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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

Commission file number 000-50368



(Exact name of registrant as specified in its charter)

**Delaware
(State of Incorporation)**

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

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

937-382-5591

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of August 8, 2013, 64,672,632 shares of the registrant's common stock, par value \$0.01, were outstanding.

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

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FORWARD LOOKING STATEMENTS

Statements contained in this quarterly report on Form 10-Q that are not historical facts are considered forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995). Words such as “projects,” “believes,” “anticipates,” “will,” “estimates,” “plans,” “expects,” “intends” and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are based on expectations, estimates and projections as of the date of this filing, and involve risks and uncertainties that are inherently difficult to predict. Actual results may differ materially from those expressed in the forward-looking statements for any number of reasons, including those described in this report and in our 2012 Annual Report filed on Form 10-K with the Securities and Exchange Commission.

Filings with the Securities and Exchange Commission

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
REVENUES	\$ 138,904	\$ 153,554	\$ 282,183	\$ 299,060
OPERATING EXPENSES				
Salaries, wages and benefits	41,964	44,570	85,273	91,674
Fuel	12,440	14,084	26,801	27,924
Maintenance, materials and repairs	25,005	25,270	47,139	48,384
Depreciation and amortization	21,765	21,514	42,685	41,814
Travel	4,772	5,566	9,499	11,544
Rent	6,791	6,244	13,570	11,974
Landing and ramp	1,972	3,880	6,037	7,946
Insurance	1,396	1,826	2,907	3,836
Other operating expenses	8,630	8,998	17,690	18,560
	<u>124,735</u>	<u>131,952</u>	<u>251,601</u>	<u>263,656</u>
OPERATING INCOME	14,169	21,602	30,582	35,404
OTHER INCOME (EXPENSE)				
Interest income	18	38	39	66
Interest expense	(3,554)	(3,671)	(6,686)	(7,218)
Net gain on derivative instruments	452	202	742	662
	<u>(3,084)</u>	<u>(3,431)</u>	<u>(5,905)</u>	<u>(6,490)</u>
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	11,085	18,171	24,677	28,914
INCOME TAX EXPENSE	(4,170)	(6,952)	(9,261)	(11,033)
EARNINGS FROM CONTINUING OPERATIONS	6,915	11,219	15,416	17,881
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAXES	(1)	(160)	(2)	(390)
NET EARNINGS	<u>\$ 6,914</u>	<u>\$ 11,059</u>	<u>\$ 15,414</u>	<u>\$ 17,491</u>
BASIC EARNINGS PER SHARE				
Continuing operations	\$ 0.11	\$ 0.18	\$ 0.24	\$ 0.28
Discontinued operations	—	(0.01)	—	—
TOTAL BASIC EARNINGS PER SHARE	<u>\$ 0.11</u>	<u>\$ 0.17</u>	<u>\$ 0.24</u>	<u>\$ 0.28</u>
DILUTED EARNINGS PER SHARE				
Continuing operations	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.28
Discontinued operations	—	—	—	(0.01)
TOTAL DILUTED EARNINGS PER SHARE	<u>\$ 0.11</u>	<u>\$ 0.17</u>	<u>\$ 0.24</u>	<u>\$ 0.27</u>
WEIGHTED AVERAGE SHARES				
Basic	64,050	63,431	63,931	63,431
Diluted	<u>64,859</u>	<u>64,393</u>	<u>64,692</u>	<u>64,383</u>

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
NET EARNINGS	\$ 6,914	\$ 11,059	\$ 15,414	\$ 17,491
OTHER COMPREHENSIVE INCOME (LOSS):				
Defined Benefit Pension	1,958	1,682	3,916	3,364
Defined Benefit Post-Retirement	(834)	(806)	(1,668)	(1,612)
Gains and Losses on Derivatives	(8)	(9)	(16)	(18)
TOTAL OTHER COMPREHENSIVE INCOME	1,116	867	\$ 2,232	\$ 1,734
TOTAL COMPREHENSIVE INCOME	<u>\$ 8,030</u>	<u>\$ 11,926</u>	<u>\$ 17,646</u>	<u>\$ 19,225</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)

	June 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 20,932	\$ 15,442
Accounts receivable, net of allowance of \$601 in 2013 and \$749 in 2012	43,840	47,858
Inventory	8,491	9,430
Prepaid supplies and other	7,584	8,855
Deferred income taxes	19,154	19,154
Aircraft and engines held for sale	2,716	3,360
TOTAL CURRENT ASSETS	102,717	104,099
Property and equipment, net	855,954	818,924
Other assets	20,419	20,462
Intangibles	5,021	5,146
Goodwill	86,980	86,980
TOTAL ASSETS	\$ 1,071,091	\$ 1,035,611
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 39,455	\$ 36,521
Accrued salaries, wages and benefits	18,893	22,917
Accrued expenses	8,797	8,502
Current portion of debt obligations	23,426	21,265
Unearned revenue	10,408	10,311
TOTAL CURRENT LIABILITIES	100,979	99,516
Long term debt obligations	365,330	343,216
Post-retirement liabilities	169,858	185,097
Other liabilities	60,592	62,104
Deferred income taxes	56,806	46,422
TOTAL LIABILITIES	753,565	736,355
Commitments and contingencies (Note G)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 20,000,000 shares authorized, including 75,000 Series A Junior Participating Preferred Stock	—	—
Common stock, par value \$0.01 per share; 75,000,000 shares authorized; 64,672,632 and 64,130,056 shares issued and outstanding in 2013 and 2012, respectively	647	641
Additional paid-in capital	523,706	523,087
Accumulated deficit	(91,772)	(107,185)
Accumulated other comprehensive loss	(115,055)	(117,287)
TOTAL STOCKHOLDERS' EQUITY	317,526	299,256
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,071,091	\$ 1,035,611

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2013	2012
OPERATING ACTIVITIES:		
Net earnings from continuing operations	\$ 15,416	\$ 17,881
Net loss from discontinued operations	(2)	(390)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	42,685	41,814
Pension and post-retirement	3,530	2,781
Deferred income taxes	9,111	10,722
Amortization of stock-based compensation	1,275	1,816
Amortization of DHL promissory note	(3,100)	(3,100)
Net gain on derivative instruments	(742)	(662)
Changes in assets and liabilities:		
Accounts receivable	4,023	3,793
Inventory and prepaid supplies	1,689	501
Accounts payable	(2,243)	(10,625)
Unearned revenue	(3,079)	6,420
Accrued expenses, salaries, wages, benefits and other liabilities	(2,964)	(718)
Pension and post-retirement liabilities	(15,239)	(5,276)
Other	(2,329)	(343)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>48,031</u>	<u>64,614</u>
INVESTING ACTIVITIES:		
Capital expenditures	(72,841)	(69,463)
Proceeds from property and equipment	1,310	2,482
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(71,531)</u>	<u>(66,981)</u>
FINANCING ACTIVITIES:		
Principal payments on long term obligations	(32,625)	(5,609)
Proceeds from bank borrowings	60,000	25,000
Reimbursement of hangar construction costs	1,615	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>28,990</u>	<u>19,391</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,490	17,024
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,442	30,503
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 20,932</u></u>	<u><u>\$ 47,527</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of amount capitalized	\$ 6,417	\$ 6,257
Federal alternative minimum and state income taxes paid	\$ 666	\$ 271
SUPPLEMENTAL NON-CASH INFORMATION:		
Debt extinguished	\$ 3,100	\$ 3,100
Accrued capital expenditures	\$ 9,947	\$ 10,351

See notes to unaudited condensed consolidated financial statements.

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

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

Nature of Operations

Air Transport Services Group, Inc. is a holding company whose principal subsidiaries include an aircraft leasing company and independently certificated airlines. Air Transport Services Group, Inc. and its subsidiaries, (the "Company") provides airline operations, aircraft leases, aircraft maintenance and other support services primarily to the cargo transportation and package delivery industries. The Company offers a range of complementary services to delivery companies, freight forwarders, airlines and government customers.

The airlines, ABX Air, Inc. ("ABX") and Air Transport International, Inc. ("ATI"), each have the authority, through their separate U.S. Department of Transportation ("DOT") and Federal Aviation Administration ("FAA") certificates, to transport cargo worldwide. The Company's leasing subsidiary, Cargo Aircraft Management, Inc. ("CAM"), leases aircraft to each of the Company's airlines as well as to non-affiliated airlines and other lessees.

The Company provides aircraft and airline operations to its customers, typically under contracts providing for a combination of aircraft, crews, maintenance and insurance ("ACMI") services. The Company serves a base of concentrated customers who have a diverse line of international cargo traffic. DHL Network Operations (USA), Inc. and its affiliates, "DHL," is the Company's largest customer. ATI provides passenger transportation, primarily to the U.S. Military, using "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, and operates mail sorting facilities for the U.S. Postal Service ("USPS").

Basis of Presentation

The accompanying unaudited condensed financial statements include the accounts of Air Transport Services Group, Inc. and its wholly-owned subsidiaries. Inter-company balances and transactions have been eliminated. The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, the accompanying financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the audited financial statements of the Company and notes thereto included in the annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2012.

In the opinion of management, the accompanying financial statements contain all adjustments, including normal recurring adjustments, necessary for the fair presentation of the Company's results of operations and financial position for the periods presented.

Use of Estimates

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

Cash and Cash Equivalents

The Company classifies short-term, highly liquid investments with maturities of three months or less at the time of purchase as cash and cash equivalents. These investments, consisting of money market funds, are recorded at cost,

which approximates fair value. Substantially all deposits of the Company's cash are held in accounts that exceed federally insured limits. The Company deposits cash in common financial institutions which management believes are financially sound.

Accounts Receivable and Allowance for Uncollectible Accounts

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

Inventory

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

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

Goodwill and Intangible Assets

The Company assesses, during the fourth quarter of each year, the carrying value of goodwill. Finite-lived intangible assets are amortized over their estimated useful economic lives. The Company also conducts impairment assessments of goodwill, indefinite-lived intangible assets and finite-lived intangible assets whenever events or changes in circumstance indicate an impairment may have occurred.

Property and Equipment

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

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

DC-8 combi aircraft and flight equipment	Less than 1 year
Boeing 767 and 757 aircraft and flight equipment	10 to 20 years
Support equipment	5 to 10 years
Vehicles and other equipment	3 to 8 years

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

Aircraft and other long-lived assets are tested for impairment when circumstances indicate the carrying value of the assets may not be recoverable. To conduct impairment testing, the Company groups assets and liabilities at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset group is less than the carrying value. If impairment exists, an adjustment is made to write the assets down to 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. For assets held for sale, impairment is recognized when the fair value less the cost to sell the asset is less than the carrying value.

The Company's accounting policy for major airframe and engine maintenance varies by subsidiary and aircraft type. The costs for ABX's Boeing 767-200 airframe maintenance, which is the majority of the Company's aircraft fleet, are expensed as they are incurred. The costs of major airframe maintenance for the Company's other aircraft are capitalized and amortized over the useful life of the overhaul. The Company's 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, the 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, including those on the Boeing 767-300 and Boeing 757 aircraft, are typically contracted to service providers on a time and material basis and the costs of those engine overhauls are capitalized and amortized over the useful life of the overhaul.

Under certain leases, the Company is required to make periodic payments to the lessor for future maintenance events such as engine overhauls and major airframe maintenance. These payments are recorded as deposits until drawn for qualifying maintenance costs. The maintenance costs are expensed or capitalized in accordance with the airline's accounting policy for major airframe and engine maintenance. The Company evaluates at the balance sheet date, whether it is probable that an amount on deposit will be returned by the lessor to reimburse the costs of the maintenance activities. When an amount on deposit is less than probable of being returned, it is recognized as additional maintenance expense.

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 \$0.3 million and \$0.6 million for the quarters ended June 30, 2013 and 2012, respectively and \$1.0 million and \$1.3 million for the six month periods ended June 30, 2013 and 2012, respectively.

Discontinued Operations

A business component whose operations are discontinued is reported as discontinued operations if the cash flows of the component have been eliminated from the ongoing operations of the Company, and the Company will no longer have any significant continuing involvement in the business component. The results of discontinued operations are aggregated and presented separately in the consolidated statements of operations.

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

Exit Activities

One-time, involuntary employee termination benefits are generally expensed when the Company communicates the benefit arrangement to the employee that it will no longer require the services of the employee beyond a minimum retention period. Liabilities for contract termination costs associated with exit activities are recognized in the period incurred and measured initially at fair value.

Self-Insurance

The Company is self-insured for certain workers' compensation, employee healthcare, automobile, aircraft, and general liability claims. The Company maintains excess claim coverage with common insurance carriers to mitigate its exposure to large claim losses. The Company records a liability for reported claims and an estimate for incurred claims that have not yet been reported. Accruals for these claims are estimated utilizing historical paid claims data and recent claims trends. Other liabilities included \$30.6 million and \$31.6 million at June 30, 2013 and December 31, 2012, respectively, for self-insured reserves. Changes in claim severity and frequency could result in actual claims being materially different than the costs accrued.

Income Taxes

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

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

Comprehensive Income

Comprehensive income includes net earnings and other comprehensive income or loss. Other comprehensive income or loss results from certain changes in the Company's liabilities for pension and other post-retirement benefits and gains and losses associated with interest rate hedging instruments.

Fair Value Information

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

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

Revenue Recognition

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

NOTE B—SIGNIFICANT CUSTOMERS

DHL

The Company has had long term contracts with DHL since August 2003. Revenues from continuing operations performed for DHL were approximately 56% and 54% of the Company's consolidated revenues from continuing operations for the three and six month periods ended June 30, 2013, respectively, compared to 54% and 52% for the corresponding periods of 2012. The Company's balance sheets include accounts receivable with DHL of \$19.4 million and \$18.3 million as of June 30, 2013 and December 31, 2012, respectively.

The Company leases Boeing 767 aircraft to DHL under both long-term and short-term lease agreements. Under a separate crew, maintenance and insurance ("CMI") agreement, the Company operates Boeing 767 aircraft that DHL leases from the Company and Boeing 767 aircraft that DHL owns. Pricing for services provided through the CMI agreement is based on pre-defined fees, scaled for the number of aircraft operated and the number of flight crews provided to DHL for its U.S. network. The Company provides DHL with scheduled maintenance services for aircraft that DHL leases or owns. The Company also provides Boeing 767 and Boeing 757 air cargo transportation services for DHL through additional ACMI agreements in which the Company provides the aircraft, crews, maintenance and insurance under a single contract. Revenues generated from the ACMI agreements are typically based on hours flown. The Company also provides ground equipment, such as power units, air starts and related maintenance services to DHL under separate agreements.

U.S. Military

A substantial portion of the Company's revenues are also derived from the U.S. Military. The U.S. Military awards flights to U.S. certificated airlines through annual contracts and through temporary "expansion" routes. Revenues from services performed for the U.S. Military were approximately 16% and 17% of the Company's total revenues from continuing operations for the three and six month periods ending June 30, 2013, respectively, compared to 16% and 16% for the corresponding periods of 2012. The Company's balance sheets included accounts receivable with the U.S. Military of \$3.7 million and \$4.2 million as of June 30, 2013 and December 31, 2012, respectively.

NOTE C—GOODWILL AND OTHER INTANGIBLES

The Company has two reporting units that have goodwill, ATI (a component of the ACMI Services segment) and CAM. The carrying amounts of goodwill by reportable segment, are as follows (in thousands):

	ACMI Services	CAM	Total
Carrying value as of December 31, 2012	\$ 52,585	\$ 34,395	\$ 86,980
Carrying value as of June 30, 2013	\$ 52,585	\$ 34,395	\$ 86,980

The Company's intangible assets relate to the ACMI Services segment and are as follows (in thousands):

	Customer Relationships	Airline Certificates	Total
Carrying value as of December 31, 2012	\$ 2,146	\$ 3,000	\$ 5,146
Amortization	(125)	—	(125)
Carrying value as of June 30, 2013	\$ 2,021	\$ 3,000	\$ 5,021

The customer relationship intangible amortizes over eight more years. The airline certificates have an indefinite life and therefore are not amortized.

