLER or BUYER may elect without penalty, within ten (10) days after the determination of such revised value, to terminate this Sale Agreement.

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CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

3.9 **Termination of Sale Agreement.** This Sale Agreement will terminate pursuant to Articles 3.6, 3.7 or 3.8 or due to a Total Loss of the Aircraft prior to the Sale pursuant to Article 3.5.

ARTICLE 3
PLACE AND DATE OF SALE

ARTICLE 4 **SALE PRICE, DEPOSIT AND OTHER PAYMENTS**

- 4.1** **Sale Price.** The sale price for the Aircraft will be [*] (the "**Sale Price**").
- 4.2** **Deposit.**
- 4.2.1** BUYER has paid SELLER, and SELLER hereby acknowledges receipt of, a deposit of [*] for its purchase of the Aircraft (the "**Deposit**").
- 4.2.2** The Deposit may be commingled with SELLER's general funds and any interest earned on such Deposit will be for SELLER's account. The Deposit will serve as security for the performance by BUYER of its obligations under this Sale Agreement and may be applied by SELLER upon a breach by BUYER of its obligations under this Sale Agreement.
- 4.2.3** Upon termination of this Sale Agreement in accordance with Article 3.9 other than if a breach by BUYER of its obligations under this Sale Agreement has occurred and is continuing, SELLER will return to BUYER the amount of the Deposit then held by SELLER, without interest.
- 4.3** **Payment of Sale Price Balance.** Provided the conditions to each of SELLER's and BUYER's obligation to sell or purchase the Aircraft, as applicable, have been met, upon SELLER's tender to BUYER of the Aircraft for Sale in the condition required and in accordance with this Sale Agreement on the Closing Date, BUYER will pay to SELLER the Sale Price less the Deposit (the "**Sale Price Balance**").
- 4.4** **SELLER's Bank Account.** The Deposit and Sale Price Balance and any other amounts due under this Sale Agreement will be paid by wire transfer of immediately available U.S. Dollar funds to SELLER's bank account at:
- International Lease Finance Corporation
- [*]or to such other bank account as SELLER may from time to time designate by written notice ("**SELLER's Bank**").

ARTICLE 5 **CONDITION OF AIRCRAFT AT SALE**

5.1 **Condition at Sale.** On the Closing Date, the Aircraft shall be in serviceable condition, shall possess a valid airworthiness certificate (and, if requested by BUYER, a valid Export Certificate of Airworthiness) issued by the Aviation Authority and the Aircraft, as fully described in Exhibit A, will be purchased in "AS IS, WHERE IS" condition subject to the satisfaction of the conditions contained in Articles 5.2 and 5.3 below. For the avoidance of doubt, on the Closing Date, the Airframe and Engines shall be equipped with the same Parts, or with Parts reasonably acceptable to BUYER of equivalent serviceability and value, as it was equipped during the Initial Inspection and the Delivery Inspection, and the Aircraft Documentation shall include the log books, Aircraft records, manuals and other documents returned to SELLER by SunExpress under the SunExpress Lease or otherwise in SELLER's possession, including, without limitation, those records listed on Exhibit B. The description of the condition of the Aircraft on the Closing Date set forth herein will expire immediately upon the acceptance of the Aircraft by BUYER as evidenced by the execution by BUYER of the Acceptance Certificate.

5.2 **BUYER Inspection of Aircraft at Sale and Demonstration Flight.** During the return process from SunExpress, BUYER will have the opportunity to observe systems functional checks of the Aircraft, participate as observer on the SunExpress Lease redelivery demonstration flight and participate through SELLER in an inspection of the Aircraft Documentation (the "**Delivery Inspection**"). BUYER acknowledges that, as between BUYER and SELLER, in accepting the Aircraft BUYER is relying on its own inspection and knowledge of the Aircraft in determining whether the Aircraft meets the requirements of this Sale Agreement.

5.3 **BUYER's Delivery Inspection Conditions.** During the Delivery Inspection, BUYER shall have the opportunity to confirm that (i) the Aircraft is fresh from a completed S4C check, (ii) the Aircraft (including the Airframe, Engines and Parts) has zero hours consumed since BUYER's inspection prior to January 12, 2011 (the "**Initial Inspection**") (excluding hours consumed on the acceptance/test flight), (iii) the Aircraft is airworthy and serviceable, (iv) the Aircraft has a valid Certificate of Airworthiness (or a Turkish Export Certificate of Airworthiness that may be substituted therefor), and (v) there have been no substantial deviations to the condition of the Aircraft from the time of the Initial Inspection to the Closing Date, other than the completion of the S4C check in progress at the time of the Initial Inspection.

5.4 **Disclaimer.** THE AIRCRAFT AND EACH PART THEREOF IS BEING SOLD IN ITS THEN "AS IS, WHERE IS" CONDITION ON THE CLOSING DATE, WITHOUT ANY

REPRESENTATION, WARRANTY OR GUARANTEE OF ANY KIND BEING MADE OR GIVEN BY SELLER, ITS SERVANTS OR AGENTS, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE.

5.4.1 FROM AND AFTER THE RECEIPT BY SELLER OF THE ACCEPTANCE CERTIFICATE, THE FOLLOWING SHALL APPLY: WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLER SPECIFICALLY DISCLAIMS, AND EXCLUDES HEREFROM (a) ANY WARRANTY AS TO THE AIRWORTHINESS, VALUE, DESIGN, QUALITY, MANUFACTURE, OPERATION, OR CONDITION OF THE AIRCRAFT; (b) ANY EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY OF MERCHANTABILITY OR FITNESS FOR USE OR FOR A PARTICULAR PURPOSE; (c) ANY EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY OF FREEDOM FROM ANY RIGHTFUL CLAIM BY WAY OF INFRINGEMENT OR THE LIKE; (d) ANY IMPLIED REPRESENTATION OR WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE; (e) ANY EXPRESS OR IMPLIED WARRANTY REGARDING THE CONDITION OF THE AIRCRAFT; AND (f) ANY OBLIGATION OR LIABILITY OF SELLER ARISING IN CONTRACT OR IN TORT (INCLUDING STRICT LIABILITY OR SUCH AS MAY ARISE BY REASON OF SELLER'S NEGLIGENCE) ACTUAL OR IMPUTED, OR IN STRICT LIABILITY, INCLUDING ANY OBLIGATION OR LIABILITY FOR LOSS OF USE, REVENUE OR PROFIT WITH RESPECT TO THE AIRCRAFT OR FOR ANY LIABILITY OF BUYER TO ANY THIRD PARTY OR ANY OTHER DIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGE WHATSOEVER. NO AGREEMENT ALTERING OR EXTENDING SELLER'S LIABILITY FOR WARRANTIES SHALL BE BINDING UPON SELLER UNLESS IN WRITING AND EXECUTED BY A DULY AUTHORIZED OFFICER OF SELLER.

5.4.2 DELIVERY BY BUYER TO SELLER OF THE ACCEPTANCE CERTIFICATE SHALL BE CONCLUSIVE PROOF AS BETWEEN SELLER AND BUYER THAT BUYER'S TECHNICAL EXPERTS HAVE EXAMINED AND INVESTIGATED THE AIRCRAFT AND EACH PART THEREOF AND THAT THE AIRCRAFT AND EACH PART THEREOF IS AIRWORTHY AND IN GOOD WORKING ORDER AND REPAIR, WITHOUT DEFECT (WHETHER OR NOT DISCOVERABLE ON THE CLOSING DATE) AND IN EVERY WAY SATISFACTORY TO BUYER.

5.5 **Post-Sale Condition.** BUYER agrees that as from the Closing Time SELLER shall not be liable for any liability, claim, loss, damage or expense of any kind or nature caused directly or indirectly by the Aircraft or any part thereof, by any inadequacy of the Aircraft for any purpose or any deficiency or defect therein, by the use or performance of the Aircraft, by any maintenance or repairs to the Aircraft, by any interruption or loss of service or use of the Aircraft or by any loss of business or other consequential damage or any damage whatsoever, howsoever caused including the negligence of SELLER. SELLER shall bear no liability whatsoever for the cost of modifications of the Aircraft whether in the event of grounding or suspensions of certification, or for any other cause.

