
**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 June 30, 2009

Commission File Number 000-50368



(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation
or organization)

26-1631624
(IRS Employer
Identification No.)

145 Hunter Drive
Wilmington, Ohio 45177
(Address of Principal Executive Office)

(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 Regulation S-T 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 definitions of "large accelerated filer," "large 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 Exchange Act). Yes No

As of August 10, 2009, Air Transport Services Group, Inc. had outstanding 63,493,234 shares of common stock, par value \$.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 2008 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 1. FINANCIAL INFORMATION

Item 1. Financial Statements

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
REVENUES	\$235,107	\$394,860	\$515,659	\$776,916
OPERATING EXPENSES				
Salaries, wages and benefits	119,592	149,011	257,048	307,768
Fuel	35,615	151,280	75,264	271,172
Depreciation and amortization	21,153	22,928	42,876	44,170
Maintenance, materials and repairs	15,487	27,964	35,697	54,108
Landing and ramp	5,558	7,534	17,407	21,571
Travel	4,649	8,111	10,519	16,064
Rent	2,625	3,430	6,211	6,876
Insurance	3,011	2,748	6,050	5,524
Other operating expenses	8,507	13,803	20,443	26,032
	<u>216,197</u>	<u>386,809</u>	<u>471,515</u>	<u>753,285</u>
INTEREST EXPENSE	(7,166)	(8,697)	(14,812)	(19,072)
INTEREST INCOME	129	517	307	1,519
INCOME (LOSS) BEFORE INCOME TAXES	11,873	(129)	29,639	6,078
INCOME TAXES	(3,766)	(397)	(10,435)	(2,817)
NET EARNINGS (LOSS)	<u>\$ 8,107</u>	<u>\$ (526)</u>	<u>\$ 19,204</u>	<u>\$ 3,261</u>
EARNINGS (LOSS) PER SHARE				
Basic	<u>\$ 0.13</u>	<u>\$ (0.01)</u>	<u>\$ 0.31</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.13</u>	<u>\$ (0.01)</u>	<u>\$ 0.31</u>	<u>\$ 0.05</u>
WEIGHTED AVERAGE SHARES				
Basic	<u>62,685</u>	<u>62,460</u>	<u>62,662</u>	<u>62,438</u>
Diluted	<u>63,011</u>	<u>62,460</u>	<u>62,906</u>	<u>62,667</u>

See notes to condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 112,064	\$ 116,114
Marketable securities - available-for-sale	—	26
Accounts receivable, net of allowance of \$506 in 2009 \$469 in 2008	18,690	24,495
Due from DHL	58,639	63,362
Inventory	7,611	11,259
Prepaid supplies and other	8,122	11,151
Deferred income taxes	20,171	20,172
Aircraft and engines held for sale	32,901	2,353
TOTAL CURRENT ASSETS	<u>258,198</u>	<u>248,932</u>
Property and equipment, net	627,768	671,552
Other assets	23,265	25,281
Deferred income taxes	14,973	54,807
Intangibles	10,557	11,000
Goodwill	89,777	89,777
TOTAL ASSETS	<u>\$1,024,538</u>	<u>\$1,101,349</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 30,625	\$ 36,618
Accrued salaries, wages and benefits	40,259	63,500
Accrued severance and retention	45,301	67,846
Accrued expenses	15,161	13,772
Current portion of debt obligations	62,774	61,858
Unearned revenue	9,232	14,813
TOTAL CURRENT LIABILITIES	<u>203,352</u>	<u>258,407</u>
Long-term obligations	380,225	450,628
Post-retirement liabilities	269,886	294,881
Other liabilities	17,163	17,041
Commitments and contingencies (Note H)		
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; 63,493,234 and 63,247,312 shares issued and outstanding in 2009 and 2008, respectively	635	632
Additional paid-in capital	490,349	460,155
Accumulated deficit	(226,330)	(245,534)
Accumulated other comprehensive loss	(110,742)	(134,861)
TOTAL STOCKHOLDERS' EQUITY	<u>153,912</u>	<u>80,392</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$1,024,538</u>	<u>\$1,101,349</u>

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30	
	2009	2008
OPERATING ACTIVITIES:		
Net earnings	\$ 19,204	\$ 3,261
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	42,876	44,170
Pension and post-retirement amortization	17,035	3,491
Deferred income taxes	9,323	2,510
Amortization of stock-based compensation	710	1,202
Gains on asset disposition, net of impairments	(2,099)	(819)
Changes in assets and liabilities:		
Accounts receivable	10,528	18,011
Inventory and prepaid supplies	5,653	1,502
Accounts payable	(6,133)	(11,000)
Unearned revenue	(6,609)	8,180
Accrued expenses, salaries, wages and benefits and other liabilities	(43,812)	(9,728)
Post-retirement liabilities	(6,300)	8,517
Other	3,315	3,711
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>43,691</u>	<u>73,008</u>
INVESTING ACTIVITIES:		
Capital expenditures	(31,364)	(53,959)
Proceeds from the sale of property and equipment	6,808	6,469
Proceeds from redemptions of marketable securities	26	48,389
Long-term deposits	—	(9,000)
Acquisition of CHI	—	(3,840)
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(24,530)</u>	<u>(11,941)</u>
FINANCING ACTIVITIES:		
Principal payments on borrowings	(23,211)	(57,668)
Proceeds from borrowings	—	20,000
NET CASH (USED IN) FINANCING ACTIVITIES	<u>(23,211)</u>	<u>(37,668)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(4,050)</u>	<u>23,399</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>116,114</u>	<u>59,271</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$112,064</u>	<u>\$ 82,670</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of amount capitalized	<u>\$ 13,509</u>	<u>\$ 17,873</u>
Income taxes paid	<u>\$ 1,922</u>	<u>\$ —</u>
SUPPLEMENTAL NON-CASH INFORMATION:		
Accrued aircraft modification expenditures	<u>\$ 2,204</u>	<u>\$ 6,166</u>

See notes to condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009

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

The interim period consolidated financial statements of Air Transport Services Group, Inc. and its subsidiaries (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America and rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information, footnotes and disclosures required by generally accepted accounting principles for complete financial statements and are unaudited. The results of operations and cash flows for any interim periods are not necessarily indicative of results that may be reported for the full year. The December 31, 2008 financial amounts are extracted from the annual audited financial statements.

The Company evaluated subsequent events through the date the financial statements were issued and filed with the Securities and Exchange Commission, which was August 10, 2009. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Nature of Operations

The Company includes three independently certificated airlines through its wholly-owned subsidiaries. Its airline subsidiaries are ABX Air, Inc. (“ABX”), Capital Cargo International Airlines, Inc. (“CCIA”), and Air Transport International, LLC (“ATI”). The airlines primarily operate as cargo airlines within the U.S. The Company’s operations include a wholly-owned aircraft leasing business, Cargo Aircraft Management, Inc. (“CAM”). CAM leases aircraft to each of the Company’s airlines as well as to non-affiliated airlines.

DHL, an international, integrated delivery company, is the Company’s largest customer, accounting for 63% of the Company’s revenues in the second quarter of 2009. Under an aircraft, crew, maintenance and insurance agreement (“ACMI agreement”) and a Hub Services agreement, ABX provides airlift, package handling, and other cargo-related services to DHL Express (USA), Inc. and DHL Network Operations (USA), Inc. (collectively, “DHL”). Through its airline subsidiaries, the Company provides airlift to other customers typically through ACMI agreements. At June 30, 2009, ABX had 12 Boeing 767-200 freighter aircraft in service that were not under the DHL ACMI agreement, while CCIA and ATI had 16 aircraft and 18 aircraft in revenue service, respectively. CCIA and ATI each have contracts to provide airlift to BAX Global, Inc. (“BAX”) under ACMI agreements. BAX provides freight transportation and supply chain management services, specializing in the heavy freight market for business-to-business shipping. 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 (i) sells aircraft parts and provides aircraft and equipment maintenance services; (ii) operates three sorting facilities for the U.S. Postal Service (“USPS”); and (iii) and provides specialized services for aircraft fuel management and freight logistics.

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, labor contract settlements, post-retirement obligations, income taxes, contingencies and litigation. Changes in these estimates and assumptions may have a material impact on the consolidated financial statements.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions are 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 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 are financially sound.

Inventory

The Company's inventory is comprised primarily of expendable spare parts and supplies used for internal consumption. 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. Inventory amortization 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 calendar 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.

Marketable Securities

Marketable securities classified as available-for-sale are recorded at their estimated fair market values, and any unrealized gains and losses are included in accumulated other comprehensive income or loss within stockholders' equity, net of tax. Interest on marketable securities is included in interest income. Realized gains and losses of any securities sold are based on the specific identification method.

Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, "Accounting for Goodwill and Other Intangible Assets" ("SFAS 142"), the Company assesses, during the fourth quarter of each year, whether acquired goodwill is impaired. Additional 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. Indefinite-lived intangible assets are not amortized but are assessed for impairment annually in the fourth quarter.

Property and Equipment

Property and equipment are stated at cost, net of any impairment recorded, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). 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	5 to 20 years
Package handling and ground 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 capacity exists in the air or ground networks, 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 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. 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 airframe and engine overhauls 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 \$0.6 million for the quarters ended June 30, 2009 and 2008, respectively and \$1.0 million and \$1.9 million for the six month period ended June 30, 2009 and 2008 respectively.

Exit Activities

The Company accounts for the costs associated with exit activities in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." One-time, involuntary employee termination benefits are generally expensed when the Company communicates the benefit arrangement to the employee and requires no significant future services, other than a minimum retention period, for the employee to earn the termination benefits. Liabilities for contract termination costs associated with exit activities are recognized in the period incurred and measured initially at fair value. Pension obligations are accounted for in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," in the event that a significant number of employees are terminated or a pension plan is suspended.

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.

Under FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"), the Company recognizes the impact 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 provision 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 (loss) includes net earnings or loss and other comprehensive income or loss. Other comprehensive income or loss results from changes in the Company's pension liability, unrealized gains and losses on available-for-sale marketable securities 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.

Revenue Recognition

Revenues from DHL are determined based on expenses incurred during a period under the two commercial agreements with DHL and are recognized when the related services are performed. Except for the amendments described below, expenses incurred under these agreements are generally subject to a base mark-up of 1.75%, which is recognized in the period the expenses are incurred. Certain costs, the most significant of which include fuel, interest on the promissory note due to DHL, rent and ramp and landing fees incurred under the two commercial agreements are reimbursed and included in revenues without mark-up.

Both agreements also allow the Company to earn incremental mark-up above the base 1.75% mark-up (up to 1.60% under the ACMI agreement, and 2.10% under the Hub Services agreement) as determined from the achievement of certain cost-related and service goals outlined in the two commercial agreements. The agreements stipulate the setting of quarterly and annual cost-related goals and annual service goals expressly specified in each of the two agreements. The Company measures quarterly goals and records incremental revenues in the quarter in which earned. Historically, at the end of each fiscal year, the Company measures the achievement of annual goals and records any incremental revenues earned by achieving the annual goals during the fourth quarter.

ABX and DHL amended the ACMI agreement and the Hub Services agreement to set the base mark-up and incremental mark-up to specific amounts for the first and second quarters of 2009. Under these revenue amendments, annual goals were not set for 2009, nor was a quarterly cost goal. Instead, the agreed revenue for the first and second quarters of 2009 includes amounts to replace the incremental revenues. In 2008, ABX and DHL executed a severance and retention agreement (“S&R agreement”) which specifies employee severance, retention and other benefits that DHL reimburses ABX for payment to its employees that are displaced in conjunction with DHL’s U.S. restructuring plan. DHL reimburses 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 and second quarters of 2009 includes reimbursement for expenses incurred under the commercial agreements, the incremental revenues set by the revenue amendments and reimbursement for employee severance, retention and other benefit costs incurred during the quarter.

ACMI revenues from customers other than DHL are typically recognized based on hours flown or the amount of aircraft and crew resources provided during a reporting period. Charter service revenues are recognized on scheduled and non-scheduled flights when the specific flight has been completed. Aircraft parts and fuel sales are recognized when the parts and fuel are delivered. Revenues earned and expenses incurred in providing aircraft-related maintenance repair services or technical maintenance 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 service.

New Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (“FASB”) affirmed FSP No. FAS 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets” (“FSP FAS 132(R)-1”). FSP FAS 132(R)-1 requires additional disclosures about assets held in an employer’s defined benefit pension or other postretirement plan, primarily related to categories and fair value measurements of plan assets. FSP FAS 132(R)-1 is effective for the Company as of December 31, 2009. Because FSP FAS 132(R)-1 applies only to financial statement disclosures, the adoption will not have a material effect on the Company’s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166 “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140” (“SFAS 166”). SFAS 166 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. SFAS 166 is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The Company is evaluating the impact the adoption of SFAS 166 will have on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167 “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”). SFAS 167 improves financial reporting by enterprises involved with variable interest entities and to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities”, as a result of the elimination of the qualifying special-purpose entity concept in SFAS 166 and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise’s involvement in a variable interest entity. SFAS 167 is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is evaluating the impact the adoption of SFAS 167 will have on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168 “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162”. The FASB Accounting Standards Codification (“Codification”) will be the single source of authoritative nongovernmental U.S. generally accepted accounting principles (“GAAP”). Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards are superseded as described in SFAS 168. All other accounting literature not included in the Codification is nonauthoritative. The Codification is not expected to have a significant impact on the Company’s consolidated financial statements.

NOTE B—SIGNIFICANT CUSTOMERS

DHL

Pursuant to its 2008 restructuring plans, DHL discontinued intra-U.S. domestic pickup and delivery services in January 2009. DHL now provides only international services to and from the U.S. In January 2009, the regional sorting hubs staffed by ABX were closed, the sort operations in Wilmington, Ohio were downsized to process only international shipments and all of ABX’s remaining 32 DC-9 aircraft were terminated from the DHL ACMI agreement. In March 2009, DHL gave ABX notice to remove five Pratt & Whitney powered Boeing 767 aircraft having a net book value of approximately \$24.0 million, from the DHL network. Further, on April 17, 2009 DHL announced that it planned to relocate its package sorting and aircraft hub operations from the DHL Air Park in Wilmington, Ohio to the Cincinnati/Northern Kentucky International Airport in Hebron, Kentucky (“CVG”). On May 12, 2009, DHL notified ABX that DHL will not be renewing the Hub Services agreement when its term expires on August 15, 2009. On July 24, 2009, sort operations in Wilmington were terminated and the sorting and hub operations were transferred to CVG. ABX is assisting DHL with the transition from Wilmington to CVG and will provide sort staffing for the CVG operations through August 2009.

Revenues from the Hub Services agreement were \$37.0 million and \$98.8 million for the second quarter and first six months of 2009 respectively. Pre-tax earnings from the Hub Services agreement were \$2.0 million, or 17% of consolidated pre-tax earnings, for the second quarter of 2009 and \$6.6 million, or 22% of consolidated pre-tax earnings, for the first six months of 2009. In conjunction with the transfer of the aircraft hub operations to CVG in July 2009, ABX is no longer providing aircraft fuel for its aircraft that remain in the DHL network. Revenues from fuel were \$11.6 million and \$26.7 million for the second quarter and first six months of 2009 respectively. ABX did not earn a mark-up on fuel used within the DHL network.

Through June 30, 2009, ABX has terminated the employment of approximately 8,000 people since DHL’s restructuring began in mid-2008. During the second quarter and first six months of 2009, hours paid to employees declined approximately 72% and 66% respectively, compared to the corresponding periods of 2008, primarily due to DHL’s restructuring plans. Employees receive severance, retention and other benefits under the S&R agreement executed between ABX and DHL. The S&R agreement specifies employee severance, retention and other benefits that DHL will pay to ABX in conjunction with its U.S. restructuring plan. The same agreement includes provisions to pay ABX for crewmember benefits if ABX and the collective bargaining unit for the crewmembers can reach an agreement in regards to the use of those funds for severance, pension funding or other issues arising from DHL’s U.S. restructuring plan.

ABX currently remains the primary provider of airlift capacity for DHL's U.S. based international delivery network through its fleet of Boeing 767 aircraft. In addition to Boeing 767 aircraft provided under the primary ACMI agreement, ABX is also supplying DHL with five Boeing 767 standard freighters under supplemental, short-term, ACMI arrangements. In June 2009, ABX and DHL entered into a lease option agreement for four ABX Boeing 767 standard freighter aircraft under 64.5 month lease terms, commencing August 15, 2010. Additionally, ABX and DHL are discussing long-term leases for eight to ten of ABX's Boeing 767 aircraft as they are converted to standard freighter configuration.

On August 7, 2009, DHL notified ABX that DHL will not be renewing the ACMI agreement when its initial term expires on August 15, 2010. DHL has expressed its interest to contract with the Company for aircraft dry lease and aircraft operations under competitive, commercial terms after the current ACMI agreement expires in 2010. DHL's decision to terminate the ACMI agreement in 2010, adds impetus to management's strategy of modifying ABX's non-standard Boeing 767 aircraft into standard freighter configuration. Interest in efficient, reliable Boeing 767 aircraft remains strong. As the modified Boeing 767 aircraft become available for service, management anticipates that some portion of them will be leased to other airlines, while some may be operated by an ATSG airline. Management will make the decision to redeploy each modified aircraft either into airline operations or into leasing arrangements, depending on which alternative will generate the higher return on capital.

The Company's balance sheets included the following balances related to revenue transactions with DHL (in thousands):

	June 30, 2009	December 31, 2008
Assets (Liabilities):		
Accounts receivable	\$ 58,639	\$ 63,362
Aircraft put to DHL	31,293	393
Accounts payable	(189)	(392)
Accrued severance and retention	(45,301)	(67,846)
Unearned revenue	(6,535)	(8,749)
Net asset (liability)	<u>\$ 37,907</u>	<u>\$ (13,232)</u>

Aircraft for sale as of June 30, 2009 includes approximately \$31.3 million for aircraft that ABX has put to DHL but for which the sale has not been completed. Under the terms of the ACMI agreement, the aircraft were valued by an independent aircraft appraiser and put to DHL at the lower of fair market value or net book value. DHL has subsequently asserted that the aircraft have a fair market value of only \$22.7 million. If DHL continues its assertion, ABX may initiate the resolution process prescribed in the ACMI agreement.

Through June 30, 2009, ABX has paid terminating employees approximately \$15.1 million for accrued vacation benefits since DHL's restructuring began in mid-2008. DHL is obligated to reimburse ABX for the amounts it paid to its terminating employees for their accrued vacation benefits. In March 2009, after auditing ABX's payments to terminating employees for vacation, DHL paid ABX \$3.2 million for invoices specifically for 2008 vacation reimbursement. As of June 30, 2009, accounts receivable includes approximately \$7.1 million due from DHL for the reimbursement of accrued vacation benefits that ABX paid as employees were terminated in the first quarter of 2009. In late May 2009, DHL expressed to the Company that it believes it may not be obligated to reimburse ABX for any of the vacation benefits. The Company's financial results do not reflect the recognition of \$4.8 million for reimbursement that is due to ABX for vacation payments made in the second quarter of 2009 because the revenue recognition requirements under U.S. generally accepted accounting principles ("GAAP") were not met. After reevaluating DHL's contractual obligations, management believes that ABX will fully recover the \$7.1 million paid in the first quarter of 2009 and expects to recognize the reimbursement for the second quarter payments after reimbursement from DHL becomes assured through further discussions or legal action, if necessary.

Revenues from contracted services performed for DHL were approximately 63% and 71% of the Company's total revenues for the three months ended June 30, 2009 and 2008, respectively, and 65% and 73% of consolidated revenues for the six month periods ended June 30, 2009 and 2008, respectively.

As specified in the two commercial agreements with DHL, ABX is advanced funds on the first business day of each week for the costs budgeted to be incurred for the upcoming week. Unearned revenue reflects the portion of a scheduled payment from DHL that relates to revenues earned in the next quarter. Accounts receivable is primarily from the revenues earned under the commercial agreements. Accounts payable is interest payable on the promissory note.

BAX Global

A substantial portion of the Company's revenues, cash flows and liquidity are also dependent on BAX. Revenues from services performed for BAX were approximately 17% and 16% of the Company's total revenues for the three months ended June 30, 2009 and 2008, respectively, and 15% of consolidated revenues for the six month periods ended June 30, 2009 and 2008, respectively. Under its agreement with BAX, CHI has the right to be the exclusive provider of main deck freighter lift in the BAX U.S. network through December 31, 2011.

The Company's balance sheets include the following balances related to revenue transactions with BAX (in thousands):

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Assets (Liabilities):		
Accounts receivable	\$2,619	\$ 2,101
Accounts payable	(509)	(1,529)
Net asset	<u>\$2,110</u>	<u>\$ 572</u>

NOTE C—WIND-DOWN COSTS

As a result of DHL's U.S restructuring plan, the Company has incurred costs to reduce the scope of its operations. Under the S&R agreement between DHL and ABX, the severance and retention benefits provided to employees are refunded to ABX by DHL after payments are made by ABX. Wind-down expenses are reflected in the DHL segment. All expenses related to employee severance and retention benefits are included in salaries, wages, and benefits. The wind-down expenses incurred through June 30, 2009 are summarized below (in thousands):

	<u>Severance Benefits</u>	<u>Retention Benefits</u>	<u>Total</u>
Accrued costs at December 31, 2008	\$ 28,920	\$ 38,926	\$ 67,846
Costs incurred	33,636	24,836	58,472
Costs paid	(45,119)	(35,898)	(81,017)
Accrued costs at June 30, 2009	<u>\$ 17,437</u>	<u>\$ 27,864</u>	<u>\$ 45,301</u>

Future wind-down costs are expected to include additional severance benefits as more ABX employees are terminated, as well as the cost to terminate aircraft maintenance contracts. In April 2009, ABX and DHL amended the S&R agreement to provide for additional retention bonuses for covered employees who remain employed through August 31, 2009. As a result of DHL's restructuring plans for the U.S., the Company estimates the total employee severance and retention benefits that it will pay and for which DHL is obligated to reimburse, will exceed \$200 million. The actual cost will depend on the size and timing of DHL business reductions. In addition to severance and retentions benefits, ABX paid terminated employees \$11.9 million for accrued vacation benefits during the first six months of 2009. The Company estimates that it will pay \$5.8 million more for accrued vacation benefits as employees terminate. At this time, it is not reasonably possible to estimate other wind-down costs.

NOTE D—FAIR VALUE MEASUREMENTS

The Company's money market funds, short-term available-for-sale securities 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 short-term available-for-sale securities are based on quoted prices in active markets for identical assets (Level 1). The fair value of the Company's derivative financial instruments is 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 as of June 30, 2009 (in thousands):

	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents - money market	\$23,903	\$ —	\$ —	\$23,903
Liabilities				
Interest rate swap	\$ —	\$(3,297)	\$ —	\$(3,297)

SFAS No. 157, "Fair Value Measurements" ("SFAS 157") 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.

The carrying amounts for accounts receivable, accounts payable and accrued liabilities approximate fair value. As a result of higher 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 \$91.0 million less than the carrying value, which was \$443.0 million at June 30, 2009.

NOTE E—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 June 30, 2009 have been estimated utilizing a 37.5% 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 2009 will depend on the actual amount of pre-tax book income generated by the Company for the full year.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Internal Revenue Service ("IRS") recently completed the examinations of CHI and ABX for the tax years through December 31, 2006. The CHI examination also covered the 2007 tax year. The examinations resulted in no changes to taxable income. These returns continue to be subject to examination by the IRS to the extent of net operating loss carryovers, and fully subject to examination by other jurisdictional authorities. The 2007 ABX tax return remains open to examination in all relevant taxing jurisdictions.

The Company reduced deferred tax assets for net operating loss carry forwards by \$16.8 million in 2009 to reflect the tax effect associated with the extinguishment of debt (See Note G).

NOTE F—PROPERTY AND EQUIPMENT

At June 30, 2009, the Company's subsidiaries operated 67 aircraft, consisting of 35 Boeing 767, two Boeing 757, 14 Boeing 727, and 16 McDonnell Douglas DC-8 aircraft. During the first six months of 2009, CAM leased four aircraft with a cost of \$79.4 million and accumulated depreciation of \$3.9 million to external customers. The aircraft are recorded in aircraft and flight equipment.

Property and equipment, to be held and used, consisted of the following (in thousands):

	June 30, 2009	December 31, 2008
Aircraft and flight equipment	\$ 806,762	\$ 899,315
Support equipment	51,149	50,823
Vehicles and other equipment	1,830	1,832
Leasehold improvements	1,255	1,272
	<u>860,996</u>	<u>953,242</u>
Accumulated depreciation	(233,228)	(281,690)
Property and equipment, net	<u>\$ 627,768</u>	<u>\$ 671,552</u>

Property and equipment includes \$59.1 million of property held under capital leases as of June 30, 2009 and \$55.0 million as of December 31, 2008. Accumulated depreciation and amortization includes \$21.6 million as of June 30, 2009 and \$17.5 million as of December 31, 2008 for property held under capital leases.

Aircraft and Engines Held For Sale

In December 2008, ABX received notice from DHL that ABX's remaining 32 DC-9 aircraft would not be needed in the DHL network after January 2009. Accordingly, in January 2009, these aircraft were removed from service. During 2009, ABX put to DHL the 32 DC-9 aircraft that were removed from service under the ACMI agreement. In March 2009, DHL gave ABX notice to remove five Pratt & Whitney powered Boeing 767 aircraft from the DHL network. ABX put these Boeing 767 aircraft to DHL in the second quarter of 2009, pursuant to the put option included in the ACMI agreement.

At June 30, 2009, ABX held spare engines and aircraft that had been removed from DHL service. At June 30, 2009, \$31.3 million of the \$32.9 million balance reflects Boeing 767 and McDonnell Douglas DC-9 aircraft that were put to DHL, but for which the sales have yet to be completed pending agreement on the sales price (see Note B). The remaining aircraft and engines held for sale are being marketed to parts dealers and private operators or are being used for spare parts. Gains or losses from the sale of aircraft and spare engines are recorded in other operating expenses on the statement of operations.

NOTE G—DEBT OBLIGATIONS

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

	June 30, 2009	December 31, 2008
Unsubordinated term loan	\$211,375	\$ 222,500
Revolving credit facility	18,500	18,500
Aircraft loans	103,407	106,928
Capital lease obligations-Boeing 767	47,498	52,864
Capital lease obligations-Boeing 727	15,584	18,648
Promissory note due to DHL, unsecured	46,000	92,276
Other capital leases	635	770
Total long-term obligations	442,999	512,486
Less: current portion	(62,774)	(61,858)
Total long-term obligations, net	<u>\$380,225</u>	<u>\$ 450,628</u>

The Company entered into a Credit Agreement with a consortium of lenders on December 31, 2007 that provides for a \$75.0 million revolving credit facility and an unsubordinated term loan through December 2012. The unsubordinated term loan and the revolving credit facility are 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 Credit Agreement, interest rates are adjusted quarterly based on the Company's earnings before interest and taxes and on prevailing LIBOR or prime rates. At June 30, 2009, the unsubordinated term loan bears a variable interest rate of LIBOR (90-day) plus 2.63% (3.23% at June 30, 2009). The agreement provides for the issuance of letters of credit on the Company's behalf. As of June 30, 2009, the unused revolving credit facility totaled \$39.5 million, net of draws of \$18.5 million and outstanding letters of credit of \$17.0 million. The revolving credit facility at June 30, 2009 carried an interest rate of LIBOR (30-day) plus 2.63% (2.95% at June 30, 2009).

In January, 2008, DHL made a demand for payment in full of the unsecured promissory note. In its demand, DHL asserted that the acquisition by the Company of Cargo Holding International, Inc ("CHI") and the related financing transaction, which closed on December 31, 2007, constituted a "change of control" under the terms of the promissory note. On March 16, 2009, the Company and DHL reached a binding agreement to amend the promissory note. On May 8, 2009, the promissory note was formally amended. DHL agreed it would relinquish its claim that the Company's acquisition of CHI and the related financing transaction, constituted a "change of control." The Company agreed to pay DHL \$15.0 million of the principal balance, while DHL agreed to extinguish an additional \$46.3 million of principal balance. In March 2009, the Company recorded the extinguishment of \$46.3 million as a capital transaction due to ABX's relationship with DHL stemming from ABX's separation from Airborne, Inc. in August 2003. Net of the income tax effects, paid in capital increased by \$29.5 million due to the extinguishment. Based on the anticipated principal payment in 2009, the Company's balance sheet as of June 30, 2009, reflects the \$15.0 million as a current liability. The due date for the remaining \$31.0 million remains unchanged - August 2028. Until that time, the promissory note continues to bear interest at a rate of 5% per annum and DHL will continue to reimburse ABX the interest expense from the note at least through 2012.

The aircraft loans are collateralized by seven aircraft, and fully amortize by 2018 with interest rates ranging from 6.74% to 7.36% per annum payable monthly. The capital lease obligations for five Boeing 767 aircraft consist of two different leases, both expiring in 2011 with options to extend into 2017. The capital lease payments for three of the five aircraft include quarterly principal and variable interest of LIBOR (90-day) plus 2.50% (3.31% at June 30, 2009). The capital lease for the other two Boeing 767 aircraft carries a fixed implicit interest rate of 8.55%. Capital lease obligations for seven Boeing 727 aircraft carry a fixed implicit rate of 6.50% and expire between 2010 and 2012. At the termination of the leases, the Company is subject to normal aircraft return provisions for maintenance of the aircraft.

In June 2009, ABX entered into a Lease Assumption and Option Agreement with DHL pursuant to which DHL has (i) assumed financial responsibility for the capital leases associated with five Boeing 767 aircraft that ABX is currently operating on behalf of DHL under the ACMI agreement; and (ii) the option to lease up to four Boeing 767-200 freighter aircraft from ABX. ABX agreed that, upon DHL's request, it will continue operating the five Boeing 767 aircraft under the ACMI agreement. ABX also granted DHL a credit of \$2.5 million as prepaid rent toward each of the four lease option aircraft, conditioned upon extinguishment or assignment of the capital leases to DHL. DHL has until February 15, 2010 to exercise its lease option for one or more of the aircraft. If DHL foregoes its lease option with respect to one or more aircraft, ABX will be required to pay to DHL \$2.5 million for each option that was not exercised. As of June 30, 2009, the Company's balance sheet reflected approximately \$47.5 million of debt obligations and \$20.9 million of net book value related to five Boeing 767 capital lease aircraft.

In July 2009, the lease agreements for three of the five Boeing 767 capital lease aircraft were settled and terminated with the lessor. Accordingly, the Company will record the debt extinguishment, remove the related aircraft book values and record the prepaid rent liability during the third quarter of 2009 as a capital transaction.

Under the Credit Agreement, the Company is subject to expenses, covenants and warranties that are usual and customary. The Credit Agreement contains covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, and the level of annual capital expenditures. The Credit Agreement stipulates events of default, including unspecified events that may have material adverse effects on the Company. If a lender within the Credit Agreement declares a material adverse event (“MAE”), availability under the revolving credit facility will be reduced by that lender’s portion of the facility. Further, the Credit Agreement provides that if lenders having more than half of the outstanding dollar amount of the commitments assert that an MAE exists at the time the Company attempts to borrow under the Credit Facility, the lenders can assert that an event of default exists under the Credit Agreement and require the lead bank to exercise its remedies. If an event of default occurs, the Company may be forced to repay, renegotiate or replace the Credit Agreement. The conditions of the Credit Agreement and the aircraft loans cross-default. The Company is currently in compliance with the financial covenants specified in the Credit Agreement.

NOTE H—COMMITMENTS AND CONTINGENCIES

Leases

The Company leases airport facilities and certain operating equipment under long-term operating lease agreements. ABX leases portions of the DHL Air Park, the term of which expires at the end of the transition period that follows the termination of the ACMI agreement.

Commitments

On September 15, 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. At June 30, 2009, the Company owned two Boeing 767 aircraft that were in modification from passenger door freighter to standard freighter configuration. The Company added a third aircraft into the modification process in July 2009. The Company anticipates costs of approximately \$19.6 million to complete the modification of these aircraft. If CAM were to cancel the conversion program as of June 30, 2009, it would owe IAI, in addition to payments for aircraft currently undergoing modification, approximately \$3.9 million for non-recurring engineering costs and approximately \$4.9 million associated with additional conversion part kits which have been ordered.

Additionally, the Company is committed to purchase another Boeing 767 for approximately \$23.0 million after the aircraft is completely modified to freighter configuration in 2009.

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 ordinary 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.

Department of Transportation (“DOT”) Continuing Fitness Review

ABX filed a notice of substantial change with the DOT arising from its separation from Airborne, Inc. In connection with the filing, which was initially made in mid-July of 2003 and updated in April of 2005 and again in September of 2007, the DOT will determine whether ABX continues to be a U.S. citizen and fit, willing and able to engage in air transportation of cargo.

Under U.S. laws and DOT precedents, non-U.S. citizens may not own more than 25% of voting equity or have actual control of a U.S. certificated air carrier. The DOT may determine that DHL actually controls ABX as a result of its commercial arrangements (in particular, the ACMI agreement and Hub Services agreement) with DHL. If the DOT determines that ABX is controlled by DHL, the DOT could require amendments or modifications of the ACMI and/or other agreements between ABX and DHL. If ABX were unable to modify such agreements to the satisfaction of the DOT, the DOT could seek to suspend, modify or revoke ABX’s air carrier certificates and/or authorities, and this would materially and adversely affect the business.

The DOT has yet to specify the procedures it intends to use in processing ABX’s filing.

Alleged Violations of Immigration Laws

ABX reported in January of 2005 that it was cooperating fully with an investigation by the U.S. Department of Justice (“DOJ”) with respect to Garcia Labor Co., Inc., (“Garcia”) a temporary employment agency based in Morristown, Tennessee, and ABX’s use of contract employees that were being supplied to it by Garcia. The investigation concerns the immigration status of the Garcia employees assigned to ABX.

ABX terminated its contract with Garcia in February of 2005 and replaced the Garcia employees.

In October of 2005, the DOJ notified ABX that ABX and a few Company employees in its human resources department, in addition to Garcia, were targets of a criminal investigation. ABX cooperated fully with the investigation. In June of 2006, a non-senior management employee of the Company entered a plea to a misdemeanor related to this matter. In July of 2006, a federal grand jury indictment was unsealed charging two Garcia companies, the president of Garcia and two of their corporate officers with numerous counts involving the violation of federal immigration laws. The Garcia defendants subsequently entered guilty pleas in U.S. district court and were sentenced in February and March of 2007. No proceedings have been initiated against ABX by the DOJ. While ABX believes it has adequately reserved for potential losses stemming from the investigation, it’s possible that, in the event proceedings were initiated against ABX that resulted in an adverse finding, ABX could be subjected to a financial penalty that is materially greater than the amount it has accrued and restrictions on its ability to engage in business with agencies of the U.S. Government.

