
**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 September 30, 2010

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "non-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 November 3, 2010, Air Transport Services Group, Inc. had outstanding 63,775,766 shares of common stock, par value \$.01.

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

Table of Contents

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Unaudited Condensed Consolidated Statements of Earnings</u>	4
<u>Unaudited Condensed Consolidated Balance Sheets</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	33
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	35
Item 5. <u>Other Information</u>	36
Item 6. <u>Exhibits</u>	37
<u>SIGNATURES</u>	38

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 2009 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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
REVENUES	\$167,726	\$174,202	\$488,781	\$572,973
OPERATING EXPENSES				
Salaries, wages and benefits	41,074	74,127	129,830	257,191
Fuel	33,745	27,068	98,203	75,560
Depreciation and amortization	22,758	19,954	65,310	62,354
Maintenance, materials and repairs	22,446	15,217	57,355	48,513
Landing and ramp	5,419	5,828	17,830	22,790
Travel	5,667	5,524	16,383	15,888
Rent	4,881	2,629	12,257	7,025
Insurance	2,130	2,731	7,122	8,306
Other operating expenses	8,378	10,315	26,956	26,967
	<u>146,498</u>	<u>163,393</u>	<u>431,246</u>	<u>524,594</u>
INTEREST EXPENSE	(4,641)	(6,236)	(14,424)	(21,048)
INTEREST INCOME	83	74	241	381
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	16,670	4,647	43,352	27,712
INCOME TAX EXPENSE	<u>(5,282)</u>	<u>(1,792)</u>	<u>(15,299)</u>	<u>(9,822)</u>
EARNINGS FROM CONTINUING OPERATIONS	11,388	2,855	28,053	17,890
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	<u>(230)</u>	<u>882</u>	<u>(58)</u>	<u>5,051</u>
NET EARNINGS	<u>\$ 11,158</u>	<u>\$ 3,737</u>	<u>\$ 27,995</u>	<u>\$ 22,941</u>
EARNINGS PER SHARE - Basic				
Continuing operations	<u>\$ 0.18</u>	<u>\$ 0.05</u>	<u>\$ 0.45</u>	<u>\$ 0.29</u>
Discontinued operations	<u>—</u>	<u>0.01</u>	<u>—</u>	<u>0.08</u>
NET EARNINGS PER SHARE	<u>\$ 0.18</u>	<u>\$ 0.06</u>	<u>\$ 0.45</u>	<u>\$ 0.37</u>
EARNINGS (LOSS) PER SHARE - Diluted				
Continuing operations	<u>\$ 0.18</u>	<u>\$ 0.05</u>	<u>\$ 0.44</u>	<u>\$ 0.28</u>
Discontinued operations	<u>(0.01)</u>	<u>0.01</u>	<u>—</u>	<u>0.08</u>
NET EARNINGS PER SHARE	<u>\$ 0.17</u>	<u>\$ 0.06</u>	<u>\$ 0.44</u>	<u>\$ 0.36</u>
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	<u>62,811</u>	<u>62,685</u>	<u>62,805</u>	<u>62,670</u>
Diluted	<u>64,202</u>	<u>63,731</u>	<u>64,076</u>	<u>63,181</u>

See notes to unaudited condensed consolidated financial statements.

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

	<u>September 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 44,465	\$ 83,229
Accounts receivable, net of allowance of \$1,378 in 2010 and \$1,288 in 2009	37,331	87,708
Inventory	5,769	5,226
Prepaid supplies and other	10,480	7,093
Deferred income taxes	31,597	31,597
Aircraft and engines held for sale	—	30,634
TOTAL CURRENT ASSETS	<u>129,642</u>	<u>245,487</u>
Property and equipment, net	660,988	636,089
Other assets	28,463	21,307
Intangibles	9,472	10,113
Goodwill	89,777	89,777
TOTAL ASSETS	<u>\$ 918,342</u>	<u>\$1,002,773</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 37,329	\$ 38,174
Accrued salaries, wages and benefits	23,651	44,077
Accrued severance and retention	1,039	18,959
Accrued expenses	15,367	16,429
Current portion of debt obligations	36,112	51,737
Unearned revenue	14,335	15,340
TOTAL CURRENT LIABILITIES	<u>127,833</u>	<u>184,716</u>
Long-term debt obligations	277,031	325,690
Post-retirement liabilities	97,292	152,297
Other liabilities	54,863	44,044
Deferred income taxes	64,172	50,044
Commitments and contingencies (Note I)		
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; 63,775,766 and 63,416,564 shares issued and outstanding in 2010 and 2009, respectively	638	634
Additional paid-in capital	513,898	502,822
Accumulated deficit	(183,090)	(211,085)
Accumulated other comprehensive loss	(34,295)	(46,389)
TOTAL STOCKHOLDERS' EQUITY	<u>297,151</u>	<u>245,982</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 918,342</u>	<u>\$1,002,773</u>

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
OPERATING ACTIVITIES:		
Net earnings from continuing operations	\$ 28,053	\$ 17,890
Net earnings from discontinued operations	(58)	5,051
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	65,310	62,978
Pension and post-retirement amortization	(1,144)	24,650
Deferred income taxes	14,864	10,418
Amortization of stock-based compensation	1,230	1,013
Amortization of DHL promissory note	(3,100)	—
Gains on asset disposition, net of impairments	(8)	(2,077)
Changes in assets and liabilities:		
Accounts receivable	40,080	(3,837)
Inventory and prepaid supplies	(2,730)	5,531
Accounts payable	(311)	(3,754)
Unearned revenue	11,966	(8,744)
Accrued expenses, salaries, wages and benefits and other liabilities	(40,895)	(44,600)
Post-retirement liabilities	(33,020)	(18,846)
Other	1,427	3,854
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>81,664</u>	<u>49,527</u>
INVESTING ACTIVITIES:		
Capital expenditures	(90,741)	(49,908)
Proceeds from the sale of property and equipment	31,497	7,044
Proceeds from redemptions of marketable securities	—	26
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(59,244)</u>	<u>(42,838)</u>
FINANCING ACTIVITIES:		
Principal payments on borrowings	(61,184)	(33,104)
NET CASH (USED IN) FINANCING ACTIVITIES	<u>(61,184)</u>	<u>(33,104)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(38,764)	(26,415)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	83,229	116,114
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 44,465</u>	<u>\$ 89,699</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of amount capitalized	<u>\$ 12,591</u>	<u>\$ 18,396</u>
Income taxes paid	<u>\$ 367</u>	<u>\$ 2,085</u>
SUPPLEMENTAL NON-CASH INFORMATION:		
Accrued capital expenditures	<u>\$ 1,215</u>	<u>\$ 2,025</u>

See notes to unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

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, 2009 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. In the opinion of management, all adjustments and disclosures considered necessary for a fair presentation have been included.

Nature of Operations

Air Transport Services Group, Inc. is a holding company whose principal subsidiaries include an aircraft leasing company, Cargo Aircraft Management, Inc. (“CAM”) and three independently certificated airlines, ABX Air, Inc. (“ABX”), Capital Cargo International Airlines, Inc. (“CCIA”) and Air Transport International, LLC (“ATI”). CAM leases aircraft to each of the Company’s airlines as well as to non-affiliated airlines.

Since August 16, 2003, the Company, through ABX, has had long term contracts with DHL Network Operations (USA), Inc. and DHL Express (USA), Inc. which are collectively referred to as “DHL.” DHL, an international, integrated delivery company, is the Company’s largest customer. In March 2010, the Company and DHL executed new follow-on agreements effective March 31, 2010. Under the new agreements, DHL committed to lease 13 Boeing 767 freighter aircraft from CAM and ABX has been contracted to operate those aircraft for DHL under a separate crew, maintenance and insurance (“CMI”) agreement. Prior to the new, follow-on agreements, ABX provided aircraft, flight crews and maintenance to DHL under an aircraft, crew, maintenance and insurance agreement (“ACMI”).

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

In addition to its airline operations and aircraft leasing services, the Company sells aircraft parts, provides aircraft and equipment maintenance services, operates three mail sorting facilities for the U.S. Postal Service (“USPS”), 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 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 management believes 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 for internal consumption 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. Provisions for inventory obsolescence are recorded to maintenance expense.

Goodwill and Intangible Assets

In accordance with the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 350 *Intangibles – Goodwill and Other*, the Company assesses, during the fourth quarter of each year, the carrying value of goodwill and indefinite-lived intangible assets. Impairment assessments may be performed on an interim basis if the Company finds it necessary. Finite-lived intangible assets are amortized over their estimated useful economic lives and are periodically reviewed for impairment, in accordance with FASB ASC 360 *Property, Plant and Equipment*.

Property and Equipment

Property and equipment are stated at cost, net of any impairment recorded, in accordance with FASB ASC Topic 360-10 *Property, Plant and Equipment*. The cost and accumulated depreciation of disposed property and equipment are removed from the accounts with any related gain or loss reflected in earnings from operations.

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

Aircraft and flight equipment	3 to 20 years
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 customer air 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 767-200 aircraft are maintained under "power by the hour" agreements with an engine maintenance provider. Under the power by the hour agreements, these CF6 engines are maintained by the service provider 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 accounting policy for major airframe and engine maintenance, other than the CF6 engines, varies by airline subsidiary. ATI and CCIA 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 \$0.1 million and \$0.3 million for the quarters ended September 30, 2010 and 2009, respectively, and \$1.3 million for the nine month periods ended September 30, 2010 and 2009.

Discontinued Operations

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

Exit Activities

The Company accounts for the costs associated with exit activities in accordance with FASB ASC Topic 420-10 *Exit or Disposal Cost Obligations*. 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 FASB ASC Topic 715-30 *Compensation – Retirement Benefits* in the event that a significant number of employees are terminated or a pension plan is suspended.

Self-Insurance

The Company is self-insured for certain claims relating to workers' compensation, aircraft, automobile, general liability and employee healthcare. The Company maintains excess claim coverage with common insurance carriers to mitigate its exposure to large claim losses. The Company records a liability for reported claims and an estimate for incurred claims that have not yet been reported. Accruals for these claims are estimated utilizing historical paid claims data, recent claims trends and, in the case of employee healthcare and workers' compensation, an independent actuarial evaluation. Other liabilities included \$39.6 million and \$41.3 million at September 30, 2010 and December 31, 2009, respectively, for self-insurance reserves. Changes in claim severity and frequency could result in actual claims being materially different than the costs reserved.

Income Taxes

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

Under FASB ASC Topic 740-10 *Income Taxes*, 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 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 generated from airline service agreements are typically recognized based on hours flown or the amount of aircraft and crew resources provided during a reporting period. Certain agreements include provisions for incentive payments based upon on-time reliability. These incentives are typically measured on a monthly basis and recorded to revenue in the corresponding month earned. Revenues from charter service agreements 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 or technical services are recognized in the period in which the services are completed and delivered to the customer. Revenues derived from transporting freight and sorting parcels are recognized upon delivery of shipments and completion of services. Aircraft lease revenues are recognized as operating lease revenue on a straight-line basis over the term of the applicable lease agreements.

Revenues from the former DHL ACMI agreement were generally determined based on expenses incurred during a period plus mark-ups and were recognized when the related services were performed. ABX and DHL amended the ACMI agreement to set mark-ups to specific quarterly amounts for 2009 and the first quarter of 2010. In 2008, ABX and DHL executed a severance and retention agreement ("S&R agreement") which specified employee severance, retention and other benefits that DHL reimbursed to ABX for payment to its employees that were affected in conjunction with DHL's U.S. restructuring plan. DHL was obligated to reimburse ABX for the cost of employee severance, retention, productivity bonuses and vacation benefits paid in accordance with the agreement. The Company's revenues for 2009 and the first quarter of 2010 included reimbursement for expenses incurred under the DHL ACMI agreement, the incremental mark-up revenues set by the DHL ACMI amendments and reimbursement for employee severance, retention, vacation and other benefit costs incurred during the period.

New Accounting Pronouncements

In July 2010, the FASB issued an Accounting Standards Update No. 2010-20, Receivables, Disclosure about the Credit Quality of Financing Receivables and Allowances for Credit Losses. The new guidance will require additional disclosures about the nature of credit risk in a company's portfolio of financing receivables, how risk is analyzed and assessed in arriving at the allowance for credit losses and the reasons for changes in the allowance for credit losses. The new guidance will be effective in fiscal years beginning on or after December 15, 2010 and is not expected to have material impact the Company's financial statements.

NOTE B—SIGNIFICANT CUSTOMERS

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

As of September 30, 2010, CAM had leased 11 of the 13 Boeing 767-200 freighter aircraft to DHL. Until CAM completes the aircraft modification process for the remaining two aircraft committed to DHL, ABX will provide bridging aircraft to DHL under short term, month-to-month arrangements with economic terms similar to the leases for the 13 aircraft. CAM is projected to provide the twelfth and thirteenth Boeing 767-200 aircraft to DHL by July 2011.

The S&R agreement with DHL was terminated effective April 1, 2010. In conjunction with the termination of the ACMI agreement and the S&R agreement, ABX and DHL entered into a termination agreement which addressed several open issues between the parties. Under the termination agreement, in May 2010, DHL paid ABX the aircraft carrying value of \$29.7 million to complete the sale of aircraft that ABX previously put to DHL under provisions of the ACMI agreement. DHL reimbursed ABX for \$11.2 million of accrued vacation payments which is in addition to \$3.2 million previously reimbursed by DHL. The Company's financial results for 2010 reflect the recognition of \$4.1 million of revenue in the first quarter of 2010 for vacation payments which DHL reimbursed to ABX and were not previously recognized in revenues. As previously agreed, ABX paid DHL \$15.0 million toward the balance of the promissory note with DHL during May 2010. Beginning April 1, 2010 and extending through the term of the DHL CMI agreement, the balance of the note with DHL is extinguished ratably without payment.

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

	September 30, 2010	December 31, 2009
Assets (Liabilities):		
Accounts receivable	\$ 13,904	\$ 62,672
Other assets (non current amounts due from DHL)	8,229	—
Aircraft put to DHL	—	29,656
Accounts payable	(531)	(265)
Unearned revenue (current)	(10,698)	(12,880)
Other liabilities (unearned revenue)	(12,971)	—
Principal portion of note to DHL	(27,900)	(46,000)
Net asset (liability)	<u>\$ (29,967)</u>	<u>\$ 33,183</u>

Continuing revenues from leases to and contracted services performed for DHL were approximately 33% and 46% of the Company's consolidated revenues from continuing operations for the three months ended September 30, 2010 and 2009, respectively, and 35% and 51% of total revenues from continuing operations for the nine month period ended September 30, 2010 and 2009, respectively.

A substantial portion of the Company's revenues are derived from providing services to BAX/Schenker and the U.S. Military. Revenues from services performed for BAX/Schenker were approximately 29% and 24% of the Company's total revenues from continuing operations for the three months ended September 30, 2010 and 2009, respectively, and 29% and 20% of total revenues from continuing operations for the nine month period ended September 30, 2010 and 2009, respectively. Under their agreements with BAX/Schenker, ATI and CCIA have the right to be the exclusive providers of main deck freighter lift in the BAX/Schenker U.S. network through December 31, 2011. Revenues from services performed for the U.S. Military were approximately 14% and 10% of the Company's total revenues from continuing operations for the three months ended September 30, 2010 and 2009, respectively, and 14% and 10% of total revenues from continuing operations for the nine month period ended September 30, 2010 and 2009, respectively.

NOTE C—WIND-DOWN COSTS

As a result of DHL's U.S restructuring plan that was initiated in 2008, the Company has incurred costs to reduce the scope of its operations. Wind-down expenses are reflected in the ACMI Services segment and discontinued operations. The wind-down activity during 2010 is summarized below (in thousands):

	<u>Severance Benefits</u>	<u>Retention Benefits</u>	<u>Total</u>
Accrued costs at December 31, 2009	\$ 18,776	\$ 183	\$ 18,959
Costs incurred	(114)	240	126
Costs paid	<u>(18,043)</u>	<u>(3)</u>	<u>(18,046)</u>
Accrued costs at September 30, 2010	<u>\$ 619</u>	<u>\$ 420</u>	<u>\$ 1,039</u>

Wind-down costs estimated to be incurred during the remainder of 2010 are not expected to be significant.

NOTE D—DISCONTINUED OPERATIONS

Under a hub services agreement, ABX provided package handling, sorting and other cargo-related services to DHL through August 2009. On July 24, 2009, DHL ceased the sort operations in Wilmington, Ohio and transferred the hub operations to the Cincinnati/Northern Kentucky International Airport ("CVG"). ABX assisted DHL with the transition from Wilmington to CVG by providing temporary staffing for the CVG operations through early September 2009. In conjunction with the transfer of the aircraft hub operations to CVG in July 2009, DHL assumed management of fueling services for its network previously provided by ABX. ABX ceased providing aircraft fuel and related services for its aircraft that remain in the DHL network. ABX's hub services operations and the aircraft fueling operations are reported as discontinued operations for all periods presented.

ABX sponsors defined benefit plans for retirees that include the former employees of the hub operation. Additionally, ABX is self-insured for medical coverage and workers' compensation. The Company may incur expenses and cash outlays in the future related to pension obligations, reserves for medical expenses and wage loss for former employees. Carrying amounts of significant assets and liabilities of the discontinued operations are below (in thousands):

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Assets		
Receivable due from DHL	\$ —	\$ 21,587
Other assets	8,229	—
Total Assets	<u>\$ 8,229</u>	<u>\$ 21,587</u>
Liabilities		
Accounts payable	\$ —	\$ 3
Employee compensation and benefits	43,381	48,280
Post-retirement	21,069	25,420
Total Liabilities	<u>\$ 64,450</u>	<u>\$ 73,703</u>

The revenues and pre-tax earnings of the discontinued operations are below (in thousands):

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenue	11	\$ 56,673	95	\$ 173,561
Pre-tax earnings (loss)	\$ (362)	\$ 1,390	\$ (93)	\$ 7,964

NOTE E—FAIR VALUE MEASUREMENTS

The Company's money market funds and derivative financial instruments are reported on the Company's consolidated balance sheet at fair values based on market values from identical or comparable transactions. The fair value of the Company's money market funds and derivative financial instruments are based on observable inputs (Level 2) from comparable market transactions. The use of quoted prices in active markets for identical assets (Level 1) and significant unobservable inputs (Level 3), was not necessary in determining the fair value of the Company's financial assets and liabilities.

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

	<u>Fair Value Measurement Using</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
	<u>September 30, 2010</u>			
Assets				
Cash equivalents - money market	\$ —	\$ 25,867	\$ —	\$25,867
Total Assets	<u>\$ —</u>	<u>\$ 25,867</u>	<u>\$ —</u>	<u>\$25,867</u>
Liabilities				
Interest rate swap	\$ —	\$ (5,521)	\$ —	\$ (5,521)
Total Liabilities	<u>\$ —</u>	<u>\$ (5,521)</u>	<u>\$ —</u>	<u>\$ (5,521)</u>
	<u>December 31, 2009</u>			
Assets				
Cash equivalents - money market	\$ —	\$ 63,831	\$ —	\$63,831
Total Assets	<u>\$ —</u>	<u>\$ 63,831</u>	<u>\$ —</u>	<u>\$63,831</u>
Liabilities				
Interest rate swap	\$ —	\$ (3,715)	\$ —	\$ (3,715)
Total Liabilities	<u>\$ —</u>	<u>\$ (3,715)</u>	<u>\$ —</u>	<u>\$ (3,715)</u>

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 \$9.6 million less than the carrying value, which was \$313.1 million at September 30, 2010.

NOTE F—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 September 30, 2010 have been estimated utilizing a 37.4% 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 2010 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, local and international jurisdictions. Prior to 2008, ABX and Cargo Holdings International, Inc. (“CHI”) filed separate consolidated federal tax returns with their respective wholly-owned subsidiaries. The consolidated federal tax returns for the years 2003 through 2006 for ABX and the years 2001 through 2007 for CHI remain open to federal examination by the Internal Revenue Service (“IRS”) only to the extent of net operating loss carryforwards carried over from or utilized in those years. Effective in 2008, the Company began to file federal tax returns under the new common parent of the consolidated group that includes ABX, CHI and all the wholly-owned subsidiaries. The IRS is currently examining the 2008 federal tax return. All returns related to the new consolidated group remain open to examination by the IRS. State and local returns filed for 2004 through 2009 are generally also open to examination by their respective jurisdictions. As of September 30, 2010, the Company does not have any unrecognized tax positions.

The Company reduced deferred tax assets for post retirement benefits by \$8.0 million in 2010 to reflect the tax effect associated with the changes to the crewmembers post retirement health care benefit plan (see Note J).

During 2010, the Company reduced deferred tax liabilities that had been recorded in 2009 for the partial extinguishment of the promissory note payable to DHL. The Company reduced the deferred tax liabilities and increased paid-in capital by \$9.9 million in 2010 to reflect the original issue discount associated with the extinguished amount of the promissory note. The extinguishment of the promissory note negotiated in 2009 was recorded as a capital transaction due to the related party nature of ABX’s relationship with DHL stemming from ABX’s separation from Airborne in August 2003.

NOTE G—PROPERTY AND EQUIPMENT

At September 30, 2010, the Company’s subsidiaries owned or leased under capital leases, 62 aircraft in serviceable condition, consisting of 16 Boeing 767-200 aircraft leased to external customers, two Boeing 757, 12 Boeing 727, 15 McDonnell Douglas DC-8 and 17 Boeing 767-200 aircraft operated by the Company’s airlines. As of September 30, 2010, the Company had one aircraft, a Boeing 767-300, with a cost of \$10.2 million undergoing modification to standard freighter configuration. Additionally, at September 30, 2010, the Company had four other Boeing 767-200 and two Boeing 767-300 aircraft which were scheduled to enter into the freighter modification. Property and equipment, to be held and used, consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Aircraft and flight equipment	\$ 915,169	\$ 842,235
Support equipment	52,603	51,903
Vehicles and other equipment	1,583	1,883
Leasehold improvements	1,277	1,255
	<u>970,632</u>	<u>897,276</u>
Accumulated depreciation	<u>(309,644)</u>	<u>(261,187)</u>
Property and equipment, net	<u>\$ 660,988</u>	<u>\$ 636,089</u>

Aircraft and flight equipment includes \$22.4 million of property held under capital leases as of September 30, 2010 and \$25.0 million as of December 31, 2009. Accumulated depreciation and amortization includes \$12.6 million as of September 30, 2010 and \$9.2 million as of December 31, 2009 for property held under capital leases. CAM owned aircraft with a carrying value of \$269.7 million and \$61.0 million that were under leases to external customers as of September 30, 2010 and December 31, 2009, respectively.

At September 30, 2010, ACMI Services had three DC-8 airframes whose engines and rotables were being used for other aircraft in the Company’s fleets. The spare airframes can be reactivated as needed. The combined carrying value of the idle DC-8 aircraft was \$1.1 million at September 30, 2010.

Aircraft and Engines Held For Sale

The DHL ACMI agreement granted ABX certain rights to put to DHL any aircraft that was removed from service prior to the expiration of the ACMI. In May 2010, DHL paid the Company \$29.7 million for the carrying value of the five Boeing 767 non-standard freighter aircraft and the 26 DC-9 aircraft previously put to DHL. In conjunction with the termination of the DHL ACMI agreement, effective March 31, 2010, ABX no longer has the right to put aircraft to DHL.

Gains or losses from the sale of aircraft and spare engines are recorded in other operating expenses on the statement of earnings.

NOTE H—DEBT OBLIGATIONS

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

	September 30, 2010	December 31, 2009
Unsubordinated term loan	\$ 183,563	\$ 200,250
Revolving credit facility	—	18,500
Aircraft loans	94,047	99,759
Capital lease obligations-Boeing 727	7,353	12,421
Promissory note due to DHL, unsecured	27,900	46,000
Other capital leases	280	497
Total long-term obligations	313,143	377,427
Less: current portion	(36,112)	(51,737)
Total long-term obligations, net	<u>\$ 277,031</u>	<u>\$ 325,690</u>

The Company has a credit agreement with a consortium of lenders that provides for a \$75.0 million revolving credit facility and an unsubordinated term loan through December 2012 (“Credit Agreement”). 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 September 30, 2010, the unsubordinated term loan bears a variable interest rate of LIBOR (90-day) plus 2.63% (2.92% at September 30, 2010). The Credit Agreement provides for the issuance of letters of credit on the Company’s behalf. As of September 30, 2010, the unused revolving credit facility totaled \$60.1 million, net of outstanding letters of credit of \$14.9 million.

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. Capital lease obligations for six Boeing 727 aircraft carry a fixed implicit rate of 6.50% and expire between 2010 and 2012.

The promissory note due to DHL becomes due in August 2028 as a balloon payment. 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 through the term of the DHL CMI agreement. Beginning April 1, 2010 and extending through the term of the DHL CMI agreement, the balance of the note is amortized ratably without payment as revenue, in exchange for services provided and thus is expected to be completely amortized by April 2015.

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 Agreement, 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. The Company is restricted from paying dividends on its common stock in excess of \$50.0 million during any calendar year under the provisions of the Credit Agreement.

NOTE I—COMMITMENTS AND CONTINGENCIES

Leases

The Company leases portions of the air park in Wilmington, Ohio under a lease agreement with a regional port authority, the term of which expires in May of 2019.

Commitments

In September 2008, CAM entered into an agreement with Israel Aerospace Industries Ltd. (“IAI”) for the conversion of up to fourteen Boeing 767-200 passenger door freighters to a standard freighter configuration. The conversion primarily consists of the installation of a standard cargo door and loading system. Through September 30, 2010, eight such aircraft have completed the modification process. If CAM were to cancel the conversion program as of September 30, 2010, it would owe IAI, in addition to payments for aircraft currently undergoing modification, approximately \$8.0 million associated with additional conversion part kits which have been ordered.

In May 2010, CAM entered into a purchase agreement for three passenger-configured Boeing 767-300 ER aircraft, each equipped with General Electric CF6-80C2-B6 engines. On August 6, 2010, CAM entered into an agreement with M&B Conversions Limited and IAI for the conversion by IAI of the three Boeing 767-300 series passenger aircraft to a full freighter configuration. The agreement includes an option to convert up to seven additional Boeing 767-300 series passenger aircraft during the 10-year term of the agreement. The Company plans to modify the aircraft into standard freighter configurations. If CAM were to cancel the conversion program as of September 30, 2010, it would owe IAI approximately \$2.3 million associated with additional conversion part kits which have been ordered.

In October 2010, CAM entered an agreement with Precision Conversions, LLC (“Precision”) for the design, engineering and certification of a Boeing 757 combi aircraft variant. The Boeing 757 combi variant to be developed by Precision will incorporate 10 full cargo pallet positions along with passenger seating for up to 58 occupants. CAM is committed to convert at least two Boeing 757 aircraft with Precision.

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 August 2003. The filing was initially made in mid-July of 2003 and thereafter updated in April of 2005, September of 2007, December of 2007 and March of 2010 with respect to subsequent events relevant to the DOT’s analysis, including the reorganization of ABX under a holding company structure and the acquisition of Cargo Holdings International, Inc. 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. In the event the DOT were to identify any concerns and ABX was unable to address those concerns to the satisfaction of the DOT, the DOT could seek to suspend, modify or revoke ABX’s air carrier certificate and other authorizations, and this would materially and adversely affect the business.

Civil Action Alleging Violations of Immigration Laws

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

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

FAA Enforcement Actions

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

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

Other

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

Employees Subject to Collective Bargaining Agreements

As of September 30, 2010, the flight crewmembers of ABX, ATI and CCIA were represented by the labor unions listed below:

<u>Airline</u>	<u>Labor Agreement Unit</u>	<u>Contract Amendable Date</u>	<u>Percentage of the Company’s Employees</u>
ABX	International Brotherhood of Teamsters	12/31/2014	11.8%
ATI	Airline Pilots Association	5/1/2004	10.4%
CCIA	Airline Pilots Association	7/31/2013	6.3%

NOTE J—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 costs for its qualified defined benefit pension and post-retirement healthcare plans for both continuing and discontinued operations are as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Plans		Post-retirement Healthcare Plan		Pension Plans		Post-retirement Healthcare Plan	
	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	\$ —	\$ 3,372	\$ 59	\$163	\$ 2,286	\$ 10,312	\$ 280	\$ 489
Interest cost	9,169	9,415	146	427	27,508	28,278	654	1,281
Expected return on plan assets	(8,900)	(7,389)	—	—	(26,700)	(21,598)	—	—
Curtailement loss	—	1,365	—	—	—	3,192	—	—
Amortization of prior service cost	—	486	(1,250)	—	—	1,724	(2,917)	—
Amortization of net loss	517	7,142	104	—	1,551	22,966	259	—
Net periodic benefit cost	<u>\$ 786</u>	<u>\$14,391</u>	<u>\$ (941)</u>	<u>\$590</u>	<u>\$ 4,645</u>	<u>\$ 44,874</u>	<u>\$(1,724)</u>	<u>\$1,770</u>

During 2009, the Company amended each defined benefit pension plan to freeze the accrual of additional benefits. These freezes took effect on December 31, 2009 and April 1, 2010. During 2010, the Company modified the post-retirement health care plan for crewmembers of ABX. Instead of a life-time benefit, benefits for covered individuals will terminate upon reaching age 65 under the modified post-retirement health care plan. As a result, the Company's liabilities for post-retirement healthcare benefits declined by \$22.0 million and other accumulated comprehensive loss, net of tax effects of \$8.0 million, decreased by \$14.0 million.