NOTE D—FAIR VALUE MEASUREMENTS

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

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

As of June 30, 2013	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents—money market	\$ 5,020	\$ 8,595	\$ —	\$ 13,615
Total Assets	\$ 5,020	\$ 8,595	\$ —	\$ 13,615
Liabilities				
Interest rate swaps	\$ —	\$ (2,404)	\$ —	\$ (2,404)
Total Liabilities	\$ —	\$ (2,404)	\$ —	\$ (2,404)
As of December 31, 2012	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents—money market	\$ 18	\$ 339	\$ —	\$ 357
Total Assets	\$ 18	\$ 339	\$ —	\$ 357
Liabilities				
Interest rate swaps	\$ —	\$ (3,146)	\$ —	\$ (3,146)
Total Liabilities	\$ —	\$ (3,146)	\$ —	\$ (3,146)

As a result of lower market interest rates for the aircraft loans compared to the stated interest rates of the Company's fixed rate debt obligations, the fair value of the Company's debt obligations, based on Level 2 observable inputs, was approximately \$3.1 million more than the carrying value, which was \$388.8 million at June 30, 2013. The non-financial assets, including goodwill, intangible assets and property and equipment are measured at fair value on a non-recurring basis.

NOTE E—PROPERTY AND EQUIPMENT

The Company's property and equipment consists primarily of cargo aircraft, aircraft engines and flight equipment. Property and equipment, to be held and used, is summarized as follows (in thousands):

	June 30, 2013	December 31, 2012
Aircraft and flight equipment	\$ 1,217,891	\$ 1,148,781
Support equipment	51,680	52,209
Vehicles and other equipment	1,653	1,597
Leasehold improvements	982	814
	<u>1,272,206</u>	<u>1,203,401</u>
Accumulated depreciation	(416,252)	(384,477)
Property and equipment, net	<u>\$ 855,954</u>	<u>\$ 818,924</u>

CAM owned aircraft with a carrying value of \$260.8 million and \$273.4 million that were under leases to external customers as of June 30, 2013 and December 31, 2012, respectively.

The carrying value of Boeing 727 and DC-8 freighter aircraft and engines available for sale totaled \$2.7 million and \$3.4 million as of June 30, 2013 and December 31, 2012, respectively.

NOTE F—DEBT OBLIGATIONS

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

	June 30, 2013	December 31, 2012
Unsubordinated term loan	\$ 138,750	\$ 144,375
Revolving credit facility	180,000	143,000
Aircraft loans	59,156	63,156
Promissory note due to DHL, unsecured	10,850	13,950
Total long term obligations	<u>388,756</u>	<u>364,481</u>
Less: current portion	(23,426)	(21,265)
Total long term obligations, net	<u>\$ 365,330</u>	<u>\$ 343,216</u>

The Company executed a syndicated credit agreement ("Senior Credit Agreement") in May 2011 which includes an unsubordinated term loan and a revolving credit facility. In July 2012, the Company executed the first amendment to the Senior Credit Agreement ("Credit Amendment"). The Credit Amendment increased the amount available under the revolving credit facility by \$50.0 million to \$225.0 million, extended the maturity of the term loan and revolving credit facility to July 20, 2017, and provided for an accordion feature whereby the Company may draw up to an additional \$50.0 million, subject to the lenders' consent.

Under the terms of the Senior Credit Agreement, interest rates are adjusted quarterly based on the Company's earnings before interest, taxes, depreciation and amortization expenses ("EBITDA"), its outstanding debt level and prevailing LIBOR or prime rates. At the Company's current debt-to-EBITDA ratio, the LIBOR based financing for the unsubordinated term loan and revolving credit facility bear a variable interest rate of 2.575% and 2.575%, respectively. The Credit Amendment did not affect the EBITDA based pricing or covenants of the Senior Credit Agreement. The Senior Credit Agreement provides for the issuance of letters of credit on the Company's behalf. As of June 30, 2013, the unused revolving credit facility totaled \$33.8 million, net of draws of \$180.0 million and outstanding letters of credit of \$11.2 million.

The aircraft loans are collateralized by six aircraft, and amortize monthly with a balloon payment of approximately 20% with maturities between 2016 and early 2018. Interest rates range from 6.74% to 7.36% per annum payable monthly.

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

The Senior Credit Agreement is collateralized by certain of the Company's Boeing 767 and 757 aircraft that are not collateralized under aircraft loans. Under the terms of the Senior Credit Agreement, the Company is required to maintain collateral coverage equal to 150% of the outstanding balance of the term loan and total capacity of the revolving credit facility. The Senior Credit Agreement contains covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, as well as a total debt to EBITDA ratio and a fixed charge coverage ratio. The Senior Credit Agreement stipulates events of default, including unspecified events that may have material adverse effects on the Company. If an event of default occurs, the Company may be forced to repay, renegotiate or replace the Senior Credit Agreement. The Company is currently in compliance with the financial covenants specified in the Senior Credit Agreement. The Senior Credit Agreement limits the amount of dividends the Company can pay and the amount of common stock it can repurchase to \$50.0 million during any calendar year, provided the Company's total debt to EBITDA ratio is under two times, after giving effect to the dividend or repurchase. Under the provisions of its promissory note due to DHL, the Company is required to prepay the DHL note in the amount of \$0.20 for each dollar of dividend distributed to its stockholders. The same prepayment stipulation applies to stock repurchases.

NOTE G—COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases six Boeing 767 aircraft, airport facilities, office space, maintenance facilities and certain equipment under operating leases. In December 2012, the Company entered into agreements with the Clinton County Port Authority ("CCPA") to construct and lease an aircraft hangar in Wilmington, Ohio, adjacent to the existing aircraft maintenance facility currently leased by the Company. The Company is acting as the construction agent for the CCPA and began construction of the 100,000 square foot aircraft hangar in January 2013. While the current facility houses aircraft as large as the Boeing 767, the new hangar will provide the capability of servicing aircraft as large as a Boeing 747 and a Boeing 777. The hangar is anticipated to cost approximately \$15.7 million and is expected to take 12 to 14 months to complete. The CCPA is financing the construction of the hangar primarily through a State of Ohio bond program and a State of Ohio loan on incremental taxes. The costs incurred to build the hangar are included in "Property and equipment" and the amounts reimbursed through the State of Ohio and the CCPA are included in "Other liabilities" on the Company's balance sheet. The Company will begin to make lease payments for the hangar directly to the trustee for the State of Ohio beginning in 2014.

Aircraft Commitments

In August 2010, the Company entered into an agreement with M&B Conversions Limited and Israel Aerospace Industries Ltd. ("IAI"), for the conversion by IAI of up to ten Boeing 767-300 series passenger aircraft to a standard freighter configuration during the 10-year term of the agreement. As of June 30, 2013, five such aircraft have completed the modification process and two Boeing 767-300 aircraft were undergoing modification to a standard freighter configuration. If the Company were to cancel the conversion program as of June 30, 2013, it would owe IAI approximately \$9.8 million associated with engineering efforts and conversion part kits.

Guarantees and Indemnifications

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

Civil Action Alleging Violations of Immigration Laws

On December 31, 2008, a former ABX employee filed a complaint against ABX, a total of four current and former executives and managers of ABX, Garcia Labor Company of Ohio, and three former executives of the Garcia Labor companies, in the U.S. District Court for the Southern District of Ohio. The case was filed as a putative class action against the defendants, and asserts violations of the Racketeer Influenced and Corrupt Practices Act (RICO). The complaint, which was later amended to include a second former employee plaintiff, seeks damages in an unspecified amount and alleges that the defendants engaged in a scheme to hire illegal immigrant workers to depress the wages paid to hourly wage employees during the period from December 1999 to January 2005.

On December 2, 2011, the plaintiffs agreed to settle this matter in exchange for the payment by ABX to plaintiffs and the putative class members of a monetary amount, which amount management believes to be less than it would have cost to defend the case at trial. The final settlement was approved by the Court on July 9, 2013, and is subject to a 30-day appeal period, after which the funds will be paid over to the class administrator for distribution in accordance with the terms of the settlement agreement.

Brussels Noise Ordinance

The Brussels Instituut voor Milieubeheer ("BIM"), a governmental authority in the Brussels-Capital Region of Belgium that oversees the enforcement of environmental matters, imposed four separate administrative penalties on ABX in the approximate aggregate amount of €0.4 million (\$0.5 million) for numerous alleged violations of an ordinance limiting the noise caused by aircraft overflying the Brussels-Capital Region (which is located near the Brussels Airport) during the period from May 2009 through December 2010. ABX has to date exhausted its appeals with respect to two of the administrative penalties.

The ordinance in question is controversial for the reason that it was adopted by the Brussels-Capital Region and is more restrictive than the noise limitations in effect in the Flemish Region, which is where the Brussels Airport is located. The ordinance is the subject of several court cases currently pending in the Belgian courts and numerous airlines have been levied fines thereunder.

Other

In addition to the foregoing matters, we are also currently a party to legal proceedings, including FAA enforcement actions, in various federal and state jurisdictions arising out of the operation of the Company's business. The amount of alleged liability, if any, from these proceedings cannot be determined with certainty; however, we believe that the Company's 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.

Employees Under Collective Bargaining Agreements

As of June 30, 2013, the flight crewmember employees of ABX and ATI were represented by the labor unions listed below:

Airline	Labor Agreement Unit	Percentage of the Company's Employees
ABX	International Brotherhood of Teamsters	15.1%
ATI	Airline Pilots Association	8.5%

NOTE H—PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Defined Benefit and Post-retirement Healthcare Plans

ABX sponsors a qualified defined benefit pension plan for ABX crewmembers and a qualified defined benefit pension plan for a major portion of its other ABX employees that meet minimum eligibility requirements. ABX also sponsors non-qualified defined benefit pension plans for certain employees. These non-qualified plans are unfunded.

Employees are no longer accruing benefits under any of the defined benefit pension plans. ABX also sponsors a post-retirement healthcare plan for its ABX employees, 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 of our post-retirement costs. The assumptions considered most sensitive in actuarially valuing ABX's pension obligations and determining related expense amounts are discount rates and expected long term investment returns on plan assets. Additionally, other assumptions concerning retirement ages, mortality and employee turnover also affect the valuations. Actual results and future changes in these assumptions could result in future costs significantly higher than those recorded in our results of operations. The Company's net periodic benefit costs for its qualified defined benefit pension plans and post-retirement healthcare plans for both continuing and discontinued operations are as follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Plans		Post-Retirement Healthcare Plan		Pension Plans		Post-Retirement Healthcare Plan	
	2013	2012	2013	2012	2013	2012	2013	2012
Service cost	\$ —	\$ —	\$ 69	\$ 67	\$ —	\$ —	\$ 138	\$ 134
Interest cost	8,989	9,272	66	95	17,978	18,544	132	190
Expected return on plan assets	(11,498)	(9,970)	—	—	(22,996)	(19,940)	—	—
Amortization of prior service cost	—	—	(1,413)	(1,387)	—	—	(2,826)	(2,774)
Amortization of net (gain) loss	3,074	2,670	104	108	6,148	5,340	208	216
Net periodic benefit cost (benefit)	\$ 565	\$ 1,972	\$ (1,174)	\$ (1,117)	\$ 1,130	\$ 3,944	\$ (2,348)	\$ (2,234)

During the three and six month periods ended June 30, 2013, the Company contributed \$6.8 million and \$9.7 million to the pension plans. The Company plans to contribute an additional \$18.0 million in 2013.

NOTE I—INCOME TAXES

The provision for income taxes for interim periods is based on management's best estimate of the effective income tax rate expected to be applicable for the current year, plus any adjustments arising from changes in the estimated amount of taxable income related to prior periods. Income taxes recorded through June 30, 2013 have been estimated utilizing a 37.5% rate based upon year-to-date income and projected results for the full year. The final effective tax rate applied to 2013 will depend on the actual amount of pre-tax book income generated by the Company for the full year.

The Company has operating loss carryforwards for U.S. federal income tax purposes. Management expects to utilize the loss carryforwards to offset federal income tax liabilities in the future. Due to the Company's deferred tax assets, including its loss carryforwards, management does not expect to pay federal income taxes through 2015 or later. The Company may, however, be required to pay alternative minimum taxes and certain state and local income taxes before then.

NOTE J—DERIVATIVE INSTRUMENTS

The Company's Senior Credit Agreement requires the Company to maintain derivative instruments for protection from fluctuating interest rates, for at least fifty percent of the outstanding balance of the term loan. As a result, the Company entered into an interest rate swap in July of 2011 having an initial notional value of \$75.0 million and a forward start date of December 31, 2011. Under this swap, the Company pays a fixed rate of 2.02% and receives a floating rate that resets quarterly based on LIBOR. In addition to the interest rate swap above, the Company entered into an interest rate swap in June of 2013 having an initial notional value of \$65.6 million and a forward start date of December 31, 2013. Under this swap, the Company will pay a fixed rate of 1.1825% and receive a floating rate that resets monthly based on LIBOR.

The outstanding interest rate swaps are not designated as hedges for accounting purposes. The effects of future fluctuations in LIBOR interest rates on derivatives held by the Company will result in the recording of unrealized gains and losses into the statement of earnings. For the quarter ended June 30, 2013, the Company recorded an unrealized gain on derivatives of \$0.5 million to reflect the interest rate swaps at market value. The liability for outstanding derivatives is recorded in other liabilities and in accrued expenses. The table below provides information about the Company's interest rate swaps (in thousands):

<u>Expiration Date</u>	<u>Stated Interest Rate</u>	<u>June 30, 2013</u>		<u>December 31, 2012</u>	
		<u>Notional Amount</u>	<u>Market Value (Liability)</u>	<u>Notional Amount</u>	<u>Market Value (Liability)</u>
May 9, 2016	2.0200%	\$ 69,375	\$ (2,243)	\$ 72,188	\$ (3,146)
June 30, 2017	1.1825%	65,625	(161)	—	—

NOTE K—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes the following items by components for the three and six month periods ended June 30, 2013 and 2012 (in thousands):

	<u>Defined Benefit Pension</u>	<u>Defined Benefit Post-Retirement</u>	<u>Gains and Losses on Derivative</u>	<u>Total</u>
Balance as of March 31, 2012	\$ (108,944)	\$ 6,698	\$ 66	\$ (102,180)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial gain (reclassified to salaries, wages and benefits)	2,670	108	—	2,778
Negative prior service cost (reclassified to salaries, wages and benefits)	—	(1,387)	—	(1,387)
Hedging gain (reclassified to interest expense)	—	—	(14)	(14)
Income tax (expense) or benefit	(988)	473	5	(510)
Other comprehensive income (loss), net of tax	1,682	(806)	(9)	867
Balance as of June 30, 2012	<u>\$ (107,262)</u>	<u>\$ 5,892</u>	<u>\$ 57</u>	<u>\$ (101,313)</u>
Balance as of December 31, 2011	\$ (110,626)	\$ 7,504	\$ 75	\$ (103,047)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial gain (reclassified to salaries, wages and benefits)	5,340	216	—	5,556
Negative prior service cost (reclassified to salaries, wages and benefits)	—	(2,774)	—	(2,774)
Hedging gain (reclassified to interest expense)	—	—	(28)	(28)
Income tax (expense) or benefit	(1,976)	946	10	(1,020)
Other comprehensive income (loss), net of tax	3,364	(1,612)	(18)	1,734
Balance as of June 30, 2012	<u>\$ (107,262)</u>	<u>\$ 5,892</u>	<u>\$ 57</u>	<u>\$ (101,313)</u>