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 seeks damages in an unspecified amount, 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 January 23, 2009, ABX and the four current and former executives and managers of ABX filed an answer denying the allegations contained in the complaint. On July 24, 2009, ABX and the current and former executives of ABX filed a motion to dismiss the complaint; which motion is currently pending.

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.

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 June 30, 2009, all of the flight crewmembers of ABX, ATI and CCIA were covered under collective bargaining agreements, which are summarized in the following table:

Airline	Labor Agreement Unit	Date Contract Became Amendable	Percentage of Company’s Employees
ABX	International Brotherhood of Teamsters	July 31, 2006	9.7%
ATI	International Brotherhood of Teamsters	May 1, 2004	4.9%
CCIA	Airline Pilots Association	March 31, 2004	3.7%

NOTE I—COMPONENTS OF NET PERIODIC BENEFIT COST

ABX sponsors a qualified defined benefit pension plan for its flight crewmembers and a qualified defined benefit pension plan for certain of its other 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, which is unfunded.

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. The Company's net periodic benefit cost for its qualified defined benefit pension and post-retirement healthcare plans are as follows (in thousands):

	Three Months Ended June 30				Six Months Ended June 30			
	Pension Plans		Post-retirement Healthcare Plan		Pension Plans		Post-retirement Healthcare Plan	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	\$ 3,470	\$ 8,328	\$ 153	\$ 467	\$ 6,940	\$ 16,656	\$306	\$ 934
Interest cost	9,434	9,631	10	466	18,868	19,262	20	932
Expected return on plan assets	(7,104)	(9,092)	—	—	(14,209)	(18,184)	—	—
Curtailement loss	1,827	—	—	—	1,827	—	—	—
Amortization of prior service cost	619	1,247	—	—	1,238	2,494	—	—
Amortization of net loss	7,912	480	—	18	15,824	960	—	36
Net periodic benefit cost	<u>\$16,158</u>	<u>\$10,594</u>	<u>\$ 163</u>	<u>\$ 951</u>	<u>\$ 30,488</u>	<u>\$ 21,188</u>	<u>\$326</u>	<u>\$1,902</u>

In June 2009, after revaluing pension assets and liabilities due to employee terminations, the Company reduced pension liabilities by \$16.9 million to reflect curtailment of benefits and changes in actuarial assumptions and assets since the previous revaluation on December 31, 2008. The Company revoked its previously announced decision to freeze benefits of ABX's largest defined benefit pension plan for non-pilots. Employees within the plan continue to earn retirement benefits without interruption. During the three and six month periods ended June 30, 2009, the Company paid \$10.5 and \$21.4 million of contributions to its defined benefit pension plans, respectively. The Company presently anticipates contributing at least \$27.2 million to fund its pension plans during the remainder of 2009 for a total of \$48.6 million.

NOTE J—DERIVATIVE INSTRUMENTS

To reduce the effects of fluctuating LIBOR-based interest rates on interest payments that stem from its variable rate outstanding debt, the Company entered into interest rate swaps having combined notional values of \$135.0 million in January 2008. The notional values step downward in conjunction with the underlying debt through December 31, 2012. Under the interest rate swap agreements, the Company will pay a fixed rate of 3.105% and receive a floating rate that resets quarterly based on LIBOR. For the outstanding notional value, the Company expects that the amounts received from the floating leg of the interest rate swap will offset fluctuating payments for interest expense because interest rates for its outstanding debt and the interest rate swap are both based on LIBOR and reset quarterly. The Company accounts for the interest rate swaps as cash flow hedges.

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 at June 30, 2009 (in thousands):

<u>Expiration Date</u>	<u>Notional Amount</u>	<u>Stated Interest Rate</u>	<u>Market Value (Liability)</u>
12/31/2012	\$80,750	3.105%	\$ (2,079)
12/31/2012	47,500	3.105%	(1,218)

To reduce its exposure to rising interest rates on anticipated aircraft financing transactions, during the first quarter of 2006, the Company entered into five forward treasury lock agreements ("treasury locks") with settlement dates near the forecasted execution dates of the anticipated financing transactions. The Company anticipated aircraft financing under fixed interest rate loans based on the interest rates of ten-year U.S. Treasury Notes. The values of the treasury locks were based on the ten-year U.S. Treasury interest rates, effectively offsetting the effect of changing interest rates on the anticipated loan transactions. The final remaining treasury lock was with a major U.S. financial institution and settled in cash in July 2007. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company accounted for the treasury locks as cash flow hedges. The treasury locks were evaluated and deemed to be highly effective as hedges at inception and upon expiration. The Company recorded unrealized gains or losses resulting from the changes in fair value in the consolidated balance sheets under accumulated other comprehensive income in stockholders' equity. These gains and losses are recognized into earnings over the terms of the loan transactions.

At June 30, 2009, accumulated other comprehensive loss included unrecognized losses of \$1.8 million net of tax for derivative instruments.

NOTE K—COMPREHENSIVE INCOME AND PAID IN CAPITAL

Comprehensive income includes the following transactions for the three and six month periods ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30			Six Months Ended June 30		
	Before Tax	Income Tax (Expense) Benefit	Net of Tax	Before Tax	Income Tax (Expense) Benefit	Net of Tax
2009						
Net income			\$ 8,107			\$19,204
Other comprehensive income:						
Actuarial gain for pension liabilities	\$18,695	\$ (6,786)	11,909	\$18,695	\$ (6,786)	11,909
Unrealized gain on marketable securities	—	—	—	—	20	20
Unrealized gain on hedge derivatives	1,966	(714)	1,252	2,160	(784)	1,376
Reclassifications to net income:						
Hedging gain realized in net income	(29)	11	(18)	(58)	21	(37)
Pension actuarial loss	7,912	(2,872)	5,040	15,824	(5,744)	10,080
Post-retirement actuarial loss	(13)	5	(8)	(27)	10	(17)
Pension prior service cost	619	(225)	394	1,238	(450)	788
Total other comprehensive income	\$29,150	\$ (10,581)	18,569	\$37,832	\$ (13,713)	24,119
Comprehensive income			\$26,676			\$43,323
2008						
Net income (loss)			\$ (526)			\$ 3,261
Other comprehensive income:						
Unrealized gain (loss) on marketable securities	\$ 18	\$ (7)	11	\$ 7	\$ (3)	4
Unrealized gain on hedge derivatives	4,499	(1,633)	2,866	4,375	(1,588)	2,787
Reclassifications to net income:						
Hedging gain realized in net income	(31)	11	(20)	(62)	22	(40)
Pension actuarial loss	480	(174)	306	961	(348)	613
Post-retirement actuarial loss	18	(7)	11	36	(13)	23
Pension prior service cost	1,247	(453)	794	2,494	(905)	1,589
Total other comprehensive income	\$ 6,231	\$ (2,263)	3,968	\$ 7,811	\$ (2,835)	4,976
Comprehensive income			\$ 3,442			\$ 8,237

Paid in capital includes the following transactions for the three and six month periods ended June 30, 2009 (in thousands):

	Three Months Ended June 30			Six Months Ended June 30		
	Before Tax	Income Tax (Expense) Benefit	Net of Tax	Before Tax	Income Tax (Expense) Benefit	Net of Tax
2009						
Beginning balance	\$489,948	\$ —	\$489,948	\$460,155	\$ —	\$460,155
Grant of restricted stock	(2)	—	(2)	(2)	—	(2)
Issuance of common shares	12	—	12	9	—	9
Amortization of stock awards and restricted stock	391	—	391	710	—	710
Debt extinguishment (see Note G)	—	—	—	46,276	(16,799)	29,477
Ending balance	<u>\$490,349</u>	<u>\$ —</u>	<u>\$490,349</u>	<u>\$507,148</u>	<u>\$ (16,799)</u>	<u>\$490,349</u>

NOTE L—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 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 depending on the Company's average return on equity 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.

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Target number of shares	Weighted average grant date value	Target number of shares	Weighted average grant date value
Outstanding at beginning of period	1,667,100	\$ 4.24	748,700	\$ 7.64
Granted	295,200	0.93	1,353,800	2.95
Converted	(60,974)	6.63	(62,150)	7.79
Cancelled	(109,426)	6.15	(62,150)	9.91
Outstanding at end of period	<u>1,791,900</u>	<u>\$ 3.50</u>	<u>1,978,200</u>	<u>\$ 4.36</u>
Vested	161,200	\$ 5.23	161,200	\$ 5.23

For the six month periods ended June 30, 2009 and 2008, the Company recorded expense of \$0.7 million and \$1.3 million, respectively, for stock incentive awards. At June 30, 2009, there was \$1.6 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.1 years. As of June 30, 2009, 1,791,900 awards were outstanding. None of the awards were convertible, and none of the outstanding shares of restricted stock had vested as of June 30, 2009. These awards could result in a maximum number of 2,155,650 additional outstanding shares of the Company's common stock depending on service, performance and market results through December 31, 2011.

NOTE M—EARNINGS PER SHARE

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Net income (loss) applicable to common stockholders	<u>\$ 8,107</u>	<u>\$ (526)</u>	<u>\$19,204</u>	<u>\$ 3,261</u>
Weighted-average shares outstanding for basic earnings per share	62,685	62,460	62,662	62,438
Common equivalent shares:				
Effect of stock-based compensation awards	326	—	244	229
Weighted-average shares outstanding assuming dilution	<u>63,011</u>	<u>62,460</u>	<u>62,906</u>	<u>62,667</u>
Basic earnings per share	<u>\$ 0.13</u>	<u>\$ (0.01)</u>	<u>\$ 0.31</u>	<u>\$ 0.05</u>
Diluted earnings per share	<u>\$ 0.13</u>	<u>\$ (0.01)</u>	<u>\$ 0.31</u>	<u>\$ 0.05</u>

The number of equivalent shares that were not included in weighted average shares outstanding assuming dilution, because their effect would have been anti-dilutive, is approximately 350,000 shares at June 30, 2009 and 770,000 at June 30, 2008.

NOTE N—SEGMENT INFORMATION

The Company operates in three reportable segments, as described below. The DHL segment consists of the air cargo transportation, logistics and package handling services provided to DHL under the ACMI and Hub Services agreements. The DHL segment earnings include interest expense that is reimbursed under the DHL agreement. The ACMI Services segment consists of the ACMI and charter services that the Company provides outside of the ACMI agreement with DHL. The CAM segment consists of the Company's aircraft leasing operations, and its segment earnings includes an allocation of interest expense based on aircraft values. The Company's other activities, which include contracts with the USPS, aircraft parts sales and maintenance services, fuel management and logistics services, do not constitute reportable segments and are combined in "All other" with interest income, unallocated interest expense and inter-segment profit eliminations. Inter-segment revenues are valued at arms-length, market rates. Cash, cash equivalents, marketable securities and deferred tax assets are reflected in Assets – All other below (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Total revenues:				
DHL	\$138,901	\$ 280,335	\$ 321,775	\$561,152
ACMI Services	84,634	106,711	170,668	200,004
CAM	14,652	11,621	27,669	21,713
All other	12,996	9,404	23,998	17,953
Eliminate Inter-segment revenues	(16,076)	(13,211)	(28,451)	(23,906)
Total	\$235,107	\$ 394,860	\$ 515,659	\$776,916
Customer revenues				
DHL	\$138,901	\$ 280,335	\$ 321,775	\$561,152
ACMI Services	84,390	106,711	170,424	200,004
CAM	2,420	—	4,476	—
All other	9,396	7,814	18,984	15,760
Total	\$235,107	\$ 394,860	\$ 515,659	\$776,916
Depreciation and amortization expense:				
DHL	\$ 6,954	\$ 10,490	\$ 15,550	\$ 20,705
ACMI Services	8,615	8,471	16,749	16,604
CAM	5,331	3,761	10,128	6,467
All other	253	206	449	394
Total	\$ 21,153	\$ 22,928	\$ 42,876	\$ 44,170
Segment earnings (loss):				
DHL	\$ 5,741	\$ 1,085	\$ 18,422	\$ 5,046
ACMI Services	558	(773)	2,428	316
CAM	5,831	4,847	10,581	9,166
All other	(257)	(5,288)	(1,792)	(8,450)
Total	\$ 11,873	\$ (129)	\$ 29,639	\$ 6,078
Assets:				
DHL		\$ 268,716	\$ 310,818	
ACMI Services		276,346	297,300	
CAM		287,090	259,321	
All other		192,386	233,910	
Total		\$1,024,538	\$1,101,349	

Interest income of \$0.1 million and \$0.3 million is included in All other pre-tax earnings for the three and six month periods ended June 30, 2009, respectively, as compared to \$0.5 million and \$1.5 million for the three and six month periods ended June 30, 2008, respectively. Interest expense of \$1.9 million and \$4.3 million for the three and six month periods ended June 30, 2009, respectively, as compared to \$2.6 million and \$5.2 million for the three and six month periods ended June 30, 2008, respectively, is reimbursed through the commercial agreements with DHL and included in the DHL segment earnings above. The remaining interest is included in the All other category.

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, 2008.

BACKGROUND

Air Transport Services Group, Inc. ("ATSG") 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"). When the context requires, we may also use the terms "Company" and "ATSG" in this report to refer to the business of ATSG and its subsidiaries on a consolidated basis. The Company has three reportable segments: DHL, ACMI Services, and CAM. Each of these is described below.

DHL

ABX currently has two commercial agreements with DHL Express (USA), Inc. and DHL Network Operations (USA), Inc. (collectively, "DHL"). Under an aircraft, crew, maintenance and insurance agreement ("ACMI agreement") and a Hub Services agreement, ABX provides airlift, package handling, and other cargo related services to DHL. Revenues from these services accounted for approximately 59% and 62% of the Company's revenues for the three and six month periods ended June 30, 2009. In 2008, DHL began to restructure its U.S. operations, which significantly impacted ABX's operations. The Hub Services agreement will be expiring on August 15, 2009. Additionally, on August 7, 2009, DHL notified ABX that it will not be renewing the ACMI agreement when its initial term expires on August 15, 2010, although DHL has expressed an interest in contracting with the Company for airlift services under competitive commercial terms to be provided upon the expiration of the ACMI agreement.

ACMI Services

Through its airline subsidiaries, the Company provides airlift to other airlines, freight forwarders and the U.S. military, typically through ACMI agreements. CCIA and ATI each have contracts to provide airlift to BAX Global, Inc. ("BAX") under ACMI agreements. BAX provides freight transportation and supply chain management services, specializing in the heavy freight market for business-to-business shipping. ATI also provides passenger transportation primarily to the U.S. military using its DC-8 combi aircraft that are certified to carry passengers as well as cargo on the main flight deck.

The airlines serve a variety of customers in the air cargo industry by flying in North America, South America, Central America, Europe and Asia. At June 30, 2009, ABX operated 12 Boeing 767-200 freighter aircraft that were not under the DHL ACMI agreement, while CCIA and ATI operated 16 aircraft and 18 aircraft, respectively. Customers are usually charged based on the number of block hours flown, and typical agreements specify a minimum number of block hours to be charged monthly. ACMI Services also includes revenues from block space agreements, in which customers contract for specific amounts of space on certain flights. In these agreements, customers are typically charged by the weight carried on the aircraft during a flight, or based on the number of aircraft load positions purchased. ACMI Services includes revenues from supplemental airlift provided to DHL under additional, short-term ACMI arrangements.

CAM

The Company offers aircraft leasing through its CAM subsidiary. Aircraft leases normally cover a term of several years. In a typical leasing agreement, customers pay rent and a maintenance deposit on a monthly basis. CAM had 39 aircraft that were under lease at the quarter ended June 30, 2009, 35 of them to ABX, ATI and CCIA.

Other Activities

Through separate subsidiaries, 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 also provides equipment leasing and maintenance, as well as specialized services for aircraft fuel management and freight logistics. These other business activities do not constitute reportable segments. Other activities include general and administrative expenses not associated with the DHL commercial agreements, including an allocation of ABX's overhead expenses, starting January 1, 2008.

SEGMENT RESULTS AND OUTLOOK

DHL Segment

Pursuant to its 2008 restructuring plans, DHL discontinued intra-U.S. domestic pickup and delivery services in January 2009. DHL now provides only international services to and from the U.S. In January 2009, the regional sorting hubs staffed by ABX were closed, the sort operations in Wilmington, Ohio were downsized to process only international shipments and all of ABX's DC-9 aircraft were terminated from the DHL ACMI agreement. In March 2009, DHL gave ABX notice to remove five Pratt & Whitney powered Boeing 767 aircraft having a net book value of approximately \$24.0 million, from the DHL network. Further, on April 17, 2009, DHL announced that it planned to relocate its package sorting and aircraft hub operations from the DHL Air Park in Wilmington, Ohio to the Cincinnati/Northern Kentucky International Airport in Hebron, Kentucky ("CVG"). On May 12, 2009, DHL notified ABX that DHL will not renew the Hub Services agreement when its term expires on August 15, 2009. On July 24, 2009, sort operations in Wilmington were terminated and the sorting and hub operations were transferred to CVG. ABX is assisting DHL with the transition from Wilmington to CVG and will provide staffing for the CVG operations through August 2009. ABX estimates it will terminate approximately 1,000 employees after the DHL transition to CVG is complete in the third quarter.

Revenues from the Hub Services agreement were \$37.0 million and \$98.8 million for the second quarter and first six months of 2009; respectively. Pre-tax earnings from the Hub Services agreement were \$2.0 million, or 17% of consolidated pre-tax earnings, for the second quarter of 2009 and \$6.6 million, or 22% of consolidated pre-tax earnings, for the first six months of 2009. In conjunction with the transfer of the aircraft hub operations to CVG in July 2009, ABX is no longer providing aircraft fuel for its aircraft that remain in the DHL network. Revenues from fuel were \$11.6 million and \$26.7 million for the second quarter and first six months of 2009, respectively. ABX did not earn a mark-up on fuel used within the DHL network.

ABX currently remains the primary provider of airlift capacity for DHL's U.S. based international delivery network through its fleet of Boeing 767 aircraft. In addition to Boeing 767 aircraft provided under the primary ACMI agreement, ABX is also supplying DHL with five Boeing 767 standard freighters under supplemental, short-term, ACMI arrangements. In June 2009, ABX and DHL entered into a lease option agreement for four ABX Boeing 767 standard freighter aircraft under 64.5 month lease terms, commencing August 15, 2010. Additionally, ABX and DHL are discussing long-term leases for eight to ten of ABX's Boeing 767 aircraft as they are converted to standard freighter configuration.

On August 7, 2009, DHL notified ABX that DHL will not renew the ACMI agreement when its initial term expires on August 15, 2010. DHL has expressed its interest to contract with the Company for aircraft dry lease and aircraft operations under competitive, commercial terms after the current ACMI agreement expires in 2010. DHL's decision to terminate the ACMI agreement in 2010, adds impetus to management's strategy of modifying ABX's Boeing 767 aircraft into standard freighter configuration. Interest in efficient, reliable Boeing 767 aircraft remains strong. As the modified Boeing 767 aircraft become available for service, management anticipates that some portion of them will be leased to other airlines, while some may be operated by an ATSG airline. Management will make the decision to redeploy each modified aircraft either into airline operations or into leasing arrangements, depending on which alternative will generate the higher return on capital.

The ACMI agreement grants ABX certain rights to put to DHL any aircraft that is removed from service. The Company can sell such aircraft to DHL at the lesser of fair market value or net book value. The decision to put aircraft to DHL depends on a number of factors, including the anticipated number of aircraft to be removed, the type of aircraft removed, the demand for cargo airlift and the market value for aircraft. Provisions of the ACMI agreement stipulate that if ABX's stand-alone equity is less than or equal to \$100 million at the time of the put to DHL, any amount by which fair market value is less than net book value would be applied to the promissory note owed to DHL. However, if ABX's stand-alone equity is greater than \$100 million, as it is at this time, any amount by which the fair market value is less than net book value would be recorded as an impairment charge. For purposes of applying the \$100 million stockholders' equity threshold, stockholders' equity will be calculated after including the effect of any charges caused by the removal of aircraft.

The S&R agreement includes provisions to pay ABX for crewmember benefits if ABX and the collective bargaining unit for the crewmembers can reach an agreement in regards to the use of those funds for severance, retention and/or other issues arising from DHL's U.S. restructuring plan. ABX continues to negotiate with the collective bargaining unit.

Through June 30, 2009, ABX has terminated the employment of approximately 8,000 people since DHL's restructuring began in mid-2008. During the second quarter and first six months of 2009, hours paid to employees declined approximately 72% and 66%, respectively, compared to the corresponding periods of 2008, primarily due to DHL's restructuring plans. Employees receive severance, retention and other benefits under a severance and retention agreement ("S&R agreement") executed between ABX and DHL. The S&R agreement specifies employee severance, retention and other benefits that DHL will pay to ABX in conjunction with its U.S. restructuring plan.

Our pre-tax earnings from the DHL segment increased by \$4.7 million and \$13.4 million in the second quarter and for the first six months of 2009 compared to the corresponding periods of 2008. Our pre-tax earnings from the DHL segment includes approximately \$5.7 million and \$11.2 million of mark-up above our cost for the second quarter and for the first six month of 2009 compared to approximately \$3.6 million and \$7.5 million of mark-up above our costs for the corresponding periods of 2008. Our pre-tax earnings from the DHL segment for the first six months of 2009 also includes \$7.1 million for the reimbursement of employee vacation benefits that ABX paid to terminated employees. ABX is reimbursed employee severance, retention, vacation and other benefits under the S&R agreement that ABX and DHL executed in 2008 to facilitate the restructuring and wind-down of DHL's U.S. operations. The comparison of our 2009 pre-tax earnings to 2008 is positively impacted by a charge recorded in the second quarter of 2008 to reserve \$2.2 million of DHL revenues related to a dispute over arbitration expenses. This matter was resolved favorably later in 2008.

The increase in incremental revenues in 2009 reflects amendments to our ACMI and Hub services agreement with DHL. ABX and DHL amended the pricing provisions of the ACMI and Hub Services agreements ("revenue amendments") which effectively fixed ABX's pre-tax earnings for the DHL agreements for the first and second quarters of 2009. Prior to the revenue amendments, expenses incurred under the commercial agreements were generally marked-up by 1.75% and included in revenues. Both agreements also allowed ABX to earn incremental revenues calculated on mark-ups above the 1.75% base mark-up (up to an additional 1.60% under the ACMI agreement and an additional 2.10% under the Hub Services agreement) from the achievement of certain cost-related and service goals specified in the two agreements. Under the revenue amendments, annual goals were not set for 2009, nor was a quarterly cost goal. Instead, the agreed revenue for the first and second quarters of 2009 includes amounts to replace these incremental revenues. The Company's revenues for the first and second quarters of 2009 include reimbursement for all expenses incurred under the commercial agreements, as well as, all of the incremental revenues set by the revenue amendments. ABX and DHL are currently discussing revenue mark-up revenue arrangements for the third quarter of 2009 and through the remaining term of the ACMI agreement which expires in August 2010.

The S&R agreement specifies employee severance, retention and other benefits that DHL reimburses to ABX for payments to its employees that are affected by DHL's U.S. restructuring plan. ABX revenues and expenses for the second quarter and first six months of 2009 include \$28.7 million and \$58.5 million for severance and retention benefits incurred under the S&R agreement. Additionally, under the S&R agreement, DHL is required to reimburse ABX for employee vacation benefits that ABX pays to terminated employees.

Through June 30, 2009, ABX has paid terminating employees approximately \$15.1 million for accrued vacation benefits since DHL's restructuring began in mid-2008. DHL is obligated to reimburse ABX for the amounts it paid to its terminating employees for their accrued vacation benefits. In March 2009, after auditing ABX's payments to terminating employees for vacation, DHL paid ABX \$3.2 million for invoices specifically for 2008 vacation reimbursement. As of June 30, 2009, accounts receivable includes approximately \$7.1 million due from DHL for the reimbursement of accrued vacation benefits that ABX paid as employees were terminated in the first quarter of 2009. In late May 2009, DHL expressed to the Company that it believes it may not be obligated to reimburse ABX for any of the vacation benefits. The Company's financial results do not reflect the recognition of \$4.8 million for reimbursement that is due to ABX for vacation payments made in the second quarter of 2009 because the revenue recognition requirements under U.S. generally accepted accounting principles ("GAAP") were not met. After reevaluating DHL's contractual obligations, management believes that ABX will fully recover the \$7.1 million paid in the first quarter of 2009 and expects to recognize the reimbursement for the second quarter payments after reimbursement from DHL becomes assured through further discussions or legal action, if necessary.

ACMI Services

ACMI Services revenues, excluding reimbursed expenses, were \$67.7 million and \$137.7 million for the second quarter and first six months of 2009, decreasing 1% and increasing 5% compared to the corresponding periods of 2008. Block hours increased 9% and 8% for the second quarter and first six months of 2009, respectively. At June 30, 2009, ACMI Services included 46 in-service aircraft, five more than in March 2008. The increase in revenues trailed increased block hours due to lower fuel prices for those ACMI and charter contracts that include fuel. ACMI Services results included revenues of \$6.1 million from Boeing 767 freighter aircraft that ABX supplied to DHL during the first six months of 2009 under short-term supplemental agreements.

Increased block hours contributed to improved pre-tax earnings. Pre-tax earnings for the ACMI Services segment increased \$1.2 million and \$2.0 million for the second quarter and first six months of 2009 as compared to the corresponding 2008 periods. Our 2009 results for ACMI Services were negatively impacted by lower than expected cargo volumes for a transatlantic scheduled service ABX commenced in January 2009. Additionally, the cost of ABX flight crews were high during 2009 due to scheduling changes caused when senior DC-9 flight crew members were retrained for the Boeing 767. ABX, which expenses aircraft maintenance as its incurred, completed four scheduled maintenance checks during the first six months of 2009, compared to two during the same period in 2008. During the second quarter of 2008, ATI and CCIA incurred approximately \$1.1 million of expenses (excluding inter-company lease charges of \$1.4 million from CAM) while completing the FAA certification process to add aircraft types to their respective operating certificates. ATI added the Boeing 767 to its operating certificate while CCIA added the Boeing 757.

CAM Segment

Segment earnings for CAM were \$5.8 million and \$10.6 million for the second quarter and first six months of 2009 compared to \$4.8 million and \$9.2 million for the corresponding 2008 periods. CAM has placed ten aircraft under lease since March 2008, four of them to external customers. CAM's results reflect an allocation of interest expense based on prevailing interest rates and the carrying value of its operating assets. CAM's three and six month period ended June 30, 2009 revenues include \$12.2 million and \$23.2 million for the leasing of aircraft to ATI, CCIA and ABX. During the first six months of 2009, CAM leased three additional aircraft to ATSG airlines. During the second quarter of 2009 CAM leased two additional Boeing 767 aircraft to external customers. At June 30, 2009, CAM had 35 cargo aircraft that were under lease to subsidiaries of the Company and four aircraft under lease to an external customer.

In February 2009, CAM finalized a lease agreement to provide Boeing 767 aircraft to a Miami, Florida based operator. The lease agreement, which is for two aircraft, is expected to begin in the fourth quarter of 2009 and includes the option to lease up to three more Boeing 767 aircraft. In the second quarter of 2009, CAM began to lease a Boeing 767 to a Canadian carrier under a three-year term and its sole passenger aircraft under a 20 month term.

CAM has an agreement with Israel Aerospace Industries Ltd. ("IAI") for the conversion of up to 14 non-standard Boeing 767 aircraft to full freighter configuration. Two Boeing 767 aircraft were undergoing freighter modification as of June 30, 2009, and a third aircraft began modification during July 2009. We expect CAM to add more Boeing 767 aircraft to its fleet over the next two years. ATSG plans to modify up to 11 Boeing 767 aircraft that are currently under contract to DHL under the ACMI agreement to a standard freighter configuration as the aircraft are removed from the DHL network. The conversion primarily consists of the installation of a standard cargo door and loading system replacing the passenger door and loading system currently in the aircraft.

Other Activities

Revenues from all other activities increased \$3.6 million and \$6.0 million in the second quarter and first six months of 2009 compared to the corresponding 2008 periods. Increased revenues were primarily a result of an increase in aircraft parts sales and maintenance services when compared to 2008. Most of this increase was from the inter-company aircraft part sales and maintenance services within the ATSG companies. Pre-tax earnings from all other activities were \$2.1 million and \$2.8 million in the second quarter and first six months of 2009 compared to a \$2.5 million loss and a \$2.0 million loss in the corresponding 2008 periods. Improved earnings reflected the sale of surplus aircraft and aircraft parts in 2009. Additionally, our pre-tax loss for the second quarter of 2008 included a one-time charge of \$2.5 million stemming from an arbitration ruling in 2008. Internal sales and earnings were eliminated from the consolidated results.

In May 2009, the aircraft maintenance and engineering business operations of ABX were transferred to a newly formed ATSG subsidiary, Airborne Maintenance and Engineering Services, Inc. ("AMES"). Organizing the aircraft maintenance and engineering capabilities separately from ABX will facilitate a cost structure and marketing organization which can better compete in the aircraft maintenance industry. AMES operates as a Federal Aviation Administration ("FAA") certificated 145 repair station, utilizing the Wilmington, Ohio facilities including hangars and a component shop leased by ABX from DHL. ABX is AMES's primary customer at this time. AMES leverages the Company's existing engineering skills and technical experience to perform airframe maintenance, component repairs, part sales, line maintenance and avionics modifications for other ATSG airlines as well as external customers.

A summary of our revenues and segment earnings is shown below (in thousands):

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2009	2008	2009	2008
Revenues:				
DHL				
ACMI				
Reimbursed Expenses	\$ 78,289	\$ 209,535	\$ 176,499	\$ 408,114
Mark-ups	3,616	2,486	7,232	5,012
Reimbursable wind-down payments	19,992	—	39,204	—
Total ACMI	101,897	212,021	222,935	413,126
Hub Services				
Reimbursed Expenses	23,725	69,422	61,975	147,753
Mark-ups	1,994	1,097	3,989	2,478
Reimbursable wind-down payments	11,285	—	32,876	—
Total Hub Services	37,004	70,519	98,840	150,231
Reimbursement reserve	—	(2,205)	—	(2,205)
Total DHL	138,901	280,335	321,775	561,152
ACMI Services				
Charter and ACMI	67,888	68,142	137,809	131,257
Other Reimbursable	16,746	38,569	32,859	68,747
Total ACMI Services	84,634	106,711	170,668	200,004
CAM	14,652	11,621	27,669	21,713
Other Activities	12,996	9,404	23,998	17,953
Total Revenues	251,183	408,071	544,110	800,822
Eliminate internal revenues	(16,076)	(13,211)	(28,451)	(23,906)
Customer Revenues	\$ 235,107	\$ 394,860	\$ 515,659	\$ 776,916
Pre-tax Earnings:				
DHL				
ACMI	\$ 3,741	\$ 864	\$ 11,847	\$ 3,395
Hub Services	2,000	221	6,575	1,651
Total DHL	5,741	1,085	18,422	5,046
ACMI Services	558	(773)	2,428	316
CAM	5,831	4,847	10,581	9,166
Other Activities	2,093	(2,452)	2,799	(2,022)
Net non-reimbursed interest income (expense)	(2,350)	(2,836)	(4,591)	(6,428)
Total Pre-tax Earnings	\$ 11,873	\$ (129)	\$ 29,639	\$ 6,078

Note: DHL revenues for 2009 reflect amendments to the ACMI and Hub Services agreements and the adoption of a Severance and Retention agreement between ABX and DHL. The purpose of these changes was to facilitate the wind-down and restructuring of DHL's U.S. operations. The wind-down revenues include revenues to manage the termination of employees and support the scale-down of DHL's U.S. operations.

RESULTS OF OPERATIONS

Net earnings increased \$8.6 million and \$15.9 million for the second quarter and first six months of 2009 compared to the corresponding periods of 2008. Net earnings improved on increased mark-up revenues from ABX's DHL agreements. Due to contractual amendments stemming from DHL's restructuring plans, revenues for the first and second quarter of 2009 included additional amounts in lieu of annual incremental revenues that ABX historically recorded only in the fourth quarter of each year. Additionally, 2009 revenues included additional amounts specified by the S&R agreement to facilitate the wind-down of DHL's U.S. network. Operating results for the second quarter of 2008 included one-time charges totaling \$4.7 million stemming from an arbitration ruling in July 2008. Net earnings for the second quarter and first six months of 2009 also improved due to lower interest expense, additional aircraft under lease to external customers, and increased block hours for ACMI Services compared to the corresponding periods of 2008.

Salaries, wages and benefits expense decreased 20% and 17% during the three and six month periods ended June 30, 2008, respectively, compared to the corresponding periods of 2008. Due primarily to the DHL restructuring, ABX headcount declined approximately 68% as of June 30, 2009 compared to June 30, 2008.

Fuel expense decreased \$115.7 million and \$195.9 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008. The decrease reflects the reduction in aircraft in service for DHL. In addition, the average price of aviation fuel decreased significantly compared to the second quarter of 2008. The average price of a gallon of aviation fuel decreased 55% in the second quarter of 2009 compared to the second quarter of 2008.

Maintenance, materials and repairs decreased \$12.5 million and \$18.4 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008. The decrease is a result of DHL's removal of aircraft from service in conjunction with its U.S. restructuring plans.

Depreciation and amortization expense decreased \$1.8 million and \$1.3 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008. Depreciation expense decreased due to the removal of the ABX DC-9 fleet since DHL's restructuring announcement in May 2008. The depreciation expense for 2009 reflects the addition of two Boeing 757 aircraft and three Boeing 767 aircraft that the Company has placed in service since March 2008.

Landing and ramp expense, which includes the cost of deicing chemicals, decreased \$2.0 million and \$4.2 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008. The decrease is a result of DHL's removal of aircraft from service in conjunction with its U.S. restructuring plans.

Travel expense decreased \$3.5 million and \$5.5 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008. The decrease is a result of DHL's removal of aircraft from service, and the resulting decline in required flight crew travel, in conjunction with its U.S. restructuring plans.

Insurance increased \$0.3 million and \$0.5 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008. The increase is a result of placing additional freighter aircraft into service since March 2008.

Other operating expenses include professional fees, utilities, costs of parts sold to non-DHL customers and packaging supplies. Other operating expenses decreased \$5.3 million and \$5.6 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008. During the second quarter of 2008, the Company recorded a charge of \$2.5 million for professional fees stemming from an arbitration matter. DHL's removal of aircraft from service in conjunction with its U.S. restructuring plans in 2009 also resulted in lower expenses.

Interest expense decreased \$1.5 million and \$4.3 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008. The decline in interest expense reflects the reduction in the Company's debt since December 2007. Additionally, interest rates on the Company's variable interest debt declined. The variable interest rate on the unsubordinated term loan decreased from 5.4% in the second quarter of 2008 to 3.2% for the second quarter of 2009.

Interest income decreased \$0.4 million and \$1.2 million during the three and six month periods ended June 30, 2009, respectively, compared to the corresponding periods of 2008 due to lower short-term interest rates on our cash and cash equivalents.