During the three and nine month periods ended September 30, 2010, the Company paid \$5.9 million and \$36.4 million of contributions to its defined benefit pension plans, respectively.

NOTE K—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 original 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. There is no ineffective portion of the derivatives.

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

Expiration Date	Stated Interest Rate	September 30,		December 31,	
		2010	Market Value (Liability)	2009	Market Value (Liability)
12/31/2012	3.105%	\$70,125	\$(3,477)	\$76,500	\$(2,336)
12/31/2012	3.105%	41,250	(2,044)	45,000	(1,379)

At September 30, 2010, accumulated other comprehensive loss included unrecognized losses of \$3.3 million, net of income tax, for derivative instruments.

NOTE L—COMPREHENSIVE INCOME

Comprehensive income includes the following transactions for the three and nine month periods ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Before Tax	Income Tax (Expense) Benefit	Net of Tax	Before Tax	Income Tax (Expense) Benefit	Net of Tax
2010						
Net earnings			\$ 11,158			\$27,995
Other comprehensive income:						
Post-retirement liabilities negative prior service cost	\$ —	\$ —	—	\$ 22,014	\$ (7,991)	14,023
Unrealized loss on hedge derivatives	(477)	173	(304)	(1,806)	656	(1,150)
Reclassifications to net income:						
Hedging gain realized in net income	(26)	9	(17)	(80)	29	(51)
Pension actuarial loss	517	(188)	329	1,551	(564)	987
Post-retirement actuarial loss	92	(32)	60	222	(79)	143
Post-retirement negative prior service cost	(1,250)	454	(796)	(2,917)	1,059	(1,858)
Total other comprehensive income (loss)	<u>\$ (1,144)</u>	<u>\$ 416</u>	<u>(728)</u>	<u>\$ 18,984</u>	<u>\$ (6,890)</u>	<u>12,094</u>
Comprehensive income			<u>\$ 10,430</u>			<u>\$40,089</u>
2009						
Net earnings			\$ 3,737			\$22,941
Other comprehensive income:						
Actuarial gain for pension liabilities	\$ 18,914	\$ (6,866)	12,048	\$ 37,609	\$ (13,652)	23,957
Unrealized gain on marketable securities	—	—	—	—	20	20
Unrealized gain on hedge derivatives	(984)	357	(627)	1,176	(427)	749
Reclassifications to net income:						
Hedging gain realized in net income	(28)	10	(18)	(86)	31	(55)
Pension actuarial loss	7,142	(2,592)	4,550	22,966	(8,337)	14,629
Post-retirement actuarial gain	(14)	5	(9)	(40)	15	(25)
Pension prior service cost	486	(177)	309	1,724	(626)	1,098
Total other comprehensive income	<u>\$ 25,516</u>	<u>\$ (9,263)</u>	<u>16,253</u>	<u>\$ 63,349</u>	<u>\$ (22,976)</u>	<u>40,373</u>
Comprehensive income			<u>\$ 19,990</u>			<u>\$63,314</u>

NOTE M—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 based on the Company's average return on equity or investment capital, depending on the form of award, during the service period. Similarly, the market condition awards will be converted into a number of shares depending on the appreciation of the Company's stock compared to the NASDAQ Transportation Index. Board members were granted time-based awards with approximately a six-month vesting period, which will settle when the board member ceases to be a director of the Company. The Company expects to settle all of the stock unit awards by issuing new shares of stock. The table below summarizes award activity.

	Nine Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
	Target number of shares	Weighted average grant date value	Target number of shares	Weighted average grant date value
Outstanding at beginning of period	1,505,550	\$ 3.07	1,667,100	\$ 4.24
Granted	804,400	4.37	295,200	0.93
Converted	(27,539)	9.20	(60,974)	6.63
Cancelled	(104,611)	5.33	(174,426)	4.98
Outstanding at end of period	<u>2,177,800</u>	\$ 3.37	<u>1,726,900</u>	\$ 3.52
Vested	326,400	\$ 3.71	161,200	\$ 5.23

The grant-date fair value of each performance condition award, non-vested restricted stock award and time-based award granted by the Company in 2010 was \$4.00, the value of the Company's stock on the grant date. The grant-date fair value for each market condition award granted in 2010 was \$5.60. The market condition awards were valued using a Monte Carlo simulation technique, a risk-free interest rate of 1.74%, a term of 36 months, and a volatility of 125.3% based on historical volatility over three years using daily stock prices.

For the nine month periods ended September 30, 2010 and 2009, the Company recorded expense of \$1.2 million and \$1.0 million, respectively, for stock incentive awards. At September 30, 2010, there was \$2.9 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.6 years. None of the awards were convertible, and none of the outstanding shares of restricted stock had vested as of September 30, 2010. These awards could result in a maximum number of 2,621,100 additional outstanding shares of the Company's common stock depending on service, performance and market results through December 31, 2012.

NOTE N—EARNINGS PER SHARE

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net earnings from continuing operations	\$11,388	\$ 2,855	\$28,053	\$17,890
Weighted average shares outstanding for basic earnings per share	62,811	62,685	62,805	62,670
Common equivalent shares:				
Effect of stock-based compensation awards	1,391	1,046	1,271	511
Weighted average shares outstanding assuming dilution	<u>64,202</u>	<u>63,731</u>	<u>64,076</u>	<u>63,181</u>
Basic earnings per share from continuing operations	\$ 0.18	\$ 0.05	\$ 0.45	\$ 0.29
Diluted earnings per share from continuing operations	<u>\$ 0.18</u>	<u>\$ 0.05</u>	<u>\$ 0.44</u>	<u>\$ 0.28</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, was zero at September 30, 2010 and approximately 14,000 at September 30, 2009.

NOTE O—SEGMENT INFORMATION

The Company operates in two reportable segments, as described below. The CAM segment consists of the Company's aircraft leasing operations and its segment earnings includes an allocation of interest expense based on aircraft values. The ACMI Services segment consists of the Company's airline operations including the CMI, the ACMI and charter service agreements that the Company provides to customers. The Company's other activities, which include contracts with the USPS, the sale of aircraft parts and maintenance services, management services for workers compensation, logistics services and fuel management, do not constitute reportable segments and are combined in "All other" with inter-segment profit eliminations. Inter-segment revenues are valued at arms-length, market rates. Cash, cash equivalents and deferred tax assets are reflected in Assets – All other below. Beginning in the second quarter of 2010, the Company and DHL terminated the DHL ACMI agreement and executed new follow-on agreements. Due to the similarities among the Company's airline operations, including the new airline service agreement with DHL, the airline operations have been aggregated into a single reportable segment. The segment information has been updated to retrospectively reflect the aggregation of the formerly reported DHL segment with the ACMI Services segment. The Company's segment information for continuing operations is presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Total revenues:				
CAM Leasing	\$ 28,559	\$ 16,046	\$ 71,176	\$ 43,715
ACMI Services	142,717	160,292	428,244	534,854
All other	23,040	17,838	63,188	42,829
Eliminate Inter-segment revenues	(26,590)	(19,974)	(73,827)	(48,425)
Total	<u>\$ 167,726</u>	<u>\$ 174,202</u>	<u>\$488,781</u>	<u>\$572,973</u>
Customer revenues				
CAM Leasing	\$ 14,384	\$ 3,159	\$ 28,735	\$ 7,636
ACMI Services	142,586	160,247	427,995	534,565
All other	10,756	10,796	32,051	30,772
Total	<u>\$ 167,726</u>	<u>\$ 174,202</u>	<u>\$488,781</u>	<u>\$572,973</u>
Depreciation and amortization expense:				
CAM Leasing	\$ 11,515	\$ 5,734	\$ 28,669	\$ 15,862
ACMI Services	11,197	13,970	36,365	45,794
All other	46	250	276	698
Total	<u>\$ 22,758</u>	<u>\$ 19,954</u>	<u>\$ 65,310</u>	<u>\$ 62,354</u>
Segment earnings:				
CAM Leasing	\$ 11,991	\$ 6,115	\$ 28,282	\$ 16,696
ACMI Services	3,448	1,003	14,918	15,278
Net unallocated interest expense	(1,893)	(2,611)	(5,448)	(7,201)
All other	3,124	140	5,600	2,939
Total pretax earnings from continuing operations	<u>\$ 16,670</u>	<u>\$ 4,647</u>	<u>\$ 43,352</u>	<u>\$ 27,712</u>
	September 30,	December 31,		
	2010	2009		
Assets:				
CAM Leasing	\$ 538,092	\$ 351,172		
ACMI Services	264,540	482,976		
Discontinued operations	8,229	21,587		
All other	107,481	147,038		
Total	<u>\$ 918,342</u>	<u>\$1,002,773</u>		

CAM Leasing's interest expense was \$2.3 million and \$7.2 million for the three and nine month periods ending September 30, 2010, respectively, compared to \$2.3 million and \$7.9 million for the corresponding periods of 2009.

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, 2009.

BACKGROUND

Air Transport Services Group, Inc. ("ATSG") is a holding company whose principal subsidiaries include an aircraft leasing company, Cargo Aircraft Management, Inc. ("CAM") and three independently certificated airlines, ABX Air, Inc. ("ABX"), Capital Cargo International Airlines, Inc. ("CCIA"), and Air Transport International, LLC ("ATI"). 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, through ABX, has had long term contracts with DHL Network Operations (USA), Inc. and its affiliates, which are collectively referred to as "DHL," since August 16, 2003. DHL, an international, integrated delivery company, is the Company's largest customer. In March 2010, the Company and DHL executed new follow-on agreements, effective March 31, 2010. The new agreements separate CAM's lease of freighter aircraft to DHL from the maintenance and operation of those aircraft on behalf of DHL. DHL committed to lease 13 Boeing 767 freighter aircraft from CAM and ABX has been contracted to operate those aircraft for DHL under a separate crew, maintenance and insurance ("CMI") agreement. The CMI agreement is not based on a cost-plus pricing arrangement, but instead pricing is based on a pre-defined fee, scaled for the number of aircraft operated and the number of flight crews provided to DHL for its U.S. network. The initial term of the CMI agreement is five years, while the term of the aircraft leases are seven years, with early termination provisions. Until CAM completes the aircraft modification process for the 13 aircraft committed to DHL, ABX will operate its own Boeing 767 aircraft as bridging aircraft for DHL under short term, month-to-month arrangements under economic terms similar to those under the lease agreements for the 13 aircraft. Prior to the new, follow-on agreements, ABX provided flight crews, maintenance and aircraft to DHL under an aircraft, crew, maintenance and insurance agreement ("DHL ACMI agreement") which compensated ABX on a cost-plus mark-up basis.

The new follow-on agreements with DHL commenced March 31, 2010. Due to the similarities among the Company's airline operations, including the new airline service agreement with DHL, the airline operations have been combined into a single reportable segment. The segment information has been updated to retrospectively reflect the aggregation of the former DHL segment with the ACMI Services segment.

SEGMENTS

The Company has two reportable segments: CAM Leasing and ACMI Services which are discussed below. A summary of our revenues and segment earnings from continuing operations is shown below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
CAM Leasing	\$ 28,559	\$ 16,046	\$ 71,176	\$ 43,715
ACMI Services				
Airline services	102,366	127,349	325,826	425,205
Reimbursable expenses	40,351	32,943	102,418	109,649
Total ACMI Services	142,717	160,292	428,244	534,854
Other Activities	23,040	17,838	63,188	42,829
Total Revenues	194,316	194,176	562,608	621,398
Eliminate internal revenues	(26,590)	(19,974)	(73,827)	(48,425)
Customer Revenues	<u>\$167,726</u>	<u>\$174,202</u>	<u>\$488,781</u>	<u>\$572,973</u>
Pre-tax Earnings from Continuing Operations:				
CAM, inclusive of interest expense	\$ 11,991	\$ 6,115	\$ 28,282	\$ 16,696
ACMI Services	3,448	1,003	14,918	15,278
Other Activities	3,124	140	5,600	2,939
Net, unallocated interest expense	(1,893)	(2,611)	(5,448)	(7,201)
Total Pre-tax Earnings	<u>\$ 16,670</u>	<u>\$ 4,647</u>	<u>\$ 43,352</u>	<u>\$ 27,712</u>

CAM Leasing

Since September 30, 2009, CAM has completed the modification of eight Boeing 767-200 aircraft into standard cargo configuration and acquired eight other Boeing 767-200 aircraft in standard cargo configuration from ABX. CAM had 56 aircraft that were under lease as of September 30, 2010, 40 of them to ABX, ATI and CCIA.

CAM's revenues for the third quarter and first nine months of 2010 included \$14.4 million and \$28.7 million, respectively, for the leasing of aircraft and related services to external customers, compared to \$3.2 million and \$7.6 million for the corresponding periods in 2009. In April 2010, as part of the follow-on agreements with DHL, CAM placed seven Boeing 767-200 aircraft under lease with DHL. By the end of the third quarter of 2010, CAM leased four more Boeing 767-200 aircraft to DHL. At this time, CAM does not have all 13 Boeing 767 freighter aircraft available for lease to DHL. Accordingly, ABX is operating its aircraft for DHL under short term, month-to-month bridging arrangements with economic terms similar to the leases for the 13 aircraft until CAM completes the aircraft modification process in 2011 for the remaining two Boeing 767-200 aircraft committed to DHL. In addition to the eleven leases with DHL in 2010, CAM placed two Boeing 767-200 aircraft under lease to a Florida based operator in February 2010 and in July 2010, bringing the total number of external aircraft leases to 16.

Pre-tax segment earnings from CAM were \$12.0 million and \$28.3 million for the third quarter and first nine months of 2010, respectively, compared to \$6.1 million and \$16.7 million for the corresponding periods of 2009. The increase in pre-tax earnings reflects sixteen additional aircraft that CAM has placed in service since September 30, 2009. CAM's results reflect an allocation of overhead expenses and interest expense based on the Company's external interest rates and the carrying value of its operating assets. CAM's interest expense was \$2.3 million and \$7.2 million for the third quarter and first nine months of 2010, respectively, compared to \$2.3 million and \$7.9 million for the corresponding periods of 2009.

ACMI Services

Through its three airline subsidiaries, the Company provides airlift to other airlines, freight forwarders and the U.S. Military. In addition to DHL, BAX Global, Inc. (“BAX/Schenker”) is a significant customer with airline operating agreements with CCIA and ATI. At September 30, 2010, ACMI Services included 45 in-service aircraft which the Company owned or operated under capital leases. Additionally, ACMI Services included the operation of eleven freighter aircraft by ABX for DHL under the CMI agreement during the third quarter of 2010. During the third quarter of 2010, ATI leased its third Boeing 767-200 cargo aircraft while CCIA redeployed two of its leased Boeing 727 aircraft that had been temporarily unassigned. ABX returned one of its leased Boeing 767-200’s to CAM, who released the aircraft to an external customer under a seven year agreement.

ACMI Services revenues were \$142.7 million and \$428.2 million during the third quarter and first nine months of 2010, respectively, declining \$17.6 million and \$106.6 million for the corresponding periods in 2009. Revenues generated from DHL’s U.S. network declined \$33.2 million and \$155.7 million compared to the third quarter and first nine months of 2009, when those revenues included the reimbursement of employee severance and retention benefits, the reimbursement of aircraft depreciation expense and compensation for a larger U.S. network capacity from DHL. Under a severance and retention agreement (“S&R agreement”) which was terminated on March 31, 2010, DHL was obligated to reimburse ABX for the cost of employee severance, retention, productivity bonuses and vacation benefits paid in accordance with the agreement. The reduction in revenues includes a reduction in the reimbursement of severance and retention benefits since 2009 when ABX experienced significant employee terminations. The decline in DHL revenues was partially offset by increased block hours flown for customers in Europe, Asia Pacific and the Caribbean. Block hours increased 6% and 8% to 23,108 hours and 67,268 hours during the third quarter and first nine months of 2010 compared to 2009. ACMI Services revenues also included additional crews that ABX added during the third quarter of 2010 to prepare for additional customer aircraft operations scheduled to begin in October of 2010. ACMI Services results included revenues of \$2.3 million and \$10.4 million from bridging aircraft that ABX supplied to DHL during the third quarter and first nine months of 2010, respectively, compared to \$3.8 million and \$8.2 million for aircraft supplied to DHL under short-term supplemental agreements during the corresponding periods in 2009.

The pre-tax earnings for ACMI Services were \$3.4 million for the third quarter of 2010, compared to pre-tax earnings of \$1.0 million during the same period of 2009. Higher pre-tax earnings reflect improved profits from ABX’s transatlantic operation for TNT Airways SA and increased block hours. In January 2010, ABX terminated a scheduled transatlantic service and replaced that block space agreement with a conventional ACMI agreement which contributed positively to the segment’s earnings during 2010. These improvements were partially offset by increased crew training costs, lower performance incentive revenues and higher aircraft maintenance expenses among the ATSG airlines during the third quarter of 2010. Maintenance expense not specifically reimbursed under contractual provisions increased approximately \$3.3 million during the third quarter of 2010 compared to the same period of 2009. Non-reimbursed maintenance expenses increased due to premature engine and component failures as well as extra planned maintenance tasks with the intent of improving aircraft performance for future periods. Management expects the Boeing 727 and Boeing 757 aircraft to perform more reliably over the coming months as a result of the additional maintenance tasks performed during the third quarter of 2010. The costs of training flight crews increased in the third quarter of 2010 as CCIA redeployed two Boeing 727 aircraft that were temporarily unassigned and ATI added a third Boeing 767 aircraft and prepared to add a DC-8 for BAX/Schenker in the fourth quarter of 2010.

The pre-tax earnings for ACMI Services were \$14.9 million for first nine months of 2010, compared to pre-tax earnings of \$15.3 million during the corresponding period of 2009. Lower pre-tax earnings for 2010 reflect the changes in the DHL contractual arrangements, higher aircraft maintenance costs in the third quarter and increased operating expenses for the BAX/Schenker network, offset by the improved results from ABX’s transatlantic operation. Pretax earnings for the first nine months of 2010 included \$3.5 million related to vacation earned as a result of the S&R agreement with DHL compared to \$4.5 million in the first nine months of 2009. (The S&R agreement was terminated in March 2010.) CCIA’s Boeing 727 aircraft scheduled in the BAX/Schenker network have been assigned to operate on a greater number of multi-stop routes than during 2009, which negatively impacted reliability and increased the costs of operating those aircraft.

Beginning in November 2010, ABX expects to begin leasing a Boeing 767-300 aircraft from an external lessor for a 45 month period. ABX has an ACMI agreement to operate the aircraft for DHL on a transatlantic flight beginning in November 2010. Also in November 2010, ABX began to operate one of its Boeing 767-200 aircraft in Asia under an agreement with Japan Airlines International Co., Ltd. and DHL. Additionally, during October 2010, ABX began to operate one additional Boeing 767 aircraft that is owned by DHL. DHL has requested ABX to operate two additional DHL-owned Boeing 767-200 aircraft beginning in the first quarter of 2011 and we anticipate that DHL will request ABX to operate a fourth DHL-owned Boeing 767-200 aircraft in 2011. Each DHL-owned aircraft will generate a pre-negotiated monthly service fee.

Aircraft Fleet

The Company's aircraft fleet is summarized below as of September 30, 2010 (\$ in thousands).

	ACMI Services	CAM Leasing (External)	Total
In-service aircraft			
Aircraft owned or under capital lease			
Boeing 767-200	16	17	33
Boeing 757	2	—	2
Boeing 727	12	—	12
DC-8	15	—	15
Total	45	17	62
Carrying value			\$572,992
Operating lease			
Boeing 727	1	—	1
Aircraft in freighter modification			
Boeing 767-300	—	1	1
Carrying value			\$ 10,177
Idle aircraft (not scheduled for revenue)			
Aircraft owned or under capital lease			
DC-8	3	—	3
Boeing 767-200	—	4	4
Boeing 767-300	—	2	2
Carrying value			\$ 28,268

At September 30, 2010, ACMI Services had three DC-8 airframes whose engines and rotables were being used for other aircraft in the Company's fleets. The spare airframes can be reactivated as needed. At September 30, 2010, CAM has four Boeing 767-200 aircraft and two Boeing 767-300 aircraft that were not in service, but are scheduled to enter the freighter modification process.

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 provides equipment leasing and facility maintenance, as well as specialized services for aircraft fuel management and freight logistics. Other activities also include the management of workers’ compensation claims under an agreement with DHL and gains from the reduction to employee post-retirement obligations. These other business activities do not constitute reportable segments. Prior to April 1, 2010, other activities included an allocation of ABX’s overhead expenses that could not be charged to DHL under the former cost-plus agreements. In September and October of 2010, the USPS renewed the Company’s operating agreements for each of the three sorting facilities. The renewed agreements were extended through September and October 2012 at substantially the same terms.

External customer revenues from all other activities remained even and increased \$1.3 million in the third quarter and first nine months of 2010, respectively, compared to the corresponding periods in 2009. Increased revenues were primarily a result of an increase in aircraft and facility maintenance services when compared to 2009.

The pre-tax earnings from all other activities were \$3.1 million and \$5.6 million for the third quarter and first nine months of 2010, respectively, compared to \$0.1 million and \$2.9 million for the corresponding periods of 2009. The increase in pre-tax earnings of \$3.0 million for the third quarter of 2010 reflects increased revenues from aircraft maintenance and modification services, gains from the reduction to employee post-retirement obligations and lower overhead costs compared to the third quarter of 2009. Pre-tax earnings for the first nine months of 2010 increased by \$2.7 million compared to the corresponding 2009 period, which included additional gains from the sale of spare aircraft and engines which were not as significant in 2010.

Discontinued Operations

Pre-tax results from discontinued DHL operations were a \$0.4 million loss and a \$0.1 million loss during the third quarter and first nine months of 2010, respectively, compared to earnings of \$1.4 million and \$8.0 million for the corresponding periods of 2009. The declines reflect the discontinuance of sorting operations for DHL in the third quarter of 2009. Pre-tax earnings from the discontinued DHL operations for the third quarter and first nine months of 2009 were \$1.4 million and \$5.4 million, respectively, from contractual cost mark-ups. Pre-tax earnings for the first quarter of 2009 included \$2.6 million for the reimbursement from DHL of employee vacation benefits that ABX paid to terminated employees under the S&R agreement. During 2010, ABX has provided certain transitional services to DHL which are expected to cease before the end of 2010. Pre-tax earnings from the discontinued DHL operations for the first nine months of 2010 included \$0.6 million from the reimbursement from DHL of employee vacation benefits. The costs of discontinued operations for the first nine months of 2010 also included pension expenses for former employees that supported the sorting operations and medical costs in excess of initially estimated accruals for former employees under severance benefit plans or COBRA.

RESULTS OF OPERATIONS

Consolidated net earnings from continuing operations increased \$8.5 million and \$10.2 million for the third quarter and first nine months of 2010, respectively, compared to the corresponding periods of 2009. Improved earnings were driven by CAM Leasing. CAM Leasing’s pre-tax earnings increased by \$5.9 million and \$11.6 million during the third quarter and first nine months of 2010, respectively, compared to the corresponding 2009 periods, reflecting the lease of thirteen additional Boeing 767 aircraft to external lessees since September 2009, including eleven aircraft leases initiated with DHL since March 2010. Pre-tax earnings from ACMI Services improved by \$2.4 million for the third quarter of 2010 and declined by \$0.4 million for the first nine months of 2010, respectively, compared to the corresponding periods of 2009. The increased ACMI Services results for the third quarter were a result of additional block hours and the improvement of ABX’s transatlantic operation for TNT Airways S.A. which was restructured as a conventional ACMI agreement in early 2010. The decline in ACMI Services for the first nine months of 2010 compared to 2009, reflects the shift of revenues to CAM for DHL aircraft leases starting April 1, 2010, higher aircraft maintenance expenses and a reduction of \$1.0 million in earnings for the first quarter of 2010 from the S&R agreement, offset by the improved profitability of the transatlantic operations.

Salaries, wages and benefits expense decreased 45% and 50% during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. During the first quarter of 2009, this expense line included significant amounts for employee severance and retention benefits. Due primarily to the DHL restructuring, headcount, excluding headcount associated with discontinued operations, declined approximately 21% as of September 30, 2010 compared to March 31, 2009.

Fuel expense increased \$6.7 million and \$22.6 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. The increase reflects the increase in the average price of aviation fuel compared to the third quarter and first nine months of 2009. The average price of a gallon of aviation fuel increased 28% and 35% in the third quarter and first nine months of 2010, respectively, compared to the corresponding periods of 2009.

Maintenance, materials and repairs increased \$7.2 million and \$8.8 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. The increase in maintenance expense included an increase in aircraft C-check expenses during 2010 compared to 2009 of \$4.1 million and \$5.8 million for the three and nine month periods ended September 30, 2010, respectively. These C-check expenses were reimbursed to ABX by DHL under the CMI and former ACMI agreements. The increase in maintenance expenses for the third quarter of 2010 also includes additional aircraft maintenance procedures by CCIA with the intent of improving the recent on-time reliability level of the Boeing 727 and Boeing 757 aircraft. The increase in maintenance expenses also reflects the increased cost to support the growth in block hours flown since the corresponding periods of 2009 and the higher maintenance cost for Boeing 727 aircraft operating in the BAX/Schenker network. CCIA's Boeing 727 aircraft scheduled in the BAX/Schenker network have been assigned to operate on a greater number of multi-stop routes compared to 2009, which negatively impacted reliability and increased the costs of operating those aircraft.

Depreciation and amortization expense increased \$2.8 million and \$3.0 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. Depreciation expense increased primarily due to the deployment of eight modified Boeing 767-200 aircraft since September of 2009.

Landing and ramp expense, which includes the cost of deicing chemicals, decreased \$0.4 million and \$5.0 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. The decrease is a result of DHL's removal of aircraft from service in conjunction with its U.S. restructuring plan during the first quarter of 2009.

Travel expense increased \$0.1 million and \$0.5 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. The increase is a result of additional crew training and increased block hours, particularly in the Europe and Asia-Pacific regions.

Rent expense from continuing operations increased \$2.3 million and \$5.2 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. The increase reflects a change in the allocation of expense for the Wilmington, Ohio facility due to the closure of the sorting operations in July 2009, and an increase in the rental rates for the Wilmington facility in conjunction with a new lease agreement for the facility executed with a regional port authority in May 2010.

Insurance expense decreased \$0.6 million and \$1.2 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. The decline in insurance expense primarily reflects the transition to a Company-insured employee medical coverage plan from a third party insurance plan for certain employee groups. Company insured medical expenses are recorded in salaries, wages and benefits.

Other operating expenses include professional fees, utilities, the cost of parts sold to customers and gains from the sale of aircraft and spare engines. Other operating expenses decreased \$1.9 million for the third quarter of 2010 compared to the third quarter of 2009 due to a lower volume of parts sales and a lower level of external professional fees incurred since 2009 to support the DHL wind-down. For the nine month periods ended September 30, 2010 and 2009, respectively, other operating expenses remained unchanged. The declines in cost of parts sold and professional fees incurred during 2010 were offset by declines in gains from the sale and disposal of spare equipment compared to the 2009 periods.

Interest expense decreased \$1.6 million and \$6.6 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009. The decline in interest expense reflects the reduction in the Company's debt since March 2009 and lower interest rates. Interest rates on the Company's variable interest, unsubordinated term loan decreased from 4.2% in the first quarter of 2009 to 2.9% for the third quarter of 2010, while interest bearing debt decreased \$92.8 million since September 30, 2009.

Interest income remained even and decreased \$0.1 million during the three and nine month periods ended September 30, 2010, respectively, compared to the corresponding periods of 2009 due to lower short-term interest rates on our cash and cash equivalents.

The effective tax rate for continuing operations for the three and nine month periods ended September 30, 2010 was 31.7% and 35.3%, respectively, compared to 38.6% and 35.4% for the corresponding periods in 2009. The effective tax rate for the three months ended September 30, 2010 was reduced by the recording of a deferred tax benefit related to a previously unrecognized tax position under the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) Topic 740-10 Income Taxes. The expiration of the statute of limitations for this item resulted in a deferred tax benefit of \$0.4 million in the third quarter of 2010. Income taxes recorded through September 30, 2010 have been estimated based on year-to-date income and projected results for the full year, excluding discrete items. The effective tax rate for 2010 is projected to be approximately 35.9%.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash flows

Net cash generated from operating activities was \$81.7 million for the first nine months of 2010 compared to \$49.5 million in the first nine months of 2009. The increase in operating cash flows was primarily driven by the collection of receivables due from DHL.