ARTICLE 6 **CONDITIONS PRECEDENT AND CLOSING**

6.1 **Conditions to BUYER's Obligations.** BUYER's obligation under this Sale Agreement to purchase the Aircraft from SELLER is subject to and contingent upon the satisfaction or waiver of the following conditions precedent (it being understood that SELLER's obligation to deliver any of the documents described in this Article 6 is conditioned upon the satisfaction or waiver of each of the conditions set forth in Article 6.2):

- 6.1.1** The Aircraft will conform to the description and condition required by Article 5.1.
- 6.1.2** The representations and warranties of SELLER contained in Article 12 shall be true and correct on and as of the Closing Date as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date) and SELLER will have delivered to BUYER a certificate signed by an officer of SELLER certifying the same.
- 6.1.3** SELLER will have delivered to BUYER: (a) evidence satisfactory to it that SELLER has all necessary corporate and other authorization to enter into and perform under this Sale Agreement, and (b) an incumbency certificate from the Secretary of SELLER as to the Person or Persons authorized to execute and deliver documents on behalf of SELLER hereunder.
- 6.1.4** No litigation will be pending or, to the knowledge of SELLER, threatened, against SELLER which challenges or questions the validity or legality of the execution, delivery or performance by SELLER of this Sale Agreement, or which, if adversely determined, would adversely affect the right, power and authority of SELLER to consummate the transactions contemplated hereby.
- 6.1.5** No suit, action or other proceeding by any Government Entity shall have been instituted or threatened which questions in any material way the validity or legality of the transactions contemplated hereunder.
- 6.1.6** A Total Loss of the Aircraft will not have occurred on or before the Closing Date.
- 6.1.7** SELLER shall have caused the Aircraft to have been deregistered with the Aviation Authority, and BUYER shall have received, or confirmed receipt by the FAA of, a

copy of a notice of such deregistration issued by the Aviation Authority in a form sufficient to allow registration of the Aircraft by the FAA, if available, or other evidence reasonably acceptable to BUYER confirming the deregistration of the Aircraft by the Aviation Authority sufficient to allow registration by the FAA (the "**Deregistration Notice**") and the provision by the Aviation Authority to the FAA of the Deregistration Notice in such form; provided, however, that SELLER shall only be obligated to cause the deregistration of the Aircraft with the Aviation Authority upon BUYER prepositioning with FAA Counsel an irrevocable acceptance of the Aircraft under this Sale Agreement, whose delivery to SELLER shall be subject only to the receipt of the Deregistration Notice. BUYER shall provide hull insurance for the Aircraft with limits of not less than [*], naming SELLER as an additional insured and loss payee, as SELLER's interest may appear, with such liability and hull insurance becoming effective upon the submission by SELLER to the Aviation Authority of its request that the Aircraft be deregistered. BUYER's obligation to name SELLER as an additional insured and loss payee under BUYER's hull insurance shall expire at the time title to the Aircraft passes to BUYER hereunder, and BUYER's obligation to provide liability insurance shall continue thereafter as and to extent required under Article 10. At the same time BUYER prepositions its irrevocable acceptance of the aircraft with FAA Counsel, BUYER shall provide to SELLER a certificate of insurance reflecting the coverage required by this Section 6.1.7 as well as by Article 10, and SELLER shall not be required to cause the deregistration of the Aircraft unless and until SELLER receives from BUYER that certificate of insurance. In the event the Deregistration Notice is not timely received and this Agreement is terminated under the provision of Article 3.6, BUYER's obligation to provide insurance required by this Agreement shall terminate upon the termination of this Agreement.

6.1.8 SELLER will have executed and tendered to BUYER the Warranty Assignments.

6.1.9 SELLER will have prepositioned with FAA Counsel the following documents:

- (a) an original executed and undated Bill of Sale;
- (b) an original executed and undated aircraft bill of sale in the form of AC Form 8050-2 (or any replacement form issued by the FAA) required by the FAA for registration of the Aircraft(the "**FAA Bill of Sale**"); and
- (c) a copy of a valid export certificate of airworthiness issued by the Aviation Authority.

6.2 **Conditions to SELLER's Obligations.** SELLER's obligation under this Sale Agreement to sell the Aircraft to BUYER is subject to and contingent upon the satisfaction or waiver of the following conditions precedent (it being understood that BUYER's obligation to deliver any documents or funds described in this Article 6 is subject to satisfaction or waiver of each of the conditions set forth in Article 6.1):

- 6.2.1** The representations and warranties of BUYER contained in Article 11 shall be true and correct as of the Closing Date as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date) and BUYER will have delivered to SELLER a certificate signed by an officer of BUYER certifying the same.
- 6.2.2** If BUYER is required to have board of managers approval to purchase the Aircraft from SELLER, BUYER will have delivered to SELLER certified copies of resolutions of the board of managers of BUYER or other written evidence of appropriate corporate action, duly certifying and authorizing the sale of the Aircraft hereunder and the execution, delivery and performance of this Sale Agreement, together with an incumbency certificate as to the Person or Persons authorized to execute and deliver documents on behalf of BUYER hereunder.
- 6.2.3** No litigation will be pending or, to the knowledge of BUYER, threatened, against BUYER which challenges or questions the validity or legality of the execution, delivery or performance by it of this Sale Agreement, or which, if adversely determined, would adversely affect the right, power and authority of BUYER to consummate the transactions contemplated hereby.
- 6.2.4** No suit, action or other proceeding by any Government Entity shall have been instituted or threatened which questions in any material way the validity or legality of the transactions contemplated hereunder.
- 6.2.5** A Total Loss of the Aircraft will not have occurred on or before the Closing Date.
- 6.2.6** SELLER shall have received an insurance certificate evidencing the insurances required by Article 10.
- 6.2.7** BUYER will have will have prepositioned with FAA Counsel an original executed Acceptance Certificate.

- 6.2.8** BUYER will have executed and tendered to SELLER the Warranty Assignments.
- 6.3** **At Closing of Sale.** Subject to satisfaction or waiver by BUYER or SELLER, as applicable, of the conditions set forth in Articles 6.1 and 6.2, at the closing of the Sale, the following shall take place:
- 6.3.1** FAA Counsel will confirm to SELLER and BUYER its receipt of the documents required to be prepositioned with FAA Counsel under Article 6.1.9 and Article 6.2.7;
- 6.3.2** BUYER will pay to SELLER an amount equal to the Sale Price Balance;
- 6.3.3** SELLER will cause a valid export certificate of airworthiness issued by the Aviation Authority to be delivered to the Aircraft;
- 6.3.3** SELLER will irrevocably direct FAA Counsel to date and release to BUYER the documents described in Article 6.1.9 and BUYER will irrevocably direct FAA Counsel to date and release to SELLER the documents described in Article 6.2.7, in each case upon SELLER's receipt from BUYER of an amount equal to the Sale Price Balance;
- 6.3.4** Upon SELLER's receipt from Buyer of an amount equal to the Sale Price Balance, FAA Counsel will release to BUYER the documents described in Article 6.1.9 and will release to SELLER the documents described in Article 6.2.7;
- 6.3.5** SELLER and BUYER will each release and deliver the Warranties Assignments; and
- 6.3.6** At the Closing Time, all risk of loss or damage to the Aircraft will pass from SELLER to BUYER.
- 6.4** **After Closing.** Immediately after the Sale, the following will occur:
- 6.4.1** BUYER will cause the Aircraft to be registered with the FAA. SELLER will reasonably assist in that procedure as may be required, at BUYER's cost.
- 6.4.2** SELLER and BUYER will make and/or consent to all appropriate registrations, if any, in the International Registry in connection with the Sale in accordance with the Cape Town Convention.