Our effective tax rate for the three and six month periods ended June 30, 2009 was 31.7% and 35.2%, respectively, compared to (308.2%) and 46.3% for the corresponding periods in 2008. Income taxes recorded through June 30, 2009 have been estimated based on year-to-date income and projected results for the full year, excluding discrete items. Our effective tax rate declined in the first half of 2009 compared to 2008 due to the effect of non-deductible items on the higher amounts of earnings in 2009. Our tax expense for the first half of 2009 includes \$1.5 million currently payable for U.S. alternative minimum tax primarily related to the extinguishment of \$46.3 million of debt in March 2009. The Company recorded a deferred tax benefit in the second quarter of 2009 related to the recognition of a previously unrecognized tax position under FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes ("FIN 48"). The effective settlement of this item resulted in a deferred tax benefit of \$0.7 million. No additional changes to the FIN 48 unrecognized tax benefits are anticipated in the next twelve months.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Commitments

Through CAM, we have contracted with aircraft maintenance and modification provider, IAI, to convert some of our Boeing 767 aircraft from passenger door loading systems to standard freighter configuration. The Company had two Boeing 767 aircraft in the modification process from passenger to a standard freighter configuration as of June 30, 2009 and a third non-standard aircraft began modification during July 2009. Based on the most current projections, we expect to place two of these aircraft into service during the third quarter of 2009 and one in the fourth quarter of 2009 as modifications are completed. We have the rights to convert up to eleven more Boeing 767 aircraft at IAI. We plan to finance the cost of modifying aircraft with existing cash, cash generated from aircraft sold to DHL under existing put options and cash generated from operations during the modification period. If CAM were to cancel the conversion program as of June 30, 2009, it would owe IAI, in addition to payments for aircraft currently undergoing modification, approximately \$3.9 million for non-recurring engineering costs and approximately \$4.9 million associated with additional conversion part kits which have been ordered. Additionally, the Company is committed to purchase another Boeing 767 for approximately \$23.0 million after the aircraft is completely modified to freighter configuration, which we anticipate in 2009.

On March 16, 2009, ABX and DHL reached a binding agreement to amend the unsecured DHL promissory note. On May 8, 2009 the DHL promissory note was formally amended. The Company agreed to pay DHL \$15.0 million of the principal balance, while DHL agreed to extinguish an additional \$46.3 million of principal balance. We expect to pay the \$15 million from the proceeds of aircraft puts. Accordingly the Company's balance sheet as of June 30, 2009 reflects \$15.0 million of the promissory note as a current liability. The due date for the remaining \$31.0 million remains unchanged, August 2028. Until that time, the promissory note continues to bear interest at a rate of 5% per annum and DHL will continue to reimburse ABX the interest expense from the note at least through 2012.

ABX has an agreement with DHL to provide employee severance benefits, retention payments and vacation payouts to ABX employees that are affected by DHL's restructuring plans. The agreement calls for DHL to reimburse ABX after ABX makes the related benefit payments. During the third quarter of 2009, we expect to make significant payments for employee severance, retention and vacation payouts. Scheduled payments for employee severance, including medical coverage, retention and vacation are projected to total \$52.2 million during the third quarter of 2009.

We plan to contribute at least \$26.8 million to our qualified pension plans during the second half of 2009, and make total contributions to our qualified defined benefit pension plans of \$46.2 million for 2009.

Cash flows

Net cash generated from operating activities was \$43.7 million for the first six months of 2009 compared to \$73.0 million in the first six months of 2008. The decrease in operating cash flows were primarily driven by the liquidation of vendor payables and payments for employee wages, severance and benefits. As ABX's operations for DHL were scaled back, cash in-flows from the operations declined.

Capital spending levels are primarily a result of aircraft acquisitions and related freighter modification costs. Cash payments for capital expenditures were \$31.4 million in the first six months of 2009 compared to \$54.0 million in the first six months of 2008. Capital expenditures in the first six months of 2009 included aircraft and cargo modification costs for three aircraft while capital expenditures in the first six months of 2008 included aircraft and cargo modification costs for eight aircraft. We estimate the total level of capital spending for all of 2009 will be approximately \$109 million compared to \$112 million in 2008.

Liquidity and Capital Resources

At June 30, 2009, the Company had approximately \$112.1 million of cash balances. The Company had \$39.5 million of unused credit facility, net of draws of \$18.5 million and outstanding letters of credit of \$17.0 million, through a syndicated Credit Agreement that expires in December 2012.

As of June 30, 2009, DHL owes the Company \$58.6 million. Additionally, ABX has \$31.3 million of aircraft that are in the process of being sold to DHL. Conversely, the Company has significant liabilities and commitments stemming from the wind-down of DHL's operations including employee severance, retention and benefits. DHL is currently disputing some of the amounts it owes to ABX for the reimbursement of vacation payout and the sale price of the aircraft (see Note B). If there is a significant delay in receipts from DHL, or a substantial reduction in the amounts that DHL ultimately pays, the Company's cash balances could decline. If this occurs, the Company could elect to reduce capital spending by deferring the freighter modification of 767 aircraft.

In June 2009, the Company and DHL executed a Lease Assumption and Option Agreement related to Boeing 767 aircraft leases. DHL has the option to lease from ABX up to four Boeing 767 aircraft under 64.5 month lease terms, commencing August 15, 2010. DHL assumed all of ABX's financial obligations for five other Boeing 767 aircraft under capital leases, retroactive to January 31, 2009. In return, ABX granted DHL a credit of \$10.0 million as prepaid rent toward the four aircraft leases, conditioned upon extinguishment or assignment of the capital leases to DHL. DHL has until February 15, 2010 to exercise the lease option on each aircraft. If DHL does not exercise its lease option for an aircraft, ABX will pay DHL \$2.5 million of the prepaid rent credit.

Through its Credit Agreement, the Company has a syndicated, unsubordinated term loan and a revolving credit facility that are collateralized by substantially all the aircraft, property and equipment owned by the Company that are not separately collateralized under aircraft loans or capital leases. The lenders currently consist of 16 U.S. based banks. Under the Credit Agreement, the Company is subject to expenses, covenants and warranties that are usual and customary. The Credit Agreement contains covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, and the level of annual capital expenditures. The Credit Agreement stipulates events of default including unspecified events that may have material adverse effects on the Company. The conditions of the Credit Agreement and the aircraft loans cross-default.

The implementation by DHL of its U.S. restructuring plan, turmoil in the global financial markets and the crisis in the U.S. credit market could affect the Company's access to liquidity. If a lender within the Credit Agreement declares a material adverse event ("MAE"), availability under the revolving credit facility will be reduced by that lender's portion of the facility. Further, the Credit Agreement provides that if lenders having more than half of the outstanding dollar amount of the commitments assert that an MAE exists at the time the borrowers attempt to borrow under the Credit Facility, they can assert that an event of default exists under the Credit Agreement and require the lead bank to exercise its remedies. If an event of default occurs, the Company may be forced to repay, renegotiate or replace the Credit Agreement. Given the current credit crisis and DHL's U.S. restructuring plan, the interest rates and other costs of a renegotiated or new facility, assuming the Company could obtain a new facility, would be more expensive and may require more rapid amortization of principal than under the terms of the current Credit Agreement. The Company is in compliance with the financial covenants specified in the Credit Agreement.

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, accruals for labor contract settlements, 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

Through September 30, 2008, revenues from DHL were determined based on expenses incurred during a period under the two commercial agreements with DHL and were recognized when the related services are performed. Expenses incurred under these agreements were generally subject to a base mark-up of 1.75%, which is recognized in the period the expenses are incurred. Certain costs, the most significant of which include fuel, interest on the promissory note due to DHL, rent and ramp and landing fees incurred under the two commercial agreements are reimbursed and included in revenues without mark-up.

Both agreements also allow ABX to earn incremental mark-up above the base 1.75% mark-up (up to 1.60% under the ACMI agreement, and 2.10% under the Hub Services agreement) as determined from the achievement of certain cost-related and service goals outlined in the two commercial agreements. The agreements stipulate the setting of quarterly and annual cost-related goals and annual service goals expressly specified in each of the two agreements. We measure quarterly goals and record incremental revenues in the quarter in which earned. Historically, at the end of each fiscal year, we measure the achievement of annual goals and record any incremental revenues earned by achieving the annual goals during the fourth quarter.

ABX and DHL amended the ACMI agreement and the Hub Services agreement to set the base mark-up and incremental mark-up to specific amounts for the first and second quarters of 2009. Under these revenue amendments, annual goals were not set for 2009, nor was a quarterly cost goal established. Instead, the agreed revenue for the first and second quarter of 2009 includes fixed amounts to replace these incremental revenues. In 2008, ABX and DHL executed a severance and retention agreement (“S&R agreement”) which specifies employee severance, retention and other benefits that DHL reimburses ABX for payment to its employees that are affected by DHL’s U.S. restructuring plan. DHL reimburses 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 and second quarter of 2009 includes reimbursement for expenses incurred under the commercial agreements, the incremental revenues set by the revenue amendments and reimbursement for employee severance, retention and other benefits incurred during the quarters for employees terminated as a result of DHL’s restructuring plan.

ACMI revenues with customers other than DHL are typically recognized based on hours flown or the amount of aircraft and crew resources provided during a reporting period. Charter service revenues are recognized on scheduled and non-scheduled flights when the specific flight has been completed. Aircraft parts and fuel sales are recognized when the parts and fuel are delivered. Revenues earned and expenses incurred in providing aircraft-related maintenance repair services or technical maintenance 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 service.

Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standard (“SFAS”) No. 142, “Accounting for Goodwill and Other Intangible Assets,” we will assess on an annual basis whether goodwill acquired in the acquisition of CHI is impaired. Additional impairment assessments may be performed on an interim basis if we find it necessary. Finite-lived intangible assets are amortized over their estimated useful economic lives and are periodically reviewed for impairment. Indefinite-lived intangible assets are not amortized but are assessed for impairment annually.

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 relating 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 SFAS No. 109, "Accounting for 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 2023. Based upon projections of taxable income, we determined that it was more likely than not that all the net deferred tax assets, including the NOL CF's will be realized prior to their expiration. Accordingly, we do not have an allowance against 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

ABX sponsors qualified defined benefit plans for its pilots and other eligible employees. ABX also sponsors unfunded post-retirement healthcare plans for its flight crewmembers and non-flight crewmember employees. ABX also sponsors unfunded excess plans for certain employees in a non-qualified plan, which includes its executive management, that provide benefits in addition to amounts permitted to be paid under provisions of the tax law to participants in its qualified plans.

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, expected long-term investment returns on plan assets and future salary increases. Additionally, 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 a critical assumption in valuing these obligations. Actual results and future changes in these assumptions could result in future costs significantly higher than those recorded in our results of operations.

Exit Activities

We account for the costs associated with exit activities in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." One-time, involuntary employee termination benefits are generally expensed when the Company communicates the benefit arrangement to the employee that it will no longer require the services of the employee beyond a minimum retention period. Liabilities for contract termination costs associated with exit activities are recognized in the period incurred and measured initially at fair value. Pension obligations are accounted for in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" in the event that the expected working life of employees is significantly reduced due to terminations or a pension plan is suspended.

Recent Accounting Pronouncements

See Note A to our Financial Statements for a discussion of new accounting pronouncements

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the ordinary course of our business, we are exposed to market risk for changes in the price of jet fuel; however, this risk is largely mitigated by reimbursement through the DHL ACMI agreement and charter agreements with other customers. We face financial exposure to changes in interest rates. Variable interest rate debt exposes us to differences in future cash flows resulting from changes in market interest rates. This risk was partially mitigated since a portion of our interest expense for the debt with variable rate risk was marked up and charged to DHL under our ACMI agreement. To reduce the exposure to rising interest rates, we entered into interest rate swaps in January 2008 and forward treasury lock agreements ("treasury locks") during 2006. See Note J for discussion of our accounting treatment for these hedging transactions.

No significant changes have occurred to the market risks we face since we disclosed information about those risks in item 7A of the Company's 2008 Annual Report on Form 10-K filed for the year ended December 31, 2008.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of June 30, 2009, 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 their 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

Department of Transportation (“DOT”) Continuing Fitness Review

ABX filed a notice of substantial change with the DOT arising from its separation from Airborne, Inc. In connection with the filing, which was initially made in mid-July of 2003 and updated in April of 2005 and again in September of 2007, the DOT will determine whether ABX continues to be a U.S. citizen and fit, willing and able to engage in air transportation of cargo.

Under U.S. laws and DOT precedents, non-U.S. citizens may not own more than 25% of voting equity, or have actual control of, a U.S. certificated air carrier. The DOT may determine that DHL actually controls ABX as a result of its commercial arrangements (in particular, the ACMI agreement and Hub Services agreement) with DHL. If the DOT determines that ABX is controlled by DHL, the DOT could require amendments or modifications of the ACMI and/or other agreements between ABX and DHL. If ABX were unable to modify such agreements to the satisfaction of the DOT, the DOT could seek to suspend, modify or revoke ABX’s air carrier certificates and/or authorities, and this would materially and adversely affect the business.

The DOT has yet to specify the procedures it intends to use in processing ABX’s filing.

Alleged Violations of Immigration Laws

ABX reported in January of 2005 that it was cooperating fully with an investigation by the U.S. Department of Justice (“DOJ”) with respect to Garcia Labor Co., Inc., (“Garcia”) a temporary employment agency based in Morristown, Tennessee, and ABX’s use of contract employees that were being supplied to it by Garcia. The investigation concerns the immigration status of the Garcia employees assigned to ABX.

ABX terminated its contract with Garcia in February of 2005 and replaced the Garcia employees.

In October of 2005, the DOJ notified ABX that ABX and a few Company employees in its human resources department, in addition to Garcia, were targets of a criminal investigation. ABX cooperated fully with the investigation. In June of 2006, a non-senior management employee of the Company entered a plea to a misdemeanor related to this matter. In July of 2006, a federal grand jury indictment was unsealed charging two Garcia companies, the president of Garcia and two of their corporate officers with numerous counts involving the violation of federal immigration laws. The Garcia defendants subsequently entered guilty pleas in U.S. district court and were sentenced in February and March of 2007. No proceedings have been initiated against ABX by the DOJ. See Note H to the accompanying consolidated financial statements of this report for additional information.

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 seeks damages in an unspecified amount, 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 January 23, 2009, ABX and the four current and former executives and managers of ABX filed an answer denying the allegations contained in the complaint. On July 24, 2009, ABX and the current and former executives of ABX filed a motion to dismiss the complaint; which motion is currently pending.

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.

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 risk factors that could adversely affect our financial condition and results of operations. Many of these risks are disclosed in item 1A of the Company's 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 23, 2009. Additional significant risks have been identified below. There are additional risks that are currently unknown to us or that we currently consider immaterial or unlikely, which could also adversely affect the Company.

The wind-down of ABX's services for DHL may negatively impact the Company's liquidity and operating results.

As of June 30, 2009, DHL owes the Company \$58.6 million. Additionally, ABX has \$31.3 million of aircraft that are in the process of being sold to DHL pursuant to the put provisions under the ACMI agreement. Conversely, the Company has significant liabilities and commitments stemming from the wind-down of DHL's operations including employee severance retention and benefits. DHL is currently disputing some of the amounts it owes to ABX for the reimbursement of vacation payouts and the sale price of aircraft. If there is a significant delay in receipts from DHL, or a substantial reduction in the amounts that DHL pays, the Company's cash balances could decline. If this occurs, the Company could elect to reduce capital spending by deferring the freighter modification of Boeing 767 aircraft. Operating results may be negatively impacted if the Company were to take a charge to reduce amounts due from DHL or to lower the value of aircraft held for sale.

The ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be further limited.

Limitations imposed on the ability to use net operating losses ("NOLs") to offset future taxable income could cause U.S. federal income taxes to be paid earlier than otherwise would be paid if such limitations were not in effect and could cause such NOLs to expire unused, in each case reducing or eliminating the benefit of such NOLs. Similar rules and limitations may apply for state income tax purposes.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). During the second quarter of 2009, the Company experienced significant ownership changes. If the Company continues to experience more ownership changes, we may face limitations on our ability to use NOLs to offset future taxable income.

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

On May 12, 2009, the Company held an annual meeting of its shareholders. At the meeting, shareholders voted to elect Jeffrey J. Vorholt and Joseph C. Hete to serve as Directors of the Company for a term of three years, voted to grant discretionary authority to the Company's Board of Directors to amend the Company's Certificate of Incorporation to effect a reverse stock split in a specific ratio ranging from 1-for-2 to 1-for-5, as selected by the Company's Board of Directors, voted to adopt an amendment to the Company's Amended and Restated 2005 Long-Term Incentive plan to increase from 3,000,000 to 6,000,000 the number of shares available for issuance under the Plan, and ratified the appointment of Deloitte and Touche LLP as the independent registered public accounting firm of the Company for fiscal year 2009.

	Votes		Broker Non-Vote
	Received	Withheld	
Election of Directors			
Jeffrey J. Vorholt	49,592,901	3,090,802	
Joseph C. Hete	49,356,464	3,327,239	

Proposal	Votes Cast			Broker Non-Vote
	For	Against	Abstain	
Effect a reverse stock split	49,977,634	2,594,100	111,968	1
Adopt amendment to Long-Term Incentive Plan	23,405,956	3,694,129	145,933	25,437,685
Ratify independent auditors	51,632,204	897,159	154,339	1

Item 5. Other Information

Air Transport Services Group, Inc.'s wholly owned subsidiary, ABX Air, Inc. ("ABX"), is party to an ACMI Service Agreement (the "ACMI agreement") with DHL Network Operations (USA), Inc. ("DHL"). On August 7, 2009, DHL notified ABX that it will not be renewing the ACMI agreement when its initial term expires on August 15, 2010, although DHL has expressed an interest in contracting with the Company for airlift services under competitive commercial terms to be provided upon the expiration of the ACMI agreement.

Under the ACMI agreement, ABX provides air cargo transportation services to DHL on a cost-plus basis. The expenses incurred under the agreement are generally marked-up by 1.75% (the base mark-up) and included in revenues, although ABX also has the opportunity to earn an additional 1.60% incremental markup over and above the base mark-up from the achievement of certain cost-related and service goals specified in the agreement. Notwithstanding the foregoing, the revenue formula under ACMI agreement was amended, starting in the fourth quarter of 2008, to more appropriately compensate ABX for the aircraft assets and level of services required to support DHL's reduced level of domestic operations resulting from the implementation of its U.S. restructuring plan. The new formula provides for quarterly markup payments to ABX through the second quarter of 2009 for fixed dollar amounts, rather than as a percentage of costs incurred. Fuel, rent, interest on a promissory note to DHL, and ramp and landing fees incurred under the ACMI agreement are the most significant cost items reimbursed without mark-up.

ABX is also a party to several other agreements with DHL and its affiliates, including that certain (i) Hub and Line-Haul Services Agreement with DHL Express (USA), Inc. ("DHL Express"), dated August 15, 2003 (the "Hub Services agreement"); (ii) Severance and Retention Agreement with DPWN Holdings (USA), Inc. ("DPWN Holdings"), dated August 15, 2008 (the "S&R agreement"); and (iii) Wilmington Air Park Sublease with DHL Express, dated August 15, 2003 (the "Sublease"). Under the Hub Services agreement, which will terminate on August 15, 2009, ABX provides staff to conduct package handling, package sorting and airport facilities and equipment maintenance services for DHL Express on a cost-plus basis. Under the S&R agreement, DPWN Holdings reimburses ABX for severance, retention and other benefits that ABX pays to its employees that have or will be displaced in conjunction with DHL's U.S. restructuring plan. Under the Sublease, ABX subleases office and hangar space from DHL at DHL Air Park in Wilmington, Ohio, the term of which will expire at the end of a transition period following the termination of the ACMI agreement. Copies of the Hub Services Agreement, together with amendments, the S&R agreement and the Sublease have been filed with the SEC.

The Audit Committee of the Board of Directors has approved the services rendered by our independent registered public accounting firm during the period covered by this Form 10-Q filing.

Item 6. Exhibits

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

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.1	Second Amendment, dated January 30, 2009, to Escrow Agreement among Air Transport Services Group, Inc., ABX Air, Inc., each of the significant shareholders listed on the Schedule of Significant Shareholders attached thereto, and Wells Fargo Bank, NA, as escrow agent, incorporated by reference to the Company's 8-K filed February 5, 2009.
10.2	Second Amendment, dated November 9, 2008, to the ACMI Service Agreement, by and between DHL Network Operations (USA), Inc. and ABX Air, Inc., dated August 15, 2003, incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange commission on May 11, 2009.
10.3	Third Amendment, dated November 9, 2008, to the Hub and Line-Haul Services Agreement, by and between DHL Express (USA), Inc. and ABX Air, Inc., dated August 15, 2003, incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange commission on May 11, 2009.
10.4	Letter Agreement, dated April 16, 2009, Concerning Base and Incremental Markup for the Second Quarter of 2009 under the ACMI Service Agreement, by and between DHL Network Operations (USA), Inc. and ABX Air, Inc., dated August 15, 2003, filed herewith.
10.5	Letter Agreement, dated April 16, 2009, Concerning Base and Incremental Markup for the Second Quarter of 2009 under the Hub and Line-Haul Services Agreement, by and between DHL Express (USA), Inc. and ABX Air, Inc., dated August 15, 2003, filed herewith.
10.6	Amended and Restated First Non-Negotiable Promissory Note between ABX Air, Inc., as maker, and DHL Express (USA), Inc., as holder, dated May 8, 2009, filed herewith.
10.7	Guaranty by Air Transport Services Group, Inc. in favor of DHL Express (USA), Inc., dated May 8, 2009, filed herewith.
10.8	Lease Assumption and Option Agreement between DHL Network Operations (USA), Inc. and ABX Air, Inc., dated May 29, 2009, filed herewith.
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: August 10, 2009

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Date: August 10, 2009

April 16, 2009

**VIA FACSIMILE TO (954) 888-7310
& DHL EXPRESS**

DHL Network Operations (USA), Inc.
 1200 South Pine Island Road
 Plantation, Florida 33324
 Attention: Jon E. Olin – EVP, General Counsel & Secretary

Re: Base and Incremental Markup for the Second Quarter of 2009 under the ACMI Service Agreement, by and between DHL Network Operations (USA), Inc., as successor in interest to Airborne, Inc. (“Groundco”) and ABX Air, Inc. (“Airco”), dated August 15, 2003, as amended on April 27, 2004 and November 9, 2009 (the “ACMI Agreement”).

Dear Jon:

Unless otherwise defined herein, all capitalized terms used herein shall have the meanings ascribed thereto in the ACMI Agreement or the .

In accordance with paragraph (c) of the Second Amendment to the ACMI Agreement, dated November 9, 2008, Groundco and Airco hereby agree as follows:

(a) The Base Markup, quarterly cost component and twenty-five percent (25%) of the annual cost and service components of the Incremental Markup to be paid to Airco in exchange for the services provided by Airco to Groundco under the ACMI Agreement during the second quarter of 2009 shall total \$3,616,331, consisting of the following:

\$ 1,824,000	Base Markup for second quarter of 2009
\$ 684,000	Quarterly cost component of Incremental Markup for second quarter of 2009
\$ 889,686	25% of annual cost component of Incremental Markup for 2009
\$ 218,645	25% of annual service component of Incremental Markup for 2009

(b) Groundco will pay the Base Compensation and Incremental Markup for the second quarter of 2009 weekly, in advance, by wire transfer to Airco on Monday of each week (or, if such day is not a Business Day, on the immediately succeeding Business Day), consisting of the Cost Recovery Amount for the forthcoming week plus the applicable Base Markup. Both the quarterly cost component and twenty-five percent (25%) of the annual cost and service components of the Incremental Markup will be paid by DHL no later than July 15, 2009, in accordance with the terms of the ACMI Agreement.

Jon E. Olin
April 16, 2009
2 of 2

Groundco and Airco further agree that the allocation of overhead costs attributable to Airco's provision of (i) Third Party Services under the ACMI Agreement, and (ii) Ancillary Services under the Hub and Line-Haul Services Agreement, by and between DHL Express (USA), Inc., as successor in interest to Airborne, Inc., and Airco, dated August 15, 2003, as amended from time to time, shall not exceed \$800,000 in total for the second quarter of 2009.

Except to the extent provided herein, the terms and conditions of the ACMI Agreement shall remain in full force and effect.

Please acknowledge Groundco's acceptance of the foregoing by having an authorized representative of DHL Network Operations (USA), Inc. sign and date both counterparts of this letter in the space provided below and returning one counterpart to me for my records.

Sincerely,

ABX Air, Inc.

/s/ W. Joseph Payne

W. Joseph Payne
Vice President
General Counsel & Secretary

ACCEPTED AND AGREED:

DHL Network Operations (USA), Inc.

/s/ Jon E. Olin

By: Jon E. Olin

Its: EVP & General Counsel

Date: April 22, 2009

April 16, 2009

**VIA FACSIMILE TO (954) 888-7310
& DHL EXPRESS**

DHL Network Operations (USA), Inc.
 1200 South Pine Island Road
 Plantation, Florida 33324
 Attention: Jon E. Olin – EVP, General Counsel & Secretary

Re: Base and Incremental Markup for the Second Quarter of 2009 under the Hub and Line-Haul Services Agreement, by and between DHL Express (USA), Inc., as successor in interest to Airborne, Inc. (“Groundco”) and ABX Air, Inc. (“Airco”), dated August 15, 2003, as amended on April 27, 2004, August 8, 2005 and November 9, 2008 (the “Hub Services Agreement”).

Dear Jon:

Unless otherwise defined herein, all capitalized terms used herein shall have the meanings ascribed thereto in the Hub Services Agreement.

In accordance with paragraph (c) of the Third Amendment of the Hub Services Agreement, dated November 9, 2008, Groundco and Airco hereby agree as follows:

(a) The Base Markup, quarterly cost component and twenty-five percent (25%) of the annual cost and service components of the Incremental Markup to be paid to Airco in exchange for the services provided by Airco to Groundco under the Hub Services Agreement during the second quarter of 2009 shall total \$1,994,434, consisting of the following:

\$ 1,112,000	Base Markup for second quarter of 2009
\$ 150,000	Quarterly cost component of Incremental Markup for second quarter of 2009
\$ 225,000	25% of annual cost component of Incremental Markup for 2009
\$ 507,434	25% of annual service component of Incremental Markup for 2009

(b) Groundco will pay the Compensation for the second quarter of 2009 weekly, in advance, by wire transfer to Airco on Monday of each week (or, if such day is not a Business Day, on the immediately succeeding Business Day), consisting of the Cost Recovery Amount for the forthcoming week plus the applicable Base Markup. Both the quarterly cost component and twenty-five percent (25%) of the annual cost and service components of the Incremental Markup will be paid by DHL no later than July 15, 2009, in accordance with the terms of the Hub Services Agreement.

Jon E. Olin
April 16, 2009
2 of 2

Groundco and Airco further agree that the allocation of overhead costs attributable to Airco's provision of (i) Ancillary Services under the Hub Services Agreement, and (ii) Third Party Services under the ACMI Service Agreement, by and between DHL Network Operations (USA), Inc., as successor in interest to Airborne, Inc. and Airco, dated August 15, 2003, as amended from time to time, shall not exceed \$800,000 in total for the second quarter of 2009.

Except to the extent provided in this letter, the terms and conditions of the Hub Services Agreement shall remain in full force and effect.

Please acknowledge Groundco's acceptance of the foregoing by having an authorized representative of DHL Express (USA), Inc., sign and date both counterparts of this letter in the space provided below and returning one counterpart to me for my records.

Sincerely,

ABX Air, Inc.

/s/ W. Joseph Payne

W. Joseph Payne
Vice President
General Counsel & Secretary

ACCEPTED AND AGREED:

DHL Express (USA), Inc.

/s/ Jon E. Olin

By: Jon E. Olin

Its: EVP & General Counsel

Date: April 22, 2009

AMENDED AND RESTATED FIRST NON-NEGOTIABLE PROMISSORY NOTE

\$31,000,000

New York, New York
May 8, 2009

ABX Air, Inc., a Delaware corporation (the "Maker"), for value received, hereby unconditionally promises to pay to DHL Express (USA), Inc., an Ohio corporation (the "Holder"), as successor to Airborne, Inc., a Delaware corporation, the principal sum of \$31,000,000, plus all accrued but unpaid interest thereon, at 12:00 noon New York time on or before August 15, 2028 (the "Payment Date"), at the offices of DPWN Holdings (USA), Inc. ("DPWN Holdings"), 1200 South Pine Island Road, Suite 3000, Plantation, FL 33321, or to make such payment at such other place as may otherwise be directed in writing by the Holder from time to time in accordance with the terms of this Amended and Restated First Non-Negotiable Promissory Note (this "Note"). The terms and conditions of this Note are set forth below.

Terms and Provisions

Section 1. Payments. All payments to be made by the Maker hereunder shall be made without set-off or counterclaim, in United States dollars in immediately available funds at the office of DPWN Holdings or such other place as may be designated by the Holder in writing from time to time. Whenever any payment hereunder shall be stated to be due on a day that is not a Business Day (as defined in Section 10), such payment shall be made on the next succeeding Business Day.

Section 2. Interest.

(a) This Note shall bear interest from the date hereof at a rate of five percent (5%) *per annum*. Prior to the Payment Date, accrued interest shall be payable in immediately available funds on each December 1st and June 1st, commencing on June 1, 2009. Interest shall be computed on the basis of a year of 365/366 days for actual days elapsed. Accrued interest also shall be payable on demand in respect of any past due amounts and upon payment in full of this Note on the Payment Date. Interest shall accrue and be paid by the Maker in arrears. Anything in this Note to the contrary notwithstanding, the Holder shall not be permitted to charge or receive, and the Maker shall not be obligated to pay, interest in excess of the maximum rate from time to time permitted by applicable law.

(b) Any principal, interest or any other amount hereunder which is not paid when due (whether as stated, by acceleration or otherwise) shall, to the extent permitted by law, thereafter bear interest at a rate of two percent (2%) *per annum* above the rate described above.

Section 3. Prepayment. The Maker may at any time and from time to time, with two (2) Business Days prior written notice to the Holder, prepay in immediately available funds, this Note in whole or in part without premium or penalty; provided that such prepayment is accompanied by the payment of all unpaid interest accrued to the date of prepayment and any other amounts due under this Note; and provided, further, that, except for required prepayments called for under Section 8(b), each partial prepayment shall be in an amount not less than \$100,000 or a whole multiple thereof (or, if less, the remaining outstanding principal amount thereof). Amounts prepaid may not be re-borrowed.

Section 4. Repayment on a Change of Control. The Maker shall give the Holder written notice in the event of a Change of Control (as defined below) that occurs after the date hereof at or prior to its consummation prior to the Payment Date. Upon receipt of such notice, the Holder shall have 60 days to demand in writing the repayment in full of this Note, including all accrued but unpaid interest, and the Maker hereby unconditionally agrees that it shall, on the second (2nd) Business Day following the receipt of such demand from the Holder, pay to the Holder, in immediately available funds, an amount equal to the entire outstanding principal amount of this Note, plus all accrued but unpaid interest thereon.

For purposes of this Note, a “Change of Control” means the occurrence of any of the following after the date of this Note: (i) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the directors of ATSG (as defined in Section 10) (together with any new directors whose election by such directors or whose nomination for election by the stockholders of ATSG was approved by a vote of a majority of the directors of ATSG then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved), cease for any reason to constitute a majority of the directors of ATSG then in office, (ii) (A) any merger, consolidation or other business combination of ATSG with or into any other entity, or any other similar transaction, whether in a single transaction or series of related transactions where (1) the stockholders of ATSG, immediately prior to such transaction in the aggregate, cease to own at least fifty percent (50%) of the voting securities of the entity surviving or resulting from such transaction (or the ultimate parent thereof) (such ownership being based solely on the voting securities of ATSG owned by such stockholders immediately prior to such event) or (2) any Person (as defined in Section 10) becomes the beneficial owner of more than fifty percent (50%) of the voting securities of the entity surviving or resulting from such transaction (or the ultimate parent thereof) with ATSG or (B) a change in the ownership of the Maker such that ATSG (or the ultimate parent thereof) fails directly or through one or more Subsidiaries to (1) own legally and beneficially at least 51%, on a fully diluted basis, of the issued and outstanding voting securities of the Maker or (2) have the power to direct or cause the direction of the management and policies of the Maker, (iii) any transaction or series of related transactions after which in excess of fifty percent (50%) of ATSG’s (or the ultimate parent thereof) voting power is held by any Person or group (within the meaning of Regulation 13D under the Securities Exchange Act of 1934), or (iv) any sale, transfer, lease, assignment, conveyance, exchange, mortgage or other disposition of all or substantially all of the assets, property or business of ATSG and its Subsidiaries, taken as a whole, other than (A) in connection with the granting of any security interest or other lien pursuant to the Senior Credit Facility (provided, however, that if any secured party takes possession or control of any material portion of such pledged assets, for any purpose other than to perfect its security interest in such pledged asset, a Change of Control shall be deemed to have occurred) or (B) any transaction in the ordinary course of business involving the sale and leaseback of any aircraft (provided, however, that such transaction does not involve all or substantially all of the aircraft of ATSG and its Subsidiaries, taken as a whole). Without limiting the generality of the foregoing, a “Change of Control” shall not include any transaction consummated before the date of this Note.

Section 5. Representations and Warranties. The Maker hereby represents and warrants to the Holder that (i) the Maker is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, has the full power and authority to make, deliver and perform this Note and its obligations hereunder on the terms and conditions hereof, (ii) the execution, delivery and performance of this Note have been duly authorized by the Maker, and this Note has been duly executed and delivered on behalf of the Maker, (iii) no consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority (as defined in Section 10) or any other Person is required in connection with the debt hereunder or with the execution, delivery, performance, validity or enforceability of this Note, except for consents, authorizations, filings and notices that have been obtained or made and are in full force and effect, (iv) this Note constitutes a legal, valid and binding obligation of the Maker enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law), (v) the execution, delivery and performance of this Note will not violate any requirement of law or any of the applicable articles or certificates of incorporation, bylaws or similar organizational documents of the Maker or its Subsidiaries and (vi) no Event of Default (as defined below) has occurred and is continuing.