In conjunction with the termination of the former operating agreements, DHL settled the open amounts that were payable to ABX. In April 2010, DHL reimbursed ABX for \$11.2 million of accrued vacation payments which ABX had previously paid to terminated employees. Additionally, in May 2010, DHL paid ABX its carrying value of \$29.7 million to complete the sale of aircraft that ABX previously put to DHL under provisions of the DHL ACMI agreement. We contributed \$36.4 million to our pension plans in the first nine months of 2010, including \$25.0 million contributed to the ABX flight crew member pension trust in conjunction with amending the ABX pilot collective bargaining agreement. We plan to contribute \$0.1 million more to ABX’s qualified defined benefit pension plans during the remainder of 2010.

Capital spending levels are primarily a result of aircraft modification costs for Boeing 767 aircraft. Cash payments for capital expenditures were \$90.7 million in the first nine months of 2010 compared to \$49.9 million in the first nine months of 2009. Capital expenditures in 2010 included acquisition and cargo modification costs for eight aircraft compared to six aircraft during the first nine months of 2009. Our capital expenditures for 2010 included \$65.2 million for aircraft modifications and acquisitions, \$22.0 million for required heavy maintenance and \$3.5 million for other equipment costs. We estimate the total level of capital spending for all of 2010 will be approximately \$114 million compared to \$101 million in 2009. Our estimated 2010 capital spending has been increased from \$102 million projected in our 2009 Form 10-K to reflect the Company’s acquisition and partial freighter conversion of three Boeing 767-300 aircraft. Actual capital spending for any future period will be impacted by progress in the aircraft modification process.

During the first nine months of 2010, the Company made principal payments of \$61.2 million, including \$18.5 million to pay down the outstanding balance of the revolving credit facility and \$15.0 million to DHL toward the balance of the promissory note with DHL, as previously agreed.

Commitments

In September 2008, CAM contracted with an aircraft maintenance and modification provider, IAI, to convert up to 14 Boeing 767-200 aircraft from passenger door loading systems to a standard freighter configuration. Through September 30, 2010, eight such aircraft have been converted. CAM has the right to convert up to six more Boeing 767-200 aircraft at IAI. If CAM were to cancel the conversion program as of September 30, 2010, it would owe IAI, approximately \$8.0 million associated with additional conversion part kits which have been ordered.

In May 2010, CAM entered into a purchase agreement for three passenger-configured Boeing 767-300 ER aircraft, each equipped with General Electric CF6-80C2-B6 engines. We plan to modify these aircraft into standard freighter configuration. On August 6, 2010, CAM entered into an agreement with M&B Conversions Limited and IAI for the conversion by IAI of the three Boeing 767-300 passenger aircraft. The agreement includes an option to convert up to seven additional Boeing 767-300 series passenger aircraft during the 10-year term of the agreement. When converted into standard freighters, the Boeing 767-300’s are expected to have a range of approximately 3,255 nautical miles, and a maximum payload of approximately 120,000 pounds. If CAM were to cancel the conversion program as of September 30, 2010, it would owe IAI approximately \$2.3 million associated with additional conversion part kits which have been ordered.

In October 2010, CAM entered an agreement with Precision Conversions, LLC (“Precision”) for the design, engineering and certification of a Boeing 757 combi aircraft variant. The Boeing 757 combi variant to be developed by Precision will incorporate 10 full cargo pallet positions along with passenger seating for up to 58 occupants. The Boeing 757 combi is intended to strategically position CAM to provide next-generation combi aircraft to complement and eventually replace, the four DC-8 combi aircraft CAM currently leases to ATI. CAM is committed to convert at least two Boeing 757 aircraft.

We estimate that over the next 15 month period ending December 31, 2011, capital expenditures for aircraft acquisitions and modifications could total \$160 million to \$190 million to complete six Boeing 767-200 aircraft, three Boeing 767-300 aircraft and two or three Boeing 757 aircraft. Actual capital spending for any future period will be impacted by the number of aircraft we decide to modify and the progress in the aircraft modification process. We expect to finance the aircraft purchases and modifications from current cash balances, future operating cash flow and existing credit facilities.

Liquidity and Capital Resources

At September 30, 2010, the Company had approximately \$44.5 million of cash balances. The Company had \$60.1 million of unused credit facility, net of outstanding letters of credit of \$14.9 million, through a syndicated Credit Agreement that expires in December 2012. As of September 30, 2010, DHL owes the Company \$13.9 million. Additionally, DHL is scheduled make two separate prepayments of \$11.4 million in March of 2011 and 2012. Beginning April 1, 2010 and extending through the term of the DHL CMI agreement, the \$27.9 million balance of the unsecured note payable to DHL is extinguished ratably without payment. We believe that the Company’s current cash balances and forecasted cash flows provided from its operating agreements, combined with its credit facility, will be sufficient to fund operations, scheduled debt payments, required pension funding and planned capital expenditures.

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

Revenues generated from airline service agreements are typically recognized based on hours flown or the amount of aircraft and crew resources provided during a reporting period. Certain agreements include provisions for incentive payments based upon on-time reliability. These incentives are typically measured on a monthly basis and recorded to revenue in the corresponding month earned. Revenues from charter service agreements 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 or technical services are recognized in the period in which the services are completed and delivered to the customer. Revenues derived from transporting freight and sorting parcels are recognized upon delivery of shipments and completion of services. Aircraft lease revenues are recognized as operating lease revenue on a straight-line basis over the term of the applicable lease agreements.

The Company’s revenues for 2009 and the first quarter of 2010 included reimbursement for expenses incurred under the former DHL ACMI agreement, the incremental mark-up revenues set by the DHL ACMI amendments and reimbursement for employee severance, retention, vacation and other benefit costs incurred during the period. Revenues from the former DHL ACMI agreement were generally determined based on expenses incurred during a period plus mark-ups and were recognized when the related services were performed. ABX and DHL amended the ACMI agreement to set mark-ups to specific quarterly amounts for 2009 and the first quarter of 2010. In 2008, ABX and DHL executed a severance and retention agreement (“S&R agreement”) which specified employee severance, retention and other benefits that DHL reimbursed to ABX for payment to its employees that were affected in conjunction with DHL’s U.S. restructuring plan. DHL was obligated to reimburse ABX for the cost of employee severance, retention, productivity bonuses and vacation benefits paid in accordance with the agreement.

Goodwill and Intangible Assets

In accordance with the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) Topic 350-20 *Intangibles – Goodwill and Other*, we will assess on an annual basis whether goodwill 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 customers’ air networks or changes in regulations grounding or limiting the use of aircraft.

Self-Insurance

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

Contingencies

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

Income Taxes

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

The Company has significant deferred tax assets including net operating loss carryforwards ("NOL CFs") for federal income tax purposes which begin to expire in 2024. 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 related to federal income taxes 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 Company amended each defined benefit pension plan to freeze the accrual of additional benefits.

The accounting and valuation for these post-retirement obligations are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long time period over which benefits will be accrued and paid. The long-term nature of these benefit payouts increases the sensitivity of certain estimates on our post-retirement costs. In actuarially valuing our pension obligations and determining related expense amounts, assumptions we consider most sensitive are discount rates and expected long-term investment returns on plan assets. Additionally, other assumptions concerning retirement ages, and mortality 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.

Discontinued Operations

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

Exit Activities

We account for the costs associated with exit activities in accordance with FASB ASC Topic 420-10 *Exit or Disposal Cost Obligations*. 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 FASB ASC Topic 715-30 *Compensation – Retirement 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

The Company is exposed to market risk for changes in interest rates and changes in the price of jet fuel. The risk associated with jet fuel, however, is largely mitigated by reimbursement through the agreements with our customers. To reduce the exposure to rising interest rates, we entered into interest rate swaps in January 2008. See Note K of the accompanying financial statements 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 2009 Annual Report on Form 10-K filed for the year ended December 31, 2009.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2010, 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 August of 2003. The filing was initially made in mid-July of 2003 and thereafter updated in April of 2005, September of 2007, December of 2007 and March of 2010 with respect to subsequent events relevant to the DOT’s analysis, including the reorganization of ABX under a holding company structure and the acquisition of Cargo Holdings International, Inc. 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. In the event the DOT were to identify any concerns and ABX was unable to address those concerns to the satisfaction of the DOT, the DOT could seek to suspend, modify or revoke ABX’s carrier certificate and other authorizations, and this would materially and adversely affect the business.

Civil Action Alleging Violations of Immigration Laws

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

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

FAA Enforcement Actions

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

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

Environmental Matters

The Ohio Environmental Protection Agency (“OEPA”) is contemplating a proceeding against DHL, in its capacity as the former owner of Wilmington Air Park (“ILN), and ABX, in its capacity as the permit holder for the stormwater treatment system at ILN, arising from the unauthorized discharge of stormwater from ILN on or about May 7, 2008, and seeking a monetary penalty in the amount of \$210,000. DHL has agreed to indemnify ABX for this matter under the terms of the Mutual Termination Agreement and Release, dated March 29, 2010, among DPWN Holdings (USA), Inc., DHL Network Operations (USA), Inc., DHL Express (USA), Inc., Air Transport Services Group, Inc. and ABX Air, Inc. DHL is currently holding discussions with the OEPA regarding this matter.

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 2009 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2010. Additional significant risks have been identified below.

Future results may be impacted by the on-time performance of the Company's aircraft operations.

ABX's CMI agreement with DHL, which became effective March 31, 2010, contains penalties if ABX's monthly on-time performance is below a certain level. If ABX's on-time reliability falls below a certain level for an extended period of time, DHL may declare a default under the CMI agreement. CCIA's and ATI's ACMI agreements with BAX/Schenker contain similar provisions.

Under provisions of the CMI and lease agreements with DHL, DHL can terminate the CMI or lease agreements subject to early termination provisions.

DHL may terminate the CMI agreement for convenience at any time during the initial five-year term (other than the first six-months thereof) on the date that it ceases operating or causing to be operated the aircraft on air routes for which the origin and destination are within the United States, subject to providing six months notice and paying to ABX a termination fee. DHL may terminate one or more of the aircraft leases for convenience at any time after the first 24 months of the respective terms thereof, upon providing six months notice and paying to CAM a lump sum amount equal to six months rent. DHL may also terminate one or more aircraft leases at any time after the first 54 months of the term of the CMI agreement, in the event that DHL desires to transfer operational control of such aircraft, but is restricted from doing so by the terms of the collective bargaining agreement between ABX and its pilots' union providing that members of the pilots' union have the right to follow the aircraft to another operator, subject to providing six months notice and paying to CAM a lump sum amount equal to two months rent.

Proposed rules from the U.S. Federal Aviation Administration would increase the Company's costs of flight operations and could reduce customers' utilization of airfreight.

In September 2010, the FAA proposed new rules for Flightcrew Member Duty and Rest Requirements (FMDRR). If implemented, the new rules would require a pilot to have nine hours for the opportunity to rest before reporting to flight duty and place other restrictions on the number of duty hours in particular time periods. If enacted, these rules could have a significant impact on ATSG airlines' costs of operation. The airlines would attempt to pass such additional costs onto their customers in the form of price increases. Customers, as a result, may seek to reduce the utilization of aircraft in favor of less expensive transportation alternatives. The ATSG airlines are each studying the proposed rules and evaluating the effect that the rules could have on their flight resources and costs.

Item 5. Other Information

On October 17, 2010, CAM entered into a letter agreement with Precision Conversions LLC pursuant to which Precision Conversions LLC will begin performing the design, engineering and certification work associated with the conversion of Boeing 757-200 series aircraft from a passenger to a combination passenger and freighter configuration. The letter agreement contemplates that the parties will seek to enter into a definitive agreement associated with the work on or before December 1, 2010, pursuant to which CAM will convert no less than three such aircraft to a combination passenger and freighter configuration, including an option for a fourth such aircraft. In the event that CAM terminates the letter agreement or if the parties do not come to terms on a definitive agreement, then CAM will be obligated to contract with Precision Conversions LLC for the conversion of two Boeing 757-200 series aircraft to a standard cargo configuration.

The Boeing 757-200 series combination passenger and freighter conversion will incorporate 10 full cargo pallet positions along with passenger seating for up to 58 occupants. The conversion is intended to strategically position CAM to provide next-generation combination passenger and freighter aircraft to complement and eventually replace the four DC-8 combination passenger and freighter aircraft that CAM currently leases to ATI. CAM paid an initial retainer to Precision to begin the design and engineering work, all or a portion of which would be credited against the cost to convert the aircraft to a combi configuration or, alternatively, to a standard freighter configuration. The conversion cost of the Boeing 757 aircraft is expected to range from \$7.0 million to \$9.0 million per combi aircraft or, alternatively, \$5.0 million per standard freighter aircraft.

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	Air Transportation Services Agreement between DHL Network Operations (USA), Inc. and ABX Air, Inc, dated March 29, 2010. ⁽¹⁾
10.2	Mutual Termination Agreement and Release, made among DPWN Holdings (USA), Inc., DHL Network Operations (USA), Inc., DHL Express (USA), Inc., Air Transport Services Group, Inc., and ABX Air, Inc., dated March 29, 2010. ⁽¹⁾
10.3	Second Amendment to Lease Assumption and Option Agreement and Exercise of Lease Option, between DHL Network Operations (USA), Inc. and ABX Air, Inc., dated March 29, 2010. ⁽¹⁾
10.4	Form of Time-Based Restricted Stock Award Agreement under Air Transport Services Group, Inc. 2005 Amended and Restated Long-Term Incentive Plan. ⁽²⁾
10.5	Form of Performance-Based Stock Unit Award Agreement under Air Transport Services Group, Inc. 2005 Amended and Restated Long-Term Incentive Plan. ⁽²⁾
10.6	Form of Restricted Stock Unit Award Agreement under Air Transport Services Group, Inc. 2005 Amended and Restated Long-Term Incentive Plan. ⁽²⁾
10.7	Aircraft Sale Agreements relating to three used Boeing 767-338ER aircraft between Cargo Aircraft Management, Inc. and Qantas Airways Limited. ⁽³⁾
10.8	Lease Agreement (Wilmington Airpark) between Clinton County Port Authority and Air Transport Services Group, Inc., dated June 2, 2010. ⁽⁴⁾
10.9	Air Transport Services Group, Inc. Executive Incentive Compensation Plan, last modified July 30, 2010. ⁽⁴⁾
10.10	Conversion Agreement dated August 3, 2010, between Cargo Aircraft Management, Inc., M&B Conversions Limited and Israel Aerospace Industries Ltd., filed herewith. Those portions of the Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

⁽¹⁾ Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2010. Those portions of the Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

⁽²⁾ Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2010.

⁽³⁾ Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2010. Those portions of the Agreement marked with an [*] have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC.

⁽⁴⁾ Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2010.

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: November 3, 2010

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Date: November 3, 2010

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

CONVERSION AGREEMENT

Dated August 3, 2010

PRIVATE & CONFIDENTIAL

CONVERSION AGREEMENT

CARGO AIRCRAFT MANAGEMENT, INC.

and

M&B CONVERSIONS LIMITED

and

ISRAEL AEROSPACE INDUSTRIES LTD.,

BEDEK AVIATION GROUP, AIRCRAFT DIVISION

M&B Conversions Limited Contract reference [●]

CAM Conversion Agreement

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

TABLE OF CONTENTS

CLAUSE 1.	DEFINITIONS AND INTERPRETATION
CLAUSE 2.	EFFECTIVE DATE
CLAUSE 3.	SCOPE OF STC SERVICES
CLAUSE 4.	SERVICES AND EXTRA WORK
CLAUSE 5.	DELIVERIES
CLAUSE 6.	CHANGES TO THE SERVICES
CLAUSE 7.	FUNCTIONAL CHECK FLIGHTS, ACCEPTANCE AND REDELIVERY
CLAUSE 8.	WEIGHT CHANGE
CLAUSE 9.	INFORMATION AND DOCUMENTATION TO BE PROVIDED BY SUPPLIER
CLAUSE 10.	SUPPLEMENTARY TYPE CERTIFICATION OF AIRCRAFT CONVERSION
CLAUSE 11.	PRICES AND TERMS OF PAYMENT
CLAUSE 12.	TIME AND EXCUSABLE DELAY
CLAUSE 13.	WARRANTIES
CLAUSE 14.	AFTER SALES SUPPORT SERVICES
CLAUSE 15.	LIABILITIES AND INDEMNITIES
CLAUSE 16.	INSURANCE OBLIGATIONS
CLAUSE 17.	DISPUTE RESOLUTION
CLAUSE 18.	CONFIDENTIAL INFORMATION
CLAUSE 19.	TERMINATION
CLAUSE 20.	MISCELLANEOUS

CAM Conversion Agreement

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CLAUSE 21.	GOVERNING LAW	
SCHEDULE 1	AIRCRAFT DESCRIPTION AND PROGRAM SCHEDULE	65
SCHEDULE 2	SPECIFICATION	1
SCHEDULE 3	CUSTOMER FURNISHED DOCUMENTATION AND EQUIPMENT	1
SCHEDULE 4	SUPPLIER FURNISHED DOCUMENTATION AND EQUIPMENT	5
SCHEDULE 5	FORM OF CERTIFICATE OF DELIVERY	6
SCHEDULE 6	FORM OF CERTIFICATE OF REDELIVERY	9
SCHEDULE 7	PRICES AND PAYMENT TERMS	11
SCHEDULE 8	WARRANTY	14
SCHEDULE 9	VARIATION PARTICULARS FORM	22
SCHEDULE 10	EXTRA WORK FORM	26
SCHEDULE 11	AIRCRAFT STATUS REPORT	

CAM Conversion Agreement

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CONVERSION AGREEMENT

THIS AGREEMENT is made on August 3, 2010

BETWEEN:

- (1) CARGO AIRCRAFT MANAGEMENT, INC., a company organized under the laws of the State of Florida, United States (“**Customer**”);
- (2) M&B CONVERSIONS LIMITED, a private company limited by shares registered in Ireland whose company registration number is 438873 and whose registered office is at unit 6, The Forum, 29/31 Glashule Road, Glashule Co. Dublin, Ireland (“**M&B**”); and
- (3) ISRAEL AEROSPACE INDUSTRIES LTD., BEDEK AVIATION GROUP, AIRCRAFT DIVISION, a company registered in the State of Israel with company registration number 52-002719-4 whose registered office is at Ben Gurion International Airport, 70100 Israel, as M&B’s prime sub-contractor (“**Supplier**”).

WHEREAS, M&B has contracted with Supplier for the development of, and Supplier has developed for M&B, certain FAA and EASA approved supplementary type certificates for the conversion of Boeing 767-300 passenger Aircraft to Special Freighter Configuration in conformance with the Specification; and

WHEREAS, Customer owns the Aircraft described in Schedule 1 (the “Firm Aircraft”) which it desires to have converted to Special Freighter Configuration and may in the future own up to seven more Aircraft (the “Option Aircraft”) which it may desire to have converted to Special Freighter Configuration pursuant to the provisions of this Agreement; and

WHEREAS, M&B is willing and able to provide conversion of such Aircraft under the terms and conditions contained in this Agreement; and

WHEREAS, Supplier is the holder of FAA and EASA repair station licences; and

WHEREAS, M&B desires to procure on behalf of Customer, and Supplier desires to perform as prime sub-contractor to M&B, conversion services, weight upgrades and after sales support services, all in relation to the Contract Aircraft under the terms and conditions contained in this Agreement.

CAM Conversion Agreement

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NOW THEREFORE, Customer, M&B, and Supplier (individually, a “**Party**”, and together, the “**Parties**”) agree as follows:

SECTION 1 DEFINITIONS AND INTERPRETATION

1.1 Capitalised terms used in this Agreement, and not specifically defined as so used, shall have the meanings given to them in this Clause 1.1:

“**After Sales Support Services**” shall have the meaning provided in Clause 14;

“**Agreement**” shall mean the recitals and Clauses of this agreement together with the Schedules annexes and appendices to it and any documents referred to in or attached to it;

“**Aircraft**” shall mean any Boeing 767-300ER wing series 5 aircraft;

“**Aircraft Condition Cause**” shall have the meaning provided at Clause 6.3(b)(ii);

“**Aircraft Operator**” shall mean the operator of a Contract Aircraft;

“**Aircraft Parking Charge**” shall mean Supplier’s or the operator of a Designated Site’s, as applicable, charge per day or part thereof for the parking of a Contract Aircraft at the Supplier Site, or another Designated Site, as applicable;

“**Aircraft Status Report**” shall have the meaning provided at Clause 4.7;

“**Airworthiness Directive**” or “**AD**” shall mean an airworthiness directive issued by the FAA or such equivalent requirement of the agreed Civil Aviation Authorities;

“**AOG Desk**” shall have the meaning provided at Clause 14.4(b);

“**BASA**” shall mean the agreement between the Government of the United States of America and the Government of Israel for the Promotion of Aviation Safety, dated December 19, 2000, also known as the Bilateral Aviation Safety Agreement, or

“**BASA executive agreement**”, as amended from time to time;

“**BASA IPA**” shall mean the FAA / CAAI implementation procedures authorised by Article III of the BASA, as amended from time to time;

“**Bay Day Rate**” shall mean Supplier’s or the operator of a Designated Site’s, as applicable, charge per day or part thereof for the occupation of an Aircraft of a bay within its hangar at Supplier Site, or at another Designated Site, as applicable;

“**Business Day**” shall mean, in respect of determinations at the Supplier Site, Sunday to Thursday, 8:00 am to 5:00 pm (local time at Supplier’s premises) in any week and in respect of all other determinations, Monday to Friday, 8:00 am to 5:00 pm in any week in each case with the exception of national statutory holidays as observed by the Parties;

CAM Conversion Agreement

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“**CAAI**” shall mean the Civil Aviation Authority of Israel or any agency succeeding to the power and authority thereof;

“**Cargo Loading System**” or “**CLS**” shall mean the Cargo Loading System certified by Supplier’s subcontractor for Conversion Aircraft, as described in the Specification;

“**Civil Aviation Authorities**” shall mean the FAA, CAAI, and/or EASA including any agency succeeding to the power and authority thereof, as agreed between Supplier, Customer and M&B;

“**Confidential Information**” shall mean all information of a commercially or operationally sensitive nature, including this Agreement, the certification data, specifications, drawings, data, software, circuit diagrams, tapes, discs and other computer-readable media, documents, policies, procedures, techniques, trade secrets and know-how in any medium or format (including, without limitation, verbal) which are disclosed by one Party to another for use in or in connection with the Conversion or this Agreement;

“**Contract Aircraft**” shall mean one or all (as the context requires) of the Aircraft, which are the subject of this Agreement and that upon identification by Customer in accordance with Clause 5.1, shall be detailed respectively in Schedule 1, paragraph 1.1 and paragraph 2, or any replacement Aircraft substituted in accordance with this Agreement;

“**Conversion**” shall mean the conversion of a Contract Aircraft from passenger to Special Freighter Configuration. For the avoidance of doubt “Conversion” shall not include Extra Work;

“**Conversion Payment**” shall mean a Conversion Payment detailed at Schedule 7;

“**Conversion Price**” shall mean the price as set out in Schedule 7 for the Conversion Services;

“**Conversion Services**” shall mean the services detailed at Clause 4.2 undertaken in order to perform the Conversion;

“**Conversion Slot**” shall mean a Conversion Slot described in Clause 5.10 and detailed in the Program Schedule at Schedule 1, paragraphs 1 and 2 by reference to either a particular line number and slot number or a particular Scheduled Delivery Date;

“**CSDD**” shall mean the latest edition from time to time of the Common Support Data Dictionary published by the Air Transport Association;

“**Customer Furnished Documentation**” consists of the documents listed in Schedule 3;

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

“**Customer Furnished Equipment**” consists of the equipment listed in Schedule 3;

“**CFI**” or “**Customer Furnished Items**” shall consist of Customer Furnished Equipment and Customer Furnished Documentation;

“**Customer Representative**” shall mean the on-site representative and point of contact provided and nominated by Customer in accordance with Clause 20.1;

“**Customer Variation**” shall have the meaning provided at Clause 6.2(b);

“**Customer Variation Price**” shall have the meaning provided at Clause 6.4(d)

“**Delivery**” shall have the meaning provided at Clause 5.6;

“**Delivery Condition**” shall have the meaning provided at Clause 5.4;

“**Delivery Inspection**” shall have the meaning provided at Clause 5.5(b);

“**Designated Site**” shall mean the Supplier Site and, subject to Customer’s consent, which shall not be unreasonably withheld, any other third party site which has all of the appropriate licences for operating as, and otherwise qualifies under Supplier’s qualification guidelines to serve as, a conversion facility and which Supplier agrees to support and oversee;

“**Dollars**” or “**\$**” shall mean the currency of the United States of America;

“**EASA**” shall mean the European Aviation Safety Agency or any agency succeeding to the power and authority thereof;

“**EASA Implementing Rules**” (“**IRs**”), “**Alternate Means of Compliance**” (“**AMOCs**”) and “**Certification Specifications**” (“**CSs**”) shall mean the rules, regulations and policies promulgated by the EASA, in the case of IRs, through Conversion Regulations, and, in the case of AMOCs and CSs, by Agency decision;

“**Effective Date**” shall have the meaning set out in Clause 2.1;

“**Encumbrances**” shall mean any security interest, mortgage, charge, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise) or interest in property to secure payment of a debt or performance of an obligation or other priority or preferential arrangement of any kind or nature whatsoever;

“**Encumbrancer**” shall mean the party which has the benefit of an Encumbrance;

“**Excusable Delay**” shall have the meaning provided at Clause 12 (Excusable Delay);

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“**Existing Customer(s)**” shall mean [*].

“**Extra Work**” shall have the meaning provided at Clause 4.4;

“**Extra Work Form**” shall mean a document, in substantially the form of Schedule 10, and executed on behalf of both Supplier and Customer, used in accordance with Clause 6 to authorize and record any Extra Work, change to the Scheduled Redelivery Date, changes in pricing and payment provisions or addition or deletion of Services originally requested to be performed on a Contract Aircraft;

“**FAA**” shall mean the United States of America Federal Aviation Administration, or any agency succeeding to the power and authority thereof;

“**Free Parking Period**” shall have the meaning provided at Clause 5.2(d) of this Agreement;

“**Functional Check Flight**” shall have the meaning provided at Clause 7.1(a)(i);

“**Governing Authority**” shall mean any national, supra-national (including the European Union) state or local government, any political subdivision thereof or any governmental, quasi-governmental, judicial, public or statutory instrumentality, administrative agency, authority, body or other similar entity and includes the Civil Aviation Authorities;

“**Herein**”, “**hereof**”, “**hereunder**” and like terms shall refer to this Agreement, as it may be amended or supplemented from time to time;

“**IP Indemnity**” shall have the meaning provided at Clause 15.7;

“**LIBOR**” shall mean the rate per annum quoted in the “Money Rates” column of the *Wall Street Journal* on the day on which such rate is to be determined for the purposes of this Agreement for deposits in US Dollars for a period of one (1) month; provided that, if, on the relevant date no such quotation is shown in the *Wall Street Journal*, LIBOR shall be deemed to be the rate at which the principal London office of Bank of Tokyo-Mitsubishi, offers prime banks in the London market for US Dollar deposits for a period of three (3) months;

“**M&B Representative**” shall mean the person provided and nominated by M&B in accordance with Clause 20.1;

“**Manhour**” shall mean the exclusive allocation of one direct employee to any specific task for an elapsed time of one hour or pro-rata part thereof measured in tenths of an hour;

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“**Materials**” shall mean individually or collectively, any of the following used to perform Conversion Services:

- (a) “Consumables” – generally, bulk type materials such as lubricants, cements, compounds, paints (not including the paint kit for the exterior painting in relation to the strip and paint of the Aircraft, if any), chemicals, dyes, splices, tape and patches called for in maintenance and repair procedures for a Contract Aircraft, equipment and component end items;
- (b) “Expendable” – a part for which no authorised repair procedure exists or for which the cost of repair would be uneconomical, including all fasteners;
- (c) “Kit” – a defined package of parts required for modification, airworthiness directives and service bulletins, including drawings and all fasteners needed to install a Kit on an Aircraft;
- (d) “Repairable” – a part which is continually reworked to a fully serviceable condition using authorised repair procedures in the appropriate component repair manual until such rework becomes uneconomical; and
- (e) “Rotable” – a serially numbered part having a life expectancy through repetitive overhaul and under normal operating conditions, approximating to the life of the flight equipment to which it is related;

“**MSN**” shall mean Manufacturer’s Serial Number;

“**Needed Part**” shall have the meaning provided in Schedule 3 paragraph 3.2(b)(i);

“**OEM**” shall mean Original Equipment Manufacturer;

“**Option Aircraft**” shall have the meaning provided in the second Whereas clause;

“**Parts Manufacturer Approval**” or “**PMA**” shall mean the necessary approvals from the CAAI under the terms of BASA IPA or to the extent the terms of the BASA IPA do not permit the CAAI to issue an approval acceptable to the FAA, direct from the FAA, for Supplier to manufacture parts for the Conversion;

“**Pre-Acceptance Flight**” shall have the meaning provided in Clause 7.1(b);

“**Price Adjustment Formula**” shall mean the formula as set out in Schedule 7, paragraph 4;

“**Program Schedule**” shall mean the program for the Conversions detailed in Schedule 1;

“**Redelivery**” shall have the meaning provided in Clause 7.2;

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“**Redelivery Condition**” shall mean with respect to a Contract Aircraft, having all Services and Extra Work completed and duly performed in accordance with the terms of this Agreement and being free and clear of any Encumbrances created by or through Supplier or M&B;

“**Scheduled Delivery Date**” shall mean the scheduled date for input of a Contract Aircraft into the Conversion program as set out in Schedule 1 for the Firm Aircraft and as defined in Section 5.1 for the Option Aircraft;

“**Scheduled Redelivery Date**” shall mean the scheduled date for Redelivery of a Contract Aircraft as set out in Schedule 1, as it may be extended by the terms of this Agreement;

“**Service Bulletin**” or “**SB**” shall mean technical information regarding advisory changes/repairs to be done on an airplane, issued and identified as a service bulletin from time to time by the OEM, M&B or Supplier;

“**Services**” shall mean the Conversion Services;

“**SFE**” shall mean Supplier Furnished Equipment which is listed as Supplier Furnished Equipment and the Parties agreed to be provided by Supplier at the prices in accordance with Schedule 4;

“**Special Freighter Configuration**” or “**SF**” shall mean the configuration of an Aircraft as a Boeing 767-300 special freighter aircraft in conformance with the Specification;

“**Specification**” shall have the meaning provided at Schedule 2;

“**STC**” shall mean the supplementary type certificates as defined in Clause 3.1

“**STC Services**” shall have the meaning provided in Clause 3;

“**Supplier Representative**” shall mean the person provided and nominated by Supplier in accordance with Clauses 20.1;

“**Supplier Site**” shall mean Supplier’s premises located in Israel;

“**Supplier Variation(s)**” shall have the meaning provided at Clause 6.2(a);

“**Term**” shall mean that period from the date of this Agreement until the date which is ten (10) years from the date of this Agreement.