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6.4.3 SELLER will obtain the signatures of Manufacturer and the Engine Manufacturer upon the respective Warranties Assignments and will deliver original counterparts of such fully-executed documents to BUYER.

ARTICLE 7 **SELLER ASSIGNMENT OF RIGHTS AND WARRANTIES**

7.1 **Assignable Warranties.** At the time of Sale, SELLER will assign to BUYER any assignable warranties and indemnities given to SELLER by Manufacturer and the Engine Manufacturer, including any rights which may have accrued prior to Sale but which have not been fully exercised by SELLER. Effective at the Closing Time, all other vendor warranties with respect to the Aircraft are hereby assigned by SELLER to BUYER.

7.2 **Non-Assignable Warranties.** To the extent that any warranty or indemnity given to SELLER by Manufacturer and others with respect to the Aircraft cannot be assigned, BUYER will be entitled to take such action to enforce such warranty or indemnity in the name of SELLER against Manufacturer and such other parties as BUYER sees fit, but subject to BUYER's first ensuring that SELLER is indemnified and secured to SELLER's satisfaction against all losses, damages, costs, expenses and liabilities thereby incurred or to be incurred.

ARTICLE 8 **EXPENSES AND TAXES**

8.1 **Costs and Expenses of Sale.** Except as otherwise expressly set forth in this Sale Agreement, BUYER and SELLER will each pay its own costs and expenses (including the fees and expenses of its own legal, tax, or other advisers) incurred in connection with the sale and purchase of the Aircraft, including, without limitation, any costs and expenses incurred in reviewing, negotiating and documenting this Sale Agreement; provided, however, that in the event that the Sale Location is other than the Delivery Location and the Aircraft must be ferried for Delivery to a location other than Jacksonville, Florida, BUYER and SELLER shall share equally the direct costs of any deviation from a flight plan from the Delivery Location to Jacksonville, Florida, which costs may include, without limitation, fuel, landing fees, and the temporary registration of the Aircraft by SELLER in order to ferry the Aircraft to an acceptable jurisdiction to complete the Sale. For the avoidance of doubt, (i) SELLER agrees to pay all costs and expenses related to the deregistration of the Aircraft in the name of SunExpress in Turkey, and BUYER agrees to pay all costs and expenses related to the subsequent registration the Aircraft in the name of BUYER in the jurisdiction of BUYER's choice, and (ii) the provisions of this Article 8.1 do not apply to any taxes relating to the sale of the Aircraft which are specifically addressed in Article 8.2.

8.2 **Taxes.**

8.2.1 BUYER and SELLER shall cooperate with each other in all reasonable respects to lawfully mitigate or eliminate the imposition of any Tax imposed solely and directly on the transactions contemplated under this Sale Agreement including without limitation the payment of the Sale Price, delivery of, and transfer of title to the Aircraft by SELLER to BUYER in consummation of the Sale by any Government Entity or taxing authority claiming jurisdiction at the time of the Sale (collectively "**Sales Taxes**"). The Sale Price of the Aircraft does not include the amount of any Sales Taxes that may be imposed by any Government Entity in any jurisdiction as a result of the Sale of the Aircraft under this Sale Agreement.

- 8.2.2** Notwithstanding the provisions of Article 8.2.1, except as set forth in Article 8.2.3 BUYER agrees to pay promptly when due, and to indemnify and hold harmless SELLER on a full indemnity basis from and against all license and registration fees and all taxes, fees, levies, imposts, duties, charges, deductions or withholdings of any nature (including without limitation any value added, transfer, sales, gross receipts, use, business, excise, turnover, stamp or other tax) and any assessments, penalties, fines, additions to tax or interest thereon, however or wherever imposed (whether imposed upon BUYER, SELLER, all or part of the Aircraft or any Engine, or otherwise) by any Government Entity, taxing authority, or international taxing authority, if and to the extent directly resulting from the sale, purchase, delivery or registration of the Aircraft as contemplated hereunder (collectively "**Taxes**", and each individually, a "**Tax**").
- 8.2.3** The indemnity provided for in Article 8.2.2 does not extend to, and the definition of Taxes shall not include, any of the following Taxes:
- (a) Taxes imposed by any governmental jurisdiction, including without limitation, the U.S. and the State of California, on the net income, gross receipts, capital or net worth of SELLER (except in the case of a tax on receipts, any Tax in the nature of a sales or transfer tax imposed as a direct result of the transfer of title to the Aircraft and payment of the purchase price hereunder and measured by the purchase price);
 - (b) Taxes attributable to the period prior to Sale;
 - (c) Taxes attributable to SELLER's presence or activities in the taxing jurisdiction unrelated to the transaction contemplated by this Sale Agreement; or
 - (d) Taxes attributable to SELLER's gross negligence, willful misconduct or breach of this Sale Agreement.
- 8.2.4** The amount which BUYER is required to pay with respect to any Taxes that are subject to the indemnity set forth in Article 8.2.2 is an amount sufficient to restore SELLER on an after-tax basis to the same position SELLER would have been in had such Taxes not been incurred.
- 8.2.5** Any amount payable to SELLER pursuant to Article 8.2.2 will be paid within thirty (30) days after receipt of a written demand therefor from SELLER accompanied by a written statement with supporting documentation describing and documenting in reasonable detail the basis for such indemnity and the computation of the amount so

payable, provided, however, that such amount need not be paid by BUYER prior to the earlier of (a) the date any Tax is payable to the appropriate Government Entity or taxing authority or (b) in the case of amounts which are being contested by BUYER in good faith or by SELLER pursuant to Article 8.2.6, the date such contest is finally resolved.

- 8.2.6** If a claim is made against SELLER for Taxes with respect to which BUYER is liable for a payment or indemnity under this Sale Agreement, SELLER will promptly give BUYER notice in writing of such claim, provided, however, that SELLER's failure to give notice will not relieve BUYER of its obligations hereunder except to the extent such failure materially impairs or precludes Buyer's ability to contest the claim. So long as (a) a contest of such Taxes does not involve any danger of the sale, forfeiture or loss of the Aircraft or any interest therein, (b) if SELLER so requests, BUYER has provided SELLER (at Buyer's expense) with an opinion of independent tax counsel that a reasonable basis exists for contesting such claim and (c) adequate reserves have been made for such Taxes or, if required, an adequate bond has been posted, then SELLER at Buyer's written request will in good faith, with due diligence and at Buyer's expense, contest (or permit BUYER to contest in the name of BUYER or SELLER) the validity, applicability or amount of such Taxes.
- 8.2.7** Upon receipt by SELLER of a refund of all or any part of any Taxes for which BUYER has paid SELLER indemnification, SELLER will pay to BUYER the net amount of such refunded Taxes.
- 8.2.8** BUYER and SELLER will cooperate with one another in providing information which may be reasonably required to fulfill each party's tax filing requirements and any audit information request arising from such filing.

ARTICLE 9 **INDEMNITIES**

9.1 **BUYER's Indemnity.** BUYER agrees to defend, indemnify and hold harmless SELLER and ILFC Ireland Limited, and all of their respective officers, directors, employees, agents and shareholders (each, individually, a "**Seller Indemnatee**" or an "**Indemnatee**") from any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, disbursements and expenses of every kind and nature ("**Expenses**"), including legal fees and costs incident thereto or incident to establishing the right to indemnification, which may be incurred by a Seller Indemnatee after the Closing Time arising directly or indirectly out of or in any way connected with (a) the ownership, maintenance, repair, modification, possession, control, storage, use or operation of the Aircraft or any Engine after the Closing Time, or (b) the breach of any of BUYER's obligations, covenants, representations, or warranties hereunder; provided, however, that the foregoing indemnity will not extend to Expenses incurred by a Seller Indemnatee which result from the willful misconduct of such Seller Indemnatee.