Section 6. Events of Default. If:

- (a) the Maker fails to pay the principal amount in accordance with the terms of this Note;
- (b) the Maker fails to pay any interest on this Note or any fee or any other amount (other than an amount referred to in clauses (a) or (h) of this Section 6) payable under this Note, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of thirty (30) days;
- (c) the Maker fails to observe or perform in any material respect any covenant, condition or agreement contained in this Note, and such default shall continue for a period of sixty (60) days after notice is given by the Holder to comply with such covenant, condition or agreement;
- (d) any representation or warranty made by the Maker in or in connection with this Note or any amendment or modification hereof or waiver hereunder proves to have been incorrect in any material respect when made and such defect shall continue for a period of sixty (60) days after notice is given by the Holder to comply with such representation or warranty;
- (e) by virtue of a default by the Maker or, as applicable, any of its Affiliates or Subsidiaries under the Senior Credit Facility, the entire indebtedness outstanding under the Senior Credit Facility has been accelerated by the holders of such indebtedness, and, thereby, such indebtedness becomes immediately due and payable in advance of the regularly scheduled maturity date for such indebtedness;

(f) the Maker or any of its Affiliates or Subsidiaries commences any case, proceeding or other action (i) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to its debts, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for any substantial part of its assets, or the Maker makes a general assignment for the benefit of its creditors;

(g) there shall be commenced against the Maker or any of its Subsidiaries any case, proceeding or other action of a nature referred to in paragraph (f) above which (i) results in the entry of an order for relief for any such adjudication or appointment or (ii) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or

(h) the Maker fails to make any payment to the Holder in accordance with Section 8(b) of this Note on the date that the first payment made in connection with any transaction contemplated by Section 8(b) of this Note is made;

then, and in any such event (each, an “Event of Default”), the Holder may, by notice of default given to the Maker in writing (including by facsimile transmission), declare any unpaid principal, accrued but unpaid interest and all other amounts payable under this Note to be immediately due and payable without presentment, demand, protest or other notice of any kind on the part of the Holder. Any cure periods provided for in this Section 6 shall be available from time to time in respect of subsequent failures or deficiencies so long as this Note remains outstanding.

Section 7. Ranking. The obligations of the Maker in respect of this Note shall rank *pari passu* with all other unsecured debt of the Maker that is not expressly subordinated to the indebtedness outstanding hereunder.

Section 8. Covenants. Until the principal of and interest and all other amounts due on this Note have been paid in full, the Maker covenants and agrees with the Holder that:

(a) *Intentionally Omitted.*

(b) *Restricted Payments.*

(i) ATSG, its Subsidiaries and Affiliates shall not purchase or otherwise acquire, directly or indirectly, the issued and outstanding shares of common stock or other equity interests of ATSG, unless, concurrently therewith, the Maker prepays the principal outstanding balance of this Note in the amount of Twenty Cents (\$0.20) for each dollar expended by ATSG and its Subsidiaries and Affiliates for the purchase or other acquisition of such stock or other equity interests.

(ii) ATSG, its Subsidiaries and Affiliates shall not declare, make or pay, directly or indirectly, any dividend or other distribution to the stockholders of ATSG (other than a dividend or other distribution (including, without limitation, a stock split) paid solely in capital stock of ATSG) unless, concurrently therewith, the Maker prepays the principal outstanding balance of this Note in the amount of Twenty Cents (\$0.20) for each dollar that ATSG and its Subsidiaries and Affiliates pays or distributes to ATSG's stockholders in the form of a dividend or other distribution.

(c) *Limitations on Asset Sales.* ATSG shall not, and shall not permit any of its Subsidiaries to, sell, lease, convey, transfer or otherwise dispose, whether in a single transaction or a series of related transactions, of any property or asset, including (subject to this Section 8(c)) the capital stock of any Subsidiary (any such event, an "Asset Sale"), unless the consideration received from such Asset Sale is at least equal to the fair market value of the property, asset or capital stock sold as determined in good faith (taking into account any assumption of indebtedness in connection with such disposition, if any) by resolution of the Board of Directors of ATSG or the applicable Subsidiary thereof; provided, however, that a board resolution shall not be required for any bona fide arm's-length (i) Asset Sale made in the ordinary course of business consistent with past practice, (ii) sale-leaseback transaction or (iii) Asset Sale involving aggregate consideration of less than \$10,000,000. Notwithstanding anything to the contrary in this Section 8(c), neither (A) the granting by ATSG or its Subsidiaries of a security interest, mortgage, collateral assignment, pledge or other lien on any property or asset nor (B) the enforcement by the holder of any security interest, mortgage, collateral assignment, pledge or other lien on any property or asset of ATSG and/or its Subsidiaries shall violate the terms of this Section 8(c) or result in an Event of Default.

(d) *Intentionally Omitted.*

(e) *Notices.* The Maker hereby covenants that so long as any principal, interest or other amount remains outstanding and unpaid under this Note, the Maker shall notify the Holder promptly (and in any event, within three (3) Business Days) upon the occurrence of any Event of Default of which it has knowledge.

(f) *Financial Statements.* The Maker shall furnish to the Holder:

(i) as soon as available, but in any event not later than ninety (90) days after the end of each fiscal year of the Maker, a copy of the audited consolidated balance sheet of ATSG and its consolidated Subsidiaries as at the end of such year and the related audited consolidated statements of income and of cash flows for such year prepared in accordance with GAAP, setting forth in each case in comparative form the figures for the previous year and certified by independent certified public accountants of nationally recognized standing; and

(ii) as soon as available, but in any event not later than forty-five (45) days after the end of each of the first three quarterly periods of each fiscal year of the Maker, the unaudited consolidated balance sheet of ATSG and its consolidated Subsidiaries as at the end of such quarter and the related unaudited consolidated statements of income and of cash flows for such quarter and the portion of the fiscal year through the end of such

quarter prepared in accordance with GAAP, setting forth in each case in comparative form the figures for the previous year, certified by the chief executive officer, president or chief financial officer of the Maker, but in any event, with respect to financial matters, the chief financial officer of the Maker (each a “Responsible Officer”) as being fairly stated in all material respects (subject to normal year-end audit adjustments and the omission of footnotes); provided, however, that no such certification shall be required with respect to any such period for which the Maker is required to file such financial statements pursuant to the Securities Exchange Act of 1934, as amended.

(g) *Certificates; Other Information.* The Maker shall furnish to the Holder:

(i) concurrently with the delivery of the financial statements referred to in clause (f)(i) of this Section 8, a certificate of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Event of Default, except as specified in such certificate; provided, however, that no such certification shall be required with respect to any such period for which the Maker is required to file such financial statements pursuant to the Securities Exchange Act of 1934, as amended;

(ii) concurrently with the delivery of any financial statements pursuant to clause (f) of this Section 8, a certificate of a Responsible Officer stating that, to the best of such Responsible Officer’s knowledge, the Maker during such period has observed or performed in all material respects all of its covenants and other agreements, and satisfied in all material respects every condition contained in this Note to be observed, performed or satisfied by it, and that such Responsible Officer has obtained no knowledge of any Event of Default except as specified in such certificate; and

(iii) promptly, such additional financial and other information as the Holder may from time to time reasonably request.

Section 9. Fees and Expenses. The Maker agrees to pay all of the Holder’s reasonable costs and out-of-pocket expenses (including fees and disbursements of counsel) arising after the date hereof in connection with the enforcement of, and preservation of rights under, this Note; provided, however, in connection with any legal action, Holder shall not be entitled to such costs or expenses if Holder does not prevail. The Maker agrees to indemnify the Holder for, and to hold the Holder harmless from, any loss (exclusive of any consequential, special, exemplary, punitive or lost profit damages) or expense (including, for avoidance of doubt, fees and disbursements of counsel) which the Holder may sustain or incur as a consequence of default by the Maker in payment of any principal of or interest or any other amount on this Note.

Section 10. Definitions. As used in this Note, the following terms shall have the following meanings:

“Affiliates” means, with respect to any specified Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with, such specified Person. For purposes of this definition, “control” (including, with correlative meanings, the

terms “controlled by” and “under common control with”), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“ATSG” means Air Transport Services Group, Inc., a Delaware corporation.

“Business Day” means any day other than a Saturday or Sunday or a day on which national banking institutions in the City of New York, New York are authorized or obligated by law or executive order to be closed.

“GAAP” means generally accepted accounting principles in the United States of America as in effect from time to time.

“Governmental Authority” means any foreign, federal, state, provincial or local government or any agency, authority, subdivision or instrumentality of any of the foregoing, including any court, tribunal, department, bureau, commission or board, or any quasi-governmental or private body exercising any regulatory, taxing, inspecting or other governmental authority.

“Legal Requirement” means any statute, ordinance, code, law, rule, regulation, order or other requirement, standard or procedure enacted, adopted or applied by any Governmental Authority (including judicial decisions applying common law or interpreting any other Legal Requirement) applicable to a Person, its business and its operations.

“Payment Date” means the earlier of (i) August 15, 2028 or (ii) the date on which all sums under this Note become immediately due and payable.

“Person” means a natural person, corporation, partnership, limited partnership, limited liability company, trust or unincorporated organization or similar entity, or a Governmental Authority.

“Senior Credit Facility” means the Credit Agreement, dated as of December 31, 2007, among ABX Holdings, Inc., now known as ATSG, the Maker, CHI Acquisition Corp., the Lenders from time to time party thereto, SunTrust Bank, as Administrative Agent, Regions Bank, as Syndication Agent, and Fifth Third Bank and Merrill Lynch Commercial Finance Corp., as Co-Documentation Agents, including any notes, guarantees, collateral and security documents, instruments and agreements executed in connection therewith (including Hedge Agreements related to the Indebtedness, as defined in and incurred thereunder), and in each case as amended, restated or refinanced from time to time, including any agreement extending the maturity of, refinancing, replacing or otherwise restructuring (including increasing the amount of borrowings or other Indebtedness outstanding or available to be borrowed thereunder) all or any portion of the Indebtedness under such agreements, and any successor or replacement agreement or agreements with the same or any other agents, creditor, lender or group of creditors or lenders.

“Subsidiary” means, with respect to any Person, another Person (i) of which greater than fifty percent (50%) of the capital stock, voting securities, other ownership or equity interests having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no such voting interests, greater than fifty percent (50%) of the equity interests) are owned or controlled, directly or indirectly, by such first Person or (ii) of which such first Person is a general partner or similar controlling member or otherwise has the ability to designate a majority of the members of the board of directors or other controlling body thereof.

Section 11. Governing Law; Venue. This Note shall be governed by and construed and enforced in accordance with the laws of the State of New York. The Maker and the Holder, by accepting this Note, irrevocably and unconditionally: (i) agree to be subject to, and hereby consents and submits to, the exclusive jurisdiction of the United States District Court for the Southern District Court of New York located in the borough of Manhattan in the City of New York, or if such court does not have jurisdiction, the Supreme Court of the State of New York, New York County, for the purposes of any suit, action or other proceeding arising out of this Note or any of the transactions contemplated hereby, (ii) agree not to commence any legal proceedings related hereto except in such courts, (iii) to the extent such party is not otherwise subject to service of process in the State of New York, appoint The Corporation Trust Company (or any successor thereof), as such party’s agent in the State of New York for acceptance of legal process, (iv) agree that service made on any such agent set forth in (iii) above shall have the same legal force and effect as if served upon such party personally within such state and (v) agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner specified by law.

Section 12. Successors and Assigns; Assignment. This Note shall inure to the benefit of, and be binding upon, the Holder and the Maker and their respective successors and permitted assigns. Except as expressly provided herein, this Note may not be transferred or assigned by either the Maker or the Holder without the prior written consent of the other; provided that the Holder may transfer and assign this Note to DHL Worldwide Express B.V. or any of its controlled Affiliates without the Maker’s prior consent.

Section 13. Entire Agreement. This Note, the letter agreement dated March 16, 2009 between the Maker and DPWN Holdings and its Subsidiaries, and the Guaranty, dated as of May 8, 2009, by and between ATSG and the Holder constitute the full and entire understanding and agreement between the Holder and the Maker with regard to the subjects hereof.

Section 14. Severability. In case any provision of this Note shall be invalid, illegal or unenforceable in any jurisdiction, such provision shall be ineffective to the extent of such invalidity, illegality or unenforceability without affecting or impairing the validity, legality and enforceability of the remaining provisions hereof, and any such invalidity, illegality or unenforceability shall not invalidate or render illegal or unenforceable such provision in any other jurisdiction.

Section 20. Waiver of Presentment, Demand and Dishonor. The Maker hereby waives presentment, demand, protest or other notice or formality of any kind with respect to this Note except as demand or notice is expressly provided for in this Note.

Section 21. Confidentiality. The Holder covenants and agrees that, except as required by the provisions of any Legal Requirement for which the Holder is obligated, the Holder shall use commercially reasonable efforts not to disclose any information provided to it hereunder.

Section 22. Reduction of Principal Amount. The Holder acknowledges that the principal amount set forth in this Note may be reduced pursuant to the terms of the ACMI Agreement.

Section 23. Prior Note. This Note, issued on May 8, 2009, supersedes and replaces in its entirety that certain First Non-Negotiable Promissory Note issued on August 15, 2003 in the original principal amount of \$92,948,714 (the "Prior Note"). Immediately prior to the execution and delivery of this Note, (i) the unpaid principal balance of the Prior Note was \$92,275,656, (ii) the Maker made a payment in the aggregate amount of \$15,000,000 to the Holder which was applied to the unpaid principal balance of the Prior Note, and (iii) the Holder irrevocably and permanently forgave an aggregate outstanding principal amount of \$46,275,656. Accordingly, (i) the original principal balance of this Note as of the date hereof is \$31,000,000 and (ii) this Note continues the obligations of the Maker to the Holder under the Prior Note, as amended and restated hereby, only to the extent of the unpaid principal balance of \$31,000,000.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Maker has caused this Note to be duly executed and delivered by its duly authorized officer as of the date first written above.

ABX AIR, INC.

By: /s/ W. Joseph Payne

Name: W. Joseph Payne

Title: Vice President, General Counsel &
Secretary

GUARANTY

This Guaranty (this "Guaranty") is entered into as of May 8, 2009, by Air Transport Services Group, Inc., a Delaware corporation ("Guarantor"), in favor of DHL Express (USA), Inc., an Ohio corporation (as successor in interest to Airborne, Inc.) ("DHL").

RECITALS

WHEREAS, ABX Air, Inc., a Delaware corporation ("ABX") and DHL, have agreed, concurrently herewith, to amend and restate that certain First Non-Negotiable Promissory Note, dated as of August 15, 2003, made by ABX in favor of Airborne, Inc. in the original principal amount of \$92,948,714 (the "Prior Note") pursuant to that certain Amended and Restated First Non-Negotiable Promissory Note, dated as of the date hereof, to be issued by ABX to DHL in the original principal amount of \$31,000,000 (the "DHL Note"); and

WHEREAS, ABX is a wholly-owned subsidiary of Guarantor; and

WHEREAS, as an inducement for DHL to agree to the amendment and restatement of the Prior Note and to accept the DHL Note, Guarantor desires to guarantee the Guaranteed Obligations (as hereinafter defined) of ABX under the DHL Note, as set forth below;

NOW, THEREFORE, based upon the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to induce DHL to agree to the amendment and restatement of the Prior Note and to accept the DHL Note, Guarantor hereby agrees as follows:

Section 1. Guaranty. Guarantor, as a primary obligor and not as surety, hereby guarantees, without any setoff or other deduction, to DHL (i) the due, punctual and full payment by ABX of any and all sums to be paid by ABX pursuant to the DHL Note, whether such obligations now exist or arise hereafter, when and as the same shall become due and payable by ABX in accordance with the terms thereof, and (ii) the due, prompt and faithful performance and discharge by, and compliance with, all other obligations, covenants, terms, conditions, undertakings and liabilities of, ABX under the DHL Note in accordance with the terms thereof (all of the obligations, covenants, terms, conditions, undertakings and liabilities described in this Section 1 are herein collectively referred to as the "Guaranteed Obligations").

This Guaranty is continuing, absolute and unconditional and a guaranty of payment, performance and compliance and not of collectibility, and is in no way conditioned or contingent upon any attempt to collect from or enforce performance or compliance by ABX or the exercise or assertion of any other right or remedy to which DHL is or may be entitled under or in connection with the DHL Note. If for any reason whatsoever ABX shall fail or be unable duly, punctually and fully to pay such amounts as and when the same shall become due and payable in accordance with the terms of, or to perform or comply with any such obligation, covenant, term, condition or undertaking contained in, the DHL Note, Guarantor will promptly pay or cause to be paid such amounts under the terms of, or perform or comply with any such obligation, covenant, term, condition or undertaking contained in (or cause to be performed or complied with) the DHL Note.

Section 2. Character of Obligations of Guarantor. The obligations of Guarantor set forth in this Guaranty shall remain in full force and effect until payment of the Guaranteed Obligations in full, and shall not be released, discharged or in any way affected by any of the following:

- (a) any amendment, modification, addition, deletion or supplement to or of or other change in the Guaranteed Obligations or DHL Note;
- (b) any failure, omission or delay on the part of ABX to conform or comply with any term of the DHL Note;
- (c) any voluntary or involuntary bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation, dissolution, winding up or similar proceeding with respect to ABX; or
- (d) any merger or consolidation of ABX or Guarantor into or with any other corporation, or any other corporate change in ABX or Guarantor, or any sale, lease or transfer of any of the assets of ABX or Guarantor to any other person, or any change in the ownership of any shares of capital stock of ABX or Guarantor.

Section 3. Waiver and Agreement. Guarantor waives any and all notice of the creation, modification, extension or accrual of any of the Guaranteed Obligations and notice of or proof of reliance by DHL upon this Guaranty or acceptance of this Guaranty, and the Guaranteed Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guaranty. Guarantor unconditionally waives, to the extent permitted by applicable law:

- (a) acceptance of this Guaranty and proof of reliance by DHL hereon;
- (b) notice of any of the matters referred to in Section 2 hereof, or any right to consent or assent to any thereof;
- (c) any right to the enforcement, assertion or exercise by DHL against ABX of any right, power, privilege or remedy conferred upon DHL in the DHL Note or otherwise;
- (d) any requirement of diligence on the part of any person; and
- (e) any requirement that ABX or any other person be joined as a party to any proceeding for the enforcement of any term of the DHL Note.

Section 4. Subrogation. Guarantor shall be subrogated to any rights of DHL against ABX in respect of which a payment shall be made by Guarantor hereunder; provided, however, that Guarantor shall not enforce or attempt to enforce such rights until such time as the Guaranteed Obligations at issue have been discharged in full.

Section 5. DHL's Remedies. Each and every remedy of DHL under or with respect to this Guaranty shall, to the extent permitted by law, be cumulative and shall be in addition to any other remedy given hereunder, or under the DHL Note, or now or hereafter existing at law or in equity; provided, however, that DHL shall not be entitled to any double recovery.

Section 6. Representations and Warranties. Guarantor hereby represents and warrants to DHL that the following statements are true and correct:

6.1. Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

6.2. Guarantor has the corporate power and authority to enter into this Guaranty. The making, execution and performance of this Guaranty by Guarantor has been duly authorized by all necessary corporate action, this Guaranty has been duly executed and delivered by Guarantor and this Guaranty constitutes the valid and binding obligation of Guarantor, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors rights generally, including, without limitation, fraudulent conveyance laws, and by general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, whether considered in a proceeding in equity or at law.

6.3. The execution, delivery and performance of this Guaranty: (a) will not violate any provision of any existing law or regulation binding on Guarantor, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on Guarantor, or the charter or bylaws of, or any securities issued by Guarantor, or of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which Guarantor is a party or by which Guarantor or any of its assets may be bound, the violation of which would have a material adverse effect on the business, operations, assets or financial condition of Guarantor, and (b) will not result in the creation or imposition of any encumbrance on any of Guarantor's property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract or other agreement, instrument or undertaking. No consent, license, approval, order or authorization of, or registration, filing, or declaration with, any governmental authority is required to be obtained by Guarantor, and no consent of any third party is required to be obtained by Guarantor, in connection with the execution, delivery and performance of this Guaranty or the taking of the actions contemplated hereby, except for consents, authorizations, filings and notices that have been obtained or made. There is no order or action pending or, to the knowledge of Guarantor, threatened against Guarantor, in either case as of the date of this Guaranty, that individually or when aggregated with one or more other actions has or would reasonably be expected to have a material adverse effect on Guarantor's ability to perform this Guaranty.

6.4. Guarantor is the record and beneficial owner of all of the issued and outstanding capital stock of ABX as of the date hereof.

Section 7. Term of Agreement. This Guaranty and all guaranties, covenants and agreements of Guarantor contained herein shall continue in full force and effect and shall not be discharged until such time as all of the Guaranteed Obligations shall be paid in full and all the agreements of ABX and Guarantor hereunder and under the DHL Note shall have been duly performed. This Guaranty shall terminate and be of no further force or effect in the event of (i) final and irrevocable payment or performance of the Guaranteed Obligations, and (ii) payment of the expenses that Guarantor is obligated to pay pursuant to Section 8 hereof.

Section 8. Expenses. Guarantor shall pay to DHL on demand each cost and expense (including, without limitation, attorney's fees) hereafter incurred by DHL in endeavoring to enforce any obligation of Guarantor pursuant to this Guaranty or to preserve or exercise any right or remedy against Guarantor pursuant to this Guaranty or arising as a result of this Guaranty; provided, however, in connection with any legal action DHL shall not be entitled to such costs or expenses if DHL does not prevail.

Section 9. Amendments. The terms of this Guaranty may not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except by written instrument signed by Guarantor and DHL.

Section 10. Applicable Law. This Guaranty shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without regard to principles of conflicts of laws.

Section 11. Section Headings. The section headings are inserted for convenience only and are not to be construed as part of this Guaranty.

Section 12. Notices. All notices and other communications to be made or given pursuant to this Guaranty shall be made or given in the manner provided in Section 17 of the DHL Note, and if to Guarantor, to the following location:

Air Transport Services Group, Inc.
145 Hunter Drive
Wilmington, Ohio 45177
Attention: W. Joseph Payne
Sr. Vice President
Corporate General Counsel & Secretary

Section 13. Assignment. Guarantor may not assign this Guaranty, and its rights and obligations hereunder (a) except any assignment by operation of law or (b) otherwise without the prior written consent of DHL, which consent shall not be unreasonably withheld. This Guaranty may not be transferred or assigned by DHL without the prior written consent of Guarantor, which consent shall not be unreasonably withheld; provided that DHL may transfer and assign this Guaranty together with the DHL Note to DHL Worldwide Express B.V. or any of DHL Worldwide Express B.V.'s controlled Affiliates (as defined in the DHL Note) without Guarantor's prior consent; and provided, further, that the foregoing does not apply to any assignment by operation of law.

Section 14. Successor; DHL Note. This Guaranty is binding upon any successor to Guarantor. Guarantor agrees to comply with all of the covenants and agreements applicable to Guarantor or its subsidiaries' assets or properties under the DHL Note.

Section 15. No Other Writing. This writing is intended by the parties as the final expression of this Guaranty and is also intended as a complete and exclusive statement of the terms of their agreement with respect thereto.

IN WITNESS WHEREOF, Guarantor has executed this Guaranty by its duly authorized officer as of the date first above written.

AIR TRANSPORT SERVICES GROUP, INC.

/s/ W. Joseph Payne

By: W. Joseph Payne

Its: Sr. Vice President
Corporate General Counsel & Secretary

ACCEPTED AND AGREED:

DHL EXPRESS (USA), INC.

/s/ Jon E. Olin

By: Jon E. Olin

Its: EVP, General Counsel & Secretary

LEASE ASSUMPTION AND OPTION AGREEMENT

THIS LEASE ASSUMPTION AND OPTION AGREEMENT, dated as of the ___ day of May, 2009, is made by and between **DHL NETWORK OPERATIONS (USA), INC.**, an Ohio corporation (“**DHL**”), and **ABX AIR, INC.**, a Delaware corporation (“**ABX**”) (collectively, the “**Parties**”).

RECITALS:

WHEREAS, DHL operates as an express delivery business; and

WHEREAS, ABX is a U.S. certificated air carrier; and

WHEREAS, ABX and DHL are parties to an ACMI Service Agreement dated as of August 15, 2003, as amended (the “**ACMI Agreement**”), pursuant to which ABX provides air transportation services to DHL by providing aircraft, crew, maintenance and insurance to support DHL’s operations; and

WHEREAS, ABX, as lessee, is a party to each of the five aircraft leases described more fully in **Exhibit A** hereto (collectively, the “**Existing Leases**”); and

WHEREAS, each of the Existing Leases concerns the lease of a Boeing model 767-281 aircraft, each of which are currently being operated by ABX under the ACMI Agreement (collectively, the “**Existing Lease Aircraft**”), which are described as follows:

(a) That certain Boeing model 767-281 aircraft bearing manufacturer’s serial number 23017 and U.S. Registration No. N784AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer’s serial numbers 580267 and 580338 and all associated parts and documents subject to the applicable lease of such aircraft;

(b) That certain Boeing model 767-281 aircraft bearing manufacturer’s serial number 23018 and U.S. Registration No. N785AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer’s serial numbers 580239 and 580153 and all associated parts and documents subject to the applicable lease of such aircraft;

(c) That certain Boeing model 767-281 aircraft bearing manufacturer’s serial number 23019 and U.S. Registration No. N786AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer’s serial numbers 580166 and 580168 and all associated parts and documents subject to the applicable lease of such aircraft;

the aircraft N784AX, N785AX and N786AX listed above in (a), (b) and (c) being referred to together as the “**Tomair Existing Lease Aircraft**”;

(d) That certain Boeing model 767-281 aircraft bearing manufacturer's serial number 23022 and U.S. Registration No. N789AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580247 and 580185 and all associated parts and documents subject to the applicable lease of such aircraft; and

(e) That certain Boeing model 767-281 aircraft bearing manufacturer's serial number 23140 and U.S. Registration No. N790AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580240 and 580241 and all associated parts and documents subject to the applicable lease of such aircraft; and

the aircraft N789AX and N790AX listed in (d) and (e) above being referred to together as the "Genesis Existing Lease Aircraft";

WHEREAS, DHL is willing to assume all of the financial obligations under the Existing Leases, effective as of January 31, 2009, subject to the terms and conditions of this Agreement; and

WHEREAS, ABX, is willing to continue operating the Existing Lease Aircraft and the New Lease Aircraft (as defined herein) under the ACMI Agreement for DHL or its assignee after the date hereof at DHL's request; and

WHEREAS, each of the Existing Lease Aircraft has yet to be converted to a full freighter configuration by Israel Aerospace Industries, Ltd. ("IAI") in accordance with IAI's Special Freighter Conversion Specification (the "767-200SF Conversion"); and

WHEREAS, ABX owns rights with respect to certain conversion slots at IAI (the "ABX Conversion Slots"); and

WHEREAS, ABX owns four (4) Boeing model 767-200SF aircraft bearing U.S. Registration Numbers N752AX, N792AX, N797AX and N798AX (collectively, as more fully described in *Exhibit B* hereto, the "Owned Aircraft"), all of which are currently operated by ABX pursuant to the ACMI Agreement; and

WHEREAS, ABX wishes to grant to DHL an irrevocable option to lease from ABX any or all of the Owned Aircraft, and DHL seeks such an option, all subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, DHL and ABX hereby agree as follows:

AGREEMENT:

1. Incorporation of Recitals. The definitions contained in the above Recitals are hereby incorporated into this Section 1 as if fully set forth herein.

2. Assumption of Existing Lease Obligations; Indemnification.

(a) DHL hereby absolutely, unconditionally and irrevocably assumes all of the financial obligations of ABX arising under the Existing Leases on and after January 31, 2009, other than financial obligations relating to any action or failure to act of ABX before January 31, 2009 (the "Assumed Obligations"). DHL shall defend and indemnify ABX from and against any and all claims, damages or expenses (including, without limitation, reasonable attorneys' fees) arising from or relating in any manner to any of the Assumed Obligations.

(b) ABX shall cooperate with DHL and use all commercially reasonable efforts to minimize the costs to DHL arising from DHL's assumption of ABX's financial obligations pursuant to this Section 2. Without limiting the generality of the foregoing, such efforts by ABX shall include, upon DHL's request and at DHL's reasonable expense: (i) ensuring that each of the Existing Lease Aircraft meet the return condition requirements under the Existing Lease for such Existing Lease Aircraft; (ii) ensuring that each of the Existing Lease Aircraft have installed the aircraft engines as specified in each applicable Existing Lease (subject to the right of engine substitution, if any, pursuant to the requirements of such Existing Lease); and (iii) if requested by DHL, providing for short-term storage of the Existing Lease Aircraft as reasonably necessary. In relation to item (ii) above, and in accordance with the terms of the Existing Leases, ABX acknowledges and agrees that DHL may request that certain engines currently installed on the Genesis Existing Lease Aircraft be substituted with other engines, in order that such aircraft shall not significantly exceed the minimum return conditions for the engines installed on such aircraft.

(c) DHL shall use commercially reasonable efforts to cause the Existing Leases to be terminated. Upon the termination or assignment of any Existing Lease, DHL's obligation under this Section 2 shall automatically terminate without any further action of either Party hereto, except with respect to any obligations that may have accrued prior to the termination of such Existing Lease. In the event that DHL is not able to achieve the termination of the Existing Leases, then it shall accept assignment of the Existing Leases.

3. Freighter Conversion of Existing Lease Aircraft and "Put" Aircraft. The Parties further agree as follows with respect to (a) the Existing Lease Aircraft and (b) any additional aircraft for which ABX exercises a Put Option (as defined in the ACMI Agreement) pursuant to the ACMI Agreement which have yet to undergo a 767-200SF Conversion (collectively, the "Unmodified Aircraft"):

(a) Subject to the procedure set forth in Section 3(b) below, ABX hereby grants to DHL an option, to be exercised in DHL's sole and absolute discretion, to use up to five (5) of the ABX Conversion Slots (the option with respect to each ABX Conversion Slot, a "Conversion Slot Option") in order to have IAI perform a 767-200SF Conversion on up to five (5) of the Unmodified Aircraft; *provided, however*, that the Conversion Slot Options shall be limited such that DHL cannot use two (2) consecutive ABX Conversion Slots, except to the extent subsequently agreed upon in writing by the Parties.

(b) In order to exercise any Conversion Slot Option, DHL shall provide ABX notice of its intent to exercise a Conversion Slot Option at least ninety (90) days prior to the date of induction for such ABX Conversion Slot as set forth in the Conversion Schedule attached as **Exhibit C** hereto (such notice, the "Slot Option Notice of Intent"). Notwithstanding the foregoing sentence, DHL shall provide the Slot Option Notice of Intent to ABX within ten (10) days of the date of this Agreement with respect to any ABX Conversion Slot for which the date of induction is less than ninety (90) days from the date of this Agreement. Each Slot Option Notice of Intent shall (i) be in writing, (ii) be sent to ABX pursuant to the notice requirements of Section 13 hereof and (iii) specify the ABX Conversion Slot DHL seeks to use.

(c) Should DHL fail to send to ABX a Slot Option Notice of Intent with respect to an ABX Conversion Slot in a timely manner pursuant to the requirements of this Section 3, DHL shall lose all right to the use of such ABX Conversion Slot. Although DHL's option rights under this Section 3 would thereafter roll to the next ABX Conversion Slot, under no circumstances shall DHL be entitled to exercise options rights under this Section 3 with respect to (i) more than five (5) ABX Conversion Slots and (ii) two consecutive ABX Conversion Slots, except to the extent subsequently agreed upon in writing by the Parties.

(d) Upon DHL's exercise of a Conversion Slot Option pursuant to this Section 3, ABX shall use all commercially reasonable efforts to ensure that DHL receives the benefit of all rights granted by IAI to ABX with respect to the subject ABX Conversion Slot, including, without limitation, all favorable pricing and other conversion terms. DHL shall be liable for, and shall defend and indemnify ABX from and against, all claims, fees and expenses (including, but not limited to, all fees and expenses charged by IAI for the subject 767-200SF Conversion) arising out of DHL's use of any ABX Conversion Slot. Notwithstanding the foregoing, DHL shall have no liability or duty to indemnify ABX for its decision not to exercise a Conversion Slot Option.

4. Lease Option.

(a) ABX hereby grants to DHL an irrevocable option, in DHL's sole and absolute discretion, to lease one or more of the Owned Aircraft (the "Lease Option"). The Lease Option may be exercised individually, collectively or otherwise.

(b) DHL shall exercise its Lease Option, if at all, by providing notice to ABX prior to February 15, 2010, of its intent to exercise such Lease Option (the "Lease Option Notice of Intent"). The Lease Option Notice of Intent shall (i) be in writing, (ii) be sent to ABX pursuant to the notice requirements of Section 13 hereof and (iii) designate which of the Owned Aircraft DHL intends to lease. Should DHL fail to exercise its Lease Option prior to February 15, 2010, pursuant to the requirements of this Section 4(b) with respect to any of the Owned Aircraft, the Lease Option for such Owned Aircraft shall expire immediately and automatically and without any required notice or grace period on February 15, 2010, and ABX shall be under no obligation thereafter to lease such Owned Aircraft to DHL.

(c) To the extent that DHL exercises its Lease Option pursuant to Section 4(b) hereof, the Parties, as soon as practicable thereafter and for each subject Owned Aircraft (each, a "New Lease Aircraft"), shall execute and deliver an Aircraft Lease Agreement in the form of *Exhibit D* hereto (collectively, the "New Leases" and individually, a "New Lease"). The form of each of the New Leases shall be subject to revision from the form attached as *Exhibit D* hereto only (i) upon the mutual written consent of the Parties hereto or (ii) to the extent required by applicable laws.

(d) From and after the date of this Agreement until delivery of a New Lease Aircraft, ABX shall not remove or replace an engine or engine module from an Owned Aircraft unless due to operational necessity or as a result of a scheduled shop visit, and shall not otherwise discriminate against such Owned Aircraft.

5. Effect on ACMI Agreement.

(a) Except as expressly set forth in this Agreement, this Agreement shall not be deemed to amend the ACMI Agreement, the terms of which shall remain in full force and effect for the duration of the ACMI Agreement as amended.

(b) ABX understands that DHL may wish for ABX to continue operating one or more of the Existing Lease Aircraft and/or the New Lease Aircraft under the ACMI Agreement until such Existing Lease Aircraft and/or New Lease Aircraft undergoes a 767-200SF Conversion or is terminated under the ACMI Agreement. At DHL's request, ABX shall operate the Existing Lease Aircraft and/or New Lease Aircraft in accordance with the ACMI Agreement and such operation shall terminate automatically without any further action by DHL or ABX upon either the termination by DHL of the Existing Lease Aircraft or the New Lease Aircraft under the ACMI Agreement or the termination or expiration of the ACMI Agreement. The monthly cost of such operation shall be fully reimbursable to ABX under (and subject to) the ACMI Agreement.

(c) ABX shall not have a Put Option (as such term is defined in the ACMI Agreement) with respect to any of the Owned Aircraft for which DHL has exercised the Lease Option pursuant to Section 4 hereof, and DHL shall not have a termination right under the ACMI Agreement with respect to any such Owned Aircraft prior to the commencement of the term of the New Lease for such Owned Aircraft.