“**US**” or “**USA**” or “**United States**” shall mean the United States of America;

“**Variation**” shall have the meaning provided at Clause 6.2;

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“**VPF**” or “**Variation Particulars Form**” shall mean a variation particulars form, in the form set out in Schedule 9, duly signed by Supplier and Customer and pursuant to which all amendments to, deletions from and changes to, the Specification shall be controlled and effected;

“**Verification Flight**” shall have the meaning provided at Clause 7.1(a)(ii);

“**Warranty**” shall mean the warranty set out in Schedule 8;

“**Weight Upgrade(s)**” shall mean supplements or amendments to the aircraft technical data (including Flight Manuals and Weight and Balance Manuals) as required to increase the maximum taxi weight, the maximum takeoff weight, the maximum zero fuel weight, and the maximum landing weight of the Contract Aircraft to FAA and EASA approved limits as set out in Schedule 2.

- 1.2 Unless otherwise stated any reference in this Agreement to a Clause, Schedule, Annex or Appendix is to a Clause of, or Schedule, Annex or Appendix to this Agreement.
- 1.3 In this Agreement where the context requires words importing the singular shall include the plural and vice-versa and words importing any gender shall include all genders.
- 1.4 In this Agreement references to persons or parties may include individuals, partnerships, firms, corporations, associations, companies, unincorporated organisations, joint ventures, trusts and other entities and all governmental authorities as the context so requires.
- 1.5 In this Agreement the headings to Clauses, Schedules, Annexes and Appendices are for convenience only and shall not affect the construction of the Clauses, Schedules, Annexes and Appendices.
- 1.6 References in this Agreement to a “day”, “month”, and “year” shall, unless the context states otherwise, refer to calendar days, months and years, respectively.
- 1.7 Any reference in any Schedule, Annex or Appendix to this Agreement to a document to be incorporated by reference into such Schedule, Annex or Appendix shall mean that such document is incorporated by reference into this Agreement.
- 1.8 A reference to any Schedule, Annex, Appendix or other document includes that Schedule, Appendix, or other document as amended, varied, novated or supplemented from time to time.
- 1.9 Any Aircraft related technical expression used in this Agreement and not defined herein shall, where the context so admits, have the meaning specified in the CSDD.
- 1.10 A reference to a law includes, without limitation, any (1) statute, decree, constitution, regulation, order, judgment or directive of any Governing Authority, (2) treaty, pact or other agreement to

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which any Governing Authority is a signatory or party, and/or (3) judicial or administrative interpretation or application thereof and, in each such case, is a reference to the same as amended, substituted or re-enacted from time to time.

- 1.11 The words and phrases “other”, “including” and “in particular” shall not limit the generality of any preceding words or be construed as being limited to the same class as any preceding words where a wider construction is possible.
- 1.12 A reference to a document in the “agreed form” is a reference to a document in a form approved and for the purposes of identification initialled by or on behalf of each Party to this Agreement.

SECTION 2 EFFECTIVE DATE

- 2.1 This Agreement shall become effective on the date of execution of this Agreement by all Parties (the “**Effective Date**”), and shall terminate, subject to the terms of this Agreement, on the fulfilment of the Parties’ obligations as set out herein.

SECTION 3 SCOPE OF STC SERVICES

3.1 Definition of STC

“**STC**” shall mean the Supplemental Type Certificate for conversion of B767-300ER aircraft from passenger configuration to Special Freighter Configuration issued by the CAAI (CAAI STC No. SA218 and validated by the FAA (FAA STC No. ST02040SE) and by EASA (EASA STC No. 10028430).

It is acknowledged that in respect of the STC, supplemental type certificates for third party supplier furnished items, which may include, without limitation, the CLS, galleys and window plugs, will be obtained by such third party suppliers and Supplier shall obtain supplementary type certificate approval only for the interface between such item and the Contract Aircraft.

3.2 STC Services

Supplier shall provide the following services in respect of the STC (the “**STC Services**”):

- a) Supplier shall maintain the STC to enable Customer to operate each converted Contract Aircraft under the authority of the FAA, CAAI, EASA.
- (b) [*]
- (c) Supplier shall obtain approval of the Conversion of each Contract Aircraft in respect of the STC, in accordance with Clause 10.

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(d) Customer shall be responsible to obtain any required validations for the CLS STC from civil aviation authorities, other than the CAAI, FAA and EASA.

SECTION 4 SERVICES AND EXTRA WORK

- 4.1 Customer hereby agrees to purchase, and M&B through its prime sub-contractor, Supplier, hereby undertakes to perform on each Contract Aircraft, following Delivery of a Contract Aircraft to its Designated Site, the Services in accordance with this Agreement (and Customer acknowledges and agrees that Supplier alone, not M&B, shall be responsible for performing the Services and each of the obligations stated to be Supplier's in this Agreement).
- 4.2 Supplier, as M&B prime sub-contractor, shall perform for the Contract Aircraft at the Designated Site the Conversion Services, which shall include:
- (i) the Conversion of the Contract Aircraft to Special Freighter Configuration in accordance with the Specification;
 - (ii) the STC Services;
 - (iii) the Weight Upgrades;
 - (iv) the After Sales Support Services;
 - (v) airframe modifications related to Phase 1.5 of the weight-CG envelope upgrade, as defined in the Specification;
 - (vi) preparation and furnishing of the documents and data described in this Agreement with respect to such Conversion, as set out in the Specification;
 - (vii) providing Customer with information obtained during the Conversion together with other Customer provided information, required so that Customer may procure an FAA Export Certificate of Airworthiness for each converted Contract Aircraft, if required;
 - (viii) all necessary return to service checks, including tests, functions and engine runs;
 - (ix) receipt, storage and handling of CFI
 - (x) removal and installation of insulation blankets to ensure FAA AD 2008-23-09 compliance to be completed in accordance with Job Card #EA25000008-001 and relating to the lower (primary) cargo and main deck cargo areas; however, Customer shall provide all Materials for the removal and the reinstallation of the blankets;

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and shall not include the services detailed at Clause 4.3,

all in accordance with the Scheduled Delivery Date and Scheduled Redelivery Date described in Schedule 1, and in accordance with all the other terms and conditions of this Agreement.

- 4.3 Unless otherwise specified in this Agreement the Conversion Services provided for the Conversion Price shall not include:
- (a) Extra Work;
 - (b) maintenance services;
 - (c) the provision of Customer Furnished Items;
 - (d) the procurement and provision of the Cargo Loading System;
 - (e) customization services;
 - (f) overhaul/repair of the cabin interior, as provided in the Specification
 - (g) removal and installation of insulation blankets to ensure FAA AD 2008-02-16 compliance relating to the cockpit area, including Customer's responsibility to provide all Materials for the removal and reinstallation of the blankets; and
 - (h) strip and paint of Aircraft.
- 4.4 Supplier will, during the performance of the Services, at Customer's request or upon approval by Customer of a Supplier proposal, perform additional services on a Contract Aircraft ("**Extra Work**"). Extra Work may consist of work which is not within the scope of the Conversion Price which may consist of:
- (i) repair or replacement of non-serviceable parts or other aspects of a Contract Aircraft, the necessity for which repair or replacement is discovered during Supplier's performance of the Services or other Extra Work;
 - (ii) the matters listed as excluded from the Conversion Price at Clause 4.3;
 - (iii) Variations, the payment for which is the responsibility of Customer under the terms of Clause 6 (below);

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- (iv) airworthiness directives and service bulletins, to the extent not required to be performed as part of the Conversion Services;
- (v) SFE options under Schedule 4;
- (vi) Work needed to conform an Aircraft to the necessary Delivery Condition;
- (vii) overhaul and/or repair of the cabin interior
- (viii) registration of the converted Contract Aircraft by a civil aviation authority other than the CAAI, FAA, EASA, [*]; and
- (ix) where Customer elects not to have a Contract Aircraft stripped, the painting of the area affected by the Conversion in accordance with Customer's requirements.

4.5 All requests for Extra Work and/or proposals for Extra Work shall comply with Clause 6.

4.6 Performance of Services

- (a) The Services and any Extra Work shall be performed by Supplier in accordance with all of the following that are applicable (and in the following order of priority):
 - (i) FAA standards, directives and regulations which would permit certification of the Contract Aircraft under FAR Part 121 or equivalent;
 - (ii) manufacturer's modification, repair and overhaul standards, recommendations, instructions and licence requirements in effect during the performance of the Services and any Extra Work on a Contract Aircraft;
 - (iii) the requirements of Schedule 2;
 - (iv) Supplier shop practices and procedures in accordance with Supplier's FAR Part 145 certifications or any other FAA approved procedures for transport aircraft, as applicable, to the extent not inconsistent with Clauses 4.6(a)(i) to 4.6(a)(iii);
 - (v) shop practices and procedures of the Designated Site to the extent not inconsistent with the above; and
 - (vi) Customer's specified general maintenance manual, policies and procedures, to the extent not inconsistent with the above.

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- (b) Subject to an event of Excusable Delay Supplier shall:
 - (i) commence performance of the Services on a Contract Aircraft on the applicable Scheduled Delivery Date of a Contract Aircraft.
 - (ii) have completed the Services and any Extra Work by the applicable Scheduled Redelivery Date.

4.7 **Supplier's Reports**

- (a) In order for Customer to monitor the status of the Services and any Extra Work, Supplier shall provide to Customer, and to M&B upon written request from M&B, an “**Aircraft Status Report**” with respect to the status of the Services and Extra Work performed / to be performed on the Contract Aircraft, in substantially the form provided at Schedule 11, to be provided once a week beginning one week following Delivery.

SECTION 5 DELIVERIES

5.1 **Exercise of Option Aircraft**

- (a) From time to time during the Term of this Agreement, Customer may provide written notice to M&B and Supplier of the exercise of its option regarding one or more Option Aircraft, which written notice shall include the information required in Schedule 1, paragraphs 1.1 and 2, including the MSN and tail number. Upon receipt of such written notice, Supplier shall respond to such notice with identification of the first available Conversion Slot, which shall not be later than twelve (12) months following the date of Customer's notice, and the Parties will discuss in good faith any additional Conversion Slot requirements. The pricing in Schedule 7, as applicable, shall apply to the Option Aircraft. Upon an agreement as to the applicable Conversion Slot, the Parties shall promptly revise Schedules 1 and 2 to add such Option Aircraft thereto, whereupon such Option Aircraft shall become Contract Aircraft.
- (b) If, after advising M&B and Supplier of an Aircraft MSN and tail number under Clause 5.1(a), Customer requests to change such Option Aircraft's MSN (to an Aircraft of the same type), such change shall be treated as a Customer Variation under the terms of Clause 6.4.

5.2 **Delivery of the Contract Aircraft**

- (a) At least one hundred twenty (120) days prior to the Scheduled Delivery Date of a Contract Aircraft, Customer shall provide written notice to Supplier of such Contract Aircraft's (i) Incoming Weights (as required in Schedule 2), (ii) Extra Work package, if any, desired (including detailed work package requested), whether such Contract Aircraft will be painted (and, if so, a detailed drawing of the livery to be applied). As promptly as

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reasonably practicable, Customer shall provide Supplier with the results of any modifications to such Option Aircraft or its documentation since receipt by Supplier of the applicable Customer-Furnished Documentation, necessary to complete the Conversion of such Option Aircraft.

- (b) Customer shall, at its sole expense and responsibility, deliver to Supplier each Contract Aircraft at its Designated Site, together with such Contract Aircraft's Customer-Furnished Equipment, as may be required in accordance with Schedule 3, in the Delivery Condition, as confirmed by the Parties by completion of a Certificate of Delivery in substantially the form of Schedule 5.
- (c) Customer may request that Supplier provide the flight crew to deliver the applicable Contract Aircraft on behalf of Customer. In such case, Customer shall be responsible for Supplier's charges for such flight crew members.
- (d) Customer shall deliver the applicable Contract Aircraft by the applicable Scheduled Delivery Date. Customer shall use all reasonable endeavours to deliver the applicable Contract Aircraft two (2) days prior to the applicable Scheduled Delivery Date to enable Supplier to complete the necessary checks and processes prior to induction into the conversion program.
- (e) Subject to Clause 5.2(c), Delivery may be made by Customer, or by Supplier on behalf of Customer, within the Free Parking Period (as that term is defined below, and subject to Clause 5.2(c)) prior to its Scheduled Delivery Date, without obtaining M&B or Supplier's prior written consent, but only upon not less than fifteen (15) days prior written notice. "**Free Parking Period**" shall mean an aggregate of fifteen (15) Business Days to be allocated between early Delivery and post-Redelivery removal, as Customer determines. During the Free Parking Period, Customer shall maintain in force all of the insurance coverage it is required to maintain under Clause 16.1 and be required to pay for any services required to maintain the aircraft during such period.

5.3 Remedies for Delayed Delivery

- (a) If Delivery of a Contract Aircraft is not effected by Customer (or deemed not to be effected as provided in the last sentence of Clause 5.4 or Clause 5.5(d)) on or before the day which is [*] days after its Scheduled Delivery Date, except as a consequence of an Excusable Delay, then Customer shall pay the sum of [*] for each day of delay, as liquidated damages. Such remedies shall be in addition to the remedies as may be available to M&B and Supplier under Clause 5.3 (b).

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- (b) If such delay under Clause 5.3(a) above shall be more than [*] Business Days, at Supplier's discretion, and effective upon Customer's receipt of notice from Supplier, Customer shall lose all of its rights to the applicable Conversion Slot; provided, however, that Supplier may not cause Customer to lose its rights to any such Conversion Slot during the three (3) day period prior to a date on which Customer has notified Supplier that it will deliver the relevant Contract Aircraft, so long as Customer does in fact deliver the aircraft on that date. If Supplier elects to cause Customer to lose its rights to the applicable Conversion Slot, then the liquidated damages set forth under Clause 5.3(a) shall cease to accrue on the date the loss of the Conversion Slot becomes effective.
- (c) In the event of termination of the applicable Conversion Slot under this Clause 5.3:
 - (i) M&B and/or Supplier shall refund any and all amounts paid by Customer in respect of such Contract Aircraft as of the date of termination provided that Customer first pays:
 - (A) the amount of Supplier's and M&B's verifiable costs incurred as of the date of termination in preparation for induction of such Contract Aircraft (such costs to exclude any amount for kits or other Materials that can be re-used for another conversion other than carrying costs);
 - (B) liquidated damages in accordance with the termination provisions in Clause 19.3; and,
 - (C) the liquidated damages for delay under 5.3(a);
 - (ii) Subject to payment by Customer of the amounts owed by it under this Clause 5.3 and other provisions of this Agreement, Supplier shall redeliver to Customer, or permit Customer to obtain, all Customer Furnished Items with respect to such Contract Aircraft, at Customer's expense; and,
 - (iii) other than as provided in 5.3(a), 5.3(c)(i) and (ii) above, no Party shall have any further liability to any other Party under this Agreement or otherwise with respect to such Contract Aircraft. However, Customer may resubmit that Aircraft to M&B and Supplier for conversion as an Option Aircraft.
- (d) If a Contract Aircraft is Delivered after the Scheduled Delivery Date, any impact on the Scheduled Redelivery Date of the applicable Contract Aircraft and Contract Aircraft with subsequent Scheduled Delivery Dates shall be subject to equitable adjustment of such Scheduled Redelivery Date which shall be treated by Supplier as a Customer Variation in

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accordance with Clause 6.4 (except that Customer will not be entitled to withdraw the Variation as provided therein, and except that there shall be no additional charge to Customer for the Variation beyond the liquidated damages payable under Clause 5.3(a) above) under which Supplier will advise Customer of any impact on the applicable Scheduled Redelivery Dates.

- (e) The remedy set out in Clause 5.3(a) above shall not be deemed to be a penalty but shall be deemed liquidated damages to account for losses incurred by M&B and Supplier in the event of delayed Delivery, which are not capable of being measured at this time.

5.4 **Delivery Condition**

At the time of Delivery, subject to contrary advance written agreement between the Parties, each Contract Aircraft shall upon completion of the Delivery Inspection, conform to the following (“**Delivery Condition**”):

- (a) a Contract Aircraft shall be serviceable;
- (b) a Contract Aircraft shall have a certificate of airworthiness issued by the FAA (“**CoA**”) or, if a CoA has lapsed or is not effective due to past due maintenance work, or required inspections or modifications, then a ferry permit issued by the FAA or Civil Aviation Authority, as required by applicable regulation;
- (c) if only a ferry permit can be obtained for the Contract Aircraft, Customer shall provide to Supplier a detailed listing of the past due maintenance work, inspections and modifications applicable to such Contract Aircraft at least sixty (60) days prior to the Scheduled Delivery Date of the affected Contract Aircraft;
- (d) all mandatory modifications, ADs and SBs, in each case, applicable to the Conversion, shall be up to date and incorporated into a Contract Aircraft except as expressly identified and agreed in writing to the contrary by Customer and Supplier;
- (e) all Contract Aircraft shall be Aircraft holding a type certificate issued by the FAA or Civil Aviation Authorities certifying that aircraft of that type are fit for the issue of an FAA certificate of airworthiness, public transport (passenger) category;
- (f) all Contract Aircraft shall conform to the requirements of the Specifications for the aircraft configuration; and,
- (g) all Contract Aircraft must be registered on the United States N register or, where the Parties have agreed that the Contract Aircraft shall not be registered on the United States N register,

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such register as required by the applicable Civil Aviation Authorities and agreed in writing by the Parties. For any Contract Aircraft that is not so registered, Customer, no later than two days prior to the Scheduled Delivery Date of a Contract Aircraft, shall deregister such Contract Aircraft from its existing register, re-register such Contract Aircraft on the United States N Register, or applicable register, and provide to M&B and Supplier satisfactory evidence of such re-registration.

Where a Contract Aircraft does not meet the Delivery Condition, Delivery shall be deemed not to have occurred, Clause 5.5(d) shall apply and the remedies available under Clause 5.3 shall apply as applicable.

5.5 **Delivery Inspection**

- (a) Supplier shall have the right to have a reasonable number of Supplier employees on board a Contract Aircraft during its ferry flight to its Designated Site for the purpose of monitoring the performance of the Contract Aircraft. A reasonable number shall be construed subject to applicable regulatory restraints, which may include requirements that only essential crew be on board an Aircraft during a maintenance ferry flight.
- (b) Upon Delivery of a Contract Aircraft, Supplier and Customer shall carry out a limited routine inspection of such Contract Aircraft which shall include a walk around and external and internal general visual inspection of such Contract Aircraft (a “**Delivery Inspection**”).
- (c) Customer acknowledges and agrees that any such Delivery Inspection will necessarily be restricted in scope and will not reveal defects (including corrosion) which will only be apparent upon an in-depth inspection and/or inspection following cutting through the Contract Aircraft surfaces.
- (d) Discovery of faults revealed by such inspection which would prevent the Contract Aircraft from materially conforming to the Delivery Condition, shall be deemed to be a failure on the part of Customer to deliver a Contract Aircraft in Delivery Condition and shall be subject to Clause 5.3 unless (i) Customer requests that such faults be rectified as Extra Work and Supplier agrees to perform such Extra Work, in each case in accordance with Clause 6.5 and (ii) Customer agrees to pay for the delay caused by such faults as set out at Clause 5.3(a);

5.6 **Certificate of Delivery**

Upon delivery to the Designated Site, duly authorised representatives of M&B, Customer and Supplier shall complete, agree upon and sign a form of Certificate of Delivery as set out in Schedule 5 which shall confirm that the Contract Aircraft is in the Delivery Condition (subject to Clause 5.5(c)) and may be inputted into the conversion program (“**Delivery**”).

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5.7 Outstanding Amounts on Delivery and Suspension of Work

- (a) Notwithstanding any provisions to the contrary contained in this Agreement, neither M&B nor Supplier shall have any obligation to Customer to commence or continue work on the Conversion if, any sum in excess of [*], is due and outstanding for more than two Business Days, after a written notice to Customer, pursuant to this Agreement on such Contract Aircraft or on any other Contract Aircraft.
- (b) If the Scheduled Redelivery Date of a Contract Aircraft changes as a result of a delay to performance of the Services as a result of a delay in payment, such delay shall not exceed the number of days of work stoppage pursuant to clause (a) above, and shall be treated as a Customer Variation in accordance with Clause 6.4 under which Supplier will advise Customer of any impact on the Scheduled Redelivery Date and the Conversion Price and the costs (which shall not exceed [*] per day), if any, associated therewith (except that Customer cannot withdraw the Variation unless agreed by Supplier). Notwithstanding the provisions of Clause 6.4, Customer shall pay M&B and Supplier for all costs associated with any such delay.
- (c) If, pursuant to the terms of this Agreement M&B and/or Supplier becomes entitled to, and elects to, cease the performance of this Agreement Supplier shall, at Customer's cost and expense as set forth below, take all reasonable measures to store, preserve and protect any Contract Aircraft which are located on the Supplier Site or another Designated Site and have yet to be Redelivered.
- (d) In consideration of the measures in Clause 5.7(c) above being taken, Customer shall reimburse to Supplier its reasonable costs incurred in so doing, including the demobilisation costs incurred by Supplier, reimbursement of Supplier's overhead costs by way of Supplier's Bay Day Rate and Aircraft Parking Charge, and any costs of remobilising incurred by Supplier in resuming the performance of this Agreement following the rectification of the event causing the cessation of such performance. In the event of [*] consecutive days of any such delay on any Contract Aircraft (beyond any applicable notice period), M&B and Supplier shall be entitled to terminate this Agreement by notice in writing to Customer, so long as Customer has not then paid any overdue amounts giving rise to such delay. In the event of such termination Clause 19.4 shall apply.

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5.8 **Delivery of Customer Furnished Items**

- (a) In order to enable Supplier to perform the Services on a Contract Aircraft, Customer undertakes, at Customer's expense, to deliver to such Contract Aircraft's Designated Site all of the Customer Furnished Items in respect of such Contract Aircraft in accordance with Schedule 3.
- (b) All Customer Furnished Items shall be:
 - (i) serviceable in accordance with FAA standards and, if the applicable Contract Aircraft is registered in a jurisdiction other than the United States of America, the applicable Other Civil Aviation Authorities accompanied by substantiating documentation; and,
 - (ii) supplied in accordance with Supplier's specifications, if applicable;
 - (iii) in factory serviceable condition, complete and with all required installation documentation.
- (c) In the event that Customer fails to deliver any of the Customer Furnished Items in the condition required by Clause 5.8 (b) and on the dates set out in Schedule 3 or as may otherwise be agreed between Customer and Supplier in advance in writing, such delay shall be treated by Supplier as a Customer Variation in accordance with Clause 6.4 (except that Customer cannot withdraw the Variation unless agreed by Supplier) under which Supplier will advise Customer of any impact on the Scheduled Redelivery Date, the Conversion Price and the cost, if any, associated therewith.

5.9 **Title to Parts Removed**

Components and materials due to be removed by Supplier from a Contract Aircraft and not reinstalled or required to be reinstalled in such Contract Aircraft in the course of the Conversion ("Excess Material") shall be designated by Customer as either Excess Material to be scrapped ("Scrap") or Excess Material to be returned to Customer ("Salvaged Materials"). Title to Scrap shall pass to Supplier upon their designation as Scrap and such materials may be disposed of by Supplier in Supplier's sole discretion with no charge or credit to Customer, provided that Customer shall cooperate with Supplier in any efforts to minimize taxes or dues payable to any Governing Authority as a result of such disposal. Title to Salvaged Materials will remain with Customer and Supplier shall be obligated to store such Salvaged Material with reasonable care at a facility on the Designated Site at no cost to Customer until no later than thirty (30) days following Redelivery of the relevant Contract Aircraft. Salvaged Materials, which shall not exceed twelve (12) parts total per Contract Aircraft, will be packaged by Supplier for shipment to Customer, with "as removed" or identification tags issued under Supplier's repair station certification, but without FAA 8130 tags.

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Such Salvaged Materials shall be shipped to Customer either on the Contract Aircraft at its Redelivery or separately no later than thirty (30) days following Redelivery of such Contract Aircraft, with such shipment to be arranged by Customer and at Customer's expense.

5.10 Conversion Slots

The Parties acknowledge that the Conversion Slots, as detailed in Schedule 1, paragraph 2 (the "**Conversion Slots**"), have been reserved for the benefit of Customer and Supplier has specifically relied on such reservation.

SECTION 6 CHANGES TO THE SERVICES

6.1 Except as provided in the next sentence of this Clause 6.1, a change to the Services (including requests or proposals for Extra Work), Scheduled Redelivery Date, and prices in respect of the Agreement shall be documented, agreed between Customer, M&B and Supplier and approved by the completion by the Parties of an Extra Work Form, in substantially the form at Schedule 10 in accordance with Clause 6.5. A change to the Specification shall be documented and approved through the use of the Variation Particulars Form substantially in the form at Schedule 9 in accordance with Clause 6.2.

6.2 Variations to the Specification

The Parties acknowledge that the Specification may be varied (a "**Variation**") which may be:

- (a) proposed by Supplier and agreed by Customer in accordance with Clause 6.3 ("**Supplier Variation(s)**"); or,
- (b) proposed by Customer and agreed by Supplier in accordance with Clause 6.4 ("**Customer Variation(s)**"); and,

the Parties agree to follow the procedure set out in Clauses 6.3 and 6.4 below in relation to any Supplier Variation and/or Customer Variation respectively, prior to Redelivery.

6.3 Supplier Variations

- (a) Supplier may at any time submit written details to Customer Representative, in the form set out at Schedule 9 (Variation Particulars Form), of any Supplier Variation, signed by a Supplier Representative, and including details of the proposed change to the Specification, the effect (if any) of incorporating such Supplier Variation on the Scheduled Redelivery Date or downtime in relation to the Conversion and the cost to Customer (if any) in sufficient detail for the Supplier Variation to be fully evaluated by Customer, and shall provide Customer with such further information in relation thereto as Customer may reasonably request.