9.2 **SELLER's Indemnity.** SELLER agrees to defend, indemnify and hold harmless BUYER and affiliated companies directly or indirectly owned by Air Transport Services Group, Inc. and their respective officers, directors, employees, agents and shareholders (each, individually a "**Buyer Indemnatee**" or an "**Indemnatee**") from any and all Expenses, including legal fees and costs incident thereto or incident to establishing the right to indemnification, which may be incurred by a Buyer Indemnatee after the Closing Time arising directly or indirectly out of or in any way connected with (a) the ownership, maintenance, repair, modification, possession, control, storage, use or operation of the Aircraft or any Engine prior to the Closing Time (so long as (i) the acts, omissions or events which caused the incident, accident, or occurrence giving rise to such Expenses and (ii) such incident, accident, or occurrence itself all occurred prior to the Closing Time); or (b) the breach of any of SELLER's obligations, covenants, representations and warranties hereunder; provided, however, that the foregoing indemnity will not extend to Expenses incurred by a Buyer Indemnatee which result from the willful misconduct of such Buyer Indemnatee. For avoidance of doubt, if an accident, incident, or loss occurs after the Closing Time which was due in whole or in part to acts, omissions, or events which occurred prior to the Closing Time or to the ownership, maintenance, repair, modification, possession, control, storage, use or operation of the Aircraft or any Engine prior to the Closing Time, the provisions of Article 9.1 will apply. Nothing in this Article 9.2 shall be construed to supersede or in any way affect or override the provisions of Article 5 hereof or to permit a claim by BUYER against SELLER based on the condition, manufacture, design, maintenance, service, repair, overhaul, improvement, modification or alteration, use or operation of the Aircraft or any Engine.

- 9.3** **After-Tax Basis.** The amount which BUYER or SELLER, as applicable, in its capacity as an indemnitor under this Article 9 (and in such capacity each is sometimes referred to as an "**Indemnitor**") will be required to pay with respect to any Expense indemnified against hereunder will be an amount sufficient to restore the Buyer Indemnitee or the Seller Indemnitee, as the case may be, to the same position in which such Indemnitee would have been had such Expense not been incurred.
- 9.4** **Timing of Payment.** Subject to Articles 9.6 and 9.8, it is the intent of the parties that an Indemnitee will have the right to indemnification for Expenses as soon as a claim is made, whether or not meritorious and whether or not liability is established.
- 9.5** **Subrogation.** Upon payment in full of any indemnity by an Indemnitor, such Indemnitor will be subrogated to any right of the applicable Indemnitee in respect of the matter against which such indemnity has been made.
- 9.6** **Notice.** Each Indemnitee will give prompt written notice of any liability for which an Indemnitor is, or may be, liable under this Article 9, provided, however, that failure to give such notice will not terminate any of the rights of the Indemnitees under this Article 9 except to the extent that the Indemnitor has been materially prejudiced by the failure to provide such notice.
- 9.7** **Refunds.** If an Indemnitee obtains a recovery of all or any part of any amount which an Indemnitor has paid to such Indemnitee, such Indemnitee will pay to the Indemnitor the amount recovered less any costs and expenses incurred in connection with such recovery.
- 9.8** **Defense of Claims.** Unless a default hereunder has occurred and is continuing, an Indemnitor and its insurers will have the right (in each such case at the Indemnitor's sole expense) to investigate or, provided that the Indemnitor and its insurers have not reserved the right to dispute liability with respect to any insurance policies pursuant to which coverage is sought, defend or compromise any claim covered by such Indemnitor's insurance for which indemnification is sought pursuant to this Article and the Indemnitees will cooperate with the Indemnitor or its insurers with respect thereto. If the Indemnitor or its insurers are retaining attorneys to handle such claim, such counsel must be reasonably satisfactory to the applicable Indemnitees. If not, or if the Indemnitor and its insurers have reserved the right to dispute liability with respect to any insurance policies pursuant to which coverage is sought, the Indemnitees will have the right to retain counsel of their choice at the Indemnitor's expense.

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9.9 **Other Indemnification.** The indemnification under this Article 9 shall be effective even though an Indemnitee may have an agreement or claim for indemnification with respect to the same matters with or from another Person.

ARTICLE 10 **INSURANCE**

10.1 **SELLER Liability Insurance.** For a period beginning on the Sale Date and ending three (3) years thereafter (the "**Run-On Period**"), BUYER will name, or will cause the operator of the Aircraft to name (each, a "**Buyer's Lessee**"), SELLER, ILFC Ireland Limited and all of their respective shareholders, officers, directors, employees, agents, successors and assigns (collectively, the "**Seller Additional Insureds**") as additional insureds under the aviation and airline general third party liability insurance of BUYER or Buyer's Lessee, as applicable, which insurance will include the following terms and endorsements:

- (a) Such insurance will be in an amount not less than [*] per occurrence.
- (b) Such insurance will note the interest of and include as additional insureds SELLER and the other Seller Additional Insureds for their respective rights and interests.
- (c) SELLER and the other Seller Additional Insureds will have no responsibility for payment of premium.
- (d) Insurers will waive rights of subrogation against SELLER and the other Seller Additional Insureds.
- (e) The insurance as to the interests of each of SELLER and the other Seller Additional Insureds shall not be invalidated by any action or inaction by any other Assured. SELLER and the other Seller Additional Insureds shall be covered for their respective interests notwithstanding any breach or violation of warranty, condition or declaration, or by any nondisclosure or any false statement concerning the policy or the subject thereof, whether occurring before or after the date of this Sale Agreement, or whether before or after the loss.
- (f) Such insurance will be primary without rights of contribution in relation to any other insurance, and not subject to average.
- (g) There shall be a Severability of Interest endorsement.

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(h) Such insurance will operate in all respects as if a separate policy had been issued to and covering each insured thereunder, provided, however, that the total liability under the policy will not exceed the limits of liability under the policy.

(i) No cancellation of or material change to such insurance may be made without (30) days advance written notice to SELLER (or such lesser period as may be available in the case of war and allied perils).

ARTICLE 11 **REPRESENTATIONS, WARRANTIES AND COVENANTS OF BUYER**

11.1 **Representations and Warranties.** BUYER represents and warrants the following to SELLER as of the date of execution of this Sale Agreement and as of the Closing Date:

11.1.1 Corporate Status. BUYER is a corporation duly formed, validly existing and in good standing under the Laws of the State of Florida. It has the corporate power and authority to carry on its business as presently conducted and to perform its obligations hereunder.

11.1.2 Governmental Approvals. No authorization, approval, consent, license or order of, or registration with, or the giving of notice to the Aviation Authority or any other Government Entity is required for the valid authorization, execution, delivery and performance by BUYER of this Sale Agreement, except as will have been duly effected as of the Closing Date.

11.1.3 Binding. BUYER's Board of Directors has authorized BUYER to enter into this Sale Agreement, any Side Letters hereto and any other documentation in connection with the purchase of the Aircraft from SELLER (collectively, the "**Operative Documents**") and perform its obligations under the Operative Documents. This Sale Agreement and the other Operative Documents have been duly executed and delivered by BUYER and represent the valid, binding and enforceable obligations of BUYER except as enforceability may be limited by bankruptcy, insolvency, reorganization or other Laws of general application affecting the enforcement of creditors' rights. When executed by BUYER at Delivery, the same will apply to the Acceptance Certificate.

11.1.4 No Breach. The execution and delivery by BUYER of this Sale Agreement and the Operative Documents, the consummation by BUYER of the transactions contemplated herein and compliance by BUYER with the terms and provisions hereof and thereof do not and will not contravene any Law applicable to BUYER or result in any breach of, or constitute any default under, or result in the creation of any Security Interest upon any property of BUYER pursuant to, any indenture, mortgage, chattel mortgage, deed of trust, conditional sales contract, bank loan or credit agreement, corporate charter, bylaw or other

agreement or instrument to which BUYER is a party or by which BUYER or its properties or assets may be bound or affected, except that the BUYER will be obligated to grant a security interest in the Aircraft to SunTrust Bank, as Administrative Agent.