(d) Notwithstanding Section 5(c) above, between the date hereof and the earlier of (i) DHL's exercise of its Lease Option with respect to an Owned Aircraft and (ii) February 15, 2010, DHL shall retain all termination rights under the ACMI Agreement for such Owned Aircraft. Should DHL terminate an Owned Aircraft under the ACMI Agreement during such period: (i) DHL's Lease Option shall terminate immediately and automatically with respect to such Owned Aircraft; and (ii) ABX shall have the right to exercise its Put Option with respect to such Owned Aircraft under the ACMI Agreement.

6. Financial Adjustments. The Parties agree to the following financial adjustments:

(a) On the date of this Agreement: (i) ABX shall pay to DHL an amount in cash equal to the sum of the depreciation and interest charged to DHL from January 31, 2009, to the date hereof under the ACMI Agreement for each of the Existing Lease Aircraft; and (ii) DHL shall pay to ABX an amount equal to the sum of the lease payments which ABX has made under the Existing Leases pertaining to periods beginning after January 31, 2009.

(b) From and after the date of this Agreement, ABX shall not charge through to DHL the outstanding book value of any of the Existing Lease Aircraft under the ACMI Agreement.

(c) The ultimate write-off of the outstanding book value on the Existing Lease Aircraft shall be for the sole account of ABX.

(d) ABX hereby grants to DHL a credit in the amount of Ten Million Dollars (\$10,000,000) as prepaid Basic Rent under (and as defined in) the New Leases (the "Rent Credit"), with such Rent Credit being apportioned evenly among each New Lease. With respect to each Owned Aircraft for which DHL does not exercise its Lease Option, the foregoing \$10 million Basic Rent credit shall be reduced by Two Million Five Hundred Thousand Dollars (\$2,500,000), and such amount shall be offset against DHL's reimbursement to ABX for termination costs incurred under the ACMI Agreement.

(e) If any Owned Aircraft is destroyed or otherwise suffers a casualty occurrence that would constitute a total loss or a constructive total loss under the terms of the hull insurance maintained for such Owned Aircraft (such aircraft, a "Destroyed Aircraft") prior to the commencement or during the term of the subject New Lease, ABX, to the extent reasonably available, shall provide to DHL a substitute aircraft of the same configuration and with at least equivalent utility as the Destroyed Aircraft under the same lease terms and conditions for the balance of the term of such New Lease. If no equivalent aircraft is available, ABX will repay to DHL the unamortized balance of the Rent Credit applicable to the Destroyed Aircraft, and each of the Parties shall be released of all further obligations under such New Lease.

(f) Any gains (other than the Rent Credit) recorded by ABX due to or arising from the assumption by DHL of ABX's obligations under the Existing Leases pursuant to Section 2 of this Agreement shall not be subject to reimbursement under the ACMI Agreement.

7. Cooperation and Good Faith. Each of the Parties shall cooperate with the other and act at all times in complete good faith in seeking to effectuate the terms of this Agreement. Each of the Parties, at its own expense (except as otherwise provided in this Agreement), shall take such other and further actions and execute and deliver such other and further documents as may be reasonably necessary to effectuate this Agreement.

8. Representations and Warranties. Each of ABX and DHL represents and warrants to the other as follows:

(a) Such party is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, with full corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby.

(b) This Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action of such party.

(c) This Agreement has been duly executed and delivered by such party and constitutes a legal, valid and binding obligation of such party, enforceable against such party in accordance with its terms.

9. Time of the Essence. The Parties acknowledge and agree that time is of the essence with respect to the matters set forth in this Agreement.

10. Confidentiality. This Agreement shall be subject to that certain confidentiality agreement dated January 19, 2009 between DHL and Air Transport Services Group, Inc., the terms of which the Parties hereby incorporate herein. In addition, each of DHL and ABX agrees that it shall make no public announcement or disclosure of the existence of this Agreement or the transactions contemplated hereby without the prior written consent of the other party, except to the extent required by applicable law.

11. Applicable Law. This Agreement shall be governed by and construed in accordance with the substantive laws of the State of New York (other than the laws of the State of New York relating to choice of law).

12. Jurisdiction; Waiver of Jury Trial.

(a) ABX AND DHL AGREE THAT THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK LOCATED IN NEW YORK CITY ARE TO HAVE EXCLUSIVE JURISDICTION OVER ANY DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT, AND EACH SUBMITS ITSELF AND ITS PROPERTY TO THE EXCLUSIVE JURISDICTION OF THE FOREGOING COURTS WITH RESPECT TO SUCH DISPUTES.

(b) EACH OF ABX AND DHL HEREBY (i) WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE COURTS REFERRED TO IN THIS SECTION 12 ON GROUNDS OF AN INCONVENIENT FORUM OR OTHERWISE AND (ii) WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT BROUGHT IN THE COURTS REFERRED TO IN THIS SECTION 12.

(c) ABX AND DHL HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS AGREEMENT, WHETHER SUCH ACTION IS BASED ON BREACH OF CONTRACT, TORT, OR ANY OTHER LEGAL OR EQUITABLE THEORY.

13. Notices. All notices, demands, consents, approvals or other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given to a party if delivered in person or sent by overnight delivery (providing proof of delivery) to the party at the addresses set forth below on the date of delivery, or if by facsimile or electronic mail, upon confirmation of receipt.

(a) If to DHL, to:

DHL Network Operations (USA), Inc.
1200 South Pine Island Road
Plantation, Florida 33324
Attention: Jon Olin – EVP, General Counsel & Secretary
Email: Jon.Olin@dhl.com
Facsimile: (954) 888-7159

(b) If to ABX, to:
ABX Air, Inc.
145 Hunter Drive
Wilmington, Ohio 45177
Attention: Joe Payne, Vice President, General Counsel & Secretary
Email: Joe.Payne@atginc.com
Facsimile: (937) 382-2452

14. Amendments; Waivers. Subject to applicable law, this Agreement may only be amended pursuant to a written agreement executed by both ABX and DHL, and no waiver of compliance with any provision or condition of this Agreement and no consent provided for in this Agreement shall be effective unless evidenced by a written instrument executed by the party against whom such waiver or consent is to be effective. No waiver of any term or provision of this Agreement shall be construed as a further or continuing waiver of such term or provision or any other term or provision.

15. Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties and their respective successors and permitted assigns. No party to this Agreement may assign its rights or delegate its obligations under this Agreement to any other person, without the express prior written consent of the other party hereto (such consent not to be unreasonably withheld or delayed).

16. Execution in Counterparts. To facilitate execution, this Agreement may be executed in any number of counterparts (including by facsimile or e-mailed transmission), each of which shall be deemed to be an original, but all of which together shall constitute one binding agreement on the Parties, notwithstanding that not all parties are signatories to the same counterpart.

17. Headings; Certain Construction Rules. The section headings contained in this Agreement are for reference purposes only and do not form a part of this Agreement and do not in any way modify, interpret or construe the intentions of the Parties. The words "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." Unless otherwise specifically provided for herein, the term "or" shall not be deemed to be exclusive.

18. Entire Agreement. This Agreement, the ACMI Agreement and any other written agreement between the parties related to the subject matter of this Agreement constitute the entire agreement between the parties and supersedes any and all prior and contemporaneous agreements, memoranda, arrangements and understandings, both written and oral, between the parties with respect to the subject matter hereof. No representation, warranty, promise, inducement or statement of intention has been made by either party which is not contained in this Agreement and no party shall be bound by, or be liable for, any alleged representation, promise, inducement or statement of intention not contained herein or therein.

19. Severability. If any provision or any part of any provision of this Agreement is void or unenforceable for any reason whatsoever, then such provision shall be stricken and be of no further force or effect. However, unless such stricken provision goes to the essence of the consideration bargained for by a party, the remaining provisions of this Agreement shall continue in full force and effect and, to the extent required, shall be modified to preserve their validity. Upon such determination that any term or other provision or any part of any provision is void or unenforceable, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the fullest extent possible.

20. No Third-Party Rights. Nothing in this Agreement, whether express or implied, is intended to or shall confer any rights, benefits or remedies under or by reason of this Agreement on any persons other than the Parties and their respective successors and permitted assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third persons to any party, nor shall any provisions give any third persons any right or subrogation over or action against any party.

21. Expenses. Each of the Parties shall be responsible for all of its own costs incurred in connection with the negotiation and execution of this Agreement and, for the avoidance of doubt, no such costs or expenses of ABX or its affiliates shall be chargeable to DHL under the ACMI Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have executed this Lease Assumption and Option Agreement as of the day and year first herein written.

ABX AIR, INC.

By: /s/ W. Joseph Payne

Name: W. Joseph Payne

Title: VP, General Counsel & Secretary

DHL NETWORK OPERATIONS (USA), INC.

By: /s/ Jon E. Olin

Name: Jon E. Olin

Title: EVP

EXHIBIT A
TO
LEASE ASSUMPTION AND OPTION AGREEMENT

(Attached Description of Existing Leases)

Aircraft N784AX (master file), Aircraft N785AX and Aircraft N786AX

NOTE: The Owner Trustee is the registered owner and the head lessee for all three aircraft pursuant to a financing lease with Mitsui & Co Ltd. as head lessor.

Lease Agreement dated as of August 21, 2001 between Wells Fargo Bank Northwest, National Association, as Owner Trustee, as lessor ("Owner Trustee"), and ABX Air Inc., as lessee ("ABX"), with the following attached thereto: (i) Lease Supplement No. 1 dated August 21, 2001¹ between the Owner Trustee, as lessor, and ABX, as lessee; (ii) Lease Supplement No. 2 dated August 21, 2001² between the Owner Trustee, as lessor, and ABX, as lessee; (iii) Lease Supplement No. 3 dated August 21, 2001³ between the Owner Trustee, as lessor, and ABX, as lessee; and (iv) Assignment Agreement dated as of August 21, 2001 between the Owner Trustee, as assignor, and Mitsui & Co. Ltd., as assignee; which lease and attachments were recorded by the Federal Aviation Administration ("FAA") as one instrument on September 19, 2001 and assigned Conveyance No. YY031989.

Aircraft N789AX

Aircraft Lease Agreement dated as of July 31, 2001 between General Electric Capital Corporation, as lessor ("GECC"), and ABX Air, Inc., as lessee ("ABX"), with the following attached thereto: (i) Common Terms Agreement dated as of July 31, 2001 between GECC and ABX; and (ii) Lease Supplement No. 1 dated August 2, 2001 between GECC, as lessor, and ABX, as lessee; which lease and attachments were recorded by the FAA as one instrument on September 13, 2001 and assigned Conveyance No. II023288; as assigned and assumed by Assignment, Assumption and Amendment Agreement dated as of December 5, 2006 among GECC, as assignor, Wells Fargo Bank

¹ Lease Supplement No. 1 covers one (1) Boeing model 767-281 aircraft bearing manufacturer's serial number 23017 and United States Registration Number N784AX, and two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580267 and 580338.

² Lease Supplement No. 2 covers one (1) Boeing model 767-280 aircraft bearing manufacturer's serial number 23018 and United States Registration Number N785AX, and two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580239 and 580153.

³ Lease Supplement No. 3 covers one (1) Boeing model 767-280 aircraft bearing manufacturer's serial number 23019 and United States Registration Number N786AX, and two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580166 and 580168.

Northwest, National Association, as Owner Trustee, as assignee, and ABX, as lessee, which was recorded by the FAA on January 23, 2007 and assigned Conveyance No. N006940.

Aircraft N790AX

Aircraft Lease Agreement dated as of July 31, 2001 between General Electric Capital Corporation, as lessor ("GECC"), and ABX Air, Inc., as lessee ("ABX"), with the following attached thereto: (i) Common Terms Agreement dated as of July 31, 2001 between GECC and ABX; and (ii) Lease Supplement No. 1 dated August 2, 2001 between GECC, as lessor and ABX, as lessee; which lease and attachments were recorded by the FAA as one instrument on September 13, 2001 and assigned Conveyance No. S116805; as assigned and assumed by Assignment, Assumption and Amendment Agreement dated as of December 11, 2006 among GECC, as assignor, Wells Fargo Bank Northwest, National Association, as Owner Trustee, as assignee, and ABX, as lessee, which was recorded by the FAA on January 26, 2007 and assigned Conveyance No. P007408.

EXHIBIT B
TO
LEASE ASSUMPTION AND OPTION AGREEMENT

(Following Description of Owned Aircraft)

That certain Boeing model 767-200SF aircraft bearing manufacturer's serial number 23434 and U.S. Registration No. N752AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580225 and 580200 (as either of such engines may be replaced pursuant to the requirements of the foregoing Lease Assumption and Option Agreement) and all associated parts and documents;

That certain Boeing model 767-200SF aircraft bearing manufacturer's serial number 23142 and U.S. Registration No. N792AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580173 and 580125 (as either of such engines may be replaced pursuant to the requirements of the foregoing Lease Assumption and Option Agreement) and all associated parts and documents;

That certain Boeing model 767-200SF aircraft bearing manufacturer's serial number 23147 and U.S. Registration No. N797AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580345 and 580196 (as either of such engines may be replaced pursuant to the requirements of the foregoing Lease Assumption and Option Agreement) and all associated parts and documents; and

That certain Boeing model 767-200SF aircraft bearing manufacturer's serial number 23431 and U.S. Registration No. N798AX, together with two (2) General Electric model CF6-80A aircraft engines bearing manufacturer's serial numbers 580289 and 580227 (as either of such engines may be replaced pursuant to the requirements of the foregoing Lease Assumption and Option Agreement) and all associated parts and documents.

EXHIBIT C
TO
LEASE ASSUMPTION AND OPTION AGREEMENT

(Conversion Schedule)*

<u>Aircraft</u>	<u>Induction</u>	<u>Turntime</u>	<u>Redelivery</u>
1	9/1/2008	272	6/13/2009
2	4/5/2009	120	8/9/2009
3	5/3/2009	115	8/28/2009
4	8/9/2009	115	12/9/2009
5	8/27/2009	115	12/27/2009
6	12/8/2009	110	3/28/2010
7	12/27/2009	110	4/20/2010
8	3/28/2010	110	7/22/2010
9	4/19/2010	110	8/10/2010
10	7/21/2010	110	11/15/2010
11	8/9/2010	110	12/4/2010
12	11/14/2010	110	3/4/2011
13	12/5/2010	110	3/25/2011
14	3/3/2011	110	6/27/2011

* The foregoing schedule mirrors that contained in ABX's agreement with IAI for the conversion of the aircraft and does not include painting. DHL may not exercise a Conversion Slot Option for the ABX Conversion Slots associated with Aircraft 1, 2 and 3 above.

EXHIBIT D
TO
LEASE ASSUMPTION AND OPTION AGREEMENT

(Attached Form of New Leases)

AIRCRAFT LEASE AGREEMENT
(MSN _____)

Dated as of _____, _____, 20 ____

BETWEEN

[ABX AIR, INC.]¹,
AS LESSOR

AND

[DHL NETWORK OPERATIONS (USA), INC.]¹,
AS LESSEE

RELATING TO

ONE BOEING MODEL 767-200SF AIRCRAFT

SERIAL NUMBER _____

U.S. REGISTRATION NO. N _____

This is Counterpart Number _____ of four (4) serially numbered, manually executed counterparts of this Aircraft Lease Agreement. To the extent, if any, that this Aircraft Lease Agreement constitutes chattel paper under the Uniform Commercial Code in any jurisdiction, no security interest in this Agreement may be created through the transfer and possession of any counterpart of this Aircraft Lease Agreement other than the serially numbered counterpart thereof marked Counterpart Number 1.

¹ The parties have discussed the possibility of substituting a different Lessor and/or Lessee, subject to the mutual and reasonable agreement of the parties.

AIRCRAFT LEASE AGREEMENT
(MSN _____)

THIS AIRCRAFT LEASE AGREEMENT (MSN _____) (this “Agreement”), dated as of the _____ day of _____, 20__, is between **ABX AIR, INC.**, a Delaware corporation (“Lessor”), and **DHL NETWORK OPERATIONS (USA), INC.**, an Ohio corporation (“Lessee”).

RECITALS

WHEREAS, Lessee desires to lease the “Aircraft” (as defined below) from Lessor; and

WHEREAS, Lessor is agreeable to leasing the Aircraft to Lessee, upon and subject to the terms and conditions of this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the terms and conditions set forth herein, the receipt and sufficiency of which are hereby acknowledged by Lessor and Lessee, Lessor and Lessee hereby agree as follows:

1. Definitions. The following terms shall, except where the context otherwise requires, have the following respective meanings for all purposes of this Agreement.

1.1. “ABX Operating Agreement” shall mean any sub-lease, operating agreement or similar agreement in effect at any time during the Term between Lessee and Lessor, pursuant to which Lessor agrees to operate the Aircraft.

1.2. “AD Term Date” shall mean the date which falls on the first day of the month immediately after the expiration of ninety-six (96) months after the Delivery Date.

1.3. “ADs” shall mean (a) any airworthiness directive or comparable document issued by the Aviation Authority, the FAA (if not the applicable Aviation Authority) or any other Governmental Entity exercising appropriate jurisdiction over the subject matter or parties affected thereby requiring compliance or (b) any mandatory service bulletin issued by a Manufacturer.

1.4. “Affiliate” shall mean any entity controlling, controlled by or under common control with a party hereto.

1.5. “Agreed Value” shall mean the value specified as such in *Appendix B* and shall have the meaning ascribed to it in the London insurance market in relation to aviation hull policies.

1.6. “Aircraft” shall mean, collectively, the Airframe, the Engines and the Aircraft Documents.

1.7. "**Aircraft Documents**" shall mean the documents listed in *Appendix C* hereto and all other records, documents, log books, manuals, drawings and data relating to the Aircraft and developed or caused to be developed by Lessee or required by the Aviation Authority, as updated and maintained through the Return Date.

1.8. "**Aircraft Return Documents**" shall have the meaning ascribed to such term in Section 18.2 hereof.

1.9. "**Airframe**" shall mean the Boeing model 767-200SF airframe described in *Appendix A* hereto, together with all Parts, excluding, however, the Engines or any other engines from time to time installed thereon, but including each QEC.

1.10. "**Anticipated Delivery Date**" shall mean August 15, 2010, which is the date that the parties anticipate that the Aircraft will be Delivered to Lessee pursuant to the terms and conditions of this Agreement.

1.11. "**APU**" shall mean the auxiliary power unit installed on the Aircraft on the Delivery Date (or any substitution therefor made during the Term pursuant to this Agreement), together with all Parts installed thereon.

1.12. "**APU Hours**" shall mean the time as measured in hours and minutes during which the APU is operated.

1.13. "**Aviation Authority**" shall mean the FAA and any other Governmental Entity having jurisdiction over the Aircraft and this Agreement or Lessee's operations, and any successors thereto, respectively (with the understanding that, should the Aircraft, with Lessor's approval, be registered in a country other than the United States, this definition shall include all Governmental Entities outside of the United States with jurisdiction over the Aircraft).

1.14. "**Authorized Maintenance Performer**" shall mean any repair station licensed or certified by the Aviation Authority acting within the scope of its authorization, including, without limitation, the entity performing maintenance to an Engine under the Delta Engine Program.

1.15. "**Basic Rent**" shall mean the amount specified as such in *Appendix B* and payable pursuant to Section 4.2 hereof.

1.16. "**Basic Rent Credit**" shall have the meaning ascribed to such term in *Appendix B* hereto.

1.17. "**Basic Rent Date**" shall mean the Delivery Date and the first day of each calendar month thereafter.

1.18. "**Business Day**" shall mean any day other than a Saturday, Sunday or other day on which banking institutions in _____, _____ or in Wilmington, Ohio are required or authorized by Law to close.

1.19. "**Cape Town Convention**" shall mean the Convention on International Interests in Mobile Equipment and its Protocol on Matters Specific to Aircraft Equipment, concluded in Cape Town, South Africa, on November 16, 2001.

1.20. "**Claims**" shall have the meaning ascribed to such term in Section 10.1 hereof.

1.21. "**Cycle**" shall mean one take-off and next subsequent landing of the Aircraft.

1.22. "**Default**" shall mean any event which, with the giving of notice, lapse of time, or both, would become an Event of Default.

1.23. "**Delivery**" shall have the meaning ascribed to such term in Section 3.5 hereof.

1.24. "**Delivery Condition Requirements**" shall have the meaning ascribed to such term in Section 3.6 hereof.

1.25. "**Delivery Date**" shall mean the date on which the Delivery occurs.

1.26. "**Delivery Location**" shall mean Wilmington Airpark, Wilmington, Ohio, or as otherwise mutually agreed by Lessor and Lessee.

1.27. "**Delta**" shall mean Delta Air Lines, Inc., a Delaware corporation.

1.28. "**Delta Engine Program**" shall mean the program in effect from time to time with respect to the Engines pursuant to a maintenance agreement between Lessor (or an Affiliate of Lessor) and Delta.

1.29. "**Dollars**" and "\$" and "US\$" shall mean the lawful currency of the United States of America.

1.30. "**Engine**" shall mean either of the two (2) engines identified as to manufacturer and type and by serial number on the Lease Supplement (each of which shall have more than 550 rated takeoff horsepower or the equivalent of such horsepower), together with all Parts installed thereon, and any engine substituted for an Engine pursuant to the terms hereof.

1.31. "**Equipment Change**" shall have the meaning ascribed to such term in Section 7.7 hereof.

1.32. "**Event of Default**" shall mean any one of the events specified in Section 16.1 hereof.

1.33. "**Expiration**" shall mean the end of the Term pursuant to this Agreement.

1.34. "**Expiration Date**" shall mean the day which is sixty-four (64) months and fifteen (15) days after the Delivery Date (which shall be identified by actual date in the Lease Supplement).

1.35. "**FAA**" shall mean the Federal Aviation Administration of the United States of America and all successors thereto.

1.36. "**FAR**" shall mean the Federal Aviation Regulations issued by the FAA.

1.37. "**Flight Hours**" shall mean, with respect to the Aircraft, the time as measured in hours and minutes elapsing from the moment at which the wheels of the Aircraft leave the ground on a takeoff until the wheels of the Aircraft touch the ground on the next landing of the Aircraft.

1.38. "**Governmental Entity**" shall mean: (a) any national government, any political subdivision thereof, or local authority therein, (b) any agency, board, commission, department, division, organ, instrumentality, or court of any of the foregoing, however constituted, and (c) any organization, association, or institution, of which any of the foregoing is a member or to whose jurisdiction it is subject or in whose activities it is a participant.

1.39. "**Guarantor**" shall mean Deutsche Post AG (or such other entity as Lessor accepts in its sole and absolute discretion).

1.40. "**Guaranty**" shall mean a guaranty agreement in the form attached as *Appendix I* hereto, which, as executed by Guarantor, irrevocably and unconditionally guaranties the performance of all payment obligations by Lessee to Lessor under this Agreement.

1.41. "**IAI**" shall mean Israel Aerospace Industries, Ltd.

1.42. "**Indemnified Parties**" shall have the meaning ascribed to such term in Section 10.1 hereof.

1.43. "**International Registry**" shall mean the registry established and maintained pursuant to the Cape Town Convention.

1.44. "**Law**" shall mean: (a) any constitution, statute, decree, regulation, order, or other directive of the Governmental Entity of any location to, from, or within which the Aircraft shall operate; (b) any treaty, pact, compact, or other agreement to which any Governmental Entity is a signatory or party; (c) any judicial or administrative interpretation or application of any of the foregoing; and (d) any amendment or revision of any of the foregoing.

1.45. "**Lease Supplement**" shall mean the Lease Supplement No. 1, substantially in the form of *Appendix E* hereto, which, as of the Delivery Date, shall be executed by Lessor and Lessee and, together with this Agreement, filed with the FAA for recordation (assuming that the Aircraft is registered in the United States).

1.46. "**Lease Termination Documents**" shall have the meaning ascribed to such term in Section 3.10 hereof.

1.47. "**Lessor's Lender**" shall have the meaning ascribed to such term in Section 20.14 hereof.

1.48. "**Lessor's Liens**" shall mean Liens on or relating to or affecting the Aircraft, the Airframe, the Engines or any part thereof arising as a result of (a) claims against Lessor not relating to this Agreement, (b) acts of Lessor neither permitted nor required to be taken by

Lessor under this Agreement, (c) the transfer by Lessor of its interest or any part thereof in the Aircraft, (d) Taxes imposed against Lessor which Lessee has not agreed to indemnify against pursuant hereto or (e) any act, omission or circumstance occurring or omitted prior to the Delivery Date or after the Return of the Aircraft and the Aircraft Documents.

1.49. "Lien" shall mean any lien, mortgage, charge, deed of trust, encumbrance, pledge, hypothecation, attachment, license, assignment by way of security or security interest, including, without limitation: (a) any preferential arrangement resulting in a secured transaction or having the same economic or legal effect as a lien, mortgage, charge, deed of trust, encumbrance, pledge, hypothecation, attachment, license, assignment by way of security or security interest; (b) any agreement to give any lien, mortgage, charge, deed of trust, encumbrance, pledge, hypothecation, attachment, license, assignment by way of security or security interest; (c) the interest of a vendor or a lessor under any conditional sale agreement, lease, hire purchase agreement or other title retention arrangement; or (d) any statutory or other right of a Governmental Entity to detain, hold or seize an aircraft or any part thereof which is presently exercisable with respect to such aircraft.

1.50. "Maintenance Program" shall mean (a) with respect to the Engines, the Delta Engine Program or other maintenance program under which the Engines are maintained, and (b) with respect to the Aircraft, the maintenance program in effect for the Aircraft as maintained by Lessee (or Lessee's sublessee or operator), as such programs may be amended during the Term, all in accordance with the requirements of the Aviation Authority.

1.51. "Manufacturer" shall mean: (a) as to the Airframe, The Boeing Company; and (b) as to the Engines, General Electric Corporation.

1.52. "Minimum Liability Coverage" shall mean the amount specified as such in *Appendix B*, designating the minimum Combined Single Limit under the airline liability insurance required pursuant to this Agreement.

1.53. "Other Aircraft" shall mean the three (3) Boeing model 767-200SF aircraft bearing manufacturer's serial numbers _____, _____ and _____.

1.54. "Other Lease Agreements" shall mean, collectively, each aircraft lease agreement between Lessor (or an Affiliate of Lessor), as lessor, and Lessee (or an Affiliate of Lessee), as lessee, concerning, respectively, each of the Other Aircraft.

1.55. "Parts" shall mean any item, including, without limitation, materials, accessories, components, equipment, appliances, instruments, avionics, appurtenances, furnishings and any other equipment or components of whatever nature (other than the Engines), which are installed in or attached or appurtenant to the Aircraft or either of the Engines.

1.56. "Permitted Lien" shall have the meaning ascribed to such term in Section 9 hereof.

1.57. "QEC" shall mean all of the "quick engine change" components associated with each Engine.

1.58. "**Rent**" shall mean Basic Rent.

1.59. "**Replacement Engine**" shall have the meaning set forth in Section 6.2(c) hereof.

1.60. "**Return**" shall mean the return and redelivery of the Aircraft (including the Aircraft Documents) to Lessor in accordance with Sections 17 and 18 hereof.

1.61. "**Return Condition Requirements**" shall have the meaning ascribed to such term in Section 18.1 hereof.

1.62. "**Return Date**" shall mean the date at Expiration or upon earlier Termination when the Aircraft (including the Aircraft Documents) are actually returned to Lessor in conformity with the Return Condition Requirements.

1.63. "**Return Location**" shall mean Wilmington Airpark, Wilmington, Ohio, or as otherwise mutually agreed by Lessor and Lessee.

1.64. "**Special FAA Counsel**" shall mean McAfee & Taft, Oklahoma City, Oklahoma.

1.65. "**Surviving Engine**" shall have the meaning ascribed to such term in Section 19.3 hereof.

1.66. "**Taxes**" shall mean any and all taxes (including, but not limited to, withholding taxes, value added taxes, deductions, transaction privilege taxes, sales taxes or assessments of any kind or form), charges, fees, imposts, levies or other charges of any nature, together with any penalties, fines, or interest thereon or other additions thereto which are imposed, withheld, levied, or assessed by or on behalf of, or otherwise payable to, any Governmental Entity.

1.67. "**Technical Acceptance Certificate**" shall have the meaning ascribed to such term in Section 3.8 hereof.

1.68. "**Term**" shall mean the period commencing on the Delivery Date and ending on the Expiration Date or on any earlier Termination Date, as applicable.

1.69. "**Termination**" shall mean the termination of the lease of the Aircraft under this Agreement, which termination arises prior to the Expiration Date pursuant to Section 2.1, 2.2, 7.1(b)(3), 16.2, 19.1 or 20.15 hereof, or otherwise under this Agreement.

1.70. "**Termination Date**" shall mean the date on which a Termination is effective.

1.71. "**Total Loss**" shall mean any of the following events with respect to the Aircraft, the Airframe, an Engine or the Aircraft Documents: (a) the destruction, damage beyond economical repair, or such property becoming permanently unfit for normal use, for any reason whatsoever; (b) any event which results in an insurance settlement on the basis of actual or constructive or compromised or agreed or arranged total loss; (c) the disappearance of the Aircraft, if the Aircraft is unreported for a period of thirty (30) days after commencement of a flight; (d) loss of possession or loss of use by Lessee for a period of more than thirty (30) days due to hijacking, theft, or other criminal actions; (e) the condemnation, confiscation,

appropriation, expropriation or seizure of, or requisition of title to or use of, the Aircraft or an Engine by any Governmental Entity, other than a requisition for use by any Governmental Entity of the United States or any political subdivision thereof, for a period of six (6) months or more; or (f) the operation or location of the Aircraft, while under requisition for use by any Governmental Entity, in any areas excluded from coverage by any insurance policy in effect with respect to such Aircraft required by the terms of this Agreement, unless Lessor and Lessee shall have obtained an indemnity in freely transferable Dollars from that Governmental Entity covering the risks excluded from coverage and satisfactory to both Lessor and Lessee.

1.72. “Written Summaries” shall have the meaning ascribed to such term in Section 7.8(a) hereof.

2. Conditions Precedent.

2.1. Lessor’s Conditions Precedent.

(a) Lessor’s obligation to deliver and to lease the Aircraft to Lessee hereunder shall be subject to satisfaction of each of the following conditions precedent.

(1) All of the representations and warranties of Lessee set forth in Section 14.1 hereof shall be true and correct in all material respects as of the date hereof and as of the Delivery Date.

(2) Lessor shall have received, on or before the Delivery Date, all of the following, all of which shall be in form and substance satisfactory to Lessor:

(A) The Guaranty, in the form attached as *Appendix I*, as executed by Guarantor;

(B) a certificate of insurance issued by the insurer or broker for Lessee (or Lessee’s operator) evidencing compliance with the insurance provisions of Section 11 hereof;

(C) the Technical Acceptance Certificate in the form of *Appendix D*, executed and delivered by an authorized representative of Lessee; and

(D) the Lease Supplement, executed and delivered by an authorized representative of Lessee.

(3) No loss or destruction to the Aircraft shall have occurred, except to the extent covered by insurance with respect to the Aircraft.

(4) Lessee shall have made payment of the first installment of Basic Rent pursuant to Section 4.2 hereof.

(5) An Event of Default shall not have occurred and be continuing pursuant to (and as defined by) any of the Other Lease Agreements.

(6) Assuming that the Aircraft is registered in the United States, Lessee shall have (a) delivered to Special FAA Counsel its original signature for this Agreement and the Lease Supplement and (b) irrevocably authorized and instructed Special FAA Counsel to file original counterparts of this Agreement and the Lease Supplement with the FAA for recordation upon satisfaction of the conditions precedent set forth in Section 2.2 hereof. If the Aircraft is not registered in the United States, Lessee shall have taken all required steps to file or register this Agreement with the applicable Aviation Authority.

(7) Assuming that the Aircraft is registered in the United States, Lessee shall have (a) taken all required steps to appoint Special FAA Counsel as its Professional User Entity for purposes of registering its international interest under this Agreement with the International Registry and (b) irrevocably authorized and instructed Special FAA Counsel to register such international interest with the International Registry upon satisfaction of the conditions precedent set forth in Section 2.2 hereof. If the Aircraft is not registered in the United States, Lessee nevertheless shall have taken all required steps to register the international interest under this Agreement with the International Registry. Notwithstanding the foregoing, Lessee shall be required to satisfy the provisions of this Section 2.1(a)(8) only to the extent required by Lessor's Lender or as required by applicable Law.

(8) Lessee shall have delivered to Lessor the Lease Termination Documents (unless Lessee elects to accept such documents after Delivery pursuant to Section 3.10 hereof).

(b) If due to Lessee's failure to satisfy any of the above conditions precedent under this Section 2.1 (and expressly not including a failure of Lessor or the Aircraft to conform to the requirements of Section 2.2 hereof) the Aircraft shall not have been delivered to and accepted by Lessee within thirty (30) days after the Anticipated Delivery Date, then Lessor shall have the right (but not the obligation) to terminate this Agreement by giving notice to Lessee to that effect, with such notice of termination taking effect immediately. Upon such a termination occurring, Lessor shall be entitled to retain the amount of the Basic Rent Credit to compensate it for the loss of a bargain (and not as a penalty), and neither party hereto shall have any further obligation to the other with respect to the Aircraft.

2.2. Lessee's Conditions Precedent.

(a) Lessee's obligation to lease the Aircraft from Lessor hereunder shall be subject to satisfaction of each of the following conditions precedent:

(1) Lessee shall have (A) completed its inspection of the Aircraft (including the Aircraft Documents) pursuant to Section 3.7 hereof and (B) reasonably determined that the Aircraft complies with the Delivery Condition Requirements.

- (2) The Aircraft shall not have suffered a Total Loss prior to the Delivery.
- (3) The Aircraft shall be validly registered with the FAA in the name of Lessor (or shall be otherwise registered as approved by Lessor).
- (4) Lessor shall have executed and delivered the Lease Supplement.
- (5) Assuming that the Aircraft is registered in the United States, Lessor shall have (a) delivered to Special FAA Counsel its original signature for this Agreement and the Lease Supplement and (b) irrevocably authorized and instructed Special FAA Counsel to file original counterparts of this Agreement and the Lease Supplement with the FAA for recordation upon satisfaction of the conditions precedent set forth in Section 2.1 hereof. If the Aircraft is not registered in the United States, Lessor shall have taken all required steps to file or register this Agreement with the applicable Aviation Authority.
- (6) Assuming that the Aircraft is registered in the United States, Lessor shall have (a) obtained an authorization code from the FAA for the international interest created by this Agreement with respect to the Airframe and Engines by filing with the FAA an AC Form 8050-135, (b) taken all required steps to appoint Special FAA Counsel as its Professional User Entity for purposes of registering such international interest with the International Registry and (c) irrevocably authorized and instructed Special FAA Counsel to register such interest with the International Registry upon satisfaction of the conditions precedent set forth in Section 2.1 hereof. If the Aircraft is not registered in the United States, Lessor nevertheless shall have taken all required steps to register the international interest under this Agreement with the International Registry. Notwithstanding the foregoing, Lessor shall be required to satisfy the provisions of this Section 2.2(a)(6) only to the extent required by Lessor's Lender or as required by applicable Law.
- (b) In the event Lessor fails to tender the Aircraft for Delivery within thirty (30) days after the Anticipated Delivery Date, Lessee (conditioned upon Lessee satisfying its conditions precedent under Section 2.1 hereof) shall have the right (but not the obligation) to terminate this Agreement. Should Lessee desire to exercise its termination right under this Section 2.2(b), Lessee shall provide written notice to Lessor of its election to terminate not later than ten (10) days after the earlier: of (i) the date on which Lessor provides notice to Lessee that the Delivery will occur more than thirty (30) days after the Anticipated Delivery Date; or (b) the thirtieth (30th) day after the Anticipated Delivery Date. Any failure by Lessee to provide such a notice of termination to Lessor by such date will be deemed a waiver of the termination right provided under this Section 2.2(b). Upon a termination occurring under this Section 2.2(b), Lessee shall be entitled to (i) a refund of any Rent payments made pursuant to this Agreement and (ii) a refund of the Basic Rent Credit, and this Agreement shall be of no further force or effect.