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- (b) Supplier will not introduce any Supplier Variation that will have an adverse operational effect (including weight, range or payload performance) on the Contract Aircraft unless:
 - (i) the Supplier Variation is mandated by the Civil Aviation Authorities, by the issue or proposed issue of an AD, for the purposes of complying with the STC (a “**Mandated Change**”); or,
 - (ii) such Supplier Variation is generated by material differences between the configuration or structure of a Contract Aircraft and either the Specification or the standard configuration of Aircraft which were not foreseeable by Supplier (an “**Aircraft Condition Cause**”);

Supplier shall promptly notify Customer of any such Mandated Change or Aircraft Condition Cause upon learning thereof.

- (c) All Supplier Variations, except for Mandated Changes, which are dealt with at Clause 6.3(b)(i), shall be subject to the consent of Customer. Customer Representative shall consider a Supplier Variation and shall notify to Supplier (i) its consent to the incorporation of a Supplier Variation, to any impact on the Scheduled Redelivery Date or downtime in relation to the Conversion and the cost to Customer, if any (such consent not to be unreasonably delayed, conditioned or withheld) by signing the relevant Variation Particulars Form or (ii) its decision not to consent to a Supplier Variation, in each case within three (3) Business Days of the date of the submission of the final details requested by Customer of a Supplier Variation to Customer Representative.
- (d) The Parties agree that Customer may reasonably withhold consent to any Supplier Variation which requires an amendment or revision to the STC, other than a Mandated Change. Customer will not withhold its consent if any Supplier Variation has no negative impact on performance (weight, range or payload performance), cost and time schedule, cargo and personnel accommodation and configuration, operating empty weight and appearance criteria.
- (e) If Customer does not consent to a Supplier Variation as provided in Clause 6.3(d), and Supplier does not withdraw its Supplier Variation, then Customer shall be entitled to terminate this Agreement with respect to the Contract Aircraft by giving written notice of termination to Supplier or, at Customer’s option, Supplier shall complete the Conversion Services in accordance with the agreement without such Supplier Variation. In the event of such termination, Clause 19.4 shall apply.

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- (f) Delayed responses by Customer beyond three (3) Business Days shall be treated as Excusable Delays in accordance with Clause 12.
- (g) The cost of the incorporation of a Supplier Variation in relation to the Conversion of any Contract Aircraft shall be borne by Supplier, except for a Supplier Variation based on an Aircraft Condition Cause, which shall be paid for by Customer.

6.4 Customer Variations

- (a) Customer Representative may at any time submit written details of any Customer Variation, in the form set out at Schedule 9 (Variation Particulars Form) to Supplier for consideration.
- (b) Customer Variations shall be subject to the consent of Supplier. Supplier shall only be entitled to withhold consent in circumstances where, in its reasonable opinion, a Customer Variation would preclude the ability of Supplier to add the subject Contract Aircraft to the STC or, where the total Customer Variations would delay the Scheduled Redelivery Date by a total of more than thirty (30) Business Days.
- (c) Any refusal by Supplier to consent to incorporation of a Customer Variation and the reason for such refusal shall be notified to the Customer Representative within ten (10) Business Days of receipt of the details of such Customer Variation by Supplier.
- (d) Supplier, within five (5) Business Days of Supplier's receipt of a Variation Particulars Form from Customer, shall notify Customer Representative of the date when it will submit the relevant Variation Particulars Form signed by Supplier Representative with full details of:
 - (i) the cost of a Customer Variation (the "**Customer Variation Price**");
 - (ii) whether a Customer Variation has or is likely to have, in Supplier's opinion, an adverse effect on the operation or performance of the Contract Aircraft and the degree of such effect; and
 - (iii) any impact on the Specification including the Scheduled Redelivery Date or downtime;
- (e) Within five (5) Business Days of the receipt by Customer Representative of a duly completed Variation Particulars Form, Customer may either withdraw the proposal for the applicable Customer Variation or countersign such Variation Particulars Form, agreeing to the Customer Variation Price and/or any impact on the Scheduled Redelivery Date and downtime specified therein.

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- (f) M&B shall be entitled to issue invoices to Customer in respect of the price of a Customer Variation, such sum shall be payable in full by Customer to M&B in respect of the Contract Aircraft to which such Customer Variation refers.
- (g) If a Customer Variation affects the Scheduled Redelivery Date or downtime or any other operational impact notified by Supplier to Customer under Clause 6.4(d) above, then Customer expressly agrees to such postponement of Redelivery as specified in a Variation Particulars Form submitted by Customer and agrees not to make a claim to M&B and/or Supplier in respect thereof.
- (h) If, following incorporation of a Customer Variation in the Conversion of a Contract Aircraft, Supplier is unsuccessful in obtaining such further supplemental type certificate approval from the Civil Aviation Authorities for incorporation of such Customer Variation, always provided that Supplier shall have employed its reasonable endeavours to obtain such approval (an “**Unapproved Customer Variation**”), if there is a need for such Civil Aviation Authority approval, Supplier shall remove such Customer Variation and return the Contract Aircraft to a condition that meets the Specification prior to the incorporation of such Customer Variation and Supplier shall retain the Customer Variation Price it received in respect of such Customer Variation in consideration of its incorporation of, and removal of, such Unapproved Customer Variation. In such case, Customer shall accept Redelivery of such Contract Aircraft without such Unapproved Customer Variation being installed.

6.5 **Extra Work Request Procedure**

- (a) Any proposal by Supplier or request by Customer for Extra Work shall be submitted by completion of an Extra Work Form substantially in the form attached at Schedule 10. The proposal shall include the information described in Clause 6.5(d).
- (b) For the avoidance of doubt, in accordance with Clause 6.1, where any requested or proposed work, including Extra Work, would have as its effect a change to the Specification, the applicable Party shall only submit a Variation Particulars Form.
- (c) In the case of an Extra Work proposal by Supplier, the Customer Representative shall use all reasonable endeavours to respond promptly, and in any event within three (3) Business Days.

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- (d) Following receipt of an Extra Work Form from Customer, Supplier shall notify Customer Representative in writing with full details of:
 - (i) the price of the Extra Work (the “**Extra Work Price**”);
 - (ii) impact on the Scheduled Redelivery Date; and
 - (iii) whether the Extra Work has or is likely to have, in Supplier’s opinion, an adverse effect on the operation or performance of the Contract Aircraft and the degree of such effect,within three (3) Business Days of Supplier’s receipt of an Extra Work Form.
- (e) Within two (2) Business Days of the receipt by Customer Representative of notification under Clause 6.5(d), Customer may either withdraw the proposal for the applicable Extra Work or countersign such notification, agreeing to the Extra Work Price and/or any adverse impact on the operation or performance of the Contract Aircraft.
- (f) Supplier, through M&B, shall be entitled to issue invoices to Customer in respect of the Extra Work Price, such sum shall be payable in full in accordance with Schedule 7 by Customer to Supplier, through M&B, in respect of the Contract Aircraft to which such Extra Work Price refers.

6.6 Center of Gravity Envelope Improvements.

- (a) [*]
- (b) [*]

SECTION 7 FUNCTIONAL CHECK FLIGHTS, ACCEPTANCE AND REDELIVERY

7.1 Functional Check Flights and Pre-Acceptance Flights

- (a) Following the performance by Supplier of the Services, and Extra Work, if any, upon a Contract Aircraft, Supplier:
 - (i) Shall, with at least ten (10) days prior written notice to Customer, perform one or more Functional Check flights, as it determines to be necessary, of such Contract Aircraft (a “**Functional Check Flight**”); and
 - (ii) shall, as a follow-up to any such Functional Check Flight or any Pre-Acceptance Flight (as that term is defined below) perform any subsequent Functional Check

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flights that may be required to verify the correctness of repair work necessitated as a result of discrepancies or defects detected on any Functional Check Flight or Pre-Acceptance Flight, as applicable (a “**Verification Flight**”); provided, however, in the event such discrepancy or defect relates to a part of a Contract Aircraft that was not affected by the Services performed by Supplier, such Verification Flight shall be treated as a Pre-Acceptance Flight in accordance with Clause 7.1(f)(ii). If any Verification Flight is scheduled to take place within 72 hours of the original Functional Check Flight, Supplier shall give Customer as much notice of such Verification Flight as practicable. In all other circumstances, Supplier shall provide Customer with at least three (3) days advance notice of each Verification Flight.

- (b) Customer, at its option, may perform one or more pre-acceptance flights of a Contract Aircraft (each, a “**Pre-Acceptance Flight**”).
- (c) Supplier shall provide the flight crew to operate a Contract Aircraft during each Functional Check Flight, Verification Flight, and Pre-Acceptance Flight. Customer shall pay the cost of providing such flight crew for any Pre-Acceptance Flight in accordance with Supplier’s price for flight crew provision set out in Schedule 7.
- (d) A reasonable number of Customer’s personnel shall have the right to participate in any Functional Check Flight or Verification Flight as observers, it being agreed and understood that such participation by Customer’s personnel shall be at the sole risk of Customer and such Customer personnel.
- (e) A reasonable number of Supplier’s personnel shall have the right to participate in any Pre-Acceptance Flight as observers, it being agreed and understood that such participation by Supplier’s personnel shall be at the sole risk of Supplier and such Supplier personnel.
- (f) The following provisions shall apply in relation to Functional Check Flights, Verification Flights and Pre-Acceptance Flights, respectively:
 - (i) in respect of Functional Check Flights and Verification Flights:
 - (A) All costs and expenses of Customer’s personnel participating in Functional Check Flights and/or Verification Flights (inclusive of travel costs, salaries, living expenses and insurance) shall be borne by Customer;
 - (B) Supplier shall bear the cost of line maintenance, landing fees, air navigation charges and all other costs and expenses for each such Functional Check Flight and Verification Flight (other than the cost of fuel), but not a Verification Flight treated as a Pre-Acceptance flight under Clause 7.1(a)(ii);

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- (C) Supplier shall bear the risk of loss of or damage to a Contract Aircraft (including engines) during a Functional Check Flight and/or Verification Flight, but not a Verification Flight treated as a Pre-Acceptance Flight under Clause 7.1(a)(ii), and Supplier shall provide and bear the cost of hull and liability insurance for each Functional Check Flight in accordance with the requirements of Clause 16.1 provided, however, that Supplier's responsibility for loss of or damage to a Contract Aircraft in respect of such Functional Check Flights and/or Verification Flights shall be limited to the insurance cover which Supplier is obliged to maintain in respect of such Contract Aircraft under this Agreement (but with Supplier being responsible for paying to Customer an amount equal to any deductible that may be applicable to any payment by insurers).
- (D) In all such Functional Check and Verification Flights cost of fuel shall be borne by Customer.
- (ii) In respect of Pre-Acceptance Flights:
 - (A) All costs and expenses of Supplier's personnel participation in Pre-Acceptance Flights (inclusive of travel costs, salaries, living expenses and insurance) shall be borne by Supplier, other than with respect to Supplier provided crew members at the request of Customer, where all such costs shall be borne by Customer;
 - (B) Customer shall bear the cost of fuel, line maintenance, landing fees, air navigation charges and all other costs and expenses for each such Pre-Acceptance Flight, including Verification Flights treated as Pre-Acceptance Flights under Clause 7.1(a)(ii); and
 - (C) Customer shall bear the risk of loss or damage to an Aircraft (including engines) during each Pre-Acceptance Flight and Customer shall provide and bear the cost of hull and liability insurance for each Pre-Acceptance Flight in accordance with the requirements of Clause 16.1.
- (g) Customer shall arrange for the carrying out of any Pre-Acceptance Flights which Customer has requested for a Contract Aircraft within such thirty (30) day notice period of Redelivery, detailed at sub-clause 7.2(c); provided, however, that in no event shall a

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Pre-Acceptance Flight be performed before all Functional Check Flights and Verification Flights have been conducted on such Contract Aircraft by Supplier; and provided further that if Customer provides notice to Supplier that Customer wishes Supplier to conduct a Pre-Acceptance Flight together with a Functional Check Flight or Verification Flight (a “**Combined Functional Check Flight**”), then:

- (i) such Combined Functional Check Flight shall be conducted by a Supplier flight crew;
 - (ii) Customer may have one of its pilots, at Customer’s cost and risk, in the cockpit as an observer; and
 - (iii) such Combined Functional Check Flight shall be treated as a Functional Check Flight under Clause 7.1(f)(i).
- (h) Upon completion of a Functional Check Flight, Verification Flight or any Pre-Acceptance Flight, if any, of a Contract Aircraft, Supplier shall provide Customer with a completed report detailing relevant findings and, if appropriate, recommendations (an “**Acceptance Flight Report**”).

7.2 **Redelivery**

- (a) Subject to any Variations to the Conversion, Supplier shall redeliver each Contract Aircraft to Customer or its nominee at its Designated Site, together with a Form of Certificate of Redelivery, substantially in the form appearing in Schedule 6 and in the Redelivery Condition, and with the MSN of the relevant Contract Aircraft having been added to the STC (“**Redelivery**”) on or before the relevant Scheduled Redelivery Date.
- (b) Supplier shall keep Customer advised of any change to the Scheduled Redelivery Date as a result of any Variation or an Excusable Delay.
- (c) Supplier shall provide Customer with at least thirty (30) days’ prior written notice of the week in which, and seven (7) days prior notice of the day on which Supplier intends to effect Redelivery of a Contract Aircraft.
- (d) Within the available Free Parking Period following Redelivery of a Contract Aircraft, Customer undertakes at its expense, including, without limitation, towing, ground services, insurance, and preservation fees, to remove such Contract Aircraft from the Supplier Site or the other Designated Site, as applicable.

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- (e) Where the Contract Aircraft is not removed from its Designated Site following expiry of the Free Parking Period, Supplier may charge Customer its standard parking charge, and out of pocket expenses such as insurance and preservation, as notified to Customer from time to time, and other fees such as towing, ground services, insurance and preservation, for each day the Contract Aircraft remains at the Designated Site other than as may be agreed by Customer and Supplier.

7.3 Extension of Scheduled Redelivery Date

A Contract Aircraft's Scheduled Redelivery Date shall be extended as follows:

- (a) in the event Supplier performs Extra Work, by the time taken by Supplier to perform such Extra Work as shown and approved on a completed Extra Work Form;
- (b) in the event Customer (i) delays in the approval (or rejection) of Variations beyond the timescales specified in Clause 6.3(c) or 6.4(e) or (ii) delays in the approval (or rejection) of Extra Work beyond the timescales specified in Clause 6.5, by the number of days of delay resulting from the effect of such delay by Customer;
- (c) in the event a Variation is approved by Customer and Supplier, by the number of days, if any, provided in the applicable Variation Particulars Form;
- (d) in the event Customer delays Delivery and/or Customer delays delivery of any of the Customer Furnished Items and/or Customer delays in the performance of any of Customer's other obligations under this Agreement unless otherwise agreed in writing by the Parties, by the number of days of delay (after the applicable grace period, if any) resulting from the effects of such delay by Customer;
- (e) solely in respect to the first Contract Aircraft, in the event any of the Customer Furnished Documentation for the first Contract Aircraft is delivered later than needed by Supplier and such late delivery causes a delay in performance of the Conversion Services, by the number of days of delay resulting from the effects of such delay by Customer (provided, however, that Supplier shall use reasonable commercial efforts to minimize such delay). Supplier shall notify Customer by the 4th of August, 2010 of the status of the Customer Furnished Documents for the first Contract Aircraft; if all of the documents listed in Schedule 3 and in Annex 3 to the Specification with respect to the first Firm Contract Aircraft are delivered to Supplier by August 4, 2010, then the Schedule 1 dates for the first Firm Contract Aircraft will not be changed pursuant to this clause (e).

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- (f) in the event Supplier pays Late Charges under Clause 7.4 below for previous Contract Aircraft whose Redelivery Dates were nose-to-tail to the Scheduled Delivery Date of the applicable Contract Aircraft, by the aggregate number of days the previous Contract Aircraft were late; and
- (g) in the case of an Excusable Delay, by the period specified in Clause 12.6.

Notwithstanding any contrary provision of this Agreement, Supplier will use its best commercial efforts to minimize any delay in the Redelivery of the Contract Aircraft.

7.4 Remedies for Delayed Redelivery

- (a) If Supplier does not effect Redelivery of a Contract Aircraft on or before its Scheduled Redelivery Date, as extended by the provisions of clause 7.3 and a grace period of [*] days, Supplier shall pay Customer the sum of [*] per day in respect of each day Supplier has not effected Redelivery of such Contract Aircraft following the Scheduled Redelivery Date, as so extended, by way of liquidated damages and not as a penalty or forfeiture (it being agreed by each Party that Customer would suffer actual damages in the event of such in or about at least such amount on a daily basis but that such damages in respect of lease and lessee costs, possible re-marketing costs and so forth are impossible to calculate with any acceptable reliability) (the “**Late Charges**”). It is understood and agreed by the parties that any Late Charges are Customer’s sole remedy for delay in Redelivery of any Contract Aircraft.
- (b) [*]
- (c) Notwithstanding Clause 7.4(a), the Scheduled Redelivery Date may be further extended by the duration of any delay to the extent caused by Customer’s act or omission in performing its obligations under this Agreement (the “**Extended Redelivery Date**”).
- (d) If the Scheduled Redelivery Date is extended in accordance with Clause 7.4(c) above, the period for which Late Charges are applicable (the “**Delay Period**”) shall only begin to run from such Extended Redelivery Date or if the Delay Period has already begun to run it shall be suspended until the Extended Redelivery Date and no Late Charges shall be payable in respect of such period of suspension, provided always that Supplier shall have given Customer written notice of such failure or omission and of the extension of the Redelivery Date resulting therefrom as soon as practicable after it shall have occurred and after extension of the Redelivery Date resulting therefrom may reasonably be determined.

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7.5 Customer's On-Site Representatives

- (a) While a Contract Aircraft is at its Designated Site, Customer shall be entitled to station a reasonable number of representatives at such Designated Site throughout the period during which Supplier is performing Services on such Contract Aircraft. The following facilities and equipment for Customer's on-site representatives shall be provided at no cost to Customer:
 - (i) an office which shall contain a standard sized desk, a facsimile machine, and an outside telephone line (for the avoidance of doubt, Supplier shall be responsible for all reasonable out of premises telephone, e-mail, fax and line charges);
 - (ii) one (1) desk computer with high speed internet capability;
 - (iii) photocopying services at a copying machine located near such office;
 - (iv) free lunch on working days at Supplier's lunch facilities; and
 - (v) reduced hotel and car rental prices in Supplier's country or, if available from the operator of a Designated Site, in its country.

SECTION 8 WEIGHT CHANGE

- 8.1 Promptly after the signing of this Agreement by all parties, and again immediately prior to Delivery, Customer shall provide Supplier and M&B with a copy of the most recent Weight and Balance Report (a "WB Report") for each of the Contract Aircraft.
- 8.2 In accordance with the Program Schedule, upon Delivery of a Contract Aircraft to its Designated Site, Supplier shall weigh such Contract Aircraft in accordance with the provisions of paragraph 08 [Weighing] of the Specification and such weighing shall be cross-checked with the applicable WB Report (the "Aircraft Weighing").
- 8.3 In accordance with the Program Schedule, Supplier, based on the WB Report, the Aircraft Weighing and the conversion weight change (plus or minus) that it shall have calculated, shall determine the final operating empty weight (the "Final OEW") and provide it to Customer and M&B no later than upon Redelivery of the applicable Contract Aircraft.

SECTION 9 INFORMATION AND DOCUMENTATION TO BE PROVIDED BY SUPPLIER

- 9.1 Upon Redelivery of a Contract Aircraft, Supplier shall provide Customer and M&B with all of the following, to the extent applicable to such Contract Aircraft:
 - (a) a list of any deferred items;

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- (b) a list of any SBs, ADs and Civil Aviation Authority requirements incorporated by Supplier into such Contract Aircraft;
 - (c) engine run data and Functional Check Flight data and tests performed hereunder;
 - (d) a completed Form of Certificate of Redelivery as set out in Schedule 6;
 - (e) a completed Functional Check Flight Procedure; and
 - (f) other documents required by applicable regulations.
- 9.2 Upon Redelivery of a Contract Aircraft, Supplier shall return to Customer all Customer-Furnished Documentation for such Aircraft which was received by Supplier from Customer pursuant to Clause 5.1 above, as follows:
- (a) in preliminary supplement form at Redelivery; and
 - (b) in final supplement form within ninety (90) days after Redelivery.

SECTION 10 SUPPLEMENTARY TYPE CERTIFICATION OF AIRCRAFT CONVERSION

- 10.1 Prior to Redelivery of each Contract Aircraft, Supplier shall have obtained approval of the Civil Aviation Authorities of all changes made to the approved STC data for Conversion of such Contract Aircraft under the STC (by approval of the STC master document list revision) and of the aircraft flight manual supplement and Weight and Balance supplement for the applicable Contract Aircraft.
- 10.2 Anything contained in this Article to the contrary notwithstanding, Customer, and not Supplier, shall be responsible for, and shall bear and pay all of the costs related to certification by civil aviation authorities other than the FAA, the EASA, the CAAI, [*]. Notwithstanding the above, Supplier shall support Customer in obtaining certification of a Contract Aircraft by other civil aviation authorities having jurisdiction over such Contract Aircraft.

SECTION 11 PRICES AND TERMS OF PAYMENT

11.1 Prices

- (a) In consideration for the performance by Supplier of the Conversion Services hereunder, for each Aircraft upon which such Conversion Services are to be performed Customer undertakes to pay to M&B the Conversion Price set out in, and in the manner and at the times set out in Schedule 7.

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- (b) Customer also undertakes to pay M&B for such Extra Work hereunder as may be agreed between the Parties on a Extra Work Form or a Variation Particulars Form, where applicable, for each Aircraft upon which such Extra Work are to be performed Customer undertakes to pay to M&B the at price and in the manner and times set out in Schedule 7.
 - (c) Customer also undertakes to pay M&B for all other amounts payable under this Agreement.
- 11.2 All late payments shall bear interest on the amount outstanding from day to day (compounded quarterly) at the rate of LIBOR plus three (3) percent per month commencing on the due date.
- 11.3 **Terms of Payment.** The terms of payment are set out in Schedule 7.
- 11.4 All the prices and rates set out in this Agreement are expressed in United States of America Dollars. Except as agreed in this Agreement to the contrary, all such prices and rates are subject to adjustment in accordance with the Price Adjustment Formula.
- 11.5 All sums payable to M&B or Supplier under this Agreement shall be effected in freely transferable United States of America Dollars, net, free of any withholding or income taxes and/or value added or any other taxes or deductions. All such payments shall be effected by wire transfer of immediately available funds to the following account:
- [*]
- or to such other account as M&B may designate in writing. The date of each such payment shall be deemed to be the date when the payment is disbursed from Customer's bank in accordance with those instructions.
- 11.6 [*]

SECTION 12 TIME AND EXCUSABLE DELAY

- 12.1 M&B, Supplier and Customer shall each perform its obligations in a diligent and timely manner and M&B or Supplier, as applicable, recognises that the express timings set forth for the performance of the Services are a material consideration for Customer entering into this Agreement. The Parties acknowledge that such performance obligations may be subject to and affected by certain circumstances, delays and impediments defined as Excusable Delays in Clause 12.2. immediately below and as generally provided in this Clause 12.
- 12.2 “**Excusable Delay**” shall mean, with respect to any Party, any delay in a Party's performance of its obligations under this Agreement if such delay is not occasioned by such Party's fault or negligence and further is caused, wholly or in substantial part, by forces beyond the reasonable control of such Party (or such Parties' contractors, subcontractors or suppliers), including but not limited to:
- (a) delay by another Party in providing any necessary parts, components, Materials or technical data required for the performance of Extra Work, which Supplier can verify were ordered in a timely fashion; or,

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- (b) delay in Customer approvals requested by Supplier as a result of Extra Work and/or a Variation to the extent such delay is beyond the allowable period set out in Clause 7.3(b); or
- (c) act of God, peril of sea, fire, explosion, flood, and other natural catastrophe, or
- (d) governmental action or inaction (other than ordinary course governmental activity), orders or regulations, or reasonably unforeseen delays in governmental conduct (including, without limitation, those of the Civil Aviation Authorities having jurisdiction, and efforts related to the registration of the converted Contract Aircraft by a civil aviation authority other than the CAAI, FAA, and EASA), provided such action or delay is not by reason of any act, omission or default by Supplier (or any of its contractors, subcontractors or suppliers), in the performance of its obligations to the Civil Aviation Authorities having jurisdiction, as applicable, or
- (e) riots, insurrection, civil war or other hostilities occurring or threatened in the jurisdiction where the Designated Site is located and which present a danger of loss or damage to any Contract Aircraft or other property of Customer delivered, or to be delivered, pursuant to this Agreement or death or personal injury to any Customer employees or agents, or
- (f) strike, lockout or other labour disturbances (other than the workforce of Supplier) or delay in transit of due and timely and properly ordered raw materials, components, parts or assemblies, except that such delays in materials, components, parts or assemblies from the Contract Aircraft OEM or from Supplier in connection with the Services shall not qualify as an Excusable Delay for Supplier and provided that such delay is not by reason of any act, omission or default by Supplier in the performance of its obligations under any agreement with any third party; provided, however, that delay due to any such cause shall be excused only for so long as resumption of performance remains beyond the reasonable control of such Party. Such Party shall use its best efforts to minimise the effects of any such cause of delay, or
- (g) in the case of Supplier only, public holidays at the location of the Designated Site.

For the avoidance of doubt, failure by an aircraft seller or lessee to deliver an aircraft to Customer for any reason other than a reason which itself would constitute an Excusable Delay, shall not be considered an Excusable Delay.

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- 12.3 Customer shall not be liable for, nor be in default under this Agreement by reason of, an Excusable Delay attributable to it. Each such Excusable Delay on the part of Customer shall be referred to herein as a “**Customer Excusable Delay**”. It is expressly agreed, however, that no Customer Excusable Delay shall be applicable in the case of Customer’s obligation to make the payments provided in this Agreement, except to the extent that the same results from a disruption or delay in the banking system beyond the reasonable control of Customer.
- 12.4 M&B shall not be liable for, nor be in default under this Agreement by reason of, an Excusable Delay attributable to it. Each such Excusable Delay on the part of M&B shall be referred to herein as a “**M&B Excusable Delay**”.
- 12.5 Supplier shall not be liable for, nor be in default under this Agreement by reason of, an Excusable Delay attributable to it. Each such Excusable Delay on the part of Supplier shall be referred to herein as a “**Supplier Excusable Delay**”.
- 12.6 An Excusable Delay shall extend the time for the applicable Party’s performance for as many days beyond the date therefor as is required to obtain removal of the causes of such Excusable Delay and the effects thereof. This provision, however, shall not relieve the Party to which an Excusable Delay is attributable from advising the other Parties of the occurrence of the causes leading to the Excusable Delay or from using its reasonable efforts to avoid or remove such cause(s) and the effects thereof and to continue its performance with reasonable dispatch whenever such cause(s) and the effects thereof are removed.
- 12.7 A Party may delay performance of an obligation under this Agreement because of the occurrence of an event of Excusable Delay that was not reasonably foreseeable when the Agreement was made if it:
- (a) could not have taken any reasonable steps to avoid or mitigate the consequences of the event of Excusable Delay;
 - (b) serves notice in writing on the other Parties giving full details of the event of Excusable Delay within a reasonable period of becoming aware of it;
 - (c) promptly provides any further information in relation to the delay that the other Parties reasonably require; and
 - (d) has not defaulted in performing the obligation before the event of Excusable Delay occurs.
- 12.8 Except as provided in Clause 12.10 below, an event of Excusable Delay shall not entitle any Party to terminate this Agreement and no Party shall be in breach of this Agreement, or otherwise liable to any other Party, by reason of any delay in performance, or non-performance of any of its obligations due to an event of Excusable Delay.

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12.9 If the Party affected by the event of Excusable Delay fails to comply with its obligations under Clauses 12.7(a) to 12.7(d) inclusive, then no relief for Excusable Delay, including the provisions of Clause 12.8 above, shall be available to it and the obligations of all Parties shall continue in force.

12.10 Termination for Excusable Delay

- (a) In the event that Delivery has not occurred within ten (10) days following the relevant Contract Aircraft's Scheduled Delivery Date as a consequence of an Excusable Delay, the Parties shall endeavour to agree on a course of action. If Delivery has not occurred within [*] of the relevant Contract Aircraft's Scheduled Delivery Date as a consequence of an Excusable Delay, then M&B and Supplier shall have the right to reschedule such Contract Aircraft to another Conversion Slot, or if such rescheduling is not acceptable to all Parties, then Customer, in the case of a Supplier Excusable Delay, or M&B and Supplier, in the case of a Customer Excusable Delay, acting in good faith, shall have the right to terminate this Agreement forthwith in respect of such Contract Aircraft by notice in writing to the other Party or Parties, whereupon no Party shall have any liability to any other under this Agreement in respect of such Contract Aircraft.
- (b) If, following Delivery, performance of the Services is delayed by an event of Excusable Delay for a continuous period of [*], the Party whose performance has not been prevented by the event of Excusable Delay (for the avoidance of doubt, Customer in the event of an Supplier Excusable Delay and Supplier in the event of a Customer Excusable Delay) shall have the right to terminate this Agreement forthwith in respect of such Contract Aircraft by notice in writing to the other Party; provided that such right of termination may be exercised only while the event of Excusable Delay is continuing.
- (c) In the event of termination under Clause 12.10(b), Clause 19.4 shall apply.