	Defined Benefit Pension	Defined Benefit Post- Retirement	Gains and Losses on Derivative	Total
Balance as of March 31, 2013	\$ (119,644)	\$ 3,443	\$ 30	\$ (116,171)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial gain (reclassified to salaries, wages and benefits)	3,074	104	—	3,178
Negative prior service cost (reclassified to salaries, wages and benefits)	—	(1,413)	—	(1,413)
Hedging gain (reclassified to interest expense)	—	—	(13)	(13)
Income tax (expense) or benefit	(1,116)	475	5	(636)
Other comprehensive income (loss), net of tax	1,958	(834)	(8)	1,116
Balance as of June 30, 2013	<u>\$ (117,686)</u>	<u>\$ 2,609</u>	<u>\$ 22</u>	<u>\$ (115,055)</u>
Balance as of December 31, 2012	\$ (121,602)	\$ 4,277	\$ 38	\$ (117,287)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial gain (reclassified to salaries, wages and benefits)	6,148	208	—	6,356
Negative prior service cost (reclassified to salaries, wages and benefits)	—	(2,826)	—	(2,826)
Hedging gain (reclassified to interest expense)	—	—	(26)	(26)
Income tax (expense) or benefit	(2,232)	950	10	(1,272)
Other comprehensive income (loss), net of tax	3,916	(1,668)	(16)	2,232
Balance as of June 30, 2013	<u>\$ (117,686)</u>	<u>\$ 2,609</u>	<u>\$ 22</u>	<u>\$ (115,055)</u>

NOTE L—STOCK-BASED COMPENSATION

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

	Six Months Ended			
	June 30, 2013		June 30, 2012	
	Number of Awards	Weighted average grant-date fair value	Number of Awards	Weighted average grant-date fair value
Outstanding at beginning of period	1,463,272	\$ 5.97	1,458,037	\$ 5.77
Granted	627,488	5.73	601,647	5.93
Converted	(392,748)	4.87	—	—
Expired	—	—	—	—
Forfeited	(7,200)	6.82	(17,400)	6.15
Outstanding at end of period	1,690,812	\$ 6.13	2,042,284	\$ 5.81
Vested	441,812	\$ 4.90	390,037	\$ 4.45

The average grant-date fair value of each performance condition award, non-vested restricted stock award and time-based award granted by the Company in 2013 was \$5.46, the fair value of the Company's stock on the date of grant. The average grant-date fair value of each market condition award granted in 2013 was \$6.78. The market condition awards were valued using a Monte Carlo simulation technique, a risk-free interest rate of 0.4% and a volatility of 60.1% based on volatility over three years using daily stock prices.

For the six month periods ended June 30, 2013 and 2012, the Company recorded expense of \$1.3 million and \$1.8 million, respectively, for stock incentive awards. At June 30, 2013, there was \$4.3 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.5 years. As of June 30, 2013, none of the awards were convertible, 441,812 units of the Board members time-based awards had vested and none of the outstanding shares of the restricted stock had vested. These awards could result in a maximum number of 2,004,812 additional outstanding shares of the Company's common stock depending on service, performance and market results through December 31, 2015.

NOTE M—EARNINGS PER SHARE

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

	Three Months Ending		Six Months Ending	
	June 30,		June 30,	
	2013	2012	2013	2012
Earnings from continuing operations	\$ 6,915	\$ 11,219	\$ 15,416	\$ 17,881
Weighted-average shares outstanding for basic earnings per share	64,050	63,431	63,931	63,431
Common equivalent shares:				
Effect of stock-based compensation awards	809	962	761	952
Weighted-average shares outstanding assuming dilution	64,859	64,393	64,692	64,383
Basic earnings per share from continuing operations	\$ 0.11	\$ 0.18	\$ 0.24	\$ 0.28
Diluted earnings per share from continuing operations	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.28

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 13,000 and 49,000 at June 30, 2013 and 2012, respectively.

NOTE N—SEGMENT INFORMATION

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

	Three Months Ending		Six Months Ending	
	June 30,		June 30,	
	2013	2012	2013	2012
Total revenues:				
CAM	\$ 39,362	\$ 38,067	\$ 78,331	\$ 75,918
ACMI Services	106,604	121,389	217,920	234,584
All other	26,951	26,682	53,205	55,103
Eliminate inter-segment revenues	(34,013)	(32,584)	(67,273)	(66,545)
Total	<u>\$ 138,904</u>	<u>\$ 153,554</u>	<u>\$ 282,183</u>	<u>\$ 299,060</u>
Customer revenues:				
CAM	\$ 17,845	\$ 18,635	\$ 36,181	\$ 38,024
ACMI Services	106,604	121,389	217,920	234,584
All other	14,455	13,530	28,082	26,452
Total	<u>\$ 138,904</u>	<u>\$ 153,554</u>	<u>\$ 282,183</u>	<u>\$ 299,060</u>
Depreciation and amortization expense:				
CAM	\$ 14,803	\$ 14,680	\$ 29,319	\$ 29,101
ACMI Services	6,692	6,755	12,830	12,559
All other	270	79	536	154
Total	<u>\$ 21,765</u>	<u>\$ 21,514</u>	<u>\$ 42,685</u>	<u>\$ 41,814</u>
Segment earnings (loss):				
CAM	\$ 17,214	\$ 16,667	\$ 34,087	\$ 33,485
ACMI Services	(9,093)	(1,582)	(14,497)	(9,797)
All other	2,607	3,228	4,788	5,229
Net unallocated interest expense	(95)	(344)	(443)	(665)
Net gain on derivative instruments	452	202	742	662
Pre-tax earnings from continuing operations	<u>\$ 11,085</u>	<u>\$ 18,171</u>	<u>\$ 24,677</u>	<u>\$ 28,914</u>

The Company's assets are presented below by segment (in thousands):

	June 30,	December 31,
	2013	2012
Assets:		
CAM	\$ 841,634	\$ 810,664
ACMI Services	171,430	161,650
All other	58,027	63,297
Total	<u>\$ 1,071,091</u>	<u>\$ 1,035,611</u>

Interest expense of \$0.1 million and \$0.3 million for the three and six month periods ending June 30, 2013, respectively, compared to \$0.2 million and \$0.5 million for the corresponding periods in 2012, respectively, was reimbursed through the commercial agreements with DHL and included in the ACMI Services segment earnings above. Interest expense allocated to CAM was \$3.3 million and \$5.9 million for the three and six month periods ending June 30, 2013, respectively, compared to \$3.1 million and \$6.0 million for the corresponding periods of 2012, respectively.

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 condensed consolidated financial statements and the related notes prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") contained in this report and our Annual Report on Form 10-K for the year ended December 31, 2012.

BACKGROUND

We provide airline operations, aircraft leases, aircraft maintenance and other support services primarily to the cargo transportation and package delivery industries. Through the Company's subsidiaries, we offer a range of complementary services to delivery companies, freight forwarders, airlines and government customers. The Company's principal subsidiaries include two independently certificated airlines, ABX Air, Inc. ("ABX") and Air Transport International, Inc. ("ATI"), and an aircraft leasing company, Cargo Aircraft Management, Inc. ("CAM").

At June 30, 2013, the Company owned 48 cargo aircraft in serviceable condition and leased six more under operating leases. The owned fleet consisted of 36 Boeing 767-200 aircraft, five Boeing 767-300 aircraft, four Boeing 757 freighter aircraft, one Boeing 757 combi aircraft and two McDonnell Douglas DC-8 combi aircraft. The combi aircraft are capable of simultaneously carrying passengers and cargo containers on the main flight deck. The Company's airline subsidiaries also leased four Boeing 767-200 aircraft and two Boeing 767-300 aircraft from third parties as of June 30, 2013.

The Company has two reportable segments: ACMI Services, which primarily includes the cargo transportation operations of its airlines, and the CAM segment. The Company's other business operations, which primarily provide support services to the transportation industry, include aircraft maintenance, aircraft parts sales, ground equipment leasing and mail handling services for the U.S. Postal Service ("USPS"). These operations do not constitute reportable segments due to their size.

The Company's largest customer is DHL Network Operations (USA), Inc. and its affiliates ("DHL"). The Company has had long term contracts with DHL since August 2003. Commencing March 31, 2010, the Company and DHL executed commercial agreements under which DHL leases 13 Boeing 767 freighter aircraft from CAM and contracted with ABX to operate those aircraft under a separate crew, maintenance and insurance ("CMI") agreement. The CMI agreement pricing is based on pre-defined fees, scaled for the number of aircraft operated and the number of flight crews provided to DHL for its U.S. network. The initial term of the CMI agreement is five years and the terms of the aircraft leases are seven years, with early termination provisions.

The Company's airlines contract their services to the Air Mobility Command through the U.S. Transportation Command both of which are organized under the U.S. Military. The U.S. Military awards flights to U.S. certificated airlines through annual contracts and through temporary "expansion" routes.

Update

DHL accounted for 54% of the Company's consolidated revenues for the first six months of 2013 and 52% of the Company's consolidated revenues in the corresponding period in 2012. In addition to the 13 CAM-owned Boeing 767 aircraft leased by DHL, ABX also operates four DHL-owned Boeing 767 aircraft under the CMI agreement. ATI also operates four CAM-owned Boeing 757 aircraft for DHL under separate agreements. Additionally, during 2013, the Company's airlines operated 10 of CAM's Boeing 767 aircraft for DHL under contracts and arrangements having durations of one year or less.

At the end of 2012, we ceased Boeing 727 operations at the Company's former airline, Capital Cargo International Airlines, Inc. ("CCIA"), and DC-8 freighter operations at ATI. During the first quarter of 2013, the Company completed the merger of CCIA with and into ATI, with ATI as the surviving entity. As a result, ATI now conducts Boeing 757, 767 and DC-8 combi operations. The combined operation benefits from a standardized fleet, two person flight crew, improved reliability of the Boeing 767 and 757 aircraft and, after the crew training is completed, from a common pilot

type rating. Additionally, we have reduced administrative and overhead costs as a result of combining positions, information technology and facilities. The merging of ATI and CCIA was preceded by the restructuring of BAX Global, Inc.'s U.S. business operations ("BAX/Schenker"). The Company stopped providing services to BAX/Schenker, a former significant customer, as of the end of 2011, after BAX/Schenker phased out its air network in North America.

During the first quarter of 2013, the Company contracted to operate three additional Boeing 767-200 aircraft for DHL's U.S. network. These aircraft replaced the Boeing 727 aircraft that were operated for DHL and were retired at the end of 2012.

The U.S. Military comprised 17% and 16% of the Company's consolidated revenues during the six month periods ended June 30, 2013 and 2012, respectively. Revenues from the U.S. Military were derived primarily by operating combi aircraft for the U.S. Military in non-combat areas. The Company is in the process of retiring its DC-8 combi aircraft and replacing them with Boeing 757 combi aircraft. During the first quarter of 2013, CAM purchased two Boeing 757 combi aircraft and now owns four Boeing 757 combi aircraft. During the second quarter of 2013, the first of the Company's four Boeing 757 combi aircraft was certified by the FAA and began flight operations by ATI for the U.S. Military. During July of 2013, the second Boeing 757 combi aircraft began flight operations and we expect the last two to enter service during the remainder of 2013.

At June 30, 2013, the Company also had two Boeing 767-300 freighter aircraft that were completing modification from passenger to a standard freighter configuration. The Company does not have any additional commitments to acquire aircraft.

RESULTS OF OPERATIONS

Summary

The consolidated net earnings from continuing operations were \$6.9 million and \$15.4 million for the three and six month periods ended June 30, 2013, respectively, compared to \$11.2 million and \$17.9 million for the corresponding periods of 2012. The pre-tax earnings from continuing operations were \$11.1 million and \$24.7 million for the three and six month periods ended June 30, 2013, respectively, compared to \$18.2 million and \$28.9 million for the corresponding periods of 2012. Earnings from continuing operations for 2013 declined as compared to 2012 due to lower revenues, primarily in the ACMI Services segment. Customer revenues decreased by \$14.7 million to \$138.9 million during the second quarter of 2013 and by \$16.9 million to \$282.2 million for the first six months of 2013 compared to the corresponding periods of 2012. Revenues were negatively impacted by FAA requirements which delayed the deployment of Boeing 757 aircraft and the training of the related flight crews, as well as continued softness in international cargo markets. Total operating expenses continued to decline as we restructure the ATI airline, falling 5% during the three and six month periods ended June 30, 2013, compared to the corresponding periods of 2012. Further expense reductions to resize the airline cost structure and realize synergies from merging CCIA into ATI, will take more time to achieve.

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

	Three Months Ending June 30,		Six Months Ending June 30,	
	2013	2012	2013	2012
Revenues from Continuing Operations:				
CAM	\$ 39,362	\$ 38,067	\$ 78,331	\$ 75,918
ACMI Services				
Airline services	89,920	101,020	183,077	197,362
Reimbursable	16,684	20,369	34,843	37,222
Total ACMI Services	106,604	121,389	217,920	234,584
Other Activities	26,951	26,682	53,205	55,103
Total Revenues	172,917	186,138	349,456	365,605
Eliminate internal revenues	(34,013)	(32,584)	(67,273)	(66,545)
Customer Revenues	\$ 138,904	\$ 153,554	\$ 282,183	\$ 299,060
Pre-Tax Earnings from Continuing Operations:				
CAM, inclusive of interest expense	\$ 17,214	\$ 16,667	\$ 34,087	\$ 33,485
ACMI Services	(9,093)	(1,582)	(14,497)	(9,797)
Other Activities	2,607	3,228	4,788	5,229
Net unallocated interest expense	(95)	(344)	(443)	(665)
Net gain on derivative instruments	452	202	742	662
Pre-Tax Earnings from Continuing Operations	11,085	18,171	24,677	28,914
Less Net gain on derivative instruments	(452)	(202)	(742)	(662)
Adjusted Pre-Tax Earnings	\$ 10,633	\$ 17,969	\$ 23,935	\$ 28,252

Reimbursable revenues include certain operating costs that are reimbursed to the airlines by their customers. Such costs include fuel expense, landing fees and certain aircraft maintenance expenses. The types of costs that are reimbursed varies by customer operating agreement.

Adjusted pre-tax earnings, a non-GAAP measure, is pre-tax earnings excluding interest rate derivative gains and losses. Management uses adjusted pre-tax earnings to compare the performance of core operating results between periods. Adjusted pre-tax earnings should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

CAM

Through the CAM subsidiary, we offer aircraft leasing to external customers and also lease aircraft internally to the Company's airlines. Aircraft leases normally cover a term of five to seven years. In a typical leasing agreement, customers pay rent and maintenance deposits on a monthly basis.

As of June 30, 2013, CAM had 48 aircraft in serviceable condition, which included 28 aircraft leased internally to the Company's airlines. CAM's total revenues, from internal and external customers, grew \$1.3 million and \$2.4 million during the three and six month periods ending June 30, 2013 compared to the corresponding periods of 2012, as a result of additional aircraft leases placed during 2012. Since June 30, 2012, CAM completed the modification of one Boeing 767-300 freighter aircraft, one Boeing 757 freighter aircraft and one Boeing 757 combi aircraft and placed those aircraft under leases with internal customers.

As of June 30, 2013 and 2012, CAM leased 20 and 21 aircraft to external customers, respectively. Revenues from external customers decreased \$0.8 million and \$1.8 million during the three and six month periods ending June 30, 2013, respectively, compared to the corresponding periods of 2012. The decrease is due to fewer instances of short term engine leases and the return of a Boeing 767 aircraft to CAM from a regional carrier before the end of the original lease term. CAM's revenues from the Company's airlines totaled \$21.5 million and \$42.2 million during the three and six month periods ending June 30, 2013, respectively, compared to \$19.4 million and \$37.9 million for the corresponding periods of 2012. The increase in internal lease revenues reflects additional Boeing 767-300 aircraft and Boeing 757

aircraft that CAM has leased internally, offset by the retirement of CAM's Boeing 727 and DC-8 freighter fleets at the end of 2012.