- 11.1.5 Licenses.** BUYER holds all licenses, certificates and permits from applicable Government Entities in United States necessary for the performance of its obligations under this Sale Agreement.
- 11.1.6 No Suits.** There are no suits, arbitrations or other proceedings pending or threatened against BUYER before any court or administrative agency against or affecting BUYER which, if adversely determined, would have a material adverse effect on the business, assets or condition (financial or otherwise) of BUYER or its ability to perform under this Sale Agreement.
- 11.1.7 No Withholding.** Under the Laws of United States, BUYER will not be required to deduct any withholding or other Tax from any payment it may make under this Sale Agreement.
- 11.1.8 General Obligations.** The obligations of BUYER under this Sale Agreement are direct, general and unconditional obligations of BUYER and rank or will rank at least pari passu with all other present and future unsecured and unsubordinated obligations (including contingent obligations) of BUYER, with the exception of such obligations as are mandatorily preferred by law and not by reason of any encumbrance.
- 11.1.9 No Sovereign Immunity.** BUYER, under the Laws of United States or of any other jurisdiction affecting BUYER, is subject to private commercial law and suit. Neither BUYER nor its properties or assets is entitled to sovereign immunity under any such Laws. BUYER's performance of its obligations hereunder constitute commercial acts done for commercial purposes.
- 11.1.10 No Default under this Sale Agreement.** At the time of execution of this Sale Agreement, no default has occurred and is continuing between BUYER and SELLER.
- 11.1.11 Self Financing.** The Sale Price will be paid by internal funds of BUYER and no third parties will be involved in the Sale.

ARTICLE 12 **REPRESENTATIONS, WARRANTIES AND COVENANTS OF SELLER**

12.1 **Representations and Warranties.** SELLER represents and warrants the following to BUYER as of the date of execution of the Sale Agreement and as of the Closing Date and ALL OTHER WARRANTIES, EXPRESS OR IMPLIED HAVE BEEN WAIVED IN ACCORDANCE WITH ARTICLE 5.4:

12.1.1 Corporate Status. SELLER is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of California. It has the corporate power and authority to carry on its business as presently conducted and to perform its obligations hereunder.

12.1.2 Governmental Approvals. No authorization, approval, consent, license or order of, or registration with, or the giving of notice to the Aviation Authority or any Government Entity is required for the valid authorization, execution, delivery and performance by SELLER of this Sale Agreement.

12.1.3 Binding. SELLER is authorized to enter into and to perform its obligations under this Sale Agreement and the other Operative Documents. This Sale Agreement is and, when executed by Seller, the other Operative Documents will have been duly authorized, executed and delivered by Seller and represent the legal, valid, enforceable and binding obligations of Seller except as enforceability may be limited by bankruptcy, insolvency, reorganization or other Laws of general application affecting the enforcement of creditors' rights. When executed by Seller on the Closing Date, the same will apply to the Bill of Sale.

12.1.4 No Breach. The execution and delivery of this Sale Agreement and the Operative Documents, the consummation by SELLER of the transactions contemplated herein and compliance by SELLER with the terms and provisions hereof do not and will not contravene any Law applicable to SELLER, or result in any breach of or constitute any default under or result in the creation of any Security Interest upon any property of SELLER, pursuant to any indenture, mortgage, chattel mortgage, deed of trust, conditional sales contract, bank loan or credit agreement, corporate charter, by-law or other

agreement or instrument to which SELLER is a party or by which SELLER or its properties or assets may be bound or affected.

- 12.1.5** No Suits. There are no suits, arbitrations or other proceedings pending or threatened against SELLER before any court or administrative agency against or affecting SELLER which, if adversely determined, would have a material adverse effect on the business, assets or condition (financial or otherwise) of SELLER or its ability to perform under this Sale Agreement.
- 12.1.6** No Sovereign Immunity. SELLER, under the Laws of United States or of any other jurisdiction affecting SELLER, is subject to private commercial law and suit. Neither SELLER nor its properties or assets is entitled to sovereign immunity under any such Laws. SELLER's performance of its obligations hereunder constitute commercial acts done for commercial purposes.
- 12.1.7** Title to Aircraft. At the Closing Time, SELLER will have good and valid title to the Aircraft to transfer to BUYER, free and clear of all Security Interests whatsoever arising by, through or under SELLER.

ARTICLE 13 **ASSIGNMENT**

13.1 **Sale or Assignment by BUYER or SELLER.** Neither BUYER nor SELLER may assign or transfer its rights or obligations under this Sale Agreement without the prior written consent of the other party hereto, provided however that (a) BUYER may assign its rights and obligations hereunder, provided that BUYER, or another guarantor reasonably acceptable to Seller, shall have given a guaranty of such assignee's obligations in form and substance satisfactory to SELLER, or (b) BUYER may assign its rights, but not its obligations, hereunder.

ARTICLE 14 **NOTICES**

14.1 **Manner of Sending Notices.** Any notice, request or information required or permissible under this Sale Agreement will be in writing and in English. Notices will be delivered in person or sent by fax, e-mail, letter (mailed airmail, certified and return receipt requested), or by expedited delivery addressed to the parties as set forth in Article 14.2. In the case of a fax, notice will be deemed received on the date set forth on the confirmation of receipt produced by the sender's fax machine immediately after the fax is sent. In the case of e-mail or a mailed letter, notice will be deemed received upon actual receipt. In the case of a notice sent by expedited delivery, notice will be deemed received on the date of delivery set forth in the records of the Person which accomplished the delivery. If any notice is sent by more than one of the above listed methods, notice will be deemed received on the earliest possible date in accordance with the above provisions.

14.2 **Notice Information.** Notices will be sent:

If to SELLER: INTERNATIONAL LEASE FINANCE CORPORATION
10250 Constellation Blvd., 34th Floor
Los Angeles, California 90067
United States of America

Attention: Legal Department

E-Mail:

Fax: 310-788-1990

If to BUYER: CARGO AIRCRAFT MANAGEMENT, INC.
7100 TPC Drive, Suite 100
Orlando, Florida 32822
United States of America

Attention: William B. Tarpley

E-Mail: btarpley@cargoleasing.com

Fax: 407-517-0303

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1 Used Boeing 757-2Q8ER MSN 26273
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With a copy to:

CARGO AIRCRAFT MANAGEMENT, INC.
7100 TPC Drive, Suite 100
Orlando, Florida 32822
United States of America

Attention: General Counsel

E-Mail: legal@cargoleasing.com
Fax: 407-517-0302

or to such other places and numbers as either party directs in writing to the other party.

ARTICLE 15 **GOVERNING LAW AND JURISDICTION**

15.1 **California Law.** This Sale Agreement is being delivered in the State of California and will in all respects be governed by and construed in accordance with the Laws of the State of California (notwithstanding the conflict Laws of the State of California).

15.2 **Non-Exclusive Jurisdiction in California.** As permitted by Section 410.40 of the California Code of Civil Procedure, the parties hereby irrevocably submit to the non-exclusive jurisdiction of the Federal District Court for the Central District of California and the State of California Superior or Municipal Court in Los Angeles, California. Nothing herein will prevent either party from bringing suit in any other appropriate jurisdiction.

15.3 **Service of Process.** The parties hereby consent to the service of process (a) out of any of the courts referred to above, (b) in accordance with Section 415.40 of the California Code of Civil Procedure by mailing copies of the summons and complaint to the person to be served by air mail, certified or registered mail to the address set forth in Article 14.2, postage prepaid, return receipt requested or (c) in accordance with the Hague Convention, if applicable.

15.4 **Prevailing Party in Dispute.** If any legal action or other proceeding is brought in connection with or arises out of any provisions in this Sale Agreement, the prevailing party will be entitled to recover reasonable attorneys' fees and other costs incurred in such action or proceedings. The prevailing party will also, to the extent permissible by Law, be entitled to receive pre- and post-judgment Default Interest.