SECTION 13 WARRANTIES

The Supplier shall grant to Customer the Warranty in respect of the Services performed hereunder as set out in Schedule 8.

SECTION 14 AFTER SALES SUPPORT SERVICES

14.1 Supplier shall provide to Customer or the applicable Aircraft Operator (and the use of the term "Customer" in this section 14 shall then be deemed to mean "Aircraft Operator") the after sales support services in relation to the Services in accordance with the terms of this Clause 14 (the "**After Sales Support Services**").

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- 14.2 The After Sales Support Services shall, except as otherwise agreed in this Clause 14, [*].
- 14.3 Supplier shall provide the After Sales Support Services in respect of each Contract Aircraft for the lesser of:
- (a) a period of [*] following Redelivery of such Contract Aircraft;
 - (b) the period up to the date on which such Contract Aircraft has been out of service continuously for at least [*];
- provided, however, that in any event Supplier shall provide After Sale Support Services in respect of the Contract Aircraft for so long as Supplier provides similar after-sale support services for any third party with respect to Boeing 767-300 aircraft converted by Supplier from passenger to freighter configuration.
- (the “**After-Sales Support Period**”).
- 14.4 As part of the After Sales Support Services Supplier shall provide the following services to Customer for the After Sales Support Period:
- (a) POC
No later than 30 days prior to Scheduled Redelivery Date, Supplier shall designate a point of contact within the Bedek Aviation Group/Aircraft Division or within such group’s successor as the case may be, who, after Redelivery of a Contract Aircraft to Customer, shall be available during normal Supplier business hours to respond to Customer’s requests for After Sales Support Services (a “**POC**”);
 - (b) AOG Desk
 - (i) Supplier shall maintain, on a twenty-four (24) hour per day, seven (7) days per week basis (excluding the Jewish Day of Atonement), an Aircraft on Ground POC (the “**AOG Desk**”).
 - (ii) In respect of a call by Customer to the AOG Desk, followed by a detailed email, in regard to an Aircraft on the ground situation (an “**AOG Situation**”), immediate contact by Supplier’s technical / logistic support personnel shall be made with Customer.

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- (iii) In respect of calls in relation to After Sales Support Services other than to the AOG Desk in respect of an AOG Situation, followed by an detailed email, such contact by Supplier's technical / logistic support personnel shall be made within two (2) Business Days following Customer's first call.
- (c) Spares and Repair Services
 - (i) Supplier undertakes to supply Customer or the applicable Aircraft Operator, on request, with spare parts for those items and equipment manufactured and supplied by Supplier, and to perform for Customer maintenance and repair services with respect to such items and equipment manufactured, supplied and installed by Supplier.
 - (ii) Supplier recommends that Customer maintain at the relevant facility of the Aircraft Operator a store of spares of the type and quantity recommended by Supplier. Such tasks, if not covered by the Warranty, shall be performed at prices and on terms and conditions that shall be mutually agreed upon by Supplier and Customer on a case-by-case basis, [*].
- (d) Airworthiness Directives and Service Bulletins
 - (i) Any new Airworthiness Directives related to the STC, or within the responsibility of Supplier under a Conversion Map for the Contract Aircraft, imposed by the Civil Aviation Authorities, shall be reviewed by Supplier, it being a condition to Supplier's obligation to do so that Customer or the applicable Aircraft Operator shall have promptly advised Supplier in writing of each Civil Aviation Authority, and each change of the Civil Aviation Authority regulating such Contract Aircraft. For the avoidance of doubt, any AD released with respect to and as a result of the Supplier Conversion, as opposed to an AD relating to general freighter conversions, shall be considered a design Defect and handled in accordance with the Warranty contained in Schedule 8.
 - (ii) Supplier shall obtain the approval of the Civil Aviation Authorities, in any case where special or alternate means of compliance ("AMOC") will have to be taken due to the work that has to be done by Supplier to satisfy the relevant Airworthiness Directive. Such alternate means of compliance shall be detailed in the AMOC approval documents. When the AMOC requires detailed instructions a Service Bulletin shall be issued by Supplier and shall be included in the AMOC approval. Each AMOC approval and Service Bulletin (if required) shall be prepared so that

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the necessary variations can be accomplished within the compliance schedule of the regulation to which such Service Bulletin relates, as will be decided by such Civil Aviation Authorities.

- (iii) Any Service Bulletins related to a Contract Aircraft as originally configured (being the configuration prior to Conversion) and issued by the OEM in relation to a Contract Aircraft, shall be reviewed and a report shall be prepared (an “**SB Report**”) by Supplier [*]. In the event elements of such Contract Aircraft modified by the Conversion are affected by such Service Bulletins, Supplier shall advise Customer and Aircraft Operator in writing of the actions required or recommended and the estimated costs of such actions; provided, however, that if the OEM provides engineering and a parts kit to comply with any such Service Bulletin at no charge to Customer, and such Service Bulletin is necessary, then Supplier will supply to Customer, [*], the parts and engineering required to comply with such Service Bulletin where such elements are concerned.
- (iv) Upon Redelivery of a Contract Aircraft, Supplier shall provide Customer with an “**STC Package**” for such Contract Aircraft, consisting of:
 - (A) a review of all relevant ADs, at the time of Redelivery, providing information with respect to whether the AD provisions are applicable, applicable with changes or non-applicable to such Contract Aircraft (an “**AD Review**”); and
 - (B) a review of all relevant SBs, at the time of Redelivery, providing information with respect to whether the SB provisions are applicable, applicable with changes or non-applicable to such Contract Aircraft (an “**SB Review**”);in each case, that were implemented during the performance of the Services.
- (v) All of the After-Sales Support Services provided in this Clause 14.4(d) shall be provided [*] except (i) as referred to in Clause 14.4(d)(i) and (ii) that, if Conversion Kit parts or any other form of Materials are required, [*].
- (vi) In the event of any conflict between the provisions of this Clause 14 and the provisions of the Warranty (Schedule 8), the provisions of the Warranty shall control.

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(e) Product Improvement

Accomplishment of any other improvement to the Conversion of Aircraft as derived from the accumulative experience of Supplier in the Conversion of Aircraft, or of Customer's special needs, shall be implemented following issue of approved (by the one or more applicable Civil Aviation Authorities) Service Bulletins where found necessary by Supplier, or requested by Customer, unless covered by the Warranty, at prices and on terms and conditions that shall be mutually agreed upon by Supplier and Customer on a case-by-case basis.

(f) Manual Updating

Supplier shall, upon request by Customer, update and provide a revision service, in a web-based system in electronic media format, in relation to changes made by the Supplier to any technical manuals and supplements in "ATA 100 Specification" and other documentation related to the Contract Aircraft. Supplier shall charge such amount as agreed in writing between Customer and Supplier.

(g) Access to Technical Information

(i) In the event Supplier cannot provide a part in a timely manner to support maintenance or operation of a Contract Aircraft, then, at Customer's request, Supplier shall provide Customer or Customer's agent for part design ("**Customer Part Designer**") all information (including drawings and manuals) necessary to permit Customer or Customer Part Designer to manufacture against a signed Approval to Manufacture (ATM) for the purposes of maintenance of a Contract Aircraft any parts designed by Supplier and provided as part of the Services for use on a Contract Aircraft.

(ii) Supplier will provide all installation, assembly and detailed drawings related to the Conversion, which may be required for maintenance of a Contract Aircraft upon written request in support of (i) above.

(h) Technical Support

(i) Without prejudice to the Warranty, and upon contact of the POC by Customer or the applicable Aircraft Operator, Supplier shall provide technical advice to assist Customer or the applicable Aircraft Operator with the resolution of any technical problem with the operation of a converted Contract Aircraft which, after reasonable investigation, is not readily identifiable by Customer or such Aircraft Operator but which Customer or such Aircraft Operator reasonably, and in good faith, believes to be attributable to the design characteristics of one or more components of the conversion of such Contract Aircraft, the Services or the Extra Work.

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- (ii) Supplier shall, if requested by Customer or the applicable Aircraft Operator, promptly investigate and analyse each such technical problem and shall recommend such corrective action as may be feasible.
 - (iii) Customer or the applicable Aircraft Operator shall furnish to Supplier all data and information in Customer's or the applicable Aircraft Operator's possession relevant to each such technical problem, in a format reasonably acceptable to Supplier and Customer shall co-operate with Supplier in the conduct of its investigations and such tests as may be required.
 - (iv) Supplier shall promptly advise Customer or the applicable Aircraft Operator in writing at the conclusion of its investigation of Supplier's opinion as to the cause or causes of such technical problem and Supplier's recommendation as to corrective action.
 - (v) Supplier will also provide advice on maintenance, repair schemes and modifications (including support and development for such schemes and modifications) relevant to the Conversion of the Contract Aircraft.
 - (vi) Supplier shall review and approve repairs to any structure or systems which have been affected by the Services or any relevant Extra Work.
 - (vii) If requested by Customer or the applicable Aircraft Operator, Supplier shall provide each applicable repair approval on FAA Form 8110-3 or equivalent. [*]
 - (viii) Supplier shall, on request, review and approve any repair under any repair scheme conditioned or recommended by the OEM for any structure or system whether or not affected by the Services on the Contract Aircraft. All such reviews and approvals shall be charged at the Extra Work Manhour rates in Schedule 7.
- (i) Training Services
- (i) During the period beginning ninety (90) days prior to the Scheduled Redelivery Date of the first Contract Aircraft and ending one-hundred and eighty (180) days after Redelivery of the final Contract Aircraft, Supplier will provide [*], at the Supplier Site (or such site as is mutually agreed), a familiarisation course relating to the Conversion in the form of a three (3) day B767-300 course for up to [*] of

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Customer's or the applicable Aircraft Operator's (or a combination of the two) suitably qualified personnel free of charge per Contract Aircraft. Such training services shall include a training syllabus and training guides for all students (content to be agreed) to familiarise all students with the converted Aircraft.

- (ii) Supplier's training centre will provide other training services on a re-charge basis in respect of the Aircraft, including airframe, engines, electrical avionics systems, pilot and loadmaster courses. All courses will encompass mechanical and electrical disciplines such that, subject to the appropriate period of experience of the students, they will enable such students to obtain type approval status.

14.5 Subsequent to the Expiration of the After-Sales Support Period

- (a) Subsequent to the expiration of the After-Sales Support Period, or sooner, if Supplier shall not then be continuing to make available After-Sales Support Services of Contract Aircraft in accordance with the provisions of this Agreement, Supplier shall, upon the request of Customer, make available to Customer the documentation in its possession and/or under its control applicable to After-Sales Support Services (the "**After-Sales Support Documentation**").
- (b) Customer may use the After-Sales Support Documentation solely for the purpose of providing the After-Sales Support Services described in this Agreement to its lessee or purchaser customers with respect to the Contract Aircraft for so long as it owns or operates the Contract Aircraft.

SECTION 15 LIABILITIES AND INDEMNITIES

15.1 Supplier shall be directly liable to Customer and M&B in respect of:

- (a) any liability under the Warranty;
- (b) the liquidated damages detailed at Clauses 7.4(a);
- (c) the IP Indemnity at Clause 15.7;
- (d) any gross negligence or wilful misconduct of Supplier or any contractor, subcontractor or supplier of Supplier;
- (e) death or personal injury suffered by the directors, employees, servants or agents of Customer or M&B or any of them to the extent due to the negligence or wilful misconduct of Supplier while such persons are present on the Supplier Site for the purposes of this Agreement; and

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(f) Supplier's breach of its obligations under this Agreement,

except to the extent such losses result from the grossly negligent act or omission of that which shall be applicable of Customer or M&B (respectively) or any of their respective directors, employees, servants or agents or any of them.

- 15.2 The express liabilities of Supplier contained in Clause 15.1 shall be in substitution for all other conditions, warranties, representations or obligations whether express or implied, statutory or otherwise which might impose any liability on M&B and/or Supplier, and their respective directors, employees, servants or agents or any of them arising directly or indirectly out of or in connection with the Services provided by Supplier hereunder or otherwise howsoever under this Agreement whether or not due to the negligence, sole or contributory, or other tortious act or omission or breach of contract or statutory duty of M&B and/or Supplier, and their respective directors, employees, servants or agents or any of them which are hereby expressly excluded insofar as such exclusion is permissible in accordance with any applicable provision of New York law in force from time to time, and the provisions of this Agreement shall override any alleged or actual representation or collateral agreement to the contrary. Accordingly, M&B and Supplier's liabilities under this Agreement shall be limited in accordance with the provisions of Clause 15.1 and this Clause 15.2.
- 15.3 Customer shall indemnify and hold harmless M&B and Supplier their shareholders and any of their respective directors, employees, servants and agents and any of them from and against (and agrees that Customer shall make no claims against M&B and/or Supplier in respect of) any liabilities, actions, losses, claims, proceedings, judgments, damages, obligations, costs and expenses of any nature whatsoever (including legal fees, costs and expenses) not expressly listed in Clause 15.1 above made by whomsoever which may at any time be incurred by or imposed on M&B and/or Supplier, its directors, employees, servants or agents or any of them arising directly or indirectly out of or in connection with the Services and Extra Work provided by Supplier hereunder or otherwise under this Agreement, except to the extent such liabilities, actions, losses, claims, proceedings, judgments, damages, obligations, costs or expenses result from the gross negligence or wilful misconduct of that which shall be applicable of M&B or Supplier or their respective directors, employees, servants or agents. [*]
- 15.4 Customer retain the right following consultation with M&B or Supplier (as applicable) to assume and control the defence of any claim against Supplier or M&B for which Customer has agreed to indemnify M&B and Supplier under Clause 15.3, wherever Customer determines that it is in its best interest to control such defence. In the event that Customer chooses in its absolute discretion to assume or control the defence:
- (a) Customer shall diligently pursue such proceedings or negotiations;

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- (b) Customer shall at all times consult in good faith with M&B or Supplier, as applicable, with respect to actions taken in relation thereto; and,
- (c) Customer agrees not to do or say anything which is materially detrimental to the rights and interests of Supplier or M&B except where Customer is legally compelled to do so by virtue of due process of law,

Supplier and M&B shall give Customer all reasonable assistance for the preparation of such proceedings or negotiations (including prompt provision to Customer of all data, records and assistance within Supplier's and M&B's control which are material to any such claim and access to Supplier's and M&B's personnel as reasonably relevant to such preparation) and Customer shall not, except pursuant to a final award, pay or accept any such claim or compromise any such proceedings, without the prior written consent of Supplier and/or M&B (as applicable) (such consent shall not be unreasonably withheld, delayed or conditioned). In the event Customer does not elect to assume and control the defense of a claim against Supplier or M&B for which Customer has an indemnification obligation hereunder, neither Supplier nor M&B (as applicable) shall, except pursuant to a final award, pay or accept any such claim or compromise any such proceedings without the prior written consent of Customer (such consent shall not be unreasonably withheld, delayed or conditioned).

15.5 NOTWITHSTANDING ANYTHING CONTAINED IN THIS AGREEMENT TO THE CONTRARY, AND EXCEPT FOR THE LIQUIDATED DAMAGES AND OTHER SUMS PAYABLE UNDER CLAUSE 7.4(A), IN NO EVENT SHALL SUPPLIER, M&B, OR CUSTOMER (SUBJECT TO CUSTOMER'S OBLIGATIONS UNDER CLAUSE 15.3 WITH RESPECT TO CLAIMS OF THIRD PARTIES AGAINST SUPPLIER AND/OR M&B), BE LIABLE UNDER THIS AGREEMENT FOR LOSS OF USE, LOSS OF PROFIT AND/OR FOR ANY INCIDENTAL AND/OR INDIRECT AND/OR CONSEQUENTIAL LOSS OR DAMAGE ARISING FROM THIS AGREEMENT OR THE SERVICES PROVIDED PURSUANT HERETO. FOR THE AVOIDANCE OF DOUBT, AND NOTWITHSTANDING ANY CONTRARY PROVISION OF THIS AGREEMENT, IN NO EVENT SHALL CUSTOMER BE LIABLE TO SUPPLIER OR M&B UNDER THIS AGREEMENT FOR LOSS OF USE, LOSS OF PROFIT AND/OR FOR ANY INCIDENTAL AND/OR INDIRECT AND/OR CONSEQUENTIAL LOSS OR DAMAGE TO THE EXTENT THE SAME IS INCURRED BY SUPPLIER OR M&B ITSELF OR THEMSELVES (AS OPPOSED TO THIRD PARTY CLAIMS – REGARDLESS OF THE TYPE OF DAMAGE CLAIMED – AGAINST SUPPLIER OR M&B WHICH ARE NOT SUBJECT TO THE LIMITATION OF LIABILITY OF THIS SECTION 15.5).

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- 15.6 (Intentionally omitted)
- 15.7 Customer acknowledges and agrees that the rates agreed between M&B and Customer for the Services have been calculated (amongst other things) by specific reference to the exclusions and limitations contained in this Clause 15.
- 15.8 If any claim is made against Customer that the Services, Extra Work or the Conversion infringe, or that the use of the Conversion features of a Contract Aircraft infringes, the patent, copyright, design trade mark or other industrial or intellectual property rights of any other person, Supplier shall fully and effectively indemnify and hold harmless Customer on demand against all loss, damage, costs and expenses awarded against, incurred by or suffered by Customer in connection with or arising out of or as a result of the claim (this “**IP Indemnity**”) on the condition that:
- (a) The relevant Customer gives Supplier written notice within ten (10) Business Days after Customer receives notice of a suit or action against Customer alleging infringement or within ten (10) Business Days after Customer receives a written claim of infringement, provided, however, that Customer’s failure to provide notice to Supplier of a suit, action or written claim within those period shall not limit Supplier’s indemnity obligations except as and to the extent Supplier is actually and materially prejudiced by such failure.
 - (b) Supplier is given full control of any proceedings or negotiations in connection with any such claims and shall diligently pursue them unless all Parties agree otherwise. Supplier shall at all times consult with Customer before taking any action in relation thereto;
 - (c) Customer shall give Supplier all reasonable assistance for the preparation of such proceedings or negotiations and shall:
 - (i) promptly provide to Supplier all data, records and assistance within Customer’s control which are material to any such claim, suit or action; and
 - (ii) (except as to amounts mandated by a judgment) obtain Supplier’s prior approval to pay or assume any liabilities, damages, royalties or costs;
 - (d) Except pursuant to a final award, neither Customer, M&B nor Supplier shall pay or accept any such claim or compromise any such proceedings, without the consent of the other(s) (such consent shall not be unreasonably withheld, delayed or conditioned). In the event of a failure of Customer, Supplier, and M&B to agree on the settlement of a claim, the matter shall be referred to the determination of leading patent counsel instructed by the relevant Parties, whose decision shall be final and binding;

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- (e) Customer shall do nothing which would or might vitiate any policy of insurance or insurance cover which M&B and/or Supplier may have in relation to such infringement; and
- (f) Supplier shall be entitled to the benefit of, and Customer shall accordingly account to Supplier for, all damages and costs (if any) awarded in favour of and paid to Customer which are payable or agreed with the consent of Customer (which consent shall not be unreasonably withheld, delayed or conditioned) to be paid by any other party in respect of any such claim of infringement to the extent that it has been the subject of an indemnity from Supplier under this Clause which has been satisfied by Supplier.
- (g) Supplier's obligations and Customers' remedies herein consist of, at Supplier's option, replacing an infringing item or otherwise curing any infringement to the extent that such replacement or cure avoids any claim, loss, damage, cost or expense otherwise indemnifiable by Supplier under this Clause 15.7.
- (h) This IP Indemnity shall not apply unless, from the time of design of the allegedly infringing Contract Aircraft or Item until the resolution of the infringement claim, the country and flag country of such Contract Aircraft:
 - (i) are fully bound by the Chicago Convention on International Civil Aviation of December 7, 1944, and are fully entitled to all benefits of Article 27 thereof; or
 - (ii) are parties to the International Convention for the Protection of Industrial Property ("**Paris Convention**").
- (i) This IP Indemnity shall not apply to Customer Items or engines.

15.9 **Liability of M&B and Supplier**

- (a) For the avoidance of doubt, wherever in this Agreement or any document or certificate delivered in connection herewith M&B undertakes or assumes a liability, obligation, duty or responsibility or delivers a certificate, whether or not expressly stated to be a joint undertaking with Supplier, Supplier shall be jointly and severally liable for such liability, obligation or responsibility or certification of M&B, and Customer shall be free to look to Supplier to satisfy or perform such liability, obligation, duty or responsibility or certification without first making any demand upon, and irrespective of any partial performance by, M&B. Upon any failure by M&B to perform its obligations hereunder or

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any document or certificate delivered in connection herewith (or Supplier to perform such obligations for M&B), Customer agrees that it shall only seek recourse against Supplier and only upon failure by Customer to obtain a final, non-appealable court order obtaining such relief against Supplier shall Customer seek recourse against M&B.

- (b) The Supplier acknowledges and agrees it has undertaken and accepted the imposition on it of direct duties and obligations owed, or that may become owing, to Customer under and in accordance with the terms of this Agreement and that this Agreement is intended to impose such direct duties and obligations on Supplier.
- (c) Customer hereby irrevocably waives any claim against M&B and each of its shareholders for failure by Supplier to perform any of its obligations hereunder or under any document or certificate delivered in connection herewith.
- (d) The parties hereto acknowledge that the Supplier shall be solely responsible for all product liability claims arising under or with respect to this Agreement and that M&B and/or its shareholders shall in no event have any liability for such product liability claims.

SECTION 16 INSURANCE OBLIGATIONS

16.1 Customer's Insurance

Customer, at its expense, effective upon delivery of a Contract Aircraft to the Designated Site and, until the earlier to occur of the next "D" check of such Contract Aircraft and the third anniversary of Redelivery of such Contract Aircraft, shall maintain, or cause to be maintained, in full force and effect, in respect of such Contract Aircraft, the following insurances:

- (a) Hull All-Risks Insurance (with a deductible not to exceed One Million US Dollars (US\$1,000,000) and Hull War and Allied Perils Insurance (with acceptable deductible and standard exclusions) on the ground and in flight (excluding, however, the Functional Check Flights), in the initial stated amount of not less than Twenty Million US Dollars (\$20,000,000) (being not less than the value of a Contract Aircraft declared by Customer prior to commencement of Supplier's performance hereunder) (without any limitations and such insurance shall not be subject to AVN 29). Such initial stated amount of insurance coverage of a Contract Aircraft shall be increased progressively, from time to time, during performance of the Services, if and as reasonably necessary to reflect the addition to the value of such Contract Aircraft resulting from performance of the Services so that the insured value of the Contract Aircraft is not less than its then reasonable value including such addition to the value resulting from the performance of such services. Each such increase in the amount of the insurance coverage shall be made at the time/s and for the

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amount/s reasonably specified by M&B and/or Supplier from time to time by written notice to Customer's insurers. M&B and Supplier shall be loss payees under the Hull Coverage for each Contract Aircraft to the extent of the amounts owed by Customer hereunder with respect to that Contract Aircraft, provided that M&B and Supplier shall no longer be loss payees under the Hull Coverage for a Contract Aircraft once the Customer has paid all amounts due to Supplier and M&B hereunder for Services and Extra Work with respect to that Contract Aircraft. Third Party Aircraft, Legal Liability (including liability towards air crew, technical staff accompanying the Contract Aircraft and passengers liability), Public Liability, Bodily Injury, and Property Damage Insurance (collectively, "**Liability Insurance**") in respect of the Contract Aircraft, in an amount not less than Five Hundred Million US Dollars (US\$500,000,000) (with a deductible not to exceed One Million US Dollars (US \$1,000,000), naming M&B and Supplier as additional insureds (with standard limitations and such Liability Insurance shall not be subject to AVN 53).

- (b) Such insurance coverages shall contain:
 - (i) a breach of warranty Clause;
 - (ii) a Clause providing 30 days (7 days, in the case of war and related perils) prior written notice to Supplier and M&B of cancellation or change; and
 - (iii) an express waiver by the insurer thereof of its right of subrogation against M&B and Supplier.

16.2 Supplier's Insurance

Supplier shall, at all times relevant hereto and at its own expense, maintain, and cause each Designated Site to maintain,

- (a) Hanger-Keeper's insurance (with limits of Five Hundred Million US Dollars (US \$500,000,000) and a deductible not to exceed One Million US Dollars (US \$1,000,000)) insuring Supplier's or such Designated Site's, as applicable, legal liability for a Contract Aircraft and any Customer Furnished Equipment while it is on the ground at its Designated Site and providing for insurance coverage insuring Supplier's liabilities under clauses 15.1(b) and 15.1(c). The policies of such insurance shall name Customer and M&B as an additional insured and shall contain an express waiver by the insurer thereof of its right of subrogation against Customer and M&B.
- (b) Products Liability Insurance with limits of One Hundred Fifty Million US Dollars (US \$150,000,000) and a deductible not to exceed One Million US Dollars (US \$1,000,000), naming Customer as an additional insured and containing an express waiver by the insurer of its right of subrogation against Customer.

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16.3 State of Israel Coverage

While a Contract Aircraft is at the Supplier Site, there is, as of the date of this Agreement, and there will be, to the best of Supplier's knowledge, in effect throughout the time that such Contract Aircraft will be at the Supplier Site, a provision of the State of Israel Property Tax and Indemnification Law regulations, which provides, in sum and substance, that the owner of an aircraft (or the party responsible for bearing the costs of "war damages"), not registered in Israel and not required to be so registered, and which is in Israel (including its airspace) for the sole purpose of being repaired and/or upgraded and which sustains "war damage" shall be entitled to receive 100% of the value of such "war damage" to such aircraft, where for such purpose, "war damage" means damage that is caused to physical property due to war activities by enemy regular forces, or due to other hostile activities against Israel, or due to war activities of the Israel Defense Forces.

16.4 Other Insurance Provisions and Requirements

- (a) The insurance coverages to be maintained by the Parties under Clauses 16.1 and 16.2 above (the "**Insurance Policies**") shall be primary insurance, and any insurance in the hands of another Party hereto which may cover the risks insured under the Insurance Policies shall be excess insurance over any other valid and collectable insurance available to the Party required to indemnify the other Party hereunder, without right of participation.
- (b) All of the insurance policies of each Party shall be written through a company or companies reasonably satisfactory to the other Party.
- (c) No later than two (2) Business Days prior to delivery of an Aircraft to the Supplier Site, Supplier shall furnish to Customer, and Customer shall furnish to Supplier and M&B, Certificates of Insurance certifying that such policies of insurance, endorsed as required under this Agreement, are in full force and effect and comply with the terms, conditions, and insurance provisions identified above and that Customer and M&B shall each be given thirty (30) days (seven (7) days with respect to war and allied perils) prior written notice by the insurers in the event that either the insurers or Supplier, as the case may be, desire to cancel or change such policies to materially reduce the coverage thereof.
- (d) Each Party shall be responsible for all deductibles under its Insurance Policies set out in Clauses 16.1 and 16.2 above, except as may otherwise be expressly provided in this Agreement.

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- (e) It is envisaged that each of Supplier and Customer will produce draft insurance certificates and brokers letters of undertaking in a timely manner to the other for approval prior to Delivery (in the case of the Supplier) and Redelivery (in the case of Customer).

SECTION 17 DISPUTE RESOLUTION

17.1 Any dispute, difference or claim arising out of or in connection with this Agreement (including any dispute as to the existence, scope, validity or termination of this Agreement or of this Clause) which cannot be amicably settled in good-faith discussions between the Parties shall be finally resolved by reference to the exclusive jurisdiction of the courts located in New York City to which each of the Parties irrevocably agrees to submit, except as set forth in Clauses 17.2 and 17.3 below.

17.2 Any dispute arising in connection with this Agreement as to:

- (a) whether or not a Contract Aircraft is ready for Redelivery; or
- (b) the validity of any warranty claim made under Schedule 8, paragraph 9.

shall be referred to an expert FAA Designated Engineering Representative (“**FAA DER**”) chosen by the Parties or (in default of express agreement within fourteen (14) days of nomination of any such FAA DER by the Parties) a person of similar standing appointed at the request of any Party by application of Clause 17.1 above (an “**Expert**”):

- (i) the FAA DER or Expert, as applicable, shall be instructed to notify the Parties of his determination of any matter referred to him within thirty (30) Business Days of such referral;
- (ii) the Parties shall be entitled to make written submissions to the FAA DER or Expert, as applicable, but, subject thereto, the FAA DER or Expert, as applicable, shall have power to determine the procedure to be followed in relation to his determination; and
- (iii) in making his determination, the FAA DER or Expert, as applicable, shall act as an expert and not as an arbitrator, his decision as to any matter referred to him for determination shall in the absence of manifest error be final and binding in all respects on the Parties and shall not be subject to question on any ground whatsoever.