CAM's pre-tax earnings, inclusive of an interest expense allocation, were \$17.2 million and \$34.1 million for the three and six month periods ending June 30, 2013, respectively, compared to \$16.7 million and \$33.5 million for the corresponding periods of 2012. The flat earnings reflected additional internal lease revenues offset by higher depreciation expense for Boeing 767 aircraft, increased expenses to place and support the larger fleet of Boeing 767 and 757 aircraft and higher allocated interest expense compared to the corresponding periods of 2012.

In July 2013, CAM internally leased its second Boeing 757 combi aircraft to ATI which began to operate the aircraft for the US Military. During the remainder of 2013, we expect CAM to deploy two more Boeing 767-300 freighters and two more 757 combi aircraft that are being prepared for future deployment. The Boeing 757 combi aircraft will replace the last of ATI's DC-8 combi aircraft for the U.S. Military. While we do not have customer commitments for the two Boeing 767-300 aircraft, the reputation of the Boeing 767-300 aircraft for reliability and cost effectiveness in medium range markets remains strong. The lease of additional aircraft, however, could be affected by continued low growth economic conditions and excess industry capacity of airlift.

ACMI Services Segment

The ACMI Services segment provides airline operations to its customers, typically under contracts providing for a combination of aircraft, crews, maintenance and insurance ("ACMI"). Our customers are usually responsible for supplying the necessary aviation fuel and cargo handling services and reimbursing our airline for other operating expenses, including landing fees, ramp expenses and certain aircraft maintenance expenses. Aircraft charter agreements, including those for the U.S. Military, usually require the airline to provide full service, including fuel and other operating expenses for a fixed all-inclusive price. As of June 30, 2013, ACMI Services included 47 in-service aircraft, including 28 leased internally from CAM, six leased from external providers and 13 CAM-owned freighter aircraft which are under lease to DHL and operated by ABX under the CMI agreement.

ACMI Services incurred pre-tax losses of \$9.1 million and \$14.5 million during the three and six month periods ending June 30, 2013, respectively, compared to pre-tax losses of \$1.6 million and \$9.8 million for the corresponding periods of 2012. Larger pre-tax losses were primarily a result of lower revenues. Revenues from ACMI Services were \$106.6 million and \$217.9 million for the three and six month periods ending June 30, 2013, respectively, compared to \$121.4 million and \$234.6 million during the corresponding periods of 2012. Airline services revenues from external customers, which do not include revenues for the reimbursement of fuel and certain operating expenses, declined 11% and 7% during 2013 for the three and six month periods ending June 30, 2013, respectively, compared to the corresponding periods of 2012. Lower revenues were a result of fewer flights for the U.S. Military, less ad hoc charters and operating fewer international cargo lanes for our customers. Since June of 2012, some of our aircraft have been replaced by our customer's own airlift capacity on certain international cargo lanes. Revenues were also negatively impacted by the phase in of the Boeing 757 combi aircraft for the U.S. Military, replacing the DC-8 combi aircraft in operation by ATI. Block hours flown for the U.S. Military were down 10% during the second quarter of 2013 compared to the second quarter of 2012 primarily due to delays regarding FAA approvals for the Boeing 757 combi aircraft and pilot training. Before the Boeing 757 combi aircraft could begin operations, the aircraft had to be certified by the FAA and our pilots trained for B757 passenger operations. ATI was unable to operate certain US military routes during the second quarter because the combi aircraft was not approved and the number of trained pilots was not sufficient.

During the three and six month periods ending June 30, 2013, billable block hours declined 17% and 16% respectively compared to the corresponding periods of 2012. Revenues declined less than block hours declined because a larger portion of our 2013 revenues is derived by shorter express routes instead of longer international routes flown during 2012. The effective average revenue rates per block hour paid by non-military customers are higher for express routes in which aircraft utilization is lower, compared to lower rates for longer, international routes.

Operating expense for ACMI Services declined \$3.6 million and \$9.6 million during the three and six month periods ending June 30, 2013, respectively, compared to corresponding periods of 2012 due to combining the ATI and CCIA operations, which resulted in a 27% reduction in airline related headcount compared to the beginning of 2012. Operating expenses for aircraft maintenance and travel declined due to the lower level of international block hours flown. These expense reductions related to personnel and the level of flights were partially offset by higher aircraft depreciation expense and aircraft rent expense which increased due to the addition of Boeing 767-300 aircraft.

Future operating results could be impacted by the further phase-in of the Boeing 757 combi aircraft for the U.S. Military, replacing the DC-8 combi aircraft currently in operation by ATI. Before the Boeing 757 combi aircraft can begin operations, the aircraft must be certified by the FAA. If the airworthiness certification process takes longer than expected, and the Company's DC-8 combi aircraft are not available, the Company could incur additional costs to sub-service U.S. Military personnel transportation through a passenger airline. Further, while pilots are being trained for the Boeing 757 operations, we may not have a sufficient number of trained crews to fly scheduled U.S. Military routes and ad hoc charters that may arise.

The ability of the ACMI Services segment to generate operating profits depends upon a number of key factors. These factors include the replacement of the DC-8 combi aircraft with the Boeing 757 combi aircraft, retraining of crewmembers for the Boeing 767 and 757 operations, continued cost controls and headcount reductions and revenue growth within ACMI Services. Currently, the ACMI Services segment has four aircraft that are underutilized. Improved aircraft utilization and revenue growth for ACMI Services depends on the cost competitiveness of the airlines, aircraft reliability, market preferences for the type of aircraft that we operate, airlift capacity in the markets, regulatory approvals and general economic conditions. Continued stagnant economic conditions and market uncertainty may slow the pace of aircraft deployments into incremental revenue operations.

Other Activities

The Company sells aircraft parts and provides aircraft maintenance and modification services to other airlines. The Company also operates five U.S. Postal Service ("USPS") sorting facilities and provides ground support equipment, related maintenance, leasing and facility maintenance services, including fuel services. Other activities also include the management of workers' compensation claims under an agreement with DHL and gains from the reduction in employee post-retirement obligations.

External customer revenues from all other activities were \$14.5 million and \$28.1 million for the three and six month periods ending June 30, 2013, respectively, compared to \$13.5 million and \$26.5 million for the corresponding periods of 2012. Revenues from services provided to the USPS increased \$1.8 million and \$3.8 million during the three and six month periods ending June 30, 2013 compared to the corresponding periods of 2012, due to increased volumes at the facilities that we operate for the USPS. Increased revenues from the USPS, however, were partially offset by lower aircraft maintenance revenues from external customers, which declined \$1.0 million and \$2.4 million for the three and six month periods ending June 30, 2013, respectively, compared to the corresponding periods of 2012. Maintenance services revenues for external customers declined during 2013 compared to 2012 because the Company's aircraft maintenance and repair business, Airborne Maintenance and Engineering Services, Inc. ("AMES"), has limited hangar facilities and revenue recognition is effected by the timing of project completion. Revenue recognition for larger aircraft maintenance projects typically occurs at the completion of the project.

The pre-tax earnings from other activities were \$2.6 million and \$4.8 million for the three and six month periods ending June 30, 2013, respectively, compared to \$3.2 million and \$5.2 million for the corresponding periods of 2012. Pre-tax earnings from other activities for 2013 decreased compared to 2012 primarily due to lower aircraft maintenance revenues.

In 2013, the Company, as construction agent for the Clinton County Port Authority ("CCPA") in Wilmington, Ohio, began construction of a 100,000 square foot aircraft hangar facility adjacent to the existing aircraft maintenance facility currently utilized by AMES. While the current facility houses aircraft as large as the Boeing 767, the new facility will provide AMES with the capability of servicing aircraft as large as a Boeing 747 and the Boeing 777. The hangar is anticipated to cost approximately \$15.7 million and is expected to take approximately 12 to 14 months to complete. The Company will lease the facility from the CCPA and begin to make related rent payments beginning in 2014. We could incur incremental costs associated with the new hangar, including the costs of aircraft maintenance personnel before the hangar is completed. Further, we will need to grow aircraft maintenance revenues utilizing the expanded hangar capabilities by expanding business with current customers and contracting with new customers. Our future operating results could be adversely impacted if anticipated revenues do not coincide with our costs of operating the new facility.

Discontinued Operations

Pre-tax losses related to the former sorting operations were less than \$0.1 million for the first six months of 2013 compared to \$0.6 million for the corresponding period of 2012. The results of discontinued operations primarily contain pension expense for former employees that supported sort operations under a hub services agreement with DHL and expenses for certain legal matters associated with those former sorting operations.

Fleet Summary 2013

The Company's aircraft fleet is summarized below as of June 30, 2013 (\$'s in thousands):

	ACMI Services	CAM	Total
In-service aircraft			
Aircraft owned			
Boeing 767-200	16	20	36
Boeing 767-300	5	—	5
Boeing 757	4	—	4
Boeing 757 Combi	1	—	1
DC-8 combi	2	—	2
Total	28	20	48
Carrying value			\$ 672,805
Operating lease			
Boeing 767-200	4	—	4
Boeing 767-300	2	—	2
Total	6	—	6
Carrying value			\$ 647
Aircraft for freighter and combi modification			
Boeing 767-300	—	2	2
Boeing 757 Combi	—	3	3
Total	—	5	5
Carrying value			\$ 131,101

As of June 30, 2013, ACMI Services leased 28 of its in-service aircraft internally from CAM. As of June 30, 2013, 13 of CAM's 20 Boeing 767-200 aircraft shown above were leased to DHL and operated by ABX. CAM leased the other seven Boeing 767-200 aircraft to external airlines.

Aircraft fleet activity during 2013 is summarized below:

- CAM purchased two Boeing 757 combi aircraft and is completing the process for airworthiness certification
- ATI removed two DC-8 combi aircraft from the in-service fleet.
- CAM completed the modification of one Boeing 757 freighter aircraft and leased it internally to ATI which deployed the aircraft for DHL.
- CAM completed the airworthiness of one Boeing 757 combi aircraft and leased it internally to ATI which deployed the aircraft for the US Military.

In July 2013, CAM internally leased its second Boeing 757 combi aircraft to ATI which began to operate the aircraft for the US Military. During the remainder of 2013, we expect CAM to deploy two more 757 combi aircraft and two more Boeing 767-300 freighters.

As of June 30, 2013, the Company had Boeing 727 and DC-8 airframes and engines with a carrying value of \$2.7 million that were available for sale. This carrying value is based on fair market values less the estimated costs to sell the airframes, engines and parts.

Expenses from Continuing Operations

Salaries, wages and benefits expense decreased \$2.6 million and \$6.4 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. Lower expenses are primarily a result of the lower number of employees after merging and restructuring ATI and CCIA. Headcount declined 12% between the beginning of 2012 and June 30, 2013. Pension expense for continuing operations decreased \$1.1 million and \$2.2 million during the three and six month periods ending June 30, 2013 when compared to the corresponding periods of 2012 due to strong investment returns on pension plan assets.

Fuel expense decreased by \$1.6 million and \$1.1 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. Fuel expense primarily reflects the costs of fuel to operate U.S. Military charters, position aircraft for service and for maintenance purposes. The decrease reflects the decline in the number of flights flown for the U.S. Military and ad hoc charter customers during 2013 compared to 2012.

Maintenance, materials and repairs expense decreased by \$0.3 million and \$1.2 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. The decline in maintenance expense is a result of lower airframe maintenance expenses offset by higher engine maintenance expenses compared to the previous year. Aircraft maintenance expenses can vary among periods due to the number of scheduled airframe maintenance checks that are performed. Aircraft maintenance expenses for airframe checks were lower during the first half of 2013 compared to the corresponding 2012 period due to four fewer Boeing 767-200 airframe checks performed. However, engine maintenance expenses increased due to the higher costs for engine parts and engine maintenance services.

Depreciation and amortization expense increased \$0.3 million and \$0.9 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. The increase in depreciation expense reflects the removal of the Boeing 727 aircraft and the DC-8 freighter aircraft from service, offset by incremental depreciation expense for three Boeing 767-300 aircraft, one Boeing 767-200 aircraft, one Boeing 757 freighter aircraft and one Boeing 757 combi aircraft added to the in-service fleet since the beginning of 2012.

Travel expense decreased by \$0.8 million and \$2.0 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. The decrease reflects the lower level of employee headcount and less international travel to support international flight operations during 2013 compared to 2012.

Rent expense increased by \$0.5 million and \$1.6 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. Rent expense increased primarily due to the lease of an additional Boeing 767-300 aircraft beginning in May 2012.

Landing and ramp expense, which includes the cost of deicing chemicals, decreased by \$1.9 million during both the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. The decrease was due to the reduction in block hours and flights operated in 2013 compared to 2012.

Insurance expense decreased by \$0.4 million and \$0.9 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012, primarily due to the reduction in Boeing 727 and DC-8 aircraft.

Other operating expenses include professional fees, navigational services, employee training, utilities and the cost of parts sold to customers. Other operating expenses decreased by \$0.4 million and \$0.9 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. The costs of flight crew training through outside providers was higher in 2012 compared to 2013.

Interest expense decreased by \$0.1 million and \$0.5 million during the three and six month periods ended June 30, 2013, respectively, compared to the corresponding periods of 2012. Interest expense was lower in 2013 compared to 2012 due to lower interest rates related to the Senior Credit Agreement and the expiration of certain interest rate swaps. Interest rates on the Company's variable interest, unsubordinated term loan decreased to 2.58% during the

second quarter of 2013 compared to 2.72% at June 30, 2012. We expect interest expense to increase during 2013 due to a higher level of debt which is being used to expand the Company's aircraft fleet.

During the three and six month periods ending June 30, 2013, the Company recorded pre-tax net gains on derivatives of \$0.5 million and \$0.7 million, respectively, compared to \$0.2 million and \$0.7 million during the corresponding periods of 2012, reflecting the impact of higher market interest rates and the lower notional value of interest rate swaps being held by the Company.

The provision for income taxes for interim periods is based on management's best estimate of the effective income tax rate expected to be applicable for the current year, plus any adjustments arising from changes in the estimated amount of taxable income related to prior periods. Income taxes recorded through June 30, 2013 have been estimated utilizing a 37.5% rate based upon year-to-date income and projected results for the full year. The final effective tax rate applied to 2013 will depend on the actual amount of pre-tax book income generated by the Company for the full year. The effective tax rate from continuing operations for the three and six month periods ended June 30, 2012 was 38.3% and 38.2%, respectively, based on projections of taxable income and tax deductions at that time.

As of December 31, 2012, the Company had operating loss carryforwards for U.S. federal income tax purposes of approximately \$93.4 million, which will begin to expire in 2024 if not utilized before that time. We expect to utilize the loss carryforwards to offset federal income tax liabilities in the future. As a result, we do not expect to pay federal income taxes through 2015 or later. The Company may, however, be required to pay alternative minimum taxes and certain state and local income taxes before then. The Company's taxable income earned from international flights are primarily sourced to the United States under international aviation agreements and treaties. If we begin to operate in countries without such agreements, the Company could incur additional foreign income taxes.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash generated from operating activities totaled \$48.0 million and \$64.6 million for the first six months of 2013 and 2012, respectively. Cash flows generated from operating activities decreased in the first six months of 2013 compared to 2012 due to lower payments received from DHL and increased pension contributions, partially offset by lower payments to vendors. During the first six months of 2012, the Company made payments to vendors associated with the wind-down of the BAX/Schenker operations at the end of 2011.

Capital spending levels were primarily the result of aircraft modification costs and the acquisition of aircraft for freighter modification. Cash payments for capital expenditures were \$72.8 million for the first six months of 2013 compared to \$69.5 million for the first six months of 2012. Capital expenditures in 2013 included \$61.5 million for the acquisition of two Boeing 757 combi aircraft and the costs of Boeing 757 and Boeing 767 aircraft modifications, \$6.6 million for required heavy maintenance, \$1.5 million for construction of the new aircraft hangar and \$3.2 million for other equipment costs. Our capital expenditures in 2012 included \$59.9 million for the acquisition and modification of aircraft, \$5.3 million for required heavy maintenance and \$4.3 million for other equipment costs.