15.5 **Waiver.** BUYER AND SELLER HEREBY WAIVE THE RIGHT TO A TRIAL BY JURY. BUYER AND SELLER HEREBY IRREVOCABLY WAIVE ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATED TO THIS SALE AGREEMENT BROUGHT IN ANY OF THE COURTS REFERRED TO IN ARTICLE 15.2, AND HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

ARTICLE 16

MISCELLANEOUS

16.1 **No Brokers.** The Aircraft is being sold and purchased without a broker. If any person asserts any claim against SELLER or BUYER for fees or commissions by reason of any alleged agreement to act as a broker for either SELLER or BUYER in this transaction, the party for which said person claims to have acted will on demand defend, indemnify and hold harmless the other party from and against all claims, demands, liabilities, damages, losses, judgments and expenses of every kind (including legal fees, costs and related expenses) arising out of such claim.

16.2 **Confidentiality.** This Sale Agreement, any Operative Documents and all non-public information obtained by either party about the other are confidential and are between SELLER and BUYER only and will not be disclosed by a party to third parties (other than to such party's auditors, legal or technical advisors or as required by applicable Law) without the prior written consent of the other party. If disclosure is required as a result of applicable Law, the party obligated to make the disclosure will use reasonable efforts to obtain confidential treatment as to the commercial terms and other material provisions of this Sale Agreement. The parties acknowledge that BUYER's ultimate parent company, Air Transport Services Group, Inc. ("ATSG"), may be required to file this Sale Agreement with the U.S. Securities and Exchange Commission ("SEC"). In such event, BUYER will cause ATSG to make commercially reasonable efforts to seek confidential treatment of such portions hereof as are permitted in accordance with SEC regulations, based on the advice of counsel.

16.3 **Rights of Parties.** The rights of the parties hereunder are cumulative, not exclusive, may be exercised as often as each party considers appropriate and are in addition to its rights under general Law. The rights of one party against the other party are not capable of being waived or amended except by an express waiver or amendment in writing. Any failure to exercise or any delay in exercising any of such rights will not operate as a waiver or amendment of that or any other such right, any defective or partial exercise of any such rights will not preclude any other or further exercise of that or any other such right and no act or course of conduct or negotiation on a party's part or on its behalf will in any way preclude such party from exercising any such right or constitute a suspension or any amendment of any such right.

16.4 **Further Assurances.** Each party agrees from time to time to do and perform such other and further acts and execute and deliver any and all such other instruments as may be required by Law, reasonably requested by the auditors of the other party or requested by the other

party to establish, maintain or protect the rights and remedies of the requesting party or to carry out and effect the intent and purpose of this Sale Agreement.

16.5 **Use of Word including.** The term "including" is used herein without limitation and by way of example only.

16.6 **Headings.** All article and paragraph headings and captions are purely for convenience and will not affect the interpretation of this Sale Agreement. Any reference to a specific article, paragraph or section will be interpreted as a reference to such article, paragraph or section of this Sale Agreement.

16.7 **Invalidity of any Provision.** If any of the provisions of this Sale Agreement become invalid, illegal or unenforceable in any respect under any Law, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired.

16.8 **Negotiation.** The terms of this Sale Agreement are agreed by SELLER from its principal place of business in Los Angeles, California.

16.9 **Time is of the Essence.** Time is of the essence in the performance of all obligations of the parties under this Sale Agreement and, consequently, all time limitations set forth in the provisions of this Sale Agreement will be strictly observed.

16.10 **Amendments in Writing.** The provisions of this Sale Agreement may only be amended or modified by a writing executed by SELLER and BUYER.

16.11 **Counterparts.** This Sale Agreement may be executed in any number of identical counterparts, each of which will be deemed to be an original, and all of which together will be deemed to be one and the same instrument when each party has signed and delivered one such counterpart to the other party.

16.12 **Delivery of Documents by Fax or E-Mail.** Delivery of an executed counterpart of this Sale Agreement or of any other documents in connection with this Sale Agreement by fax or in an image file by e-mail will be deemed as effective as delivery of an originally executed counterpart. Any party delivering an executed counterpart of this Sale Agreement or other document by fax or in an image file by e-mail will also deliver an originally executed counterpart, but the failure of any party to deliver an originally executed counterpart of this Sale Agreement or such other document will not affect the validity or effectiveness of this Sale Agreement or such other document.

16.13 **Entire Agreement.** This Sale Agreement and any Operative Documents constitute the entire agreement between the parties in relation to the sale of the Aircraft by SELLER to BUYER and the purchase of the Aircraft by BUYER from SELLER and supersede all previous proposals, agreements and other written and oral communications in relation hereto. The parties acknowledge that there have been no representations, warranties, promises, guarantees or agreements, express or implied, except as set forth herein.

Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

IN WITNESS WHEREOF, SELLER and BUYER have caused this Sale Agreement to be executed by their respective officers as of February 11, 2011.

INTERNATIONAL LEASE FINANCE CORPORATION

CARGO AIRCRAFT MANAGEMENT, INC.

By: /s/ Martin Olson
Martin Olson
Its: Senior Vice President

By: /s/ Joseph C. Hete
Its: CEO

EXHIBIT A **AIRCRAFT DESCRIPTION**

Aircraft Manufacturer and Model:	Boeing 757-2Q8ER
Year of Aircraft Manufacture:	1994
Manufacturer's Serial Number:	26273
Turkish Registration Mark:	TC-SNC
Engine Manufacturer and Model:	Pratt & Whitney PW2037
Engine Serial Numbers:	P726735 and P726736

EXHIBIT B **AIRCRAFT DOCUMENTS**

AIRCRAFT RECORDS

1. Copies of original Certificates delivered by Boeing, such as:
 - a. Airworthiness Certificate for Export
 - b. Radio installation conformity certificate
 - c. Noise limitation certificate
2. Copies of original Documents delivered by Boeing, such as:
 - a. Airworthiness Directive Compliance list
 - b. Aircraft inspection report
 - c. Readiness Log
 - d. Weighing report
3. Copies of current Certificates:
 - a. Airworthiness Certificate
 - b. Noise limitation
 - c. Radio license
 - d. Interior material burn certificates
 - e. Certificate of Export
 - f. Aircraft deregistration confirmation
 - g. Aircraft Registration
4. Letters signed and stamped by Quality Assurance:
 - a. Current aircraft hours and cycles
 - b. Current engines hours and cycles
 - c. Accident and Incident report
 - d. Summary of Maintenance Program
 - e. AD compliance during the lease term
5. Aircraft log books and Readiness Log
6. Aircraft Hard Time (HT) inspection status
7. One year forecast for HT inspection
8. Aircraft Modification status, including service bulletins
9. Last weighing report prior to redelivery
10. AD compliance report with original signoffs
11. Corrosion Prevention Control Program compliance summary
12. Routine and non-routine job cards of the Return Check

13. Routine and non-routine maintenance work cards for tasks performed during the Lease Term that were not repeated at or superseded by the Return Check
14. Past year pilot and maintenance discrepancies
15. Major and Minor structural repairs with applicable approvals
16. Compass Swing report of the last three years
17. Cabin Configuration drawing (LOPA)
18. Emergency equipment location drawing
19. Engineering data package for all modifications

ENGINES RECORDS

1. Last test cell run reports
2. Life-limited Parts status and traceability
3. AD compliance report with original signoffs
4. Engine Modification / service bulletin /inspection report and applicable forms
5. Last heavy maintenance records for each module
6. Engine log books
7. Engine removal history
8. Past year trend monitoring reports
9. Historical borescope reports
10. Engine component report

APU RECORDS

1. APU status (FH, FC, limits)
2. Life-limited Part status and traceability
3. AD compliance report with original signoffs
4. Modification status
5. Last heavy maintenance documents
6. APU log books
7. Last test cell report

COMPONENT RECORDS

1. Aircraft component inventory
2. Hard time component inventory
3. All required serviceable tags
4. Landing Gear status with last overhaul and life-limited Part status
5. AD compliance report with original signoffs

Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

6. Modification status

EXHIBIT C **ACCEPTANCE CERTIFICATE**

CARGO AIRCRAFT MANAGEMENT, INC., a Florida corporation ("**BUYER**"), does hereby represent, acknowledge, warrant and agree as follows:

1. BUYER and INTERNATIONAL LEASE FINANCE CORPORATION, a California corporation ("**SELLER**") have entered into an Aircraft Sale Agreement dated as of February 11, 2011 (hereinafter referred to as the "**Sale Agreement**") pursuant to which BUYER has purchased the Aircraft (as defined therein). Words used herein with capital letters and not otherwise defined will have the meanings set forth in the Sale Agreement.