17.3 Nothing in this Agreement shall operate to disentitle a Party or Parties from pursuing an application for injunctive or declaratory relief before a court of competent jurisdiction.

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17.4 Service of Legal Process

- (a) Customer hereby agrees that service to the individuals at the addresses listed for it in Section 20.2, via commercial courier which retains a record of delivery or via certified mail, return receipt requested, shall constitute proper service upon Customer of an action or proceeding relating to this Agreement brought under the terms of Section 21 below and such service shall be deemed made upon receipt by Customer. Customer shall provide, within three (3) business days of receipt of a summons and complaint or summons and notice, a duly notarized acknowledgment of such service to M&B and Supplier's attorneys of record.
- (b) Supplier hereby irrevocably authorises and appoints Cohen Tauber Spievack & Wagner, with offices at 420 Lexington Avenue, Suite 2400, New York, New York, 10170 (or such other entity as they may from time to time by joint written notice to Customer substitute) to accept service of all legal process arising out of or connected with this Agreement and service on such agent (or such substitute) shall be deemed to be service on Supplier.
- (c) M&B hereby irrevocably authorises and appoints Cohen Tauber Spievack & Wagner, with offices at 420 Lexington Avenue, Suite 2400, New York, New York, 10170 (or such other entity as they may from time to time by joint written notice to Customer substitute) to accept service of all legal process arising out of or connected with this Agreement and service on such agent (or such substitute) shall be deemed to be service on M&B.

SECTION 18 CONFIDENTIAL INFORMATION

- 18.1 Each Party shall keep and procure to be kept secret and confidential all Confidential Information belonging to the other Parties and disclosed or obtained as a result of the relationship of the Parties under this Agreement and, subject to Clause 18.2, shall not use nor disclose any Confidential Information without the written consent of the other Parties. Each Party shall be responsible to the other(s) in respect of any disclosure or use of such Confidential Information by a person to whom disclosure is made by it.
- 18.2 Clause 18.1 above shall not preclude any Party disclosing information:
 - (a) in accordance with any legal requirement so to do;
 - (b) to its respective professional advisers and auditors;
 - (c) to its respective lenders and investors and prospective lenders and investors, provided such persons or entities sign a non-disclosure agreement with the disclosing party hereunder on

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terms similar to the confidentiality terms of this Agreement or are otherwise bound by a confidentiality agreement with Customer which prohibits the disclosure of such confidential information or its use for any purpose other than the evaluation of a financing or investment and M&B and Supplier are third party beneficiaries of such agreement;

- (d) for the purpose of exercising its rights or performing its obligations under this Agreement;
- (e) which is in the public domain other than in breach of this Agreement or any other confidentiality agreement;
- (f) to any taxation authority;
- (g) which it becomes lawfully in possession of and owed in respect of it no pre-existing duty of confidentiality to the providing Party; or
- (h) which the recipient Party can prove by written evidence was already known to it before its receipt from the providing Party;

provided that, in the case of Clause 18.2(b), such disclosures shall be made under undertakings of confidentiality equivalent to those contained in this Agreement.

The provisions of this Clause 18 shall survive any termination of this Agreement.

SECTION 19 TERMINATION

19.1 Termination by M&B

- (a) In the event that Customer fails to make any payment within two (2) Business Days following notice of non-payment, M&B shall be entitled to terminate this Agreement as to Customer and, without prejudicing any other right or remedy it may have, Clause 5.3 shall apply.
- (b) M&B shall be entitled to terminate this Agreement as to Customer forthwith by written notice to Customer, as appropriate, if:
 - (i) an Encumbrancer takes possession of a material part or a receiver is appointed over any of the property or assets of Customer;
 - (ii) Customer makes any voluntary arrangement with its creditors or becomes subject to an administration order;
 - (iii) Customer goes into liquidation; and/or

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- (iv) any other analogous events to Clauses 19.1(b)(i) to (iii) occur in any jurisdiction.
- (c) In the event of termination under Clause 19.1(b), Clause 19.4 shall apply.

19.2 Termination by M&B and/or Supplier

- (a) M&B and/or Supplier shall be entitled to terminate this Agreement in respect of a particular Contract Aircraft, but not this Agreement as a whole, in accordance with Clauses 5.7(d), 12.10(a), and 12.10(b) and
- (b) M&B and/or Supplier shall be entitled to terminate this Agreement in respect of a particular Contract Aircraft, but not this Agreement as a whole, if Supplier, in good faith and using best efforts, determines within thirty (30) days of receipt of all the Customer Furnished Documentation for a Contract Aircraft that it is unable to Convert such Contract Aircraft because of an Aircraft Condition Cause (per section 6.3 (b) (ii)). Supplier shall advise Customer of such Aircraft Condition Cause promptly after making such determination.

19.3 Early Termination by Customer

- (a) In addition to any other right of termination provided herein, Customer shall have the right to terminate this Agreement with respect to one or more Contract Aircraft by delivering written notice of termination to Supplier at any time prior to such Contract Aircraft's Scheduled Delivery Date upon payment to M&B of the applicable amount listed below:
[*]
- (b) The Parties acknowledge and agree that any amount payable pursuant to Clause 19.3 shall not be deemed to be a penalty but shall be deemed liquidated damages to account for losses incurred by Supplier and M&B in the event of termination during the periods described above, which losses are not capable of being measured at this time.
- (c) Upon termination pursuant to this Clause 19.3 in respect of any Contract Aircraft, M&B shall refund all payments, if any, made by Customer in respect of such Contract Aircraft. Upon payment by Customer of the applicable amount pursuant to this Clause 19.3 for any Contract Aircraft (or after offsetting or recoupment as provided in the preceding sentence), Customer shall have no further obligation to M&B and Supplier pursuant to this Agreement in respect of such Contract Aircraft.

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19.4 Effect of Termination Following Delivery

Upon termination of this Agreement, in accordance with Clauses 6.3(e), and 19.1(b), in respect of one or all Contract Aircraft which is located at a Designated Site:

- (a) Customer shall pay to M&B the agreed-upon prices for all Services (or partial Services) performed by Supplier in respect of the affected Contract Aircraft plus, at Customer's option, cost and expense:
 - (i) the cost of restoring such Contract Aircraft to a condition permitting a ferry flight to a site designated by Customer; or,
 - (ii) the cost of restoring such Contract Aircraft to a condition suitable to Customer and acceptable to Supplier; and,
- (b) M&B and/or Supplier shall:
 - (i) refund any and all amounts paid by Customer in respect of such Contract Aircraft as of the date of termination in excess of such amounts to be paid to M&B; and,
 - (ii) Supplier shall redeliver to Customer, or permit Customer to obtain, all unused Customer Furnished Items with respect to such Contract Aircraft at Customer's expense, and
- (c) except as provided in this Clause 19.4, no Party shall have any further liability to any other Party under this Agreement or otherwise with respect to such Contract Aircraft.

19.5 Any termination pursuant to this Agreement in respect of a particular Contract Aircraft shall not relieve any Party from obligations or liabilities incurred under this Agreement before the date of effectiveness of such termination in respect of such Contract Aircraft nor shall any such termination prejudice the rights or remedies of the Parties hereto or their obligations arising out of such termination to the extent arising at law or pursuant to any provision of this Agreement.

SECTION 20 MISCELLANEOUS

20.1 Party Representatives

- (a) Customer, M&B and Supplier shall provide and nominate, in a timely manner, and at their respective expenses, the Customer Representative, M&B Representative and Supplier Representative, respectively, throughout the period of Conversion of the Contract Aircraft.
- (b) Customer Representative and M&B Representative shall liaise when required directly with the Supplier Representative and they shall together be the prime means of communication among the Parties in respect of all Services carried out by Supplier.

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- (c) Customer Representative and M&B Representative shall at all times comply with the health, safety and security requirements of Supplier or, in the case of a different Designated Site, the operator thereof, and shall generally conduct themselves in accordance with the reasonable requirements of Supplier, or such operator, in whatever part of the Supplier Site, or other Designated Site, as agreed, they may be at the time.

20.2 Notices

- (a) Any notice:

- (i) which is given under this Agreement shall be: in writing and delivered by hand or sent by commercial courier or by facsimile; respectively addressed as follows:

- (A) If to Customer, to:

Cargo Aircraft Management, Inc.
7100 TPC Drive, Suite 100,
Orlando, FL 32822, USA
Attention: General Counsel
Fax No: 407-517-0302
Email: legal@cargoleasing.com

- (B) If to M&B, to:

M&B CONVERSIONS LIMITED

29/31 Glashule Road,
Glashule, Co. Dublin, Ireland
Attention: Managing Director
Facsimile No.: +353 1 230 3013
Email: jreinherz@mbconversions.com

with a copy to:

ISRAEL AEROSPACE INDUSTRIES LTD.

Bedek Aviation Group
Aircraft Division
Ben Gurion International Airport
70100 Israel

Attention: Director of Contracts and Customer Support
Facsimile No.: 972-3-935-8953

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(C) If to Supplier, to:

ISRAEL AEROSPACE INDUSTRIES LTD.

Bedek Aviation Group
Aircraft Division
Ben Gurion International Airport
70100 Israel

Attention: Director of Contracts and Customer Support
Facsimile No.: 972-3-935-5495

with a copy to:

Director of Finance, Aircraft Division
Facsimile No.: + 972-3-935-7471

Legal Department
Facsimile No.: +972-3-935-8987

with a copy to:

M&B at the address above

or to any other address which the relevant Party has notified in writing, with no less than five (5) Business Days' notice, as being its address for service; and

(ii) shall be deemed to be served on the day when delivered.

- (b) If the deemed day of any notice is outside business hours, as defined in the definition of the "Business Day", in the recipient's location then such notice shall be deemed to be served on the next Business Day in the recipient's location.
- (c) All times in this Clause 20.2 are those of the location where the notice is received.
- (d) To prove service a Party shall only need to show that the notice was properly addressed and actually delivered (which, in the case of a facsimile, may be by facsimile transmission confirmation).
- (e) A notice may not be served by e-mail.

20.3 Taxes

- (a) The Parties agree that Supplier shall be solely responsible for the payment of any and all taxes and other governmental assessments of any nature due or asserted in Israel and in any national or local jurisdiction of any Designated Site with respect to or in any way arising out

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of or resulting from this Agreement, the parties' respective performances hereunder or the payment of sums hereunder or with respect hereto. In addition, and without limiting the foregoing, Supplier shall bear, or shall require its contractors, subcontractors and suppliers to bear, any and all taxes or governmental assessments charged by any national or local jurisdiction of any country where any such contractor, subcontractor or supplier may be located and related to or arising out of the provision of any parts or services with respect to this Agreement and the services contemplated hereby. Supplier shall indemnify M&B and Customer for any payment by M&B or Customer in connection with the enforcement of any and all such taxes and governmental assessments (including penalties or interest payable in connection therewith).

- (b) The Parties agree that M&B shall be solely responsible for the payment of any and all taxes and other governmental assessments of any nature due or asserted in Ireland with respect to or in any way arising out of or resulting from this Agreement, the Parties' respective performances hereunder or the payment of sums hereunder or with respect hereto. M&B shall indemnify Supplier and Customer for any payment by Supplier or Customer in connection with the enforcement of any and all such taxes and governmental assessments (including penalties or interest payable in connection therewith).
- (c) The Parties agree that Customer shall be solely responsible for the payment of any and all taxes and other governmental assessments of any nature due or asserted in the United States with respect to or in any way arising out of or resulting from this Agreement, the Parties' respective performances hereunder or the payment of sums hereunder or with respect hereto. Customer shall indemnify M&B and Supplier for any payment by M&B or Supplier in connection with the enforcement of any and all such taxes and governmental assessments (including penalties or interest payable in connection therewith).
- (d) Notwithstanding any contrary provision of this Agreement, each Party shall be solely responsible for, and shall not be entitled to any indemnification hereunder for, any and all taxes and other governmental assessments of any nature imposed upon or measured by such Party's income.

20.4 **Future Regulatory Change**

If any law or governmental regulation or change in the interpretation thereof by a governmental agency of the United States Government or other applicable governmental agency, including ADs issued by the FAA or other appropriate Civil Aviation Authority, which is promulgated on a date subsequent to the date of this Agreement, requires any change, addition or modification in a Contract Aircraft or in the STC Services, the Services or Conversion work as to any Contract

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Aircraft, or in Customer Furnished Equipment in order for Supplier to either complete the STC Services or, as to any Contract Aircraft, the Services or comply with any of its obligations hereunder, such change, addition or modification to such Contract Aircraft, or Customer Furnished Equipment or in the STC Services, Services, Conversion work as to any Contract Aircraft shall be made at Customer's expense, and the Parties will execute an amendment to this Agreement reflecting such change. If Redelivery of an Aircraft to Customer will be delayed by reason of any such change in law, the Scheduled Completion Date of such Contract Aircraft shall be appropriately extended as mutually agreed in writing by the Parties.

20.5 [*]

20.6 **M&B Approval**

M&B may delegate all or part of its obligations in respect of the approval of any work or action undertaken or performed under the terms of this Agreement, from time to time to Supplier and/or any such other person(s) as M&B may select. If M&B selects person(s) other than Supplier, M&B shall upon reasonable notice inform Customer and Supplier in writing of the identity and authorised signatory(ies) of such person(s).

20.7 **Assignment and Transfer**

- (a) This Agreement is personal to Customer, M&B and Supplier and, shall not be assigned or transferred, in whole or in part, by any Party without the other Parties' prior written consent;
- (b) Any attempted assignment of rights or transfer of rights and/or obligations without such prior written consents shall be null and void.
- (c) This clause shall not prevent Supplier from subcontracting appropriate parts of the Services and Extra Work in accordance with normal Supplier practices and procedures.
- (d) Notwithstanding Clauses 20.7(a) and 20.7(b), Customer may, without the consent of M&B or Supplier:
 - (i) assign all of Customer's rights and obligations under this Agreement to (A) any successor to all or substantially all of Customer's assets, or (B) any person who controls Customer, any person controlled by Customer, or any person under common control with Customer (with "control" for such purpose meaning the power to vote more than 50% of the equity interests of the relevant entity);

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- (ii) assign all of Customer's rights and obligations under this Agreement with respect to any particular Contract Aircraft to the owner or to a subsequent purchaser of that Contract Aircraft; or
- (iii) assign to any extent to the lessee or Aircraft Operator any or all of Customer's rights hereunder with respect to that Contract Aircraft (including without limitation any warranty rights and any rights to After Sales Support Services), or allow such lessee or Aircraft Operator to exercise those rights on Customer's behalf, for the term during which that Contract Aircraft is leased to or operated by that lessee or Aircraft Operator,

provided that:

- (i) Customer provides M&B and Supplier with at least 14 days prior written notice of the proposed assignment and transfer, naming the proposed assignee and describing its business;
 - (ii) the assignee agrees in writing to be bound by, and to honor, all of the terms of this Agreement by executing a deed of novation, or other similar document, the form of which shall be reasonably acceptable to M&B and Supplier but which shall not increase the obligations or decrease the rights of Customer (including such assignee) under this Agreement;
 - (iii) the credit standing of such assignee is acceptable to M&B, in its sole discretion;
 - (iv) the assignee is not a person or entity operating or located in (or controlled by any person or entity that are located in) a country with which Israel does not have diplomatic relations;
 - (v) the assignee is not a person or entity that has been in breach under any contract with Supplier; and
 - (vi) such assignment, or the performance of this Agreement after such proposed assignment, is not contrary to applicable law.
- (e) In addition to and notwithstanding the above, (i) Customer may assign this Agreement in whole or in respect to any one or more of the Aircraft to an affiliated company which owns (beneficially or by way of legal title) or operates such Contract Aircraft (the "Owner/Operator"), (ii) Owner/Operator may assign this Agreement as collateral for the financing of the Conversion to a financing party, and/or (iii) Customer may assign this Agreement as collateral for the financing of the Conversion, so long as Customer provides a guarantee of all obligations of Owner/Operator under this Agreement or otherwise.

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20.8 Non-Waiver

The failure of a Party to enforce at any time any of the provisions of this Agreement, or to require at any time the performance by any other Party of any of the provisions hereof, shall in no way be construed to be a waiver of such provisions, or in any way affect the validity of this Agreement or any part thereof, or the right of such Party to enforce each and every such provision at some later date.

20.9 Survival

The obligations contained in Clauses 11 (Prices), 13 (Warranties), 14 (After Sales Support Services), 15 (Liabilities and Indemnities), 16 (Insurance Obligations), 18 (Confidential Information), 20 (Miscellaneous) and 21 (Governing Law) shall survive the expiration or termination of this Agreement and remain in full force and effect.

20.10 Captions

The caption headings of the Clauses appearing in this Agreement are for convenience of reference only and shall not be construed in any way to limit or extend the language of the provisions to which they refer.

20.11 Preamble and Schedules

The Preamble to this Agreement and the Schedules and Appendices attached hereto form an integral part hereof.

20.12 Entire Agreement

- (d) This Agreement constitutes the entire agreement, and supersedes all previous communications, representations or agreements, either oral or written, heretofore made between the Parties relating to the subject matter of this Agreement. This Agreement may not be varied other than in writing duly signed by an authorised representative of each Party.
- (e) Each Party acknowledges that it has not relied upon or been induced to enter into this Agreement by a representation other than those expressly set out in this Agreement.

20.13 Representations of M&B

M&B hereby represents and warrants to Customer and Supplier that:

- (d) M&B is a duly organised and validly existing private company limited by shares under the laws of Ireland;

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- (e) M&B has full power, authority and legal right to execute, deliver and perform this Agreement;
- (f) The execution and delivery of this Agreement by M&B and the performance by M&B of its obligations under this Agreement:
 - (i) do not require the approval or consent of any Person; and,
 - (ii) will not conflict with, or constitute a violation of:
 - (A) any of the terms or provisions of the constituent documents of M&B;
 - (B) any of the terms or provisions of any material agreement to which M&B is a party or which purports to be binding on it or its property; or,
 - (C) any applicable law, rule or regulation or any order, judgment or decree of any Governmental Authority; and,
- (g) This Agreement has been duly authorised, executed and delivered by M&B and constitutes the valid and legally binding obligation of M&B, enforceable against M&B in accordance with its terms under the laws of Ireland and under New York law, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principals of equity, regardless of whether considered in a proceeding in equity or at law.

20.14 Representations of Supplier

Supplier hereby represents and warrants to Customer and M&B that:

- (d) Supplier is a corporation, duly organised and validly existing under the laws of the State of Israel;
- (e) Supplier has full power, authority and legal right to execute, deliver and perform this Agreement;
- (f) The execution and delivery of this Agreement by Supplier and the performance by Supplier of its obligations under this Agreement:
 - (i) do not require the approval or consent of any Person;

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- (ii) will not conflict with, or constitute a violation of:
 - (A) any of the terms or provisions of the constituent documents of Supplier;
 - (B) any of the terms or provisions of any material agreement to which Supplier is a party or which purports to be binding on it or its property; or,
 - (C) any applicable law, rule or regulation or any order, judgment or decree of any Governmental Authority;
- (g) This Agreement has been duly authorised, executed and delivered by Supplier and constitutes the valid and legally binding obligation of Supplier, enforceable against Supplier in accordance with its terms under the laws of the State of Israel and under New York law, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principals of equity, regardless of whether considered in a proceeding in equity or at law;
- (h) Supplier is an FAA certified repair station, holding Certificate No. MK1Y325K; and
- (i) The operators of all Designated Sites, shall be FAA certified repair stations holding current certification certificates.

20.15 Representations of Customer

Customer hereby represents and warrants to M&B and Supplier that:

- (d) Customer is a corporation duly organised, validly existing and in good standing under the laws of Florida;
- (e) Customer has full corporate power, authority and legal right to execute, deliver and perform this Agreement;
- (f) The execution and delivery of this Agreement by Customer and the performance by Customer of its obligations under this Agreement:
 - (i) do not require the approval or consent of any Person;
 - (ii) will not conflict with, or constitute a violation of:
 - (A) any of the terms or provisions of the constituent documents of Customer;
 - (B) any of the terms or provisions of any material agreement to which Customer is a party or which purports to be binding on it or its property; or,

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- (C) any applicable law, rule or regulation or any order, judgment or decree of any Governmental Authority;
- (g) This Agreement has been duly authorized, executed and delivered by Customer and constitutes the valid and legally binding obligation of Customer, enforceable against Customer in accordance with its terms under the laws of Florida and New York law subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principals of equity, regardless of whether considered in a proceeding in equity or at law; and
- (e) Customer irrevocably and unconditionally waives any immunity to which it or its property may at any time be entitled, whether characterized as sovereign immunity or otherwise, from any claim or action in connection with this Agreement as may be brought in any jurisdiction, including immunity from service of process, immunity from jurisdiction of any court or tribunal, and immunity of any of its property from attachment prior to judgment or from execution of a judgment.

20.16 Counterparts

This Agreement may be executed in any number of separate counterparts by the Parties, and each counterpart shall, when executed and delivered, be deemed to be an original document, but all counterparts shall together constitute one and the same document.

20.17 Third Party Benefit

No third party is intended to benefit from, nor may any third party seek to enforce, any of the terms and provisions of this Agreement, except that, upon Customer's written consent Supplier will honor Warranty claims under Schedule 8 submitted by a Customer or an Aircraft Operator for a Contract Aircraft on which Supplier has completed Services.

20.18 Publicity

Except as required by law or by any regulatory authority, no Party shall make any public statement of any nature (including but not limited to press releases, circulars and public announcements) which concerns this Agreement or any of the matters referred to in it without the consent of the other Party.

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SECTION 21 GOVERNING LAW

The validity, construction and performance of this Agreement shall be governed by New York Law.

[Signatures Appear on Following Page]

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IN WITNESS WHEREOF, the Parties have signed this Agreement on the date set forth above.

CUSTOMER

By: /s/ Joseph C. Hete

Print Name: Joseph C. Hete

Title: CEO

By: /s/ George A. Golder

Print Name: George A. Golder

Title: Secretary

M&B CONVERSIONS LIMITED

By: /s/ Joseph Reinherz

Print Name: Joseph Reinherz

Title: Managing Director

ISRAEL AEROSPACE INDUSTRIES LTD.

(as Supplier)

By: /s/ E. Hattem

Print Name: E. Hattem

Title: GM Bedek Aviation

Group/IAI

By: /s/ J. Vistanetzky

Print Name: J. Vistanetzky

Title: GM Finance Div., Bedek

Aviation Group, IAI

CAM Conversion Agreement

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Schedule 1

Aircraft Description and Program Schedule

SECTION 1. Aircraft Description

1.1 The Aircraft are:

FIRST FIRM AIRCRAFT:

AIRCRAFT Model: 767-338ER

Reg No:

AIRCRAFT Type: 767-300

MSN: 24146

ENGINES Model: CF6-80C2B6

Type:

Engine Serial Number (1)

(2)

MTOW: 408,000 Lb MLW: 320,000 Lb MZFW: 288,000 Lb

SECOND FIRM AIRCRAFT:

AIRCRAFT Model: 767-338ER

Reg No:

AIRCRAFT Type: 767-300

MSN: 24317

ENGINES Model: CF6-80C2B6

Type:

Engine Serial Number (1)

(2)

MTOW: 408,000 Lb MLW: 320,000 Lb MZFW: 288,000 Lb

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THIRD FIRM AIRCRAFT:

AIRCRAFT Model: 767-338ER

Reg No:

AIRCRAFT Type: 767-300

MSN: 24407

ENGINES

Model: CF6-80C2B6

Type:

Engine Serial Number (1)

(2)

MTOW: 408,000 Lb

MLW: 320,000 Lb

MZFW: 288,000 Lb

SECTION 2 PROGRAM SCHEDULE - CONVERSION SLOTS

M&B and Supplier shall reserve, in relation to the Firm Aircraft detailed in the table below, the respective Conversion Slots as allocated to such Contract Aircraft in the table below (each a “**Conversion Slot**”).

Aircraft	Scheduled Delivery Date	Initial Scheduled Redelivery Date
FIRST FIRM	[*]	[*]
SECOND FIRM	[*]	[*]
THIRD FIRM	[*]	[*]
OPTION AIRCRAFT	[*]	[*]

* Including: Holidays, Maintenance and extension due to late delivery of Customer Furnished Documentation

** Including: Holidays

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Schedule 2

Specification

1. “**Specification**” shall mean the specification described below, as agreed with Customer and M&B, with the revision numbers stated below and as attached to this Agreement, as updated from time to time by Variations:

<u>No.</u>	<u>MSN</u>	<u>Revision No.</u>	<u>Revision Date</u>	<u>MSN</u>
[1]	371-00-00-C8003	2.6.3	July 12, 2010	24146, 24317, 24407

Note: Specifications for Option Aircraft will be provided by Supplier upon receipt of Option Aircraft Technical Data.

2. WEIGHT UPGRADES

<u>Aircraft</u>	<u>MSN</u>	<u>Incoming Weights</u>				<u>Outgoing Weights</u>				<u>Total Weight Upgrade</u>
		<u>MTW</u>	<u>MTOW</u>	<u>MLW</u>	<u>MZFW</u>	<u>MTW</u>	<u>MTOW</u>	<u>MLW</u>	<u>MZFW</u>	
1	24146	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
2	24317	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
3	24407	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
4-10	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD

[*]

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Schedule 3

Customer and Supplier Furnished Documentation and Equipment

SECTION 1. CUSTOMER FURNISHED DOCUMENTATION

<u>Doc No</u>	<u>Description</u>	<u>Date of Delivery by Customer*</u>	<u>Date and Condition of Redelivery by Supplier</u>
1	Aircraft Maintenance Manual (“AMM”)	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
2	Wiring Diagram Manual (“WDM”)	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
3	Illustrated Parts Catalog (“IPC”)	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
4	System Schematic Manual	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
5	Airplane Flight Manual (“AFM”)	Deliver with Aircraft	In final supplement form at Redelivery
6	Operations Manual	Four (4) months prior to Delivery	In final supplement form at Redelivery
7	Weight and Balance Manual	Four (4) months prior to Delivery	In final supplement form at Redelivery
8	Weight and Balance Report	Four (4) months prior to Delivery	In final supplement form at Redelivery

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<u>Doc No</u>	<u>Description</u>	<u>Date of Delivery by Customer*</u>	<u>Date and Condition of Redelivery by Supplier</u>
9	Electrical Loads Analysis Report	Four (4) months prior to Delivery	In final supplement form at Redelivery
10	Interior Configuration Diagram	Four (4) months prior to Delivery	N/A
11	Quick Reference Handbook	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
12	Master Minimum Equipment List (MMEL)	N/A	FAA approval of Supplier's changes resulting from the Conversion Services will be available to Customer on the FAA website.
13	Minimum Equipment List (MEL)	Four (4) months prior to Delivery	Changes to be made by Customer based upon the FAA approval of the Conversion changes as per item 12.
14	Maintenance Planning Data ([MSG-3 MPD] TO CONFIRM)	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
15	Fault Report Manual	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
16	Fault Isolation Manual	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery

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<u>Doc No</u>	<u>Description</u>	<u>Date of Delivery by Customer*</u>	<u>Date and Condition of Redelivery by Supplier</u>
17	Aircraft Log Book	Deliver with Aircraft	Returned at Redelivery
18	Structural Repair Manual	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
19	List of all ADs and SBs implemented on a Contract Aircraft	Four (4) months prior to Delivery	At Redelivery
20	List of all ADs and SBs to be implemented by Supplier	Three (3) months prior to Delivery	N/A
21	Operational Manual	Four (4) months prior to Delivery	In preliminary supplement form at Redelivery, and in final supplement form within ninety (90) days after Redelivery
22	Supplemental Structural Inspection Document (SSID)	n/a	In final supplement form at Redelivery

* Date of Delivery by Customer for the first Firm Aircraft shall be “as soon as possible”.

- 1.1 All documentation must be the last revision thereof, and, if available, in CD format. The WDM must also be provided in hard copy. If Customer is unable to provide any of the above, Supplier will endeavour to procure such items on behalf of Customer at Customer’s expense and any delay in the performance of the Conversion Services shall be deemed to be an Excusable Delay.
- 1.2 To the extent Customer is unable to supply the most current and up to date versions and/or is unable to supply all the necessary work cards, such omissions shall be treated by Supplier as a Customer Variation under which Supplier will advise Customer of any impact on the Scheduled Redelivery Date and the cost, if any, associated therewith.