Net cash provided by financing activities was \$29.0 million for the first six months of 2013 compared to \$19.4 million for the corresponding period in 2012. During the first six months of 2013, we drew \$60.0 million from the revolving credit facility under the Senior Credit Agreement to fund capital spending and we made debt principal payments of \$32.6 million. Additionally, \$3.1 million of the principal balance of the DHL promissory note was extinguished during the first six months of 2013, pursuant to the CMI agreement with DHL.

Commitments

Through CAM, we continue to make investments in Boeing 767-300 and 757 aircraft. As the remaining Boeing 757 combi aircraft achieve airworthiness certification, we plan to place them into service with the U.S. Military, replacing our DC-8 combi aircraft. We are marketing the Boeing 767-300 aircraft to place them into service under dry leasing arrangements to external customers or ACMI operations using our airlines.

In August 2010, the Company entered into an agreement with M&B Conversions Limited and Israel Aerospace Industries Ltd. ("IAI"), for the conversion by IAI of up to ten Boeing 767-300 series passenger aircraft to a standard freighter configuration during the 10-year term of the agreement. As of June 30, 2013, five such aircraft have completed the modification process and two Boeing 767-300 aircraft were undergoing modification to a standard freighter

configuration. If the Company were to cancel the conversion program as of June 30, 2013, it would owe IAI approximately \$9.8 million associated with engineering efforts and conversion part kits.

In 2012, the Company entered into agreements with the CCPA to construct and lease an aircraft hangar in Wilmington, Ohio, adjacent to the existing aircraft maintenance facility currently leased by the Company. The Company acts as a construction agent for the CCPA and began construction of the 100,000 square foot aircraft hangar in 2013. The hangar is projected to cost approximately \$15.7 million and is expected to take approximately 12 to 14 months to complete. The CCPA is financing the construction of the hangar primarily through a State of Ohio bond program and a State of Ohio loan on incremental taxes. The costs incurred to build the hangar will be included in "Property and equipment" and the amounts that are reimbursed through the State of Ohio and the CCPA will be included in "Other liabilities" on the Company's balance sheet. We will begin to make lease payments for the hangar directly to the trustee for the State of Ohio beginning in 2014. The initial term of the hangar lease expires in 2036.

We estimate that aircraft related capital expenditures for 2013 will be \$95 million, including the acquisition of two Boeing 757 aircraft acquired in January 2013, related modification costs for Boeing 767-300 and Boeing 757 aircraft and other aircraft related expenditures. Also, capital expenditures for 2013 are expected to include an additional \$15 million for the new hangar construction and other projects. Actual capital spending for any future period will be impacted by the progress in the aircraft modification process and hangar construction. We expect to finance the aircraft purchases and modifications from current cash balances, future operating cash flow and the Senior Credit Agreement.

Liquidity

The Company has a Senior Credit Agreement with a consortium of banks that includes an unsubordinated term loan of \$138.8 million and a revolving credit facility from which the Company has drawn \$180.0 million, net of repayments as of June 30, 2013. On July 20, 2012, the Company executed the first amendment to the Senior Credit Agreement ("Credit Amendment"). The Credit Amendment increased the amount available under the revolving credit facility by \$50 million to \$225 million, extended the maturity of the term loan and revolving credit facility to July 20, 2017, and provided for an accordion feature whereby the Company may draw up to an additional \$50 million, subject to the lenders' consent. If the Company exercises the accordion feature, the same terms and conditions of the Senior Credit Agreement would apply to the accordion feature and additional collateral would need to be posted to maintain the 150% collateral coverage requirement. The additional debt may result in higher interest rates. Under the Senior Credit Agreement, interest rates are adjusted quarterly based on the prevailing LIBOR or prime rates and a ratio of the Company's outstanding debt level to earnings before interest, taxes, depreciation and amortization expenses ("EBITDA"). At the Company's current debt-to-EBITDA ratio, the unsubordinated term loan and the revolving credit facility both bear a variable interest rate of 2.58%. The Credit Amendment did not affect the EBITDA based pricing or covenants of the Senior Credit Agreement.

The Senior Credit Agreement is collateralized by certain of the Company's Boeing 767 and 757 aircraft that are not collateralized under aircraft loans. Under the terms of the Senior Credit Agreement, the Company is required to maintain collateral coverage equal to 150% of the outstanding balance of the term loan and the total revolving credit facility. Under the Senior Credit Agreement, the Company is subject to covenants and warranties that are usual and customary, including among other things, limitations on certain additional indebtedness, guarantees of indebtedness, as well as a total debt to EBITDA ratio and a fixed charge coverage ratio. The Senior Credit Agreement stipulates events of default including unspecified events that may have a material adverse effect on the Company. If an event of default occurs, the Company may be forced to repay, renegotiate or replace the Senior Credit Agreement.

At June 30, 2013, the Company had \$20.9 million of cash balances. The Company had \$33.8 million available under the revolving credit facility, net of outstanding letters of credit, which totaled \$11.2 million. In January 2013, the Company drew an additional \$60.0 million through the revolving credit facility to finance aircraft acquisitions and related modification costs. If needed, the Company also expects to have available the \$50 million accordion feature noted above. As specified under the terms of ABX's CMI agreement with DHL, the \$10.9 million balance at June 30, 2013 of the unsecured note payable to DHL will be extinguished ratably without payment through March 31, 2015. We believe that the Company's current cash balances and forecasted cash flows provided from its operating agreements, combined with its Senior Credit Agreement, will be sufficient to fund operations, scheduled debt payments, required pension funding and planned capital expenditures for at least the next 12 months.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of June 30, 2013, we were not involved in any material unconsolidated SPE transactions.

Certain of our operating leases and agreements contain indemnification obligations to the lessor or one or more other parties that are considered usual 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 the expiration of the respective lease or agreement. No amounts have been recognized in our financial statements for the underlying fair value of guarantees and indemnifications.

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 disclosures of contingencies. In certain cases, there are alternative policies or estimation techniques which could be selected. On an ongoing basis, we evaluate our selection of policies and the estimation techniques we use, including those related to revenue recognition, post-retirement liabilities, bad debts, self-insurance reserves, valuation of spare parts inventory, useful lives, salvage values and impairment of property and equipment, income taxes, contingencies and litigation. We base our estimates on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances. Those factors form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources, as well as for identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates under different assumptions or conditions. We believe the following significant and critical accounting policies involve the more significant judgments and estimates used in preparing the consolidated financial statements.

Revenue Recognition

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

Goodwill and Intangible Assets

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

Long-lived assets

Aircraft and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Factors which may cause an impairment include termination of aircraft from a customer's network, extended operating cash flow losses from the assets and management's decisions regarding the future use of assets. To conduct impairment testing, the Company groups assets and liabilities at the lowest level for which identifiable cash are largely independent of cash flows of other assets and liabilities. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with an asset group is less than the carrying value. If impairment exists, an adjustment is made to write the assets down to 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.

Depreciation

Depreciation of property and equipment is provided on a straight-line basis over the lesser of an asset's useful life or lease term. We periodically evaluate the estimated service lives and residual values used to depreciate our property and equipment. The acceleration of depreciation expense or the recording of significant impairment losses could result from changes in the estimated useful lives of our assets. We may change the estimated useful lives due to a number of reasons, such as the existence of excess capacity in our air 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 and recent claims trends. 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 the NOL CF's will be realized prior to their expiration. Accordingly, we do not have an allowance against these deferred tax assets at this time.

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

Post-retirement Obligations

The Company sponsors qualified defined benefit pension plans for ABX's flight crewmembers and other eligible employees. The Company also sponsors non-qualified, unfunded excess plans that provide benefits to executive management and crewmembers that are in addition to amounts permitted to be paid through our qualified plans under provisions of the tax laws. Employees are no longer accruing benefits under any of the defined benefit pension plans. The Company also sponsors unfunded post-retirement healthcare plans for ABX's flight crewmembers and non-flight crewmember employees.

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

Discontinued Operations

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

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.

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.

No significant changes have occurred to the market risks the Company faces since information about those risks were disclosed in item 7A of the Company's 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2013.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of June 30, 2013, the Company carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission rules and forms and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Civil Action Alleging Violations of Immigration Laws

On December 31, 2008, a former ABX employee filed a complaint against ABX, a total of four current and former executives and managers of ABX, Garcia Labor Company of Ohio, and three former executives of the Garcia Labor companies, in the U.S. District Court for the Southern District of Ohio. The case was filed as a putative class action against the defendants, and asserts violations of the Racketeer Influenced and Corrupt Practices Act (RICO). The complaint, which was later amended to include a second former employee plaintiff, seeks damages in an unspecified amount and alleges that the defendants engaged in a scheme to hire illegal immigrant workers to depress the wages paid to hourly wage employees during the period from December 1999 to January 2005.

On December 2, 2011, the plaintiffs agreed to settle this matter in exchange for the payment by ABX to plaintiffs and the putative class members of a monetary amount, which amount management believes to be less than it would have cost to defend the case at trial. The final settlement was approved by the Court on July 9, 2013, and is subject to a 30-day appeal period, after which the funds will be paid over to the class administrator for distribution in accordance with the terms of the settlement agreement.

Brussels Noise Ordinance

The Brussels Instituut voor Milieubeheer ("BIM"), a governmental authority in the Brussels-Capital Region of Belgium that oversees the enforcement of environmental matters, imposed four separate administrative penalties on ABX in the approximate aggregate amount of €0.4 million (\$0.5 million) for numerous alleged violations of an ordinance limiting the noise caused by aircraft overflying the Brussels-Capital Region (which is located near the Brussels Airport) during the period from May 2009 through December 2010. ABX has to date exhausted its appeals with respect to two of the administrative penalties.

The ordinance in question is controversial for the reason that it was adopted by the Brussels-Capital Region and is more restrictive than the noise limitations in effect in the Flemish Region, which is where the Brussels Airport is located. The ordinance is the subject of several court cases currently pending in the Belgian courts and numerous airlines have been levied fines thereunder.

Other

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

ITEM 1A. RISK FACTORS

The Company faces risks that could adversely affect its financial condition or results of operations. Many of these risks are disclosed in Item 1A of the Company's 2012 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 4, 2013. Other risks that are currently unknown to management or are currently considered immaterial or unlikely, could also adversely affect the Company.

ITEM 6. EXHIBITS

The following exhibits are filed with or incorporated by reference into this report.

- 3.1 Amended and Restated Certificate of Incorporation of Air Transport Services Group, Inc. reflecting corrections and amendments through May 17, 2013, filed herewith. [This document represents the Amended and Restated Certificate of Incorporation of Air Transport Services Group, Inc. in compiled form, incorporating all corrections and amendments. This compiled document has not been filed with the Delaware Secretary of State.]
 - 3.2 Amended and Restated Bylaws of Air Transport Services Group, Inc., reflecting amendments through May 10, 2013, filed herewith.
 - 10.1 Air Transport Services Group, Inc. Executive Incentive Compensation Plan, last modified March 18, 2013. (1)
 - 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.
 - 101.INS XBRL Instance Document
 - 101.SCH XBRL Taxonomy Extension Schema Document
 - 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
 - 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
 - 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
 - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- (1) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 18, 2013.

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 (Principal Executive Officer)

Date: August 8, 2013

/S/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer (Principal Financial Officer
and Principal Accounting Officer)

Date: August 8, 2013

**Amended and Restated Certificate of Incorporation
of Air Transport Services Group, Inc.
reflecting corrections and amendments through May 17, 2013**

[This document represents the Amended and Restated Certificate of Incorporation of Air Transport Services Group, Inc. in compiled form, incorporating all corrections and amendments. This compiled document has not been filed with the Delaware Secretary of State.]

**AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
AIR TRANSPORT SERVICES GROUP, INC.
(a Delaware corporation)**

FIRST: The name of the corporation is Air Transport Services Group, Inc. (the “Corporation”).

[NOTE: ARTICLE FIRST was amended by the stockholders of the Corporation on May 13, 2008, as evidenced by the “Certificate of Amendment of Certificate of Incorporation” filed by the Corporation with the Delaware Secretary of State on May 14, 2008.]

SECOND: The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington, DE 19808, County of New Castle, and the name of its registered agent at that address is Corporation Service Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the “General Corporation Law”).

FOURTH: The total number of shares of all classes of capital stock which the Corporation shall have the authority to issue is 95,000,000 shares, of which 75,000,000 shares shall be Common Stock, par value \$0.01 per share (“Common Stock”), and 20,000,000 shares shall be Preferred Stock, par value \$0.01 per share (“Preferred Stock”), of which 75,000 shares shall be Series A Junior Participating Preferred Stock, par value \$0.01 per share (“Series A Junior Preferred Stock”).

(A) Common Stock.

(1) Voting Rights. Subject to Article Fifth below, the holders of Common Stock shall, on all matters submitted to a vote of the stockholders of the Corporation, be entitled to one vote per share.

(2) Dividends. Subject to any other provisions of this Certificate of Incorporation and the terms of any series of Preferred Stock that may from time to time come into existence, holders of Common Stock shall be entitled to receive, when and if declared by the Board of Directors, such dividends as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(3) Liquidation. Subject to Article Fifth below, all shares of Common Stock shall be entitled to any assets of the Corporation available for distribution to stockholders after payment in full of any preferential amount to which holders of Preferred Stock may be entitled.

(4) Legend. Each certificate representing shares of Common Stock shall bear the following legend:

“The shares of Common Stock represented hereby are subject to foreign stock ownership restrictions as set forth in the Corporation’s Certificate of Incorporation.”

(B) Preferred Stock.

The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby expressly authorized to fix and determine by resolution or resolutions the number of shares of each series of Preferred Stock and the designation thereof, and voting and other powers, preferences and relative, participating, optional or other special rights, if any, with such qualifications, limitations or restrictions on such powers, preferences and rights, if any, as shall be stated in the resolution or resolutions providing for the issue of such series of Preferred Stock as may be adopted from time to time by the Board of Directors prior to the issuance of any shares thereof, in accordance with the General Corporation Law, and to the full extent permitted thereby; including, without limitation, any dividend rights, dividend rates, conversion rights and terms, voting rights, redemption rights and terms (including any sinking fund provisions), redemption price(s) and terms, and rights in the event of liquidation, dissolution or distribution of assets. Subject to any limitations or restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, the Board of Directors may by resolution or resolutions likewise adopted increase or decrease (but not below the number of shares of such series then outstanding) the number of any such series subsequent to the issuance of shares of that series, and in case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

(C) Designation of Series A Junior Preferred Stock.

(1) Designation and Amount. The Series A Junior Preferred Stock shall have a par value \$0.01 per share, and the number of shares constituting such series shall be 75,000.

(2) Proportional Adjustment. In the event that the Corporation shall at any time after the issuance of any share or shares of Series A Junior Preferred Stock (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Corporation shall simultaneously effect a proportional adjustment to the number of outstanding shares of Series A Junior Preferred Stock.

(3) Dividends and Distributions.

(a) Subject to the prior and superior right of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Preferred Stock with respect to dividends, the holders of shares of Series A Junior Preferred Stock shall be entitled to receive when, as and if declared by the Board of Directors out of funds legally available therefor, quarterly dividends payable in cash on the last day of January, April, July and October in each year (each such date being referred to herein as a “Quarterly Dividend Payment Date”), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Preferred Stock, in an amount per share (rounded to the nearest cent) equal to 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Preferred Stock.

(b) The Corporation shall declare a dividend or distribution on the Series A Junior Preferred Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

(c) Dividends shall begin to accrue on outstanding shares of Series A Junior Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of

holders of shares of Series A Junior Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

(4) Voting Rights. The holders of shares of Series A Junior Preferred Stock shall have the following voting rights:

(a) Each share of Series A Junior Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation.