3. Lease of Aircraft; Inspection; Technical Acceptance; Delivery.

3.1. Lease of the Aircraft. Commencing on the Delivery Date, Lessor shall lease the Aircraft to Lessee, and Lessee shall lease the Aircraft from Lessor, for the Term, and Lessee shall return the Aircraft to Lessor on the Expiration Date (or upon the earlier Termination of this Agreement as provided herein), upon and subject to the terms and conditions of this Agreement.

3.2. Term. The Term shall commence on the Delivery Date and continue until the Expiration Date, subject to earlier Termination as provided herein.

3.3. Anticipated Delivery Date. Lessor and Lessee (a) anticipate that the Aircraft will be available for delivery to Lessee on or about the Anticipated Delivery Date and (b) shall act in good faith at all times in an attempt to effect Delivery on or about the Anticipated Delivery Date.

3.4. A Lease Only. At all times during the Term, full legal title to the Aircraft (including the Aircraft Documents) shall remain vested in Lessor to the exclusion of Lessee, notwithstanding the delivery thereof to, and the use by, Lessee. Lessor and Lessee agree that this Agreement is intended to be a "lease" within the meaning of 11 U.S.C. Section 1110 and shall constitute a lease for tax purposes.

3.5. Delivery. On the Delivery Date, if all the conditions set forth in Sections 2.1 and 2.2 hereof have been satisfied or waived, the Aircraft shall be tendered for delivery to Lessee (which Lessee shall accept) pursuant to the procedure set forth herein by executing and delivering the Lease Supplement (the "Delivery"). The Delivery Date shall be the date of the Lease Supplement. The Aircraft and the Aircraft Documents will be tendered to Lessee for delivery at the Delivery Location.

3.6. Condition of the Aircraft; Modifications.

(a) Lessor, as a condition of Lessee's obligation to accept the Aircraft, shall, at its sole cost and expense, cause the Aircraft, including the Aircraft Documents, to meet all requirements set forth in *Appendix G* hereto (the "Delivery Condition Requirements") as of the Delivery.

(b) All unserviceable components and all discrepancies identified by Lessee during the ground or flight inspection conducted pursuant to Section 3.7 hereof shall be corrected by Lessor at Lessor's expense prior to the technical acceptance of the Aircraft by Lessee (except such corrections as shall be deferred by mutual agreement of Lessee and Lessor, which corrections shall be performed at Lessor's sole cost and expense thereafter).

(c) Except as otherwise expressly provided by this Agreement, all configuration modifications required to fulfill Lessee's operational demands shall be performed by Lessee and at Lessee's cost and expense. All such modifications shall be performed by an Authorized Maintenance Performer, and shall be subject to the prior approval of Lessor, which approval shall not be unreasonably withheld.

3.7. Inspection.

(a) Prior to the Anticipated Delivery Date, Lessor shall cause the Aircraft and the Aircraft Documents to be made available for a pre-delivery inspection by Lessee, at Lessee's expense, by giving Lessee the opportunity to inspect the Aircraft, the Engines, all installed Parts and the Aircraft Documents, with such inspection or inspections taking place at the Delivery Location or at such other location as Lessor and Lessee may agree in writing.

(b) On or before the later of (i) ten (10) days following the execution of this Agreement by the parties or (ii) forty-five (45) days prior to the Anticipated Delivery Date, Lessor shall make available for Lessee's inspection the Aircraft Documents which are available at that time (the "Historic Documents"). On or before the earlier of (A) the thirtieth (30th) day following the date on which Lessor makes such Historic Documents available to Lessee or (B) the fifth (5th) day prior to the Anticipated Delivery Date, Lessee shall notify Lessor in writing of any non-conformities between such Historic Documents and the requirements of this Agreement. Lessee shall be deemed to have waived any non-conformities between the Historic Documents and this Agreement to the extent Lessee fails to identify such non-conformities to Lessor in writing on or before the date set forth in (A) or (B) above, as applicable.

(c) Any additional Aircraft Documents ("Additional Documents") which are generated or otherwise become available from time to time after the date on which the Historic Documents are made available by Lessor for Lessee's inspection shall be made available by Lessor for Lessee's inspection within two (2) Business Days after they become available. Lessee shall notify Lessor in writing of any non-conformities between any such Additional Documents and the requirements of this Agreement on or before the second (2nd) Business Day following the date on which such documents are made available by Lessor for Lessee's inspection.

(d) Immediately prior to delivery of the Aircraft, Lessor, at the request of Lessee, shall make the Aircraft available for a test flight (of no more than one hour in duration) based on the Manufacturer's test flight program to demonstrate the satisfactory functioning of the Aircraft and all of its systems. If the Aircraft is determined to be not in conformity with the Delivery Condition Requirements, the test flight shall be repeated as necessary pursuant to the provisions of Section 3.7(e) below. Lessee's representatives shall be allowed to attend such test flight on board the Aircraft (but shall be responsible for their own expenses). Lessor shall arrange for an experienced aircraft crew for the test flight (which crew, upon mutual agreement of Lessor and Lessee, may be Lessee's crew), and Lessor shall bear the operating expense of such test flight (including the cost of the crew, fuel, and any airport fees). Lessor shall assume all risk of any loss or damage to the Aircraft in connection with such test flight except to the extent the same is caused by the gross negligence or willful misconduct of Lessee or its representatives.

(e) Promptly following the ground and flight inspection, but in no event more than 24 hours following such ground or flight inspection, Lessee shall notify Lessor of any defect or non-conformity with the Delivery Condition Requirements set forth in

Appendix G, whereupon Lessor will advise Lessee of the estimated time required to effect correction of such defects or discrepancies. Upon the completion of any required corrections, Lessor will make the Aircraft available to Lessee for any further ground and/or flight reinspection as necessary (pursuant to Section 3.7(d) above) to verify compliance with the Delivery Condition Requirements.

3.8. Acceptance. Upon the completion of the ground and flight inspections conducted pursuant to Section 3.7 hereof, and the performance by Lessor of any corrections required to bring the aircraft into conformity with the Delivery Condition Requirements, Lessee shall execute and deliver to Lessor a Technical Acceptance Certificate substantially in the form of **Appendix D** hereto (the "Technical Acceptance Certificate").

3.9. Modifications. Except as required to be performed by Lessor as part of the Delivery Condition Requirements, all work required to be performed on the Aircraft so as to satisfy Lessee's operational requirements, to otherwise comply with the regulations of the Aviation Authority or for any other reason, shall be performed by an Authorized Maintenance Performer at Lessee's cost and expense. Without limiting the generality of the foregoing, should Lessee (at any time during the Term of this Agreement) elect to make a change from the ABX Maintenance Program, Lessee shall be responsible for (a) creating the bridge package for such special program and (b) the cost of returning the Aircraft back to the ABX Maintenance Program upon the Return of the Aircraft at the end of the Term.

3.10. Lease Termination Documents. Prior to (and as a condition of) Delivery or, at Lessor's sole option, after Delivery and within fifteen days after request of Lessor during the Term, Lessee shall execute and deliver to Lessor: (a) one or more executed lease termination agreements in a form or forms acceptable for filing with the Aviation Authority and each other relevant Governmental Entity; (b) any other documents required by the Aviation Authority and each other relevant Governmental Entity, as required in Lessor's reasonable determination to effectuate the de-registration of the Aircraft (if determined appropriate by Lessor) and termination of the Lease; and (c) all documents required to effectuate a discharge at the International Registry of the international interest created by this Agreement in respect of the Airframe and Engines (with such lease termination agreement and other documents referred to, collectively, as the "Lease Termination Documents"). The Lease Termination Documents shall be filed by Lessor only upon the occurrence of an Event of Default by Lessee hereunder (including without limitation any failure by Lessee to provide documents requested by Lessor to evidence the Expiration or Termination of the Lease).

4. Guaranty; Payments; Method of Payment.

(a) **Guaranty.** Lessee shall cause Guarantor to execute and deliver to Lessor the Guaranty. The Guaranty shall be executed and delivered to Lessor prior to Delivery, and shall provide for an irrevocable and unconditional guaranty of the performance of all of Lessee's payment obligations to Lessor under this Agreement, which Guaranty shall be capped at an amount as set forth therein.

4.2. Basic Rent; Basic Rent Credit.

(a) Subject to application of that portion of the Basic Rent Credit owing each month pursuant to **Appendix B**, Lessee shall pay, in advance, the Basic Rent specified in **Appendix B** to Lessor on each and every Basic Rent Date until the earlier of the following:

(1) in the event of a Total Loss, the payment to Lessor of the Agreed Value in accordance with Section 19.1;

(2) the Return; or

(3) in the event that the Aircraft and the Aircraft Documents are returned to Lessor under circumstances in which the Aircraft or the Aircraft Documents do not conform to the Return Condition Requirements, the date on which Lessor executes and delivers to Lessee a Return Receipt in the form attached hereto as **Appendix F**.

(b) The termination of Lessee's obligation to pay Basic Rent pursuant to Section 4.2(a)(3) above shall not be in derogation of Lessor's other rights and remedies against Lessee in the event of a return of the Aircraft and Aircraft Documents under circumstances in which the Aircraft and the Aircraft Documents as so returned do not conform to the Return Condition Requirements.

(c) Should this Agreement terminate (i) pursuant to Section 2.2(b) hereof (*i.e.*, as the result of Lessor failing to satisfy its conditions precedent to Delivery), (ii) pursuant to Section 19.1 hereof (*i.e.*, upon the occurrence of a Total Loss of the Aircraft prior to Delivery or during the Term), (iii) as a result of Lessor's exercise of its rights under Section 7.1(b)(3) hereof or (iv) as the result of Lessor breaching its obligations under this Agreement, Lessor shall be required to make payment to Lessee in an amount equal to the unapplied portion of the Basic Rent Credit.

4.3. Basic Rent Date.

(a) The first payment of Basic Rent shall be made on or prior to the Delivery Date, as a condition of the Delivery, in an amount equal to the product of (i) the monthly Basic Rent multiplied by (ii) a fraction (A) whose numerator is the number of days from and after the Delivery Date remaining in the month which includes the Delivery Date and (B) whose denominator is the total number of days in such month.

(b) On each Basic Rent Date following the Delivery Date (through the time set forth in Section 4.2(a) hereof, Lessee shall pay the Basic Rent to Lessor as required by Section 4.2(a).

4.4. Engine Maintenance Program.

(a) Lessor and Lessee shall negotiate in good faith and shall cooperate in seeking to maintain the Engines under the Delta Engine Program throughout the Term.

Lessor hereby represents to Lessee that, pursuant to the Delta Engine Program, should an Engine be removed from the Delta Engine Program after performance of a shop visit with respect to such Engine, Lessor (or an Affiliate of Lessor) shall be responsible for the payment of buy-out compensation (the “**Buy-Out Compensation**”) to Delta in an amount equal to the positive difference between (i) a reasonable time and material charge for the shop visit, as mutually determined by Delta and Lessor (or an Affiliate of Lessor) and (ii) the amount of fees paid to Delta under the Engine Maintenance Program for the Engine prior to the removal of the Engine from the Delta Engine Program. As a result of such requirement, should Lessee elect to remove an Engine from the Delta Engine Program during the Term, Lessee shall be responsible for the payment of any such Buy-Out Compensation to Delta as required by the Delta Engine Program; *provided* that Lessee shall have the right to approve the determination of the reasonableness of the subject time and material charges, with such approval not to be unreasonably withheld or delayed.

4.5. Payments in Dollars to Designated Bank Account. All payments owing by Lessee to Lessor pursuant to this Agreement (including, without limitation, the payment of Basic Rent) shall be made in Dollars by the wire transfer of immediately available funds to the bank account designated in *Appendix B* or to such other bank account as Lessor may designate in writing to Lessee from time to time. Payments shall not be considered made by Lessee until the owner of such bank account has received full credit in its account. Lessee accepts all risks of delay or blockage of any transfer made in accordance with the terms of this Agreement.

4.6. Interest on Overdue Amounts. Any amount which is overdue pursuant to this Agreement shall bear interest at the rate indicated in *Appendix B* hereto calculated from the due date of such payment. The payment of such interest shall be made together with the payment of the overdue amount.

4.7. Due Date Not on Business Day. In the event any payment required hereunder is due on a day that is not a Business Day, then such payment shall be made on the next succeeding Business Day.

4.8. No Abatement. Lessee’s obligations to pay Rent hereunder shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right Lessee may have against Lessor. There shall be no abatement of Rent for any period when the Aircraft shall be rendered unfit for use, grounded, unserviceable for any reason whatsoever, hijacked, confiscated, seized, requisitioned, restrained or appropriated; *provided, however*, that, should an ABX Operating Agreement be in effect with respect to the Aircraft, the provisions of the ABX Operating Agreement shall control with respect to Lessor’s ultimate responsibility, if any, under the ABX Operating Agreement should the Aircraft (or any component thereof) become unavailable for use.

5. Registration; Nameplates; Filings.

5.1. Registration. Throughout the Term of this Agreement, the Aircraft shall remain registered in the United States or in such other jurisdiction as Lessor (and Lessor’s Lender) shall provide prior written approval, with such approval not being unreasonably withheld or delayed. At all times during the Term, the Aircraft shall be registered with the applicable Aviation

Authority in the name of Lessor (or as otherwise registered with Lessor's written consent). To the extent required by Lessor's Lender or applicable Law, the international interest created by this Agreement in the Airframe and in the Engines shall be registered with the International Registry.

5.2. Nameplates. Lessee shall attach or cause to be attached to the Airframe in a location reasonably adjacent to and not less prominent than the airworthiness certificate for the Aircraft, and to each Engine, fireproof nameplates in a form reasonably specified by Lessor which shall evidence the ownership interest of Lessor (and, as directed by Lessor, the security interest of Lessor's Lender, as applicable). Lessee shall keep and maintain all such nameplates plainly, permanently and conspicuously on the Airframe and Engines throughout the Term.

5.3. Filings. At or before Delivery, this Agreement (absent the provisions of *Appendix B*) and such other documents as Lessor may direct shall be filed with the Aviation Authority and with any other Governmental Entity registrar or international registrar as provided herein, including, without limitation, the International Registry. All costs and expenses (including the legal fees charged by Special FAA Counsel but not including the legal fees charged by Lessor's counsel) relating to each of such filings shall be paid as set forth in Section 20.8 of this Agreement.

6. Possession, Use and Operation of the Aircraft; Risk of Loss or Damage.

6.1. Possession of Aircraft; Wet-Lease.

(a) Lessee, during the Term, shall be entitled to the possession and use of the Aircraft. Lessee shall not sublease or otherwise transfer possession of the Aircraft to any person or entity; *provided, however*, that, so long as no Event of Default shall have occurred and be continuing:

(1) Lessee may deliver possession of the Aircraft to the Manufacturer or to any Authorized Maintenance Performer for testing, service, repair, maintenance or overhaul work thereon or on any Part thereof or for alterations or modifications in or additions thereto to the extent required or permitted by the terms of this Agreement; and

(2) Lessee may, with the prior written consent of Lessor, enter into a sublease with respect to the Aircraft. Lessor's consent to a sublease by Lessee shall not be unreasonably withheld or delayed, provided that the failure of Lessor's Lender to approve a sublease shall be considered good cause for Lessor to withhold its approval.

(b) Should Lessee not be an airline or other certificated operator of the Aircraft, Lessee shall have the right to enter into a sublease or operating agreement (the "Operating Agreement") with a certificated operator, subject to the prior approval of Lessor, with such approval not being unreasonably withheld or delayed. Should Lessee enter into such Operating Agreement with Lessor (or an Affiliate of Lessor), as operator, the obligations of the Operating Agreement shall control with respect to the respective obligations of the parties concerning the Aircraft.

(c) During the Term, Lessee shall be entitled to enter into and carry out any charter, "wet-lease" or other agreement with respect to the Aircraft on terms whereby the Aircraft will at all times be operated by an aircrew employed by and subject to the operational control of Lessee; *provided* that any such charter or other agreement (i) shall be approved by Lessor, such approval not being unreasonably withheld or delayed, (ii) shall be subordinate in all respects to this Agreement, (iii) will not extend beyond the end of the Term, (iv) will not result in any transfer of possession or control of, or create any interest in, the Aircraft to or in favor of any person or entity, and such possession and control shall remain at all times exclusively with Lessee and (v) shall not be entered into or renewed beyond its current term in the event that at the time Lessee seeks to so enter into or renew such charter, there exists an Event of Default.

6.2. Possession of Engines.

(a) During the Term, Lessee shall be entitled to the possession and use of each of the Engines. Lessee shall not, without the prior written consent of Lessor, transfer possession of any of the Engines to any person or entity; *provided, however,* that, so long as no Event of Default shall have occurred and be continuing, Lessee may, without the prior written consent of Lessor, exercise the following rights.

(1) Maintenance Workshop. Lessee may deliver possession of any Engine to the Manufacturer or to an Authorized Maintenance Performer for testing, service, repair, maintenance or overhaul work on such Engine or any part thereof or for alterations or modifications in or additions to such Engine to the extent required or permitted by the terms of this Agreement.

(2) Engines on Airframe Owned by Lessee. Lessee may install any Engine on an airframe owned by Lessee free and clear of all Liens, except (A) Permitted Liens or those which apply only to the engines (other than Engines), appliances, parts, instruments, appurtenances, accessories, furnishings and other equipment (other than Parts) installed on such airframe and (B) the Lien of any mortgage which expressly and effectively provides that such Engine leased to Lessee hereby shall not become subject to the Lien thereof, notwithstanding the installation of such Engine on any airframe subject to such Lien, unless and until Lessee shall become the owner of such Engine.

(3) Engine on Airframe Leased to Lessee. Lessee may install any Engine on an airframe leased to Lessee or purchased by Lessee subject to a hire purchase or conditional sale agreement; provided that (A) such airframe is free and clear of all Liens except (i) Permitted Liens or those which apply only to the engines (other than Engines), appliances, parts, instruments, appurtenances, accessories, furnishings and other equipment (other than Parts) installed on such airframe, (ii) the Lien of any mortgage which expressly and effectively provides that such Engine leased to Lessee hereby shall not become subject to the Lien thereof, notwithstanding the installation of such Engine on any airframe subject to such Lien, unless and until Lessee shall become the owner of such Engine and (iii) the rights of the parties to the lease or hire purchase or conditional sale

agreement covering such airframe and (B) there shall be in effect between Lessee and such lessor or hire vendor or conditional vendor of such airframe a written agreement (which may be the lease or hire purchase or conditional sale agreement covering such airframe) whereby such lessor or hire vendor or conditional vendor expressly and effectively agrees that neither it nor its successors and assigns will acquire or claim any right, title or interest in such Engine by reason of such Engine being installed on such airframe at any time while such Engine is subject to this Agreement; and provided further, that the rights of any transfer permitted by this Section 6.2 shall be subject and subordinate to all of the terms of this Agreement, including, without limitation, Lessee's obligation to return the Engines at the end of the Term and Lessor's right to repossession pursuant hereto, and Lessee shall remain primarily liable hereunder for the performance of all of the terms of this Agreement to the same extent as if such transfer had not occurred.

(b) In the event that Lessee shall have entered into a mortgage, lease or conditional sale agreement complying with the provisions of clause (2) or clause (3) of Section 6.2(a) hereof, Lessor hereby agrees, for the benefit of the mortgagee, lessor or conditional vendor under such agreement, that Lessor and its successors and assigns shall not acquire or claim, as against such mortgagee, lessor or conditional vendor, any right, title or interest in any engine owned by such person or entity or in which it has a security or ownership interest by reason of such engine's being installed on the Airframe. Any Engine removed from the Aircraft shall be, during the period such Engine is so removed, either safely housed and sheltered or repaired or maintained in accordance with this Agreement, or installed on an aircraft pursuant to this Section 6.2; provided, further, that: (1) Lessee maintains or causes to be maintained insurance in accordance with Section 11 in respect of the removed Engine at all times while it is removed from the Airframe (and, if required by Lessor, Lessee shall furnish or cause to be furnished to Lessor waivers or acknowledgments by the insurers of the aircraft on which such removed Engine is installed); and (2) as soon as reasonably practicable and in any event on or before expiration of the Term or termination of this Agreement, such removed Engine is reinstalled on the Airframe.

(c) Notwithstanding anything to the contrary in this Section 6.2, Lessee shall return the Engines to Lessor at the end of the Term. Either of the Engines at Return may be a replacement Engine under one of two conditions: (i) upon the occurrence of a Total Loss with respect to an Engine during the Term (requiring an Engine replacement pursuant to Section 19.2 of this Agreement); or (ii) Lessor agreeing to accept an engine in substitution for an Engine upon Lessee's request (which Lessor shall not unreasonably deny), subject to Lessee and such replacement Engine satisfying all of the requirements of Section 19.2 hereof (including, without limitation, the engine condition and title transfer requirements therein). Any replacement engine which satisfies this Section 6.2(c) (a "Replacement Engine") thereafter shall be deemed an "Engine" for all purposes under this Agreement.

6.3. Pooling of Parts. Any Part removed from the Aircraft as provided in Section 7 hereof may be subjected by Lessee to normal interchange or pooling agreements or arrangements customary in the airline industry and entered into by Lessee with other licensed air carriers or aviation parts suppliers in the ordinary course of its business, *provided* that the part replacing such removed Part shall be incorporated or installed in or attached to the Aircraft in accordance with Section 7 promptly upon the removal of such removed Part. In addition, any replacement part, when incorporated or installed in or attached to the Aircraft in accordance with Section 7, may be owned by another such air carrier or aviation parts supplier subject to such pooling arrangement; *provided, further*, that the Part so removed remains the property of Lessor and subject to this Agreement and that Lessee, at its expense, promptly thereafter either (a) causes title to such replacement part to vest in Lessor free and clear of Liens other than Permitted Liens, in accordance with Section 7.5, or (b) replaces such replacement part by incorporating or installing in or attaching to the Aircraft a further replacement part owned by Lessee free and clear of all Liens other than Permitted Liens, and causes title to such further replacement part to vest in Lessor and causes such replacement part to become subject to this Agreement.

6.4. Commercial Operations. Lessee shall not use or permit the Aircraft to be operated except (a) in commercial operation for which Lessee (or Lessee's sublessee or operator) is duly authorized by the laws of the United States and any other jurisdiction(s) to whose laws the operation of the Aircraft is subject and (b) in jurisdictions which are not excluded from coverage by any insurance policy required by the terms of this Agreement in effect with respect to the Aircraft.

6.5. Lawful Use. Lessee shall not permit the Aircraft to be maintained, used, or operated in violation of any Law of any Governmental Entity having jurisdiction, or contrary to any Manufacturer's operating manuals and instructions, or in violation of any airworthiness certificate, license, registration or AD relating to the Aircraft issued by any such Governmental Entity. Lessee shall not cause or permit the Aircraft to proceed to, or remain at, any location which is then the subject of a prohibition order (or any similar order or directive), sanctions or restrictions by or under any Governmental Entity having jurisdiction over Lessee or the Aircraft.

6.6. Freight Operations. Lessee shall not use or permit the use of the Aircraft for the carriage of (a) whole animals, living or dead, except in cargo compartments according to I.A.T.A. regulations and except domestic pet animals carried in suitable containers to prevent the escape of any fluids and to ensure the welfare of the animal or (b) acids, toxic chemicals, other corrosive materials, explosives, nuclear fuels, nuclear wastes or any nuclear assemblies except in full compliance with applicable Law.

6.7. Use Within Insurance Coverage. Lessee shall not operate the Aircraft or suffer the Aircraft to be operated: (a) within or into any geographic area unless the Aircraft is covered by insurance as required by the provisions of Section 11 during and with respect to its operations into that area; or (b) otherwise contrary to the terms or outside the coverage of such insurance as required by the provisions of Section 11.

6.8. Net Lease.

(a) During the Term, except as otherwise provided by the terms of this Agreement, Lessee shall bear all costs in connection with the possession, use, operation, maintenance, overhaul, repair and insurance of the Aircraft.

(b) During the Term, Lessee shall provide and pay for all crews and other personnel, fuel, lubricants, oil and electric power consumed by and required for the operation of the Aircraft.

(c) Lessee shall promptly pay (or cause to be paid) all import/export fees (as applicable), navigation charges, route charges and airport charges (including landing fees, departure fees, airport handling charges and taxes) the nonpayment of which could result in a Lien upon the Aircraft or in the Aircraft being held or seized pending payment of such charges.

6.9. Risk of Loss or Damage. Lessee shall bear all risks of loss or damage to the Aircraft, Engines, Parts and Aircraft Documents from any and all causes whatsoever from the Delivery Date until the re-delivery thereof to Lessor; *provided that*, in the event of a re-delivery of any one or more of the Aircraft, Engines, Parts and Aircraft Documents to Lessor, under circumstances which do not constitute a Return, then Lessee shall be responsible for the cost to Lessor to insure the Aircraft, Engines, Parts and Aircraft Documents during the period, following such re-delivery, for which Lessee continues to be obligated to pay Basic Rent pursuant to Section 4.2 hereof. If the Aircraft is requisitioned by any Governmental Entity during the Term, then, unless and until the Aircraft becomes a Total Loss, (a) the Term shall continue and Lessee shall continue to fulfill all its obligations under this Agreement and (b) Lessee shall, during the Term, be entitled to all requisition hire paid to Lessor or to Lessee on account of such requisition. For the avoidance of doubt, Lessor shall not be liable to supply an aircraft, an engine or any part, if the Aircraft, an Engine or a Part is lost or damaged or rendered unfit for use or grounded, hijacked, confiscated, seized, requisitioned, restrained or appropriated; *provided, however*, that, should an ABX Operating Agreement be in effect with respect to the Aircraft, the provisions of the ABX Operating Agreement shall control with respect to Lessor's ultimate responsibility, if any, under the ABX Operating Agreement should the Aircraft (or any component thereof) become unavailable for use.

7. Maintenance and Modifications.

7.1. Maintenance of the Aircraft; ADs.

(a) General. From the Delivery until the Return of the Aircraft and the Aircraft Documents, Lessee, at its own expense, shall service, repair, maintain, overhaul, check or cause the same to be done to the Aircraft, in accordance with the Maintenance Program so as to keep the Aircraft eligible for FAR Part 121 operations, in the same condition as other Boeing 767 aircraft Lessee owns or operates, and in such operating condition as may be necessary to enable the airworthiness certification of the Aircraft to be maintained in good standing at all times pursuant to the requirements of the Aviation Authority and the FAA (if not the applicable Aviation Authority).

(b) AD Compliance.

(1) Lessee shall comply with all ADs issued during the Term affecting the Aircraft and requiring terminating action during the Term or within one year after the end of the Term (without regard to any deferrals which are or might be granted).

(2) If the cost of complying with an AD is less than or equal to One Hundred Thousand Dollars (\$100,000), Lessee shall pay all of such cost. If the cost of such compliance is greater than One Hundred Thousand Dollars (\$100,000) (but only to the extent that such cost relates to work required to comply with an AD on a terminating action basis, and excluding work performed for any other purpose, such as compliance with ADs by means of repetitive inspections, recording compliance work in the Aircraft Documents, and all other maintenance work), Lessee shall pay the first One Hundred Thousand Dollars (\$100,000), and the balance (the "AD Shared Expenses") shall be paid initially by Lessee to the applicable Authorized Maintenance Performer, with Lessee being entitled to reimbursement from Lessor in an amount equal to the product of (a) the amount of the AD Shared Expenses times (b) a fraction, the numerator of which is 96 minus the number of months (rounded to the nearest whole number of months) from the date of completion of the subject AD work to the AD Term Date, and the denominator of which is 96.

(3) If the cost of compliance with an AD on a terminating action basis is equal to or greater than One Hundred Thousand dollars (\$100,000), Lessee shall not perform such terminating action unless Lessor consents in advance in writing; *provided, however*, that, should Lessee request such consent on the part of Lessor and Lessor fail or refuse to provide such consent, then either: (i) Lessor shall provide to Lessee an alternative, equivalent aircraft under the same terms and conditions as this Agreement for the remainder of the Term; or (ii) the Lease shall terminate and (A) Lessor shall pay to Lessee any prepaid Basic Rent, (B) Lessor shall pay to Lessee the balance of the Basic Rent Credit which has yet to be applied to the payment of Basic Rent, (C) Lessee shall be entitled to return the Aircraft to Lessor without complying with the Return Condition Requirements relating to (and only to) that portion of the Aircraft subject to the applicable AD (*i.e.*, the Airframe, the applicable Engine or Engines, the Landing Gear or the APU) and (D) with respect to the portions of the Aircraft not subject to the AD, Lessor shall assist Lessee in complying with the applicable Return Condition Requirements by pro-rating the costs of such compliance based upon a comparison of (x) the number of months between Delivery and the effective date of the AD and (y) the number of months between the effective date of the AD and the Expiration Date.

(4) Lessor's obligation to contribute toward the payment of AD costs pursuant to this Section 7.1(b) is subject to and contingent upon:

- (A) Lessor shall have consented to the applicable terminating action, as required by Section 7.1(b)(3);
- (B) No Event of Default shall have occurred and be continuing;

(C) Lessor shall have received evidence reasonably satisfactory to Lessor that the work contemplated by such AD has been completed; and

(D) Lessor shall have received true copies of the invoices and paid receipts supporting the reported cost of such AD work.

(5) Lessor shall make payment of its share of the AD Shared Expenses within thirty (30) days of its receipt of all of the documentation reasonably required by Lessor pursuant to Section 7.1(b)(4)(C) and (D) hereof. Lessee shall not offset the amount due from Lessor for its portion of the AD Shared Expenses against Rent or other amounts due to Lessor hereunder.

7.2. Maintenance of the Aircraft Documents.

(a) From the Delivery until the Return of the Aircraft, Lessee, at its own expense, shall maintain and update (or shall cause to be maintained and updated), in the English language, all Aircraft Documents as required by applicable Laws and by the regulations of the Aviation Authority and the FAA (if not the applicable Aviation Authority). Lessee shall at all times cause the Aircraft Documents to be stored (1) at a location disclosed to and accepted by Lessor and (2) in a complete and organized format.

(b) When incorporating ADs, service bulletins, modifications, repairs or any other engineering changes to the Aircraft, Lessee shall revise or cause to be revised the customized documentation for the Aircraft in order to incorporate and reflect such ADs, service bulletins, modifications or repairs, as applicable.

(c) Together with each transmission of the Written Summaries required under Section 7.8 hereof, Lessee shall provide to Lessor an electronically-scanned copy (in CD, DVD or electronic format reasonably acceptable to Lessor) of all Aircraft Documents changed or added since the scanned copy last provided to Lessor, so that the scanned copy in Lessor's possession will be correct and complete as of the date of such Written Summaries.

7.3. Authorized Maintenance Performer. All maintenance on the Airframe, Engines and Parts shall be performed by an Authorized Maintenance Performer.

7.4. Replacement of Parts. Except as otherwise provided herein, Lessee, at its own expense, shall as soon as practicable replace (or cause to be replaced) all Parts that may from time to time be incorporated or installed in or attached to the Aircraft and that may become unserviceable, worn out, lost, stolen, destroyed, seized, confiscated or damaged beyond repair. In addition, in the ordinary course of maintenance, service, repair, overhaul, or testing, Lessee may remove (or caused to be removed) any Part, provided that Lessee shall replace (or cause to be replaced) such Part as promptly as practicable. All replacement parts shall be free and clear of all Liens, except for Permitted Liens, and shall be in good operating condition, shall be lawful for installation and use on the Aircraft under applicable Aviation Authority regulations and other applicable Law, and shall be certificated for use on a Boeing 767-200SF aircraft.

7.5. Title to Parts. All Parts at any time removed from the Aircraft shall remain the property of Lessor, no matter where located, until such time as: (a) such Parts shall be replaced by parts that have been incorporated or reinstalled in or attached to the Aircraft and that meet the requirements for replacement parts specified above in Section 7.4, and (b) title thereto shall have passed to Lessor free and clear of all Liens other than Permitted Liens. Immediately upon the incorporation or installation in or attachment in or to the Aircraft of any replacement part as above provided, and without further act (c) title to the removed Part shall vest in Lessee, free and clear of all rights of Lessor and any Lessor's Liens and (d) such replacement part shall be subject to this Agreement and shall be deemed a Part of the Aircraft for all purposes hereof to the same extent as the Parts originally incorporated and installed in or attached to the Aircraft.

7.6. Removal of Engines. Lessee shall be entitled, so long as no Event of Default shall have occurred and be continuing, to remove or permit the removal of any Engine from the Airframe and to install on the Airframe an engine, *provided*, that the removed Engine is, during the period of substitution, either being safely housed and sheltered or repaired or maintained in accordance with this Agreement, or is installed on an aircraft pursuant to Section 6.2 hereof (and the provisions of Sections 6.2 (a)(2) or 6.2(a)(3), as applicable, concerning preservation of title shall apply to the removed Engine); *provided, further*, that:

(a) Lessee maintains or causes to be maintained insurance in accordance with Section 11 in respect of the removed Engine at all times while it is removed from the Airframe (and, if required by Lessor, Lessee shall furnish or cause to be furnished to Lessor waivers or acknowledgments by the insurers of the aircraft on which such removed Engine is installed); and

(b) as soon as reasonably practicable and in any event on or before end of the Term, such engine is removed from the Airframe and the removed Engine is reinstalled on the Airframe (subject to the Replacement Engine provisions of Section 6.2(c) of this Agreement).

7.7. Equipment Changes.

(a) Except as expressly provided herein or as a result of an AD or service bulletin or other requirement of the Aviation Authority or the Manufacturer, the Aircraft shall not be modified, altered, converted, or added to (an "Equipment Change"), provided that, subject to Lessor's prior approval in writing, and in compliance with any conditions reasonably imposed by Lessor, Lessee may, at Lessee's own expense, make (or cause to be made) such Equipment Changes to the Aircraft as Lessee may deem desirable, so long as such Equipment Change does not result in a diminution in the value or utility of the Aircraft. All such Equipment Changes shall be consistent with the rules and regulations of the Aviation Authority.