2. SELLER has delivered to BUYER, and BUYER has accepted for purchase from SELLER, this ____ day of _____, 2011 (Time: _____) (the "**Sale Time**"):

(a) One (1) Boeing 757-2Q8ER Aircraft bearing Manufacturer's serial number 26273 and Registration Mark TC-SNC, together with two (2) Pratt & Whitney PW2037 Engines bearing manufacturer's serial numbers P726735 and P726736, an APU bearing manufacturers serial number _____ and all Parts attached thereto, all in airworthy condition.

(b) All Aircraft Documentation, including the usual and customary manuals, logbooks, flight records and historical information regarding the Aircraft, Engines and Parts set forth in the list of Aircraft Documentation attached hereto.

3. At the Sale Time, the above Aircraft was located at _____.

4. BUYER represents, warrants, acknowledges and agrees as follows:

(a) All of the foregoing has been delivered and accepted on the date set forth above to Buyer's full satisfaction and pursuant to the terms and provisions of the Sale Agreement.

(b) The Aircraft, Engines, APU, Parts and Aircraft Documentation as described in the Sale Agreement have been fully examined by BUYER and have been received in a condition fully satisfactory to BUYER for BUYER to purchase the Aircraft.

Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

(c) BUYER AGREES THAT IT IS PURCHASING THE AIRCRAFT AND EACH PART THEREOF IS IN ITS "AS IS, WHERE IS" CONDITION AS OF THE SALE TIME AND PURSUANT TO THE TERMS AND CONDITIONS OF THE SALE AGREEMENT.

Dated on the date set forth above

CARGO AIRCRAFT MANAGEMENT, INC.

By:

Its:

ATTACHMENTS:

1. List of Aircraft Documentation

EXHIBIT C
ACCEPTANCE CERTIFICATE

Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

ATTACHMENT 1 TO ACCEPTANCE CERTIFICATE

LIST OF AIRCRAFT DOCUMENTATION

EXHIBIT C
ACCEPTANCE CERTIFICATE

EXHIBIT D **WARRANTY BILL OF SALE**

INTERNATIONAL LEASE FINANCE CORPORATION ("**Seller**"), a corporation organized under the laws of the State of California, is the owner of the full legal and beneficial title to the following equipment (collectively, the "**Aircraft**"):

1. One Boeing 757-2Q8ER aircraft bearing manufacturer's serial number 26273.
2. Two (2) Pratt & Whitney PW2037 engines bearing manufacturer's serial numbers P726735 and P726736.
3. All appliances, parts, instruments, appurtenances, accessories, furnishings or other equipment or property installed in or attached to such aircraft and engines.
4. All Aircraft Documentation (as such term is defined in the Sale Agreement).

For and in consideration of the sum of One United States Dollar (US\$1) and other valuable consideration, receipt of which is hereby acknowledged, Seller does hereby sell, grant, transfer, deliver and set over to CARGO AIRCRAFT MANAGEMENT, INC., a Florida corporation ("**Buyer**"), and its successors and assignees forever all of Seller's right, title and interest in and to the Aircraft, to have and to hold the Aircraft for its and their use forever.

Seller hereby warrants to Buyer and its successors and assigns that there is hereby conveyed to Buyer on the date hereof good and marketable title to the Aircraft free and clear of all liens, claims, charges, security interests and encumbrances whatsoever. Seller further agrees to warrant and defend such title forever against all claims and demands.

Except as otherwise expressly provided herein, the Aircraft is being sold in its "AS IS, WHERE IS" condition on the date hereof.

This Warranty Bill of Sale is given by Seller pursuant to the Aircraft Sale Agreement dated as of February 11, 2011, between Seller and Buyer (the "**Sale Agreement**"). Capitalized words used herein and not otherwise defined will have the meanings set forth in the Sale Agreement.

Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

IN TESTIMONY WHEREOF we have set our hand this _____ day of _____, _____.

INTERNATIONAL LEASE FINANCE
CORPORATION

By: _____

Title _____

EXHIBIT D
WARRANTY BILL OF SALE

EXHIBIT E **ASSIGNMENT OF RIGHTS (AIRFRAME)**

[DATE]

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207

Attention: Vice President Contracts
Mail Code 21-34

Subject: Assignment in connection with the sale of Boeing Model 757-2Q8ER aircraft bearing manufacturer's serial number 26273 by International Lease Finance Corporation to Cargo Aircraft Management, Inc.

Ladies and Gentlemen:

This assignment ("**Assignment**") is entered into by International Lease Finance Corporation ("**Seller**") and Cargo Aircraft Management, Inc. ("**Buyer**") in connection with the sale by Seller to Buyer of a Boeing aircraft (as more fully described below).

Reference is made to Purchase Agreement 1499 dated August 25, 1988, entered into between The Boeing Company ("**Boeing**") and Seller (as amended and supplemented, the "**Boeing Agreement**") under which Seller purchased a certain Boeing Model 757-2Q8ER aircraft bearing manufacturer's serial number 26273 (the "**Aircraft**").

Capitalized terms used herein without definition will have the same meanings as in the Boeing Agreement.

In connection with Seller's sale of the Aircraft to Buyer on [_____, 2011] (the "**Transfer Date**"), Seller hereby assigns to Buyer all the remaining rights, if any, of Seller related to the Aircraft under the Boeing Agreement. To accomplish this assignment of rights, as authorized by the provisions of the Boeing Agreement:

1. Seller confirms that it is the owner of the Aircraft and the holder of the rights with respect to the Aircraft that are assigned herein.

2. Buyer acknowledges that it has received copies of the following provisions of the Boeing Agreement applicable to the Aircraft and agrees to be bound by and comply with all the terms, conditions and limitations contained in such provisions, including those relating to any exclusion or limitation of liabilities or warranties, indemnity and insurance provisions thereof:

Boeing Agreement

Article 10 - Assignment, Resale or Lease

10.1 Assignment

10.2 No Increase in Boeing Liability

10.4 Post-delivery Sale of Aircraft

10.5 Post-delivery Lease of Aircraft

Article 13.2 - Customer Support Document

Article 14 - Notices and Requests

Article 15 - Miscellaneous

15.6 Governing Law

Exhibit B - Product Assurance Document

Part A Boeing Warranty

Part B Warranty Repairs and Modifications by

Part C Boeing Service Life Policy

Part D Exclusion of Liabilities

Part E Boeing Indemnity Against Patent

Part F Supplier Warranties and Patent

Part H Boeing Interface Commitment

Part I Duplicate Product Assurance Remedies

Exhibit C-1 - Customer Support Document

Part B Boeing Service Support

Part D Technical Data and Documents

Part E Buyer's Insurance

Exhibit E - Buyer Furnished Equipment Document

- Paragraph 6 Buyer's Indemnification of Boeing
- Paragraph 7 Patent Indemnity - BFE

Letter Agreement No. 1499 - 3 - Seller Purchased Equipment

- Paragraph 12 Buyer's Indemnification of Boeing

Appendix III - Sample Lessee Insurance Certificate

3. Seller will remain responsible to Boeing for any amounts owed to Boeing with respect to the Aircraft under the Boeing Agreement prior to the Transfer Date, including any amounts owed by Seller to Boeing under the provisions of the Boeing Agreement referenced in paragraph 2 based upon events or incidents relating to the Aircraft occurring prior to the Transfer Date.