(b) Except as otherwise provided herein or by law, the holders of shares of Series A Junior Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) Except as required by law, the holders of Series A Junior Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent that they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(5) Certain Restrictions.

(a) The Corporation shall not declare any dividend on, make any distribution on, or redeem or purchase or otherwise acquire for consideration any shares of Common Stock after the first issuance of a share or fraction of a share of Series A Junior Preferred Stock unless concurrently therewith it shall declare a dividend on the Series A Junior Preferred Stock as required by Section (3) hereof.

(b) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Preferred Stock as provided in Section (3) are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Preferred Stock;

(ii) declare or pay dividends on, or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Preferred Stock, except dividends paid ratably on the Series A Junior Preferred Stock and all such parity

stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(c) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section (5), purchase or otherwise acquire such shares at such time and in such manner.

(6) Reacquired Shares. Any shares of Series A Junior Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Series A Junior Preferred Stock and may be reissued.

(7) Liquidation. Upon any liquidation, dissolution or winding up of the Corporation, the holders of shares of Series A Junior Preferred Stock shall be entitled to receive an aggregate amount per share equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock plus an amount equal to any accrued and unpaid dividends on such shares of Series A Junior Preferred Stock.

(8) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

(9) No Redemption. The shares of Series A Junior Preferred Stock shall not be redeemable.

(10) Ranking. The Series A Junior Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

(11) Amendment. If any shares of Series A Junior Preferred Stock have been issued, this Certificate of Incorporation shall not be amended in any manner which would materially alter or change the powers, preferences, privileges or relative, participating, optional or other special rights, or the qualifications, limitations or restrictions, of the Series A Junior Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the outstanding shares of Series A Junior Preferred Stock, voting separately as a series.

(12) Fractional Shares. Series A Junior Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Preferred Stock.

FIFTH: Ownership Restrictions.

(A) Foreign Ownership Limitation.

The ownership or control of (1) twenty-five percent (25%) (the "Maximum Voting Percentage") or more of the issued and outstanding Voting Stock (as defined below) of the Corporation or (2) shares of capital stock of the Corporation entitled to receive fifty percent (50%) (the "Maximum Economic Percentage") or more of the Corporation's dividends, distributions or proceeds upon liquidation, by persons who are not citizens of the United States ("U.S. Citizens") as defined in 49 U.S.C. Section 40102(a)(15) is prohibited; provided, however, that the Maximum Voting Percentage shall be deemed to be automatically increased or decreased from time to time to that percentage of ownership which is then permissible by persons who are not U.S. Citizens under applicable Foreign Ownership Restrictions; provided, further, that the Board of Directors, by a majority vote of the Independent Directors, may increase or decrease the Maximum Economic Percentage if the Board of Directors in good faith, and upon advice of independent counsel, determines that such increase or decrease is permitted by applicable Foreign Ownership Restrictions. As used in this Certificate of Incorporation, "Voting Stock" means the Common Stock, the Series A Junior Preferred Stock, and any other classes of stock issued by the Corporation that are entitled to vote on matters generally referred to the stockholders for a vote and "Foreign Ownership Restrictions" shall mean United States statutory and United States Department of Transportation regulatory or interpretive restrictions on foreign ownership or control of the Corporation the breach of which would result in the loss of any operating certificate or authority of the Corporation or any of its subsidiaries, including any successor provisions or regulations thereto.

(B) Foreign Stock Record.

In furtherance of enforcing the prohibition set forth in Section (A) above, a transfer of shares of any class of stock of the Corporation to an Alien (as defined below) shall not be valid, except between the parties to the transfer, until the transfer shall have been recorded on the Foreign Stock Record of the Corporation as provided in this Article Fifth. The “Foreign Stock Record” shall mean a record maintained by the Corporate Secretary of the Corporation which shall record the date of a transfer to an Alien, the parties to the transfer and the number and description of the shares of stock transferred to the Alien. At no time shall ownership or control of shares representing more than the lesser of (i) the Maximum Voting Percentage of the issued and outstanding Voting Stock, or (ii) the Maximum Economic Percentage of all shares of stock of the Corporation, be registered on the Foreign Stock Record. If at any time the Corporation shall determine that shares of stock are purportedly owned or controlled by one or more Aliens who are not registered on the Foreign Stock Record, the registration of such shares shall, subject to the limitation in the preceding sentence, be made in chronological order in the Foreign Stock Record, based on the date of the Corporation’s finding of ownership or control of such shares by an Alien. If at any time the Corporation shall determine that the number of shares of Voting Stock registered on the Foreign Stock Record exceeds the Maximum Voting Percentage, or that the number of shares of stock of the Corporation registered on the Foreign Stock Record exceeds the Maximum Economic Percentage, sufficient shares shall be removed from the Foreign Stock Record in reverse chronological order so that the number of shares of Voting Stock registered on the Foreign Stock Record does not exceed the Maximum Voting Percentage and so that the number of shares of stock of the Corporation registered on the Foreign Stock Record does not exceed the Maximum Economic Percentage. At no time shall shares of stock of the Corporation known by the Corporation to be held of record or controlled by Aliens and not registered on the Foreign Stock Record be entitled to vote or to receive dividends, distributions or other benefits of ownership. All shares of stock of the Corporation known to the Corporation to be held of record by Aliens as of the date of the adoption of this Certificate of Incorporation shall be registered on the Foreign Stock Record. The shares registered on the Foreign Stock Record pursuant to the preceding sentence have chronological priority over any subsequent request for the registration of additional shares of stock of the Corporation on the Foreign Stock Record. As used in this Certificate of Incorporation, “Alien” shall mean (i) any person who is not a U.S. Citizen, or any nominee of such person; (ii) any foreign government or representative thereof; (iii) any corporation organized under the laws of any foreign government; or (iv) any corporation, partnership, trust, association, or other entity which is an Affiliate of an Alien or Aliens. “Affiliate” shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

(C) Beneficial Ownership Inquiry.

(1) The Corporation may by notice in writing (which may be included in the form of proxy or ballot distributed to stockholders of the Corporation in connection with the annual meeting (or any special meeting) of the stockholders of the Corporation, or otherwise) require a person that is a holder of record of stock of the Corporation or that the Corporation knows to have, or has reasonable cause to believe has, Beneficial Ownership of such stock to certify in

such manner as the Corporation shall deem appropriate (including by way of execution of any form of proxy or ballot by such person) that, to the knowledge of such person:

(a) all stock of the Corporation as to which such person has record ownership or Beneficial Ownership are owned and controlled only by U.S. Citizens; or

(b) the number and class or series of stock of the Corporation owned of record or Beneficially Owned by such person that are owned or controlled by Aliens are as set forth in such certificate. As used herein, “Beneficial Ownership” and “Beneficially Owned” refer to beneficial ownership as defined in Rule 13d-3 (without regard to the 60-day provision in paragraph (d)(1)(i) thereof) under the Exchange Act.

(2) With respect to any equity securities identified by such person in response to Section (C)(1), the Corporation may require such person to provide such further information as the Corporation may reasonably require in order to implement the provisions of this Article Fifth.

(3) For purposes of applying the provisions of this Article Fifth with respect to any stock of the Corporation, in the event of the failure of any person to provide the certificate or other information to which the Corporation is entitled pursuant to this Section (C)(1), the Corporation shall presume that the equity securities in question are owned or controlled by Aliens.

SIXTH: The Corporation shall be entitled to treat the person in whose name any share, right or option is registered as the owner thereof, for all purposes, and shall not be bound to recognize any equitable or other claim to or interest in such share, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, save as may be expressly provided by the laws of the State of Delaware.

SEVENTH: A director shall be fully protected in relying in good faith upon the books of account of the Corporation or statements prepared by any of its officials as to the value and amount of the assets, liabilities and/or net profits of the Corporation, or any other facts pertinent to the existence and amount of surplus or other funds from which dividends might properly be declared and paid.

EIGHTH: Without action by the stockholders, the shares of stock may be issued by the Corporation from time to time for such consideration not less than the par value thereof, as may be fixed from time to time by the Board of Directors thereof, and any and all such shares so issued, the full consideration for which has been paid or delivered, shall be deemed fully paid stock and not liable to any further call or assessment thereon, and the holder of such shares shall not be liable for any further call or assessment thereon or for any further payment thereon.

NINTH: The Corporation is to have perpetual existence.

TENTH: In furtherance and not in limitation of the powers conferred by the General Corporation Law, but subject to the provisions of this Certificate of Incorporation, the Board of

Directors is expressly authorized and empowered to adopt, repeal, alter, amend and rescind from time to time any or all of the Bylaws of the Corporation, without the assent or vote of the stockholders, in any manner not inconsistent with the laws of the State of Delaware or this Certificate of Incorporation; provided, however, that, in addition to any other approval required by law, any amendment, alteration or repeal of the Bylaws shall require the approval of at least 66 2/3% of the directors at any regular or special meeting of the Board of Directors or by unanimous written consent in lieu of a meeting. The stockholders may not amend the Bylaws of the Corporation without the affirmative vote of the holders of at least 66 2/3 % of the votes entitled to be cast by holders of the outstanding Voting Stock of the Corporation.

ELEVENTH: Subject to Article Fourteenth below, the Board of Directors of the Corporation shall consist of such number of directors as may be determined from time to time by the Board of Directors in its sole discretion in accordance with the Bylaws of the Corporation.

TWELFTH: No person shall be elected to serve as a director of the Corporation unless immediately following such election, (A) at least two-thirds of the directors of the Corporation consist of persons who are then U.S. Citizens, and (B) a majority of the directors of the Corporation are Independent Directors (as defined below). No person shall be appointed to serve as an officer of the Corporation unless immediately following such appointment, at least two-thirds of the officers of the Corporation consist of persons who are then U.S. Citizens. The President of the Corporation shall at all times be a U.S. Citizen. For purposes of this Certificate of Incorporation, "Independent Director" shall mean a director who is not (x) a director, officer, employee, agent, stockholder or representative of (i) a party (other than the Corporation) to the ACMI Service Agreement dated August 15, 2003, by and between ABX Air, Inc., a Delaware corporation, and DHL Worldwide Express, B.V., a company organized and existing under the laws of the Netherlands, until the termination of such agreement or (ii) any Affiliate of any such holder or party (a "Restricted Party"), or (y) a spouse, parent, sibling or child of any person described in clause (x).

THIRTEENTH: The Corporation shall not enter into any transaction between the Corporation and any Restricted Party unless such transaction shall have been approved by a majority of the Independent Directors then in office.

FOURTEENTH: (A) The number of directors of the Corporation shall be not less than three nor more than nine. The exact number of directors shall be fixed from time to time, within such limits, by the Board of Directors.

(B) Configuration of Board; Term of Office.

(1) Subject to Section (B)(2) below, the Board of Directors shall be and is divided into three classes, Class I, Class II and Class III, which shall be as nearly equal in number as possible. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director is elected; provided, however, that each initial director of Class I shall hold office until the annual meeting of stockholders in 2010; each initial director in Class II shall hold office until the annual meeting of stockholders in 2008; and

each initial director in Class III shall hold office until the annual meeting of stockholders in 2009. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected at such meeting to hold office for a term expiring at the third annual meeting of stockholders following the annual meeting of stockholders at which they are elected and until their respective successors are duly elected and qualified, subject to their earlier death, resignation, retirement or removal from service.

(2) Commencing with the third annual meeting of stockholders following the annual meeting of stockholders held in 2013, the foregoing classification of the Board of Directors shall cease. At the annual meeting of stockholders following the annual meeting of stockholders held in 2013 and at each annual meeting of stockholders thereafter, each nominee for director shall stand for election to a one-year term expiring at the next annual meeting of stockholders and until his or her successor is duly elected and qualified, subject to such director's earlier death, resignation, retirement or removal from service. Directors elected at the annual meeting of stockholders held in 2011 shall continue in office until the annual meeting of stockholders in 2014, directors elected at the annual meeting of stockholders held in 2012 shall continue in office until the annual meeting of stockholders in 2015, and directors elected at the annual meeting of stockholders held in 2013 shall continue in office until the annual meeting of stockholders in 2016, and, in each such case, until their respective successors are duly elected and qualified and subject to their earlier death, resignation, retirement or removal from service.

(3) The provisions of this Section (B) are subject to any rights of the holders of Preferred Stock to elect directors.

(C) Advance notice of nominations for the election of directors, other than by the Board of Directors or a duly authorized committee thereof or any authorized officer of the Corporation to whom the Board of Directors or such committee shall have delegated such authority, and information concerning nominees, shall be given in the manner provided by the Bylaws.

[NOTE: ARTICLE FOURTEENTH, Section (B), was corrected by the Corporation, as evidenced by a "Certificate of Correction" filed by the Corporation with the Delaware Secretary of State on May 24, 2010. Thereafter, ARTICLE FOURTEENTH, Sections (A) and (B), were amended by the stockholders of the Corporation on May 10, 2013, as evidenced by the "Certificate of Amendment of Certificate of Incorporation" filed by the Corporation with the Delaware Secretary of State on May 17, 2013.]

FIFTEENTH: Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time only by the Board of Directors, the Chairman of the Board of Directors or the President. Special Meetings shall be held at such date and time as may be specified in the notice. The business permitted to be conducted at any special meeting of the stockholders is limited to the purpose or purposes specified in the notice.

SIXTEENTH: The affirmative vote of the holders of not less than 66-2/3% of the outstanding Voting Stock of the Corporation shall be required for the approval or authorization of any: (i) merger or consolidation of the Corporation with or into any other corporation; or (ii) sale,

lease, exchange or other disposition of all or substantially all of the assets of the Corporation to or with any other disposition of all or substantially all of the assets of the Corporation to or with any other corporation, person or other entity; provided, however, that such 66-2/3% voting requirement shall not be applicable if the Board of Directors of the Corporation shall have approved such transaction in clause (i) or (ii) by a resolution adopted by 66-2/3% of the members of the Board of Directors.

SEVENTEENTH: Subject to the rights of the holders of the shares of any series of Preferred Stock or any other class of stock or series thereof having a preference over the Common Stock as to dividends or upon liquidation, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

EIGHTEENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereinafter prescribed by statute, and all rights conferred to stockholders herein are granted subject to this reservation; provided, however, that any amendment, alteration or repeal of Section (C) of Article Fourth, Article Tenth, Article Fourteenth, Article Fifteenth, Article Sixteenth, Article Seventeenth or this Article Eighteenth shall require the approval of the holders of shares of the Corporation representing at least 66 2/3% of the shares then entitled to vote thereon.

NINETEENTH: A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

TWENTIETH: Indemnification and Insurance.

(A) Right to Indemnification.

(1) Persons Entitled to Indemnification. Subject to the General Corporation Law as existing or hereafter amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), the Corporation will indemnify and hold harmless each person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was, had agreed to become or is alleged to have been, a director or officer of the Corporation, and each person who is or was serving, or had agreed to serve or is alleged to have served, at the request of or to further the interests of the Corporation as a director, officer, employee or agent of, or in a similar capacity for, another corporation or of a partnership, joint

venture, trust or other enterprise, including service with respect to employee benefit plans of the Corporation or of any of its affiliates (“Indemnitee”).

(2) Scope of Indemnification. The indemnification right pursuant to this Section (A) will extend to persons entitled to such right whether the basis of such proceeding is alleged action or inaction in an official capacity or in any other capacity while serving as a director, officer, employee or agent.

(3) Expenses Indemnified. The Corporation will indemnify persons entitled to indemnity against all costs, charges, expenses, liabilities and losses (including court costs and attorneys’ fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith.

(4) Survival. The indemnification right outlined in this Section (A) will continue as to a person who has ceased to be a director, officer, employee or agent. Further, the indemnification right will inure to the benefit of such Indemnitee’s estate, heirs, executors and administrators.

(5) Limitation of Indemnification. The Corporation will indemnify any Indemnitee seeking indemnification in connection with a Proceeding (or part thereof) initiated by such Indemnitee only if such Proceeding (or part thereof) was authorized by the Board of Directors.