(b) Title to all Parts incorporated or installed in or attached or added to the Aircraft as the result of such Equipment Change shall, without further act, vest in Lessor and shall become subject to this Agreement, free of all Liens other than Permitted Liens; provided, however, that so long as no Event of Default shall be continuing, Lessee may remove (or cause to be removed) any such Part if: (1) such Part is in addition to, and not

in replacement of or in substitution for, any Part originally incorporated or installed in or attached to the Aircraft at the time of Delivery or any part in replacement of or in substitution for any such original Part; (2) such Part is not required to be incorporated or installed in or attached or added to the Aircraft pursuant to the provisions of Sections 7.1 hereof; and (3) such Part can be removed from the Aircraft without diminishing or impairing the value or airworthiness which the Aircraft would have had such Equipment Change not occurred. Without limiting the generality of the immediately prior sentence, all loose equipment owned by Lessee which is placed on board the Aircraft (and remains loose equipment) shall remain owned by Lessee.

(c) Upon the removal by Lessee of any such Part as above provided, title thereto shall, without further act, vest in Lessee free and clear of all Lessor's Liens and rights of Lessor and such part shall no longer be deemed part of the Aircraft. Any Part not removed by Lessee as above provided prior to the Return of the Aircraft shall remain the property of Lessor; provided that Lessor may require Lessee, by notice to Lessee given not later than the 60th day prior to end of the Term (except during the continuance of an Event of Default), to remove any Parts incorporated or installed in the Aircraft as a result of an Equipment Change and to restore the Aircraft to its condition prior to such Equipment Change, prior to the end of the Term.

7.8. Summary of Flight Hours, Cycles; Technical Information.

(a) Lessee, at its own expense, shall, within ten (10) days after the end of each calendar month of the Term and on the Return Date, provide (or cause to be provided) to Lessor written summaries (the "Written Summaries") of the following events occurring during the previous calendar month: (1) Flight Hours and Cycles accrued on the Airframe and Engines, certified by an officer of Lessee; (2) all maintenance performed on the Airframe or Engines; and (3) any Engine changes.

(b) Lessee shall give Lessor not less than fifteen (15) days' prior written notice of the anticipated time and location of all partial or complete C-Checks, Engine shop visits, and other major maintenance to be performed on the Aircraft.

(c) During the Term, Lessee shall furnish to Lessor such additional information concerning the location, condition, use and operation of the Aircraft as Lessor may reasonably request, including, without limitation, records reflecting the Airframe, Engine and APU service history.

(d) All information furnished by Lessee to Lessor concerning monetary amounts (whether in the Written Summaries or otherwise) shall be denominated in Dollars.

(e) Together with each transmission of Written Summaries, Lessee shall provide to Lessor the electronically-scanned copies of the Aircraft Documents required under Section 7.2(c) hereof.

7.9. Inspections.

(a) Lessor may, but shall not be obligated to, upon giving five (5) Business Days prior notice to Lessee of its intention to do so (or any other notice which is reasonable under the circumstances), inspect the Aircraft, the Aircraft Documents, and any maintenance performed by or on behalf of Lessee during normal business hours, provided that such inspection does not unreasonably interfere with Lessee's operations. Lessor shall be entitled, as part of any such inspection, to open any of the panels, bays and doors of the Aircraft. All inspections performed by Lessor shall be at its cost (except that, during the continuance of an Event of Default, such inspection shall be at Lessee's cost and may be conducted without prior notice to Lessee).

(b) Lessee shall assist and not interfere with any person designated by Lessor to conduct any inspection pursuant to this Section 7.9. Lessor shall not incur any liability or obligation by reason of not making an inspection and no failure by Lessor to make such inspection shall lessen any obligation of Lessee under this Agreement, including but not limited to Lessee's obligations under this Section 7. In addition, Lessee shall at all times permit Lessor's technical representatives to be present at and inspect any maintenance being conducted on the Aircraft or any constituent thereof. Lessee shall, upon Lessor's request, provide Lessor with letters to the Authorized Maintenance Performer allowing the disclosure to Lessor of all matters relating to the maintenance of the Aircraft.

(c) **Lessor Not Obligated.** Except as otherwise expressly provided in this Agreement, Lessor shall have no obligation whatsoever to service, repair, maintain, check or cause the same to be done to the Aircraft, or to keep the Aircraft in an airworthy condition.

8. Taxes.

8.1. General Tax Indemnity. Lessee agrees to timely pay, and to indemnify Lessor against, any and all Taxes, whether such Taxes are now existing or hereafter adopted, enacted or amended, that may be asserted, levied or imposed on or against Lessor upon or with respect to or measured by: (a) the Aircraft or any Part thereof or interest therein; (b) this Agreement, and the performance of any of the transactions contemplated hereby or the exercise of remedies under this Agreement with respect to an Event of Default; (c) the delivery, testing, transportation, rental, sale, replacement, substitution, repossession, abandonment, transfer, rebuilding, leasing, subleasing, possession, presence, use, operation, condition, storage, maintenance, modification, alteration, repair or return of the Aircraft or any Part thereof or interest therein occurring subsequent to the Delivery Date; and (d) Rent payable under this Agreement.

8.2. Certain Exceptions. The provisions of Section 8.1 hereof shall not apply to, and Lessee shall have no liability to Lessor thereunder with respect to, Taxes excluded under any of the following provisions or any combination thereof:

- (a) Taxes which are not yet due;

(b) Taxes on, based on, measured by or with respect to the net or gross income, or net or gross receipts, capital, net worth, franchise, or conduct of business of Lessor (other than Taxes in the nature of sales, withholding, use or property Taxes) imposed by any federal, state or local government or taxing authority in the United States or any foreign government or foreign taxing authority, or by any possession or territory of the United States; and

(c) Taxes that would not have been imposed but for any failure of Lessor to (1) file proper and timely reports or returns or to pay any Taxes when due, or (2) comply with any certification, information, documentation, reporting or other similar requirements concerning the nationality, residence, identity or connection with the jurisdiction imposing such Taxes, if such compliance is required to obtain or establish relief or exemption from or reduction in such Taxes and Lessor was eligible to comply with such requirement.

8.3. Indemnities Payable on After-Tax Basis; Payments in Respect of Tax Benefits. Lessee agrees that, with respect to any payment or indemnity to Lessor under this Section 8, Lessee's indemnity obligations shall include an amount necessary to hold Lessor harmless from all Taxes (other than Taxes described in Section 8.2) required to be paid by Lessor with respect to the receipt or accrual of such payment or indemnity (including any payment by Lessor of any Taxes in respect to any indemnity payments received or receivable under this Section 8).

8.4. Payment of Tax Indemnities. If (a) any Taxes are required to be deducted or withheld by Lessee from any payment of Rent or other amounts due to Lessor under this Agreement ("Withholding Taxes") and (b) Lessee is required to indemnify Lessor against such Withholding Taxes pursuant to this Section 8 ("Indemnifiable Withholding Taxes"), then Lessee shall, at the time of paying such Rent, or other amount, pay to Lessor such additional amounts as may be necessary in order that the net amount of such payment of Rent or other amount, after deduction or withholding for Indemnifiable Withholding Taxes, will be equal to the amount Lessor would have received if such Indemnifiable Withholding Taxes had not been deducted or withheld. Any other amount payable to or on behalf of Lessor, pursuant to Section 8.1 hereof shall be paid to Lessor or, if so directed by Lessor, directly to the relevant taxing authority, within thirty (30) days after receipt by Lessee of a written demand therefor from Lessor accompanied by a written statement describing in reasonable detail the Taxes that are the subject of and basis for such payment or indemnity and the computation of the amount so payable.

9. Liens.

9.1 During the Term, Lessee shall not create or suffer to exist any Lien upon or against the Aircraft, the Aircraft Documents or any of its rights under this Agreement, other than the following ("Permitted Liens"):

(a) Lessor's Liens;

(b) repairers' or other like Liens arising in the ordinary course of business, in respect of obligations which are neither overdue nor deferred;

(c) the rights of others permitted under Sections 6 and 7 hereof;

(d) Liens for taxes of any kind not yet due and payable or being contested in good faith by appropriate proceedings that do not involve any material risk of the sale, forfeiture or loss of the Aircraft or the Aircraft Documents or any interest therein;

(e) Liens arising out of judgments or awards against Lessee with respect to which there shall have been procured a stay of execution;

(f) salvage rights of insurers under insurance policies maintained pursuant to Section 11; and

(g) the respective rights of Lessor and Lessee as provided herein.

9.2 All Liens excepted above under Section 9.1(b) shall be cleared by Lessee in the ordinary course of business, but not later than the end of the Term. If at any time during the Term a Lien (other than a Permitted Lien) shall be created or suffered to exist by Lessee, or be levied upon or asserted against the Aircraft or the Aircraft Documents, or if any person or entity should assert any Lien (other than a Permitted Lien) on any right of Lessee under this Agreement, Lessee shall notify Lessor and Lessee shall cause such Lien (other than Permitted Liens) forthwith to be discharged by bond or otherwise unless Lessor shall otherwise consent in writing. If Lessee shall fail to discharge any Lien (other than Permitted Liens), Lessor may do so, and Lessee shall pay to Lessor on demand the amount paid by Lessor together with Lessor's losses, costs, and expenses, including reasonable legal fees and expenses. The obligations set forth in this Section 9 shall survive the Expiration or Termination of this Agreement.

10. Indemnification.

10.1. Indemnification and Holding Harmless. Lessee agrees to defend, indemnify, reimburse, and hold harmless Lessor, Lessor's Lender, and their respective affiliates, subsidiaries, successors, assigns and subcontractors, together with each of such entities' respective directors, officers, agents, shareholders and employees (hereinafter individually and collectively the "Indemnified Parties") from and against any and all claims, damages, losses, liabilities, demands, suits, judgments, causes of action, legal proceedings, penalties, fines, other sanctions and any costs and expenses in connection therewith, including but not limited to reasonable attorneys' fees and expenses (any and all of which are hereafter referred to as "Claims") that in any way result from or arise out of or in relation to: (a) the condition, manufacture, delivery under this Agreement, possession, return, disposition after an Event of Default, use or operation of the Aircraft either in the air or on the ground; (b) any defect in the Aircraft arising from the material or any article used therein or from the design, testing or use thereof, or from any maintenance, service, repair, overhaul or testing of the Aircraft, regardless of when such defect shall be discovered, and regardless of where the Aircraft may then be located; (c) any breach by, or noncompliance by Lessee with, any provision of this Agreement or any other agreement or document contemplated hereby or given or entered into by Lessee in connection herewith; or (d) any bodily injury suffered by any person, or any property damage suffered by any person or entity, in the course of or as a result of the use, operation, maintenance, service, repair, overhaul, testing, possession, delivery under this Agreement or return of the

Aircraft. The foregoing indemnity shall not apply to (1) any Claim that constitutes a Permitted Lien, (2) Claims for Taxes, it being agreed that Section 8 represents Lessee's entire obligation with respect to Taxes, (3) Claims attributable to the gross negligence or willful misconduct of any Indemnified Party, (4) Claims attributable to any misrepresentation by any Indemnified Party herein or in any agreement or document delivered by it in connection herewith or (5) with the exception of clause (c) above, Claims attributable to acts or events occurring before the Delivery Date or following Expiration or Termination of this Agreement and the Return of the Aircraft to Lessor.

10.2. Lessee's Waiver and Release. Lessee hereby waives and releases any Claim now or hereafter existing against the Indemnified Parties on account of any Claim of or on account of or arising from or in any way connected with injury to or death of personnel of Lessee or loss or damage to property of Lessee that may result from or arise in any manner out of or in relation to the condition, use or operation of the Aircraft, either in the air or on the ground, during the Term, or that may be caused during the Term by any defect in the Aircraft arising from the material or any article used therein or from the design, testing or use thereof, or from any maintenance, service, repair, overhaul or testing of the Aircraft, except to the extent that such claim arises out of the breach by any Indemnified Party of its obligations hereunder or under any agreement or document delivered in connection herewith, regardless of when such defect may be discovered, and regardless of the location of the Aircraft at any such time. The foregoing waiver and release shall not apply to any Claim arising out of the gross negligence or willful misconduct of any Indemnified Party.

10.3. Surviving Obligations. The indemnities and agreements contained in this Section 10 shall survive the end of the Term and the Return of the Aircraft. The indemnities contained in this Section 10 are expressly made for the benefit of and shall be enforceable by the Indemnified Parties.

10.4. Not an Indemnified Party. Notwithstanding anything to the contrary in this Section 10, no manufacturer, repairer, servicer, modifier or the like shall be considered an Indemnified Party unless expressly referenced herein, and the Lessee and their insurers retain full right of subrogation and recourse against all but the Indemnified Parties in accordance with this Section 10.

11. Insurance.

11.1 Aviation Third Party Legal Liability Insurance. As of the Delivery Date and continuing for a period of two years following the end of the Term or, if earlier, until the next major Aircraft maintenance check, Lessee shall carry at its expense (or shall cause to be carried) with insurers of internationally recognized standing, aviation legal liability insurance in respect of the Aircraft in amounts denominated in United States Dollars not less than the Minimum Liability Coverage amount designated in *Appendix B* hereto combined single limit for bodily injury and property damage each occurrence (and in the aggregate as respects aviation products/completed operations and third party liability war and allied perils), and subject to customary sub-limits for non-aviation coverages. Such insurance shall include third party legal liability including passenger liability, liability war and allied perils, property damage liability (including cargo, baggage (checked and unchecked) and mail liability), premises liability,

products/completed operations liability, contractual liability and political risk (including expropriation) insurance in the amounts set forth in **Appendix B**. All such insurance shall be in form and substance reasonably satisfactory to Lessor. Lessee covenants that any insurance policies carried in accordance with this Section 11.1 and any policies taken out in substitution or replacement for any of such policies shall: (i) be endorsed to name Lessor, Lessor's Lender, each of the other Indemnified Parties and such other parties as Lessor may from time to time reasonably designate by notice to Lessee as additional insureds for their respective interests with respect to the Aircraft (hereinafter each an "Additional Insured" and collectively the "Additional Insureds"); (ii) provide that in respect of the interests of any Additional Insured in such policies, the insurance shall not be invalidated by any act or omission (including misrepresentation and non-disclosure), *provided* that the Additional Insured so protected has not caused, contributed to or knowingly condoned the said act or omission; (iii) provide that insurers waive all rights of subrogation against the Additional Insureds; (iv) provide that, if such insurance is canceled or allowed to lapse for any reason whatsoever, or if any material change is made in such insurance that adversely affects the interest of any Additional Insured, such cancellation, lapse or change shall not be effective as to any Additional Insured for thirty (30) days (seven (7) days, or such other period as is then customarily obtainable in the industry, in the case of any war and allied perils liability coverage) after the giving of written notice from such insurers or Lessee's appointed insurance broker to Lessor and Lessor's Lender; (v) be primary without right of contribution from any other insurance maintained by any Additional Insured; (vi) provide a severability of interests provision applicable to each insured and Additional Insured under the policy such that all of the provisions of the insurance required hereunder, except the limits of liability, shall operate in the same manner as if there were a separate policy covering each insured and Additional Insured; (vii) waive any right of the insurers to any setoff, counterclaim or other deduction against the Additional Insureds, and; (viii) provide for worldwide coverage, subject to such limitations and exclusions as may be expressly set forth in the certificates of insurance delivered pursuant to Section 11.4 hereof provided such limitations and exclusions are not applicable to the territories where the Aircraft is operated by Lessee, or as Lessor may otherwise agree in writing.

11.2 Aircraft Hull Insurance.

(a) On or prior to the Delivery Date and throughout the Term, Lessee shall maintain (or cause to be maintained) in full force and effect, at its expense and on terms substantially similar to and no less favorable than insurance carried by Lessee on similar aircraft in its fleet, all-risk ground and flight aircraft hull insurance covering the Aircraft including coverage of the Engines and Parts while temporarily removed from or not installed on the Aircraft and not replaced with similar components in amounts denominated and payable in United States Dollars not less than, in respect of the Aircraft, the Agreed Value as set forth in **Appendix B** hereto, and with respect to any Engines or Parts while removed from the Aircraft on a replacement value basis. Lessee shall maintain such insurance covering any loss or damage arising from:

- (i) war, invasion, acts of foreign enemies, hostilities (whether war be declared or not), civil war, rebellion, revolution, insurrection, martial law, military or usurped power or attempts at usurpation of power;
- (ii) strikes, riots, civil commotions or labor disturbances;

(iii) any act of one or more persons, whether or not agents of a sovereign power, for political or terrorist purposes and whether the loss or damage resulting therefrom is accidental or intentional;

(iv) any malicious act or act of sabotage;

(v) confiscation, nationalization, seizure, restraint, detention, appropriation, requisition for title or use by or under the order of any government (whether civil, military or de facto) or public or local authority; and

(vi) hijacking or any unlawful seizure or wrongful exercise of control of the Aircraft or any Engine or any airframe on which any Engine is installed or crew in flight (including any attempt at such seizure or control) made by any person or persons on board the Aircraft or such airframe acting without the consent of the insured.

(b) The hull war and allied perils insurances shall be in accordance with Lloyd's Aviation Underwriters Association Standard Policy Form LSW 555D unless otherwise approved by Lessor in writing. Lessee covenants that all policies and subsequent policies taken out in accordance with this Section 11.2 shall: (A) be issued by insurance companies or underwriters of internationally recognized standing in the aviation industry; (B) be endorsed to name Lessor or (as directed by Lessor) Lessor's Lender as the loss payee to the extent of its interests in respect of hull claims that become payable on the basis of a total loss and shall provide that any other loss shall be settled (net of any relevant policy deductible) with such party(ies) as may be necessary to repair the Aircraft unless otherwise agreed in writing after consultation among the insurers, Lessor and Lessor's Lender (it being agreed that where the loss is not expected to exceed U.S.\$500,000 and, unless Lessor has notified the insurers to the contrary, such loss will be settled with and paid to Lessee); (C) be amended to name the Additional Insureds as additional insureds for their respective interest with respect to the Aircraft; (D) provide that, in respect of the interest of any Additional Insureds in such policies, the insurance shall not be invalidated by any act or omission, *provided* that the Additional Insured so protected has not caused, contributed to or knowingly condoned the said act or omission; (E) provide that none of the Additional Insureds shall have responsibility for the payment of premiums or any other amount payable under such policies; (F) provide that insurers shall waive all rights of subrogation as against the Additional Insureds; (G) provide that, if such insurance is canceled or allowed to lapse for any reason whatsoever, or if any material change is made in such insurance which adversely affects the interest of an Additional Insured, such cancellation, lapse or change shall not be effective as to any Additional Insured for thirty (30) days (seven (7) days, or such other period as is then customarily obtainable in the industry, in the case of any hull war and allied perils coverage) after the giving of written notice from such insurers or Lessee's appointed insurance broker to Lessor and Lessor's Lender; (H) waive any right of the insurers to any setoff, counterclaim or other deduction against the Additional Insureds; (I) provide for worldwide coverage, subject to such limitations and exclusions as may be set forth in the certificates of insurance delivered pursuant to Section 11.4 hereof provided such limitations and exclusions are not applicable to the territories where the Aircraft is operated by Lessee, or as Lessor may otherwise agree in writing; (J) contain a 50/50 claims funding clause in the form of Lloyd's standard provision AVS103 in the event of a dispute as to which policy in respect of the hull insurance set forth in this Section 11.2 shall pay in the event of a loss; and (K) have deductibles

(not applicable in case of a total, constructive total and/or arranged total loss) standard in the industry which do not exceed, per occurrence, the lesser of (i) \$500,000 and (ii) such amounts carried by Lessee with respect to other aircraft similar to the Aircraft and operated on similar routes or which are otherwise reasonably acceptable to, and approved in writing by Lessor, provided, however, any deductibles shall be assumed by and at the sole risk of Lessee and to the extent applicable shall be paid by Lessee.

(c) All insurance coverage shall be subject to Endorsement AVN67B (or a comparable endorsement).

11.3 Default. If Lessee shall default in effecting, keeping or maintaining any insurance or if any insurance shall for any reason become void, Lessor may (but without any obligation to do so and without prejudice to Lessor's other rights and remedies hereunder) effect, keep up or maintain such insurance at the cost of Lessee and Lessee will forthwith upon demand repay or cause to be repaid to Lessor all premiums and other moneys from time to time paid or payable by Lessor in respect of such insurance.

11.4 Certificates. Not less than ten (10) business days before the Delivery Date, unless otherwise approved by Lessor in writing, and promptly upon each renewal thereafter, Lessee will furnish to Lessor certificates of insurance written in English from an authorized representative of the insurers providing the insurance required hereunder and certificates of reinsurance from reinsurance brokers (together with a letter of undertaking from each of such representative and such reinsurance brokers stating that such insurance and reinsurance complies with the terms hereof) describing in detail the insurance and reinsurance carried and maintained on the Aircraft. Such certificates of insurance shall be in form and substance reasonably satisfactory to Lessor and Lessor's Lender. Failure of Lessee to furnish certificates of insurance or procure and maintain the insurance required herein or the failure of Lessor and Lessor's Lender to request such certificates shall not constitute a waiver of Lessee's obligations hereunder.

11.5 Premiums. Lessee agrees to pay the premiums (or installments thereof) as required by the terms of such policies.

11.6 Claims. After a Total Loss in relation to the Aircraft shall have occurred and so long as no Default or an Event of Default shall have occurred and be continuing, Lessee may pursue any and all claims against the insurers in respect of the insurance with respect to the Aircraft, subject to consultation with Lessor; provided that no settlement or compromise of any such claim may be made without the approval of Lessor (which approval shall not be unreasonably withheld or delayed). Should a Default or an Event of Default have occurred and be continuing and any claim be made under any of the insurance policies, Lessor shall have full power to make, enforce, settle or compromise all claims with the insurers in respect of the insurance (other than the liability insurance) or for compensation and to sue for, recover, receive and give discharge for all moneys payable by virtue thereof, to be held and applied in accordance with Section 11.2 hereof. Lessee shall irrevocably and unconditionally assign or cause to be assigned the insurance to Lessor (or, if requested by Lessor, to Lessor's Lender) if such an assignment is advisable for the purpose of the preceding sentence. Lessee shall do or cause to be done all things necessary and provide or cause to be provided all documents, evidence and information to enable the assignee or loss payee referred to above to collect or recover any moneys due or to become due in respect of the insurance.

11.7 Self-Insurance. Except for the deductibles permitted by Section 11.2 hereof or otherwise permitted in writing by Lessor, Lessee shall not be permitted to self-insure against any of the risks required to be covered by the insurance described in this Section 11.

11.8 Application of Payments During Existence of Default or Event of Default. Any amount referred to in Section 11.2 hereof which is payable to or retainable by Lessee shall not be paid to or retained by Lessee if, at the time of such payment or retention, a Default or an Event of Default shall have occurred and be continuing, but shall be held by or paid over to Lessor (or, as directed by Lender, to Lessor's Lender) as security for the obligations of Lessee under this Agreement. Upon the earlier of (i) such time as there shall not be continuing any such Default or Event of Default or (ii) the end of the Term, such amount shall be paid to Lessee to the extent not previously applied in accordance with the terms hereof.

12. Assignment.

12.1. Assignment by Lessee. Lessee shall not assign or transfer all or any of its rights or obligations under this Agreement without the prior written consent of Lessor; *provided, however*, that such consent shall not be required so long as (a) such assignment is to an Affiliate of Lessee, (b) the assignee assumes in writing all of the obligations of the "Lessee" under this Agreement for the benefit of Lessor and (c) Lessee provides written notice of such assignment to Lessor.

12.2. Assignment by Lessor.

(a) Lessor may, at its own expense and without the prior consent of Lessee, assign or transfer all of its rights and obligations under this Agreement to an Affiliate of Lessor upon providing prior written notice of such assignment to Lessee. Any other assignment by Lessor shall be subject to the prior consent of Lessee, which such consent shall not be unreasonably withheld or delayed. Any assignment by Lessor pursuant to this Section 12.2 shall include an express assignment of Lessor's liability associated with the Basic Rent to the assignee. Upon (1) any such assignment becoming effective and (2) the assignee assuming all of Lessor's obligations under this Agreement, Lessor shall be released of any further obligations hereunder.

(b) After notice from Lessor of any such sale or transfer of the Aircraft or any assignment or transfer of all or any of Lessor's rights and obligations under this Agreement, upon request from Lessor and at Lessor's expense, Lessee shall, as soon as practicable, execute any agreements or other instruments that may be necessary or reasonably requested by Lessor in order to allow, give effect to, or perfect any assignment or transfer of Lessor's rights and obligations under this Agreement (including, without limitation, certificates confirming (to the extent that such matters are accurate) (1) the continuing truth and accuracy of Lessee's representations as set forth herein, (2) the continuing viability of Lessee's warranties, indemnities, covenants and other obligations set forth herein, (3) that no Event of Default has occurred and is continuing, (4) that no Total Loss has occurred, (5) that the Lease is in full force

and effect, (6) that the insurance as required pursuant to this Agreement remains in full force and effect with the assignee named as sole loss payee and added as an additional insured to the existing additional insureds as of the assignment, and (7) such other matters as reasonably requested by Lessor).

(c) In any instance where a transfer or assignment effected by Lessor is to more than one person, such transferees or assignees shall select an agent who shall act on behalf of all such transferees or assignees and with whom Lessee may deal exclusively, and notify Lessee thereof.

12.3. Assignment of Warranties.

(a) As of the Delivery Date and unless a Default or Event of Default shall have occurred and be continuing, Lessor hereby assigns to Lessee, to the fullest extent permitted by law and contract: (a) all warranties (to the extent still existing) covering the Aircraft and all components, parts and accessories installed on, or delivered with the Aircraft; and (b) Lessor's right to and possession of all manuals, diagrams and support materials and all records covering the Aircraft and related components, parts and accessories; in the case of the Airframe and the Engines. To the extent that such warranties are not assignable, Lessor shall cooperate with Lessee in enforcing all such warranties for the benefit of Lessee. Upon an Event of Default, the assignment hereunder shall automatically terminate and all rights assigned to Lessee pursuant to this Section 12.3 shall automatically revert back to Lessor.

(b) On the Return Date, Lessee shall be deemed to have assigned or reassigned to Lessor all warranties covering the Aircraft without further action on the part of Lessee; *provided*, that Lessee may retain the right to pursue remedies and to receive benefits with respect to claims of Lessee arising in respect of events prior to the Return Date; *provided further*, that, to the extent requested by Lessor, Lessee shall execute a separate assignment of warranties in favor of Lessor at the Return. To the extent that any of such warranties are not assignable, Lessee shall cooperate with Lessor in enforcing all such warranties for the benefit of Lessor.

13. "As-Is" Condition, Disclaimer and Release. EXCEPT AS SPECIFICALLY SET FORTH IN THIS AGREEMENT, FROM AND AFTER THE DELIVERY, THE AIRCRAFT AND OTHER ITEMS DELIVERED HEREUNDER ARE LEASED TO LESSEE IN THEIR "AS IS, WHERE IS" CONDITION, AND LESSEE HEREBY WAIVES, RELEASES AND RENOUNCES ANY AND ALL WARRANTIES, OBLIGATIONS AND LIABILITIES, EXPRESS OR IMPLIED, DIRECT OR INDIRECT, OF LESSOR, ITS SUCCESSORS AND ASSIGNS AND ALL OTHER INDEMNIFIED PARTIES, AND ANY AND ALL RIGHTS, CLAIMS, AND REMEDIES, EXPRESS OR IMPLIED, DIRECT OR INDIRECT, OF LESSEE AGAINST LESSOR, ITS SUCCESSORS AND ASSIGNS AND ALL OTHER INDEMNIFIED PARTIES, ARISING BY LAW OR OTHERWISE (EXCEPT ANY SUCH SET FORTH IN THIS AGREEMENT) WITH RESPECT TO THE AIRCRAFT OR ANY PARTS OR THE USE OR OPERATION THEREOF OR ANY NONCONFORMANCE OR DEFECT THEREIN, INCLUDING BUT NOT LIMITED TO: (a) ANY WARRANTY AS TO THE CONDITION OF THE AIRCRAFT; (b) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE; (c) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE; (d) ANY

LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM THE STRICT LIABILITY OR THE ACTUAL OR IMPUTED NEGLIGENCE OF LESSOR AND ITS RESPECTIVE SUCCESSORS OR ASSIGNS OR ANY OTHER INDEMNIFIED PARTY; AND (e) ANY STATUTORY OR OTHER WARRANTY, CONDITION, DESCRIPTION OR REPRESENTATION, EXPRESS OR IMPLIED, AS TO THE STATE, QUALITY, VALUE, CONDITION, DESIGN, OPERATION OR FITNESS OF THE AIRCRAFT. IN ADDITION TO ALL OTHER REQUIREMENTS OF THIS AGREEMENT, THIS SECTION 13 SHALL NOT BE MODIFIED EXCEPT BY WRITTEN AGREEMENT SIGNED ON BEHALF OF LESSOR BY ITS DULY AUTHORIZED REPRESENTATIVE.

14. Representations and Warranties.

14.1. Lessee's Representations and Warranties. Lessee represents and warrants as follows, as of the date hereof and as of the Delivery Date.

(a) Legal Form and Qualification. Lessee is a corporation organized and existing in good standing under the laws of Ohio and has full power to conduct its operations as presently conducted.

(b) Authority. Lessee has full power, authority and legal right to enter into, deliver and perform this Agreement and all agreements or instruments required hereunder.

(c) Binding Obligations. This Agreement constitutes and any related documents, when entered into, will constitute, legal, valid and binding obligations of Lessee enforceable against Lessee in accordance with the terms hereof or thereof, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally as well as by general principles of equity.

(d) No Additional Consents or Approvals. Neither the execution and delivery by Lessee of this Agreement or any other document delivered by it in connection herewith nor the consummation of any of the transactions contemplated thereby requires the consent or approval of, the giving of notice to, or the registration with, any Governmental Entity.

(e) Registration, Filing of the Agreement. It is not necessary or advisable under any applicable Law in order to ensure the validity, effectiveness and enforceability of this Agreement that this Agreement or any other instrument relating hereto be filed, registered or notarized or that any other action be taken, other than those provided for in Section 5 hereof.

(f) No Violation. Neither the execution and delivery nor the performance by Lessee of this Agreement and any other document delivered by Lessee in connection herewith, nor consummation of any of the transactions as contemplated thereby, will result in any violation of, or be in conflict with, or constitute a default under, or result in the creation of any Lien upon any property of Lessee under any of the provisions of Lessee's charter or by-laws, or of any indenture, mortgage, chattel mortgage, deed of

trust, conditional sales contract, lease, note or bond purchase agreement, license, bank loan, credit agreement or other agreement to which Lessee is a party or by which Lessee is bound, or any law, judgment, governmental rule, regulation or order of any Governmental Entity.

(g) Protection of Ownership. Except for the registration and filings provided for in Section 5 hereof, no other filing or registration of any instrument or document is necessary in order to protect Lessor's title to and ownership of the Aircraft.

(h) No Default. No Default or Event of Default has occurred and is continuing under this Agreement (or under any of the Other Lease Agreements).

(i) No Litigation. There are no suits, litigation, arbitration or other proceedings pending or, to the knowledge of Lessee, threatened against or affecting Lessee that, if adversely determined, would have a material adverse effect upon Lessee's financial condition or business or its ability to perform its obligations hereunder.

(j) Withholding Tax. Neither the payment of Rent nor the payment of any other amount required under this Agreement is subject to deduction or withholding taxes or the equivalent under the laws of any Governmental Entity.

(k) Pari Passu Ranking. The obligations of Lessee to make payments hereunder will rank at least *pari passu* in right of payment with all other unsecured, unsubordinated obligations of Lessee.

(l) Sovereign Immunity. Lessee does not enjoy or claim any sovereign or governmental immunity from suit or enforcement of private contracts.

14.2. Lessor's Representations and Warranties. Lessor represents and warrants as follows, as of the date hereof and of the Delivery Date.

(a) Organization. Lessor is a corporation organized and existing in good standing under the laws of Delaware, and has all requisite power, authority and legal right to enter into and perform its obligation under this Agreement and any other document delivered by Lessor in connection herewith.

(b) Authorization. Lessor has duly authorized, executed and delivered this Agreement and, assuming this Agreement has been duly authorized, executed and delivered by Lessee, this Agreement constitutes a legal, valid and binding obligation of Lessor enforceable against Lessor in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally as well as by general principles of equity.

(c) No Violation. Neither the execution and delivery or performance by Lessor of this Agreement and any other document delivered by Lessor in connection herewith, nor consummation of any of the transactions as contemplated thereby, will result in any violation of, or be in conflict with, or constitute a default under, or result in the creation of any Lien upon any property of Lessor under any indenture, mortgage,

chattel mortgage, deed of trust, conditional sales contract, lease, note or bond purchase agreement, license, bank loan, credit agreement or other agreement to which Lessor is a party or by which Lessor is bound, or any law, judgment, governmental rule, regulation or order of any Governmental Entity.

(d) No Consents or Approvals. Neither the execution and delivery by Lessor of this Agreement or any other document delivered by it in connection herewith nor the consummation of any of the transactions contemplated thereby requires the consent or approval of, the giving of notice to, or the registration with, any Governmental Entity located in the United States.

(e) Citizenship. Lessor is (1) a "citizen of the United States" as that term is defined in Section 40102(a) (15) of Title 49 of the United States Code and (2) a "United States person" as that term is defined in Section 7701(a)(30) of Title 26 of the United States Code.

(f) No Litigation. There are no suits, litigation, arbitration or other proceedings pending or, to the knowledge of Lessor, threatened against or affecting Lessor that, if adversely determined, would have a material adverse effect upon Lessor's financial condition or business or its ability to perform its obligations hereunder.

(g) Ownership. As of the Delivery, Lessor holds legal title to the Aircraft.

15. Covenants.

15.1. Lessee's Covenants. Lessee hereby covenants with Lessor that during the Term, Lessee shall fully comply with and perform the following obligations.

(a) Lessee shall punctually pay to Lessor when due all the monies specified and calculated in accordance with the terms of this Agreement and at the time and in the manner herein specified and shall punctually and duly observe and perform Lessee's obligations under this Agreement.

(b) Lessee shall maintain (or shall cause to be maintained) insurance in respect of the Aircraft, its liabilities and properties in accordance with good airline practice and the terms and conditions of this Agreement.

(c) Lessee shall preserve its existence and maintain all rights, privileges, licenses and franchises necessary to its business or material to its performance of its obligations under this Agreement.

(d) Lessee shall provide Lessor with notice of any change in its chief executive office prior to such change, *provided* that such notice shall not be required more than five (5) days prior to such change; and *further provided* that Lessor shall keep such information confidential until after the change occurs.