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- 1.3 Customer shall deliver to Supplier, not less than fourteen (14) days prior to Delivery, a signed declaration from Customer's Director of Quality Control, or equivalent, certifying that:
- (i) all documentation to be provided by Customer for the Conversion for each Contract Aircraft are the most current and updated versions thereof; and
 - (ii) such documentation includes, without limitation, all of the necessary work cards for such Conversion.

CUSTOMER-FURNISHED EQUIPMENT

All Customer Furnished Equipment must be supplied in serviceable condition, ready for installation and suitable for an Aircraft's configuration, with proper regulatory documentation.

Supplier shall provide Customer with all necessary information in sufficient time of the relevant date of delivery below, to enable Customer to comply with the date of delivery of such CFE.

<u>No.</u>	<u>DESCRIPTION</u>	<u>DATE OF DELIVERY</u>
1	The Contract Aircraft	Two (2) Business Days prior to Scheduled Delivery Date
2	AD and SB kits (for Extra Work)	Customer will attempt to deliver thirty (30) days prior to Scheduled Delivery Date, but not later than Schedule Delivery Date
3	Emergency equipment, as per Specification	One (1) month after Delivery, if not installed on the Contract Aircraft
4	Paint materials	Thirty (30) days prior to painting the Contract Aircraft, other than paint for flight controls which require removal for balancing after painting which shall be provided at aircraft delivery.
5	CLS	45 days after Delivery
6	Insulation Blankets	Delivery
1.4	M&B and/or Supplier shall notify and agree with Customer any specifications which M&B and/or Supplier may reasonable require in respect of any Customer Furnished Equipment.	

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Schedule 4

Supplier Furnished Equipment and Options

<u>ITEM</u>	<u>SFE</u>	<u>Price (US\$)</u>
1	Paint material, logo templates (if furnished by Supplier)	
2	Paint stripper materials	
3	Emergency Equipment (if furnished by Supplier)	
4	AD/SB kits to be implemented during the conversion (if furnished by Supplier)	
5	Manuals Supplements in electronic format.	

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DEFECTS AGREED EXISTING UPON CONTRACT AIRCRAFT DELIVERY

- 1
- 2
- 3
- 4
- 5

Description of Component

- 1 All Seats
 - 2 Galleys
 - 3 Lavatories
 - 4 Closets
 - 5 Partitions
 - 6 Carpets and liners
 - 7 Curtains
 - 8 PSU's Assembly
 - 9 Overhead Bins
 - 10 Side Wall Panels
 - 11 Ceiling Panels
 - 12 Dado Panels
 - 13 Emergency Equipment
- CAM Conversion Agreement

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Description of Component

- 14 Entertainment Components
- 15 Interphone System
- 16 Cabin Light
- 17 Passenger Signs
- 18 Emergency Lights Packs
- 19 Cabin Smoke Detection Equipment
- 20 Heating & Cooling Equipment

All above information has been noted and agreed.

Furthermore, Customer herewith certifies all payments to be made upon Delivery of the Contract Aircraft have been made in full.

For and on Behalf of

For and on Behalf of

For and on Behalf of

Customer:

M&B:

**Israel Aerospace Industries Limited,
Bedek Aviation Group:**

Name:

Name:

Name:

Sign:

Sign:

Sign:

Title:

Title:

Title:

Date:

Date:

Date:

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Schedule 6

Form of Certificate of Redelivery

CERTIFICATE OF REDELIVERY
relating to Aircraft Conversion Agreement between
Cargo Aircraft Management, Inc. ("Customer"), M&B CONVERSIONS
and
Israel Aerospace Industries Limited as Supplier.

CUSTOMER:

DATE:

Work Order No:

AIRCRAFT

Model:

Reg No:

MSN:

ENGINES

Model:

Type:

Engine Serial Number

(1)

(2)

MTOW:

MLW:

MZFW:

Redelivery is hereby accepted of the above registered aircraft at the Designated Site _____ on _____ at am / pm. Israel Aerospace Industries Limited, Bedek Aviation Group herewith certifies that all work covered in the Specification as at _____ has been carried out in accordance with the defined work scope less any items noted in the Technical Log

Fuel on board upon Redelivery _____ kgs/lbs.

Conversion - as per Form [•]

Loose equipment on board - as per Form [•]

Exterior damage - as per Form [•]

Documentation on board - as per Form [•]

Note: if any carried forward items, separate list of these to be attached to this form with details of when they are scheduled to be fixed, who bears the cost and what the cost is.

CAM Conversion Agreement

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All above information has been noted and agreed.

For and on Behalf of

For and on Behalf of

For and on Behalf of

Customer:

M&B:

**Israel Aerospace Industries Limited,
Bedek Aviation Group:**

Name:

Name:

Name:

Sign:

Sign:

Sign:

Title:

Title:

Title:

Date:

Date:

Date:

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Schedule 7

Prices and Payment Terms

SECTION 1 PRICE AND TERMS OF PAYMENT

1.1 Conversion Price

<u>Aircraft</u>	<u>Basic Conversion Price</u>	<u>Weight Upgrade</u>	<u>Price Adjustment*</u>	<u>Total</u>
1.	[*]	[*]	[*]	[*]
2.	[*]	[*]	[*]	[*]
3.	[*]	[*]	[*]	[*]
4.	[*]	[*]	[*]	[*]
5.	[*]		[*]	[*]
6.	[*]		[*]	[*]
7.	[*]		[*]	[*]
8.	[*]		[*]	[*]
9.	[*]		[*]	[*]
10.	[*]		[*]	[*]
* [[*]			

The Conversion Price shall include the services in relation to the Conversion Services detailed at Clause 4.2.

- (a) After Sales Support Services where excluded from the Conversion Price as detailed in Clause 14.2.

1.2 Terms of Payment

Customer undertakes to pay:

- (a) the Conversion Price and Fixed price Maintenance (if any) for each Firm Order Aircraft and Option Aircraft, in accordance with the following Conversion Payments, in relation to relevant criteria for payment detailed in respect of each Conversion Payment below, as escalated in accordance with Section 4 below.

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Conversion and Fixed-Price Maintenance Payment

Criteria for Payments

[*]

[*]

[*]

[*]

[*]

[*]

- (b) If Customer requires After Sales Support Services excluded under Clause 14, the prices detailed therein, as escalated in accordance with Section 4 below; and
- (c) Supplier's price for the provision of flight crew is US\$ [*] per Pre-Acceptance Flight, plus flight insurance.

1.3 EXTRA WORK RATES AND TERMS OF PAYMENT

Customer undertakes to pay the following rates in respect of Extra Work in relation to Services, as escalated in accordance with Section 4 below:

- (a) For labour performed by Supplier in relation to:
 - (i) engineering work US\$[*] per hour
 - (ii) maintenance work related to Conversion US\$[*] per hour
 - (iii) DER services [*]
- (b) For Insulation Blanket installation as detailed in Clause 4.3(g) - US\$[*]
- (c) For vendor parts, materials and kits supplied by Supplier:
[*]
- (c) For vendor parts, materials and kits supplied by the Customer: [*] per item handling charge.
- (d) [*]

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(e) For sub-contracted work:

[*]

In respect of all Extra Work, Customer shall make the following payments:

[*]

SECTION 2 [*]

SECTION 3 FINAL ACCOUNT

3.1 No later than ninety (90) days following Redelivery of a Contract Aircraft, M&B shall compile a final account of all sums due to M&B under the Agreement. In the event that there are amounts due to either Party as a result of such final account, the other Party shall make payment of such sums within seven (7) Business Days of issuance of the appropriate invoice or credit note, as the case may be.

SECTION 4 PRICE ADJUSTMENT FORMULA

All payments, prices and rates payable by Customer under this Agreement are expressed in 1 January 2010 U.S. dollars and shall be increased (i) during the first five (5) years of the Term of this Agreement by [*] on each January 1, beginning January 1, 2011, and (ii) on each January 1, beginning January 1, 2016, and till the end of the Term of this Agreement, at M&B's option, either by [*] or in accordance with the following escalation formula:

[*]

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Schedule 8

Warranty

SECTION 1 SCOPE OF WARRANTY

In relation to any goods or services provided by Supplier in relation to the Services or any Extra Work provided in connection with this Agreement (such Services and such Extra Work, the “**Warranty Services**”) where the goods or services do not comply with the details of the Specification or are not fit for their intended purpose, whether in consequence of faulty design, faulty materials, bad workmanship, negligence or any other reason attributable to Supplier or its employees, contractors or sub-contractors or suppliers or the employees, contractors, subcontractors or suppliers of any of them, it shall constitute a defect (“**Defect**”) and “**Defective**” shall be construed accordingly.

Subject to the provisions of paragraphs 4 and 5 below, Supplier warrants to Customer (this “**Warranty**”) that:

- 1.1 Upon Redelivery by Supplier, a Contract Aircraft shall qualify for, without further work, and Supplier shall cause to be issued by the Civil Aviation Authorities, an Airworthiness Certificate as a freighter aircraft in accordance with Customer’s designated configuration and Specification (as amended by prior written agreement of the Parties); and
- 1.2 Warranty Services performed by Supplier on a Contract Aircraft or part, accessory, equipment or component installed on a Contract Aircraft shall conform to the Specification; and
- 1.3 The Warranty Services shall be free from:
 - (a) Defects in workmanship (including selection of materials and process of manufacturing by Supplier, its contractors, subcontractors and suppliers, and installation) for a period of [*] (but only [*] in respect of the Paint Services, if any and Components) after Redelivery of such Contract Aircraft to Customer; and
 - (b) design Defects only with respect to the Conversion Services performed on a Contract Aircraft structure specifically designed by Supplier, its contractors or subcontractors for the service life of such Contract Aircraft.;
 - (c) without limiting 1.3(b) above, Defects with respect to the Conversion Services performed on an Contract Aircraft structure and any other items specifically designed by Supplier, its contractors or subcontractors for a period of [*] after Redelivery of such Contract Aircraft to Customer; and

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- (d) Defects with respect to any Warranty Services, other than Conversion Services performed on a Contract Aircraft structure, inclusive of the accessories, equipment, parts or components installed on a Contract Aircraft, for the first to occur of (i) [*] following Redelivery of such Contract Aircraft to Customer; or (ii) the next scheduled maintenance check covering such Warranty Services.

Each of the periods of Warranty applicability referred to in paragraphs 1.3(a) to 1.3(c) above are defined as a “**Warranty Period**”.

- 1.4 It is understood that, if Supplier is able, using its reasonable endeavours, to assign an applicable OEM warranty to Customer with respect to an accessory, equipment, part or component that is at least equal in scope and benefit to this Warranty (an “**OEM Warranty**”) and such OEM Warranty is assigned to Customer, then Customer shall pursue its warranty rights under such OEM Warranty in addition to pursuing its rights under this Warranty, and any compensation or relief provided to Customer under that OEM Warranty shall reduce Supplier’s obligations under this Warranty.

SECTION 2 WARRANTY WORK

- 2.1 Supplier undertakes to complete, at its cost and expense, with respect to any Defect reasonably demonstrated to be a Defect covered by this Warranty and with respect to which Supplier has received notice from Customer at any time during the applicable Warranty Period, any repairs, replacements or corrections required by exercise of this Warranty by Customer (including engineering design, preparation of parts, materials and kits required and the installation thereof) or which is required by the Civil Aviation Authorities or otherwise relating to the Warranty Services (“**Warranty Work**”).
- 2.2 Customer may request that Warranty Work be conducted at another repair facility approved in writing in advance by Supplier (an “**Alternative Repair Facility**”). Supplier shall respond promptly, and in any event within three (3) Business Days, to any request by Customer to conduct Warranty Work at an Alternative Repair Facility. Upon written request by Customer, Supplier shall promptly deliver, at its cost and expense, to the designated Alternative Repair Facility, all material necessary to correct any Defect related to the Warranty Services in accordance with this Agreement and any applicable Civil Aviation Authority requirements, within the time period allocated by the Civil Aviation Authority, if and as applicable, and pay for all labour and redelivery charges.
- 2.3 If Supplier shall not approve of such other repair facility, it may send a field team to the location of a Contract Aircraft to perform Warranty Work at no cost to Customer.
- 2.4 Supplier may send appropriate representatives to supervise all Warranty Work performed at the cost and expense of Supplier.

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- 2.5 In performing its obligations under this Warranty, Supplier shall, in all events, use its best commercial efforts to perform or to secure the performance of Warranty Work (including any replacements of Defective accessories, equipment, parts or components as permitted under Section 3 below) as promptly as reasonably possible and with the least reasonable disruption to Customer's (or its lessee's or Aircraft Operator's) operations. Without limiting the foregoing, Supplier shall commence work, or cause work to be commenced, to repair or replace any Defect within twenty-four (24) hours following either Supplier's acceptance of the relevant claim as a Valid Warranty Claim or a Third Party Expert Warranty Determination that the relevant claim is a Valid Warranty Claim. In addition, at the request of Customer and with the consent of Supplier, which shall not be unreasonably withheld, Supplier will commence work, or cause work to be commenced, to repair or replace any Defect prior to the acceptance or determination of the relevant claim as a Valid Warranty Claim, provided that the reasonable cost of such work shall be reimbursed by Customer to Supplier if the claim is ultimately determined not to be a Valid Warranty Claim.

SECTION 3 WARRANTY WORK FOR OTHER SERVICES

- 3.1 During the Warranty Periods at paragraph 1.3(a) to 1.3(d) Supplier undertakes at Supplier's option, either to repair such Defect in the accessory, equipment, part or component in which the Defect appears, or, to replace such accessory, equipment, part or component with a similar item free from Defects.

SECTION 4 WARRANTY WORK AT SUPPLIER'S EXPENSE

- 4.1 All Warranty Work shall be performed by Supplier at its expense, and with reasonable care and skill.
- 4.2 The freight charge for the return shipment by Customer to Supplier of items and the reasonable ferry costs of Aircraft, in which there is a Defect which is the subject of Warranty Work shall be at Customer's expense; provided that, if it is confirmed prior to the shipment that there is a Defect in such items, Supplier shall pay such charges and costs, and, if it is confirmed after the shipment that there is such a Defect, Supplier shall reimburse to Customer the charges and costs promptly upon Supplier's receipt of an invoice from Customer. All Warranty Work shall be performed by Supplier or an Alternative Repair Facility at Supplier's expense at the Supplier Site or an Alternative Repair Facility, and Customer shall at Supplier's option either:
- (a) return to Supplier, at the Supplier Site, a Contract Aircraft and/or the accessory, equipment, part or component (as the case may be); or

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- (b) have the accessory, equipment, part or component repaired and installed or a replacement accessory, equipment, part or component supplied by Supplier installed at an Alternative Repair Facility;

provided, however, in the event any Warranty claim made by Customer under this Warranty is determined not to be a Valid Warranty claim (as defined in paragraph 9.5(a)) whether such determination is made by the Parties or the Third Party Expert (as defined in paragraph 9.4(a)(i)) or Supplier (and accepted by Customer without submission to a Third Party Expert) (in which case Supplier shall have provided to Customer written substantiation of its findings), all the direct costs associated therewith, including, but not limited to, freight, insurance and testing, shall be borne by Customer.

- 4.3 If a Warranty claim by Customer hereunder is determined to be a Valid Warranty Claim, Supplier shall be responsible for the freight charge for the return shipment of items and the reasonable return ferry costs of Aircraft, in which there is a Defect which is the subject of Warranty Work (or of any replacements therefor) from Supplier or an Alternative Repair Facility to Customer, and Supplier shall bear all risks of such shipment of items (but not the risks with respect to the ferry of an Aircraft). If a Warranty claim is determined not to be a Valid Warranty Claim, Customer shall be responsible for all such freight charges and ferry costs, and for all risks of such shipment or ferry.

SECTION 5 CUSTOMER-FURNISHED EQUIPMENT EXCLUDED

- 5.1 This Warranty only applies to Defects in Customer-Furnished Equipment, to the extent that Supplier warrants that the workmanship incorporated in the installation of Customer-Furnished Equipment shall be free of Defects.
- 5.2 Supplier shall assist Customer in enforcing any rights which Customer may have against any manufacturer of any such Customer-Furnished Equipment under any warranty obtained for Customer as aforesaid.

SECTION 6 LIMITATIONS AND EXCLUSIONS

- 6.1 Supplier shall have no liability under this Schedule 8 in respect of any Defect:
 - (a) which results from any negligent act or omission of Customer, including, but not limited to, any failure to operate, maintain or store a Contract Aircraft in accordance with governmental regulations, manufacturer's instructions, Supplier's reasonable instructions, or other applicable instructions;
 - (b) which is attributable to or constitutes normal wear and tear;

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- (c) which results from a Contract Aircraft or any Supplier part, systems part or vendor part having been repaired, altered or modified after Redelivery except by Supplier or in a manner approved by Supplier, each approval not to be unreasonable withheld;
 - (d) which results from a Contract Aircraft or any Supplier part, systems part or vendor part having been operated in a damaged state, except where such Defect occurs in flight or where such operation of the Contract Aircraft is carried out under approved instructions for the purpose of returning the Contract Aircraft or any Supplier part for repair; or
 - (e) which results from F.O.D., misuse, or accident.
- 6.2 Supplier shall have no liability under this Schedule 8 in respect of any Supplier part, systems part or vendor part from which the trademark, name part or serial number or other identification numbers have been removed or defaced as a result of an act or omission by Customer.
- 6.3 Notwithstanding any provisions to the contrary contained in this Agreement, Supplier shall have no obligation to Customer in respect of this Warranty in relation to a Contract Aircraft, if any sum is due and outstanding by Customer under this Agreement beyond any applicable notice period, provided that this provision shall only have effect for the period during which any such sum is due and outstanding and is not being withheld pursuant to a bona fide dispute and Customer shall have the full benefit of the provisions of this Warranty upon payment of all such sums.

SECTION 7 WAIVER

- 7.1 THIS WARRANTY IS EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED (INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND ANY IMPLIED WARRANTY ARISING FROM THE COURSE OF PERFORMANCE, COURSE OF DEALING, OR USAGE OF TRADE), OF ANY NATURE WHATSOEVER, WHETHER ARISING IN CONTRACT, TORT OR NEGLIGENCE OF ANY DEGREE, STRICT LIABILITY OR OTHERWISE, AND CUSTOMER HEREBY WAIVES ALL OTHER RIGHTS, OBLIGATIONS AND/OR WARRANTIES AND ASSUMES ALL RISKS AND LIABILITIES IN RESPECT THEREOF.
- 7.2 Except as provided in paragraph 7.1 above or elsewhere in this Schedule 8, the extent of Supplier's liability under this Warranty shall not exceed the cost of repairing or replacing any Defective part/s or Warranty Services or correcting any design Defect and the cost of shipping any parts or equipment to and from the location of such repair, replacement or correction.

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SECTION 8 TITLE TO PARTS

- 8.1 All accessories, equipment, parts or components provided by Supplier hereunder shall become part of a Contract Aircraft and shall become the property of Customer upon full payment as required under Clause 11 (Prices and Terms of Payment).
- 8.2 Supplier shall transfer to Customer good title to all such accessories, equipment, parts and components, and shall return each Contract Aircraft to Customer upon Redelivery, free and clear of all liens, claims or rights of any other Persons, other than Persons claiming through Customer.

SECTION 9 PROCEDURE FOR DETERMINING A VALID WARRANTY CLAIM

9.1 Notice of Claim

- (a) If Customer discovers, or learns of, any alleged Defect which Customer believes gives rise to a Warranty claim (other than a claim related to patent, copyright or trademark infringement under the IP Indemnity) (a “**Warranty Claim**”), Customer shall give written notice to Supplier of such claim (“**Warranty Notice**”);
- (b) The Warranty Notice shall include:
 - (i) a description of the Warranty Claim in reasonable detail; and
 - (ii) a description of Customer’s assessment of the Warranty Work which must be performed to remedy the Warranty Claim.

9.2 Claim Acceptance and Rejection

Supplier shall, within fifteen (15) Business Days after receipt of both (i) a Warranty Notice; and (ii) the materials that are the subject of such Warranty Notice (the “**Warranty Notice Period**”) (which materials will be deemed received by Supplier for this purpose if shipped or ferried to an Alternative Repair Facility permitted under the provisions of this Schedule 8), inspect the materials or workmanship which are the subject of the Warranty Notice and give notice to Customer of the Warranty Claims included in the Warranty Notice which Supplier accepts (“**Accepted Warranty Claims**”) and the Warranty Claims included in the Warranty Notice which Supplier disputes (“**Disputed Warranty Claims**”) (together the “**Supplier Warranty Response**”).

CAM Conversion Agreement

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9.3 Third Party Expert Determination

- (a) Supplier and Customer shall make reasonable efforts to resolve any Disputed Warranty Claims.
- (b) If Supplier and Customer are not able to resolve any Warranty Claims by agreement and withdrawal of such Warranty Claims, Customer and Supplier shall, within fifteen (15) Business Days after receipt by Supplier of the Warranty Notice, instruct the Third Party Expert, as defined at paragraph 9.4(a)(i) below, to conduct an inspection of the affected Aircraft, parts, or documentation provided by Customer to Supplier which is all of the workmanship which is the subject of the Disputed Warranty Claim (the “**Expert Inspection**”).
- (c) Customer and Supplier shall have the right to be present at the Expert Inspection and to present, at or before the Expert Inspection, their written positions concerning the Disputed Warranty Claims.
- (d) If Customer’s assessment of the Warranty Work consists solely of line maintenance, then Customer may have the Defect repaired at an Alternative Repair Facility prior to the Third Party Expert’s inspection, provided that Customer provides reasonable documentation to Supplier of the Warranty Work. Supplier shall not be obliged to pay the costs and expenses of repairs under this paragraph 9.3(d) unless the Warranty Claim is found to be a Valid Warranty Claim, as defined at paragraph 9.5(a), by agreement of Customer and Supplier or the Third Party Expert, as applicable.
- (e) As soon as possible after the Expert Inspection, the Third Party Expert shall deliver to Customer and Supplier the Third Party Expert’s written determination of whether or not the Disputed Warranty Claims are Valid Warranty Claims (a “**Third Party Expert Warranty Determination**”). The Third Party Expert Warranty Determination shall be binding on Customer and Supplier.

9.4 Selection of Third Party Expert

- (a) The Third Party Expert shall be selected as follows:
 - (i) Not less than three (3) Business Days prior to the date set forth in Clause 9.3(b) of this Schedule 8, Customer and Supplier shall mutually and reasonably agree on the appointment of a single Person, qualified in the aircraft discipline relevant to the Disputed Warranty Claim, to act as a third party expert to make the required determination (a “**Third Party Expert**”), whereupon Supplier shall obtain the acceptance of the appointment by the Third Party Expert as soon as practicable and give notice of such Third Party Expert acceptance to Customer (an “**Acceptance Notice**”).

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- (ii) If the Third Party Expert does not accept the appointment within two (2) Business Days, Customer and Supplier shall mutually and reasonably agree on another Third Party Expert to make the required determination; and Supplier shall obtain such other party's acceptance and notify Customer of the acceptance, in accordance with the procedure at 9.4(a)(i).

9.5 Assessment of Third Party Expert Expenses

- (a) Any warranty claims which are Accepted Warranty Claims or which are determined to be Valid Warranty Claims in a Third Party Expert Warranty Determination shall be valid Warranty Claims for purposes of this Schedule 8 (a "**Valid Warranty Claim**").
- (b) If the Third Party Expert determines that all of the Disputed Warranty Claims submitted to the Third Party Expert for a validity determination are Valid Warranty Claims, then Supplier shall bear the expense of the Third Party Expert.
- (c) If the Third Party Expert determines that all of the Disputed Warranty Claims submitted to the Third Party Expert for a validity determination are not Valid Warranty Claims, then Customer shall bear the expense of the Third Party Expert.
- (d) If the Third Party Expert determines that some of the Disputed Warranty Claims submitted to the Third Party Expert are Valid Warranty Claims and some are not, then the expenses of the Third Party Expert shall be apportioned between Supplier and Customer as determined by the Third Party Expert.

SECTION 10 PRIMARY BENEFIT

- 10.1 The Parties acknowledge that this Warranty shall be for the primary benefit of Customer and lessees (and, any subsequent lessee of a Contract Aircraft upon prior written notice to Supplier of each such lessee).

CAM Conversion Agreement

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Schedule 9

Variation Particulars Form

Form of SUPPLIER VARIATION PARTICULARS FORM

In response to the requisition for incorporation of the Supplier Variation ref: ● (details attached).

It is agreed that incorporation of the Supplier Variation will be carried out on the following basis:

i) Impact on the STC Development Program

To be confirmed by _____ on completion of design work in i) above.

a) This Supplier Variation, if incorporated, has no impact on the STC Development Program.

or

b) Incorporation of this Supplier Variation will extend the STC Development Program by ... days and the revised STC delivery date will be _____

ii) Impact on the Conversion weight

a) This Supplier Variation, if incorporated, has no impact on the Conversion Weight Change

or To be advised by _____ on completion of design work in i) above.

b) The effect on the Conversion Weight Change is : [] lbs

iv) Any other consequences Yes or No _____ if yes, please described
(use separate sheet if necessary)

iii) CUSTOMER Approval

a) **Required** _____

or

b) **Not Required** _____ [ever not required? Mandatory change?]

CAM Conversion Agreement

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[Add Customer]

Issued by Supplier

Approved by CUSTOMER (if required)

For and on behalf of Supplier

For and on behalf of CUSTOMER

Date

Date

[add Customer]

CAM Conversion Agreement

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CUSTOMER VARIATION PARTICULARS FORM

In response to the requisition for incorporation of Customer Variation ref: • (details attached). It is agreed that incorporation of the Customer Variation will be carried out on the following basis:

i) Customer Variation Price [paid by Supplier; may be passed on to Customer][mandatory?]

a) Not Recurring Price

	<u>Labour</u>		<u>Materials</u>	<u>Total</u>
<u>Manhours</u>	<u>Rate</u>	\$	\$	\$

- Provisional price for design work only, full costings to be provided to the by _____

b) Recurring Price

	<u>Labour</u>		<u>Materials</u>	<u>Total</u>
<u>Manhours</u>	<u>Rate</u>	\$	\$	\$

ii) Impact on the STC Development Program

To be confirmed by _____ on completion of design work in i) above.

- b) This Customer Variation, if incorporated, has no impact on the STC Development Programme.

or

- b) Incorporation of this Customer Variation will extend the STC Development Program by ____ days and the revised STC delivery date will be _____

iii) Impact on the Conversion weight

- b) This Customer Variation, if incorporated, has no impact on the Conversion weight

or To be advised by _____ on completion of design work in i) above.

- b) The effect on the Conversion weight is : [] lbs

iv) Any other consequences Yes or No ____ if yes, please described
(use separate sheet if necessary)

CAM Conversion Agreement

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v) Approval

Issued by Supplier

Approved by CUSTOMER

For and on behalf of Supplier

For and on behalf of CUSTOMER

Date

Date

[add Customer]

CAM Conversion Agreement

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Schedule 10

Extra Work Form

Aircraft Reg. No.: _____

Date: _____

Add: _____

Aircraft Serial No.: _____

NOTE – This form not to be used for changes to the Specification (a Variation Particulars Form shall be completed to document changes to the Specification).

In accordance with the terms and conditions of that certain Conversion Agreement, dated as of _____, [200__], the following Extra Work is hereby [requested][proposed]:

ADDITIONAL [MANHOURS][DAYS] REQUIRED TO COMPLETE EXTRA WORK DETAILED ABOVE:

SCHEDULED COMPLETION DATE: _____

CONFIRM NO IMPACT ON OEW OR, IF IMPACT DESCRIBE THE IMPACT: _____

Approved and Authorised by: _____
[Customer Representative]

Approved and Accepted by: _____
[Supplier Representative]

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Schedule 11

Aircraft Status Report

<u>Key Dates</u>	<u>Date Required Performance</u>	<u>Actual Date Performance</u>		<u>Pacing Items for Next Aircraft Status Report</u>
Aircraft Arrival On site:				1
Induction Date:				2
Contract Completion Date:				3
Current Projected Completion:				4
Not to Exceed Date:				5
Plug (Needed vs. Actual)				
Door (Needed vs. Actual)				
<u>Key Metrics</u>	<u>This Week</u>	<u>Last Week</u>	<u>Trend</u>	<u>Accomplishments for this Aircraft Status Report</u>
% Buffer Consumed				1
% Progress on the Longest Chain				2
Projected Delivery Date				3
Logistics: Parts Shortages				4
				5
Logistics: Parts shortages w/o date				6
Project Cycle Time				
Routine Cards Open				
Routine Cards Closed				
Non-Routine Cards Open				
Non-Routine Cards Closed				
RFTA's				
REA's				
				<u>Slippages this Week</u>

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: November 3, 2010

/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: November 3, 2010

/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 September 30, 2010 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: November 3, 2010