(B) Repayment of Indemnified Expenses.

The right to indemnification conferred in this Article Twentieth shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in investigating and defending or responding to any such Proceeding in advance of its final disposition, and any appeal therefrom (“Advance Payment”), such advances to be paid by the Corporation within twenty (20) days after the receipt by the Corporation of a statement or statements from the claimant requesting such advance or advances from time to time. Nevertheless, if the General Corporation Law so requires, such Advance Payment of expenses incurred by an Indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) will be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined that such Indemnitee is not entitled to be indemnified under Delaware law.

(C) Indemnification of Other Persons.

The Corporation may, by action of the Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the indemnification of directors and officers as outlined in Sections (A)(1) and (A)(2) above.

(D) Right of Claimant to Bring Suit.

If a claim brought under Sections (A)(1), (A)(2) or (A)(3) of this Article Twentieth is not paid in full by the Corporation within thirty (30) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If the claimant's suit is successful in whole or in part, the claimant will be entitled to recover also the expense of prosecuting such claim.

(1) Valid Defenses to the Claimant's Action. It shall be a defense to any such action (other than an action brought to enforce a claim for Advance Payment where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct which makes it permissible under Delaware law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation.

(2) Invalid Defenses to the Claimant's Action. Neither of the following acts or omissions will be a defense to the claimant's action or create a presumption that the claimant has failed to meet the standard of conduct described in Section (D)(1) above:

(a) the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because the claimant has met such standard of conduct; nor

(b) an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such standard of conduct.

(E) Non-Exclusivity of Rights.

The right to indemnification and to Advance Payments conferred in this Article Twentieth shall not be exclusive of any other right which any person may have or hereafter acquire under any: (i) statute; (ii) provision of this Certificate of Incorporation; (iii) Bylaw; (iv) agreement; (v) vote of stockholders; (vi) vote of disinterested directors; or (vii) otherwise.

(F) Insurance.

Regardless of whether the Corporation would have the power under Delaware law to indemnify itself or any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise, the Corporation may purchase and maintain insurance, at its expense, to protect such persons or entities against any such expense, liability or loss.

(G) Expenses as a Witness.

The Corporation will indemnify any director, officer, employee or agent of the Corporation who, by reason of such position, or a position with another entity at the request of

the Corporation, is a witness in any Proceeding. Such indemnity will cover all costs and expenses actually and reasonably incurred by the witness or on his or her behalf in connection with the Proceeding.

(H) Indemnity Agreements.

The Corporation may enter into agreements with any director, officer, employee or agent of the Corporation providing for indemnification to the full extent permitted by Delaware law.

(I) Amendment.

No amendment, repeal, modification or termination of this Article Twentieth or the relevant provision of the General Corporation Law or any other applicable laws shall in any way diminish or adversely affect the rights of any director, officer, employee or agent of the Corporation hereunder in respect of any occurrence or matter arising prior to any such amendment, repeal, modification or termination.

(J) Severability.

If any provision or provisions of this Article Twentieth shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Article Twentieth (including, without limitation, each portion of any section of this Article Twentieth containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Article Twentieth (including, without limitation, each portion of any section of this Article Twentieth containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

TWENTY-FIRST: The name and mailing address of the incorporator is:

Joseph C. Hete
Airborne Air Park
145 Hunter Drive
Wilmington, OH 45177

Executed at Wilmington, Ohio on September 5, 2007.

/s/ Joseph C. Hete
Joseph C. Hete

**AMENDED AND RESTATED BYLAWS
OF
AIR TRANSPORT SERVICES GROUP, INC.
(a Delaware Corporation)**

**ARTICLE I
OFFICES**

Section 1.1 Principal Office.

(a) The principal executive office of Air Transport Services Group, Inc. (herein called the “Corporation”) shall be at such place established by the Board of Directors (the “Board”) in its discretion.

(b) The Board shall have full power and authority to change the location of the principal executive office.

Section 1.2 Registered Office.

The registered office in the State of Delaware is hereby fixed and located at Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The Board is hereby granted full power and authority to change the place of said registered office within the State of Delaware.

Section 1.3 Other Offices.

The Corporation may also have from time to time branch or substitute offices at such other places as the Board may deem appropriate.

**ARTICLE II
STOCKHOLDERS’ MEETINGS**

Section 2.1 Place.

Meetings of the stockholders shall be at such place within or outside the State of Delaware as the Board shall designate by resolution. In the absence of such designation, stockholders’ meetings shall be held at the principal executive office of the Corporation.

Section 2.2 Annual Meetings.

The annual meeting of the stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at such time, date and place as determined by resolution of the Board.

Notice of each meeting of the stockholders shall be given by the Corporation either personally or by mail or other lawful means to each stockholder of record entitled to vote at such meeting not less than ten (10) days nor more than sixty (60) days before each annual meeting. Such notices shall specify the place, the day and the hour of such meeting, the names of the nominees for election and those matters which the Board intends to present for action by the stockholders, and shall state such other matters, if any, as may be expressly required by statute. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at such stockholder's address as it appears on the books of the Corporation. Without limiting the foregoing, any notice to stockholders given by the Corporation pursuant to these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any previously scheduled annual meeting of the stockholders may be postponed by resolution of the Board.

Section 2.3 Special Meetings.

Special meetings of the stockholders, for any purpose or purposes prescribed in the notice of the meeting, may be called at any time only by the Board, the Chairman of the Board or the President. Such meetings shall be held at the place, on the date and at the time as the Board, the Chairman of the Board or the President shall fix. Said notice shall specify the purpose for which such special meeting is called. No business shall be transacted at a special meeting except as stated in the notice sent to stockholders.

Section 2.4 Nomination and Stockholder Business.

(a) Annual Meetings of the Stockholders.

(1) Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders may be made at an annual meeting of the stockholders (A) pursuant to the Corporation's notice of meeting delivered pursuant to Section 2.2 of these Bylaws, (B) by or at the direction of the Board, or (C) by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Section 2.4, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.4.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (C) of subparagraph (a)(1) of this Section 2.4, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive office of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later

of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event will the public announcement of an adjourned or postponed meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (A) as to each person whom the stockholder proposes to nominate for election or re-election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(3) Notwithstanding anything in the second sentence of subparagraph (a)(2) of this Section 2.4 to the contrary, in the event that the number of directors to be elected to the Board of the Corporation is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board made by the Corporation at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 2.4 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Stockholders. Nominations of persons for election to the Board may be made at a special meeting of stockholders at which, pursuant to the Corporation's notice of meeting, directors are to be elected either (A) by or at the direction of the Board or (B) by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Section 2.4, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.4. Nominations by stockholders of persons for election to the Board may be made at such special meeting of stockholders if the stockholder's notice required by subparagraph (a)(2) of this Section 2.4 shall be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(c) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Section 2.4 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.4. Except as otherwise provided by law, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 2.4 and, if any proposed nomination or business is not in compliance with this Section 2.4, to declare that such defective proposal shall be disregarded. Notwithstanding the foregoing provisions of this Section 2.4, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(2) For purposes of this Section 2.4, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 2.4, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.4. Nothing in this Section 2.4 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 2.5 Waiver of Notice.

Transactions at a meeting of stockholders, however called and noticed and wherever held, shall be valid as though transacted at a meeting duly held after regular call and notice if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present at the meeting in person or by proxy, gives a waiver of notice. Attendance by a person at a meeting shall constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law to be in the notice of the meeting but not so included, if that objection is expressly made at the meeting. All such waivers, consents, or approvals shall be filed with the corporate records or made a part of the minutes of the meeting. The waiver of notice need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders.

Section 2.6 Quorum.

A majority of the voting power of the outstanding shares of stock entitled to vote at the meeting, represented in person or by proxy, constitutes a quorum for the transaction of business. No business may be transacted at a meeting in the absence of a quorum other than the adjournment of such meeting, except that if a quorum is present at the commencement of a meeting, business may be transacted until the meeting is adjourned even though the withdrawal of stockholders results in less than a quorum. If a quorum is present at a meeting, the affirmative vote of a majority of the voting power of the outstanding shares of stock entitled to vote at the meeting, represented at the meeting, shall be the act of the stockholders unless the vote of a larger number is required by law, the Corporation's Certificate of Incorporation or these Bylaws. If a quorum is present at the commencement of a meeting but the withdrawal of stockholders results in less than a quorum, the affirmative vote of the voting power of the outstanding shares of stock entitled to vote at the meeting, required to constitute a quorum, shall be the act of the stockholders unless the vote of a larger number is required by law, the Corporation's Certificate of Incorporation or these Bylaws. Any meeting of stockholders, whether or not a quorum is present, may be adjourned to a later date and time and the same or different place by the Chairman of the meeting or by the vote of voting power of the outstanding shares of stock entitled to vote at the meeting, represented at the meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.7 Notice of Adjourned Meetings.

Notice of an adjourned meeting need not be given if (a) the meeting is adjourned for thirty (30) days or less, (b) the time and place of the adjourned meeting are announced at the meeting at which the adjournment is taken, and (c) no new record date is fixed for the adjourned meeting. Otherwise, notice of the adjourned meeting shall be given as in the case of an original meeting.

Section 2.8 Voting.

Except as provided below or as otherwise provided by the Corporation's Certificate of Incorporation or by law, a stockholder shall be entitled to one vote for each share held of record on the record date fixed for the determination of the stockholders entitled to vote at a meeting or, if no such date is fixed, the date determined in accordance with law. If any share is entitled to more or less than one vote on any matter, all references herein to a majority or other proportion of shares shall refer to a majority or other proportion of the voting power of shares entitled to vote on such matter. The Board, in its discretion, or the officer presiding at a meeting of stockholders in his or her discretion, may require that any votes cast at such meeting, including a vote for directors, be by written ballot.

Section 2.9 Proxies.

Except as otherwise provided in the Corporation's Certificate of Incorporation or by law, a stockholder may be represented at any meeting of stockholders by a written proxy signed by the person entitled to vote or by such person's duly authorized attorney-in-fact. A proxy must bear a date within one (1) year prior to the meeting, unless the proxy specifies a different length of time. A revocable proxy is revoked by a writing delivered to the Secretary of the Corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy.

Section 2.10 Inspectors of Election.

(a) In advance of a meeting of stockholders, the Board may appoint inspectors of election to act at the meeting. If inspectors of election are not so appointed, or if any persons so appointed fail to appear or refuse to act, the Chairman of the meeting may, and on request of a stockholder shall, appoint inspectors of election (or persons to replace those who so fail or refuse) for the meeting. The number of inspectors shall be either one or three. If appointments are to be made at a meeting on the request of a stockholder, the majority of stockholder votes represented in person or by proxy shall determine whether the number of inspectors shall be one or three. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability.

(b) Such inspectors of election shall: (i) determine the number of shares outstanding, the number of shares represented at the meeting, the voting power of each share, the existence of a quorum, and the validity of proxies; (ii) receive votes, ballots, or consents; (iii) hear and determine all challenges and questions arising in connection with the right to vote; (iv) count and tabulate votes or consents; (v) determine the result of an election; (vi) determine and retain for a reasonable period of time the disposition of any challenges made to any determination by the inspectors; (vii) certify their determination of the number of shares of capital stock of the Corporation represented at the meeting and their count of all votes and ballots; (viii) do such other acts as may be proper in order to conduct the election with fairness to all stockholders; and (ix) perform such other duties as may be prescribed by law. The Chairman of the meeting shall announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders

will vote at the meeting. If there are three inspectors of election, the decision of a majority shall be effective in all respects as the decision of all.

Section 2.11 List of Stockholders.

The Secretary of the Corporation shall prepare and make, at least ten (10) days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. If the meeting is held at a place, then the list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communications, then the list shall be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of meeting.

ARTICLE III DIRECTORS

Section 3.1 Powers and Duties.

(a) The business and affairs of the Corporation shall be managed and all corporate powers shall be exercised, by or under the direction of the Board, subject to any limitations contained in these Bylaws, the Corporation's Certificate of Incorporation or the General Corporation Law of the State of Delaware (the "General Corporation Law"). The Board may delegate the management of the day-to-day operation of the business of the Corporation, provided that the business and affairs of the Corporation shall remain under the ultimate direction of the Board.

Section 3.2 Number and Qualification of Directors.

Subject to the limitations set forth in the Corporation's Certificate of Incorporation, the Board shall consist of such number of directors as shall be determined from time to time by resolution of the Board. Until otherwise determined by such resolution, the number of directors of the Corporation shall be nine (9).

In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he or she is a member until the expiration of his or her current term, or his or her prior death, retirement, resignation or removal, and (ii) if the Board of Directors is then classified, the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equal as possible. Commencing with the third annual meeting of stockholders following the annual meeting of stockholders held in 2013, the classification of the Board of Directors shall cease.

Section 3.3 Term of Office; Voting in Director Elections; Resignation.

(a) Each director shall serve until his or her successor is duly elected and qualified or until his or her death, resignation or removal.

(b) Except as provided in Section 3.3(c) and Section 3.4, each director shall be elected by the vote of the majority of the votes cast with respect to that director's election at any meeting for the election of directors at which a quorum is present. For purposes of these by-laws, a majority of the votes cast means that the number of shares voted "for" a director must exceed the number of shares voted "against" that director. "Abstentions" and "broker non-votes" shall not be counted as votes cast with respect to a director's election.

(c) In any contested election, the nominees receiving a plurality of the votes cast by holders of shares represented in person or by proxy at any meeting at which a quorum is present and entitled to vote on the election of directors shall be elected. For purposes of these by-laws, a "contested election" shall exist if the number of nominees for election as directors at the meeting in question nominated by (i) the Board, (ii) any stockholder, or (iii) a combination thereof exceeds the number of directors to be elected. The determination as to whether an election is a contested election shall be made as of the record date for the meeting in question. Once an election is determined to be a contested election, the plurality standard shall remain in effect through the completion of the meeting, regardless whether the election ceases to be a contested election after the record date but prior to the meeting.

(d) In any uncontested election for directors, in order for any person to become a nominee for the Board, such person must submit an irrevocable resignation to the Board, contingent upon (i) that person not receiving a majority of the votes cast, and (ii) acceptance of the resignation by the Board in accordance with policies and procedures adopted by the Board.

(e) If any nominee in an uncontested election does not receive a majority of the votes cast, the Board, acting on the recommendation of the Nominating and Governance Committee of the Board, shall, within 90 days of receiving the certified vote pertaining to such election, determine whether to accept the resignation of such unsuccessful nominee, and in making this determination the Board may consider any factors or other information that it deems appropriate or relevant. The Nominating and Governance Committee and the Board expect an unsuccessful incumbent to voluntarily recuse himself or herself from participation in such deliberations. The Corporation shall promptly publicly disclose the Board's decision and, if applicable, the reasons for rejecting the tendered resignation, in a Report on Form 8-K filed with the Securities and Exchange Commission.

Section 3.4 Resignation and Vacancies.

(a) A director may resign by giving written notice to the Board, the Chairman of the Board, the Vice Chairman of the Board, the President or the Secretary. Such resignation shall take effect upon receipt of such notice or at a later time specified therein; and, unless otherwise specified

therein, the acceptance of such resignation shall not be necessary to make it effective. If the resignation of a director is effective at a future time, the Board may elect a successor to take office when the resignation becomes effective.

(b) Should a vacancy occur or be created, whether arising through death, resignation or removal of a director, or through an increase in the number of directors, such vacancy shall be filled by a majority vote of the remaining members of the Board. If the Board of Directors is then classified, a director so elected to fill a vacancy shall serve for the remainder of the then present term of office of the class to which he or she is elected and, if the Board of Directors is not then classified, a director so elected to fill a vacancy shall serve until the next annual meeting of stockholders at which directors are elected and, in either case, until his or her successor is duly elected and qualified.

Section 3.5 Place of Meeting.