(e) To the extent that Lessee is a certified operator, Lessee shall keep in full force Lessee's operator's certificate(s) issued by the Aviation Authority and each other

Governmental Entity, including all special conditions and obligations to be fulfilled by Lessee, and of all renewals, amendments and modifications thereto.

(f) Lessee shall promptly, upon becoming aware of the same, notify Lessor in writing of the occurrence of any Event of Default or of any event which with the giving of notice or passage of time could become an Event of Default.

(g) Lessee shall not do or knowingly permit to be done or omit or knowingly permit to be omitted to be done any act or thing which might reasonably be expected to jeopardize the rights of Lessor as owner and lessor of the Aircraft and as an additional insured or loss payee under the insurance required under this Agreement.

(h) Lessee shall not, on any occasion when the ownership of the Aircraft, any Engine or any Part is relevant, claim any interest in the Aircraft other than as Lessee under this Agreement.

(i) Lessee shall not at any time (1) represent or hold out Lessor as carrying goods or passengers on the Aircraft or as being in any way connected or associated with any operation or carriage (whether for hire or reward or gratuitously) which may be undertaken by Lessee or (2) pledge the credit of Lessor.

(j) Lessee shall not attempt, or hold itself out as having any power, to sell, lease or otherwise dispose of the Aircraft, the Aircraft Documents, any Engine or any Part, except as provided in Section 6 hereof.

(k) Lessee shall maintain (or cause to be maintained) in good standing a current certificate of airworthiness for cargo operations for the Aircraft issued by the Aviation Authority.

(l) Lessee shall maintain the Aircraft (or cause the Aircraft to be maintained) in all respects so as to be in compliance with FAR Part 121.

(m) Lessee shall not discriminate against the Aircraft (as compared to other aircraft owned or operated by Lessee in its commercial cargo fleet) in contemplation of the expiration or termination of this Agreement, with respect to Lessee's use, operation or maintenance of the Aircraft or the performance by Lessee of ADs or service bulletins (other than withdrawal of the Aircraft from use and operation as is necessary to prepare the Aircraft for return to Lessor upon such termination or expiration).

(n) Lessee will take all steps reasonably requested by Lessor, required or necessary to cause: (i) this Agreement, and all supplements and all amendments thereto to be promptly filed and recorded, or filed for recording, to the extent permitted by the Aviation Authority or required under any other applicable Law; and (ii) as required by Lessor's Lender or applicable Law, the international interests with respect to this Agreement to be registered with the International Registry.

15.2. Lessor's Covenant of Quiet Enjoyment. Lessor hereby covenants with Lessee that, during the Term, so long as no Event of Default hereunder shall be continuing, neither Lessor, any person acting on its behalf or in its stead, any predecessor or successor in interest of Lessor, nor any person claiming an interest in the Aircraft by or through Lessor, shall interfere with Lessee's rights hereunder or Lessee's quiet and undisturbed use and enjoyment of the Aircraft; *provided, however*, that this Section 15.2 shall not limit Lessor's right of inspection as set forth in this Agreement. Should such an interference occur, Lessor shall promptly eliminate the cause of such interference upon receipt of a notice thereof from Lessee.

16. Default by Lessee; Remedies.

16.1. Events of Default. An Event of Default shall mean the occurrence and continuance of any of the following events.

(a) Lessee shall fail to make any payment of Rent within ten (10) days of the relevant due date at the place and in the funds required under this Agreement.

(b) Lessee shall fail to make any other payment due hereunder within the later of thirty (30) days of the relevant due date at the place and in the funds required under this Agreement.

(c) Lessee shall fail to carry and maintain insurance on or in respect of the Aircraft (or to cause the effectiveness of such insurance) in accordance with the provisions of this Agreement or shall operate (or allow the operation of) the Aircraft without such insurance coverage being in full force and effect with regard to such operation.

(d) Any representation or warranty made, by Lessee herein shall have been incorrect in any material respect at the time made or deemed to be made.

(e) Lessee shall fail to return possession of the Aircraft and the Aircraft Documents to Lessor at the Return Location on the Return Date.

(f) Lessee shall:

(1) create or suffer to exist any Lien for taxes of any kind or arising out of a judgment or award against Lessee which Lien does not constitute a Permitted Lien;

(2) fail to perform or observe any of the covenants or agreements set forth in Sections 5.1, 6.1 or 9 hereof, and if such failure shall continue unremedied for a period of thirty (30) days after written notice thereof by Lessor; or

(3) fail to perform or observe any other covenant, condition or agreement to be performed or observed by it hereunder, and if such failure shall continue unremedied for a period of thirty (30) days after written notice thereof by Lessor; provided, however, that such failure shall not constitute an Event of Default hereunder if (A) such failure is not capable of being cured within the thirty-day period following such notice from Lessor and (B) a cure is diligently

pursued by Lessee thereafter; provided, further, however, that in any event such failure shall constitute an Event of Default hereunder if it continues for more than 120 days following such notice from Lessor.

(g) Lessee shall (1) apply for or consent to the appointment of a receiver, trustee or liquidator for all or substantially all of its property, (2) cease to pay its debts generally as they become due or admit in writing its general inability to pay its debts as they mature, (3) make a general assignment for the benefit of its creditors of all or substantially all of its property, (4) be adjudicated as bankrupt or insolvent, or (5) file a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an agreement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation, or similar law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if corporate action shall be taken by Lessee for the purpose of effecting any of the foregoing.

(h) An order, judgment or decree shall be entered, without the application, approval or consent of Lessee, by any court of competent jurisdiction, approving a petition seeking reorganization of Lessee or appointing a receiver, trustee or liquidator of Lessee or for all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for a period of ninety (90) consecutive days.

(i) An order shall be entered of any governmental authority or any court of competent jurisdiction which shall not be stayed or discharged within ninety (90) days from the date of entry thereof, preventing Lessee from carrying on its business as presently conducted on the date of execution of this Agreement.

(j) Lessee shall have created a default under the Delta Engine Program.

16.2. Remedies . If one or more Events of Default shall be continuing, Lessor may, at Lessor's option, exercise any one or more of the following remedies, to the extent permitted by law.

(a) Lessor may exercise any right or take any action that may reasonably be required to cure any Event of Default (which shall be performed on Lessee's account).

(b) Lessor may instruct Lessee to ferry the Aircraft (including the Aircraft Documents) to the Return Location or such other airport as the parties may mutually agree, and to ground the Aircraft at such airport until all Events of Default have been cured, whereupon Lessee shall immediately do so.

(c) Lessor may take any other remedial action available to Lessor under applicable Law.

(d) Lessor may terminate the lease of the Aircraft to Lessee under this Agreement by:

(1) serving notice of such termination on Lessee in writing in accordance with Section 20.11, specifying the occurrence giving rise to such Event of Default, which notice shall cause this Agreement to terminate immediately (without any further act, service, notification or proceeding being necessary), whereupon Lessee shall promptly return the Aircraft and the Aircraft Documents in compliance with the Return Condition Requirements to Lessor at the Return Location or at any airport in the continental United States specified by Lessor (and should Lessee fail to comply with the Return Condition Requirements, Lessor may do or cause to be done, at Lessee's expense, whatever may be necessary to cause the Aircraft to so comply); or

(2) with or without notice to Lessee, taking possession of the Aircraft and the Aircraft Documents, for which purpose Lessor by its servants or agents may enter upon Lessee's premises where the Aircraft and the Aircraft Documents may be located, or cause the same to be redelivered to Lessor at any airport in the continental United States specified by Lessor; and to effect the foregoing, Lessor may use self-help and any and all reasonable and lawful means necessary to take immediate possession of and remove (by summary proceedings or otherwise) the Aircraft and the Aircraft Documents from Lessee's premises, or from Lessee's possession wherever the same are located, all without liability accruing to Lessor; and upon exercise by Lessor of its powers under this Section 16.2(d) (2), such termination shall be deemed to take effect upon such taking of possession by Lessor or such re-delivery of the Aircraft and the Aircraft Documents to Lessor at said airport (without any further act, notification or proceeding being necessary).

(e) Whether or not Lessor shall have exercised, or shall thereafter at any time exercise, any of its rights described in this Section 16.2 with respect to the Aircraft, and regardless of whether Lessor shall have terminated this Agreement pursuant to Section 16.2(d) hereof, Lessor shall be entitled to (i) recover from Lessee all past due and unpaid Rent and all other amounts owing under this Agreement, (ii) declare as immediately due and payable all future Basic Rent owing under this Agreement and (iii) institute any and all legal and equitable actions required to recover such amounts and otherwise enforce its rights under this Agreement (subject to Lessor's obligation to perform all acts reasonably required to mitigate its damages with respect to accelerated Basic Rent).

(f) In addition to the remedies hereinabove and without limiting any remedies Lessor may have at law or in equity, Lessor may lease, sell or otherwise dispose of the Aircraft as Lessor in its sole discretion may determine.

16.3. Interest on Overdue Amounts. Overdue amounts required to be paid pursuant to Section 4 hereof, this Section 16 or *Appendix B* hereto shall bear interest at the rate indicated in *Appendix B*.

16.4. No Waiver. No implied waiver by Lessor of any Event of Default or failure or delay of Lessor in exercising any right hereunder shall operate as a waiver thereof. The acceptance by Lessor of partial payments from Lessee or any third party, whether made before or after a termination pursuant to Section 16.2, shall not operate as waiver by Lessor of an Event of

Default and shall not be construed as an intent to continue the contractual relationship or as a reinstatement of this Agreement. Nothing in this Section 16.4 shall be construed to permit Lessor to obtain a duplicate recovery of any element of damages to which Lessor is entitled. No express or implied waiver by Lessor of any Default or Event of Default shall in any way be, or be construed to be, a waiver of any future or subsequent Default or Event of Default.

16.5. Costs and Expenses. Lessee agrees to pay to Lessor, upon demand, all reasonable costs, expenses and disbursements (including, without limitation, reasonable attorney's fees, legal fees and expenses) incurred by Lessor in exercising its rights or remedies under this Agreement.

17. Return of Aircraft.

17.1. Return, Place and Time of Return. Lessee shall at its own expense return the Aircraft and the Aircraft Documents by delivering the same to Lessor at the Return Location on the Expiration Date or promptly upon the earlier Termination, except where Termination occurs pursuant to Section 19 as a result of a Total Loss.

17.2. Aircraft Return Condition Requirements. The Aircraft at the time of its return to Lessor shall satisfy all of the Return Condition Requirements described in Section 18 hereof.

17.3. Return Receipt. Upon return of the Aircraft and the Aircraft Documents in accordance with the terms of this Agreement, Lessor and Lessee shall execute a Return Receipt substantially in the form of *Appendix F* hereto. Lessee shall additionally execute such additional documents as Lessor may reasonably require to evidence the termination of this Agreement.

17.4. Specific Performance. Timely return of the Aircraft and the Aircraft Documents on the Return Date and at the Return Location is of the essence of this Agreement and if the Aircraft and the Aircraft Documents are not returned on the Return Date and at the Return Location, Lessor may obtain a court order requiring Lessee to immediately return the Aircraft and the Aircraft Documents at the Return Location.

17.5. Lessee's Obligations Continue.

(a) In the event the Return of the Aircraft and the Aircraft Documents is not effected at the time and location specified herein for any cause, then the obligations of Lessee under this Agreement shall continue until the Aircraft and the Aircraft Documents are actually returned to Lessor. In particular (except to the extent that a delay in the Return of the Aircraft is attributable to acts or a failure to act on the part of Lessor), until Lessee has complied with the Return Condition Requirements, Lessee shall continue to pay Rent to Lessor, shall continue to insure the Aircraft pursuant to this Agreement and shall be responsible for all storage fees for the Aircraft (with such storage being effected pursuant to all requirements of the Aviation Authority and the Manufacturer).

(b) Neither the continued performance by Lessee of any of its obligations after the end of the Term nor the acceptance by Lessor of payments of Basic Rent or otherwise made by Lessee shall be considered a renewal of the terms of this Agreement or a waiver of any right of Lessor hereunder, and Lessee shall not be entitled to the quiet enjoyment of the Aircraft or any part thereof.

18. Return Condition Requirements.

18.1. Condition. On the Return Date, the Aircraft and the Aircraft Documents shall be in the condition required by *Appendix H* hereto (the "Return Condition Requirements").

18.2. Aircraft Documents. At the time the Aircraft is returned to Lessor, Lessee shall deliver to Lessor all Aircraft Documents previously provided by Lessor to Lessee, updated and maintained through the Return Date in accordance with this Agreement and the rules and regulations of the Aviation Authority and the FAA (if not the applicable Aviation Authority), and in addition, all records, documents, manuals, drawings and data that were developed or caused to be developed by Lessee and/or required by the Aviation Authority and the FAA (if not the applicable Aviation Authority) (herein individually and collectively referred to as "Aircraft Return Documents"). All such Aircraft Return Documents shall be complete and accurate and in the English language. Any Aircraft Return Document not already owned by Lessor shall become the property of Lessor upon its delivery to Lessor.

18.3. Final Inspection. Prior to the Return Date, Lessee shall make the Aircraft and the Aircraft Documents available to Lessor for inspection in order to verify that the condition of the Aircraft complies with the requirements set forth in the Return Condition Requirements (the "Final Inspection"). Such Final Inspection will take place at the Return Location. Lessee, at its cost, shall promptly correct any discrepancies observed during the Final Inspection and communicated by Lessor to Lessee.

18.4. Test Flight. Promptly after completion of the corrections, if any, required under Section 18.3 hereof (relating to the Final Inspection), and at the option of Lessor, a test flight (of up to one (1) hour) based on Manufacturer's test flight program shall be conducted by Lessee for the purpose of demonstrating to Lessor the compliance of the Aircraft with the provisions of this Section 18. All costs of such test flight shall be paid by Lessee, including without limitation the cost of fuel, flight crew and insurance. Lessor's representatives may participate in the test flight as observers. All pilot-reported discrepancies and all discrepancies identified by Lessor during the test flight shall be corrected by Lessee at its Lessee's expense. There shall be no deferred items on the Aircraft except as the parties may mutually agree.

18.5. Conditions Cumulative. None of the Return Condition Requirements is intended to be exclusive, but each shall be cumulative and in addition to any other condition and requirement.

18.6. Financial Adjustments. To the extent that either Lessee or Lessor is allowed or is required to make financial adjustment payments at Return in light of the Aircraft and its Engines either failing to satisfy or exceeding Return Condition Requirements, the amount of such payments shall be determined as specified in *Appendix H* hereto.

19. Total Loss.

19.1. Total Loss of the Aircraft.

(a) If the Aircraft shall become a Total Loss prior to the Return Date, Lessee (i) shall notify Lessor of such Total Loss within three (3) days after its occurrence and (ii) shall pay the Agreed Value to Lessor (or cause the insurers to make such payment, with any deductible being the responsibility of Lessee) within ninety (90) days after the occurrence of the Total Loss. The letting of the Aircraft shall terminate upon the earlier to occur of (1) receipt of the Agreed Value by Lessor and (2) the receipt by Lessor of written confirmation from the insurer of the Aircraft to the effect that such insurer will pay to Lessor the Agreed Value of the Aircraft. Thereupon Lessor shall transfer title to the remains of the Aircraft to the insurers or to Lessee, as appropriate under the insurance policies.

(b) If the Aircraft shall become a Total Loss prior to Delivery to Lessee, this Agreement shall terminate immediately. Any termination under this Section 19.1(b) shall discharge all obligations and liabilities of the parties hereunder, except that Lessee shall be entitled to a return of any prepaid Rent and any other monies paid to Lessor pursuant hereto, including the Basic Rent Credit. All such returns shall be made by Lessor to Lessee within five (5) Business Days after Lessor's receipt of a valid written determination of a Total Loss.

19.2. Engine Total Loss. Subject to any applicable requirements of the Delta Engine Program, upon a Total Loss of an Engine not then installed on the Aircraft or a Total Loss of an Engine installed on the Aircraft not involving a Total Loss of the Aircraft, Lessee shall give Lessor prompt notice thereof, and Lessee shall replace such Engine as soon as reasonably possible by duly conveying to Lessor and causing to become subject to this Agreement as a replacement for such Engine, title to another engine, which engine shall be free and clear of all Liens other than Permitted Liens, and shall be the same model as the Engines (or an improved model of the same manufacturer suitable for installation and use on the Airframe) and shall have a value and utility at least equal to, and be in at least as good operating condition as the Engine which sustained such Total Loss, assuming such Engine was in the condition and repair required by the terms hereof immediately prior to such Total Loss; provided that Lessor shall transfer to Lessee, free and clear of all rights of Lessor and all Lessor's Liens (but otherwise without recourse or warranty), all of Lessor's right, title and interest in such replaced Engine. Such replacement engine after approval and acceptance by Lessor, shall be deemed an "Engine" as defined in Section 1. Lessee agrees to take such action as Lessor may reasonably request in order that title to any such replacement Engine shall be duly and properly vested in Lessor and leased under this lease to the same extent as the Engine replaced thereby. Lessee's obligation to pay Rent hereunder shall continue in full force and effect, but Lessee shall be entitled to retain or to be reimbursed by Lessor the amount of insurance or condemnation proceeds, if any, received by Lessor with respect to such replaced Engine.

19.3. Surviving Engine. If a Total Loss of the Airframe occurs and any Engine or Engines (a "Surviving Engine") shall not have become a Total Loss, Lessor, at the request of Lessee, shall, subject to any applicable insurance policy which provides to the contrary, and

further subject to any applicable requirements of the Delta Engine Program, transfer to Lessee free and clear of all rights of Lessor and all Lessor's Liens (but otherwise without recourse or warranty), all of Lessor's right, title and interest, if any, in and to any such Surviving Engine; provided, that prior to transferring such right, title and interest in such Surviving Engine, Lessor shall have received either (1) the Agreed Value of the Aircraft or (2) written confirmation from the insurer of the Aircraft to the effect that such insurer will pay to Lessor the Agreed Value of the Aircraft.

20. Miscellaneous.

20.1. Appendices Part of the Agreement. The Appendices of this Agreement form an integral part hereof. References in any of the Appendices to "the Lease" or "the Agreement" shall refer to this Agreement as may be supplemented or amended from time to time. Unless otherwise defined therein, all capitalized terms appearing in the Appendices shall have the meaning ascribed to such terms in this Agreement.

20.2. Headings for Convenience Only. The headings of clauses and the index are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.

20.3. Entire Agreement. This Agreement constitutes the entire agreement between Lessor and Lessee with respect to the Aircraft and supersedes any and all previous understandings, commitments, agreements or representations whatsoever, whether oral or written, including without limitation any and all terms sheets, letters of intent or similar documents.

20.4. Modifications of the Agreement. This Agreement shall not be modified or amended except by an instrument in writing, signed by Lessor and Lessee.

20.5. Partial Invalidity. If any provision of this Agreement shall be invalid or unenforceable, the parties shall replace this provision by such valid and enforceable provision which to the nearest degree possible reflects the commercial intent and purpose of the invalid or unenforceable provision.

20.6. Applicable Law. This Agreement shall be governed by and construed in accordance with the substantive laws of the State of New York, United States of America (other than the laws of the State of New York relating to choice of law).

20.7. Jurisdiction; Waiver of Jury Trial.

(a) LESSOR AND LESSEE AGREE THAT THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK LOCATED IN NEW YORK CITY ARE TO HAVE EXCLUSIVE JURISDICTION OVER ANY DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT AND EACH SUBMITS ITSELF AND ITS PROPERTY TO THE EXCLUSIVE JURISDICTION OF THE FOREGOING COURTS WITH RESPECT TO SUCH DISPUTES.

(b) EACH OF LESSOR AND LESSEE HEREBY (1) WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE COURTS REFERRED TO IN THIS SECTION 20.7 ON GROUNDS OF AN INCONVENIENT FORUM OR OTHERWISE AND (2) WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT BROUGHT IN THE COURTS REFERRED TO IN THIS SECTION 20.7.

(c) LESSOR AND LESSEE HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS AGREEMENT, WHETHER SUCH ACTION IS BASED ON BREACH OF CONTRACT, TORT, OR ANY OTHER LEGAL OR EQUITABLE THEORY.

(d) Nothing in this Section 20.7 limits the right of Lessor to bring proceedings against Lessee in connection with this Agreement in any other court of competent jurisdiction or concurrently in more than one jurisdiction.

20.8. Legal Costs and Expenses.

(a) Lessor and Lessee each shall bear the cost of their own legal fees, inspection and appraisal fees, and related expenses associated with the negotiation, preparation and execution of this Agreement; *provided, however*, that Lessor and Lessee shall split evenly the fees and expenses charged by Special FAA Counsel (and otherwise incurred) in performing the filings and registrations required in Section 5 of this Agreement.

(b) Lessee shall pay all reasonable attorneys' fees, costs and expenses (including costs and disbursements of counsel) incurred by Lessor after the date hereof arising out of or otherwise in connection with (i) any supplements or amendments of this Agreement (including, without limitation, any related recording and registration costs) requested by Lessee or made reasonably necessary as the result of the actions of Lessee, (ii) any Default by Lessee and any enforcement or collection proceedings resulting therefrom or in connection with the negotiation of any restructuring or "work-out" (whether or not consummated) and (iii) all other actions taken by Lessor to enforce its rights under this Agreement.

(c) Should Lessor or Lessee be required to take action to enforce the terms of this Agreement (such action including, without limitation, the preparing of demand and default notices and the filing and prosecution of litigation), the prevailing party shall be entitled to recover from the other party all associated reasonable costs and expenses, including reasonable attorneys' fees and court costs.

20.9. DISCLAIMER OF DAMAGES. LESSOR AND LESSEE EACH AGREES THAT IT SHALL NOT BE ENTITLED TO RECOVER, AND HEREBY DISCLAIMS AND WAIVES, ANY RIGHT THAT IT MAY OTHERWISE HAVE TO RECOVER CONSEQUENTIAL, INDIRECT AND SPECIAL DAMAGES AS A RESULT OF ANY BREACH OR ALLEGED BREACH BY THE OTHER PARTY OF ANY OF THE AGREEMENTS, REPRESENTATIONS OR WARRANTIES OF THE OTHER PARTY CONTAINED IN THIS AGREEMENT.

20.10. Further Assurances. Lessee and Lessor shall, from time to time, do and perform such other-and further acts and execute and deliver any and all other and further instruments as may be required by law or reasonably requested by either party to establish, maintain and protect the respective rights and remedies of the other party and to carry out and effect the intent and purposes of this Agreement.

20.11. Demands, Notices; Language.

(a) All demands, notices, technical reports and other communications hereunder shall be given in English and in writing and shall be deemed to have been duly given when personally delivered, sent by facsimile or e-mail, or delivered by an internationally-recognized courier service to either party to the address of that party set forth below. A copy of any notice provided by facsimile or by e-mail shall also be provided by means of an internationally-recognized express courier service, sent on the same day as the transmission of the facsimile or e-mail copy of such notice, provided, however, that the date and time of the subject facsimile or e-mail delivery of that notice shall be controlling.

(1) If to Lessee:

DHL Network Operations (USA), Inc.
1200 South Pine Island Road
Plantation, Florida 33324
Attention: Jon Olin – EVP, General Counsel & Secretary
E-Mail: Jon.Olin@dhl.com
Facsimile: (954) 888-7159

(2) If to Lessor:

ABX Air, Inc.
145 Hunter Drive
Wilmington, Ohio 45177
Attention: Joseph Payne, Vice President and General Counsel
E-Mail: Joe.Payne@atginc.com
Facsimile: (937) 382-2452

(b) Either party, by notice to the other delivered in accordance with this Section 20.11, may designate another address as its address for notice under this Agreement.

20.12. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, and together shall have the same effect as if the signatures thereto were upon the same instrument.

20.13. Brokers. Each of the parties hereto represents and warrants to the other that it has not employed any brokers or sale agents in the creation of or the negotiations relating to this Agreement, nor has it given any brokers or sales agents such broad powers as to encompass the transactions described in this Agreement, and each party shall indemnify and hold harmless the other party by reason of any breach or alleged breach by such party of its representation and warranty under this Section 20.13.

20.14. Lessor's Lender. Lessee understands and acknowledges that (a) the Aircraft may be subject to one or more security interests from time to time as the result of Lessor or an Affiliate of Lessor borrowing funds from one or more entities (collectively, "Lessor's Lender") and (b) as a result, Lessor may be required to collaterally assign part or all of its interest in the Aircraft and in and under this Agreement to secure the performance of its repayment and other obligations owing to Lessor's Lender. Lessee agrees that, upon the written direction of Lessor, it shall consent to any such collateral assignment of Lessor's rights under this Agreement; *provided, however*, that Lessor shall reimburse Lessee for any additional, out-of-pocket expenses (as reasonably supported by receipts and other documentation) associated with complying with this Section 20.14.

20.15. Early Termination. Commencing twenty-four (24) months after Delivery (but not before), Lessee shall have the right to terminate this Agreement, in its sole and absolute discretion and with or without cause, by providing written notice of such intent to terminate (pursuant to the notice requirements of Section 20.11 hereof) to Lessor at least 180 days prior to the specified termination date (the "Termination Effective Date"). As a condition precedent to the effectiveness of such a Termination: (a) Lessee shall make a lump sum payment to Lessor in an amount equal to what would have been owing by Lessee in Basic Rent payments over the next six (6) months after the Termination Effective Date; and (b) Lessee shall Return the Aircraft to Lessee pursuant to the requirements of this Agreement, including, without limitation, Sections 17 and 18 hereof and *Appendix H* hereto. The parties shall execute and file any and all documentation required or allowed by the Aviation Authority evidencing such Termination.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Aircraft Lease Agreement (MSN _____) as of the day and year first herein written.

LESSOR:

ABX AIR, INC.

By: _____
Name: _____
Title: _____

LESSEE:

DHL NETWORK OPERATIONS (USA), INC.

By: _____
Name: _____
Title: _____

GUARANTY

This Guaranty (this “Guaranty”) is entered into as of _____, 2010 by Deutsche Post AG, a corporation formed under the laws of Germany (“Guarantor”), in favor of ABX Air, Inc., a Delaware corporation (or its assignee under the Leases, as defined below) (“Lessor”).

RECITALS

WHEREAS, Lessor, as lessor, and DHL Network Operations (USA), Inc. (“Lessee”), as lessee, have entered into one or more lease agreements with respect to the lease of one or more of the Boeing model 767-200SF aircraft bearing manufacturer’s serial numbers 23434, 23142, 23147 and 23431 (collectively, to the extent executed, the “Leases”); and

WHEREAS, Guarantor owns (either directly or indirectly) all of the capital stock of Lessee: and

WHEREAS, in consideration for Lessor agreeing to grant to Lessee certain financial and other concessions in the Leases, Guarantor desires to guarantee the performance of Lessee’s payment obligations under the Leases;

NOW, THEREFORE, based upon the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

Section 1. Definitions. The definitions set forth in the above Recitals are hereby incorporated as if fully set forth in this Section 1.

Section 2. Guaranty. Guarantor, as a primary obligor and not as surety, hereby guarantees, without any setoff or other deduction, to Lessor the due, punctual and full payment of all of Lessee’s payment obligations under each and all of the Leases when and as the same shall become due and payable by Lessee in accordance with the terms thereof, without regard to how such payment obligations are described or characterized in each of the Leases (with all of the obligations, covenants, terms, conditions, undertakings and liabilities described in this Section 2 collectively referred to as the “Guaranteed Obligations”).

This Guaranty is continuing, irrevocable, absolute and unconditional and a guaranty of payment and not of collectibility, and is in no way conditioned or contingent upon any attempt to collect from or enforce performance or compliance by Lessee or the exercise or assertion of any other right or remedy to which Lessor is or may be entitled under or in connection with the Leases. If for any reason whatsoever Lessee shall fail or be unable duly, punctually and fully to pay such amounts as and when the same shall become due and payable in accordance with the terms of any of the Leases, Guarantor will promptly pay or cause to be paid such amounts under the terms of such Leases.

Notwithstanding anything to the contrary herein, the aggregate maximum amount recoverable under this Guaranty is limited to Sixty Million U.S. Dollars (US\$60,000,000), or Fifteen Million Dollars (US\$15,000,000) per Lease, plus expenses as set forth in Section 9 hereof.

Section 3. Character of Obligations of Guarantor. Subject to the provisions of Section 8 hereof, the obligations of Guarantor set forth in this Guaranty shall remain in full force and effect until payment of the Guaranteed Obligations in full, and shall not be released, discharged or in any way affected by any of the following:

- (a) any amendment, modification, addition, deletion or supplement to or of or other change in the Guaranteed Obligations or any of the Leases;
- (b) any failure, omission or delay on the part of Lessee to conform or comply with any term of any of the Leases;
- (c) any voluntary or involuntary bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation, dissolution, winding up or similar proceeding with respect to Lessee; or
- (d) any merger or consolidation of Lessee or Guarantor into or with any other corporation, or any other corporate change in Lessee or Guarantor, or any sale, lease or transfer of any of the assets of Lessee or Guarantor to any other person, or any change in the ownership of any shares of capital stock of Lessee or Guarantor.

Section 4. Waiver and Agreement. Guarantor waives any and all notice of the creation, modification, extension or accrual of any of the Guaranteed Obligations and notice of or proof of reliance by Lessor upon this Guaranty or acceptance of this Guaranty, and the Guaranteed Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guaranty. Guarantor unconditionally waives, to the extent permitted by applicable law:

- (a) acceptance of this Guaranty and proof of reliance by Lessor hereon;
- (b) notice of any of the matters referred to in Section 3 hereof, or any right to consent or assent to any thereof;
- (c) any right to the enforcement, assertion or exercise by Lessor against Lessee of any right, power, privilege or remedy conferred upon Lessor in any of the Leases or otherwise;
- (d) any requirement of diligence on the part of any person; and
- (e) any requirement that Lessee or any other person be joined as a party to any proceeding for the enforcement of any term of any of the Leases.

Section 5. Subrogation. Guarantor shall be subrogated to any rights of Lessor against Lessee in respect of which a payment shall be made by Guarantor hereunder; provided, however, that Guarantor shall not enforce or attempt to enforce such rights until such time as the Guaranteed Obligations at issue have been discharged in full.

Section 6. Lessor's Remedies. Each and every remedy of Lessor under or with respect to this Guaranty shall, to the extent permitted by law, be cumulative and shall be in addition to any other remedy given hereunder, or under each of the Leases, or now or hereafter existing at law or in equity; provided, however, that Lessor shall not be entitled to any double recovery.

Section 7. Representations and Warranties. Guarantor hereby represents and warrants to Lessor that the following statements are true and correct as of the date of this Guaranty:

7.1. Guarantor is a corporation duly organized, validly existing and in good standing under the laws of Germany.

7.2. Guarantor has the corporate power and authority to enter into this Guaranty. The making, execution and performance of this Guaranty by Guarantor has been duly authorized by all necessary corporate action, this Guaranty has been duly executed and delivered by Guarantor and this Guaranty constitutes the valid and binding obligation of Guarantor, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors rights generally, including, without limitation, fraudulent conveyance laws, and by general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, whether considered in a proceeding in equity or at law.

7.3. The execution, delivery and performance of this Guaranty: (a) does not violate any provision of any existing law or regulation binding on Guarantor, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on Guarantor, or the charter or bylaws of, or any securities issued by Guarantor, or of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which Guarantor is a party or by which Guarantor or any of its assets may be bound, the violation of which would have a material adverse effect on the business, operations, assets or financial condition of Guarantor, and (b) will not result in the creation or imposition of any encumbrance on any of Guarantor's property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract or other agreement, instrument or undertaking. No consent, license, approval, order or authorization of, or registration, filing, or declaration with, any governmental authority is required to be obtained by Guarantor, and no consent of any third party is required to be obtained by Guarantor, in connection with the execution, delivery and performance of this Guaranty or the taking of the actions contemplated hereby, except for consents, authorizations, filings and notices that have been obtained or made. There is no order or action pending or, to the knowledge of Guarantor, threatened against Guarantor, in either case as of the date of this Guaranty, that individually or when aggregated with one or more other actions has or would reasonably be expected to have a material adverse effect on Guarantor's ability to perform this Guaranty.

Section 8. Expiry. This Guaranty and all guaranties, covenants and agreements of Guarantor contained herein are valid and shall continue in full force and effect until such time as all of the Guaranteed Obligations, including expenses that the Guarantor is obligated to pay

pursuant to Section 9 hereof, are paid finally and irrevocably in full. Notwithstanding the foregoing, all of the Guarantor's obligations under this Guaranty shall terminate absolutely, whether or not this Guaranty has been returned to the Guarantor by the Lessor, to the extent that Lessor has not made a demand for payment under this Guaranty prior to six (6) months after the last Return (as defined in the Leases) of each of the aircraft under the Leases.

Section 9. Expenses. Guarantor shall pay to Lessor on demand each cost and expense (including, without limitation, attorneys' fees) hereafter incurred by Lessor in endeavoring to enforce any obligation of Guarantor pursuant to this Guaranty or to preserve or exercise any right or remedy against Guarantor pursuant to this Guaranty or arising as a result of this Guaranty; provided, however, in connection with any legal action Lessor shall not be entitled to such costs or expenses if Lessor does not prevail.

Section 10. Amendments. The terms of this Guaranty may not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except by written instrument signed by Guarantor and Lessor.

Section 11. Applicable Law. This Guaranty shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without regard to principles of conflicts of laws.

Section 12. Section Headings. The section headings are inserted for convenience only and are not to be construed as part of this Guaranty.

Section 13. Notices. All notices and other communications to be made or given pursuant to this Guaranty shall be made or given in the manner provided in Section 20.11 of each of the Leases, if to Guarantor, to the following location:

Deutsche Post AG
Headquarters
Charles de Gaulle Strasse 20
53113 Bonn
Germany
Attention: Head of Corporate Finance

Section 14. Assignment. Guarantor may not assign this Guaranty, and its rights and obligations hereunder, without the prior written consent of Lessor, which consent shall not be unreasonably withheld. This Guaranty may not be transferred or assigned by Lessor without the prior written consent of Guarantor; provided that Lessor may transfer and assign this Guaranty to any Affiliate (as defined in the Leases) of Lessor without Guarantor's prior consent.

Section 15. Successor. This Guaranty is binding upon any successor to Guarantor.

Section 16. No Other Writing. This writing is intended by the parties as the final expression of this Guaranty and is also intended as a complete and exclusive statement of the terms of their agreement with respect thereto.

IN WITNESS WHEREOF, Guarantor has executed this Guaranty by its duly authorized officer as of the date first above written.

DEUTSCHE POST AG

By: _____

Its: _____

Title: _____

ACCEPTED AND AGREED:

ABX AIR, INC. [or assignee]

By: _____

Its: _____

Title: _____

AIRCRAFT LEASE AGREEMENT
MSN _____

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: August 10, 2009

/s/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

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

I, Quint O. Turner, 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: August 10, 2009

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial 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 June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Quint O. Turner, Chief Financial Officer, 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: August 10, 2009