4. Boeing will look to Buyer and not to Seller with respect to the provisions of the Boeing Agreement referenced in paragraph 2 (the "**Assigned Provisions**") for claims related to events or incidents pertaining to the Aircraft occurring on or after the Transfer Date. With respect to such claims, Boeing shall have no claim under the Assigned Provisions against Seller.

We request that Boeing acknowledge receipt of this Assignment and consent to the assignment of rights and obligations set forth herein by signing the consent below and by forwarding one copy of this Assignment to each of the undersigned.

INTERNATIONAL LEASE FINANCE CORPORATION,
as Seller

CARGO AIRCRAFT MANAGEMENT, INC., as Buyer

By:

By:

Its:

Its:

Boeing Consent

Receipt of the above Assignment is hereby acknowledged and the assignment of rights described above is hereby confirmed, effective as of this date.

THE BOEING COMPANY

By:

Its:

Date:

EXHIBIT F **ASSIGNMENT OF RIGHTS (ENGINES)**

ASSIGNMENT OF SERVICE POLICY BENEFITS AND ENGINE WARRANTIES

This ASSIGNMENT OF SERVICE POLICY BENEFITS AND ENGINE WARRANTIES dated as of _____, 2011 (the "**Assignment**"), is entered into by and between International Lease Finance Corporation ("**Assignor**") and Cargo Aircraft Management, Inc. ("**Assignee**").

WHEREAS, Assignor and United Technologies Corporation, Pratt & Whitney Division ("**Engine Manufacturer**") are parties to the Consolidated JT8D-200 Series/PW2000 Series/PW4000 Series Propulsion System/Engine Support Contract dated May 11, 1988 (the "**Support Agreement**") pursuant to which Assignor has certain rights and interests in and benefits under (i) the Engine and Parts Service Policy, PW2000 Series Turbine Engines, last revised as of February 15, 1994 (the "**Service Policy**" and such rights and interests therein and benefits thereunder, the "**Service Policy Benefits**") and (ii) the United Technologies Corporation Standard Terms and Conditions of Sale dated August 1987 (Ref# L77940001) (the "**Standard Terms and Conditions of Sale**" and such rights and interests therein and benefits thereunder, the "**Engine Warranties**").

WHEREAS, on April 1, 1994, Assignor purchased from The Boeing Company one Boeing model 757-2Q8ER aircraft bearing manufacturer's serial number 26273, equipped with two Pratt & Whitney PW2037 engines bearing manufacturer's serial numbers P726735 and P726736 (the "**Engines**" and, collectively with such airframe, the "**Aircraft**"); and

WHEREAS, pursuant to that certain Aircraft Sale Agreement dated as of February 11, 2011, between Assignor, as seller, and Assignee, as buyer, Assignor sold the Aircraft to Assignee; and

WHEREAS, in connection with the sale of the Aircraft to Assignee on _____, 2011 (the "**Transfer Date**") and on the terms and conditions set forth below, Assignee wishes to acquire from Assignor and Assignor is willing to assign to Assignee all of the remaining Service Policy Benefits and Engine Warranties in respect of the Engines as of such Transfer Date; and

NOW, THEREFORE, in consideration of the mutual covenants herein contained and of other valuable consideration, the receipt and sufficiency of which is hereby acknowledged the parties hereto agree, effective as of the Transfer Date, as follows:

23. Assignor hereby assigns and transfers to Assignee all of the remaining Service Policy Benefits and Engine Warranties in respect of the Engines.
24. Each party agrees that at any time from time-to-time, on written request of any other party hereto and at the expense of the party so requesting, that it will promptly and duly execute and deliver any and all reasonable documentation required to accomplish the assignment and transfer of the rights, interests and benefits referred to above.
25. Notwithstanding any provision to the contrary, nothing contained in this Assignment shall (i) subject the Engine Manufacturer to any liability or obligation to which it would not otherwise be subject with respect to the Service Policy Benefits under the Service Policy and with respect to the Engine Warranties under the Standard Terms and Conditions of Sale, (ii) modify in any respect the Engine Manufacturer's contract rights thereunder, (iii) subject the Engine Manufacturer to any multiple or duplicative liability or obligation under the Service Policy or the Standard Terms and Conditions of Sale, as applicable, or (iv) limit any rights of setoff the Engine Manufacturer may have under applicable law.
26. The Service Policy Benefits and Engine Warranties may not be further assigned, including, without limitation, assignments for security purposes, without the express written consent of the Engine Manufacturer, not to be unreasonably withheld.
27. This Assignment shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns to the extent expressly permitted by the Service Policy and the Standard Terms and Conditions of Sale and the consent and agreement of Engine Manufacturer hereto.
28. This Assignment shall be governed by and construed in accordance with the laws of the State of California.
29. This Assignment may be executed in any number of counterparts, each of which when executed and delivered is an original but all of which taken together constitute one and the same instrument and any party may execute this Assignment by signing any counterpart.

Those portions of this Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

CARGO AIRCRAFT MANAGEMENT, INC.
1 Used Boeing 757-2Q8ER MSN 26273
(Scheduled Sale Date: February 28, 2011)

IN WITNESS WHEREOF, the authorized representative of the parties hereto have executed this Assignment as of the day and year first above written.

For and on behalf of:
INTERNATIONAL LEASE FINANCE
CORPORATION

For and on behalf of:
CARGO AIRCRAFT MANAGEMENT,
INC.

By:

By:

Its:

Its:

Consent and Agreement of Pratt & Whitney

UNITED TECHNOLOGIES CORPORATION, PRATT & WHITNEY DIVISION, a Delaware corporation ("**P&W**"), hereby acknowledges notice of and consents to all of the terms of the Assignment of Service Policy Benefits and Engine Warranties dated the ___ day of _____ (the "**Assignment**") in respect of two PW2037 engines bearing manufacturer's serial numbers P726735 and P726736 installed on one Boeing 757-2Q8ER aircraft having manufacturer's serial number 26273, and made between International Lease Finance Corporation (hereinafter referred to as "**Assignor**") and Cargo Aircraft Management, Inc. (hereinafter referred to as an "**Assignee**") to the extent applicable to P&W. P&W hereby confirms to the Assignor and the Assignee that the Service Policy Benefits and Engine Warranties as defined in the Assignment, to the extent the same relates to the Engines, shall inure to the benefit of the Assignee to the same extent as if originally named in the Support Agreement and to the benefit of the Assignor (but only to the extent provided in the Assignment) in each case subject to the terms of the Assignment provided always that P&W shall not owe any liability or obligation under the Service Policy and the Standard Terms and Conditions of Sale, as applicable, more than once in total and provided further that, without prejudice to the terms of this Consent and Agreement and the Assignment, P&W shall not be construed as being a party to the Assignment.

Words and expressions defined in the Assignment shall have the same respective meanings when used herein.

This Consent and Agreement is governed by and shall be construed in accordance with the laws of the State of Connecticut.

Dated as of the ___ day of _____.

**UNITED TECHNOLOGIES CORPORATION,
PRATT & WHITNEY DIVISION**

By: _____

Title _____

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph C. Hete, certify that:

1. I have reviewed this report on Form 10-Q of Air Transport Services Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2011

/s/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

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

In connection with the Quarterly Report of Air Transport Services Group, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph C. Hete, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Air Transport Services Group, Inc. and will be retained by Air Transport Services Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

Date: May 10, 2011

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

In connection with the Quarterly Report of Air Transport Services Group, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Quint O. Turner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Air Transport Services Group, Inc. and will be retained by Air Transport Services Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Date: May 10, 2011