The Board may by resolution designate a place within or outside the State of Delaware, including a location in Wilmington, Ohio or any other location, where a regular or special meeting of the Board shall be held. In the absence of such designation, meetings of the Board shall be held at a location in Wilmington, Ohio designated by the Chairman of the Board.

Section 3.6 Meetings by Conference Telephone.

A meeting of the Board may be held through the use of conference telephone or other communications equipment, so long as all members participating in such meeting can hear one another. Participation in such a meeting shall constitute presence at such meeting. Directors are entitled to participate in any and all Board meetings through the use of conference telephone or other communications equipment. No director shall be excluded from any Board meeting or any portion of a Board meeting because such director elects to participate through the use of conference telephone or other communications equipment and the Corporation shall make all necessary arrangements to allow directors to participate in Board meetings through the use of a conference telephone or other communications equipment. No notice of meeting shall require any director to attend a Board meeting in person.

Section 3.7 Meetings.

Meetings of the Board of Directors shall be held at the times fixed by resolutions of the Board or upon call of the Chairman of the Board or of the President or any three directors. The Secretary or officer performing his or her duties shall give reasonable notice (which shall not in any event be less than two (2) days) of all meetings of directors, provided that a meeting may be held without notice immediately after the annual meeting of the stockholders for the election of directors, and notice need not be given of regular meetings held at times fixed by resolution of the Board. Meetings may be held at any time without notice if all of the directors are present or if those not present waive notice either before or after the meeting. Notice by mail, telecopy or telegraph to the usual business or residence address of the directors not less than the time above specified before the meeting shall be sufficient.

Section 3.8 Waiver of Notice.

Transactions at any meeting of the Board, however called and noticed and wherever held, shall be valid as though transacted at a meeting duly held, after regular call and notice, if (i) a quorum is present, (ii) no director present protests lack of notice prior to the commencement of the meeting, and (iii) each director not present at the meeting gives a written waiver of notice, a consent to holding such meeting, or an approval of the minutes thereof. All such waivers shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 3.9 Quorum.

A majority of the authorized number of directors shall constitute a quorum for the transaction of business. Except as otherwise provided by the Corporation's Certificate of Incorporation or these Bylaws, every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the Board. A majority of the directors present at a meeting, whether or not a quorum is present, may adjourn the meeting to another time and place.

Section 3.10 Adjournment and Notice Thereof.

Any meeting of the Board, whether or not a quorum is present, may be adjourned by a majority vote of the directors present. If the meeting is adjourned for more than 24 hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 3.11 Action Without Meeting.

Any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board individually or collectively consent to such action in writing in accordance with applicable law. Any consent in writing or by electronic transmission shall be filed with the minutes of the proceedings of the Board. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Such action by written consent shall have the same force and effect as a unanimous vote of the directors at a duly held meeting of the Board.

Section 3.12 Compensation.

Directors and members of committees may be paid such compensation for their services as may be determined by resolution of the Board. This section shall not be construed to preclude any director from serving the Corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for those services.

Section 3.13 Committees.

(a) The Board may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two or more directors, to serve at the pleasure of the Board. In the absence or disqualification of any member of a committee of the Board, the other members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board to act in the place of such absent or disqualified member. The Board may designate one or more directors as alternate members of a committee who may replace any absent member at any meeting of the committee. To the extent permitted by resolution of the Board, a committee may exercise all of the authority of the Board to the extent permitted by Section 141(c)(2) of the General Corporation Law, except with respect to:

- (1) the approval of any action which, under the General Corporation Law, also requires stockholders' approval or approval of the outstanding shares;
- (2) the filling of vacancies on the Board or in any committee;
- (3) the fixing of compensation of the directors for serving on the Board or on any committee;
- (4) the amendment or repeal of the Bylaws or the adoption of new Bylaws;
- (5) the amendment or repeal of any resolution of the Board;
- (6) a distribution to the stockholders of the Corporation, except at a rate or in a periodic amount or within a price range determined by the Board; or
- (7) the appointment of any other committees of the Board or the members of these committees.

(b) Meetings and actions of committees shall be governed by, and held and taken in accordance with, the applicable provisions of Article III of these Bylaws, including Section 3.5 (place of meeting), Section 3.6 (meetings by conference telephone), Section 3.7 (meetings), Section 3.8 (waiver of notice), Section 3.9 (quorum), Section 3.10 (adjournment and notice), and Section 3.11 (action without meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the Board and its members, except that (i) the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee, (ii) special meetings of committees may also be called by resolution of the Board or by resolution of the committee and (iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

Section 3.14 Right of Inspection.

Each director shall have the right at any reasonable time to inspect and copy all books, records and documents of every kind and to inspect the physical properties of the Corporation and its subsidiary corporations, domestic or foreign. Such inspection by a director may be made in person or by agent or attorney and includes the right to copy and make extracts.

ARTICLE IV OFFICERS

Section 4.1 Officers.

The Corporation shall have (i) a Chairman of the Board or a President (or both), (ii) a Vice President, (iii) a Secretary, and (iv) a Chief Financial Officer. The Corporation may also have, at the discretion of the Board, one or more other Vice Presidents, one or more Assistant Secretaries, a Treasurer, one or more Assistant Treasurers, and such other officers as the Board may deem appropriate. Any number of offices may be held by the same person.

Section 4.2 Additional Officers.

Officers other than the Chairman of the Board, the President, the Secretary and the Chief Financial Officer are herein referred to as Additional Officers. The Board may elect, and may empower the President to appoint, such Additional Officers as the Board may deem appropriate. Each Additional Officer shall hold office for such period, shall have such authority, and shall perform such duties, as are provided in these Bylaws or as the Board may designate.

Section 4.3 Election and Term.

Except as otherwise herein provided, the officers of the Corporation shall be elected by the Board at its regular organizational meeting or at a subsequent meeting. Each officer shall hold office at the pleasure of the Board, or until his or her death, resignation or removal.

Section 4.4 Resignation and Removal.

(a) An officer may resign at any time by giving written notice to the Corporation. Such resignation shall be without prejudice to any rights the Corporation may have under any contract to which the officer is a party. Such resignation shall take effect upon the receipt of such notice or at a later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(b) The Board may remove any officer with or without cause, and such action shall be conclusive upon the officer so removed. The Board may authorize any officer to remove subordinate officers. Any removal shall be without prejudice to rights the officer may have under any employment contract with the Corporation.

Section 4.5 Vacancies.

A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these Bylaws for election or appointment to such office.

Section 4.6 Chairman of the Board; Chief Executive Officer.

The Chairman of the Board shall preside at all meetings of the Board at which he or she is present and shall exercise and perform such other powers and duties as may be prescribed by the Board or Bylaws. Even if there is a President, the Chairman of the Board shall in addition be the Chief Executive Officer of the Corporation unless another person shall have been appointed as

Chief Executive Officer. The Chief Executive Officer of the Corporation shall have and be vested with general supervisory power and authority over the business and affairs of the Corporation. He or she shall see that all orders and resolutions of the Board are carried into effect. The Chief Executive Officer shall sign or countersign or authorize another officer of the Corporation to sign all certificates contracts, and other instruments of the Corporation as authorized by the Board, shall make reports to the Board and stockholders and shall perform all such other duties as may be directed by the Board or the Bylaws.

The President shall, in the event of absence, disability or refusal to act of the Chief Executive Officer, perform the duties and exercise the powers of the Chief Executive Officer, and shall have such powers and discharge such duties as may be assigned from time to time by the Board.

Section 4.7 Vice Chairman.

The Vice Chairman of the Board shall not be an officer of the Corporation. If the Board appoints a Vice Chairman of the Board, he or she shall, in the absence or disability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board and shall perform such other duties and possess such other powers as are assigned by the Board.

Section 4.8 President.

The President shall have and be vested with general supervisory power and authority over the business and affairs of the Corporation and shall perform all such duties as may be directed by the Board or these Bylaws, subject at all times to the authority of the Chief Executive Officer. The President shall also have and exercise all of the duties, power and authority prescribed for the Chief Executive Officer except with respect to such specific authority as is reserved for the Chief Executive Officer.

Section 4.9 Vice Presidents.

Vice Presidents shall have such powers and duties as may be prescribed by the Board or the President. A Vice President designated by the Board shall, in the absence or disability of the President, perform all the duties of the President; and when so acting such Vice President shall have all the powers of the President.

Section 4.10 Chief Financial Officer.

The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board. He shall

disburse the funds of the Corporation as may be ordered by the Board, shall render to the President and directors, whenever they request it, an account of all of his or her transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board or the Bylaws.

If there be any Treasurer, the Treasurer shall, in the event of absence, disability or refusal to act of the Chief Financial Officer, perform the duties and exercise the powers of the Chief Financial Officer, and shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board.

Section 4.11 Secretary.

(a) The Secretary shall keep or cause to be kept full and accurate records of all meetings of stockholders and all meetings of directors. Such records shall include books of minutes of all meetings of stockholders, meetings of the Board, and meetings of committees. The information in such books of minutes shall include the names of those present at Board and committee meetings and the number of shares represented at stockholders' meetings.

(b) The Secretary shall give or cause to be given notice of all meetings of stockholders, of the Board, and of any committees, whenever such notice is required by law or these Bylaws.

(c) The Secretary shall keep or cause to be kept at the principal executive office, or at the office of the Corporation's transfer agent or registrar if either be appointed, a share register, or a duplicate share register, showing the names of the stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

(d) The Secretary shall keep or cause to be kept a copy of the Bylaws of the Corporation at the principal executive office.

(e) The Secretary shall keep the corporate seal in safe custody.

(f) The Secretary shall have all the powers and duties ordinarily incident to the office of a secretary of a corporation and such other duties as may be prescribed by the Board.

(g) If there be any Assistant Secretaries, one or more Assistant Secretaries, in order of seniority, shall, in the event of the absence, disability or refusal to act of the Secretary, perform the duties and exercise the powers of the Secretary, and shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board.

Section 4.12 Compensation.

The Board may fix, or may appoint a committee to fix, the compensation of all officers and employees of the Corporation. The Board may authorize any officer upon whom the power of

appointing subordinate officers may have been conferred to fix the compensation of such subordinate officers.

ARTICLE V DIVIDENDS AND FINANCE

Section 5.1 Dividends.

(a) Dividends upon the capital stock of the Corporation, subject to the provisions of the Corporation's Certificate of Incorporation, if any, may be declared by the Board at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Corporation's Certificate of Incorporation.

(b) Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 5.2 Deposits and Withdrawals.

The monies of the Corporation shall be deposited in the name of the Corporation in such bank or banks or trust company or trust companies as the Board shall designate, and shall be drawn out only by check signed by persons designated by resolutions of the Board.

Section 5.3 Fiscal Year.

The fiscal year of the Corporation shall begin the first day of January and end on the last day of December of each year.

ARTICLE VI MISCELLANEOUS

Section 6.1 Record Date.

The Board may fix a time, in the future, not more than sixty (60) nor less than ten (10) days prior to the date of any meeting of stockholders, nor more than sixty (60) days prior to the date fixed for the payment of any dividend or distribution, or for the allotment of rights, or when any change or conversion or exchange of shares shall go into effect, as a record date for the determination of the stockholders entitled to notice of and to vote at any such meeting, or entitled to receive any such dividend or distribution, or such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of shares, and in such case except as provided by law, only

stockholders of record on the date so fixed shall be entitled to notice of and to vote at such meeting or to receive such dividend, distribution or allotment of rights, or to exercise such rights as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the Board fixes a new record date.

Section 6.2 Maintenance of Share Register.

The Corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed and as determined by resolution of the Board, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each stockholder. The Corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed and as determined by resolution of the Board, the Foreign Stock Record as described in its Certificate of Incorporation, as it may be amended from time to time.

Section 6.3 Registered Stockholders.

Subject to Section (B) of Article Fifth of the Corporation's Certificate of Incorporation, registered stockholders only shall be entitled to be treated by the Corporation as the holders in fact of the shares standing in their respective names and the Corporation shall not be bound to recognize any equitable or other claim to or interest in any share on the part of any other person, whether or not it shall have express or other notice thereof, except as expressly provided by the laws of the State of Delaware.

Section 6.4 Inspection of Bylaws.

The Corporation shall keep at its principal executive office the original or a copy of these Bylaws as amended to date, which copy shall be open to inspection by stockholders at reasonable times during office hours.

Section 6.5 Corporate Seal.

The corporate seal shall be circular in form, and shall have inscribed thereon the name of the Corporation, the date of its incorporation and the word "Delaware."

Section 6.6 Certificates of Stock.

(a) The shares of the capital stock of the Corporation shall be represented by a certificate or shall be uncertificated. Each certificate shall be signed in the name of the Corporation by (i) the Chairman of the Board, a Vice Chairman of the Board, the President, or a Vice President, and (ii) the Treasurer, an Assistant Treasurer, the Secretary, or an Assistant Secretary, and shall certify the number of shares owned by the stockholder and the class or series of such shares. Any of the signatures on the certificate may be facsimile. If any officer, transfer agent or registrar whose

signature appears on the certificate shall cease to be such an officer, transfer agent or registrar before such certificate is issued, the certificate may be issued by the Corporation with the same effect as if such person continued to be an officer, transfer agent or registrar at the date of issue. Within a reasonable time after the issuance or transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to the General Corporation Law of the State of Delaware or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

(b) To the fullest extent permitted by law, certificates for shares may be issued prior to full payment under such restrictions and for such purposes as the Board may lawfully provide; provided, however, that on any certificate issued to represent any partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereof shall be stated.

(c) The Corporation may issue (i) a new certificate or certificates of stock or (ii) uncertificated shares in place of any previously issued certificate alleged to have been lost, stolen or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board may require for the protection of the corporation or any transfer agent or registrar.

(d) Prior to due presentation of transfers for registration in the stock transfer book of the Corporation, the registered owner of shares shall be treated as the person exclusively entitled to vote, to receive notice, and to exercise all other rights and receive all other entitlements of stockholders, except as may be provided otherwise by Delaware law.

Section 6.7 Execution of Written Instruments.

As used in these Bylaws, the term “written instruments” includes without limitation any note, mortgage, evidence of indebtedness, contract, share certificate, conveyance, and any assignment or endorsement of the foregoing. All written instruments shall be binding upon the Corporation if signed on its behalf by the Chief Executive Officer or if signed in such other manner as may be authorized by the Board, or within the agency power of the officer executing it, so long as the party seeking to enforce such obligations had no actual knowledge that the signing officer was without authority to execute such written instrument.

Section 6.8 Representation of Shares of Other Corporations.

The Chairman of the Board, President, any Vice President, the Secretary, the Chief Financial Officer and such other officers as the Board may designate by resolution are each authorized to exercise on behalf of the Corporation all rights incident to shares of any other corporation standing in the name of the Corporation.

Section 6.9 Construction.

Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Corporation Law shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular includes the plural, plural number includes the singular, and the term “person” includes both a corporation and a natural person.

Section 6.10 Amendment of These Bylaws.

Subject to restrictions contained in the Corporation’s Certificate of Incorporation, these Bylaws, or any of them, may be amended, altered or repealed and new Bylaws may be adopted by the affirmative vote of at least 66²/₃% of the members of the Board, subject to repeal or change by action of the stockholders; provided, however, that any amendment, alteration or repeal of Section 2.4, Section 2.6 or Section 3.2 of these Bylaws by the stockholders shall require the affirmative vote of at least 66²/₃% of the stockholders.

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

I, Joseph C. Hete, certify that:

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

Date: August 8, 2013

/s/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

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

I, Quint O. Turner, certify that:

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

Date: August 8, 2013

/s/ QUINT O. TURNER

Quint O. Turner

Chief Financial Officer
(Principal Financial and Accounting 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 quarter ending June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph C. Hete, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

Date: August 8, 2013

**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 quarter ending June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Quint O. Turner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Date: August 8, 2013